Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2012, the State of Rajasthan had 44 working PSUs (41 companies and three Statutory Corporations) and three non-working PSUs (all companies), which employed 0.87 lakh employees. The working PSUs registered a turnover of ₹ 32440.58 crore for 2011-12 as per their latest finalised accounts. This turnover was equal to 8.81 *per cent* of State GDP indicating an important role played by State PSUs in the economy.

Stake of Government of Rajasthan and Budgetary support

As on 31 March 2012, the investment (Capital and long term loans) in 47 PSUs was ₹ 59724.03 crore. It grew by over 262.28 *per cent* from ₹ 16485.41 crore in 2006-07. Power Sector accounted for nearly 93 *per cent* of total investment in 2011-12. The Government contributed ₹ 10327.42 crore towards equity, loans and grants/subsidies during 2011-12.

Performance of PSUs

During the year 2011-12, out of 44 working PSUs, 14 PSUs earned profit of ₹ 1026.90 crore and 21 PSUs incurred loss of ₹ 258.35 crore while three power sector PSUs incorporated in 2000-01 prepared accounts on No profit no loss basis by showing revenue gap as recoverable from the State Government. The major contributors to profit were Rajasthan State Industrial Development and Investment Corporation Limited (₹ 463.48 crore) and Rajasthan State Mines and Minerals Limited (₹ 403.97 crore). The heavy losses were incurred by Rajasthan State Road Transport Corporation (₹ 130.89 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of latest Audit Report of CAG shows that the State PSUs incurred losses to the tune of ₹ 138.11 crore which were controllable with better management.

Thus, there is tremendous scope to improve the functioning and enhance profits. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Out of 33 accounts finalised during October 2011 to 30 September 2012, 19 accounts received qualified certificates and one account received disclaimer (auditors were unable to form an opinion on accounts) from Statutory Auditors. There were 36 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Twenty working PSUs had arrears of 33 accounts as on 30 September 2012. Out of three non-working PSUs, one PSU had arrear in account for two years. The Government may take a decision regarding winding up of these non-working PSUs.

(Chapter 1)

2. Performance Audits relating to Government companies

Performance Audits relating to '**Power Transmission Utility *i.e.* Rajasthan Rajya Vidyut Prasaran Nigam Limited** and **Rajasthan State Road Development and Construction Corporation Limited'** were conducted. Executive summary of audit findings is given below.

Power Transmission Utility i.e. Rajasthan Rajya Vidyut Prasaran Nigam Limited

Transmission of electricity and grid operations in Rajasthan are managed and controlled by Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL). As on 31 March 2012, RRVPNL has 418 GSSs with capacity of 42972.50 MVA and transmission lines of 28363.28 CKM capable of transmitting 17425 MVA at 220 KV annually. During the period 2007-12, RRVPNL constructed 115 GSSs (7250 MVA) and 233 lines (7308.33 CKM), besides augmenting the existing capacity by 10533 MVA. Transmission of electricity increased from 34519.12 Million Units (MUs) in 2007-08 to 47977.61 MUs in 2011-12, registering an increase of 38.99 *per cent* during five years ending March 2012. The turnover of RRVPNL in 2010-11 was ₹ 1652.55 crore, which was equal to 5.48 *per cent* of the State PSUs and 0.51 *per cent* of the State Gross Domestic Product respectively. RRVPNL employed 9157 employees as on 31 March 2012.

Planning and Development

RRVPNL achieved the targeted addition for EHT GSS and EHT lines during 2007-08 to 2011-12. In case of EHT lines the actual addition was 7308.33 CKM (105.38 *per cent*) against the targets of 6935 CKM. Voltage-wise capacity additions planned and actual performance there against revealed that actual addition was 27 GSSs including up-gradation of 13 GSSs of 132 KV to 220 KV category against planned addition of 31 GSSs of 220 KV during 2007-12.

