Overview

1. Functioning of Public Sector Undertakings

Audit of Government Companies is governed by Sections 139 and 143 of the Companies Act, 2013. The accounts of Government Companies are audited by the Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by the CAG. The Audit of Statutory Corporations is governed by their respective legislations.

As on 31 March 2016, Rajasthan had 54 Public Sector Undertakings (PSUs) consisting of 48 working Companies, three working Statutory Corporations and three non-working PSUs (all Companies), which employed around one lakh employees. The working PSUs registered a turnover of ₹ 54834.65 crore during 2015-16 as per their latest finalised accounts. This turnover was equal to 8.13 *per cent* of the State Gross Domestic Product indicating an important role played by the State PSUs in the economy of the State.

Stake of Government of Rajasthan

As on 31 March 2016, the investment (Capital and long term loans) in 54 PSUs was ₹ 124810.19 crore. It grew by over 108.98 *per cent* from ₹ 59724.03 crore in 2011-12. The power sector received 92.06 *per cent* of total investment made during the period from 2011-12 to 2015-16. The State Government contributed ₹ 50655.12 crore towards equity, loans and grants/ subsidies during 2015-16.

Performance of PSUs

During the year 2015-16, out of 51 working PSUs, 23 PSUs earned profit of ₹ 843.83 crore and 19 PSUs incurred loss of ₹ 13217.71 crore. Five PSUs had no profit or loss for the year 2015-16 while two PSUs did not submit annual accounts since inception and accounts of two PSUs were not due. Further, out of 51 PSUs, 18 PSUs incorporated during 2006-07 to 2015-16 did not commence their business activities till 2015-16. The purpose of incorporation of these PSUs was, therefore, defeated. The Government should take appropriate action to commence business activities of these PSUs.

The major contributors to profit were Rajasthan State Industrial Development and Investment Corporation Limited (₹ 349.58 crore) and Rajasthan State Mines and Minerals Limited (₹ 200.33 crore). The heavy losses were incurred by electricity companies, *i.e.* Ajmer Vidyut Vitran Nigam Limited (₹ 3504.00 crore), Jaipur Vidyut Vitran Nigam Limited (₹ 4462.91 crore) and Jodhpur Vidyut Vitran Nigam Limited (₹ 3273.87 crore).

Quality of accounts

The quality of accounts of PSUs needs improvement. Out of 55 accounts finalised during October 2015 to 30 September 2016, the Statutory Auditors gave qualified certificates on 22 accounts and adverse certificate on one account. There were 47 instances of non-compliance with Accounting Standards by the PSUs.

Arrears in accounts and winding up

Twelve working PSUs had arrears of 20 accounts as on 30 September 2016. Among non-working PSUs, two PSUs had four accounts in arrears. The Government may take a decision regarding winding up of the non-working PSUs.

Coverage of this Report

This Report contains 10 compliance audit paragraphs and two Performance Audits *i.e.* 'Performance Audit on Kalisindh Thermal Power Project of Rajasthan Rajya Vidyut Utpadan Nigam Limited' and 'Performance Audit (IT) on Computerisation of Ticketing Activities by Rajasthan State Road Transport Corporation' involving financial effect of ₹ 584.94 crore.

2. Performance Audit relating to Government Companies

Performance Audit on Kalisindh Thermal Power Project of Rajasthan Rajya Vidyut Utpadan Nigam Limited

The Government of Rajasthan (State Government) included setting up of Kalisindh Thermal (coal based) Power Project (KaTPP) in its XIth five year plan (2007-12) and accorded (June 2007) administrative and financial approval of ₹ 4600 crore for setting up two units (500 MW each) of KaTPP. The proposed capacity was enhanced (June 2007) to 1200 MW (2 X 600 MW) to ensure wider participation of the international bidders. The Performance Audit covers all the activities of KaTPP since preparation of Detailed Project Report (DPR) by TCE Consulting Engineers Limited till commissioning of the plant including operational performance upto 2015-16.

