Chapter III

3. Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government Companies and Statutory Corporations have been included in this Chapter.

Government Companies

Ajmer Vidyut Vitran Nigam Limited

3.1 Embezzlement in collection of energy charges

Gross negligence on the part of the Company's officials, in extending the contract period of the Collection Agent being aware of financial and other irregularities, caused cash embezzlement of ₹ 35.35 lakh.

The Superintending Engineer, Operation and Maintenance (O&M), Nagaur Circle, Ajmer Vidyut Vitran Nigam Limited (Company) awarded (October 2005) the work of collection of energy bills in the urban areas of O&M Sub-Division, Nagaur to Jai Maa Electric Labour and Contract Sahakari Samiti Limited (Collection Agent). The contract was initially given for a period of one year and was to be extended further for another one year. As per terms and conditions of the work order, the amount collected by the agent was to be deposited in the bank account of the Company daily before 2 PM along with supporting papers viz; centre-wise scrolls for the collection, receipted bills *etc.* Bank pay-in-slip and original Perforated Consumer Cash Book (PCCB) were to be handed over on the next working day. It was also stipulated that the Collection Agent would not accept part payment of a bill unless authorised by the competent officer. An agreement was executed with the Collection Agent on 20 October 2005. The Collection Agent had also furnished (October 2005) security deposit equivalent to two days collection in the form of fixed deposit and Bank guarantee of ₹ 2.05 lakh each.

The contract was extended by the Company, year after year, on the same terms and conditions upto 23 October 2008. We noticed that despite being aware of financial irregularities such as not depositing the full amount in Bank and various other complaints of the consumers, the Superintending Engineer (SE), Nagaur Circle, extended the contract period for a period of one month *i.e.* upto 30 November 2008 for making necessary arrangements for awarding new contract. Meanwhile, the Zonal Chief Engineer of the Company further extended (27 November 2008) the contract period for six months *i.e.* upto May 2009 without the consent of the SE, Nagaur Circle. However, on getting

intimation about the unsatisfactory performance of the Collection Agent on 17 February 2009, the Zonal Chief Engineer cancelled (18 February 2009) the order issued for extending the contract period with immediate effect. The Collection Agent collected the revenue of energy bills from the consumers but neither deposited it in the Bank nor submitted the details of cash collection to SE (O&M) Nagaur Circle during the extended period *i.e.* 5 December 2008 to 19 January 2009 and thus embezzled ₹ 35.35 lakh.

The erstwhile Rajasthan State Electricity Board had framed (1996) a policy regarding outsourcing the work of collection of revenue of energy bills, which was subsequently adopted by the Company, provides that the Director (Internal Audit) would have to conduct the internal audit of collection agent every month to avoid the possibility of any embezzlement. We observed that the internal control system of the Circle office was weak as it allowed the Collection Agent to put the stamp on the counterfoil of the bill portion to be returned to consumer and no separate receipt of cash collection was issued to the consumer either manually or through computer. In absence of a proper system, the Circle office had to rely on the records being submitted by the Collection Agent only. The embezzlement could be detected only when the consumers who had paid the energy bill of previous cycle approached the Circle office with the complaint that the already paid amount had again been indicated as outstanding in subsequent bills. Interestingly, it was also observed that the Circle office handed over (October 2008) the Fixed Deposit Receipt (FDR) and Bank Guarantee deed personally to the Collection Agent for renewal but the same were not produced by him in the Bank. This fact also came to the notice of Circle office in February 2009 when the Bank conveyed its unawareness about renewal of FDR and also informed about expiry of Bank Guarantee in June 2008 itself. This serious lapse on the part of Circle office deprived the Company of financial hold in the form of FDR and Bank Guarantee. Thus inadequate internal control mechanism and insufficient financial hold coupled with gross negligence on the part of the Circle office/Zonal Chief Engineer's office to extend the contract period of the Collection Agent despite being aware of financial irregularities and in discharging their duties caused cash embezzlement of ₹ 35.35 lakh.

In reply, the Government stated (July 2010) that the Collection Agent embezzled the energy charges of those consumers whose stubs had not been deposited by it and in such a circumstance it is not possible for the Company to detect the fraud immediately except at the time of next billing cycle *i.e.* approximately after a period of two month and that too when the consumer approached the Company. It further stated that all necessary legal actions as per rules have also been taken against the Collection Agent for the amount embezzled.

The Company should strengthen its system of review of the work of Collection Agent to avoid embezzlement.

Jaipur Vidyut Vitran Nigam Limited

3.2 Infructuous expenditure

Decision to procure large quantity of LAs, despite knowing its limited use and without ascertaining the performance and cost benefit analysis led to infructuous expenditure of ₹ 5.36 crore.

