Report of the
Comptroller and Auditor General of India

on

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

for the year ended 31 March 2016

Government of Jammu and Kashmir

Report No. 6 of the year 2016

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APPENDICES

PREFACE

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2016 has been prepared for submission to the Governor of Jammu and Kashmir under Article 151 of the Constitution of India. This Report contains two parts.

Part A: Revenue Sector

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

Part B: Public Sector Undertakings

This part deals with the results of test audit of Government Companies and Statutory Corporations for the year ended March 2016.

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

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

The instances mentioned in this Report are those which came to notice in the course of test audit during the period 2015-16 as well as those which came to notice in earlier years but could not be reported in the previous Audit Reports. Instances relating to the period subsequent to 2015-16 have also been included, wherever necessary.

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

Overview

OVERVIEW

This Report is in two parts. The part-A of the Report comprises of seven paragraphs relating to short levy of VAT, Toll tax and Arrears of revenue, involving revenue implication of ₹124.10 crore. The part-B contains one Performance Audit on 'Jammu and Kashmir State Power Development Corporation Limited' and six paragraphs with financial implication of ₹2,346.68 crore relating to doubtful recovery of loan, loss of revenue, non-recovery of interest, avoidable loss, idle investment not meeting statutory obligations and avoidable payment of rent. Some of the major findings are mentioned below:

Revenue Sector

General

The total revenue receipts of the State Government for the year 2015-16 was ₹35,780.60 crore as compared to ₹28,938.59 crore during the year 2014-15 i.e. an increase of ₹6,842.01 crore. Out of this, 31 *per cent* of the total receipt was raised through tax revenue (₹7,326.19 crore and non-tax revenue (₹3,912.79 crore) and the balance 69 *per cent* was received from the Government of India as State's share of divisible Union taxes and duties (₹7,813.48 crore) and Grants-in-aid (₹16,728.14 crore).

(Paragraph: 1.1)

Test-check of the records of 66 units of Sales tax/Value Added Tax, State Excise, Motor Vehicles and Stamp Duty and Registration fee conducted during the year 2015-16 revealed under assessment/short levy/loss of revenue aggregating ₹208.71 crore in 635 cases. During the year, the Departments concerned accepted under assessment and other deficiencies of ₹0.76 crore involved in 101 cases which were pointed out in audit during 2015-16 and earlier years. The Departments collected ₹40.74 lakh in 70 cases pertaining to audit findings of previous years as well as of the year 2015-16.

(Paragraph: 1.9)

Compliance Audit

Collection of Toll Tax in the State

Non-adherence to the provisions of the Jammu and Kashmir Levy of Toll Tax Act 1995, resulted in non/short levy of toll tax amounting to ₹35.35 crore. Further, the efficacy of internal control mechanisms and procedures that would have enabled effective monitoring and supervision of toll collection was undermined by poor maintenance of mandatory records including assessment note book, cash book and stock account.

(Paragraph: 2.3)

System of Collection of Arrears of Revenue

Audit review of system of collection of arrears of revenue revealed non-adherence to statutory provisions for recovery of arrears resulting in revenue loss of ₹85.24 crore. Efforts of the departments in pursuing recovery of arrears of government dues was characterised by lack of seriousness as reflected in undue delays in initiating actions provided for under the relevant Acts and non-enforcement or non-adherence of statutory provisions and the rules made thereunder. Delay in issue of recovery certificates, non-maintenance of requisite details of moveable/immoveable property and addresses that could facilitate appropriate recovery action coupled with non-enforcement of penal actions in case of persistent defaults cumulatively resulted in overall 16 *per cent* increase in the arrears across four departments from ₹2,668.05 crore in 2011-12 to ₹3,086.77 crore in 2015-16.

(Paragraph: 2.4)

Assessing Authority incorrectly allowed input tax credit during a period of suspension of registration resulting in short levy of tax of ₹7.39 lakh, including interest and penalty.

(Paragraph: 2.5)

Failure of the Assessing Authority to detect concealment of stock/purchases by the dealers at the time of his assessment resulted in short levy of service tax of ₹33.77 lakh, including interest/penalty.

(Paragraph: 2.6)

Failure of the Deputy Commissioner Commercial Taxes (Recovery) Jammu to correctly work out interest on the amount of tax payable by dealers resulted in short levy of interest of ₹8.95 lakh.

(Paragraph: 2.7)

Concealment of purchases/stock at the time of assessment resulted in short levy of Tax, Interest and Penalty of ₹5.45 lakh.

(Paragraph: 2.8)

Irregular grant of remission of tax to two dealers by the Assessing Authorities resulted in short levy of tax and interest of ₹2.96 crore.

(Paragraph: 2.9)

Public Sector Undertakings (PSUs)

The State of Jammu and Kashmir had 30 working PSUs (27 Companies and three Statutory Corporations) and three non-working PSUs which employed 23,876 employees. As on 31 March 2016, the investment (capital and long-term loans) in 33 State PSUs and Statutory corporations was ₹7,699.94 crore. Power sector accounted for 35.14 *per cent*, i.e. ₹2,705.44 crore of the total investment as on 31 March 2016. The total investment consisted of 11.39 *per cent* as capital and 88.61 *per cent* as long-term loans. The investment has grown by 56.90 *per cent* from ₹4,907.42 crore in 2011-12 to ₹7,699.94 crore in 2015-16.

(Paragraphs: 3.1, 3.6 and 3.7)

Performance Audit

Jammu and Kashmir State Power Development Corporation Limited

A performance audit of the Jammu and Kashmir State Power Development Corporation Limited brought out financial mismanagement and creation of avoidable liabilities that adversely impacted the financial position of the Company. Some of the significant findings include the following:

There was delay in receipt of plan funds and power dues of ₹2,808.04 crore were pending from the State Government resulting in dependence on loans from financial institutions and extra interest burden of ₹58.24 crore. Statutory liabilities on account of water usage charges and labour cess accumulated to ₹1,573.19 crore.

(Paragraphs: 4.8.3, 4.8.4 and 4.8.6)

Failure of Company to provide requisite information to the Jammu and Kashmir State Electricity Regulatory Commission led to non-inclusion of income tax of ₹96.96 crore in tariff fixation. Due to non-achievement of design energy, the Company was not able to recover expenditure of ₹275.85 crore through tariff.

(Paragraph: 4.8.7)

The Company failed to achieve status of Mega Power Project in respect of BHEP-II due to which benefit of ₹105.80 crore could not be availed.

(Paragraph: 4.9)

The Company had not achieved design energy, except in BHEP-I, leading to loss of generation of 2,520 MUs during 2011-16. There was low Plant Load Factor ranging between 22 *per cent* and 29 *per cent*, low Plant Availability Factor between 64.34 *per cent* and 76.66 *per cent* and excess forced outages over Central Electricity Authority norms to the extent of 7,91,630 hours resulting in low power generation.

(Paragraph: 4.10)

Delay in completion of Renovation, Modernisation and Uprating resulted in loss of generation of 33.85 MUs valuing ₹6.77 crore annually in CHEP-I. Delay in undertaking repairs and maintenance of Hydro Electric Projects led to loss of generation.

(Paragraph: 4.11)

Audit of Transactions

Disbursement of loan by the Jammu and Kashmir State Financial Corporation Limited decreased from ₹15.23 crore in 2012-13 to ₹8.87 crore in 2015-16. The total loan assets of the Company also decreased from ₹100.52 crore in 2012-13 to ₹66.95 crore in 2015-16. The percentage of recovery of overdues of principal amount ranged between 20-22 *per cent* which too could be achieved only after sacrificing interest of ₹165.79 crore.

(Paragraph: 5.1)

Lack of due diligence in Jammu and Kashmir Bank Limited in verification of genuineness of security before release of loans and credit facilities resulted in recovery of ₹3.22 crore being rendered doubtful.

(Paragraph: 5.2)

Injudicious decision by the Jammu and Kashmir State Industrial Development Corporation Limited in releasing soft and term loans out of own resources to a defaulter company for settlement of its Non Performing Assets account led to subsequent default by the borrower company and non-recovery of term loan and interest of ₹1.04 crore.

(Paragraph: 5.3)

Failure of the Jammu and Kashmir State Industrial Development Corporation Limited to invoke terms of lease agreement providing for levy of penal interest and eviction proceedings for default in payment of ground rent resulted in non-recovery of ₹2.17 crore and interest of ₹71.40 lakh.

(Paragraph: 5.4)

Despite clear instructions of competent authority to restrict the value of a work of construction of a bridge along with approach road to the approved estimates, the Jammu and Kashmir Projects Construction Corporation Limited exceeded the approved cost of estimates by ₹2.48 crore. This was aggravated by construction of approach road without requisite protection works resulting in avoidable expenditure of ₹2.01 crore.

(Paragraph: 5.5)

The Jammu and Kashmir State Cable Car Corporation Limited acquired a plot of land at a cost of ₹1.25 crore for construction of a building that was also to house its head office which was in a rented building. However, no progress could be achieved in construction of the building despite lapse of five years thereby defeating the objective of the expenditure on land acquisition as well as resulting in avoidable payment of rent ₹57.70 lakh.

(Paragraph: 5.6)

PART 'A'

REVENUE SECTOR

Chapter-1
General
(Revenue Sector)

CHAPTER - 1

GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenues raised by the Government of Jammu and Kashmir during the year 2015-16, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table-1.1** below.

Table-1.1 : Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	**Revenue raised by the State Government**					
	• **Tax revenue**	4745.49	5832.43	6272.74	6333.95	7326.19
	• **Non-tax revenue**	2001.64	2160.19	2869.69	1978.05	3912.79
	Total	**6747.13**	**7992.62**	**9142.43**	**8312.00**	**11238.98**
2.	**Receipts from the Government of India**					
	• **Share of net proceeds of divisible Union taxes and duties**	3495.11	3870.37	4142.10	4477.23	7813.48
	• **Grants-in-aid**	14540.72	14353.87	13843.45	16149.36	16728.14
	Total	**18035.83**	**18224.24**	**17985.55**	**20626.59**	**24541.62**
3.	**Total revenue receipts of the State Government (1 and 2)**	**24782.96**	**26216.86**	**27127.98**	**28938.59**	**35780.60**
4.	**Percentage of 1 to 3**	**27**	**30**	**34**	**29**	**31**

(Source: State Finance Accounts 2015-16)

During the year 2015-16, the overall receipts of the State increased by 23.6 *per cent* over the previous year. The revenue raised by the State Government (₹11,238.98 crore) was 31 *per cent* of the total revenue receipts against 29 *per cent* in the preceding year. The balance 69 *per cent* of the receipts during 2015-16 was from the Government of India (GoI) of which 68.16 *per cent* came in the form of grants-in-aid. The grants-in-aid from GoI constituted 46.75 *per cent* of the total receipts of the State.

1.1.2 The details of the tax revenue raised during the period 2011-12 to 2015-16 are given in **Table-1.2.**

Table-1.2 : Details of Tax Revenue raised

(₹ in crore)

Sl. No	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in	
		Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Actual over Budget Estimate during 2015-16	Actual in 2015-16 over 2014-15
1.	Taxes on sales, trade, etc.	3419.32	3414.01	4218.57	4174.39	4799.00	4578.81	4530.00	4601.52	5985.00	5276.54	(-) 11.84	14.67
2.	Taxes on Goods & Passengers	439.00	457.93	474.40	504.91	559.00	565.53	562.00	557.81	715.00	666.21	(-) 6.82	19.43
3.	State excise	383.00	385.47	413.00	421.28	442.00	440.06	462.00	466.08	485.00	532.82	9.86	14.32
4.	Taxes and duties on electricity	262.00	179.12	423.36	277.86	504.00	276.94	466.02	313.40	350.71	428.87	22.29	36.84
5.	Stamps Duty	133.27	170.97	270.55	240.14	321.93	260.68	215.16	247.98	260.00	264.23	1.63	6.56
6.	Motor Vehicles Tax	128.50	104.52	139.00	117.89	153.00	134.23	160.40	132.34	183.60	145.15	(-) 20.94	9.68
7.	Land revenue	25.00	33.00	35.60	95.45	40.80	15.97	42.22	14.58	8.68	12.18	40.32	(-) 16.46
8.	Others[1]	0.51	0.47	0.54	0.51	0.54	0.52	0.60	0.24	0.10	0.19	90.00	(-) 20.83
	Total	**4790.60**	**4745.49**	**5975.02**	**5832.43**	**6820.27**	**6272.74**	**6438.40**	**6333.95**	**7988.09**	**7326.19**		

(Source: State Budget 2016-17 and Finance Accounts 2015-16)

There was huge variation between the budget estimates and actuals ranging between (+) 90 and (-) 20.94 *per cent*. This was indicative of the budget estimates being either unrealistic or the revenue collection machinery failing to collect the realisable revenue. The reasons for decrease in actuals as compared to the budget estimates were not provided to audit though called for. Tax receipts under the head 'Land revenue' has shown a decreasing trend from ₹95.45 crore in 2012-13 to ₹12.18 crore in 2015-16. The reasons for the decrease were not intimated by the department (October 2016).

The details of the non-tax revenue raised during the period 2011-12 to 2015-16 are indicated in **Table-1.3**.

[1] Taxes and Duties on Commodities and Services (Entertainment tax)

Table-1.3 : Details of Non-tax revenue raised

(₹ in crore)

Sl. No	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in	
		Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Actual over Budget Estimate during 2015-16	Actual in 2015-16 over 2014-15
1.	Power	1486.22	1006.93	2387.29	1588.62	2840.60	1533.09	2629.90	1427.73	2979.60	1477.22	(-) 50.42	3.47
2.	Forestry and wild life	55.57	55.20	68.07	59.31	67.53	67.90	70.80	70.85	76.09	67.84	(-) 10.84	(-) 4.25
3.	Police	17.60	24.91	24.50	28.34	65.00	56.75	87.75	19.97	66.20	34.11	(-) 48.47	70.80
4.	Non-ferrous, Mining & metallurgical Ind.	43.00	41.18	50.35	54.02	60.18	53.35	60.40	48.50	65.10	57.23	(-) 12.09	18.00
5.	Water supply & Sanitation	34.50	20.56	37.00	31.92	43.57	38.03	49.50	36.90	57.20	45.77	(-) 19.98	24.04
6	Public works	22.29	25.94	24.97	27.19	26.49	23.57	27.80	23.13	23.87	27.55	15.41	19.11
7.	Medical and Public Health	17.38	14.55	20.25	18.08	22.63	15.70	23.77	22.69	24.99	22.53	(-) 9.84	(-) 0.71
8.	Interest receipts	22.30	33.06	21.94	16.38	21.50	12.80	23.19	13.58	22.77	96.35	323.14	609.50
9.	Other Non-tax receipts*	152.58	779.31	184.40	336.33	252.36	1068.50	180.55	314.70	139.15	2084.19	1397.80	562.28
	Total	**1851.44**	**2001.64**	**2818.77**	**2160.19**	**3399.86**	**2869.69**	**3153.66**	**1978.05**	**3454.97**	**3912.79**		

(Source: State Budget 2016-17 and Finance Accounts 2015-16)

*0050-Dividends and Profits, 0056-Jails, 0058-Stationery and Printing, 0070-Other Administrative services, 0071-Contributions and Recoveries towards Pension and Other retirement benefits, 0075-Miscellaneous General services, 0202-Eduction, Sports Art and Culture, 0216-Housing, 0217-Urban Development, 0220-Information and Publicity, 0230-Labour & Employment, 0235-Social Security and Welfare, 0401-Crop Husbandry, 0403-Animal Husbandry, 0405-Fisheries, 0425-Cooperation, 0435-Other Agriculture Programmes, 0515-Other Rural Development Programmes, 0575-Other Special Area Programmes, 0701-Major and Medium Irrigation, 0702-Minor Irrigation, 0851-Village and Small Industries, 1054-Roads and Bridges, 1452-Tourism, 1475-Other General Economic Service.

The variations between budget estimates and actual realisation of non-tax under various heads ranged between (+) 1,397.80 and (-) 50.42 *per cent* during 2015-16. There was an increase ranging between 3.47 and 609.50 *per cent* in actual collections from Power, Police, Non-ferrous mining and metallurgical industries, Water supply and sanitation, Public Works, Interest receipts and Other non-tax receipts over the previous year whereas receipts under Forestry/Wild Life and Medical and Public Health decreased by 4.25 and 0.71 *per cent* respectively.

There was collection of ₹1,477.22 crore against the budgeted estimates of ₹2,979.60 crore in respect of Power during 2015-16. Reasons for less collection though called for were not intimated (October 2016) by the Department.

1.2 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalization at the end of the year as furnished by the Commercial Taxes Department in respect of Sales Tax/VAT and Taxes on Works contracts are given in **Table-1.4**.

Table-1.4: Arrears in Assessments

Head of revenue	Opening balance	New cases due for assessment during 2015-16	Total assessments due	Cases disposed of during 2015-16	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
Sales Tax/VAT	6924	15149	22073	11477	10596	52
Tax on Works contract	34068	7754	41822	13740	28082	33

(Source: Data provided by the department)

Out of the total cases due for assessment, 52 *per cent* of the assessments were completed in respect of Sales Tax/VAT and 33 *per cent* in the case of taxes on works contracts. There was a decreasing trend in disposal of assessment cases in respect of Sales Tax/VAT from the year 2014-15 to 2015-16 as 63 *per cent* of cases were disposed of during 2014-15 while it was only 52 *per cent* in the year 2015-16.

1.3 Evasion of tax detected by the department

The details of cases of evasion of tax detected by the Commercial Taxes Department, cases finalised and the demands for additional tax raised as reported by the Department are given in **Table-1.5** below.

Table-1.5: Evasion of Tax

(₹ in crore)

Head of revenue	Cases pending as on 31 March 2015	Cases detected during 2015-16	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty, etc. raised		Number of cases pending for finalization as on 31 March 2016
				Number of cases	Amount of demand	
Sales Tax/VAT	538[2]	5109	5647	2445	39.93	3202
Passenger tax	Nil	1038	1038	640	1.10	398
Total	**538**	**6147**	**6685**	**3085**	**41.03**	**3600**

(Source: Data furnished by the Department)

[2] Variation with the closing balance reflected in Audit Report 2014-15 is due to revised figures communicated by the department

Against the total demand of ₹41.03 crore raised in 3,085 cases during 2015-16, an amount of only ₹2.27 crore had been recovered which is 5.53 *per cent* of the total recoverable amount. The reasons for slow pace of recovery were not furnished by the Department (October 2016).

1.4 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2015-16, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2015-16 as reported by the Department is given in **Table-1.6**.

Table-1.6: Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Sales tax /VAT	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	3	1.73
2.	Claims received during the year	11	0.67
3.	Refunds made during the year	3	0.61
4.	Balance outstanding at the end of the year	11	1.79

(Source: Data furnished by the Department)

Reasons for non-settlement of the remaining cases at the end of the year 2015-16 were not intimated (October 2016).

1.5 Response of the departments towards audit

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

A total of 3,400 paragraphs involving ₹1,276.83 crore relating to 711 IRs issued upto December 2015 in respect of Commercial Taxes, State Excise, Motor Vehicles and Law Department remained outstanding at the end of June 2016 as depicted in **Table-1.7** along with the corresponding figures for the preceding two years.

Table-1.7: Details of Pending Inspection Reports

	June 2014	June 2015	June 2016
Number of IRs pending for settlement	609	643	711
Number of outstanding audit observations	2725	2870	3400
Amount of revenue involved (₹ in crore)	1172.99	1186.05	1276.83

Department-wise details of the IRs and audit observations outstanding as on 30 June 2016 and the amounts involved in respect of Finance, State Excise, Transport and Law Department (Revenue Sector) are mentioned in **Table-1.8** below.

Table-1.8: Department-wise details of Inspection Reports and Audit Observations

(₹ in crore)

Sl. No	Name of the Department	Nature of receipts	Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved
1.	Finance	Taxes on Sales, Trade, etc.	439	2561	1094.88
		Passenger & Goods Tax	10	45	31.48
2.	Excise	State Excise	143	313	111.00
3.	Transport	Taxes on Motor Vehicles	109	414	38.76
4.	Law	Stamp duty and Registration fee	10	67	0.71
Total			**711**	**3400**	**1276.83**

Audit did not receive responses from the heads of offices within four weeks from the date of receipt for 67 IRs out of 70 IRs issued during 2015-16. This is indicative of the fact that the heads of offices and the departments did not initiate action to rectify the defects, omissions and irregularities pointed out in the IRs. Further, no Audit Committee was constituted by the State Government for discussion of pending objections relating to tax revenue (Commercial Taxes, State Excise, Motor Vehicles and Stamp Duty and Registration fee).

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

1.6 Position of Inspection Reports

The summarized position of the Inspection Reports of the Departments of Finance, Excise, Law and Transport (Revenue Sector) issued during the last five years, paragraphs included in these IRs and their clearance as on 31 March 2016 are tabulated in **Table-1.9**.

Table-1.9: Position of Inspection Reports

(₹ in crore)

Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the quarter			Closing balance during the year		
		IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
1.	2011-12	599	2053	1726.88	72	341	57.14	20	107	41.66	651	2287	1742.36
2.	2012-13[3]	515	2296	972.26	67	389	277.20	7	213	225.70	575	2472	1023.77
3.	2013-14	575	2472	1023.77	56	515	180.29	14	157	15.77	617	2830	1188.29
4.	2014-15	617	2830	1188.29	59	553	67.00	08	194	24.93	668	3189	1230.36
5.	2015-16	668	3189	1230.36	70	494	76.86	07	140	25.90	731	3543	1281.32

The clearance and settlement of audit paragraphs at the end of each year was minuscule ranging from four *per cent* to eight *per cent* of the total number of pending audit paragraphs. Lack of executive action on audit observations weakens accountability and raises the risk of avoidable loss of revenue. The continuous increase in the number of pending audit paragraphs merits the attention of the Government to ensure effective mechanisms to regularly monitor and review the compliance and settlement of audit observations including constitution of Audit Committees in each department.

1.7 Follow up on Audit Reports

1.7.1 Non-submission of Action Taken Notes

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

It was noticed that out of 103 audit paragraphs featuring in the Chapters of Revenue Sector of Audit Reports from 2000-01 to 2014-15[4], ATNs in respect of 80 audit paragraphs had not been received upto 31 March 2016.

1.7.2 Action taken on recommendations of the Public Accounts Committee

Action Taken Notes, duly vetted by the Accountant General (Audit) on the observations/recommendations made by the PAC in respect of audit paragraphs discussed by them are to be furnished to the Committee within six months from the date of such observations/recommendations. Out of 103 audit paragraphs

[3] Figures worked out after restructuring (April 2012) of the Organisation on Sectoral basis
[4] Audit Report 2014-15 presented in the Jammu and Kashmir State Legislature on 27 June 2016

featuring in the Revenue Sector Chapters of Audit Reports for the years from 2000-01 to 2014-15, sixteen audit paragraphs had been discussed by the PAC up to 31 March 2016. Recommendations in respect of 14 audit paragraphs including nine discussed partly have been made by the PAC. However, ATNs on the recommendations of the Committees is pending from the State Government in respect of 11 paragraphs.

1.7.3 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered are mentioned in **Table-1.10** below.

Table-1.10: Recovery of Accepted Cases

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year 2015-16	Cumulative position of recovery of accepted cases as of 31 March 2016
2010-11	10	39.90	10	31.41	Nil	0.002
2011-12	7	80.10	7	80.10	Nil	0.42
2012-13	6	244.53	6	244.53	Nil	0.10
2013-14	5	09.28	5	1.11	Nil	0.04
2014-15	4	0.76	4	0.76	0.02	0.10
Total		**374.57**		**357.91**	**0.02**	**0.662**

It would be seen from the above that in respect of paragraphs featured in the Audit Reports 2010-11 to 2014-15, the Department/Government accepted audit observations involving ₹357.91 crore of which only ₹0.66 crore (0.18 *per cent*) was recovered upto 2015-16. The department may take appropriate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

1.8 Audit Planning

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

During the year 2015-16, there were 265[5] auditable units, of revenue receipts (Commercial Taxes, State Excise, Transport and Law) out of which 70 units were planned and 66 units had been audited.

1.9 Results of audit

Position of local audit conducted during the year

Test-check of the records of 66 units of Sales tax/Value Added Tax, State Excise, Motor Vehicles and Stamp Duty and Registration fee conducted during the year 2015-16 brought out under-assessment/short levy/loss of revenue aggregating ₹208.71 crore in 635 cases. During the year, the Departments concerned accepted under-assessment and other deficiencies of ₹75.56 lakh involved in 101 cases of which the departments collected ₹40.74 lakh[6] in 70 cases pertaining to audit findings of previous years as well as of the year 2015-16.

1.10 Contents of Part A (Revenue Chapter)

This Report contains seven paragraphs involving revenue implication of ₹124.10 crore relating to non-imposition of penalty and fine, irregular or inadmissible exemptions, non-issue of recovery certificates, non-recovery of arrears and non/short levy of tax. The Departments/Government have accepted audit observations involving ₹88.76 crore out of which ₹6.52 lakh have been recovered.

[5] 135 units were shifted from General Sector (Non-PSUs) to Revenue Sector during 2015-16

[6] 2015-16: ₹2.19 lakh (12 cases) and prior to 2015-16: ₹38.55 lakh (58 cases)

Chapter-2

Compliance Audit (Revenue Sector)

CHAPTER - 2

2.1 Tax administration

2.1.1 Sales Tax/Value Added Tax

Sales Tax/Value Added Tax are administrated at the Government level by the Principal Secretary to Government, Finance Department. The Commissioner Commercial Taxes is entrusted with overall control and superintendence of the Commercial Taxes Department. He is assisted by three Additional Commissioners of Taxes (one each in Jammu and Kashmir Divisions and one for Tax Planning) and 13 Deputy Commissioners of Commercial Taxes (Jammu: 06; Kashmir: 05 and one each for headquarter and judicial matters). The State is divided into 52 Commercial Taxes Circles (Jammu: 25; Kashmir: 27) each headed by one Commercial Taxes Officer.