Setting up of KaTPP

The DPR envisaged (October 2007) the cost of setting up of the plant at ₹ 5495.07 crore. Rajasthan Rajya Vidyut Utpadan Nigam Limited (Company) revised the estimated cost to ₹ 7723.70 crore (May 2011) and further revised (March 2014) it to ₹ 9479.51 crore which was approved (August 2011 and August 2014) by the State Government. Both the Units of KaTPP were commissioned at a total cost of ₹ 9479.51 crore. The actual cost of setting up the plant exceeded the estimated cost (₹ 4600 crore) by 106.08 *per cent*. The State Government provided equity assistance (20 *per cent*) of ₹ 1895.90 crore and remaining funds (80 *per cent*) of ₹ 7583.61 crore were arranged by the Company through borrowings from Power Finance Corporation (PFC)/commercial banks.

The cost overrun as compared to the estimated cost in DPR was attributed to increase in cost of 'Engineering, Procurement and Commissioning' (EPC) contract (₹ 1852 crore); water storage system (₹ 764.05 crore); construction of Railway siding (₹ 153.85 crore upto March 2015 and work was in progress as on March 2016); and interest and finance cost (₹ 1881 crore) during the period of construction. Besides, various associated works like construction of store shed/hostel; fire tender and dozer; third party inspection were not envisaged in DPR and contributed to cost overrun.

The work orders for setting up the project were awarded (October 2008) to BGR Energy Systems Limited, Chennai (BGR Energy) at a negotiated price of ₹ 4900.06 crore. The contract price included off-shore supplies of US $ 405 million and local (Indian) supplies/services of ₹ 3296.665 crore.

The contractual commissioning period of Unit-I and Unit-II was October 2011 and January 2012 respectively. The Units were commissioned after delays of 31 months and 42 months on 7 May 2014 and 25 July 2015 respectively. Delay in completion of the project was attributed to delay (seven months) in obtaining environmental clearance and non-adherence to the time schedule in completion of various major activities by BGR Energy. The major activities *viz*. boiler light up, ash handling plant, coal handling plant and cooling tower, *etc*. were completed after delays ranging between 18 and 41 months in case of Unit I and 28 and 53 months in case of Unit-II. The work order for supply of the generator transformers was placed (February 2012) after elapse of the contractual date of commissioning of both the Units. Further, BGR Energy observed delays of more than two years in awarding work orders to its sub-vendors for electrical and mechanical works, after award of EPC contract. The sub-vendors delayed supply of material/completion of mechanical and civil works by more than two years. The Board discussed (March 2009 to May 2014) the issue of delay in completion of the project several times but deferred levy of Liquidated Damages six times between March 2009 and May 2014.

The contract price of BGR Energy was firm. The Company was required to make payments for off-shore supplies at a firm rate of ₹ 39.59 per US $ and any exchange rate variation was to be borne by BGR Energy. The Company purchased one US $ at a rate ranging between ₹ 44.32 to ₹ 66.88 and made payments in US $ without recovering exchange rate variation of ₹ 295.29 crore. This also resulted into extra burden of ₹ 19.40 crore on the Company towards payment of taxes to the Central/State Government. Further, the Company extended undue financial benefit to BGR Energy by refunding labour cess of ₹ 48.21 crore in violation of the clauses of work order and notification (27 July 2009) issued by the State Government.

Civil works

The Water Resources Department (WRD) of the State Government agreed to share 60 *per cent* of the cost of construction of Dam on Kalisindh River but it did not incur any expenditure and the entire cost was borne by the Company. The Company released funds of ₹ 696.37 crore to WRD during 2007-16 but did not make any effort to recover the cost to be shared by the WRD. IRCON could not complete the construction of railway siding within the stipulated time period and the Company granted extension seven times (50 months) during February 2012 to October 2015 and made payments of ₹ 6.26 crore (upto March 2015) towards field supervision/establishment charges beyond the committed charges.

Operational efficiency of KaTPP

The KaTPP could not achieve the operational parameters fixed by Rajasthan Electricity Regulatory Commission in respect of Plant Load Factor; Station Heat Rate; consumption of oil; and auxiliary consumption. Non-achievement/adherence to the operational norms caused shortfall in generation of 4217.86 MUs valuing ₹ 1744.06 crore; excess consumption of coal of 4.34 lakh MT valuing ₹ 177.34 crore; excess consumption of 22723 kilolitre oil (₹ 99.25 crore); and loss of 127.70 MUs valuing ₹ 51.67 crore during 2014-16. The plant availability norms (85 *per cent*) fixed by Central Electricity Authority were also not achieved. The Unit-I remained inoperative for 4431.45 hours (56.12 *per cent*) out of 7896 available operational hours due to forced outages during 2014-15.