Jaipur Vidyut Vitran Nigam Limited (Company) invited (December 2007) tenders for procurement of 30,000 Nos. 10 KVA and 13,000 Nos. 16 KVA three phase copper wound distribution transformers with scheduled date of opening on 15 February 2008. The scheduled date was subsequently extended up to 4 March 2008. Meanwhile, to protect the transformer and associated line equipments from the occasional high voltage surges resulting from lightening or switching operations, an addenda was issued (26 February 2008) for providing Lightening Arresters (LAs) as additional accessory. Since the Company incorporated the provision of LAs for the first time, the cost component of LAs was considered as ₹ 2,000 per transformer for comparing the price received with that of updated price of the previous tender. The tendered quantity was increased by 25 *per cent* to accommodate the requirement of two other Discoms[•]. The Company placed (July 2008) supply orders in favour of 62 Firms for supply of 37,500 Nos. 10 KVA and 16,250 Nos. 16 KVA distribution transformers along with accessories including LAs. Against the supply orders, 26,814 Nos. of distribution transformers (17,949 Nos. 10 KVA and 8,865 Nos. 16 KVA) along with accessories including LAs were received up to 30 June 2009. The remaining supplies thereafter were procured at the rate of subsequent tender without LAs under price fall clause.

Scrutiny of records (August 2009) of the Company revealed that a Technical Specification Approval Committee (TSAC) of five members[♣] exists in the Company for approval of technical specification of 10 KVA and 16 KVA three phase copper wound distribution transformers. It was noticed that the TSAC approved (January 2008) the technical specification of 10 KVA and 16 KVA three phase copper wound distribution transformers without the provision of LAs. However, subsequently Dy. Chief Engineer (Material Management) approved (26 February 2008) the addenda to provide LAs without ensuring its utility. In reply to an audit query the management stated (November 2009) that in most of the cases the LAs were damaged due to large scale handling and could hardly serve any purpose. Regarding impact of LAs in reducing the percentage of damage/failure of transformers, it was replied that the change in percentage of damage/failure of transformers was not attributable to LAs.

• Ajmer Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited.

♣ Zonal Chief Engineer (Jaipur Zone), Dy. Chief Engineer (Material Management), Superintending Engineer (Meter and Procurement), Superintending Engineer (Material Management) and Executive Engineer (City Division-II, Jaipur City Circle).

We observed that the act of the Dy. Chief Engineer (Material Management) to amend the technical specification construed to breaking the hierarchy and was against the practice in vogue as only TSAC was empowered to approve or to amend the technical specification. Further the decision to procure such a large quantity of LAs, despite knowing its limited use and without ascertaining the performance and cost benefit analysis, the expenditure of ₹ 5.36 crore[♠] incurred on procurement have became infructuous. It was also observed that TSAC had not approved the provision of LAs in subsequent tender also.

The Government stated (May 2010) that in view of the feedback from the field, practices being followed by other state utilities and the specifications of distribution transformers provided by C.E.A., it was considered to procure the small distribution transformers with LA mounted on them. It further stated that the percentage failure rate of distribution transformers declined from 9.06 in 2007-08 to 8.25 in 2008-09. However, in subsequent tender, it was decided to procure the distribution transformers without LA and review later-on to separately procure the LA for installation on randomly selected distribution transformers installed without LA on those rural feeders to achieve general protection of distribution transformers.

The reply is not convincing in view of the fact that the distribution transformers with LAs procured in previous tender could hardly serve any purpose and in most of the cases the LAs were damaged due to large scale handling. Further the change in percentage of damage/failure of transformers was not attributable to LAs and therefore TSAC had not approved the provision of LAs in subsequent tender.

The Company should ascertain the utility of the equipments, its performance and should also carry out the cost benefit analysis before placing orders for large quantity.

♠ 26,814 Nos. of transformers x ₹ 2000 = ₹ 5,36,28,000

Rajasthan Rajya Vidyut Prasaran Nigam Limited

3.3 Under recovery of shifting charges

The Company extended undue benefit of ₹ 2.17 crore to Mahindra World City by sharing of only 50 *per cent* cost of shifting of HT line in violation of its own policy.

The Board of Directors (BOD) of Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) decided (March 2003) that in case of shifting/raising of Extra High Voltage (EHV) lines/system, full actual cost would be recovered from the concerned applicant/party/agency *etc.* This decision was subsequently reviewed (September 2006) by the BOD in order to frame a policy to be followed for sharing cost of shifting of EHV lines which were hazardous to the public. It was reiterated that the full cost of shifting/raising of EHV lines/system should be recovered from the agency/department requesting such shifting/raising.

Scrutiny of records (September 2009) of Chief Engineer (PPM&R) of the Company revealed that Mahindra World City (MWC), developer of Special Economic Zone (SEZ), at Jaipur, requested (December 2006) the Company for re-routing of the alignment of 3.205 kilometre, 400 KV High Tension (HT) line passing through SEZ. The Superintendent Engineer, Transmission and Construction Circle-II prepared (July 2007) a tentative estimate amounting to ₹ 3.50 crore, excluding overhead charges towards cost of re-routing of HT line and dismantling of existing line. MWC while intimating the right of way for shifting the line, requested (July 2007) the Company to shift the line on the principle of 50 *per cent* cost sharing as decided during a meeting held on 13 July 2007 with the Chairman and Managing Director of the Company. The BOD of the Company accorded (August 2007) its approval for sharing the shifting charges in the ratio of 50:50 as a special case. Accordingly, MWC deposited (August 2007) ₹ 1.75 crore (being 50 *per cent* of estimated cost) against the demand note issued by the Company.

It was further noticed that the final cost of re-routing and dismantling, after due credit of re-use and scrap material, worked out to ₹ 4.34 crore including overhead charges. The Company raised (June 2009) a demand of ₹ 42 lakh on MWC towards balance 50 *per cent* of final cost of shifting of line which was deposited by MWC in July 2010.