2.1.2 State Excise

The J&K State Excise Department is responsible for charging of excise duties under the J&K Excise Act 1901 and the rules made thereunder. The department is headed by the Excise and Taxation Commissioner who is assisted by five Deputy Excise Commissioners (04: Jammu; 01: Kashmir) and eight Excise and Taxation Officers (06: Jammu; 02: Srinagar). There are 20 Distilleries Bottling Plants which fall within the jurisdiction of the Excise and Taxation Officer, Distilleries, Jammu.

2.1.3 Taxes on Vehicles, Goods and Passengers

Receipts from the Transport Department are regulated under the Central and the State Motor Acts and rules made thereunder and are under the administrative control of the Transport Commissioner. The receipts from the goods and passengers tax are regulated under the Jammu and Kashmir Motor Vehicle Taxation Act 1957 and the Jammu and Kashmir Motor Vehicle Rules 1991 administered by the Transport Commissioner of the State.

2.2 Results of audit

Test-check of the records of 66 units of sales tax/Value Added Tax, State Excise, Motor Vehicles and Stamp Duty and Registration fee conducted during the year 2015-16 revealed under-assessment/short levy/loss of revenue aggregating ₹208.71 crore in 635 cases as detailed in **Table-2.1**.

Table-2.1: Results of Audit

(₹ in crore)

Sl. No.	Categories	Number of cases	Amount
Taxes/VAT on Sales, Trade etc.			
1.	Under-assessment of tax	64	12.10
2.	Evasion of tax due to suppression of sales/ purchase	102	10.89
3.	Irregular/incorrect/excess allowance of Input Tax Credit	16	1.31
4.	System of Collection of arrears of revenue	1	85.24
5.	Other irregularities	84	22.26
	Total	**267**	**131.80**
State Excise			
1.	Non/short realization of excise duty	10	6.06
	Non/short recovery of license fee/interest/ penalty	8	17.23
2.	Collection of Toll tax	1	35.35
3.	Other irregularities	52	0.62
	Total	**71**	**59.26**
Taxes on Vehicles, Goods and Passengers			
1.	**Non/short realization of** • Token tax and composite fee • Passenger and goods tax	25	8.92
2.	**Other irregularities** • Vehicle tax	62	0.36
	Total	**87**	**9.28**
Stamp Duty and Registration Fee			
1.	Under valuation of proper/short levy	119	0.25
2.	Non-accountal/less accountal/short deduction	3	0.01
3.	Other regularities	88	8.11
	Total	**210**	**8.37**
	Grand Total	**635**	**208.71**

During the year, the departments realized revenue of ₹40.74 lakh under various heads that had been pointed out in audit during 2015-16 and previous years.

FINANCE DEPARTMENT

2.3 Collection of Toll Tax in the State

Audit review of the system of collection of toll tax revealed non-adherence to rules and statutory provisions as well as differing application that resulted in loss of revenue of ₹35.35 crore.

Introduction

Toll tax is levied and collected in the State under the Jammu and Kashmir Levy of Toll Act 1995 and rules made thereunder called the Jammu and Kashmir Toll Rules, 1995. Toll is levied on movement of persons, livestock, vehicles, machinery, commodities and goods in any form within the State. The Excise Department is responsible for collection of toll at various toll posts and for assisting the Government in formulating policy for levy of toll and administration of matters relating to excise and toll.

The records of all five major TPs and eight[1] out of 13 minor TPs for the period 2011-12 to 2015-16 were test-checked in audit during September 2015 to March 2016. Collaterally, the records of the Motor Vehicles Department (MVD), the Commercial Taxes Department and the Industries and the Commerce (I&C) Department, as they relate to efficient and effective administration and collection of toll tax were also checked in audit. In addition, assessment of records of one[2] industrial circle was test-checked for cross verification of correctness and genuineness of the toll exemptions allowed to industrial units. The audit findings are detailed below.

2.3.1 Non-imposition of penalty and fine for over-loading of vehicles

According to the departmental instructions (October 2008), all overloaded vehicles were to be stopped at the toll posts and referred to the Motor Vehicles Department (MVD) for unloading additional weight and for imposition of double toll tax[3], penalty and fine.

Test check of records of one[4] major and four[5] minor TPs for the period 2011-12 to 2015-16 revealed that 3,81,775 overloaded vehicles were not referred to the MVD which resulted in non-imposition of penalty and fine of at least of ₹114.53 crore[6].

[1] Passenger side Jammu, Bari Brahamna, Upshi, Mandi Madkian, Kot Punnu, Goond, Kediyan Gandiyal, Govindsar
[2] CTO, Circle-I, Jammu
[3] Section 3 amended vide J&K Gazette dated 21.04.2010
[4] Railway Station, Goods Side, Jammu
[5] Mandi Madkian, Kot Punnu, Goond and Kediyan Gandiyal
[6] Number of vehicles (381775) x Fine and penalty (₹3000)

Further, cross verification of records of TP Lakhanpur with the MVD brought out that penalty and fine was imposed on 60,850 vehicles out of 62,142 vehicles which were subjected to double basic toll during April 2011 to December 2015 for over loading.

2.3.2 Irregular Exemptions

State Government notified (January 2004) that the industrial units registered with the Industries and Commerce (I&C) Department would be exempted from payment of toll on goods imported/exported by them except in respect of items appearing in the negative list specified under the notification. Scrutiny of records revealed that the department had allowed irregular exemption amounting to ₹32.67 crore as detailed below.

(i) Audit scrutiny of Chief Article Statement[7] at TP Lakhanpur for the period 2011-12 to 2014-15 revealed that the toll authorities had allowed irregular exemption to industrial units from payment of toll tax of ₹1.63 crore on 2,75,596 quintals of items[8] imported during 2011-12 to 2014-15 which were included in the negative list. In addition, interest[9] of ₹1.58 crore was also leviable as per Section 6-B of the J&K Levy of Toll Act 1995. It was further observed that the names of the consignor/consignee were not recorded in the computerized data sheets maintained by Deputy Excise Commissioner, TP Lakhanpur. As such, audit could not identify the industrial units that had been allowed inadmissible exemption on imported raw materials. The Excise Commissioner stated (September 2016) that industrial goods were being exempted from payment of toll in strict adherence with the extant rules. The reply was not tenable as no exemption is allowable on items falls under the negative list.

(ii) According to the notification of January 2004, all kinds of oils (edible and non-edible), excluding oil seeds, which are imported by industrial units registered with the I&C Department are to be subjected to levy of toll tax. Audit scrutiny of records at TP Lakhanpur revealed that the department had allowed irregular exemption from payment of toll tax on 2,03,950 quintals of 'Mentha Oil/Crude Mentha Oil (non-edible oil)', imported by various industrial units into the State during 2011-12 to 2014-15. The irregular exemption resulted in non-realization of toll tax of ₹1.21 crore. In addition, interest of ₹1.19 crore was also leviable. However, audit could not again ascertain the names of these industrial units as the computerized data sheets did not include the names of the consignor/consignee. The Excise Commissioner stated (September 2016) that as per the clarification of the I&C Department dated June 2005, toll applied only to 'Edible and Non-Edible

[7] Commodity wise monthly consolidated entries of import and export

[8] H.R/C.R coils, H.R/C.R/G.P/G.C/M.S sheets, spices, packing material, plywood, milk powder, steam coal

[9] At the rate of 3 *per cent* per month

oils' and not to industrial oils like transformer oil, turpentine oil and mentha oil, which were either petroleum products or organic chemicals commonly called as 'Oils'. The reply is not tenable as all kinds of oils (edible and non-edible) excluding oil seeds had been placed under negative list in the Government notification without any further distinction as to the nature or use of oil.

(iii) Audit scrutiny of records of TP Lakhanpur for 2011-15 revealed that exemption from payment of toll tax of ₹29.74 crore was allowed on 48,86,337 quintals of 'Miscellaneous Goods' imported into the State by industrial units/units under various Government notifications[10]. 'Miscellaneous Goods' are neither covered in the list of items specified/authorized in Government notifications nor classified in the annual verification certificates approved by the I&C Department. The Excise Commissioner stated (September 2016) that exemption from payment of toll tax for specific goods was being granted by the ETOs on the basis of documents accompanying the goods and mere classification of an item under the 'Miscellaneous Goods' in no way challenged the genuineness of any exemption granted. It was further stated that 'Miscellaneous Goods' was a broader term used in the software and all the items categorized under it were having same toll rate. The reply was not tenable as "Miscellaneous Goods" might contain one or more tollable items and there was no such term used in the Toll Act or rules.

Such instances reveal flexible interpretation of toll related provisions resulting in potential revenue loss. As exemptions involve revenue implication it is imperative to explicitly mention the description of goods for transparency and clarity.

2.3.3 Internal control

The J&K Levy of Toll Rules 1995 provides for maintenance of records aimed at ensuring proper accounting and monitoring of revenues due and collected. Audit observed widespread non-maintenance of stipulated records and non-observance of stipulated procedures as below.

(i) Every Assessing officer is to maintain an assessment note book (RT-3) at each toll post for recording details of assessment made in respect of any vehicle arriving at the post. Scrutiny of records of four major TPs[11] and seven minor TPs[12] for the period 2011-12 to 2015-16 revealed that the assessment note book had not been maintained and as such the toll tax collected could not be linked with the details of assessment made.

[10] SRO-334 of 1969, SRO-22 of 2004 and SRO-150 of 2010

[11] Udhampur, Nagri, Lower Munda, Railway Station Goods side, Jammu

[12] Passenger side Jammu, Bari Brahmana, Kote Punnu, Mandi Madkian, Kediyan Gandial, Govindsar, Goond

(ii) At the close of a day, revenue received at a post shall be entered in a Cash Book and the Cash Book shall be attested daily by the officer in-charge. The Cash Book was not maintained at one TP[13] and it was not maintained in prescribed format at five TPs[14] during the period 2011-12 to 2015-16. Similarly, remittance register had not been maintained at two major toll posts at Lower Munda and Goods side, railway station Jammu and another five[15] minor TPs.

(iii) A "Khilafwarzi" register shall be maintained at each post indicating the date of detection of violation of rules, name and address of the accused, place of detection, amount of duty evaded, amount of fine, etc. imposed. Khilafwarzi register had not been maintained at two major Toll Post[16] and seven minor toll posts[17] during 2011-12 to 2014-15.

(iv) The officer in charge of a toll post is required to maintain Stock account in the form RT-6 of permit books RT-4 received from the office of DEC (Executive). The Stock account was either not maintained or was not maintained in prescribed format at two major TPs[18] and six minor TPs[19] during the period 2011-12 to 2014-15. It was also seen that permits books which had remained unused at the end of a year at the TPs Lower Munda and Upshi had not been cancelled as was required under the J&K Levy of Toll Rules 1995 but were carried forward to the next year.

(v) At the close of a month, the Officer in charge of a post shall verify the stock of permit books in their custody. No monthly verification/closure of abstracts of RT-4 books received/entered in the RT-4 register was conducted in two major TPs[20] and six minor TPs[21] during the period 2011-12 to 2014-15.

2.3.4 Conclusion

Hence, non-adherence to the stipulated provisions resulted in non/short levy of toll tax amounting to ₹35.35 crore. Further, the efficacy of internal control mechanisms and procedures that would have enabled effective monitoring and supervision of toll collection was undermined by poor maintenance of mandatory records including assessment note book, cash book and stock account.

The matter was reported to the Government in July 2016; its reply was awaited (October 2016).

[13] Passenger side Jammu
[14] Goond, Govindsar, Kediyan Gangyal, Kote Punnu and Mandi Madkian
[15] Upshi, Mandi Madkian, Kote Punnu, Goond, Govindsar
[16] Lower Munda, Railway Station Goods Side, Jammu
[17] Upshi, Passenger Side Jammu, Mandi Madkian, Kote Punnu, Goond, Kediyan Gandial, Govindsar
[18] Lower Munda, Lakhanpur
[19] Govindsar, Goond, Kediyan Gandiyal, Mandi Madkian, Kote Punnu and Upshi
[20] Lower Munda, Lakhanpur
[21] Govindsar, Goond, Kediyan Gandiyal, Mandi Madkian, Kote Punnu and Upshi

2.4 System of Collection of Arrears of Revenue in the State

Audit review of system of collection of arrears of revenue revealed non-adherence to statutory provisions for recovery of arrears resulting in revenue loss of ₹85.24 crore, besides improper maintenance of records and procedural delays that affected realisation of Government dues.

2.4.1 Introduction

The levy, assessment and collection of both tax and non-tax revenues is governed under the provisions of the relevant Acts and Rules framed thereunder. Every dealer/consumer/licensee is required to deposit the tax within a specified time period. Taxes which remain unpaid are declared to be collected as arrears of land revenue under the provisions of the J&K Land Revenue Act 1996. The Finance Department headed by Commissioner/Secretary is responsible for collection of arrears of tax revenues. Similarly, Commissioner/Secretaries of non-tax revenue earning departments are responsible for functioning of their departments.

Audit of the system of collection of arrears of revenues for the period 2011-12 to 2015-16 was conducted of four[22] major revenue generating departments between January 2016 and April 2016 to ascertain the efficiency and effectiveness of the revenue collecting machinery and enforcement of the various Acts especially collection of arrears of revenue ***(Appendix-2.1).***

2.4.2 Commercial Taxes Department

2.4.2.1 Position of Arrears of Revenue

The position of arrears of revenue and revenue realized during the period 2011-12 to 2015-16 is depicted in **Table-2.4.1** below.

Table-2.4.1: Position of Arrears of Revenue

(₹ in crore)

Year	Opening Balance of Arrears of revenue	Arrears of revenue during the year	Arrears reduced by rectification/ Appeal effect/ stayed by courts/ Tribunal	Total arrears	Arrears realized (Percentage)	Closing Balance
	1	2	3	(1+2-3) = 4	5	6
2011-12	862.55	156.23	264.32	754.46	9.75 (1.29)	744.71
2012-13	744.71	423.28	246.63	921.36	30.15 (3.27)	891.21
2013-14	891.21	232.62	132.82	991.01	54.46 (5.49)	936.55
2014-15	936.55	164.00	103.14	997.41	34.34 (3.44)	963.07
2015-16	963.07	231.38	149.61	1044.84	19.17 (1.83)	1025.67

(Source: Departmental records)

[22] Commercial Taxes Department; Excise Department; Geology and Mining Department and Power Development Department

The recovery of arrears ranged between a minuscule 1.29 *per cent* and 5.49 *per cent* during the period 2011-12 to 2015-16. The arrears had swelled from ₹744.71 crore in 2011-12 to ₹1,025.67 crore in March 2016 representing an increase of 41.58 *per cent* over the five years period.

2.4.2.2 Delay in forwarding of Recovery Certificates by Assessing Authorities

Rule 42 of the Jammu and Kashmir Value Added Tax (VAT) Rules, 2005 and section 16 of the Jammu and Kashmir General Sales Tax (GST) Act 1962 provide that where a dealer or any other person is in default or is deemed to be in default in making payment of tax or any other amount due under the Act/ Rules[23], the Authority concerned, shall, forward a certificate to the Collector (DC Recovery) for effecting its recovery under the provisions of the J&K Land Revenue Act 1996.

Test check of records of the ten[24] Commercial Taxes Circles (Jammu: 5; Kashmir: 5) revealed that 670 revenue recovery certificates involving arrears of ₹102.84 crore raised between 2011-12 to 2012-13 had not been forwarded by the Assessing Authorities to the Collector for effecting recovery even after two years as required under section 45 (9) of the VAT Act 2005. Further, Assessing Authorities of five circles had forwarded 974 recovery certificates to the Collectors after a delay of 14 days to 29 months. Recoveries are still pending (October 2016).

The Assessing Authorities of Circle (H,F, Anantnag-I and Anantnag-II) Kashmir stated (March 2016) that efforts would be made to forward all recovery certificates to the Collector for recovery while the Assessing Authorities of Circle (O and E) Jammu stated (May 2016) that matter shall be looked into and detailed reply would be furnished in due course of time.

It was further observed that dealer-wise data base of Revenue Recovery certificates received from the Assessing Authorities had not been maintained by the department. The recovery certificates were received by the Collector DC (Recovery) Kashmir and Jammu in bulk from the Assessing Authorities and were passed on to the dealing Assistants/Inspectors/Sub-Inspectors without ensuring their entry in the Register of Recovery Certificates as required by Rule 42 of the J&K VAT Rules.

The DC (Recovery) Jammu admitted (April 2016) that the data base of recovery certificates has not been prepared but assured that the process for digitization

[23] Any delay beyond 30 days for VAT (Section 44 (5 & 6 of VAT Act) and 15 days for GST (Section 8 & 16 of the GST Act) is to be treated as default

[24] Jammu Circle: O, I, E, G and Udhampur Circle 1; Kashmir Circle: H, F, Baramulla, Anantnag-I, Anantnag-II

of recovery certificates shall be taken up within two to three months and further stated (August 2016) that the dealing assistants have been provided registers for entering details of recovery certificates in these register and after completion of details in the recovery registers the data base of pending RCs would be available.

2.4.2.3 Delay in issue demand notices by Deputy Collectors (Recovery)

Sections 61 and 62 of the Jammu and Kashmir Land Revenue Act 1996 empowers the taxation authorities to recover arrears from defaulters by service of a writ of demand on the defaulter issued on or after the day following that on which an arrear of land revenue accrues.

Test-check of records revealed that the DC (Recovery) had not issued timely demand notices against 42 dealers (out of 934) for recovery of arrears of revenue of ₹90.64 crore during the period from 2010-11 to 2014-15. The delay in issuance of writ demand notices to dealers ranged from 10 days to over three years indicating laxity in pursuance of arrears.

The DC (Recovery) Kashmir attributed (February 2016) the delay in issue of writ of demands to shortage of staff while as DC (Recovery) Jammu acknowledged (April 2016) the delay and stated that future demands would be issued in a time bound manner.

2.4.2.4 Delay in issue of recovery certificates to Collectors of Other Districts

Section 60 of the J&K Land Revenue Act 1996 envisages that where an arrear of land revenue or a sum recoverable as arrear of land revenue is payable by a person residing or having property in a district other than that in which the arrear accrued or the sum is payable, the Collector of the district in which the arrear accrued or the sum is payable may send to the Collector of that district, a certificate duly signed by the Collector stating (a) the name of the defaulter and such other particulars as may be necessary for his identification and (b) the amount payable by him and the account on which it is due. The Collector of the district shall on receiving the certificate proceed to recover the amount, stated therein, as if it were an arrear of land revenue which had accrued in his own district.

Test-check of records of DC (Recovery) Jammu revealed that during the period 2011-12 to 2015-16, recovery certificates of 19 dealers involving arrears of ₹27.79 crore had not been forwarded to the Collectors of the districts where the dealers were residing for effecting recovery as arrears under the Land Revenue Act.

The DC (Recovery) Jammu stated (March 2016) that proper procedure of law shall be adhered to in future.

2.4.2.5 Improper maintenance of records that hindered recovery of arrears

Timely and effective recovery action requires the availability of all requisite details of the defaulters that would enable recovery action. Audit notices non-maintenance of such details that hindered the ability of the authorities in effecting recoveries as detailed below.

(i) Rule 42 (1) of the J&K VAT Rules 2005 and Rule 36 of the J&K GST Rules, 1962 provide that where a dealer or any other person is in default or is deemed to be in default in making payment of tax or any other amount due under the Act, the authority concerned shall forward a recovery certificate to the Collector. Section 66 of the J&K Land Revenue Act 1996 provides that, at any time after arrear of land revenue has accrued, the Collector may cause the estate or holding in respect to which the arrear is due to be attached and taken under his own management or that of any agent appointed by him for that purpose. Section 71 of the Act also provides that if arrear cannot be recovered by any of the processes or if the enforcement of any of these processes is inexpedient, the Collector may, where the defaulter owns any other estate or holding or any other immoveable property, proceed under the provisions of the Act against the property as if it were the land in respect of which the arrear is due.

Test-check of records of ten Commercial Tax Circles revealed that attachment of moveable/immoveable property or seizure of bank accounts of 28 defaulting dealers was not made by the department during the period from 2010-11 to 2015-16 due to non-availability of particulars of moveable/immoveable properties/bank details in the recovery certificates issued by the Assessing Authorities resulting in non-recovery of arrears of ₹30.70 crore.

The DC (Recovery) Jammu admitted (March 2016) that recovery of arrears through attachment of properties could not be made due to non-availability of property details of the defaulting dealers with the Collectorate. The DC (Recovery) Kashmir stated (February 2016) that steps would be taken for attachment of properties in due course.

Audit observed that the Assessing Authorities are responsible for obtaining property details from dealers and to forward them to the DC (Recovery) at the time of issuance of RC as per VAT Rules[25] and in the absence of such details, DC (Recovery) can initiate action for arrest of defaulters as per the Land Revenue Act[26].

[25] Rule 12 (k) – Form VAT-01A and Form VAT 28, Rule 42(1)

[26] Section 63 of the J&K Land Revenue Act, Samvat 1996

(ii) As per the provisions of the J&K GST Act, 1962 and VAT Act, 2005 every dealer other than casual trader has to submit application for registration containing details like residential address, Permanent Account Number (PAN), Bank details, Statutory Authority with whom the dealer is registered, etc. Section 61 of the Jammu and Kashmir Land Revenue Act 1996 empowers the Collector to recover the arrears either by service of a writ of demand, arrest and detention of the person.

Test-check of records revealed that in seven[27] Commercial Tax Circles, warrant of arrest issued against 53 defaulting dealers during 2011-12 to 2014-15 could not be executed by the police authorities due to non-availability of correct and updated particulars of the defaulting persons. Audit noticed that option of locating defaulting dealers through their PAN, Bank details and Statutory Authorities with whom dealers were registered, etc., had not been explored for effecting recovery of arrears of revenue, which resulted not only in non-execution of warrant of arrests but also led to non-recovery of arrears of revenue of ₹87.94 crore.

The DC (Recovery) Jammu stated (March 2016) that subsequent to the audit observations fresh recovery certificates are received only after obtaining all the necessary details.

(iii) Arrears due from non-existing dealers had accumulated to ₹201.02 crore at the end of March 2016. The department had not ascertained reasons of non-traceability from the Assessing Authorities with whom these dealers were registered. After this was pointed out in audit, the DC (recovery) Kashmir stated that review of such cases shall be conducted and cases referred to Police Department for further action.

Thus, failure of the departmental authorities to ensure due maintenance and updating of details of dealers resulted in delay or non-recovery of arrears amounting to ₹319.66 crore. If Assessing Authorities do not obtain property and collateral details, the State faces the risk of losing substantial revenues at present as well as in future due to non-existence or un-traceability of the defaulters.

2.4.2.6 Short levy of interest of ₹25.18 lakh

Section 44 (11) of the J&K VAT Act, 2005 stipulates that if tax or any other amount due under this Act excluding interest is not paid by the dealer or any other person, by whom it is payable within the period allowed, the dealer or such other person shall be liable to pay interest on the tax or other amount from the date it was payable to the date of actual payment at the rate of two *per cent* per month.

[27] (Jammu:5; Kashmir:2)

Audit scrutiny of records of DC (Recovery) Kashmir and DC (Recovery) Jammu revealed that department had not charged interest on the tax from the date it was payable to the date of actual payment at the rate of two *per cent* per month in respect of 66 dealers during the period from 2010-11 to 2015-16 resulting in non-levy of interest amounting to ₹25.18 lakh. The DC (Recovery) Jammu stated (March 2016) that statutory notices for belated interest have been issued and outcome would be communicated in due course of time, however, DC (Recovery) Kashmir replied (February 2016) that interest would be calculated in all the cases.

2.4.2.7 Non-recovery of arrears of revenue from government departments/agencies

An amount ₹67.52 crore was outstanding against eight Government departments (₹20.11 crore) and seven Semi-Government (₹47.41 crore) on account of recovery of sales tax arrears ending March 2015 for which no action has been taken by the Department. Audit noticed that Assessing Authorities did not follow up the cases for recovery of arrears. The department had replied (March 2016) that fresh show cause notices have been issued.

2.4.2.8 Incorrect reporting of Arrears of Revenue

The Assessing Authorities of the Commercial Taxes Circles, forward revenue recovery certificates to the Collectors (DC Recovery Kashmir and Jammu) for effecting recovery as per the provisions of the J&K Land Revenue Act, 1996. The amount of revenue reflected in recovery certificates is recorded in the Revenue Recovery Certificate Register by the Recovery wing of the department. During course of cross check of records of DC (Recovery) Jammu, audit noticed variation of ₹147.08 crore in arrears of revenue which had been communicated to the Commissioner Commercial Taxes through Performance indicators during the period from 2011-12 to 2015-16 thereby submission of incorrect reports to the Government as shown in **Table-2.4.2**.

Table-2.4.2: Variation in Reporting of Arrears

Year	No of recovery certificates received from Assessing Authorities during year	Addition of arrears as per Revenue Recovery Certificates (₹ in crore)	Addition to arrears reflected in Performance indicators (₹ in crore)	Variation (₹ in crore)
2011-12	1366	166.39	79.58	(+) 86.81
2012-13	1222	175.63	177.87	(-) 2.24
2013-14	674	55.72	50.12	(+) 5.60
2014-15	584	117.82	135.82	(-) 18.00
2015-16	1099	250.73	175.82	(+) 74.91
Total		**766.29**	**619.21**	**(+) 147.08**

(Source: Departmental records)

On this being pointed out, the DC Recovery (Jammu) stated that variation in two sets of figures would be reconciled and reflected in the Performance indicator for the month of April 2016 by making modification to that extent.

Test-check of records of DC (Recovery) Jammu further revealed that the department had incorrectly reduced arrears of revenue in four recovery cases at the time of issue of demand notices, warrant of arrests, attachment orders or closure of case which had resulted in loss of revenue of ₹3.16 crore. In reply the department stated (April 2016) that the amount of arrears were erroneously calculated (two cases), firm was not traceable (one case), and fresh allotment notice was issued (one case).