Environmental issues

The Company did not establish (July 2016) environment management cell at KaTPP as per conditions of the environment clearance. The KaTPP failed to achieve stack emission parameters prescribed by Ministry of Environment and Forest, Government of India (GoI) in respect of particulate matter; Sulphur Dioxide; and Oxides of Nitrogen. Further, equipment to measure the air and noise pollution were also not installed.

Financial management

The Company defaulted in payment of interest/principal to the PFC and had to pay penal interest and interest thereon of ₹ 8.47 crore besides forgoing rebate of ₹ 18.15 crore towards timely payment of installments. Delay in commissioning of Unit-I by 31 months deprived the Company of a rebate of ₹ 35.40 crore. The Company did not make any effort to seek exemption from the State Government from payment of entry tax (₹ 22.74 crore) paid to BGR Energy. Further, KaTPP was eligible for availing fiscal benefits under Mega Power Project policy of the GoI but the Company never explored possibilities and was, therefore, deprived of fiscal benefits of ₹ 431.30 crore.

Audit recommendations

Audit recommendations mainly pertain to recovering LD and other excess payments made to BGR Energy as per tender terms/General Conditions of Contract; recovering cost of Dam to be shared by WRD including prorate charges; adhering to the environmental norms; and exploring possibilities to avail benefits under the policies of GoI and State Government.

3. Performance Audit relating to Statutory Corporations

Performance Audit (IT) on Computerisation of ticketing system by Rajasthan State Road Transport Corporation

Rajasthan State Road Transport Corporation (Corporation) outsourced (May 2011) the work of 'Online Reservation System' (ORS); integration of Electronic Ticket issuing Machines (ETIMs) with ORS; and preparation of Radio Frequency Identification (RFID) smart cards to Trimax IT Infrastructure and Services Limited, Mumbai (Service Provider). The Service Provider implemented the ORS in May 2011 but the integration of ETIMs with ORS was pending (August 2016).

The Performance Audit involved analysis of the electronic data of ORS; ETIMs and RFID smart cards pertaining to the period 2014-15 and 2015-16

(November 2015) and contractual performance of the Service Provider. The audit findings pertaining to ETIMs are based on eight selected depots out of 57 depots.

The audit findings mainly highlight deficiencies in project management and system design. The project management highlights deficiencies in planning and implementation; and project monitoring and evaluation. The system design deficiencies include non-integration of ETIMs with ETIM server; insufficient validation controls; and non-mapping of business rules. The project management and system design deficiencies had financial implication on the revenue of the Corporation. The financial issues relate to under recovery of fare; unauthorised concessions allowed to the passengers; and payments to the service provider in violation of the clauses of the work order/service level agreement.

Project Management

Planning and implementation

The Corporation did not prepare IT policy, IT security policy, password policy and policy for change control management. The IT cell of the Corporation had also not constituted a planning/steering committee with clear roles and responsibilities to monitor each functional area of the Integrated Transport Management System. Besides, the Corporation did not have a framework for IT policies and procedures during the development of ORS and preparation of RFID smart cards. The modifications made by the Service Provider in the database as regards change in routes; fare in the software; security of IT assets; *etc*. were not subject to any supervisory control. In absence of a password policy, the systems installed at booking windows accepted passwords of any length without combination of alpha numeric and special characters. There was no system in vogue to ensure change of password by the users after different time intervals in order to minimise the risk of unauthorised access.

Further, the Corporation did not have proper business continuity and disaster recovery plan because the primary data centre as well as the disaster recovery site for ETIM application was set up in the same seismic zone (depot level). The data of ETIMs would not be retrieved in case of any disaster at the depot level. The Corporation also issued 'Pilot Acceptance Test' and 'User Acceptance Test' certificates to the Service Provider without evaluation of the application software

Project Monitoring and Evaluation

The project monitoring and evaluation was deficient which led to release of payments to the Service Provider in violation of the clauses of agreement/service-level agreement and non-reconciliation of operating revenue.