The decision of the BOD to recover only 50 *per cent* of total expenditure towards shifting was unjustified and also in violation of the laid down policy of recovering full cost of shifting of EHV lines from the agency requesting such shifting. It resulted in an undue benefit of ₹ 2.17 crore to MWC. It was also observed that in the past, the Company had recovered entire cost of shifting and overhead charges from Rajasthan State Industrial Development and Investment Corporation Limited (a State Government company) and other agencies who had requested for shifting/raising of lines/system.

The Government while accepting the fact that orders of the Company provide recovery of full cost from the applicant/party/agency in case of shifting of EHV lines stated (August 2010) that shifting of 400 KV line was considered by the BOD as a specific case at 50 *per cent* of the cost, looking to the State Support Agreement (SSA) and overall economic development of SEZ. It further stated that BOD had also decided in the past to share 50 *per cent* of shifting of EHV lines considering specific merits of the cases.

The two instances quoted by the management in support to its reply were entirely different as in one case the Board relaxed the policy because the EHV line passing through UIT Kota was hazardous to the public whereas in another case the line was passing through NH-11. Thus the shifting of EHV lines in both the cases were in public interest.

The Company should adhere to the laid down policy and should not deviate from the same unless it is in public interest.

3.4 Loss of incentive on interest on financial assistance

The Company was deprived of incentive of ₹ 1.68 crore due to non-adherence to overall financial discipline coupled with delay in completion and cost over run of the project.

National Capital Region Planning Board (NCRPB) sanctioned (March 2007) a financial assistance of ₹ 33.33 crore for "Construction of electricity transmission lines and augmentation of electricity transformer capacity in Alwar District of Rajasthan" to be implemented by Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) at a total project cost of ₹ 47.61 crore. As per terms and conditions stipulated in the sanction letter, the applicable rate of interest on the loan was linked to the rates of 10 year Government securities prevailing on the date of sanction of the project which was seven *per cent* at that time. The loan was to be repaid in eight equal instalments payable on or before the anniversary date of the drawal. Besides, incentives of 1.5 *per cent* by way of reduction in interest rate *i.e.* 0.10 *per cent* for regular and timely drawal of instalment as per loan schedule, 0.15 *per cent* for timely completion of project, 0.25 *per cent* for timely payment of instalment of principal and interest, conformity incentive of 0.50 *per cent* if the project was in consonance with Regional Plan 2021 and the district plan of the area as approved by NCRPB, 0.25 *per cent* for cost adherence and 0.25 *per cent* as quality assurance incentive was applicable. The incentives for timely completion, conformity, project cost adherence and quality assurance were rear end incentives and applicable on the completion of the project.

Scrutiny of records of the Company revealed that the loan was to be availed up to April 2008 in phased manner *i.e.* ₹ 6.65 crore up to March 2007, ₹ 23.42 crore up to May 2007 and ₹ 3.26 crore up to April 2008. It was, however, noticed that the Company could avail Ist and IInd installment of ₹ 6.65 crore and ₹ 21.71 crore in March 2007 and October 2007 respectively. The request of the Company to release balance amount of the loan of ₹ 4.97 crore was not acknowledged (January 2008) by NCRPB on the grounds that

the Company intended for loan assistance for the project in October 2006, hence the expenditure of ₹ 37.81 crore incurred on the project from October 2006 onwards was considered and 75 *per cent* of the same *i.e.* ₹ 28.36 crore was released in two installments.

We noticed that the Company did not adhere to the schedule completion date as well as estimated cost of the project as reported in Detailed Project Report (DPR). As against the scheduled date of completion of electricity transmission lines and augmentation of sub-station in January and March 2008 respectively, the sub-station was completed in September 2008 whereas the work of its associated lines was yet to be completed. Similarly, as against the estimated cost of ₹ 47.61 crore, the actual expenditure incurred on the project was ₹ 57.67 crore upto January 2010.

We observed that the Company was not eligible for availing the benefits of incentive of 0.40 *per cent* by way of reduction in interest rate during the currency of loan due to non-adherence to project completion date and project cost. It was also observed that the claim of the Company for 0.10 *per cent* reduction in the interest rate for regular and timely drawal of loan installments was also rejected (September 2008) by NCRPB on the grounds that the performance linked incentive was available on adherence of overall financial discipline by the borrower and that the Company had not drawn the loan installments as per original approved schedule.

Thus, due to improper planning, delay in completion of project, cost over run, non-adherence of financial discipline coupled with non-lodging the claim for 0.75 *per cent* interest rebate for conformity and quality assurance incentive, the Company lost performance linked incentive to the tune of ₹ 84.95 lakh upto March 2010. The Company would also be deprived of availing the benefits of performance linked incentive to the tune of ₹ 82.87 lakh during April, 2010 to 2015-16.

The Government while accepting the audit observation stated (July 2010) that the Company is availing the incentive for timely payment of loan installments but due to non-completion of project in time and non-adherence of financial discipline it could not avail all the incentives. It further stated that this loan is still very much beneficial than to obtain loan from other sources at higher rate of interest.

We recommend that the Company should monitor and co-ordinate various activities of the project in the manner envisaged in detailed project report.

3.5 Avoidable extra payment on account of price variation

The disadvantageous decision of the Company to allow price variation considering the date of readiness as date of delivery resulted in avoidable extra payment of ₹ 13.30 lakh.

Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) placed (September 2005) orders for supply of 12 and 21Nos. of 20/25 MVA capacity, 132/33 KV Power Transformers in favour of EMCO Limited and Areva T & D India Limited (Supplier Firms) respectively. The price variation was payable with base date 1 April 2005 as per IEEMA[♣] price variation formula given in the order. Clause 3 (v) of the purchase order provided that the purchaser would not be responsible to bear any additional liability on account of price variation due to delay in supply beyond the stipulated period of delivery for any reason, however, if price variation decreased during such delayed period, the price variation would be considered accordingly. Clause 3 (vi) further provided that for supplies made after expiry of schedule delivery, price variation applicable as per schedule delivery or applicable as per actual delivery, whichever is advantageous to the purchaser shall be allowed.

Scrutiny (July 2009) of records of the Superintending Engineer, Sub Station Procurement Circle of the Company, revealed that as per the delivery schedule envisaged in the purchase orders, 10th unit and 16th unit of the transformer were to be supplied within 12 months and 19 months from the date of issue of purchase orders *i.e.* upto 25 September 2006 and 4 April 2007 respectively by the Supplier Firms. The Supplier Firms, however, requested the Company for final testing and inspection of the units on 17 March 2007 and 27 April 2007 *i.e.* after due dates of contractual delivery. After final testing and inspection the Company released despatch instruction for supply of these units and the units were supplied in April 2007 and July 2007 respectively.

It was observed that though the Supplier Firms delayed the supplies beyond the contractual delivery period, the Company allowed price variation for these units up to March 2007 and April 2007 treating the date of readiness for inspection as date of delivery whereas the units were actually supplied in April 2007 and July 2007 respectively when the price variation had decreased the cost by ₹ 13.30 lakh. Thus, the injudicious decision of the Company resulted in avoidable extra payment of ₹ 13.30 lakh on account of price variation including excise duty and Value Added Tax.

The Government stated (June 2010) that the price variation was allowed as per IEEMA price variation formula, the date of delivery was the date on which the transformer was notified as being ready for inspection/despatch or contracted delivery date, whichever was earlier.

The reply is not acceptable as in the instant case the units were actually supplied in April 2007 and July 2007 *i.e.* after expiry of scheduled delivery,

---

♣ Indian Electrical and Electronics Manufacturers Association.

therefore, price variation applicable as per scheduled delivery or applicable as per actual delivery whichever was advantageous to the purchaser should have been allowed.

Rajasthan Rajya Vidyut Utpadan Nigam Limited

3.6 Avoidable extra payment of interest

Delay in availment of loan from NCRPB led to extra burden of interest of ₹ 33.59 lakh on the Company.

Government of Rajasthan (GOR) conveyed (December 2005/April 2006) administrative and financial approval in favour of Rajasthan Rajya Vidyut Utpadan Nigam Limited (Company) for installation of coal based unit No. 7 of 195 MW at Kota Super Thermal Power Station with scheduled completion date as October 2008. The estimated capital cost of the project was envisaged at ₹ 680 crore to be funded through the State Government equity support of ₹ 136 crore (20 *per cent* of the project cost) and balance ₹ 544 crore borrowings from Power Finance Corporation (PFC). As the project cost escalated, GOR approved (March 2007) revised capital cost of ₹ 880 crore. The revised capital cost of the project was to be funded through equity support of ₹ 176 crore from the State Government, term loans of ₹ 544 crore and ₹ 160 crore from Power Finance Corporation (PFC) and National Capital Region Planning Board (NCRPB) respectively. The PFC sanctioned (November 2006) term loan of ₹ 544 crore at the rate of interest prevailing on the date of each disbursement. The loan was to be disbursed in accordance with the approved quarterly drawal schedule according to which ₹ 420 crore was to be disbursed up to December 2008. The loan was to be repaid in 60 equal quarterly instalments commencing from 15 April 2009 whereas the quarterly instalments of interest were to be paid after commencement of disbursement.

NCRPB sanctioned (December 2007) term loan of ₹ 160 crore to be disbursed in two equal instalments of ₹ 80 crore each in the month of March and September 2008 at the rate of interest prevailing on the date of each disbursement. Each loan instalment was to be treated as separate loan and was required to be repaid in 10 years and 9 years with moratorium period of two and one year respectively. As per the terms and conditions of the sanction letter, the Company was required to furnish to NCRPB an Execution Schedule with expenditure details indicating details of activities/tasks completed/to be completed along with task wise cost and date of completion of each task duly supported by various certificates and documents at the time of drawal of loan instalments. NCRPB disbursed (19 March 2008) first instalment of loan of ₹ 80 crore at the interest rate of eight *per cent* per annum with incentive of 0.25 *per cent* towards timely repayment of loan instalment and interest thereon. The second instalment of loan at the interest rate of nine and half *per cent* per annum was, however, disbursed on 16 March 2009 as against the scheduled drawal up to September 2008.