2.4.3 Geology and Mining

Section 9A of the Mines and Mineral (Development and Regulation) Act, 1957, envisages that the holder of a mining lease shall, notwithstanding anything contained in the instrument of lease or in any other law for the time being in force, pay to the State Government every year dead rent at such rate as may be specified for all the areas included in the instrument of lease provided that where the holder of such mining lease becomes liable to pay royalty for any mineral removed or consumed by him or by his agent, manager, employee, contractor or sub-lessee from the leased area, he shall be liable to pay either such royalty or the dead rent in respect of that area whichever is greater.

Section 25 (1) of the Act further stipulates that any rent, royalty, tax, fee or other sum due to the Government under this Act or the rules made thereunder may be recovered in the same manner as an arrear of land revenue. The amount of royalty/rent which remained unrecovered during 2011-12 to 2014-15 increased from ₹9.74 crore in 2011-12 to ₹16.88 crore in 2015-16.

2.4.3.1 Non-referral of arrears to the Collector

Test-check of arrear cases of seven licensees out of 42 revealed that the department had not pursued the arrear cases in accordance with the provisions of the Acts/Rules resulting in accumulation of arrears of ₹10.27 crore as discussed below.

(i) Notice under Rule 27(5) of the Mineral Concession Rules 1960 for liquidation of arrears of royalty amounting to ₹3.92 crore (as of July 2012) was issued (October 2013) against a lessee for compliance within sixty days from the date of receipt of notice failing which the case could be referred to the Collector for effecting recovery under the provisions of the J&K Land Revenue Act 1996. Audit noticed that despite issue of fresh demand notices in October 2014 for ₹3.73 crore and August 2015 for ₹4.33 crore and grant of extension by one month from the date of issue of fresh notices, the lessee neither made payment of arrears nor had any action been initiated to declare the arrears to be collected as arrears of land revenue. The Director Geology and Mining had referred the case for determination of mining lease in August 2014 and January 2016 to the Government but no action had been taken and amount of ₹4.33 crore remained un-recovered.

(ii) Director Geology and Mining issued (December 2014) notice under Rule 27 (5) of Mineral Concession Rules 1960 to a lessee for liquidation of arrears on account of royalty amounting ₹3.77 crore (as of June 2014). Audit noticed that despite issue of notices, the lessee failed to remedy the breaches and deposited (January 2015) ₹2.98 crore. Fresh demand notice for ₹3.23 crore was issued (August 2015) with grant of extension by one month from the date of issue of fresh notices. The lessee neither made payment of arrears nor had any action been taken by the department to declare the arrears to be collected under the provisions of the J&K Land Revenue Act 1996 or referred arrears to the Collector of the concerned district. The department had, however, referred (April 2015) the case for determination of mining lease but no action had been taken and amount of ₹3.23 crore remained un-recovered from the lessee.

(iii) Demand notice under Rule 27 (5) of Mineral Concession Rules, 1960 was issued (July 2015) for an amount of ₹1.55 crore against a lessee. Audit noticed that the lessee neither made payment of arrears to the department nor any action was taken to declare the arrears to be collected as arrears of land revenue. The department had referred (December 2015) the case to the Commissioner/Secretary to Government, Industries and Commerce Department, Srinagar for determination of mining lease but no action had been taken and amount of ₹1.55 crore had remained un-recovered from the lessee.

(iv) Audit noticed that arrears amounting to ₹0.95 crore outstanding against a lessee from September 2013 on account of royalty had neither been recovered from the lessees despite issue of demand notice between September 2013 and December 2015 nor had the arrears of revenue been referred to the Collector for effecting recovery under the provisions of the J&K Land Revenue Act 1996.

(v) The department had not charged interest of ₹20.98 lakh on ₹43.70 lakh for the period April 2013 to March 2015 while issuing demand notice against a lessee.

In response to audit observations, the department directed (February 2016) the Joint Director, Geology and Mining Department, Kashmir to issue final notice to all defaulters for making payment of royalty in full within one month. Further action taken in this regard was awaited (October 2016).

2.4.4 Power Development Department

Levy and collection of electricity charges and duty on electricity is governed by the Jammu and Kashmir Electricity Act 2010 and the Jammu and Kashmir Electricity (Duty) Act 1963 respectively. Section 50 (2) of the Jammu and Kashmir Electricity Act 2010 stipulate that notwithstanding anything contained in any other law for the time being in force, no sum due from any consumer, under this section shall be recoverable after the period of two years from the date when such sum became first due unless such sum has been shown continuously as recoverable as arrears of charges for electricity supplied and the licensee shall not cut off supply of electricity. The Jammu and Kashmir Electricity (Duty) Act provides for levy of Electricity Duty at rates specifically to be notified by the State Government. Section 8 of the Act states that any duty or penalty leviable under this Act which remains unpaid shall be recoverable as arrears of land revenue. It is the responsibility of the Power Development Department to ensure collection of arrears of electricity charges and electricity duty and remitting into Government accounts.

The position of arrears of electricity charges including duty outstanding at the beginning of the year, assessed and recovered during the period 2011-12 to 2015-16 is depicted in **Table-2.4.3** below.

Table 2.4.3: Arrears of Revenue of Electricity Charges

(₹ in crore)

Year	Opening Balance	Revenue assessed during the year	Total realizable arrears	Amount of arrears recovered during the year	Closing balance
2011-12	1747.76	1255.60	3003.36	1197.85 (40)	1805.51
2012-13	1805.51	1539.72	3345.23	1492.36 (45)	1852.87
2013-14	833.25[28]	1967.06	2800.31	1691.08 (60)	1109.23
2014-15	1109.23	2094.53	3203.76	1715.06 (54)	1488.70
2015-16	1488.70	2379.82	3868.52	1872.30 (48)	1996.22

(Source: Departmental records)

The percentage recovery of electric charges including duty against the realizable arrears ranged between 40 and 60 *per cent* during the period 2011-12 to 2015-16. Audit noticed that despite reducing electricity arrears of State Government departments in the year 2013-14 by ₹1,019.62 crore and waiving off surcharge of domestic consumers under amnesty schemes by ₹39.26 crore (Jammu: ₹16.94 crore; Kashmir: ₹22.32 crore) during 2012-13 and 2015-16, the arrears of electricity charges including duty increased from ₹833.25 crore in 2013-14 to ₹1,996.22 crore at the end of March 2016.

[28] Arrears of electric charges against Government Department amounting to ₹1019.62 crore waived off as per Cabinet decision

Test check of eight (out of 27) electric divisions during the period 2011-12 to 2015-16 brought out arrears of ₹645.62 crore in 6,153 cases as brought out in **Table-2.4.4** below.

Table-2.4.4: Consumers against whom notices issued, disconnections effected or referred for collection under Land Revenue Act

(₹ in crore)

Division	Number of Consumers who owe arrear in the range of						Notices issued	Discon-nections effected	Cases referred for collection under Land Revenue Act, 1996	Cases pursued through courts
	₹One lakh to ₹Five lakh		₹Five lakh to ₹10 lakh		₹10 lakh and above					
	No.	Amount	No.	Amount	No.	Amount	No.	No.	No.	No.
Jammu	2999	84.98	402	28.91	642	441.35	191	18	7	27
Kashmir	1815	44.20	198	13.61	97	32.57	105	89	-	2
Total	**4814**	**129.18**	**600**	**42.52**	**739**	**473.92**	**296**	**107**	**7**	**29**

(Source: Departmental records)

Audit analysis revealed that:

- Writ of demands for recovery of electricity arrears of ₹645.62 crore has been issued by the departmental authorities against only 296 out of 6,153 consumers (5 *per cent*) during the period from 2011-12 to 2015-16;
- Disconnection for recovery of electricity charges has been made by the departmental authorities against only 107 consumers out of 6,153 consumers; and
- Department had not referred/declared any arrears to be collected as per the provisions of the J&K Land Revenue Act, 1996 and no mechanism was in place in the department for identifying cases to be declared as arrears of revenue.

The Chief Engineer (EM&RE) Jammu stated (August 2016) that the department has initiated steps for recovery of arrears by holding review meetings, issuing updated bills to the consumers, conducting inspections and effecting disconnections wherever necessary.

The reply is not acceptable as the arrears were pending for periods ranging from two to nine years and such prolonged delay or inaction was indicative of the lack of seriousness in pursuance of these arrears. Moreover, recovery of electricity charges may be time-barred under the provisions of the Jammu and Kashmir Electricity Act, 2010 while recovery of Electricity Duty as arrears of land revenue is unlikely given the long delay and it may be irrecoverable.

2.4.5 Excise Department

Section 24 of the J&K Excise Act 1958 stipulates that all duties, taxes, fines and fees payable to the State may be recovered from the person primarily liable to pay the same or from his surety (if any), as if they were arrears of land revenue. Further section 24-A of the Act stipulates that if any tax or other amount due under this Act is not paid by the licensee within the specified time, he shall be liable to pay in addition to tax or amount due a sum equal to two *per cent* of such tax or amount for each month or part thereof after the period specified for its payment.

An amount of ₹39.56 crore out of the total arrears of ₹48 crore outstanding from 2011-12 could not be realized due to stay granted by Courts. However, even the balance arrears of ₹8.44 crore referred to the Collectors for collection as arrears of land revenue had remained unattended resulting in their non-recovery as discussed below.

(i) Demand notices/attachment orders under the provisions of J&K Land Revenue Act had been issued by the Collector in respect of only seven recovery certificates out of 78 during January 2001 to March 2016 resulting in non-recovery of arrears amounting to ₹4.65 crore. The DC (Executive) Jammu stated (April 2016) that process to effect the recovery has been initiated by issuing notices to the defaulters. The DC (Executive) Kashmir stated (April 2016) that the process of issuing notices to these defaulters would be started immediately.

(ii) Test-check of records of the DC (Executive) Jammu revealed that excise arrear demands amounting to ₹71.90 lakh pertaining to 1984-85 to 1999-2000 received by DC Executive for effecting recovery had remained unattended due to non-issuance of demand notice or attachment order/warrant of arrest resulting in non-recovery of these arrears.

(iii) Test-check of records (March 2009/April 2015) of Excise and Taxation Officer, Excise Range, Kashmir and Dy. Excise Commissioner (Executive) Kashmir revealed that the dealers had not paid the dues on account of license fee and entertainment/show tax to the Government resulting in accumulation of arrears of ₹1.24 crore at the end of 1990. Further, some dealers had made full payment/part payment of outstanding arrears of principal amount of ₹13.09 lakh only between April 1990 to June 2015 and ₹1.11 crore was still pending for realization (June 2015). The department did not invoke the penal provision of section 24-A of the Act for recovery of arrears including interest in the cases where part payment/full payment was made. The inaction of the department by not recovering the arrears by invoking provisions of section 24-A of the Act, resulted in loss of revenue to the extent of ₹8.42 crore[29] including interest.

Dy. Excise Commissioner (Executive) Kashmir stated (April 2015) that necessary notices were served.

2.4.6 Conclusion

Efforts of the departments in pursuing recovery of arrears of government dues was characterised by lack of seriousness as reflected in undue delays in initiating actions provided for under the relevant Acts and non-enforcement or non-adherence of statutory provisions and the rules made thereunder. Delay in issue of recovery certificates, non-maintenance of requisite details of moveable/immoveable property and addresses that could facilitate appropriate recovery action, non-enforcement of penal actions in case of persistent defaults cumulatively resulted in overall 16 *per cent* increase in the arrears across all the four departments from ₹2,668.05 crore in 2011-12 to ₹3,086.77 crore in 2015-16.

The matter was reported to the Government in June 2016; its reply was awaited (October 2016).

2.5 Incorrect allowance of Input Tax Credit

Assessing Authority incorrectly allowed input tax credit during a period of suspension of registration resulting in short levy of tax of ₹7.39 lakh including interest and penalty.

Section 27 (7) of the J&K VAT Act 2005 stipulates that when any dealer to whom a certificate of registration is granted, fails to furnish any return or fails to pay any tax, penalty or interest payable under the Act, the certificate of registration of such dealer may be suspended by the prescribed Authority. Sub-section 9 (8) of section 21 of the Act further provides that no input tax credit shall be claimed or allowed to the registered dealer in respect of goods purchased by him for the period his certificate of registration is under suspension. Under Sections 51(4) and 69(1) (m) of the Act the dealer is also liable to pay interest @ two *per cent* per month and double the amount of tax leviable on such goods for the above offences.

Test-check (February 2015) of records of the Commercial Taxes Circle 'N' Jammu revealed that the registration of a dealer was suspended from 24 April 2010 and restored on 14 October 2011. However, the dealer was allowed benefit of input tax credit of ₹1.85 lakh during the period 24 April 2010 to 31 March 2011 which was irregular. The allowance of input tax credit resulted in short demand of tax

[29] Arrears: ₹1.11 crore; Interest: ₹7.31 crore

of ₹1.85 lakh. In addition, interest of ₹1.84 lakh and penalty of ₹3.70 lakh was also leviable.

The Commissioner Commercial Taxes, J&K, Jammu stated in March 2016 that the Assessing Authority re-assessed the dealer raising a demand of ₹29.54 lakh (Tax: ₹11.74 lakh; Interest: ₹14.10 lakh and Penalty: ₹3.70 lakh). Status of recovery is awaited (October 2016).

The matter was reported to the Government in February 2016; its reply was awaited (October 2016).

2.6 Short levy of service tax/penalty due to concealment of stocks/ purchases

Failure of the Assessing Authority to detect concealment of stock/purchases by the dealers at the time of assessment resulted in short levy of service tax of ₹33.77 lakh including interest/penalty.

Section 7 of the Jammu and Kashmir General Sales Tax Act, 1962 and the rules made thereunder provide that every dealer shall submit a true and correct return of his turnover in such a manner as may be prescribed under the Act. Further, if a dealer who has without any cause failed to furnish correct return of his turnover or concealed any particulars of his turnover, the Assessing Authority (AA) shall direct the dealer under section 8(8) and 17 (1) (f) of the said Act to pay in addition to tax and interest payable by him, penalty not less than amount of tax evaded but not exceeding twice the amount of tax.

(i) Audit scrutiny (May 2015) of records of Commercial Taxes Circle O, Jammu revealed that the assessment of a dealer for the accounting year 2010-11 was made (February 2015) by the Assessing Authority under section 7 (8) of the J&K GST Act at a taxable turnover of ₹377.41 lakh. A cross-check of trading account for the year 2009-10 and 2010-11 showed that opening stock of ₹14.27 lakh was adopted in his accounts for the year 2010-11 against the actual closing stock of ₹34.27 lakh. This led to less accountal of stock of ₹20 lakh and consequent short levy of tax of ₹2.52 lakh. In addition, interest of ₹2.42 lakh and penalty of ₹2.52 lakh was also leviable. The matter was referred to the Government in March 2016. Deputy Commissioner Commercial Taxes Judicial Srinagar intimated (May 2016) that extra demand of ₹7.93 lakh including interest and penalty was raised against the dealer and referred to Deputy Commissioner Commercial Taxes Recovery, Jammu for recovery of arrears under the Land Revenue Act. It was further stated that the dealer had preferred an appeal before the appellate authority. Further progress was awaited (October 2016).

(ii) Audit scrutiny (May 2015) of records of Commercial Taxes Circle 'O', Jammu revealed that the assessment of a dealer for the financial year

2010-11 was made (March 2015) by the Assessing Authority under section 7 (8) of the J&K GST Act at a taxable turnover of ₹874.49 lakh. A cross-check of consumption statement of 'C' forms with the purchase statement and trading account for the year 2010-11 filed by the dealer showed that inter-state purchases of ₹69.58 lakh had not been accounted for by the dealer in his accounts resulting in suppression of purchases to that extent. This led to under-statement of turnover to the extent of ₹69.58 lakh resulting in short levy of service tax of ₹8.77 lakh. In addition, interest of ₹8.77 lakh and penalty of ₹8.77 lakh was also leviable. On this being pointed out (May 2015), the Assessing Authority re-assessed (January 2016) the dealer for the accounting year 2010-11 at a taxable turnover of ₹83.49 lakh and raised additional demand of ₹27.69 lakh which included tax ₹8.77 lakh, interest ₹10.15 lakh and penalty ₹8.77 lakh against the dealer.

The matter was reported to the Government in March/April 2016; its reply was awaited (October 2016).

2.7 Short levy of interest

Failure of the Deputy Commissioner Commercial Taxes (Recovery) Jammu to correctly work out interest on the amount of tax payable by dealers resulted in short levy of interest of ₹8.95 lakh.

Section 14 (11) of the Jammu and Kashmir Value Added Tax Act 2005, provides that if any tax or any other amount due under this Act excluding interest is not paid by the dealer or any other person by whom it is payable within the stipulated period, a dealer or such other person shall be liable to pay interest on the tax or other amount from the date it was payable to the date of actual payment at the rate of two *per cent* per month. Further, Section 44 (6) of the Act provide that the amount that remains unpaid after the due date in pursuance of the notice may be recovered as arrears of land revenue.

Audit scrutiny (February/March 2015) of records of Deputy Commissioner Commercial Taxes (Recovery) Jammu, revealed that the Commercial Taxes Circle 'B' Jammu forwarded recovery certificates of a dealer for the years 2008-09 to 2010-11 to the Collector for recovery of an amount of ₹64.31 lakh including interest plus penalty payable for the periods up to February 2013. The defaulter paid the amount of ₹64.31 lakh in March 2014. However, interest of ₹8.95 lakh was not charged by the Collector from the defaulter from the date it was payable (February 2013) to the date of actual payment (March 2014). Failure of the Deputy Commissioner Commercial Taxes (Recovery) Jammu to correctly work out interest on the amount of tax payable by dealer resulted in short levy of interest of ₹8.95 lakh.

Deputy Commissioner Commercial Taxes, Judicial, Srinagar stated (June 2016) that the assessee had deposited ₹6.02 lakh out of due amount of ₹8.95 lakh and warrant of arrest was issued against the dealer for recovery of balance amount of ₹2.93 lakh.

The matter was reported to the Government in May 2016; its reply was awaited (October 2016).

2.8 Short levy of tax, penalty and interest

Concealment of purchases/stock at the time of assessment resulted in short levy of tax, interest and penalty of ₹5.45 lakh.

Section 42 of the Jammu and Kashmir Value Added Tax Act 2005 stipulates that in case of a dealer assessed under sections 37 to 40 of the Act, where the Assessing Authority has reason to believe that whole or any part of the turnover of the dealer in respect of any period has escaped assessment, the Assessing Authority may serve a notice on the dealer and after giving the dealer a reasonable opportunity of being heard and making such enquiries as it consider necessary, proceed to assess the amount of tax due from the dealer in respect of such turnover. Under Section 51(4) of the Act 2005, the dealer is liable to pay simple interest at the rate of two *per cent* per month from the date of default. Section 69(1)(f) of the Act stipulates that if any person conceals his turnover or furnishes inaccurate particulars thereof, the appropriate authority shall direct that such person shall pay in addition to the fee or tax by way of penalty a sum equal to double the amount of tax attempted to be evaded.

Audit scrutiny (December 2014) of the records of Commercial Taxes Circle 'K' Srinagar revealed that a dealer dealing in sale and service of vehicles disclosed purchase of ₹60.60 lakh and ₹110.73 lakh in his returns during the years 2009-10 and 2010-11 respectively against actual purchase of ₹71.10 lakh and ₹117.21 lakh shown in the imports. This led to short accountal of purchases of ₹10.50 lakh and ₹6.48 lakh during these years with corresponding tax effect to ₹1.91 lakh and ₹3.74 lakh respectively including interest and penalty.

On this being pointed out (December 2014), the Assessing Authority (November 2015) cross checked the purchases statements filed by the dealer. A net concealment of ₹8.82 lakh (₹1.39 lakh and ₹7.43 lakh) for the accounting years 2009-10 and 2010-11 respectively was determined and assessed to tax (August 2015) under Section 42 of J&K Value Added Tax Act 2005. A demand of ₹5.45 lakh (₹0.87 lakh for 2009-10 and ₹4.58 lakh from 2010-11) including interest and penalty was raised. Commercial Taxes Circle-K Srinagar intimated (June 2016) that the demands had been referred to D.C Commercial Taxes (Recovery), Kashmir for effecting recovery under land revenue Act.

The Deputy Commissioner Taxes (Judicial), Srinagar stated (September 2016) that ₹50,000 had been recovered by the Collector and recovery of the balance amount was under process.

The matter was reported to the Government in May 2016; its reply was awaited (October 2016).

2.9 Irregular grant of remission of tax

Irregular grant of remission of tax to two dealers by the Assessing Authorities resulted in short levy of tax and interest of ₹2.96 crore.

Government notification issued (August 1998 and January 2004) under Section 8 (5) of the General Sales Tax Act and under Section 79 A of the Jammu and Kashmir Value Added Tax Act (March 2006) provide for grant of remission of tax to an industrial unit registered with the Industries and Commerce Department on the sale of finished goods manufactured by the industrial unit. The industrial unit is, however, required to maintain correct and regular account of purchase of goods including raw material and also file return of sales. Section 69 (1)(f) of the Act stipulates that any dealer found guilty of concealing his turnover or furnishing inaccurate particulars thereof is not entitled to any remission for the year/quarter in which such offence is committed.

(A) Audit check of records (March 2015) of Commercial Taxes Circle 'E' Srinagar, revealed that a dealer dealing with corrugated sheets disclosed turnover of ₹801.48 lakh in his trading account during the year 2010-11 and claimed exemption of ₹1.08 crore during the year being an industrial unit which was allowed by the Assessing Authority while accepting his returns under Section 37 of J&K VAT Act, 2005. Cross check of purchases shown in Form 'C' and Form VAT 65 filed by the dealer showed that the dealer had concealed purchases of ₹69.15 lakh during the four quarters of the year 2010-11 and was as such not entitled to remission of ₹1.08 crore as claimed by him.

On this being pointed out (March 2015) by audit, the Assessing Authority re-assessed (March 2016) the case under Section 42 of VAT Act 2005 disallowed the remission claim of ₹1.08 crore and raised demand of ₹2.69 crore on determined turnover of ₹8.81 crore against the dealer which includes interest of ₹1.50 crore.

The Deputy Commissioner Taxes (Judicial) Srinagar stated (September 2016) that the demand stood referred to the Collector for necessary action.

(B) Records of Commercial Taxes Circle-II, Anantnag revealed (February 2015) that a dealer dealing with fabrication of aluminum doors, windows and manufacturing of glass had disclosed (2010-11) turnover of ₹58.63 lakh and claimed exemption of ₹7.92 lakh which was allowed by the Assessing Authority while accepting his returns under Section 37 of the VAT Act. Cross check of purchases shown in Form C and Form VAT 65 with purchase statement filed by the dealer showed that the dealer had concealed purchases of ₹11.36 lakh in his accounts for first three quarters of 2010-11. The dealer was as such not entitled to remission of ₹5.67 lakh claimed by him for the period and liable to pay tax of ₹20.17 lakh[30] including interest and penalty.

The Deputy Commissioner Commercial Taxes, Judicial Srinagar stated (June 2016) that the concerned Assessing Authority while disallowing the claim of ₹7.92 lakh had created a demand of ₹26.87 lakh for short levy of tax and the demand stood referred (4 June 2016) to the Deputy Commissioner Commercial Taxes, Recovery Srinagar for necessary action and that the outcome would be intimated in due course.

The matter was reported to the Government in June 2016; its reply was awaited (October 2016).

[30] Tax/Interest/Penalty: ₹8.68 lakh; Remission withdrawn: ₹5.67 lakh; Interest on remission: ₹5.82 lakh

PART 'B'

PUBLIC SECTOR UNDERTAKINGS

(SOCIAL, GENERAL AND ECONOMIC SECTORS)

Chapter-3

Functioning of State Public Sector Undertakings

CHAPTER - 3

Functioning of State Public Sector Undertakings

3.1 Introduction

State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. State PSUs are established to carry out activities of commercial nature and occupy an important place in the State economy. As on 31 March 2016, there were 33[1] PSUs. Of these, one PSU i.e. Jammu and Kashmir Bank Limited, is listed (July 1998) on the stock exchange. Of the total paid up equity of the Bank, 53.17 *per cent* is held by the State Government and remaining 46.83 *per cent* is held by the foreign institutional investors, resident individuals and others[2]. During the year 2015-16, no PSU was either incorporated or closed down. The details of the State PSUs as on 31 March 2016 are given in **Table-3.1** below.

Table-3.1: Total number of PSUs as on 31 March 2016

Type of PSUs	Working PSUs	Non-working PSUs[3]	Total
Government Companies[4]	27	3	30
Statutory Corporations[5]	3	Nil	3
Total	**30**	**3**	**33**

The working PSUs registered a turnover of ₹8,416.54 crore as per their latest finalised accounts as of 30 September 2016. This turnover was equal to 9.16 *per cent* of the State Gross Domestic Product (GDP) of ₹91,850 crore for 2015-16. The working PSUs earned an aggregate profit of ₹678.28 crore as per their latest finalised accounts as of 30 September 2016. They had employed 23,876 employees as at the end of March 2016.

As on 31 March 2016, the three non-working PSUs had an investment of ₹3.40 crore.

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1 Includes seven PSUs incorporated during the period from March 2013 to March 2014 viz., Jammu & Kashmir Power Trading Company Limited, Jammu & Kashmir State Power Transmission Company Limited, Jammu Power Distribution Company Limited, Kashmir Power Distribution Company Limited, Jammu & Kashmir Medical Supplies Corporation Limited, Jammu & Kashmir State Road Development Corporation Limited and Jammu & Kashmir International Trade Centre. These PSUs though have been incorporated, however, only J&K Medical Supplies Corporation Limited has started its operations and the rest have yet to become operational

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

3 Non-working PSUs are those which have ceased to carry on their operations

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

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

3.2 Accountability framework

The audit of government companies is governed by Sections 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, a Government company means any company in which not less than fifty one *per cent* of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company. Further, as per sub-section 7 of Section 143 of the Act, in case of any company covered under sub-section (5) or sub-section (7) of Section 139, the C&AG may, if considered necessary, cause an audit to be conducted of the accounts of such Company and Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to such audit. The audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 shall continue to be governed by the provisions of the Companies Act, 1956.