System Design deficiencies and insufficient validation control

The system design deficiencies and insufficient validation control resulted in discrepancies in allowing concession to female and senior citizen passengers *viz*. allowing concession outside State; concession to ineligible senior citizens; Mahila concession to male passengers and free journey to female passengers except Mahila divas and Raksha Bandhan. It also led to discrepancies in allowing concession to student and monthly pass passengers *viz*. allowing journey for more than once in a day; allowing free travel on Sunday and allowing journey on zero balance monthly passes without receipt of fare. Inadequate mapping of rules led to non-charging of fare at prevailing tariff; under recovery of fare in inter-state buses and non-recovery of IT fees/accidental compensation surcharge/toll tax/human resource surcharge on free journey tickets. The system design deficiency also resulted in non-recovery of reservation charges and non/under recovery of cancellation charges.

The software in violation of the business rules allowed allotment of same seat numbers to two passengers; journey to RFID card holders in higher class than the eligible class; 'Passenger Name Record' number with less than 18 digits; issue of more than one cancellation order against one ticket; journey on expired RFID cards and concession without valid RFID card; *etc*.

Audit Recommendations

Audit recommends the Corporation to formulate and implement a clear and comprehensive IT policy covering various aspects such as IT security policy; password management; *etc*.; set-up primary data centre and disaster recovery site for the data of ETIMs at different locations; build adequate input controls and validation checks to ensure correctness of input data and output results as per the business rules and needs of the Corporation; ensure mapping of business rules in accordance with the organization rules/policies, manuals, Government directions, *etc*; ensure functioning of General Packet Radio Service module for real time integration of the ticketing and financial data of ORS and ETIMs; make operating procedures of ETIMs simpler to increase operational efficiency and reduce input errors; and reconcile the IT data and accounting data to avoid any leakage of revenue.

4. Compliance Audit Observations

Compliance Audit observations included in this Report highlight deficiencies in the management of Public Sector Undertakings, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature.

Loss/extra expenditure/non-recovery of ₹ 21.73 crore due to non-compliance with rules, directives, procedures, terms and conditions of contract in six cases.

(Paragraphs 4.1, 4.2, 4.3, 4.7, 4.9 and 4.10)

Loss/extra expenditure/non-recovery of ₹ 9.37 crore due to non-safeguarding of financial interests of the organization in four cases.

(Paragraphs 4.4, 4.5, 4.6 and 4.8)

Gist of some important Audit observations is given below:

Jodhpur Vidyut Vitran Nigam Limited awarded work orders for the purpose of monthly meter reading and load survey through Common Meter Reading Instrument (CMRI)/Hand Held Terminal (HHT) but the contractors carried out manual meter reading in majority (73.66 *per cent*) of cases instead of reading through CMRI/HHT. The Company made payments to the contractors at the rates prescribed for reading through CMRI/HHT in absence of adequate clauses in the work order for manual reading.

(Paragraph 4.1)

Rajasthan State Industrial Development and Investment Corporation Limited failed to prepare and implement an effective strategy to ensure mandatory installation of Rainwater Harvesting Structures (RWHSs) by the allottees in the industrial areas. The Company/Unit offices in violation of the decisions/directives of the Infrastructure Development Committee allowed change in constitution of units; change in land use; transfer of units; issued no-objection certificate; and treated the units under production as per the existing norms without ensuring installation of RWHSs. There were instances where the allottees had not installed RWHSs but the Unit offices certified installation of RWHSs by these units.

(Paragraph 4.3)

Rajasthan Rajya Vidyut Utpadan Nigam Limited adopted incorrect methodology for computation of recovery against excess wear rate of High Chrome grinding media balls which caused under recovery of compensation of ₹ 6.27 crore.

(Paragraph 4.5)

The approach walls of Road over Bridge on Hindaun-Gangapur city road constructed by **Rajasthan State Road Development and Construction Corporation Limited** collapsed due to lack of monitoring, poor quality of material, masonry and construction techniques. This caused wastage of public funds and an additional liability of ₹ 5.19 crore on the Company towards retrofitting work.

(Paragraph 4.9)