We noticed that the Company, while requesting NCRPB for release of second instalment of loan of ₹ 80 crore in October 2008, intimated the details of expenditure incurred on the project up to July 2008 instead of providing the details of activities/tasks completed/to be completed along with task wise expenditure incurred up to September 2008. Further the Company provided the details of finance availed from PFC up to March 2008 instead of September 2008. NCRPB intimated (October 2008) to the Company that it had financed the enhanced cost of the project and the Company drew only ₹ 235.30 crore from its main lender *i.e.* PFC as against total loan of ₹ 544 crore. NCRPB also informed that it had to synchronize with disbursement from PFC, as such the second instalment could be released only after drawal of further instalments from PFC. The Company belatedly explained (3 December 2008) the position of expenditure of ₹ 602.42 crore incurred on the project along with loan availed from PFC up to October 2008 and requested NCRPB to release the second instalment of loan.

We observed that due to non-receipt of second instalment of loan from NCRPB, the Company had to avail ₹ 26.49 crore in excess of drawal schedule from PFC up to December 2008 at higher rate of interest by 5.75 *per cent* in comparison to interest rate of NCRPB. Thus, due to non-adherence to drawal schedule of NCRPB, the Company paid extra interest of ₹ 33.59 lakh up to March 2010.

The Government stated (July 2010) that the disbursement was not time bound and to be regulated as per procedure mentioned in clause 13.3 of the sanction letter. It further stated that the second instalment of loan was not disbursed by NCRPB as they could not tie up the funds. The reply is not convincing in view of the fact that the Company was taking shelter of only one point of the terms and conditions of the sanction letter whereas non-adherence to other points of the same clause *i.e.* due to non-providing details of execution schedule with expenditure details it could not avail the second instalment of loan as per drawal schedule and consequently had to bear extra interest burden.

We recommend that the Company should keep close vigilance as regards to specific clauses of project finance schemes to safeguard its financial interest.

Rajasthan Renewable Energy Corporation Limited

3.7 Loss of revenue due to non disposal of Carbon Financial Instruments

The Company's failure to timely offload CFIs resulted into a loss of ₹ 1.29 crore.

To save the earth from green house gases (GHG) a number of countries including India signed the 'Kyoto Protocol' (Protocol). Article 3 of the protocol targeted reduction of emission of GHG by five *per cent* in the developed countries. Power plants based on renewable energy source do not emit GHG; hence developed countries could achieve their targets for

reduction of GHG by setting up such plants. Further if developed countries were unable to erect such renewable plant in their country, they could book savings of GHG of such plants installed in developing countries in their account by paying some money to the concerned country. The booking of such saving of GHG is called purchase of Certified Emission Reduction (CER) and the whole system is named Clean Development Mechanism (CDM).

Rajasthan Renewable Energy Corporation Limited (Company) observed (March 2006) that in future China is likely to enter in this market which is likely to drop the rates of CERs. Accordingly, efforts were made to get the power plants registered as CDM project with United Nation Framework Conservation on Climate Change (UNFCCC) for sale of CERs. However, considering its inability to meet strict conditions, it was decided by the Company to become a member of Chicago Climate Exchange (CCX) as offset Aggregator to trade GHG Emission offsets generated from renewable energy system. After filing of application on 26 September 2007, the Company was registered (16 November 2007) on the CCX as offset Aggregator and was allotted (30 May 2008) 1,796 Carbon Financial Instruments (CFI) for generation of electricity from its owned five plants during the year 2003 to 2007. Of these, as per Lease Finance agreement with Power Finance Corporation Ltd (PFC), 1,058.66 CFIs belong to PFC in respect of 25 MW Wind Power Project and balance 737.34 CFIs were on Company's own account. The Company sold (3 June 2008 to 19 June 2008) its 250 CFIs at the price ranging from $5.70 per MT to 7.30 per M.T. (one CFI=100 MT) with an average rate of $5.844 per MT realizing ₹ 62.46 lakh.

We observed (November 2009) that the Company did not frame any policy to sell CFIs and system of periodical monitoring the market trend to appraise the competent authority to take timely decision. The Company was not in the business of buying and selling of CFIs for investment purpose and was expected to realize the value of CFIs allotted to it without any delay. The Company did not sell balance 487.34 CFIs despite being aware of the decreasing trend of market rates of CFIs. The Company did not monitor regularly the price after 19 June 2008 onwards when the rate per MT was around $5.85. As already anticipated by the Company, the prices went down drastically to $0.15 per MT (on 10 November 2009 at CCX) from $5.85 per MT on 19 June 2008, when the CFIs were last disposed of by the Company. The price prevailing on 18 March 2010 was $0.10 per MT. It was observed in audit that market rates of CFIs were available and the Company could have known decreasing trend and disposed off the remaining CFIs at appropriate time.

Thus non-disposal of CFIs has put the Company into loss of ₹ 1.29 crore (48734 MT x $5.70 x ₹ 46.53). This could have been avoided, had the CFIs been disposed of timely in June 2008.

The Government in its reply stated (July 2010) that it was not having knowledge of decreasing trend of market rates and it was difficult to foresee the trend of the market. The reply is not convincing as the Company should have periodically monitored the trend of CFIs prices prevailed in the market

and looking to the declining trend of the rates, it should have disposed of the CFIs at an appropriate time to get the best prices.

Rajasthan State Industrial Development and Investment Corporation Limited

3.8 System failure in dealing with unauthorised construction in industrial areas

The Company did not evolve any mechanism to implement the building regulations and thus not only failed to control the unauthorised construction but also to take action against the defaulting units.