3.3 Statutory Audit

The financial statements of Government companies (as defined in Section 2 (45) of the Companies Act, 2013) are audited by statutory auditors who are appointed by CAG as per Section 139 (5) or (7) of the Act. The statutory auditors shall submit a copy of the Audit Report to the C&AG which, among other things, include the directions issued by CAG, the action taken thereon and its impact on the accounts and financial statements of the Company under Section 143 (5) of the Act. These financial statements are subject to supplementary audit by CAG within sixty days from the date of receipt of the Audit Report under the provisions of Section 143 (6) of the Act.

Audit of statutory corporations is governed by their respective legislations. Out of the three statutory corporations, CAG is the sole auditor for the Jammu and Kashmir State Road Transport Corporation. The audit of Jammu and Kashmir State Forest Corporation is conducted by chartered accountants appointed by the State Government as per the Jammu and Kashmir State Forest Corporation Act, 1978 and supplementary audit is conducted by the CAG as per section 19(3) of C&AG's (DPC) Act, 1971. In respect of the State Financial Corporation, the audit is conducted by chartered accountants appointed by the shareholders in their Annual General Meeting from the approved panel of Reserve Bank of India and supplementary audit is conducted by the CAG as per the State Financial Corporation Act, 1951.

3.4 Role of Government and Legislature

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

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

3.5 Stake of State Government in the Public Sector Undertakings

The State Government has substantial financial stake in these PSUs which is mainly of three types:

- **Share Capital and Loans**- In addition to Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

3.6 Investment in State PSUs

As on 31 March 2016, the investment (capital and long-term loans) in 33 PSUs was ₹7,699.94 crore[6] as given in **Table-3.2** below.

Table-3.2: Total investment in PSUs

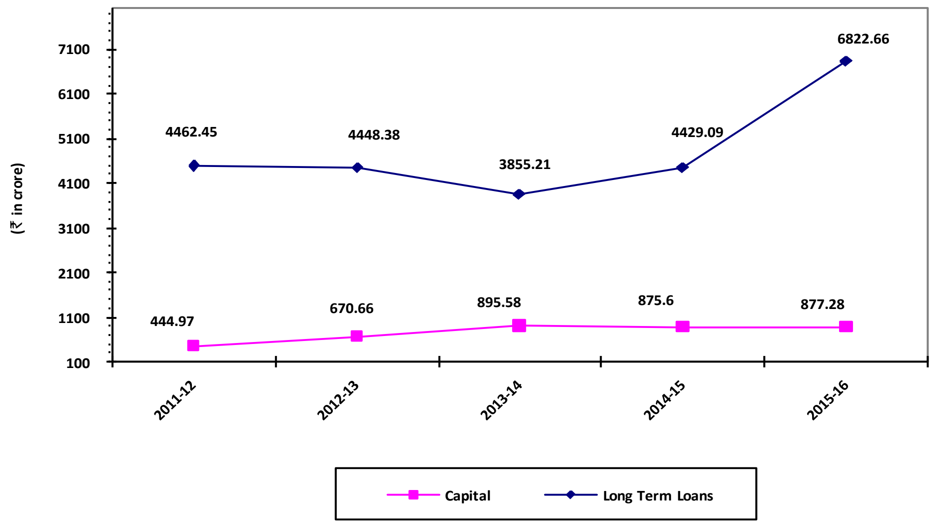
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	559.39	6173.43	6732.82	315.32	648.40	963.72	7696.54
Non-working PSUs	2.57	0.83	3.40	Nil	Nil	Nil	3.40
Total	**561.96**	**6174.26**	**6736.22**	**315.32**	**648.40**	**963.72**	**7699.94**

[6] Includes the investment in seven newly incorporated PSUs: Jammu and Kashmir State Road Development Corporation: ₹5 crore, Jammu and Kashmir International Trade Centre: ₹48 crore, Jammu and Kashmir Power Transmission Company Limited: ₹0.05 crore, Jammu and Kashmir Power Trading Company Limited: ₹0.05 crore, Jammu Power Distribution Company Limited: ₹0.05 crore, Kashmir Power Distribution Company Limited: ₹0.05 crore and Jammu and Kashmir Medical Supplies Corporation Limited: ₹0.05 crore

As on 31 March 2016, 99.96 *per cent* of the total investment in State PSUs was in working PSUs and the remaining 0.04 *per cent* in non-working PSUs. This total investment consisted of 11.39 *per cent* towards capital and 88.61 *per cent* in long-term loans. The investment has grown by 56.90 *per cent* from ₹4,907.42 crore in 2011-12 to ₹7,699.94 crore in 2015-16 as shown in the **Graph-3.1** below.

Graph-3.1:Total investment in PSUs



3.7 The sector-wise summary of investments in the State PSUs as on 31 March 2016 is given in **Table-3.3** below.

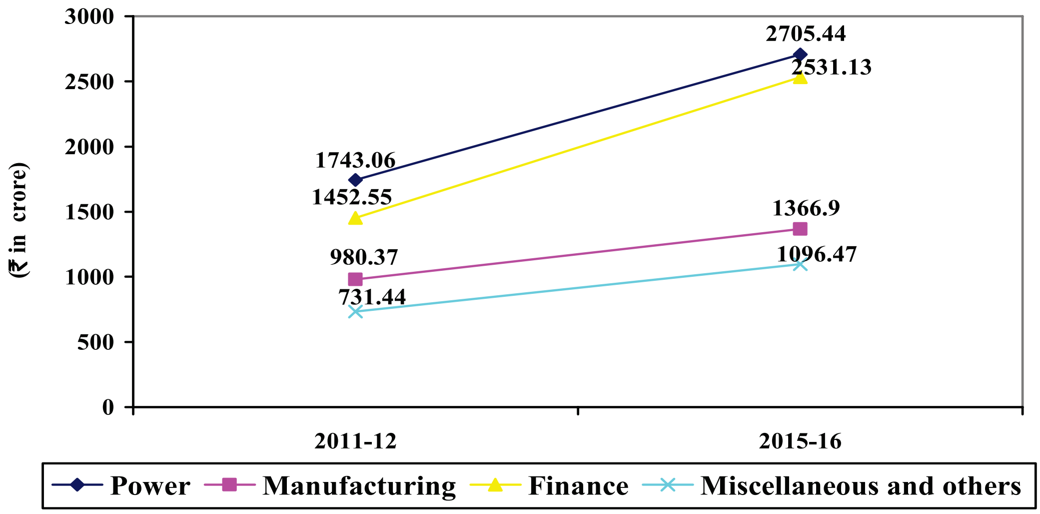
Table-3.3: Sector-wise investment in PSUs

(₹ in crore)

Name of Sector	Government companies		Statutory corporations	Total Investment
	Working	Non-Working	Working	
Power	2705.44	Nil	Nil	2705.44
Finance	2432.13	Nil	99.00	2531.13
Manufacturing	1363.90	3.00	Nil	1366.90
Service	51.33	Nil	793.55	844.88
Agriculture & Allied	80.79	Nil	71.17	151.96
Infrastructure	95.12	Nil	Nil	95.12
Miscellaneous	4.11	0.40	Nil	4.51
Total	**6732.82**	**3.40**	**963.72**	**7699.94**

The investment in four significant sectors and percentage thereof at the end of 31 March 2012 and 31 March 2016 are indicated in the **Graph-3.2**. Though the highest investment during 2015-16 was in the power sector (35.14 *per cent*), the thrust of PSU investment was also in finance sector which has seen percentage share rising from 29.60 *per cent* in 2011-12 to 32.87 *per cent* in 2015-16.

Graph-3.2: Sector-wise investment in PSUs



3.8 Special support and returns during the year

The State Government provides financial support to PSUs in various forms through its annual budget. The summarized details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of State PSUs are given in **Table-3.4** below for three years ended 31 March 2016.

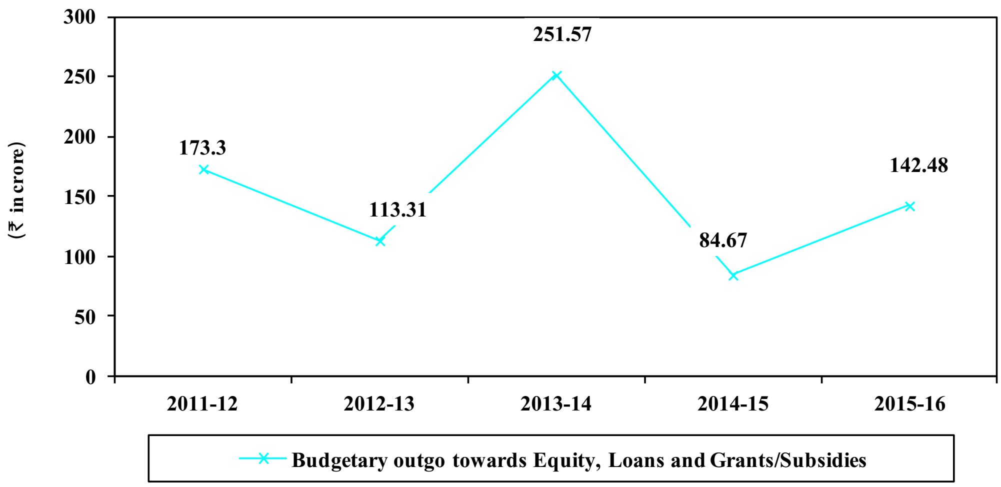
Table-3.4: Details regarding budgetary support to PSUs

(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	5	25.03	2	1.21	2	6.85
2.	Loans given from budget	7	69.84	8	54.76	10	69.19
3.	Grants/Subsidy from budget	8	156.70	7	28.70	8	66.44
4.	**Total Outgo (1+2+3)**	**13**	**251.57**	**15**	**84.67**	**13**	**142.48**
5.	Waiver of loans and interest	Nil	Nil	Nil	Nil	Nil	Nil
6.	Guarantees issued	3	36.37	0	0	1	2.00
7.	Guarantee Commitment	4	2164.64	5	2574.78	4	2546.97
8	Guarantee Fee	1	43.58	Nil	Nil	1	0.04

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in a **Graph-3.3**.

Graph-3.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies



During the period 2011-12 to 2015-16, the budgetary outgo of the State Government towards equity contribution, loan, grant and subsidy was an all-time high in 2013-14 at ₹251.57 crore. The budgetary outgo was ₹84.67 crore in 2014-15 which increased to ₹142.48 crore during 2015-16.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State Government provides guarantees and charges guarantee fee/ commission at percentage of two *per cent*. The guarantee commitment against amount guaranteed by the State Government in favour of PSUs had increased from ₹2,164.64 crore in 2013-14 to ₹2,574.78 crore during 2014-15 which marginally decreased to ₹2,546.97 crore in 2015-16.

3.9 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the 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 2016 is given in **Table-3.5** below.

Table-3.5: Equity, loans, guarantees outstanding as per Finance Accounts vis-a-vis records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	496.81	475.59	21.22
Loans	764.14	1965.62	(-) 1201.48
Guarantees	2550.20	2546.97	3.23

There was a mismatch between figures furnished by the PSUs and those depicted in the Finance Accounts. Reasons for the difference were not furnished by the PSUs (October 2016) though called for.

3.10 Arrears in finalisation of accounts

The financial statements for every financial year are required to be finalised by the companies within six months from the end of the relevant financial year i.e. by September end in accordance with Section 96 (1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of Act. In case of statutory corporations, their accounts are finalised, audited and presented to the State Legislature as per the provisions of their respective Acts.

The details of progress made by working PSUs in finalisation of accounts as of 30 September 2016 are given in **Table-3.6** below.

Table-3.6: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Number of Working PSUs	22	23	23	23	23[7]
2.	Number of accounts finalised during the year	36	38	14	12	29
3.	Number of accounts in arrears	208	195	187	189	183[8]
4.	Number of Working PSUs with arrears in accounts	19	20	20	18	19
5.	Extent of arrears (numbers in years)	3 to 21	2 to 18	1 to 19	1 to 19	1 to 19

The administrative departments have the responsibility of overseeing the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. The number of accounts in arrears has decreased from 208 (2011-12) to 183 (2015-16). This office has been persistently requesting the State Government for reduction of arrears and in the latest correspondence, the Accountant General requested (May 2016) the Chief Secretary, J&K Government, to frame a time bound schedule to finalise the accounts which were in arrears.

3.11 The State Government had invested ₹850.63 crore[9] in 14 PSUs during the years for which accounts have not been finalised as detailed in ***Appendix-3.1***. In the absence of finalisation of accounts and their audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted

7 Does not include seven newly incorporated Government Companies who had never submitted Accounts since their incorporation

8 Does not include arrears of J&K State Forest Corporation which had not submitted Accounts since 1996-97 ever since its audit was entrusted to C&AG

9 Equity: ₹44.39 crore; Loans: ₹419.64 crore and Grants ₹386.60 crore

for and whether the purpose for which the amount was invested had been achieved or not. Thus, Government's investment in such PSUs has remained outside the oversight of the State Legislature.

3.12 As on 30 September 2016, there were also arrears in finalisation of accounts by non-working PSUs as depicted in **Table-3.7** below. Out of three non-working PSUs, two namely, Himalayan Wool Combers Limited and Handloom Handicraft Raw Material Supplies Organisation Limited were in the process of liquidation and their accounts were in arrears for 16 to 24 years. The remaining one non-working PSU, Tawi Scooters Limited, had arrears of accounts for 26 years.

Table-3.7: Position relating to arrears of accounts in respect of non-working PSUs

No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
Tawi scooters Ltd.	Since 1990-91	26
Himalayan wool Combers Ltd.[10]	Since 2000-01	16
Handloom Handicraft Raw Material Supplies Organisation Ltd.[10]	Since 1992-93	24

Though the concerned administrative departments were informed (November 2014) of the arrears in finalisation of accounts, no remedial measures were taken. As a result, the net worth of these PSUs could not be assessed in audit.

3.13 Placement of Separate Audit Reports

The status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2016) on the accounts of statutory corporations in the Legislature is given in **Table-3.8** below.

Table-3.8: Status of placement of SARs in Legislature

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 of SAR to the Government/Present Status
1.	J&K State Financial Corporation	2012-13	2013-14 and 2014-15	18 May 2015 and 19 November 2015
2.	J&K State Road Transport Corporation Ltd	2011-12	NA[11]	NA
3.	J&K State Forest Corporation	-	-	Accounts not submitted by the Corporation since 1996-97

[10] Under process of liquidation

[11] Accounts for the years 2012-13 to 2015-16 are in arrears in respect of Jammu and Kashmir State Road Transport Cooperation

3.14 Impact of non-finalisation of accounts

Delay in finalisation of accounts has the risk of fraud and leakage of public money apart from violation of the provisions of the relevant statutes. In view of the arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2015-16 could not be ascertained.

3.15 Performance of PSUs as per their latest finalized accounts

The financial position and working results of working Government companies and statutory corporations are detailed in ***Appendix 3.2***. The ratio of PSUs turnover to State GDP shows the extent of PSUs activities in the State economy. **Table-3.9** below provides the details of working PSUs turnover and State GDP for a period of five years ending 2015-16.

Table-3.9: Details of working PSUs turnover vis-a vis State GDP

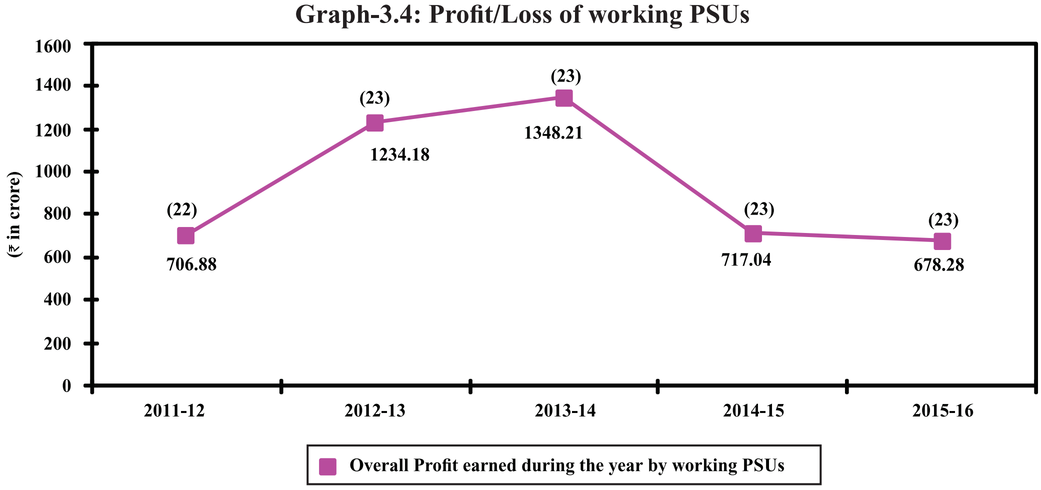
(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover[12]	5552.37	8071.43	8272.38	8652.40	8416.54
State GDP	68185	76916	87570	87921	91850
Percentage of Turnover to State GDP	8.14	10.49	9.45	9.84	9.16

During the last five years, the turnover of working PSUs increased from ₹5,552.37 crore to ₹8,416.54 crore ending 2015-16 and its percentage to the GDP of the State increased from 8.14 *per cent* in the year 2011-12 to 9.16 *per cent* at the end of the year 2015-16.

3.16 Overall profit (losses) earned (incurred) by State working PSUs during 2011-12 to 2015-16 are given in **Graph-3.4** below.

Graph-3.4: Profit/Loss of working PSUs



(Figures in brackets show the number of working PSUs in respective years)

[12] Turnover as per the latest finalised accounts as of 30 September

During the year 2015-16, 10 out of the 30 working PSUs earned profit of ₹834.97 crore and 11 PSUs incurred a loss of ₹156.69 crore. One working PSU did not prepare its profit and loss account while seven newly formed PSUs had not submitted their Accounts since incorporation[13]. Further, one PSU viz. the J&K State Forest Corporation had not submitted its accounts since 1996-97 after its audit was entrusted to C&AG. The major contributors to profit in 2015-16 were J&K Bank Ltd. (₹416.03 crore); J&K Power Development Corporation (₹403.29 crore) and J&K Cable Car Corporation (₹6.23 crore). The heavy losses were incurred by J&K State Road Transport Corporation (₹57 crore); J&K Industries Ltd. (₹46.83 crore) and J&K Minerals Ltd. (₹28.92 crore).

3.17 Some other key parameters of PSUs are given in **Table-3.10** below.

Table-3.10: Key Parameters of State PSUs

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed (*Per cent*)	11.99	13.94	15.35	14.79	6.90
Debt	4462.45	4448.38	3855.21	4429.09	5328.65
Turnover[14]	5552.37	8071.43	8272.38	8652.40	8416.54
Debt/Turnover Ratio	0.8037	0.5511	0.4660	0.5118	0.6331
Interest Payments	3081.46	4202.74	4431.88	4762.65	4462.23
Accumulated Profits (losses)	(-)1651.07	(-)2909.13	(-)2697.69	(-)2907.29	(-)2433.70

The debts of PSUs increased from ₹4,462.45 crore in 2011-12 to ₹5,328.65 crore in 2015-16 which impacted its profits.

3.18 As per their latest finalised accounts, 10 PSUs earned an aggregate profit of ₹834.97 crore and one PSU, J&K Bank Limited, declared a dividend of ₹84.84 crore. Dividend policy of the State Government is awaited in Audit.

3.19 Winding up of non-working PSUs

There were three non-working PSUs as on 31 March 2016. The numbers of non-working companies during past five years have remained at three. The non-working PSUs are not contributing to the State economy and not meeting the intended objectives.

3.20 The stages of closure in respect of non-working PSUs are given in **Table- 3.11**.

[13] Statutory Auditors have not been appointed for six of them whereas the Statutory Auditor of J&K Medical Supplies Corporation for 2014-17 has been appointed by CAG in August 2016

[14] Turnover of working PSUs as per the latest finalised accounts as of 30 September

Table-3.11: Closure of Non-working PSUs

Sl. 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[15]	Nil	2
(b)	Voluntary winding up (liquidator appointed)	0	Nil	0
(c)	Closure, i.e. closing orders/instructions issued but liquidation process not yet started.	1[16]	Nil	1

During the year 2015-16, no company/corporation was finally wound up. Two companies which have taken the route of winding up by Court order are under liquidation for more than ten years. The Government may take a decision regarding commencement of liquidation process in respect of the remaining company where closing instructions have been issued.

3.21 Accounts Comments

Fourteen working companies forwarded 28 audited accounts to the Accountant General between October 2015 and September 2016. Accounts of the fourteen 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 needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given in **Table-3.12** below.

Table-3.12: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	0.09	2	1.03	5	517.82
2.	Increase in loss	1	0.15	1	1.57	8	12.10
3.	Non-disclosure of material facts	4	59.35	2	0.36	9	16.83
4.	Errors of classification	3	3.52	4	11.50	12	1249.07

During the year, the statutory auditors had given unqualified certificates for four accounts and qualified certificates for 24 accounts. In no case was adverse certificates/disclaimers issued by the statutory auditors. CAG gave adverse comments/disclaimer for seven accounts during the supplementary audit. The compliance of companies with the Accounting Standards remained poor as there were 42 instances of non-compliance in 24 accounts during the year.

[15] Himalayan Wool Combers Limited and Jammu and Kashmir State Handloom Handicraft Raw Material Supplies Organisation Limited

[16] Tawi Scooters Limited

3.22 Similarly, one working statutory corporation viz. the J&K State Financial Corporation forwarded two accounts for 2014-15 and 2015-16 to the Accountant General between October 2015 and September 2016 which were selected for supplementary audit. Out of this, account for 2014-15 was finalized while account for 2015-16 was under finalization as of 30 September 2016. The Jammu and Kashmir State Forest Corporation had never submitted its accounts since 1996-97 after its audit was entrusted to CAG. Accounts for the years 2012-13 to 2015-16 are in arrears in respect of Jammu and Kashmir State Road Transport Corporation Limited. The Audit Reports of statutory auditors and the sole/supplementary audit of CAG indicated that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given in **Table-3.13** below.

Table-3.13: Impact of audit comments on Statutory Corporations

(₹ in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	-	1	0.50	-	-
2.	Increase in loss	-	-	1	58.05	-	-
3.	Non-disclosure of material facts	-	-	1	24.48	-	-
4.	Errors of classification	-	-	2	38.10	1	61.50

During audit of these accounts conducted by the statutory auditors and supplementary audit by Accountant General, the impact of ₹61.50 crore by way of errors in classification indicated deficiency in proper accounting practices being followed and needs to be brought down substantially.

3.23 Response of the Government to Audit

Performance Audit and Paragraphs

For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2016, one performance audit and six compliance audit paragraphs were issued to the Principal Secretaries of the respective Departments with request to furnish replies within six weeks. However, replies in respect of compliance audit paragraphs were awaited from the State Government as of October 2016.

3.24 Follow up action on Audit Reports

The Report of the Comptroller and Auditor General of India (CAG) represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. The Finance

Department, Government of Jammu and Kashmir, had issued (June 1997) instructions to all administrative departments to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the CAG of India within a period of three months of their presentation to the Legislature in the prescribed format without waiting for any questionnaires from the COPU. The status of receipt of explanatory notes is given in **Table-3.14** below.

Table-3.14: Explanatory notes not received as on 30 September 2016

Year of Audit Report (Commercial/ PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and paragraphs in the Audit Report		Number of PAs/ paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2000-01	06 April 2002	1	3	-	-
2001-02	21 June 2003	1	4	-	-
2002-03	23 August 2004	1	3	-	-
2003-04	23 March 2005	-	3	-	-
2004-05	27 March 2006	1	4	1	-
2005-06	08 February 2007/ 31 August 2009	3	2	1	-
2006-07	30 January 2008	1	5	-	-
2007-08	05 March 2009	1	3	-	-
2008-09	30 March 2010	1	3	-	2
2009-10	31 March 2011	1	3	-	-
2010-11	04 April 2012	1	5	-	-
2011-12	05 April 2013	2	-	1	-
2012-13	04 March 2014	-	3	-	1
2013-14	27 March 2015	1	6	1	4
2014-15	27 June 2016	1	7	1	7
Total		**16**	**54**	**5**	**14**

Out of 70 paragraphs/performance audits, explanatory notes to 19 paragraphs/ performance audits (27.14 *per cent)* relating to six departments, which were commented upon, were awaited (October 2016).

3.25 Discussion of Audit Reports by COPU

The status as on 30 September 2016 of performance audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) is depicted in **Table-3.15**.

Table-3.15: Reviews/Paras appeared in Audit Reports vis-a-vis discussed as on 30 September 2016

Period of Audit Report	Number of reviews/paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2000-01	1	3	1	3
2001-02	1	4	1	4
2002-03	1	3	1	3
2003-04	-	3	-	3
2004-05	1	4	1	3
2005-06	3	2	2	2
2006-07	1	5	1	4
2007-08	1	3	1	2
2008-09	1	3	1	1
2009-10	1	3	1	3
2010-11	1	5	1	5
2011-12	2	-	1	-
2012-13	-	3	-	2
2013-14	1	6	-	2
2014-15	1	7	-	-
Total	**16**	**54**	**12**[17]	**37**[17]

3.26 Compliance to Reports of Committee on Public Undertakings (COPU)

Action Taken Notes (ATN) to 29 paragraphs pertaining to seven Reports of the COPU presented to the State Legislature between April 2005 to March 2016 had not been received (October 2016) as per details given in **Table-3.16** below.

Table-3.16: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2004-05 (40th Report)	01	06	06
2005-06 (41st Report)	01	06	03
2009-10 (42nd Report)	01	17	08
2010-11 (43rdReport)	01	02	02
2011-12 (44th Report)	01	06	03
2012-13 (45th Report)	01	06	02
2013-14 (46th Report)	01	15	05
Total	**07**	**58**[18]	**29**

[17] Includes partly discussed paragraphs

[18] Pertains to 42 paragraphs/performance audits that featured in the Audit Reports for the years 2000-01 to 2011-12

These Reports of COPU contained recommendations in respect of paragraphs pertaining to 10 departments which appeared in the Reports of the CAG of India for the years 2000-01 to 2011-12.