Project Management of Transmission System

RRVPNL did not follow the recommendations of the Task Force Committee and projects were awarded to the contractors without undertaking preparatory activities. Consequently the problems viz. ROW, requirement of forest clearance, hassle free availability of land etc. were identified at a later stage and the projects were completed with a delay ranging between 2 and 64 months. Consequently funds of ₹ 56.40 crore remained blocked without yielding any benefit and RRVPNL was deprived of envisaged energy savings in terms of reduction in system and transmission losses of 2055.79 LUs valuing ₹ 66.25 crore besides avoidable interest burden of ₹ 2.16 crore on the amount deposited with JDA for unsuitable land. The planning of RRVPNL was not commensurate with the generation plans and it could not complete the power evacuation systems even with the leverage available due to delay in commissioning of projects by RRVUNL and RWPL.

Performance of transmission system

Though the annual peak demand (4995.96 MVA) at the end of March 2007 was already on lower side in comparison to the installed transmission capacity of 7283.50 MVA, yet RRVPNL continued to add the transmission capacity through augmentation of GSSs and lines. RRVPNL could not adhere to the Standards of Performance Regulations 2004 issued by RERC. The transmission losses during 2007-08 to 2011-12 were ranging between 5.57 and 6.20 *per cent* against CEA norms of four *per cent*. Value of transmission loss suffered by DISCOMs in excess of the target limits fixed by RERC was 3594.598 MUs valued at ₹ 1105.82 crore.

Grid Management

RRVPNL failed to maintain Grid discipline and drew power below 49.2 Hz and NRLDC issued 65 ‘C’ type messages to RRVPNL during July 2009 to March 2012.

Disaster Management

RRVPNL did not implement the DMP broadly. Vulnerable centres having highest risk were also not identified and comprehensive state-wide drills were never carried out to test the capabilities.

Energy Accounting and Audit

Against 0.2s accuracy class of meter prescribed under RERC (Metering) Regulations 2007 as minimum acceptable specification for interface and energy accounting and audit, only 71 GT points were provided 0.2s class meters while 57 and 14 GT points were provided with 0.5 and 1.0 class meters respectively. Further, of 494 TD points only 176 points were provided with 0.2s class meters while 266 and 39 TD points were provided with 0.5 and 1.0 class meters respectively.

Financial Management

The financials of RRVPNL deteriorated during 2008-10 as the total cost per unit was more than the realization. The interest cost which increased by 107.17 *per cent* during 2007-11 also affected the profitability of RRVPNL. RRVPNL filed ARR with RERC with the delay ranging between 29 days and 116 days during 2007-12 which consequently delayed the approval from RERC. Delay in implementation of RERC tariff order resulted in recovery of transmission charges by RRVPNL either at the rate of previous year or provisional rate. This caused loss of interest of ₹ 4.22 crore on delayed recovery of transmission charges during 2009-10 and 2010-11 for delay in filing of ARR. Further, there was no proper system of accounting of deposit works and the final account of deposit work was also not finalised within the stipulated period. RRVPNL incurred excess expenditure of ₹ 948.61 crore than the capital investment approved by the State Government during 2007-08 to 2011-12 except 2010-11. As a result RRVPNL was deprived of the 20 *per cent* equity portion of the excess expenditure amounting to ₹ 195.72 crore. Further, RRVPNL did not claim incentive of ₹ 30.20 crore for availability of transmission system beyond 98 *per cent* during truing up of ARR of 2008-09 and 2009-10.

Material Management

The stores though maintained higher closing stock in terms of month's consumption during 2007-08, 2009-10 and 2010-11 it neither conducted any ABC analysis nor fixed any level for material requirement. Further, poor co-ordination between the executing department and procurement led to non-utilisation of transformers and advance procurement of conductor.