Rajasthan State Industrial Development and Investment Corporation Limited (Company) is engaged in developing the industrial areas in Rajasthan State. With the objectives of accelerating the pace of industrial growth, ensuring sustainable development and strengthening the small scale industries of the state, the Company acquires the land, develops industrial areas and allots the plots to the entrepreneur on lease basis. The Company framed "RIICO Disposal of Land Rules, 1979" (Rules) in exercise of the powers conferred by Article 93(xv) of its Articles of Association. The Rules *inter alia* provides that:

- In erection of factories and buildings, the lessee shall comply with the building regulations framed by the Company as well as Rules/Regulations of Municipal/Urban Improvement Trust (UIT)/Development Authorities and will submit their building plans to the competent authority of the Company.

- No construction work shall be commenced unless the plans, elevations and sections have been approved by the competent authority of the Company. However, for industrial, residential and commercial plot up to 40000, 500 and 300 square metre (sqm.) area respectively, the allottee of the plot shall have to certify that the plans submitted by them are as per the norms prescribed by the Company. In case, construction is made in violation of norms, then allottee shall be responsible for such violation and liable for action.

- The utility area in industrial plot may be permitted up to 70 *per cent* of the total allotted area subject to maintaining the set backs as prescribed for the industrial plot.

- No plot holder shall undertake unauthorised construction in any of the set backs in the industrial areas including those transferred by the Government of Rajasthan to the Company. However, in genuine cases, unauthorised construction may be considered for regularisation on payment of prescribed compounding fees.

The basic purpose of keeping the set backs in industrial areas is to ensure safety of buildings against natural disaster, easy movement for carrying out rescue operations in case of any untoward accident, enough parking space, widening of road in future *etc.*

Scrutiny of the records of the six units[♣], out of 26 units, of the Company revealed that as per the approved building regulations, the guidelines for inspection of the construction activity were to be prepared by the concerned unit offices during the construction period. We, however, noticed that the unit offices of the Company did not adhere to the regulations and did not prepare the guidelines for inspection of the construction activity. This negligence on the part of the unit offices caused number of unauthorised constructions in various industrial areas of the Company. It was also noticed that the Infrastructure Development Committee (IDC) of the Company decided (December 2004) to regularise the unauthorised structures constructed in the industrial areas in violation of prescribed set backs. The IDC issued instructions to unit offices that the unauthorised constructions made in industrial areas up to 30 November 2004 would be surveyed and reported to the Head Office of the Company by 15 January 2005. It was also decided that the unauthorised construction made before the cut off date *i.e.* 30 November 2004 would be regularised as per the prevailing rules by charging the prescribed compounding fee and unauthorised construction made after the cut off date would not be regularised.

We noticed that the instructions of the IDC to conduct the survey were not followed by the Company as only four units[#] out of total six units reviewed, provided the information of unauthorised construction to the Head Office of the Company. Interestingly, it was also noticed that instead of taking action against the units which did not provide the details of unauthorised constructions, the IDC modified (November 2005) its earlier orders for regularisation of unauthorised construction to the extent that in those cases where unauthorised construction cannot be regularised due to one reason or another, the Company may release all kind of permissions to the allottee except for transfer, sub-division, sub-letting or sub-lease of plot. It was, however, noticed that in few cases without regularising the unauthorised construction, the Company transferred/sub-divided the lease deed/plot in violation of above rules. Further the Company also allowed unauthorised construction on set back area up to 50 *per cent* on payment of prescribed charges.

Review of records of the six units selected for the period 2004-05 to 2008-09 revealed that out of 221 cases test checked, site reports at initial stage in 34 allotments were not available in absence of which the details of unauthorised construction, if any, could not be verified. In remaining 187 cases, unauthorised construction in 176 cases was amply evident of which only 29 cases were regularised. It was also observed that the Company even failed to serve the notices to the defaulting units to remove the unauthorised construction or to regularise it as per rules.

♣ Sitapura, VKIA (Jaipur), Kota, Ajmer, Bhiwadi-I and Bhiwadi-II.

Sitapura, Kota, Bhiwadi-I and Bhiwadi-II.

We observed that there was no adequate system of monitoring the construction activities during setting up of industries. Absence of periodical inspection of units' site at prescribed interval after setting up of the industries resulted in surging up of unauthorised construction. The Company also failed to take action against the defaulting units by way of cancellation of plots or demolition of unauthorised construction as per power conferred by the Rules. It was also observed that the Company after a period of five years introduced an 'Amnesty Scheme' in February 2009 wherein the regulation already existed was repeated, instead of taking the stringent measures to control the unauthorised construction.

The Company did not evolve any mechanism to implement the building regulations and thus not only failed to control the unauthorised construction but also to take action against the defaulting units. Further any scheme for regularisation of unauthorised construction not only encouraged the entrepreneurs to violate the existing rules, regulations but also defeated the basic purpose of keeping the set backs.

The Management while accepting all the audit observations stated (August 2010) that in the industrial sector, enforcement of building regulations becomes more sensitive issue as any coercive action due to violations of these norms, directly affects welfare of the workers, industrial production, export and revenue to the exchequer. The Management, however, assured to improve the system by maintaining balance between industrial promotion and enforcement of the building regulations/norms.

3.9 System lapses in recovery of Economic Rent and Service Charges from the entrepreneurs

Lack of mechanism to recover Economic Rent/Service Charges led to non-recovery of Company’s legitimate dues.