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

3.27 Contents of Part-B (PSUs Chapter)

The PSUs Chapter contains one Performance Audit on 'Jammu and Kashmir State Power Development Corporation Limited' and six paragraphs including one thematic audit with financial implications of ₹2,346.68 crore.

3.28 Disinvestment, Restructuring and Privatisation of PSUs

The State Government has initiated the process of establishing hydel projects through independent power producers and 16 such projects had been allotted in the State as of 31 March 2016. Of these, four projects had been commissioned while 12 projects were under various stages of implementation.

Chapter-4
Performance Audit
(Public Sector Undertakings)

CHAPTER – 4

PERFORMANCE AUDIT

POWER DEVELOPMENT DEPARTMENT

4.1 Jammu and Kashmir State Power Development Corporation Limited

Executive Summary

The Jammu and Kashmir State Power Development Corporation Limited (Company) is a wholly owned Government Company with main objective to plan, execute, operate and maintain all generating stations under State sector. An audit review of the performance for the period 2011-12 to 2015-16 brought out financial mismanagement and creation of avoidable liabilities. Some of the significant findings are the following:

Highlights

- **There was delay in receipt of plan funds and power dues of ₹2,808.04 crore were pending from the State Government resulting in dependence on loans from financial institutions and extra interest burden of ₹58.24 crore. Statutory liabilities on account of water usage charges and labour cess accumulated to ₹1,573.19 crore.**

(Paragraphs: 4.8.3, 4.8.4 and 4.8.6)

- **Failure of Company to provide requisite information to the Jammu and Kashmir State Electricity Regulatory Commission led to non-inclusion of income tax of ₹96.96 crore in tariff fixation. Due to non-achievement of design energy, the Company was not able to recover expenditure of ₹275.85 crore through tariff.**

(Paragraph: 4.8.7)

- **The Company failed to achieve status of Mega Power Project in respect of BHEP-II due to which benefit of ₹105.80 crore could not be availed.**

(Paragraph: 4.9)

- **The Company had not achieved design energy, except in BHEP-I, leading to loss of generation of 2,520 MUs during 2011-16. There was low Plant Load Factor ranging between 22 *per cent* and 29 *per cent,* low Plant Availability Factor between 64.34 *per cent* and 76.66 *per cent* and excess forced outages over Central Electricity Authority norms to the extent of 7,91,630 hours resulting in low power generation.**

(Paragraph: 4.10)

- **Delay in completion of Renovation, Modernisation and Uprating resulted in loss of generation of 33.85 MUs valuing ₹6.77 crore annually in CHEP-I. Delay in undertaking repairs and maintenance of Hydro Electric Projects led to loss of generation.**

(Paragraph: 4.11)

4.2 Introduction

As part of the power sector reforms and de-bundling process, the Jammu and Kashmir State Power Development Corporation Limited (Company) was incorporated in February 1995 under the Companies Act 1956. It is tasked with planning, execution, operation and maintenance of all generating stations including the power projects that existed at the time of creation of the Company. At the end of March 2016, the Company had 22 hydro electric generating projects (including Baglihar II) and two thermal electric generating stations with an installed capacity of 1,061.96 Mega Watts (MW) and 175 MW respectively.

The State has an estimated power potential of 20,000 MW out of which projects having capacity of 16,475 MW have been identified and 3,113.46 MW had been commissioned through 33 projects (State Sector[1]: 22; Central Sector[2]: Seven; Private Sector[3]: Four).

During 2011-12, the peak demand in the State stood at 2,500 MW of which 1,789 MW was available. The corresponding figure for 2015-16 was peak demand of 2,740 MW and availability of 2,158 MW leaving a deficit of 582 MW. In terms of Million Units (MUs) of energy, energy requirement during 2011-12 was 17,323 MUs against which restricted energy[4] availability was 11,091 MUs and the corresponding figures for 2015-16 stood at 18,200 MUs out of which 14,226 MUs was available leaving a deficit of 3,974 MUs.

4.3 Organizational Set up

The Management of the Company is vested with the Board of Directors (BoDs) with the Chairman as its head. The day to day operations are carried out by the Managing Director assisted by Executive Director (Civil), Executive Director (Electrical), Director Finance, Senior General Manager (Law), Company Secretary and Administrative Officer. The Company functions under the administrative control of the Jammu and Kashmir Power Development.

[1] Jammu and Kashmir State Power Development Corporation Limited
[2] National Hydel Power Projects Corporation Limited
[3] Small Hydro Power Projects under Independent Power Producers/Public Private Partnership
[4] Restricted energy refers to forced power cut/outage schedules per day 8 hours in winter and 10 hours in summer

4.4 Audit Objectives

A performance audit was undertaken of the functioning of the Company with a view to assessing whether the:

- financial management of the Company was economic, efficient and effective;
- Company had been able to meet the power requirements of the State;
- Company was able to plan and implement projects in a transparent manner, efficient and optimal manner;
- human resources requirement was realistic and utilized optimally; and
- internal control system in place was effective.

4.5 Scope and methodology of audit

The working of the Company for 2005-06 to 2009-10 was last reviewed in the Report of the Comptroller and Auditor General of India (CAG) for the State of Jammu and Kashmir for the year ended 31 March 2010. The review was partly discussed in the Committee on Public Undertakings.

This performance audit was conducted between December 2015 and April 2016 covering the period from 2011-12 to 2015-16. The audit examination included scrutiny of records at the Company's Head Office, six[5] out of its 22 generating stations (commissioned projects) and four[6] out of twelve under implementation projects. The audit objectives were explained to the Management in an entry conference held on 15th January 2016. The results of audit were discussed with the Managing Director of the Company in an exit conference held on 4th October 2016. The replies of the Management have been taken into account and suitably incorporated in the report.

4.6 Sources of audit criteria

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

- State Hydel Policies 2003 and 2011, J&K Water Resources (Regulation and Management) Act, 2010 and other relevant State/Central Statutes/Rules;
- Detailed Project Reports (DPRs) and contract documents;
- Agenda and minutes of meetings of the BoDs; and
- Guidelines of the Central Electricity Authority and the rules/regulation of the Jammu and Kashmir State Electricity Regulatory Commission (JKSERC).

[5] BHEP-I (Baglihar) (450 MW), LJHP (Baramulla) (105 MW), Chennani-I (Udhampur) (23.30 MW), SEWA-III (Basohli) (9 MW), Pahalgam (Srinagar) (4.5 MW) and Igo-mercilong (Leh) (3 MW)

[6] BHEP-II (450 MW), Lower Kalnai HEP (48 MW), Parnai HEP (37.50 MW) and Dah HEP (9 MW)

4.7 Planning

The first imperative in proper management of any power generation enterprise is an assessment of the power requirements of the State followed by marshalling of resources required for capacity addition to progressively meet this requirement and planning for execution of power projects.

There was no capacity addition in the State during the 10th Five Year Plan (FYP) period i.e. up to 2006-07. In the 11th FYP (2008-2012), the Baglihar Hydro Electric Project (BHEP)-I with 450 MW was added in 2008-09. During the 12th FYP (2012-17), 303.26 MW was added (Pahalgam HEP: 1.50 MW, Bhaderwah HEP: 0.5 MW, BHEP-II: 300 MW and Sanjak HEP: 1.26 MW) to the generation capacity in the State. The details of capacity addition made in the State Sector (Company) between 2011-12 and 2015-16 are given in **Table-4.1** below.

Table-4.1: Details of capacity addition

(Figures in MW)

Description	2011-12	2012-13	2013-14	2014-15	2015-16
Capacity at the beginning of the year	758.70	758.70	759.20	761.96	761.96
Additions planned by the State	-	1.50	-	450.00	-
Actual Additions : Company (Own)	-	0.50	2.76	-	300.00
Capacity at the end of the year (1 + 3)	758.70	759.20	761.96	761.96	1061.96
Shortfall in capacity addition (2 – 3)	(-)0.50	1.50	(-)1.50	450.00	(-)300.00
Peak demand	2500	2550	2600	2650	2740
Peak demand met	1789	1817	1991	2043	2158
Deficit	711	733	609	607	582

The gap between demand and supply persisted though it decreased from 711 MWs (2011-12) to 582 MWs (2015-16) mainly due to procurement of energy from CPSUs/Others.

The Company had not made any long term plan for implementation of power projects in the State. However, a road map for bridging the gap between demand and supply involving capacity addition of 9,036.55 MWs (58 projects)[7] by the end of 13th FYP was approved (February 2013) by the BoD of the Company.

[7] It comprised 6,130 MW (14 projects) under State Sector, 1,679 MW (five projects) under Central Sector, 850 MW (one project) under Large Independent Power Producer (IPP), 372.55 MW (37 projects) under Small IPP and 5 MW (one project) Geo Thermal project

4.8 Financial Management

4.8.1 Non-finalisation of annual accounts

The Company had finalised its accounts up to the year 2011-12 and accounts from 2012-13 were in arrears. Non-finalisation of accounts is fraught with the risk of financial errors and irregularities remaining undetected.

4.8.2 Financial Parameters

The financial parameters of the Company for 2011-12 to 2015-16 are given in **Table-4.2** below.

Table-4.2: Financial Parameters

S. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Total Generation (in 10 MUs)	386.33	396.70	377.62	397.88	403.03
2.	Revenue from Generation (₹ in crore)	1119.90	1109.20	992.29	1027.36	1041.58
3.	Average Realization per unit (2/1) (in ₹)	2.90	2.80	2.63	2.58	2.58
4.	Total Cost of Generation (₹ in crore)	722.76	713.11	638.33	593.83	680.15
5.	Average Cost of Generation per unit (4/1)	1.87	1.80	1.69	1.49	1.69
6.	Average Net Revenue per unit (in ₹) (3-5)	1.03	1.00	0.94	1.09	0.89
7.	Capital Work-in-Progress (₹ in crore)	1033.50	1582.86	2483.57	3581.55	1685.92
8.	Profit Before Tax and Prior Period Adjustment (₹ in crore)	124.95	227.72	268.33	309.12	216.23
9.	Percentage of Profit Before Tax and Prior Period Adjustment to Generation Revenue (8/2^{X}100)	11.16	20.53	27.04	30.09	20.76
10.	Net Profit (₹ in crore)	403.29	308.07	168.73	214.33	98.19
11.	Net Profit to Revenue from Generation (10/2) (percentage)	36.01	27.77	17	20.86	9.43
12.	Capital Employed[8] (₹ in crore)	8123.72	8391.95	9386.58	10232.27	10660.01
13.	Return[9] (₹ in crore)	630.63	492.89	341.03	348.90	279.69
14.	Return on Capital Employed (percentage)	7.76	5.87	3.63	3.41	2.62
15.	Debt[10] (₹ in crore)	1493.54	1535.46	1826.49	2292.73	2279.19
16.	Equity[11] (₹ in crore)	5841.05	6294.47	6591.37	6740.34	6897.06
17.	Debt/Equity Ratio (15/16)	0.26:1	0.24:1	0.28:1	0.34:1	0.33:1
18.	Net Worth (₹ in crore)	5841.05	6294.47	6591.37	6740.34	6897.06
19.	Working Capital (₹ in crore)	1641.31	1731.64	2194.17	2310.95	2631.11
20.	Current Ratio (Ratio of Current asset and Current liabilities)	3.85:1	3.53:1	5.38:1	5.85:1	6.66:1

(Source: Annual accounts of the Company)

8 Net Fixed Assets (Including WIP) + Working Capital
9 Profit + Interest of Borrowed Capital
10 Secured and unsecured Loans
11 Share capital + Share application money + Reserve and Surplus + Accumulated Profit

While revenue per unit of energy of the Company decreased from ₹2.90 (2011-12) to ₹2.58 (2015-16), the cost per unit decreased from ₹1.87 during 2011-12 to ₹1.49 during 2014-15 due to decrease in costs of borrowings, depreciation and administrative costs and again increased to ₹1.69 during 2015-16 due to increase in finance cost and depreciation. Net realization of revenue per unit stood at ₹1.03 in 2011-12 which gradually decreased to ₹0.89 in 2015-16 except during 2014-15 when it had increased to ₹1.09. While the capital employed increased from ₹8,123.72 crore in 2011-12 to ₹10,660.01 crore in 2015-16, the return on capital employed decreased over the period.

4.8.3 Fund Inflow

The position of funds received from the Government of India (GoI), the State Government and loans received from financial institutions (FIs) during 2011-12 to 2015-16 is given in **Table-4.3** below.

Table-4.3: Details of Funds and Loans Received

(₹ in crore)

Year	Funds received		Loan	Total
	GoI	State Government	Financial Institutions	
2011-12	3.09	416.50	-	419.59
2012-13	7.76	172.00	254.52	434.28
2013-14	3.54	223.58	566.67	793.79
2014-15	10.88	0	689.07	699.95
2015-16	7.34	3.94	265.81	277.09
Total	**32.61**	**816.02**	**1776.07**	**2624.70**

During 2011-12 to 2015-16, the Company received ₹32.61 crore from GoI which included subsidy received from the Ministry of New and Renewable Energy (MNRE) for release to Small Hydel Projects (SHPs) and ₹816.02 crore from the State Government. The loan of ₹1,776.07 crore from various FIs was for BHEP-II (₹1,667.40 crore), Hanu (₹31.19 crore), Dah (₹32.48 crore) and Lower Kalnai (₹45 crore) power projects. Further, during 2011-12 and 2012-13, the State Government allocated funds under planned outlay for BHEP-II, Lower Kalnai and Parnai HEPs of ₹487.79 crore, ₹149.84 crore and ₹142.21 crore respectively against which ₹223.58 crore, ₹6 crore and ₹40.64 crore respectively were received by the Company. As a result, the Company had to arrange funds from financial institutions for which interest of ₹58.24 crore was paid.

The Management stated (October 2016) that though the Company had approached the State Government a number of times for release of pending plan funds, the State Government had not released the funds which had adversely affected the financial health of the Company resulting in delay in execution of on-going projects.

4.8.4 Claims and Dues of Energy

The Company sells the energy generated from its power houses to the J&K Power Development Department (JKPDD) except power generated from BHEP-I where 50 *per cent* energy is sold to the Power Trading Corporation (PTC) to meet lender's requirements. The position of energy sold to the JKPDD and the PTC during the period 2011-12 to 2015-16 is given in **Table-4.4** below.

Table-4.4: Details of Energy Sold

(₹ in crore)

Year	JKPDD		PTC		Total	
	Bill raised	Amount received	Bill raised	Amount received	Bill raised	Amount received
2011-12	644.16	262.81	475.74	463.16	1119.90	725.97
2012-13	591.21	500.00	518.05	504.40	1109.25	1004.40
2013-14	482.72	0.00	509.57	499.79	992.30	499.79
2014-15	491.97	275.50	535.40	393.30	1027.37	668.80
2015-16	483.76	235.26	536.69	562.95	1020.44	798.21
Total	**2693.82**	**1273.57**	**2575.45**	**2423.60**	**5269.26**	**3697.17**

The Company received its dues from the PTC regularly. However, the JKPDD had not paid the dues regularly since 1999 and the pending dues accumulated to ₹2,808.04 crore as of March 2016. In view of the huge recoverable amount from the JKPDD, it was decided (February 2012, July 2012, February 2013 and June 2014) in the Budget Sub-Committee meetings and in the meetings of BoDs that the recoverable amount of ₹1,987.37 crore ending March 2014 be settled against Plan Funds and State Equity in the Company by the State Government.

The Management stated (October 2016) that the Company had rigorously pursued the matter with JKPDD for release of dues and for approval of setting off the receivables with Plan funds but the response was awaited.

Thus, while the Company's interest-bearing borrowings increased over time, dues of ₹2,808.04 crore remained pending as at the end of March 2016 from the JKPDD. This adversely impacted the Company as it had to avail loans from financial institutions at interest rates ranging between 9.75 *per cent* and 13.75 *per cent* to fund its financial needs.

4.8.5 Avoidable payment of interest

The Power Finance Corporation (PFC) sanctioned (May 2012) a loan of ₹1,679.23 crore to be availed by the Company as per its requirement for implementation of BHEP-II. The Company availed ₹1,172.74 crore between September 2012 and March 2016 out of which ₹413.25 crore was lifted without immediate requirement and parked in Fixed Deposit Receipts (FDRs) between September 2012 and July 2014 for periods ranging between six and 130 days. The Company earned (October 2012 to July 2014) interest of ₹4.18 crore on FDRs but paid interest of ₹6.74 crore to PFC during this period resulted in avoidable payment of interest of ₹2.56 crore.

The Management stated (March 2016) that as per terms of sanctions, the borrower was required to draw the entire amount of committed funds as per a stipulated schedule failing which the borrower had to pay commitment charges of 0.25 *per cent* per annum. It added (October 2016) that the Company availed of the loan from the bank only after expenditure has been incurred on the project and that the funds parked in the FDRs were on account of power sale proceeds.

The reply is not tenable as there is substantial difference between the rate of interest charged by PFC (12.25 *per cent*) and the rate of interest earned by the Company on FDRs (ranging between 4.75 and 10.20 *per cent*). Hence the loan funds should not have been availed unless there was expenditure that had to be met for immediate requirement. The mismatch between loan funds availed and that actually required resulted in burden of differential interest of ₹2.45 crore[12] that could have been avoided.

4.8.6 Creation of liability due to failure to meet statutory obligations

The Company is required to comply with the requirements of various statutes relating especially to taxation, utility charges and mandatory cess such as water usage charges, labour cess, etc. Audit observed the following:

(a) Liability on account of Water Usage Charges

As per the Jammu and Kashmir Water Resources (Regulation and Maintenance) Act, 2010, water usage charges were required to be paid by the Company for usage of water for generation of electricity at the rate prescribed under the Act. Audit scrutiny of records of five divisions[13] revealed that the Irrigation and Flood Control Department had raised bills on the Company for ₹1,575.61 crore on account of water usage charges for the period November 2010 to December 2015 out of which ₹20 crore had been paid by the Company as of June 2016. Non-payment of balance amount resulted in creation of a statutory liability of ₹1,555.61 crore on account of water usages charges.

The Management stated (October 2016) that as per directions of the JKSERC, liability of water usage charges was to be borne by the JKPDD and as such

[12] Interest charged by PFC: ₹6.74 crore (-) Interest earned on FDR after deduction of IT: ₹4.18 crore (-) Commitment charges: ₹0.11 crore = ₹2.45 crore

[13] Generation Division of BHEP-I, LJHP, CHEP, Pahalgam HEP and EPD Jammu

the Company was sending bills of water usage charges raised by the Irrigation and Flood Control Department to the JKPDD. The reply is not tenable as the Company was to first pay the water usage charges to the Irrigation and Flood Control Department as a statutory liability and thereafter claim reimbursement from the JKPDD.

(b) Non-levy and collection of Labour Cess

Under the Jammu and Kashmir Building and Other Construction Workers (BOCW) Rules 2006, all Government departments and PSUs carrying out any construction works are required to deduct labour cess of one *per cent* of the gross amount of bill raised by the contractor and remit with the Board[14] within 30 days. Audit scrutiny of records of the five divisions showed that payment of ₹1,782.99 crore on account of Civil and Electro Mechanical works of BHEP-I and II were made to the contractors during June 2011 to December 2015 after deduction of only ₹0.25 crore as labour cess from the bills of the contractors against the cess claim of ₹17.83 crore and the balance of ₹17.58 crore had neither been deducted from the contractors bills nor deposited with the Board. Thus, the Company had not only failed to meet a statutory requirement but also created an unnecessary liability of ₹17.58 crore. The Company had exposed itself for imposition of penalty of not exceeding the amount of labour cess under BOCW Rules, 2006.

The Management stated (October 2016) that the liability would be discharged after getting the approval from the State Government.

4.8.7 Tariff Fixation

The Company is required to file an application for approval of Generation Tariff for each year with the JKSERC (Commission). The Commission accepts the application and issues an order for generation tariffs for the year after considering all suggestions and objections from all stakeholders. Audit observed the following:

(a) Regulation 7 of the JKSERC (Terms and Conditions for Determination of Hydro Generation Tariff) Regulations 2011 stipulate that only income tax related to the core business of the utility would be allowed as pass through in tariff and be recovered from beneficiary (JKPDD). The Company had paid ₹96.96 crore as taxes on income during 2013-14 and 2014-15 which had not been allowed as part of expenditure by the Commission due to non-furnishing of details of income/expenditure/income tax by the Company on core business. The Commission directed (February 2014) the Company to submit the details of income tax paid duly certified by a chartered accountant along with tariff petition for 2015-16.

[14] Constituted in July 2007 under BOCW Rules 2006

The Company did not submit the requisite details within the prescribed time limit up to February 2015 and failed to claim of ₹96.96 crore spent on taxes. This resulted in fixation tariff by the Commission on a lower side. The Management stated (June/October 2016) that the information stands submitted to the Commission with tariff petition for the year 2016-17 and the Commission had directed the Company to submit detailed information with next tariff and a revised petition was being filed with the Commission for allowance of income tax paid by the Company.

(b) Indicative tariff is fixed by the JKSERC by dividing Annual Fixed Charges with design energy or Net Saleable Energy (NSE). The Company failed to generate energy to the extent of design energy resulting in non-recovery of expenditure of ₹275.85 crore through tariff during the period 2011-12 to 2015-16. The Management attributed (October 2016) poor generation to obsolescence as well as non-availability of the water discharge/low hydrology.

Hence, failure of the Company to submit requisite details to the JKSERC at time of tariff fixation resulted in non-recovery of ₹372.81 crore.

4.9 Non-qualifying the projects under MPP status

After commissioning of BHEP-I the Company submitted (May 2010) a Detailed Project Report (DPR) for BHEP-II to the Central Electricity Authority (CEA) for techno economic clearance. The CEA cleared (December 2010) the DPR with a cost of ₹2,113.09 crore without Mega Power Project (MPP) status and at ₹2,007.29 crore with MPP status[15]. The Company had incurred an expenditure of ₹2,568.46 crore on the project as of March 2016.

The Company could not avail the fiscal benefits of exemption of taxes and duties available to the projects having MPP status as it had not applied for obtaining the MPP status within the cutoff date (19 July 2012) which resulted in non-availing of benefits to the extent of ₹105.80 crore besides, non-deriving the benefits of fixation of low rate of tariff vis-à-vis ₹2.45 per unit with MPP status against the tariff of ₹2.58 per unit without MPP status.

The Management stated (March 2016) that the matter had been taken up with the Government. It was further stated (October 2016) that as per guidelines the project did not qualify for MPP status. Audit observed that projects located in Jammu and Kashmir having capacity of 350 MW or more qualify for MPP status and the Company had lost the opportunity to avail fiscal benefits of exemption of taxes and duties eligible for project under MPP status.

[15] In Jammu & Kashmir MPP status is given to projects having capacity of 350 MW or more (it varies between States) which are entitled for fiscal benefits of taxes, duties, custom exemptions. These fiscal benefits would result in reduction in capital cost and consequent fixation of lower tariff rate

4.10 Operational Performance

The operational performance of the power stations of the Company fell short of norms in terms of achievement of design energy, plant load factor and plant availability factor and forced outages during the period of review as brought out below.

(i) Based on the targets computed in terms of units (kWh) by taking into account the design energy, the position of the design energy and actual generation of power during the period from 2011-12 to 2015-16 is shown in **Table-4.5** below.

Table-4.5: Details of Design Energy and Actual Generation

(Figures in MUs)

Year	Total design energy			Achievement			Shortfall	Percentage of Shortfall	Growth
	BHEP-I	Others[16]	Total	BHEP-I	Others	Total	Others	Others	BHEP-I
2011-12	2536	1550	4086	2801	1063	3863	487	31.42	-
2012-13	2536	1554	4090	2842	1124	3967	430	27.67	41.76 (1.49)
2013-14	2536	1567	4103	2800	976	3776	591	37.72	(-)42.72 (1.50)
2014-15	2536	1569	4105	2945	1034	3979	535	34.10	145.09 (5.18)
2015-16	2536	1554	4105	2953	1077	4030	477	30.71	(-)8.00 (0.20)
Total	**10144**	**7794**	**20489**	**14341**	**5274**	**19615**	**2520**	**32.33**	

Against the design energy of 2,536.07 MUs in respect of BHEP-I, the Company achieved generation of energy more than the design energy which ranged between 2,800 MUs and 2,953 MUs during the period 2011-12 to 2015-16. However, in case of all the other power houses, there was a shortfall in design energy between 27.67 *per cent* and 37.72 *per cent* during 2011-12 to 2015-16.

(ii) Plant Load Factor (PLF) is the ratio of the actual generation and the maximum possible generation at design/installed capacity. During the period 2011-12 to 2015-16, against the average design PLF of all HEP ranging between 56 *per cent* and 58 *per cent*, the actual average PLF remained between 22 *per cent* and 29 *per cent* which was also very low as compared to norms of 80 *per cent* fixed by the CERC.

(iii) Plant Availability Factor (PAF) is the ratio of actual hours operated to maximum possible hours available during a fixed duration of time. The various operational parameters of the Company for the period 2011-12 to 2015-16 are given in **Table-4.6**.

[16] Taken 20 projects excluding BHEP-II

Table-4.6: Details of operational parameters of the Company

S. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Total hours available	421492	452838	441940	438987	379421
2.	Operated hours	221638	232944	212645	178815	157588
3.	Planned outages (in hrs.)	17787	14049	24878	13554	19934
4.	Forced outages (in hrs.)	165969	200681	199267	241722	197460
5.	Percentage of forced outages to total available hours	39.38	44.32	45.09	55.06	52.04
6.	Forced outages in excess of CEA norms (in hrs.)	123820	155397	155073	197823	159517
7.	Plant availability (in Percentage) (Weighted average)	67.87	76.66	72.34	70.22	64.34
8.	Capacity utilization (in Percentage)	43.13	36.96	33.30	32.30	36.88
9.	Average design PLF (percentage)	58.79	56.83	56.75	56.81	56.81
10.	Average actual PLF (percentage)	29.27	28.33	24.09	22.68	23.73

(Source: Information as furnished by the Company)

Against CERC norms of 85 *per cent* for 2010-19, the weighted plant availability during the year 2011-12 was 67.87 *per cent* which increased to 76.66 *per cent* (2012-13) and decreased to 64.34 *per cent* (2015-16) which resulted in short operation of the project and ultimately low power generation.