Conclusions and Recommendations

Plans for capacity additions/augmentation were not prepared keeping in view the peak demand and existing transmission capacity and hence, extra/idle transmission capacity increased over the years. RRVPNL could not adhere to the norms/criteria stipulated by RERC/CEA regarding operation and maintenance of transmission system. RRVPNL could not complete transmission projects within scheduled completion period due to deficient planning and non-adherence to recommendations of Task Force Committee on Project Management. Transmission losses were in excess than fixed by CEA/RERC. The capital investments did not contribute to effective reduction in transmission losses during the review period and the losses stood at 6.20 *per cent* against the norms of 4 and 4.2 *per cent* of CEA & RERC respectively. There was mismatch in commissioning of transmission projects with generation projects. RRVPNL did not implement the Disaster Management Plan at Grid Sub-Stations and vulnerable centres having highest risk were also not identified and comprehensive state-wide drills were never carried out to test the capabilities. RRVPNL could not file ARR in scheduled time and did not claim incentive for enhanced availability of transmission system than targeted. The capital expenditure was incurred in excess to the amount approved by RERC/Government. There were instances of improper material management as higher level of inventory was kept, material was procured in advance of requirement and bays remained idle for considerable period of time. The review contains seven recommendations which include preparation of plans for capacity additions/augmentation keeping in view the peak demand and existing transmission capacity; adherence to the recommendations of Task Force Committee on Project Management and take effective steps to ensure completion of transmission projects in scheduled time; adherence to norms/criteria stipulated by RERC/CEA regarding Operation and Maintenance of transmission system; completion of transmission system with commissioning of generation projects; implementation of Disaster Management Plan broadly; mechanism for timely submission of ARR to RERC; to keep the Capital expenditure as per plan approved by RERC/Government; and to analyse and monitor inventory level.

(Chapter 2.1)

Rajasthan State Road Development and Construction Corporation Limited

Rajasthan State Road Development and Construction Corporation Limited' (Company) mainly executes three types of works (i) Tender works, (ii) Centage/Deposit works (iii) BOT projects.

Work performance

The pace of completion of works was very slow as against 208 works pending for execution at the beginning 2006-07 and 286 works (₹ 3814.66 crore) obtained during 2006-12, only 267 works (₹ 891.06 crore) could be completed and transferred to client department. Almost 82 *per cent* (186 works) works were completed with a delay upto 18 months while in 18 *per cent* cases (42 works) the delay was beyond 18 months. The maximum execution of works was 66 months. Delay in completion was attributable to awarding and commencement of work by the contractor, late approval of drawings by client department, completion by contractor, supply of cement and steel by the Company, poor monitoring and supervision of works and release of funds by the client department. It deprived the Company of timely recovery of centage besides loss of credibility where the client department withdrew the work and loss of socio-economic benefits to the State.

Deposit/Centage works

The rates of centage were fixed by the GOR way back in 1996 but the Company never reviewed the adequacy of centage towards recoupment of actual administrative overheads incurred. Against the directions of GOR to recover nine *per cent* centage on actual cost, the effective recovery turned out between 7.24 and 8.15 *per cent* against actual overheads ranging between 8.06 and 11.48 *per cent*, thereby leaving a gap of ₹ 21.10 crore during 2006-08 and 2009-11. Besides, the Company while arriving out total cost did not include the interest and finance charges which also resulted in short recovery of centage of ₹ 2.65 crore on the projects executed during 2010-12. Further, instead of charging 15 *per cent* profit on the investment as allowed under Rajasthan Road Development Rules, 2002, the Company charged centage at the rate of seven *per cent* which resulted in under recovery of profit by ₹ 17.96 crore on 13 roads entrusted by the State Government during 2009-10.

Tender works

The Business Procurement Cell of the Company largely failed to increase tender business by 10 *per cent* as per the directions of the State Government. Out of participation in 195 tenders during 2006-12, the Company could secure only three tenders valuing ₹ 65.08 crore. Of eight tender works completed during 2006-12, the Company earned profit of ₹ 2.26 crore on six works and incurred loss of ₹ 0.80 crore on two works. The profit on these works was without apportioning administrative cost which after consideration would turn the tender works into loss of ₹ 4.63 crore. There was substantial delay in raising final bills of the completed projects ranging between three and 31 months with the client and as on March 2012 payments of ₹ 2.94 crore were pending for realisation.

BOT Projects

The Company overbooked the profits by ₹ 17.70 crore during 2006-12 due to incorrect accounting of BOT projects entrusted by the State Government. The Company contrary to the provisions of the Rajasthan Road Development Act, 2002 and MOU with State Government collected toll of ₹ 16.82 crore in addition to actual recovery of investment including interest.

Contract Management

The Company invited tenders without including risk and cost clause in the standard bidding document. This caused additional financial burden of ₹ 15.47 crore transpired due to re-invitation of bids on un-executed works by defaulter contractors. There was lack of co-ordination and uniformity in execution of the work among units as similar nature of works were got executed by different units by clubbing with main contract or through separate contract and by using different rates of BSR for same items causing extra expenditure of ₹ 48.84 lakh.