The Rajasthan State Industrial Development and Investment Corporation Limited (Company) was incorporated in 1969 with the main objectives to acquire land, develop industrial areas and allot the plots to the entrepreneurs on lease basis for overall industrial development in the State. The Company acquired 60,281 acres of land across the State and developed 322 industrial areas under jurisdiction of 26 Regional Offices as on 31 March 2010. Economic Rent (ER), Service Charges (SC) and development charges being recovered towards cost of the developed plots, constitute major part of the Company's revenue. ER and SC are being recovered to recoup the lease charges paid by the Company at the time of acquisition of the land which was developed as industrial area and also to meet the maintenance and upkeep expenses of the industrial area.

Economic Rent

The Company recovers lease rent from the plot holders in the form of economic rent which is payable within 60 days from the date of allotment and subsequently the same is required to be paid annually in advance between 1 April and 31 July every year. Economic rent is fixed on the basis of

population of the town in which the industrial area exists and year of allotment. The Company has the right to revise the rates of economic rent after every five years. It was, however, noticed that the Company had not revised the rates since April 2002 and also has not assessed its sufficiency thereafter.

Service charges

Service charges are fixed based upon categorization of industrial area and can be enhanced by minimum six *per cent* of prevailing rates of industrial areas. These charges are recovered to recoup the maintenance expenditure being incurred by the Company in respective industrial areas.

The Company framed RIICO Disposal of Land Rules 1979 (Rules) for allotment of land and other matters relating to fixation and recovery of economic rent and service charges from the plot holders. The Rules *inter alia* include levy of interest at the rate of 14 *per cent* per annum on non-payment/delay in payment of ER and SC. Further, clause 24 (1) of the Rules empowers the Company to cancel the plots after serving a 30 days registered notice for default in payment.

In order to assess the system prevailing in the Company for imposing and recovering the economic rent and service charges, an analysis in selected six units[*] (out of 26 units) has been carried out in audit. It was noticed that as on 31 March 2009, ₹ 24.33 crore was lying unrealized towards ER and SC. In test check of records of 225 entrepreneurs in six units, it was noticed that an amount of ₹ 4.26 crore of ER and SC was outstanding against them. Detailed analysis of cases test checked in selected units bring out the following audit observations.

Maintenance of records

The Company has not maintained proper records of allottees. Further, there is no uniform system of keeping records in the units. Certain units are maintaining manual ledgers describing the name of allottee, plot number, area, opening balance of outstanding ER/SC, current dues, amount realized and closing balance *etc.* whereas some other units do not have even the consolidated details. Further, the manual ledgers do not contain vital information such as age-wise position of dues, details of notices issued for demand of ER/SC, amount recovered and in case of non-recovery the action taken against such defaulter.

Issue of demand notices

As per practice in vogue in the Company, the unit offices are required to serve demand notices to entrepreneurs to deposit the ER/SC for the year. It was, however, noticed that no demand notices were issued in 43 cases. Further, there was delay in issue of notice of less than one year in eight cases,

---

[*] Sitapura and Vishwa Karma Industrial Area (both in Jaipur), Kota, Ajmer, Bhiwadi I and Bhiwadi II.

one to two years in 34 cases, two to three years in 28 cases, three to four years in 31 cases and more than five years (up to 16 years) in 40 cases.

Issue of show cause notices

As per prevailing rules, the units are empowered to issue show cause notice for non-remittance of dues of SC/ER. No show cause notices were served to the defaulter entrepreneurs by the units. The units though empowered to cancel the allotment of plots, but these powers had not been exercised which reflected casual approach of the unit offices regarding recovery of the dues. The Management stated (March 2010) that it was not practical to cancel the allotment of plots due to non-payment of SC/ER charges though it falls under breach of rules.

Writing off outstanding dues

As per policy the Company writes off unrealized SC remained outstanding for more than five years with right to recover it. It was noticed that the Company had written off unrealized SC of ₹ 31.30 crore during 2005-09. The unit offices, however, did not take any action to realize the amount written off from the books of accounts.

Thus in absence of any mechanism to maintain proper/uniform records at unit level, issue of demand notices timely, follow up of recovery of dues, monitoring at Head Office level, initiating action against defaulter entrepreneurs caused non-recovery of legitimate charges and ultimately the Company had to write off the unrealized amount.

The Management, while accepting all the system lapses highlighted by Audit, stated (August 2010) that manual ledgers had been prescribed to keep the details of the allottee but some unit offices were not maintaining these ledgers due to one or other reasons. The unit offices had been advised to maintain the ledgers, monitor regular collection of dues/charges and issue demand/show cause notices regularly to improve the financial health of the Company.

We recommend that the Company should strengthen its internal control system regarding recovery of dues from the entrepreneurs and fix the targets for recovery of ER/SC separately. In case of non-achieving the targets, accountability of the concerned staff may be fixed.

3.10 Loss due to extending undue benefit to the allottee

The Company sustained a loss of ₹ 5.52 crore due to imprudent decision to bear the cost of shifting of power lines and waiver of interest on delayed payment, which was against the laid down policy/rules/terms and conditions of allotment letter.