(iv) As per CEA norms, forced outages up to 10 *per cent* of the total available hours is allowed for each HEP. Forced outages of 7,91,630 hours were recorded in excess of CEA norms during the period 2011-12 to 2015-16 in 20 HEPs ***(Appendix-4.1)***. The forced outages for the year 2011-12 were 39.38 *per cent* and increased to 52.04 *per cent* ending 2015-16.

(v) Energy consumed by power stations for running their own equipment and for providing common services is called Auxiliary Consumption. JKSERC allowed (June 2003) 0.50 *per cent* of power generated to be used as auxiliary consumption. Audit scrutiny of records showed that during the period 2011-16, the auxiliary consumption exceeded the JKSERC norms of 0.50 *per cent* to the maximum of 5.86 *per cent* i.e. 27.58 MUs valuing ₹7.96 crore in respect of 18 HEPs[17].

The Management stated (October 2016) that small hydel projects had been commissioned 15-40 years ago and they had outlived their useful life, experienced frequent damages and were running at de-rated capacities and could not be expected to generate as per design energy calculated at the time of conception. Further, these were run of the river projects whose generation was dependent

[17] BHEP-I, CHEP-I, CHEP-II, CHEP-III, Karnah, Pahalgam, Stakna, Sumoor, Iqbal, Haftal, Marpachoo, Bhaderwah, USHP I, Old Ganderbal, Bazgo, Hunder, Haptal and Igo-Mercelong

upon variation in snowfall/rainfall and change in hydrology parameters over time. They added that renovation, modernisation and uprating of outlived power houses together with regular plugging of water leakages, maintenance of electric mechanical equipment and civil infrastructure were being carried out to improve generation of these power houses and reduce auxiliary consumption.

Audit observed that in terms of generation of power against the design energy, all the other 19 projects of the Company showed shortfall in generation of energy except BHEP-I and of late Lower Jhelum HEP. Further, the design energy had been re-validated in the year 2009 by the consultant engaged by the Company after taking into account the factors stated in the reply. Further, the decrease in the plant load factor and continuous increase in the percentage of forced outages was indicative of lack of timely measures and preventive maintenance to mitigate the extent of outages. Due to above reasons of low generation, huge forced outages, low utilisation of available capacity and low plant load factor, the power houses were unable to make profit except BHEP-I during 2012-13 to 2014-15 and CHEP-I, LJHP and USHP-I during 2013-14 (₹1,016.05 crore, ₹1.30 crore, ₹3.30 crore and ₹8.26 crore respectively). Other hydel projects suffered losses of ₹352.15 crore during 2012-13 to 2014-15. The JKSERC, while issuing tariff order for the year 2015-16, directed the Company to conduct viability studies of all existing projects and suggest strategy to improve their profitability. However, no such viability study had been conducted so far (May 2016) nor had the Company undertaken any remedial measures to improve generation and reduce the expenditure to make the projects viable.

The Management stated (October 2016) that a committee constituted for conducting viability study of the existing Power Houses under the chairmanship of Chief Engineer (Generation) Kashmir had not submitted the final viability report.

4.11 Renovation, Modernisation and Uprating

Timely and systematic renovation and maintenance is essential to maintain power generation and reduce generation losses. The BoD sanctioned (August 2005) a Renovation, Modernisation and Uprating (RMU) programme for seven HEPs[18] at a cost of ₹208.96 crore which were to be completed within a period of one to three years. The Company had incurred an expenditure of ₹146.57 crore[19] on the seven HEPs ending March 2016. Audit observed the following:

[18] USHP-I (₹25 crore), Chenani-I (₹39.14 crore), Ganderbal (₹39.30 crore), LJHP (₹101.30 crore), Bazgo (₹1.32 crore), Hunder (₹1.77 crore) and Sumoor (₹1.13 crore) HEPs

[19] USHP-I (₹24.59 crore), Chenani-I (₹14.31 crore), Ganderbal (₹9.39 crore), LJHP (₹96.09 crore), Bazgo (₹0.77 crore), Hunder (₹0.86 crore) and Sumoor (₹0.56 crore) HEPs

(i) RMU of CHEP-I was approved in August 2005 at a cost of ₹39.14 crore to enhance the capacity of the power house from 17 MWs to 23.30 MWs and generate an additional 33.85 MUs. Due to lack of response, the works were split into 50 electro-mechanical works and 20 civil works and works awarded in piecemeal between June 2011 to March 2015. Of these, 40 electro-mechanical and 19 civil works had been completed (March 2016) at an expenditure of ₹14.04 crore. Delay in completion of the RMU resulted in loss of generation of 33.85 MUs valued at ₹6.77 crore per annum. The Management stated (October 2016) that electro-mechanical works were under progress and would be completed in the current financial year and that the civil work had been allotted to a contractor.

(ii) Unit-I and II of Pahalgam HEP had defect of recurring vibration since its commissioning in 2005. However, the defects had not been removed as of October 2016 resulting in operation of units at a de-rated capacity of only one MW against the three MW capacity which resulted in loss of generation of 10.38 MUs per annum valued at ₹3.40 crore. The Management stated (October 2016) that the said work allotted (July 2016) to a contractor was scheduled to be completed by March 2017.

(iii) CHEP-III commissioned (2001) started leaking during testing process which remains unrectified. The Company ultimately decided in 2012 to rectify the same and the power house remained under shutdown during July 2012. The Company invited (December 2013) tenders for the works but had to cancel it (February 2014) due to poor response. The works are still pending for award. The Company had to bear loss of generation to the extent of 3.01 MUs valuing ₹1.05 crore annually. The Management stated (October 2016) that a permanent solution was being worked out in consultation with IIT Roorkee.

(iv) The Stakna Power Project (2x2 MW) was transferred (January 2011) by the State Government to the Company with only one machine/unit running at 25 *per cent* of the installed capacity due to need for replacement of electro mechanical parts. The power project was put (April 2013) under complete shutdown. In order to restore the plant to its capacity, the Company engaged (March 2015) a consultant for preparation of a DPR at a cost of ₹4.50 lakh. This was, however, yet to be finalized. Thus, non-replacement of electro-mechanical parts has resulted in loss of generation of 58.56 MUs units valuing ₹2.44 crore (March 2016) per annum. The Management stated (October 2016) that a DPR framed by IIT Roorkee was being examined.

Thus, delay in undertaking essential repair and renovation works resulted in loss of generation valued at ₹13.66 crore per annum.

4.12 Human Resources

The position of sanctioned staff and effective strength in the Company at the end of each year during 2011-12 to 2015-16 is given in **Table-4.7** below.

Table-4.7: Details of sanctioned and effective staff strength

Year	Sanctioned strength	Effective strength	Increase/ decrease (-) in sanctioned strength	Increase/ decrease (-) in effective strength	Percentage of effective manpower to sanctioned strength
2011-12	5035	3077	NA	NA	61
2012-13	5127	2934	92	143	57
2013-14	5216	2809	89	125	54
2014-15	5292	2664	76	145	50
2015-16	5343	2517	51	147	47

Audit observed the following:

(i) The sanctioned strength during 2011-12 to 2015-16 had increased over the years though the effective strength decreased to 2,517 (March 2016) from 3,077 (March 2012). The effective strength remained lower side than the sanctioned strength during all the years ranging between 47 *per cent* and 61 *per cent* during 2011-16. The Management informed (October 2016) audit that steps had been taken to formulate a recruitment policy and a committee headed by Executive Director, Electrical had been constituted for the purpose.

(ii) CEA has recommended norms for deployment of human resources in projects on the basis of installed capacity. The position of actual human resources of the Company with reference to CEA recommendations is shown in **Table-4.8** below.

Table-4.8: Expenditure on Salaries

S. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Sanctioned strength	5035	5127	5216	5292	5343
2.	Human resources as per the CEA recommendations*	1452	1452	1454	1457	1994
3.	Actual Human resources	3077	2934	2809	2664	2517
4.	Expenditure on salaries (₹ in crore)	99.92	98.04	101.38	94.40	110.32
5.	Human resources in excess of CEA norms [(4-3)] (percentage of excess)	1625 (112)	1482 (102)	1352 (93)	1207 (83)	523 (26)
6.	Extra expenditure with reference to CEA norms (₹ in crore) [(5/4) x 6]	52.77	49.52	48.90	42.77	22.92

****** *CEA recommended 1.79 and 0.53 number of employees per MW (including both technical and non-technical) for Hydro Projects and Gas Based Projects respectively.***

The human resources deployed by the Company were in excess of the CEA recommendations by 26 *per cent* to 112 *per cent* during the period 2011-12 to 2015-16. The expenditure in excess of the recommendations amounted to ₹216.88 crore.

(iii) Employee productivity in relation to capacity, generation, revenue, employee cost and net profit during the period 2011-12 to 2015-16 is shown in **Table-4.9** below.

Table-4.9: Employee Productivity

S. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
	No. of employees[20]	**3077**	**2934**	**2809**	**2664**	**2517**
1.	Installed capacity (in MWs[21])	758.70	759.20	761.96	761.96	1061.96
	Number of employee per MW of capacity	**4.05**	**3.86**	**3.69**	**3.50**	**2.37**
2.	Generation (in MUs)	3863.34	3966.97	3776.23	3978.76	4030.31
	Generation per employee (in MUs)	**1.26**	**1.35**	**1.34**	**1.49**	**1.60**
3.	Revenue from generation (₹ in crore)	1119.90	1109.20	992.29	1027.36	1041.58
	Revenue per employee (₹ in crore)	**0.36**	**0.38**	**0.36**	**0.39**	**0.41**
4.	Total employees cost (₹ in crore)	99.92	98.04	101.38	94.40	110.32
	Employee Cost per employee (₹ in crore)	**0.03**	**0.03**	**0.04**	**0.03**	**0.04**
5.	Total Net profit (₹ in crore)	124.95	308.07	168.73	214.33	98.19
	Net profit per employee (₹ in crore)	**0.04**	**0.11**	**0.06**	**0.08**	**0.04**

(Source: Annual accounts of the Company as well as NHPC, besides, information furnished by the Company)

The employee per MW of installed capacity stood at 4.05 per MW during 2011-12 which gradually improved to 2.37 per MW during 2015-16. Similarly, the generation per employee stood at 1.26 MUs during 2011-12 which improved to 1.60 MUs during 2015-16. Revenue per employee improved to ₹0.41 crore during 2015-16 from ₹0.36 crore during 2011-12. Per employee cost remained around ₹0.04 crore during 2011-16. Thus, there was an apparent need for the Company to review and rationalise its staff structure and strength keeping in view the recommendations of the CEA.

4.13 Internal Control

Internal control is a process for assuring operational effectiveness, efficiency, reliable financial reporting and compliance with laws, regulations and policies.

[20] This includes employees of Gas turbine Division which also looks after the work of Pahalgam MHP
[21] Only Hydro capacity Power Projects

4.13.1 Internal Audit

Internal audit of 16 division/offices out of 42 had been conducted upto 2014-15 in Jammu region. No internal audit had been conducted of any division/ office in Kashmir and Leh region for 2014-15. The internal audit reports had not been placed before BoD for taking corrective measures.

The Management stated (October 2016) that the Company had appointed (July 2016) internal auditors for conducting audit for the period 2014-17 and that internal audit of paying units of Leh, Kargil and Kishtwar had been conducted and internal audit of Jammu, Sawalkote and Baglihar were under process.

4.13.2 Physical Verification of store/stock

Physical verification that is required to be conducted at least once a year had not been conducted in six[22] out of 18 test-checked divisions for the year ended 2014-15. Unserviceable items valuing ₹1.47 crore were lying in the stores of nine divisions while valuation of unserviceable items lying in 10 other divisions[23] had not been done.

Physical verification of the Store at LJHP Baramulla had not been conducted for over 10 years. Audit noticed that theft of 481 copper bars valuing ₹57.72 lakh had occurred at the store in October 2012. The report of the departmental enquiry was awaited (March 2016). The Management stated (October 2016) that FIR had been lodged with police which had filed the challan in the court.

4.14 Conclusion

The financial position of the Company was adversely affected by delay in release of funds from the State Government as well as poor financial management. The Company had to bear an avoidable interest burden of ₹2.45 crore due to premature drawal of funds and in creation of statutory liability of ₹1,573.19 crore due to non-payment of labour cess and water usage charges. The poor financial position was further impacted by delay in submission of requisite documents to Jammu and Kashmir State Electricity Regulatory Authority (JKSERC) for tariff fixation which resulted in non-recovery ₹372.81 crore.

On the operational front, the Company could not achieve design energy leading to low Plant Load Factor and low capacity utilization and the excessive forced outages led to projects becoming financially non-viable. Delay in completion of renovation, modernisation and uprating resulted in loss of generation.

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22 CCD-I&II Lower Kalnai, CCD-II Parnai, SEWA-III, Civil Maintenance Divisions (CMD) of Chenani and Lower Jhelum HEP and Generation Division of Lower Jhelum HEP (LJHP)

23 CCD-I&II of Lower Kalnai, CCD-I&II of Parnai HEP, SEWA-III HEP, CMD, Generation Division and Power House Division of BHEP, Electric Procurement Division Jammu and GTD Pampore

4.15 Recommendations

In the light of the audit findings it is recommended that the Company and Government may consider:

- **Ensuring prompt transmission of claims of the Company to the Jammu and Kashmir Power Development Department to avoid debt burden and to minimize interest burden;**
- **Improve financial management to ensure that drawal of loan funds are linked to their actual utilisation;**
- **Ensure timely payment of statutory obligations; and**
- **Improve operational performance by effective monitoring of plant load factor as well as timely renovation and modernisation.**

The audit findings were communicated to the Government in August 2016; their reply was awaited (October 2016).

Chapter-5

Audit of Transactions

(Public Sector Undertakings)

CHAPTER – 5

AUDIT OF TRANSACTIONS

Finance Department

Jammu and Kashmir State Financial Corporation Limited

5.1 Management of Borrowings as per Prudential Norms

Disbursement of loan by the Company decreased from ₹15.23 crore in 2012-13 to ₹8.87 crore in 2015-16. The total loan assets of the Company also decreased from ₹100.52 crore in 2012-13 to ₹66.95 crore in 2015-16. The percentage of recovery of overdues of principal amount ranged between 20-22 *per cent* which too could be achieved only after sacrificing interest of ₹165.79 crore.

5.1.1 Introduction

The Jammu and Kashmir State Financial Corporation (JKSFC) was established in December 1959 under the State Financial Corporation Act, 1951, with the objective of promoting and developing industrial growth in the State by providing financial assistance in the form of term loans to Small and Micro Enterprises (SMEs). JKSFC was to follow the prudential norms approved (October 2011) by its Board of Directors (BoD) relating to income recognition, asset classification and provisioning pertaining to advances issued by Small Industrial Development Bank of India (SIDBI) based on Reserve Bank of India (RBI) guidelines. The Commissioner Secretary to the Government of Jammu and Kashmir, Finance Department, is the administrative head of the Corporation who is assisted by the Managing Director for running the affairs of the SFC.

An audit review of the activities of the Corporation related to financing and management of loans and implementation of prudential norms of SIDBI and of One Time Settlement (OTS) was conducted between January 2016 and March 2016 covering the period from 2012-13 to 2015-16.

5.1.2 Business Plan, Resourcing and Loan Assets Management

The Corporation is to prepare annually a Business Plan and Resource Forecasting (BPRF) for submission to SIDBI and borrows funds from financial institutions and through private placement of public bonds. JKSFC had not prepared the BPRF nor forwarded to SIDBI for last 12 years. No re-finance was made available by SIDBI from 2002-03 onwards due to continued default and failure to repay the sums borrowed by the JKSFC.

The position of disbursement and recovery for last four years shown below in **Table-5.1** brings out variations in target and achievement which continued to persist year after year without any correction. The targets were achieved during 2015-16 only after reduction of targets of disbursement and recovery ranging between 50 and 71 *per cent* respectively vis-à-vis previous year.

Table-5.1: Disbursement and Recovery

(₹ crore)

Year	Disbursement		Recovery	
	Target	Achievement	Target	Achievement
2012-13	21.00	15.23	29.35	26.15
2013-14	22.00	11.30	28.70	19.55
2014-15	32.00	8.55	41.00	18.92
2015-16	9.00	8.87	20.71	20.02

The Management attributed (January 2016) the non-achievement of the targets to constraints of funds, infected loan assets and natural calamities.

5.1.3 Financial Position

The financial position of JKSFC for the period 2012-13 to 2015-16 is shown in **Table-5.2** below.

Table-5.2: Financial Position

(₹ in crore)

S. No	Particulars	2012-13	2013-14	2014-15	2015-16
1.	**Liabilities**				
(a)	Paid up capital	98.19	98.19	98.19	98.19
(b)	Reserve and Surplus	(-)94.52	(-)72.95	(-)71.68	(-)64.84
(c)	Borrowings	18.31	0.81	0.81	0.81
(d)	Current Liabilities and provisions	83.48	75.15	69.93	43.79
	Total Liabilities (a+b+c+d)	**105.46**	**101.20**	**97.25**	**77.95**
2.	**Assets**				
(e)	Gross Block	0.70	0.60	0.50	0.59
(f)	Less Depreciation	0.10	0.08	0.07	0.06
(g)	Net block	0.60	0.52	0.43	0.53
(h)	Current Assets and Provisions	104.86	100.68	96.82	77.43
	Total Assets (g+h)	**105.46**	**101.20**	**97.25**	**77.85**
(i)	**Net worth***	**3.67**	**25.24**	**26.51**	**33.35**
(j)	**Capital**employed**	**9.40**	**24.01**	**26.68**	**30.74**
(k)	**Current Ratio**	**0.25**	**0.10**	**0.20**	**0.96**

**Net worth represents paid up capital plus free reserves minus intangible assets.*

***Capital employed 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).*

Audit noted as follows:

- There was no change in the paid up capital of JKSFC during the period.
- The position of Reserve and Surplus improved from (-) ₹94.52 crore in March 2013 to (-) ₹64.84 crore in March 2016 due to receipt of ₹44 crore re-capitalization support from the State Government for repayment of SIDBI liability and conversion of borrowing of ₹17.50 crore out of ₹18.31 crore received from State Government into equity.
- The current liabilities and provisions decreased from ₹83.48 crore (2012-13) to ₹43.79 crore (2015-16) due to decrease in the provision for Non-Performing Assets (NPA) owing to settlement of NPAs under One Time Settlement (OTS) besides reduction in the sundry deposits pending appropriation.
- The fixed assets decreased from ₹0.60 crore (2012-13) to ₹0.53 crore (2015-16) due to depreciation and no major addition in fixed assets.
- The current assets decreased from ₹104.86 crore (2012-13) to ₹77.43 crore (2015-16) due to encashment of Fixed Deposit Receipt (FDR) of ₹1.55 crore and reduction in term loan by ₹5.64 crore.

5.1.4 Restoration of Refinance Facility by SIDBI

Stoppage of re-finance facility by SIDBI for financial assistance granted by JKSFC to targeted sectors from 2002-03 due to the continued default by JKSFC and failure to service the debts in timely manner adversely impacted financing to Small and Micro Enterprises (SMEs) and other sectors. Subsequently, on the advice (May 2012) of Ministry of Finance, Government of India, SIDBI agreed to re-start the re-finance subject to fulfillment of certain pre-conditions viz. (a) achieving positive net worth, (b) clearing the mutually settled liability of ₹44 crore, and (c) updating statutory audit by March 2013.

After receipt of funds from the State Government, JKSFC re-paid the outstanding to SIDBI between November 2011 and March 2012, updated its statutory audit and achieved positive net worth. In December 2013, SIDBI conveyed resuming refinance to JKSFC up to ₹50 crore subject to guarantee from the State Government through signing of a tripartite Memorandum of Understanding and meeting other regulatory requirements. This was awaited as of October 2016.

Management stated (February 2016) that a copy of the draft MOU and Tripartite Agreement has been forwarded to the State Government.

5.1.5 Loan Disbursement

The position of receipt of loan proposals and disbursement for the period 2012-13 to 2015-16 is detailed in **Table-5.3**.

Table-5.3: Disbursements of Loan

(₹ in crore)

Year	Receipt and disbursement of Loan cases								
	Opening Balance		Received (R)		Sanctioned (S)		Disbursed (D)		
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	Percentage of Disbursement to total Received
2012-13	09	2.50	291 (300)*	23.60 (26.10)*	284	18.80	286	15.23	**58**
2013-14	12	5.14	239 (251)	37.57 (42.71)	211	20.65	193	11.31	**26**
2014-15	30	17.88	157 (187)	17.23 (35.11)	131	8.34	137	8.55	**24**
2015-16	21	7.69	178 (199)	7.84 (15.53)	176	8.65	168	8.87	**57**

**Figures in the brackets is total proposals/amount including opening balances*

Disbursement of loan by JKSFC dropped from ₹15.23 crore in 2012-13 to ₹8.87 crore in 2015-16 indicating shrinking business portfolio and weakened capacity to carry on business.

The Management stated (February 2016) that due to prolonged turmoil of last two decades, JKSFC had to suffer huge revenue losses for reasons beyond its control and source of funds have dried up though the Corporation is rendering financial assistance from its own cash generation.

5.1.6 Classification of Loan Asset and Categorization of NPAs

The details of loan assets and their classification for the period 2012-13 to 2015-16 are given in **Table-5.4** below.

Table-5.4: Classification of Loan Assets

(₹ crore)

Particulars		2012-13	2013-14	2014-15	2015-16
Total assets		100.52	99.29	94.71	66.95
Standard assets		30.00	33	32	29.54
Non-Performing assets	Substandard/Doubtful	27.58	25.96	24.42	20.76
	Loss Asset	42.94	39.80	38.05	16.65
Percentage of standard assets to total assets		30	34	34	44
Percentage of NPA	Sub-standard/doubtful to total assets	27	26	26	31
	Loss assets to total assets	43	40	40	25

The total loan assets of JKSFC decreased from ₹100.52 crore (2012-13) to ₹66.95 crore (2015-16) as no fresh large advances were granted and recoveries were effected by settlement of loan accounts under compromises. Detailed analysis in audit revealed that the entity after foregoing interest/penal interest of ₹165.79 crore[1] settled them under OTS resulting in considerable

[1] 2012-13: ₹79.42 crore; 2013-14: ₹43.31 crore, 2014-15: ₹10.30 crore and 2015-16: ₹32.76 crore

reduction in NPAs. However, despite settlement of high value loan accounts under OTS and financing in comparatively small size loans of transport sector, the tendency of fresh slippage of standard assets into non-performing category continued. The percentage of NPAs ranged between 56 and 70 *per cent* which included loss assets ranging between 25 and 43 *per cent* during 2012-16. Lack of proper appraisals/sanctions and effective post disbursement follow up led to cases of advances turned non-performing causing blocking of capital of the Corporation.

Thus, JKSFC's performance in terms of disbursement and sanction of loans against applications as well as recovery of loan assets were lower than targets while its fixed assets decreased due to depreciation with no addition fixed assets.

5.1.7 Income Recognition

Audit review of the income recognition policy brought out the following:

(i) As required under SIDBI/RBI norms, the income from NPAs is not recognized on accrual basis but is booked as income when it is actually received i.e. on cash basis. JKSFC had booked interest income of ₹30.63 crore[2] which included accrual interest of ₹2.95 crore[3] during 2012-16. The details of actual interest received were not prepared by JKSFC which indicated procedural lapses on the part of JKSFC in application of prudential norms stipulated by SIDBI/RBI.

(ii) RBI norms stipulate that on an account turning NPA, the interest already charged should be reversed and not collected by debiting Profit and Loss account and further application of interest should be stopped. However, such accrued interest may be continued to be debited in a Memorandum Account and for the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account. JKSFC had not maintained the Memorandum Account at any level depicting the interest postings of NPAs indicating weakness in internal control with regard to application of guidelines of SIDBI/RBI.

(iii) As per the prudential norms, interest realized on NPAs are to be taken to income account provided the credits in the accounts towards interest are not out of fresh/additional credit facilities sanctioned to the borrower concerned. An amount of ₹14.93 crore received under NPA accounts during 2012-16 were kept under sundry deposits instead of taking them into income account.

[2] 2012-13: ₹8.77 crore; 2013-14: ₹8.55 crore and 2014-15: ₹7.05 crore and 2015-16: ₹6.26 crore

[3] 2012-13: ₹0.46 crore; 2013-14: ₹0.53 and 2014-15: ₹0.92 crore and 2015-16: ₹1.04 crore

(iv) JKSFC had not maintained any records of NPA income taken into income account to indicate whether interest credits were not out of fresh/additional credit facilities sanctioned to the borrower concerned. There was no system prevalent in JKSFC for any clear agreement with the borrowers for the purpose of appropriation of recoveries in NPAs i.e. towards principal and interest due.

Thus, JKSFC had not followed the prudential norms of income recognition of income from NPAs, interest application and treatment of interest realized on NPAs.

5.1.8 Provisioning Norms

Audit observed the following:

(i) JKSFC had made advances to Small and Micro Enterprises (SMEs) with outstanding balance of ₹4.78 crore, ₹6.18 crore and ₹8.01 crore and ₹9.11 crore ending March 2013, March 2014, March 2015 and March 2016 respectively. Provisioning was made at a uniform rate of 0.40 *per cent* instead of 0.25 *per cent* as per the prudential norms for SMEs leading to excess provision of ₹4.21 lakh (2012-13: ₹0.72 lakh, 2013-14: ₹0.93 lakh, 2014-15: ₹1.20 lakh: 2015-16: ₹1.36 lakh) in contravention of provisioning norms.