Mechanical Unit

The overall performance of the mechanical unit was not satisfactory and it negatively contributed to the profits of the Company. The hire charges in all the years except 2009-10 were not even able to cover the direct cost. The Company while fixing cost to be charged on deposit works did not include the element of labour cost employed on the machinery in the hire charges and consequently labour charges of ₹ 7.35 crore were under recovered. The overall utilization of machinery as on March 2012 against the standard annual hours recommended by MOST was only 41.41 *per cent* and the individual utilization ranged between 22.24 and 79.38 *per cent*.

Conclusions and recommendations

The Company did not prepare long term action plan to ensure achievement of organisational objectives and was wholly dependent on the works entrusted by the State Government/Departments/PSUs. The procurement of works on its own was almost negligible. The provisions of the manual were not adhered to and variations in budgets were not analysed. Improper planning and in-adequate contract management led to delay in completion of the projects. Excess toll collection was made in contravention to the provisions of Rajasthan Road Development Act, 2002 and MOU with GOR. Project formulation was not as per Rules which caused short recovery of profit and further centage charges were also not adequate to meet administrative cost. The Company executed un-viable road projects and improper evaluation of tenders, absence of risk and cost clause and lack of co-ordination among units caused extra expenditure. There was under utilization of plant and machinery against the standard hours recommended by Ministry of Surface Transport. The review contains five recommendations which include preparation of long-term action plan and annual plan to minimize dependence on entrusted works; adherence to the Manual, Rules and Procedures; proper planning, effective monitoring and co-ordination with contractors as well as clients to avoid delay in execution of works; ensure viability of the projects and adequacy of centage charges to maintain profitability; and optimum utilization of plant and machinery.

(Chapter 2.2)

3. Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 6.77 crore and non-recovery of ₹ 24.20 crore in seven cases due to non-safeguarding of financial interests of the organisation.

(Paragraphs 3.1, 3.2, 3.3, 3.4, 3.5, 3.8, 3.9 and 3.10)

Loss of ₹ 8.59 crore in four cases due to non-compliance with rules, directives, procedures, terms and conditions of contract *etc*.

(Paragraphs 3.3, 3.4, 3.6, 3.7, 3.11, 3.12, 3.13 and 3.14)

Gist of some of the important audit observations is given below:

The action of **Giral Lignite Power Limited** to award Annual Maintenance Contract to Instrumentation Limited, Kota at exorbitantly higher prices and extend the same for another two years despite their poor performance and appraising incorrect performance to the Board resulted in avoidable extra expenditure of ₹ 3.17 crore.

(Paragraph 3.1)

Jaipur Vidyut Vitran Nigam Limited suffered loss of ₹ 1.47 crore on prepayment of HUDCO loan due to incorrect inclusion of interest as savings for the whole quarter, while preparing cost-benefit analysis.

(Paragraph 3.2)

Jaipur Vidyut Vitran Nigam Limited belatedly disconnected the power supply of a habitual defaulter consumer by violating its rules which resulted in non-recovery of dues of ₹ 24.02 crore.

(Paragraph 3.3)

The Infrastructure Development Committee of **Rajasthan State Industrial Development and Investment Corporation Limited** caused loss of revenue of ₹ 2.78 crore to the Company by allotting land to Finproject India Private Limited in violation of Rule 3(W) and 3(C) of the RIICO Disposal of Land Rules, 1979.

(Paragraph 3.6)

Rajasthan Small Industries Corporation Limited sustained loss of ₹ 1.19 crore due to non-adherence to the guidelines of new coal distribution policy and failure to formulate a proper mechanism to safeguard its financial interests.

(Paragraph 3.7)

Rajasthan Financial Corporation without approval of the State Government contributed excess subscription of two *per cent* amounting to ₹ 4.36 crore towards employees' provident fund in violation of section 48 of State Financial Corporations Act, 1951.

(Paragraph 3.12)

Rajasthan State Road Transport Corporation appointed consultants for preparation of tender documents and draft agreement without assessing its specific requirements which led to scrapping of documents and wasteful expenditure of ₹ 26.06 lakh.

(Paragraph 3.13)