(ii) The prudential norms in respect of doubtful assets under secured portion require provisioning of 100 *per cent* of the extent to which the advance is not covered by the realisable value of the security and the realisable value is estimated on a realistic basis in respect of secured portion. Provision is required to be made at the rates ranging from 25 *per cent* to 100 *per cent* of the secured portion depending upon the period for which the asset has remained doubtful. The doubtful assets under secured portion had been divided into three categories vis-a-vis doubtful-I (doubtful assets up to one year), doubtful-II (doubtful assets of one to three years) and doubtful-III (doubtful assets beyond three years) as per the age[4] in the NPA category. However, there was no system of regular valuation of securities in JKSFC. In three[5] test-checked units, securities had not been verified/valued for the period ranging between one and 25 years after sanction in respect of 112 (62 *per cent*) out of 180 industry-related loans which included six cases where securities document files were either missing or were not made available to audit. This indicated that diminution in the value of securities had been ignored while considering the secured portion in substandard and doubtful category as per prudential norms resulting into inaccurate provisioning in the respective categories.

[4] Assets remaining doubtful for up to one year are categorized as D1 and provision of 25 *per cent* is kept. Doubtful assets of one to three years are categorized as D2 and beyond three years as D3 and provision of 40 and 100 *per cent* respectively is made

[5] Two Large Branch Office Jammu, District Office Udhampur and District Office Kathua

(iii) JKSFC had treated the entire doubtful asset portfolio in category I and II as 100 *per cent* secured to avoid provisioning at higher percentage and made provision of 25 *per cent* and 40 *per cent* respectively resulting in under-statement of NPA provision.

(iv) Category III of doubtful assets were ₹22.42 crore, ₹20.28 crore, ₹20.42 crore and ₹12.36 crore during 2012-13, 2013-14, 2014-15 and 2015-16 respectively with un-secured portion of ₹2.68 crore, ₹3.67 crore, ₹3.36 crore and ₹1.41 crore respectively. In the absence of regular verification of assets, the authenticity of secured and unsecured categories depicted in the books could not be vouchsafed in audit and under-statement of provisioning doubtful assets-III could not be ruled out.

(v) Prudential norms stipulate that in cases of NPAs with balance of ₹5 crore and above, stock audit at annual intervals by external agencies (appointed as per the guidelines approved by the Board) would be mandatory in order to enhance the reliability on stock valuation. Eight NPA accounts with balances exceeding ₹5 crore had not gone through stock audit indicating weakness in approach and lack of seriousness in ensuring available adequate saleable securities to match the advances made so that recoveries could be affected by auction/sale of the mortgaged properties/stocks for recovery of balances.

The Management stated (March 2016) that valuation of securities and stock audit in case of NPAs by an external agency was costly which was not affordable by the Corporation. The reply is not acceptable since non-verification or valuation of securities could lead to subsequent losses due to diminishing and non-enforceable collateral securities.

5.1.9 Recovery of Dues

Details of demand and recovery in respect of loan portfolio for the period 2012-13 to 2015-16 are detailed in **Table-5.5** below.

Table-5.5: Demand and Recovery Performance

(₹ crore)

Year	Demand			Recovery			Percentage		
	P*	I*	T*	P	I	T	P	I	T
2012-13	82.55	494.78	**577.33**	17.84	8.30	**26.14**	22	02	**4.5**
2013-14	61.04	484.79	**545.83**	12.78	6.77	**19.55**	21	01	**3.5**
2014-15	59.66	446.89	**506.55**	12.36	6.57	**18.93**	21	01	**04**
2015-16	69.25	411.19	**480.44**	13.97	6.06	**20.03**	20	01	**04**

*P=Principal; I=Interest which include NPA interest in proforma accounts and T=Total

The percentage recovery on principal amount ranged between 20-22 *per cent* during 2012-16 which too could be achieved only after sacrificing huge interest/penal interest of ₹165.79 crore[6] after settling the default cases under OTS. Non-achievement of recovery as targeted indicated that return on investment was dismal undermining the viability of business activity.

The Management attributed (January 2016) poor performance to high cost of funds and large scale turmoil in the State. The Management added that JKSFC was exercising its due diligence in recovery of overdues.

5.1.10 Legal Documentation and Audit

As per the prudential norms, while sanctioning credit facility to borrowers, the legal documentation/guidelines are to be formulated for drafting/vetting/audit of the loan/security documents and meticulously followed. Further, title deeds of high value exposures shall be subjected to legal audit for ensuring that securities offered are genuine, traceable, adequate and enforceable.

Out of 47 cases test-checked, 38 cases involving a balance of ₹14.58 crore were pending in lower courts for demand of residual balances after auction of assets mortgaged in the absence of adequate securities. JKSFC had filed appeal in four cases involving a balance of ₹3.49 crore. In five other cases involving balance of ₹1.45 crore, the borrowers had filed appeal for cancellation of auction notices.

JKSFC had not maintained year-wise data showing loan cases due for legal audit, number of accounts covered, deficiencies noticed and steps taken to rectify the deficiencies with the result a large number of cases had accumulated. Legal audit was conducted covering period 2014-15 and 2015-16 but cases sanctioned prior to 2014-15 were not covered. However neither compliance report was on record nor could be obtained from units audited, rendering the legal audit unfruitful. Audit noticed that 114 pending court cases involving principal of ₹7.58 crore and interest of ₹33.70 crore as of March 2016 was locked for more than three years due to lack of relevant details that could have been addressed had there been a regular legal audit of documents as mentioned above.

The matter was reported to the Government in June 2016; their reply was awaited (October 2016).

[6] 2012-13: ₹79.42 crore; 2013-14: ₹43.31 crore; 2014-15: ₹10.30 crore and 2015-16: ₹32.76 crore

Jammu and Kashmir Bank Limited

5.2 Doubtful recovery of loans

Lack of due diligence in verification of genuineness of security before release of loans and credit facilities resulted in recovery of ₹3.22 crore being rendered doubtful.

According to the Know Your Customer (KYC) guidelines (July 2013) of the Reserve Bank of India regarding Customer Acceptance Policy (CAP), banks should prepare a profile for each new customer based on risk categorization. The nature and extent of due diligence will depend on the risk perceived by the Bank. Audit noticed two cases of banks not exercising due diligence to verify securities before release of credit facilities and loans followed by lack of monitoring which resulted in recovery of loans being rendered doubtful as detailed below.

(i) The Business Unit (BU), Panchkula (Haryana) of the Bank sanctioned (March 2011) a term loan of ₹1.90 crore and working capital facility of ₹24 lakh in favour of a borrower[7] to set up a hi-tech Dairy Unit at Panchkula (Haryana). BU also sanctioned (November 2011) another term loan facility of ₹25 lakh. The loans were primarily secured by equitable mortgage of land measuring 13 *kanals* and 09 *marlas* besides hypothecation of live stocks/inventory and plant and machinery and all other immovable fixed assets to be created/procured. In addition, the loan was secured by way of a collateral security comprising a residential house in the name of the borrower's father valued at ₹1.20 crore and a third party guarantee. The borrower defaulted in repayment and BU declared (March 2013) the account as Non-Performing Asset (NPA) with outstanding balance of ₹2.48 crore as of April 2015. BU initiated (March 2013) recovery proceedings against the borrower and took over (March 2014 and June 2015) the possession of the residential house and land on which the unit was to come up. On scrutiny of the records (October 2015), audit observed the following:

- The residential house offered as collateral security by the borrower and accepted by BU on the basis of certified copy of the title deed was found mortgaged (August 2015) with another Bank[8] that had taken possession of the said house in another loan case under section 13 (2) of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI), Act 2002.

- In March 2015, inspection conducted by BU revealed that inventory, live stock, current assets, plant and machinery and civil structures created by the borrower out of bank finance held as primary security by

[7] M/S Shyam Diary

[8] State Bank of Bikaner and Jaipur Mandi Dapwali

BU were missing/removed from the site. Accordingly, the bank lodged (March 2015) a complaint against the borrower with the Police under various sections. However, First Information Report (FIR) had not been registered (October 2015).

- The credit facility was released by BU in April 2011 along with term loan much before the start of commercial operation in violation of the sanction.

The Management stated (October 2015) that matter shall be taken up with State Bank of Bikaner and Jaipur (SBBJ) for taking requisite legal measures to recover outstanding amount from the defaulter.

(ii) Cluster Office Jammu (Central) of the Jammu and Kashmir Bank Limited sanctioned (December 2011) a Term Loan Facility (TLF) of ₹60 lakh for purchase of livestock, machinery, equipment and for creation of fixed and miscellaneous fixed assets as well as Cash Credit Facility (CCF) of ₹5.19 lakh to meet working capital requirement in favour of a sole propriety-ship firm to establish a dairy farm[9]. The loan facility was secured against primary and collateral securities[10] obtained by the Bank.

The Cash Credit (CC) and Term Loan (TL) facilities were released between January 2012 and June 2013. As per the terms of the sanction, cash credit facility was to be released for purchase of fresh livestock only after ensuring that requisite infrastructure to house the unit was completed in all respects and the unit had commenced operation. The loan amount was to be released in phased manner depending upon the progress of the work and in accordance with the Project Report (up to ₹17.70 lakh for building construction, ₹25 lakh for purchase of livestock, ₹13.95 lakh for miscellaneous fixed assets and ₹3.35 lakh as pre-operative expenses). The loan was repayable in 78 equal monthly installments of ₹1,21,700 each after moratorium of six months from the date of first disbursement. Cash Credit facility was available for one year to be renewed subsequently.

Audit noticed that the promoter, after servicing first installment in August 2012 failed to deposit the monthly installment and turned defaulter. The Bank declared the account as NPA in September 2013 with an outstanding balance of ₹62.67 lakh (TL: ₹57.49 lakh, CC limit: ₹5.18 lakh). The Bank issued (October 2013) notice under section 13 of the SARFAESI for taking possession

9 M/s Evergreen Dairy Farm Jammu

10 Primary Security: All kinds of stocks/book debts, live stock, equipments, plant and machinery and fixed assets to be purchased/installed in the unit valuing ₹54.45 lakh (as per the project report), Registered Mortgage five *kanals* of land valued at ₹15 lakh as per the valuation report dated 06.12.2011, registered mortgage of building to be constructed in the unit valued at ₹27.46 lakh
Collateral Security: Registered mortgage of land measuring 19 *kanals* valued at ₹57 lakh as per the valuation report of December 2011 and third party guarantee of three persons

of the secured assets and seized the dairy in April 2014. The assets were got re-valued by the Bank in July 2014 and total realizable value of the mortgaged assets was assessed at ₹58.16 lakh[11] as against outstanding of ₹71.28 lakh (Principal amount including CC limit ₹57.67 lakh and interest ₹13.61 lakh) indicating that the borrower had not utilised the credit facility for the intended purpose of purchasing livestock, equipment and creation of fixed assets.

The Management stated (April 2016) that violation of terms and conditions in releasing the facility was got investigated and action had been taken against the erring officials. It was also stated that recovery suit had been filed (November 2015) against the party.

Thus, lack of due diligence as envisaged in RBI guidelines in verifying the genuineness of the documents submitted by the borrower and verification of assets held as primary security before release of credit facilities and to monitor progress of the unit during disbursement of loans/credit facilities resulted in recovery of outstanding amount of ₹3.22 crore becoming doubtful.

The matter was referred to the Government/Company in April/May 2016; their reply was awaited (October 2016).

Industries and Commerce Department

Jammu and Kashmir State Industrial Development Corporation Limited

5.3 Disbursement of soft/term loan to a defaulter Company

Injudicious decision by the Company in releasing soft and term loans out of own resources to a defaulter company for settlement of its Non Performing Assets account led to subsequent default by the borrower company and non-recovery of term loan and interest of ₹1.04 crore.

The Jammu and Kashmir State Industrial Development Corporation Limited (JKSIDCO) established (1969) to set up infrastructure facilities to promote industrialization of the State. For this purpose, JKSIDCO grants term loan to industrial units under Refinance Scheme of Industrial Development Bank of India (IDBI) and Small Industrial Development Bank of India (SIDBI).

The State Level Rehabilitation Committee (SLRC) accorded (July 2008) approval in favour of a defaulter private company[12] for grant of soft loan of ₹30 lakh at

[11] ₹38 lakh under primary securities and ₹10 lakh under collateral security of land and constructed structure amounting to ₹10.16 lakh

[12] Tramboo Joinery Mills (TJM) a private Company was disbursed (1980) term loan (TL) of ₹50 lakh by J&K SIDCO under refinance scheme of SIDBI but owing to default in repayment, Corporation had to settle (September 2000) the facility under One Time Settlement scheme after waiving off accrued interest of ₹369.68 lakh

the rate of one *per cent* interest as 30 *per cent* margin money towards working capital of ₹1.60 crore sanctioned by the Jammu and Kashmir Bank Limited. Based on recommendations of the Board of Directors (BoD), the Corporation again accorded (February 2014) approval to release of a Term Loan (TL) of ₹3 crore in favour of the company for settlement of its liabilities[13]. The TL was to be disbursed after obtaining collateral security from the borrower company and valuation report of existing assets of the Company from approved valuer.

Audit noticed that at time when the Refinance Scheme of IDBI and SIDBI was not in force and the accumulated losses of the Corporation had surged to ₹72.19 crore (March 2015), an amount of ₹2.94 crore was released between May 2014 and August 2014 by the Corporation out of its own sources without obtaining valuation report of all assets of the borrower except plant and machinery. Further, it was noticed that company had again defaulted in repayment of current TL to the extent of ₹1.04 crore (Principal: ₹0.45 crore and Interest: ₹0.59 crore) as of April 2016.

Thus, imprudent decision by the Company to release soft and term loans out of own resources to a defaulter company for settlement of its NPA accounts led to further default by the borrower company resulted in non-recovery of term loan and interest of ₹1.04 crore.

The Management stated (May 2016) that TL was fully secured against securities and personal guarantee from the defaulter private company and that JKSIDCO was vigorously pursuing the recovery of its dues. The reply may be viewed in light of the fact that the private Company had previously defaulted in repayment of loan taken from JKSIDCO which was forced to settle the account under OTS.

The matter was referred to the Government/Company in June 2016; their reply was awaited (October 2016).

5.4 Non-recovery of interest

Failure to invoke terms of lease agreement providing for levy of penal interest and eviction proceedings for default in payment of ground rent resulted in non-recovery of ₹2.17 crore and interest of ₹71.40 lakh.

Jammu and Kashmir State Industrial Development Corporation Limited (JKSIDCO) is the nodal agency for providing ancillary services to entrepreneurs who had been allotted land in industrial estates maintained by the Corporation. The Corporation was to recover annual ground rent @ ₹3,000 per *kanal* from the allotees of land in advance. Further, as per terms of the allotment of land, the Corporation was to charge interest at the rate of 18 *per cent* on delayed payment

[13] ₹200 lakh for settlement of NPA account with J&K Bank Hari Singh High Street, Srinagar

of ground rent on the outstanding balance from the date of default till date of payment. In that eventuality, the Corporation was also entitled to initiate any other legal remedy against the lessee including eviction from the premises and termination of the lease by giving 30 days' notice to be reckoned from date of delivery of the notice.

Test check of records (September 2015) of JKSIDCO Bari Brahmna, Jammu revealed that an amount of ₹2.17 crore was outstanding on account of ground rent against 82 entrepreneurs ending March 2015 for varying periods ranging up to 21 years. The Corporation had neither sought to levy penal interest as stipulated under terms of the lease deed agreement nor had it initiated any action against the defaulters for eviction of plots. Failure of the company to ensure timely recovery of its dues as per the agreed terms with the entrepreneurs not only blocked the capital of the Corporation ₹2.17 crore but also resulted in non-recovery of interest of ₹71.40 lakh.

The Management stated (September 2015) that steps are being taken to effect the recoveries.

The matter was referred to the Government/Company in May 2016; their reply was awaited (October 2016).

Public Works Department

Jammu and Kashmir Projects Construction Corporation Limited

5.5 Incurring of expenditure in excess of approved estimates

Despite clear instructions of competent authority to restrict the value of a work of construction of a bridge along with approach road to the approved estimates, the Company exceeded the approved cost of estimates by ₹2.48 crore. This was aggravated by construction of approach road without requisite protection works resulting in avoidable expenditure of ₹2.01 crore.

As per orders of the State Government (1988) and instructions of its Board of Directors (BOD), the J&K Projects Construction Corporation Limited (J&KPCC) was required to restrict the value of work done to the amount of funds received from the project authorities. The Chief Engineer, Public Works Department (PWD) Roads and Bridges (R&B), Jammu, allotted (May 2009) construction of 164 meter span steel girder bridge along with five kms. approach road over Jhajjar Nallah connecting Shri Mata Vaishno Devi University Campus with National Highway-1A to J&KPCC. The Company submitted (June 2009) cost of ₹19.24 crore for the project against approved estimated cost of ₹16.20 crore under Central Road Fund (CRF). The enhanced cost was not approved by the project authority. The cost of the work was revised in September 2011 by the Company to ₹23.69 crore which was also rejected by the project authority and the Company was instructed (February 2012) to restrict the job within the originally approved amount of ₹16.20 crore.

Audit scrutiny of records (October 2015) brought out that the Company took up (July 2009) the execution of the work and spent ₹20.37 crore against the released amount of ₹17.89 crore between August 2009 and January 2011 thereby exceeding expenditure by ₹2.48 crore. The work was completed in August 2014 in 61 months against stipulated completion within 24 months. It was further noticed that due to non-providing of protection work on the approach road completed at a cost of ₹2.01 crore, the road was washed away by heavy rains within a month of inauguration of the bridge rendering the entire expenditure of ₹20.37 crore as idle.

The Management stated (October 2015) that the length of the approach road had been taken as 2.15 kms. in the initial proposal of ₹16.20 crore while the actual length of road during construction was 3.95 kms. It added that a revised cost of ₹23.69 crore was sent to the higher authority and a proposal was being processed for release of funds exceeding ₹20.37 crore under National Bank for Agriculture and Rural Development under State Plan.

Audit observed execution of works exceeding the approved cost despite clear instructions of the competent authority to restrict the value of work done to the approved cost was irregular. Moreover, the excess expenditure was aggravated by construction of approach road without requisite protection work resulting in avoidable expenditure of ₹2.01 crore.

The matter was referred to the Government/Company in June 2016; their reply was awaited (October 2016).

Tourism Department

Jammu and Kashmir State Cable Car Corporation Limited

5.6 Undue delay in construction of building

The Company acquired a plot of land at a cost of ₹1.25 crore for construction of a building that was also to house its head office which was in a rented building. However, no progress could be achieved in construction of the building despite lapse of five years thereby defeating the objective of the expenditure on land acquisition as well as resulting in avoidable payment of rent ₹57.70 lakh.

The Board of Directors (BoD) of the Jammu and Kashmir State Cable Car Corporation Limited (Company) decided in December 2008 to acquire a piece of land measuring 2.5 *kanals* at Bemina in Srinagar from the Jammu and Kashmir Industries Limited (JKI) for construction of a multi-storeyed commercial building. A part of the building was to be utilized for accommodation of the

Head Office of the Company that was functioning from a rented building. JKI accorded (January 2010) sanction for transfer of the land in favour of the Company at the rate of ₹50 lakh per *kanal*. The Company released (June 2010) ₹1.25 crore in favour of JKI for the land and took possession of the site in June 2011.

Test check (August 2015) of the records of the Company brought out that despite lapse of over five years, the Company had so far failed to allot construction work to any agency. The Company continued to house its Head Office in a rented building defeating the very purpose of acquiring land and had paid ₹85.49 lakh on account of rent for the rented building during July 2010 to March 2016. Allowing a margin of one and half years for construction of building, the Company had incurred an expenditure of ₹57.70 lakh (April 2013 to March 2016) on account of rent for the office building which could have been avoided.

The Management stated in August 2015 that the matter would be referred to the Board of Directors for approval to start construction work.

The matter was referred to the Government/Company in June 2016; their reply was awaited (October 2016).

Srinagar/Jammu **(Hoveyda Abbas)**
The 6th JAN 2017 **Accountant General (Audit)**
Jammu and Kashmir

Countersigned

New Delhi **(Shashi Kant Sharma)**
The 9th JAN 2017 **Comptroller and Auditor General of India**

APPENDICES

Appendix –2.1

(Refer Paragraph: 2.4.1; Page: 17)

Flow Chart for recovery of arrears

The flow chart for recovery of arrears of revenue of General Sales Tax and Value Added Tax in the J&K Commercial Taxes Department

<table>
<tr><th>1</th><th>2</th><th>3</th><th>4</th><th>5</th><th>6</th><th>7</th><th>8</th><th>9</th><th>10</th><th>11</th></tr>
<tr><td>GST</td><td>Sale of goods within a quarter.</td><td>Tax payable within 30 days from the end of quarter.</td><td>Tax, if any determined by the Assessing Authority.</td><td>Within thirty days from the date of notice issued by the Assessing Authority.</td><td>Amount which remains unpaid after 30 days from the issuance of notice.</td><td>Recovery certificate to be issued by AA in favour of D.C (Recovery)/Collector for recovery of amount as arrears of land revenue under J&K land revenue Act, 1996.</td><td>Notice to be issued by the Collector for payment of tax.</td><td>Tax to be paid forthwith if the money has become due or is held, or within the time specified in the notice.</td><td>Notice to be issued by the Collector for payment of tax /attachment of property.</td><td>Warrant of arrest under section 63 of J&K land Revenue Act 1996.</td></tr>
<tr><td>VAT</td><td>Sale of goods within a quarter.</td><td>Tax payable within 30 days from the end of quarter.</td><td>Tax, if any, determined by the Assessing Authority.</td><td>Within 15 days from the date of demand notice issued by the Assessing Authority.</td><td>Amount which remains unpaid after 15 days from the issuance of demand notice.</td><td>Recovery certificate to be issued by AA in favour of D.C (Recovery) for recovery of amount as arrears of land revenue under J&K land revenue Act, 1996.</td><td>Notice under to be issued by the Collector for payment of tax.</td><td>Amount is to be paid forthwith or within 15 days from the date of service of notice under where assessments had been made by the department.</td><td>Notice to be issued by the Collector for payment of tax /attachment of property.</td><td>Warrant of arrest under section 63 of J&K land Revenue Act 1996.</td></tr>
<tr><td colspan="2">Power Development Department</td><td>Supply of electricity during certain period.</td><td>Electric charges and duty is to be paid within 15 days from the issue of bill/ notice.</td><td>If not paid within 15 days, from the issuance of bill/ notice.</td><td></td><td colspan="3">Cut off the supply of electricity and for that purpose cut or disconnect any electric supply line or other works being the property of such licensee or the generating company through which electricity may have been supplied, transmitted, distributed or wheeled and may discontinue the supply until such charges or other sum, together with any expenses incurred by him in cutting off and reconnecting the supply, are paid.</td><td colspan="2">Arrears of electricity charges and duty to be recovered as per the provisions of J&K Land Revenue Act under which attachment, warrant of arrest against defaulting persons could be issued.</td></tr>
<tr><td colspan="2">Geology and Mining</td><td colspan="7">Rule 27(5) of the Mineral Concession Rules 1960 further stipulates that if the lessee makes any default in payment of dead rent as required under section 9A or commits a breach of any the conditions specified in sub rules(1),(2) and (3) except the condition referred to in clause (f) of sub-rule(1), the State Government shall give notice to the lessee requiring him to pay the royalty or dead rent or remedy the breach, as the case may be, within sixty days from the date of the receipt of the notice.</td><td colspan="2">if the royalty or dead rent is not paid or the breach is not remedied within 60 days from the issuance of notice, the State Government may, without prejudice to any other proceeding that may be taken against him, determine the lease and forfeit the whole or part of the security deposit besides referring arrears to the Collector for effecting recovery under J&K Land Revenue Act.</td></tr>
<tr><td colspan="2">State Excise</td><td colspan="4">The Jammu and Kashmir Excise Act, Samvat, 1958 (1995 AD) provides for levy of duty on all liquor and intoxicating drugs manufactured in or imported into or exported from the state of such amount as the Government may from time to time prescribe. Clause (c) and (d) of section 17 of Act, provide that such duty may inter alia include levy of fee on licenses for manufacture or sale.</td><td colspan="3">Section 24-A of the Act, stipulates that if any tax or other amount due under this Act is not paid by the licensee within the specified time he shall be liable to pay in addition to tax or amount due a sum equal to two per cent of such tax or amount for each month or part thereof after the period specified for its payment.</td><td colspan="2">Section 24 of the J&K Excise Act, 1958 stipulates that all duties, taxes, fines and fees payable to the State direct under the provisions of the Act or of any licence or permit issued under it, and all amounts due to the State by any grantee of a privilege, or by any farmer under the Act, or by any person on account of any contract relating to the excise revenue, may be recovered from the person primarily liable to pay the same or from his surety (if any), as if they were arrears of land revenue.</td></tr>
</table>

Appendix-3.1
(Reference Paragraph: 3.11; Page: 41)
Statement showing investments made by the State Government in PSUs whose accounts are in arrears

(Figures in columns 4 & 6 to 8 are ₹ in crore)

Sl. No	Name of the Public Sector Undertakings	Year up to which accounts finalized	Paid-up capital	Period of accounts pending finalisation	Investment made by the State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A	**Working Government Companies**						
1.	J&K State Agro Industries Development Corporation Limited	2003-04	3.54	12	0	6.0495	0.87
2.	J&K State Horticultural Produce Marketing and Processing Corporation Limited	2000-01	9.20	15	0	17.4392	4.01
3.	J&K State Handloom Development Corporation Limited	1999-2000	3.00	16	2.21	35.5222	20.3494
4.	J&K Handicrafts (Sale and Export) Development Corporation Limited	1998-99	5.05	17	1.875	26.26	6.7605
5.	J&K Industries Limited	2005-06	16.27	10	0	86.40	31.91
6.	J&K Small Scale Industries Development Corporation Limited	1998-99	3.12	17	0	0	23.38
7.	J&K State Industrial Development Corporation Limited	2010-11	17.65	05	0	0	71.11
8.	J&K Minerals Limited	1996-97	8.00	19	0	59.8967	42.7031
9.	J&K Cements Limited	2007-08	34.50	08	11.27	0	0
10.	J&K State Power Development Corporation Limited	2011-12	5.00	04	0	0	123.58
11.	J&K State Cable Car Corporation Limited	2010-11	23.57	05	0	0	34.25
12.	J&K Scheduled Castes, Scheduled Tribes and Other Backward Classes Development Corporation Limited	1997-98	10.23	18	13.38	20.48	27.68
13.	J&K State Women's Development Corporation Limited	2012-13	9.09	03	0.95	5.43	0
	Total A (Working Government Companies)				**29.69**	**257.48**	**386.60**
(B)	**Working Statutory Corporations**						
14.	J&K State Road Transport Corporation	2011-12	169.62	04	14.70	162.16	0
	Total (B) (Working Statutory Corporation)				**14.70**	**162.16**	**0**
	Grand Total (A)+(B)				**44.39**	**419.64**	**386.60**
(Figures based on the data furnished by the PSUs from time to time subject to reconciliation and as incorporated in the Audit Reports of the respective years).							

Appendix-3.2

(Reference Paragraph: 3.15; Page: 43)

Summarised financial position and working results of Government Companies and Statutory Corporations as per their latest finalized financial statements/accounts

(Figures in columns (5) to (12) are ₹ in crore)

S. No.	Sector/Name of the Company	Period of Accounts	Year in which Accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-)	Turnover	Net profit (+)/loss (-)	Net impact of Audit comments*	Capital employed @	Return on capital employed	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
A. WORKING GOVERNMENT COMPANIES													
AGRICULTURE AND ALLIED													
1.	Jammu and Kashmir State Agro Industries Development Corporation Limited	2003-04	2015-16	3.54	11.48	(-) 18.46	44.45	(-)3.52	0.00	3.19	(-)3.52	0.00	77
2.	Jammu and Kashmir State Horticulture Produce Marketing and Processing Corporation Limited	2000-01	2015-16	9.20	43.20	(-) 78.54	3.17	(-)2.03	Disclaimer	7.49	(-)1.90	0.00	238
	Sector Wise Total			**12.74**	**54.68**	**(-)97.00**	**47.62**	**(-)5.55**	**0.00**	**10.68**	**(-)5.42**	**0.00**	**315**
FINANCE													
3.	Jammu and Kashmir Bank Limited	2015-16	2016-17	48.49	2240.00	0.00	6843.57	416.03	0.00	8663.97	562.75	6.50	9190
4.	JK Bank Financial Services Limited	2015-16	2016-17	20.00	0.00	(-) 3.12	4.66	(-)1.51	0.00	16.88	(-)1.51	0.00	58
5.	Jammu and Kashmir Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	1997-98	2015-16	10.23	3.73	(-) 1.61	0.40	(-)1.94	0.53	18.24	(-)1.72	0.00	107
6.	Jammu and Kashmir State Women's Development Corporation Limited	2012-13	2016-17	9.09	45.55	4.86	3.66	1.49	(-)0.26	58.84	2.18	3.70	33
	Sector Wise Total			**87.81**	**2289.28**	**0.13**	**6852.29**	**414.07**	**0.27**	**8757.93**	**561.70**	**6.41**	**9388**

Appendix-3.2 (contd.)

S. No.	Sector/Name of the Company	Period of Accounts	Year in which Accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-)	Turnover	Net profit (+)/loss (-)	Net impact of Audit comments*	Capital employed @	Return on capital employed	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
INFRASTRUCTURE													
7.	Jammu and Kashmir Small Scale Industries Development Corporation Limited	1998-99	2015-16	3.12	10.86	(-)10.01	33.26	(-)2.12	(-) 0.34	11.99	(-) 0.98	0.00	296
8.	Jammu and Kashmir State Industrial Development Corporation Limited	2010-11	2016-17	17.65	31.18	(-)107.51	27.53	(-)3.95	(-)1.37	51.10	(-) 3.95	0.00	479
9.	Jammu and Kashmir Projects Construction Corporation Limited	2003-04	2016-17	1.97	0.61	1.78	107.92	0.92	(-)1.60	4.40	0.96	21.82	990
10.	Jammu and Kashmir Police Housing Corporation Limited	2006-07	2015-16	2.00	0.00	4.94	1.84	1.08	(-)0.27	6.94	1.08	15.56	71
11.	Jammu and Kashmir State Road Development Corporation	-	-	5.00	The Company though incorporated in March 2013 has not yet submitted its Accounts to this office for supplementary audit.								NA
12.	Jammu and Kashmir International Trade Centre	-	-	48.00	The Company though incorporated in February 2014 has not yet submitted its Accounts to this office for supplementary audit.								NA
	Sector Wise Total			**77.74**	**42.65**	**(-)110.80**	**170.55**	**(-)4.07**	**(-)3.58**	**74.43**	**(-)2.89**	**0.00**	**1836**
MANUFACTURE													
13.	Jammu and Kashmir Industries Limited	2005-06	2012-13	16.27	384.92	(-)447.47	6.44	(-)46.83	(-)13.37	(-)44.28	(-)18.59	41.98	480
14.	Jammu and Kashmir Handicrafts (Sales and Export) Development Corporation Limited	1998-99	2013-14	5.05	22.80	(-)30.54	3.91	(-)5.33	0.65	0.34	(-)3.27	0.00	244
15.	Jammu and Kashmir State Handloom Development Corporation Limited	1999-2000	2012-13	3.00	21.28	(-)13.59	5.36	(-)3.54	(-)0.03	11.07	(-)2.18	0.00	187

Appendix-3.2 (contd.)

S. No.	Sector/Name of the Company	Period of Accounts	Year in which Accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-)	Turnover	Net profit (+)/loss (-)	Net impact of Audit comments*	Capital employed @	Return on capital employed	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
16.	Jammu and Kashmir Cements Limited	2007-08	2015-16	34.50	48.94	(-)16.62	81.36	1.93	0	66.82	5.14	7.69	746
17.	Jammu and Kashmir Minerals Limited	1996-97	2016-17	8.00	68.17	(-)72.03	4.16	(-)28.92	(-)5.20	4.30	(-)5.44	0.00	832
	Sector Wise Total			**66.82**	**546.11**	**(-)580.25**	**101.23**	**(-)82.69**	**(-)17.95**	**38.25**	**(-)24.34**	**0.00**	**2489**
POWER													
18.	Jammu and Kashmir State Power Development Corporation Limited	2011-12	2016-17	5.00	1493.55	(-)519.06	1119.90	403.29	(-)509.77	7334.59	630.63	8.60	2517
19.	Chenab Valley Power Projects Private Limited (Deemed Government Company)	2015-16	2016-17	200.10	0.00	15.70	0.00	2.47	(-)0.02	215.80	2.47	1.14	204
20.	Jammu and Kashmir State Power Transmission Company Limited	-	-	0.05	The Company though incorporated in March 2013 has not yet submitted its Accounts to this office for supplementary audit.								NA
21.	Jammu and Kashmir State Power Trading Company Limited	-	-	0.05	The Company though incorporated in March 2013 has not yet submitted its Accounts to this office for supplementary audit.								NA
22.	Jammu Power Distribution Company Limited	-	-	0.05	The Company though incorporated in June 2013 has not yet submitted its Accounts to this office for supplementary audit.								NA
23.	Kashmir Power Distribution Company Limited	-	-	0.05	The Company though incorporated in June 2013 has not yet submitted its Accounts to this office for supplementary audit.								NA
	Sector Wise Total			**205.30**	**1493.55**	**(-)503.36**	**1119.90**	**405.76**	**(-)509.79**	**7550.39**	**633.10**	**8.38**	**2721**
SERVICE													
24.	Jammu and Kashmir State Tourism Development Corporation Limited	2012-13	2015-16	15.96	4.26	(-)3.88	30.74	0.26	Disclaimer	82.62	0.26	0.31	874

Appendix-3.2 (contd.)

S. No.	Sector/Name of the Company	Period of Accounts	Year in which Accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-)	Turnover	Net profit (+)/loss (-)	Net impact of Audit comments*	Capital employed @	Return on capital employed	Percentage of return on capital employed	Manpower
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
25.	Jammu and Kashmir State Cable Car Corporation Limited	2010-11	2013-14	23.57	0.00	(-)3.98	12.50	6.23	(-)0.15	59.97	6.23	10.39	119
	Sector Wise Total			**39.53**	**4.26**	**(-)7.86**	**43.24**	**6.49**	**(-)0.15**	**142.59**	**6.49**	**4.55**	**993**
MISCELLANEOUS													
26.	Jammu and Kashmir State Overseas Employment Corporation Limited	2010-11	2013-14	2.56	The Company has submitted its accounts for the period ending July 2011 to this office for supplementary check under section 619 (4) of the Companies Act, 1956. The Company has not prepared Profit and Loss account being the first Balance Sheet after its incorporation.								2
27	Jammu and Kashmir Medical Supplies Corporation Limited	-	-	0.05	The Company though incorporated in March 2014 has not yet submitted its Accounts to this office for supplementary audit.								23
	Sector Wise Total			**2.61**									**25**
Total A (All sector wise working Government Companies				**492.55**	**4430.53**	**(-)1299.14**	**8334.83**	**734.01**	**(-)531.20**	**16574.27**	**1168.64**	**7.05**	**17767**
B. Statutory corporations													
AGRICULTURE & ALLIED													
1.	Jammu and Kashmir State Forest Corporation	-	-	9.03	Accounts for the years 1996-97 and onwards not received. (The Corporation was incorporated in 1978-79, however, its audit was entrusted to the CAG from 1996-97).								3116
	Sector Wise Total			**9.03**									**3116**
FINANCE													
2.	Jammu and Kashmir State Financial Corporation	2014-15	2015-16	98.19	0.81	(-)134.94	7.05	1.27	0.00	27.32	1.27	4.65	187
	Sector Wise Total			**98.19**	**0.81**	**(-)134.94**	**7.05**	**1.27**	**0.00**	**27.32**	**1.27**	**4.65**	**187**

Appendix-3.2 (Concld.)

S. No.	Sector/Name of the Company	Period of Accounts	Year in which Accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit (+)/ loss (-)	Turnover	Net profit (+)/loss (-)	Net impact of Audit comments*	Capital employed @	Return on capital employed	Percentage of return on capital employed	Manpower
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**
SERVICE													
3.	Jammu and Kashmir State Road Transport Corporation	2011-12	2015-16	169.62	896.48	(-)988.09	74.66	(-)57.00	(-)27.27	100.21	(-)16.16	0	2806
	Sector Wise Total			**169.62**	**896.48**	**(-)988.09**	**74.66**	**(-)57.00**	**(-)27.27**	**100.21**	**(-)16.16**	**0**	**2806**
Total B (All sector wise working Statutory Corporations)				**276.84**	**897.29**	**(-)1123.03**	**81.71**	**(-)55.73**	**(-)27.27**	**127.53**	**(-)14.89**	**4.65**	**6109**
	Grand Total (A+B)			**769.39**	**5327.82**	**(-)2422.17**	**8416.54**	**678.28**	**(-)558.47**	**16701.80**	**1153.75**	**6.91**	**23876**
C. Non working Government companies													
MANUFACTURING													
1.	Tawi Scooters Limited	1989-90	1991-92	0.80	0.83	(-)1.04	0.00	(-)0.06	0.00	0.59	(-)0.06	0	0
2.	Himalyan Wool Combers Limited	1999-2000	2000-01	1.37	0.00	(-)10.49	0.00	(-)1.29	0.00	(-)1.71	(-)1.29	0	0
	Sector Wise Total			**2.17**	**0.83**	**(-)11.53**	**0.00**	**(-)1.35**	**0.00**	**(-)1.12**	**(-)1.35**	**0**	**0**
MISCELLANEOUS													
3.	Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalyan Wool Combers Limited)	1991-92	1999-2000	0.40	NA	0	0	0	0	0	0	0	0
	Sector Wise Total			**0.40**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total C (All sector wise non working Government companies)				**2.57**	**0.83**	**(-)11.53**	**0.00**	**(-)1.35**	**0.00**	**(-)1.12**	**(-)1.35**	**0**	**NA**
	Grand Total (A+B+C)			**771.96**	**5328.65**	**(-)2433.70**	**8416.54**	**676.93**	**(-)558.47**	**16700.68**	**1152.40**	**6.90**	**23874**

**Net impact of comments of Statutory Auditors and C&AG is denoted by (+) increase in profit/decrease in losses (-) decrease in profit/increase in loss*

@Capital employed represents shareholder funds and long term borrowings

Appendix-4.1

(Refer Paragraph: 4.10; Page: 62)

Statement showing various operational parameters of each power house during the period 2011-12 to 2015-16

S. No.	Name of the Project	Capacity of the project (MW)	Total Hours Available	Total Operated Hours	Planned outages	Forced Outages	Percentage of forced outages to total hours available	Plant availability	Weighted plant availability	Excess forced outages as per CEA norms	Actual PLF	Capacity Utilization (PLF/Availability) *100
		2011-12										
1	BHEP-I	450	26280	18673	2052	289	1.10	71.05	31974.32	(-)2339	71	100
2	CHEP-I	23.3	43920	29729	42	14149	32.22	67.69	1577.15	9757	57.93	86
3	CHEP-II	2	17568	12282	27	5259	29.94	69.91	139.82	3502	42.1	60
4	CHEP-III	7.5	26352	12980	30	13342	50.63	49.26	369.42	10707	27.51	56
5	Bhaderwah HEP	1.5	0	0	0	0	0.00	0.00	0.00	0	4.81	0
6	SEWA III HEP	9	26352	9484		16868	64.01	35.99	323.91	14233	17.68	49
7	LJHP	105	26280	19490	6170	620	2.36	74.16	7787.10	(-)2008	79.36	107
8	Karnah	2	17520	6369	1104	10047	57.35	36.35	72.71	8295	17	47
9	USHP II Kangan	105	23763	12811	0	120	0.50	53.91	5660.71	(-)2256	91	169
10	USHP I Sumbal	22.6	13925	13002	3595	(-)2672	(-)19.19	93.37	2110.20	(-)4065	77	82
11	Power house Ganderbal	15	26352	13456	1521	11375	43.17	51.06	765.94	8740	37.46	73
12	Power house Pahalgam	4.5	15500	11740	900	2860	18.45	75.74	340.84	1310	30	40
13	Igo-Mercelong	3	17520	10353	493	6674	38.09	59.09	177.28	4922	43	73
14	Satakna	4	17520	5265	73	12182	69.53	30.05	120.21	10430	13	43
15	Nimo Bazgo	0.3	17520	7403	254	9863	56.30	42.25	12.68	8111	16	38
16	Sumoor	0.1	17520	4107	471	12942	73.87	23.44	2.34	11190	16	68
17	Hunder	0.4	17520	5293	239	11988	68.42	30.21	12.08	10236	24	79
18	Iqbal	3.75	26280	14312	389	11579	44.06	54.46	204.22	8951	46	84
19	Haftal	1	17520	7574	212	9734	55.56	43.23	43.23	7982	35.24	82
20	Sanjak	1.26	0	0	0	0	0.00	0.00	0.00	0	0	0
21	Marpachoo	0.75	26280	7315	215	18750	71.35	27.83	20.88	16122	21.89	79
		761.96	**421492**	**221638**	**17787**	**165969**		**47.10**	**51715.03**	**123819.8**		**67.38**
Weighted Plant Availability									**67.87**			
		2012-13										
1	BHEP-I	450	26280	19558	1676	822	3.13	74.42	33489.73	(-)1806	72	97
2	CHEP-I	23.3	43800	31849	33	11918	27.21	72.71	1694.25	7538	59.76	82
3	CHEP-II	2	17520	12968	50	4502	25.70	74.02	148.04	2750	45.76	62
4	CHEP-III	7.5	26280	14842	40	11398	43.37	56.48	423.57	8770	30.19	53
5	Bhaderwah HEP	1.5	26280	5701	29	20550	78.20	21.69	32.54	17922	16.33	75
6	SEWA III HEP	9	26280	8594	0	17686	67.30	32.70	294.32	15058	14.71	45
7	LJHP	105	26280	20572	5417	291	1.11	78.28	8219.41	(-)2337	90.56	116

Appendix-4.1 (Contd.)

S. No.	Name of the Project	Capacity of the project (MW)	Total Hours Available	Total Operated Hours	Planned outages	Forced Outages	Percentage of forced outages to total hours available	Plant availability	Weighted plant availability	Excess forced outages as per CEA norms	Actual PLF	Capacity Utilization (PLF/Availability) *100
8	Karnah	2	17520	7404	0	10116	57.74	42.26	84.52	8364	16	38
9	USHP II Kangan	105	13926	12776	8	202	1.45	91.74	9632.92	(-)1191	90	98
10	USHP I Sumbal	22.6	14592	14243	2592	(-)2243	(-)15.37	97.61	2205.95	(-)3702	76	78
11	Power house Ganderbal	15	17520	15423	83	2014	11.50	88.03	1320.46	262	61.37	70
12	Power house Pahalgam	4.5	12600	10650	1060	890	7.06	84.52	380.36	(-)370	30	35
13	Igo-Mercelong	3	17520	9522	2157	5841	33.34	54.35	163.05	4089	32	59
14	Satakna	4	17520	2700	28	14792	84.43	15.41	61.64	13040	8	52
15	Nimo Bazgo	0.3	17520	9454	104	7962	45.45	53.96	16.19	6210	18	33
16	Sumoor	0.1	17520	3417	61	14042	80.15	19.50	1.95	12290	15	77
17	Hunder	0.4	17520	4581	107	12832	73.24	26.15	10.46	11080	19	73
18	Iqbal	3.75	26280	11013	288	14979	57.00	41.91	157.15	12351	30	72
19	Haftal	1	17520	5803	175	11542	65.88	33.12	33.12	9790	38	115
20	Sanjak	1.26	26280	3782	0	22498	85.61	14.39	18.13	19870	4.6	32
21	Marpachoo	0.75	26280	8092	141	18047	68.67	30.79	23.09	15419	31	101
		761.96	**452838**	**232944**	**14049**	**200681**		**52.57**	**58410.84**	**155397.2**		**69.61**
Weighted Plant Availability									**76.66**			
		2013-14										
1	BHEP-I	450	26280	19226	1589	314	1.19	73.16	32921.23	(-)2314.00	71.00	97.05
2	CHEP-I	23.3	43800	25999	55	17746	40.52	59.36	1383.05	13366.00	52.74	88.85
3	CHEP-II	2	17520	12477	48	4995	28.51	71.22	142.43	3243.00	39.20	55.04
4	CHEP-III	7.5	26280	13211	48	13021	49.55	50.27	377.03	10393.00	25.47	50.67
5	Bhaderwah HEP	1.5	26280	10717	59	15504	59.00	40.78	61.17	12876.00	19.49	47.79
6	SEWA III HEP	9	26280	4755	0	21525	81.91	18.09	162.84	18897.00	6.18	34.16
7	LJHP	105	26280	19634	6392	254	0.97	74.71	7844.63	(-)2374.00	84.53	113.14
8	Karnah	2	17520	9710	0	7810	44.58	55.42	110.84	6058.00	33.00	59.54
9	USHP II Kangan	105	12066	9206	3202	(-)342	(-)2.83	76.30	8011.19	(-)1548.60	63.00	82.57
10	USHP I Sumbal	22.6	17184	16192	336	656	3.82	94.23	2129.53	(-)1062.40	77.00	81.72
11	Power house Ganderbal	15	17520	15336	54	2130	12.16	87.53	1313.01	378.00	65.57	74.91
12	Power house Pahalgam	4.5	17050	8420	6000	2630	15.43	49.38	222.23	925.00	16.00	32.40
13	Igo-Mercelong	3	17520	6046	6153	5321	30.37	34.51	103.53	3569.00	9.00	26.08
14	Satakna	4	1440	450	0	990	68.75	31.25	125.00	846.00	0.30	0.96
15	Nimo Bazgo	0.3	17520	6144	64	11312	64.57	35.07	10.52	9560.00	13.00	37.07
16	Sumoor	0.1	17520	5282	284	11954	68.23	30.15	3.01	10202.00	10.00	33.17

Appendix-4.1 (Contd.)

S. No.	Name of the Project											
		Capacity of the project (MW)	Total Hours Available	Total Operated Hours	Planned outages	Forced Outages	Percentage of forced outages to total hours available	Plant availability	Weighted plant availability	Excess forced outages as per CEA norms	Actual PLF	Capacity Utilization (PLF/Availability) *100
17	Hunder	0.4	17520	5929	47	11544	65.89	33.84	13.54	9792.00	22.00	65.01
18	Iqbal	3.75	26280	7913	121	18246	69.43	30.11	112.91	15618.00	30.30	100.63
19	Haftal	1	17520	4678	135	12707	72.53	26.70	26.70	10955.00	26.40	98.87
20	Sanjak	1.26	26280	5384	166	20730	78.88	20.49	25.81	18102.00	13.40	65.41
21	Marpachoo	0.75	26280	5936	125	20219	76.94	22.59	16.94	17591.00	23.20	102.71
		761.96	**441940**	**212645**	**24878**	**199266**		**48.34**	**55117.17**	**155072.00**		**64.18**
Weighted Plant Availability									**72.34**			
		2014-15										
1	BHEP-I	450	26280	19629	1693	61	0.23	74.69	33611.30	(-)2567	74	99
2	CHEP-I	23.3	43800	14247	47	29506	67.37	32.53	757.89	25126	30.38	93
3	CHEP-II	2	17520	6326	56	11138	63.57	36.11	72.21	9386	23.32	65
4	CHEP-III	7.5	26280	1366	12	24902	94.76	5.20	38.98	22274	2.32	45
5	Bhaderwah HEP	1.5	26280	6975	38	19267	73.31	26.54	39.81	16639	13.87	52
6	SEWA III HEP	9	26280	0	0	26280	100.00	0.00	0.00	23652	0	0
7	LJHP	105	26280	19655	5414	1211	4.61	74.79	7853.03	(-)1417	94.73	127
8	Karnah	2	17520	8163	10	9347	53.35	46.59	93.18	7595	36	77
9	USHP II Kangan	105	16267	11610	720	3937	24.20	71.37	7494.01	2310	86	120
10	USHP I Sumbal	22.6	17520	14538	0	2982	17.02	82.98	1875.34	1230	62	75
11	Power house Ganderbal	15	17520	10432	0	7088	40.46	59.54	893.15	5336	45.1	76
12	Power house Pahalgam	4.5	11000	8000	320	2680	24.36	72.73	327.27	1580	17	23
13	Igo-Mercelong	3	17520	9916	2140	5464	31.19	56.60	169.79	3712	5	9
14	Satakna	4	0	0	0	0	0.00	0.00	0.00	0	0	0
15	Nimo Bazgo	0.3	17520	5357	99	12064	68.86	30.58	9.17	10312	5	16
16	Sumoor	0.1	17520	1898	615	15007	85.66	10.83	1.08	13255	10	92
17	Hunder	0.4	17520	6457	853	10210	58.28	36.86	14.74	8458	24	65
18	Iqbal	3.75	26280	11003	460	14817	56.38	41.87	157.01	12189	22.7	54
19	Haftal	1	17520	6731	184	10605	60.53	38.42	38.42	8853	27.3	71
20	Sanjak	1.26	26280	7047	495	18738	71.30	26.82	33.79	16110	13.6	51
21	Marpachoo	0.75	26280	9465	398	16417	62.47	36.02	27.01	13789	24.5	68
		761.96	**438987**	**178815**	**13554**	**241721**		**41.00**	**53507.19**	**197822.3**		**60.90**
Weighted Plant Availability									**70.22**			

Appendix-4.1 (Concld.)

S. No.	Name of the Project											
		Capacity of the project (MW)	Total Hours Available	Total Operated Hours	Planned outages	Forced Outages	Percentage of forced outages to total hours available	Plant availability	Weighted plant availability	Excess forced outages as per CEA norms	Actual PLF	Capacity Utilization (PLF/Availability) *100
		2015-16										
1	BHEP-I	450	26280	19943	1856	42	0.16	75.89	34148.97	(-)2586	74.9	99
2	CHEP-I	23.3	43920	16646	51	27223	61.98	37.90	883.09	22831	26.4	70
3	CHEP-II	2	17568	7928	40	9600	54.64	45.13	90.26	7843	24	53
4	CHEP-III	7.5	26352	9864	676	15812	60.00	37.43	280.74	13177	17.7	47
5	Bhaderwah HEP	1.5	26352	8858	56	17438	66.17	33.61	50.42	14803	16.5	49
6	SEWA III HEP	9	0	0	0	0	0.00	0.00	0.00	0	0	0
7	LJHP	105	26352	18806	283	7263	27.56	71.36	7493.28	4628	72.4	101
8	Karnah	2	17520	7596	0	9924	56.64	43.36	86.71	8172	34.5	80
9	USHP II Kangan	105	26352	11134	11730	3488	13.24	42.25	4436.36	853	28	66
10	USHP I Sumbal	22.6	17568	6874	1152	9542	54.31	39.13	884.29	7785	27.4	70
11	Power house Ganderbal	15	0	0	0	0	0	0	0.00	0	0	0
12	Power house Pahalgam	4.5	10805	6068	305	4432	41.02	56.16	252.72	3352	16.7	30
13	Igo-Mercelong	3	17568	3905	1150	12513	71.23	22.23	66.68	10756	4.6	21
14	Satakna	4	0	0	0	0	0.00	0.00	0.00	0	0	0
15	Nimo Bazgo	0.3	17568	5088	432	12048	68.58	28.96	8.69	10291	4.5	16
16	Sumoor	0.1	17568	2010	256	15302	87.10	11.44	1.14	13545	5.7	50
17	Hunder	0.4	17568	5645	456	11467	65.27	32.13	12.85	9710	15.41	48
18	Iqbal	3.75	17520	10693	513	6314	36.04	61.03	228.87	4562	15.77	26
19	Haftal	1	17520	4718	394	12408	70.82	26.93	26.93	10656	16.4	61
20	Sanjak	1.26	26280	7083	539	18658	71.00	26.95	33.96	16030	6.6	24
21	Marpachoo	0.75	8760	4729	45	3986	45.50	53.98	40.49	3110	9.2	17
		761.96	**379421**	**157588**	**19934**	**197460**		**37.29**	**49026.46**	**159517.9**		**46.36**
Weighted Plant Availability									**64.34**			