A Memorandum of Understanding (MOU) between the Government of Rajasthan (GOR) and Saint Gobain Glass India Limited (SGGIL) was executed on 19 August 2008 for setting up a World Glass Complex (WGC) in Rajasthan. As per the MOU, the GOR has given an undertaking to allot, through Rajasthan State Industrial Development and Investment Corporation Limited (Company), about 140 acres of contiguous land to the WGC on lease at Bhiwadi Extension in Alwar District on payment of 40 *per cent* notified development charges in lump sum by SGGIL.

The Company acquired (July 2008) 1220.31 acres of private land for development of Kahrani Industrial Area at Bhiwadi extension and paid compensation of ₹ 468.48 crore (between July 2008 and June 2009). The Company approved (December 2008) the rate of development charges at ₹ 3500 and ₹ 4000 per square metre (sqm.) for allotment of land to SGGIL and for remaining plotted developed zone respectively. The Company allotted (February 2009) 140 acres[♣] of land to SGGIL on receipt of token payment of ₹ 10 crore. The terms and conditions of the allotment letter stipulated that the balance amount of development charges ₹ 69.32 crore worked out at the rate of ₹ 1400 per sqm. was required to be deposited within 60 days from the date of issue of allotment letter failing which interest at the rate of 14 *per cent* per annum would be charged. Further, it was stipulated that cost of shifting any power/telephone line passing through the plot would be borne by SGGIL. Out of 140 acres allotted land, land measuring 3.85 acre was cancelled on 17 March 2009 whereas the 12 acre of land was under litigation.

We noticed that the SGGIL did not adhere to payment schedule given in allotment letter and made payment of ₹ 70.33 crore towards undisputed land of 124.15 acre between 18 December 2008 and 11 August 2009 *i.e.* in six months as against stipulated period of 60 days (subsequently extended to 120 days) provided in allotment letter. The Company, however, waived off (December 2009) the interest ₹ 62.34 lakh leviable on delayed payment. Further the Company had also undertaken (March 2009) the liability of shifting of power line passing through the allotted plot and paid (May 2009) ₹ 4.90 crore to Transmission Company towards shifting charges despite the fact that as per the condition of the allotment letter such charges were to be borne by SGGIL.

Thus, the Company extended undue benefits to SGGIL, which were against the laid down policy/rules/terms and conditions of allotment letter as well as MOU, and sustained a loss of ₹ 5.52 crore.

♣ 140 acre equals to 566580 sqm.

The Government stated (February 2010) that in the present scenario all States are vying with each other to attract investments particularly from big names of national and international repute to accelerate the growth of industrial development and employment generation. The BOD of the Company, taking into consideration the special features of upcoming project of SGGIL, accorded approval for bearing cost of shifting of the power lines.

The reply is not convincing in view of the fact that the plot was allotted on concessional rates as per MOU executed by relaxing various term and conditions of the policy of land allotment and hence waiver of interest on delayed payment was not prudent as well as in violation of laid down policy/rules. Further, the decision of the Company to bear the shifting charges was not justifiable as the plot was allotted on "As is where is basis" and there was no provision in the MOU to bear such cost. The decision of the Company was also discriminatory as in another prestigious project of car manufacturing plant, Honda Siel borne the line shifting charges as per the policy.

We recommend that the Company should deal with such cases as per the rules, regulations and policy thereof and not on case to case basis.

3.11 Imprudent waiver of transfer fee

Decision of the IDC to waive transfer fee of ₹ 87.17 lakh was imprudent as well as in violation of laid down rules of the Company.

Rajasthan State Industrial Development and Investment Corporation Limited (Company) permits transfer of sub-divided land/plot subsequent to sub-division of the allotted land/plot as provided under Rule 17-(B) and 17-(B-1) of RIICO Disposal of Land Rules, 1979 subject to payment of transfer fee at the rate of 10 *per cent* of the prevailing industrial rate of industrial area concerned as provided under Rule 17-B (2). As per the provisions contained in these rules, the exemption from payment of transfer fee could be granted in specific cases *i.e.* in case of transfer of part land/plot in favour of blood relations, cases affected in pursuance of rehabilitation scheme sanctioned/approved by BIFR/AAIFR/Financial institutions, in case of a new firm wherein transferor holds controlling share in new transferee firm, in cases of small plots to clear term loan dues of the Company as one time settlement and in cases where the existing partners of an allottee firm are distributing the land/plot between themselves for setting up separate units pursuant to mutual settlement arrived at or order given by the competent Court of Law.

Scrutiny (November 2009) of records of the office of Managing Director (MD), RIICO revealed that Rajasthan Financial Corporation (RFC) took over (September 1990) the possession of the Company's land measuring 1,21,600 square metre (sqm.) as the allottee of the land did not repay the dues of the RFC. In an auction held by the RFC in July 2002, Alwar Power Company Private Limited (APCPL) purchased this land for a sale consideration of ₹ one crore.

In November 2008, the APCPL had entered into an agreement with a firm called the Saint Gobain Glass India Limited (SGGIL) for sale of part land

admeasuring 72,640 sqm. for a sale consideration of ₹ 6.53 crore. The APCPL applied (April 2009) for subdivision of its land in two parts, with the intention to transfer of one part of the land measuring 72,640 sqm. to SGGIL. The request of APCPL for subdivision of the land in two parts (measuring 72,640 and 48,960 sqm.) was acceded (May 2009) by the Company and demand for ₹ 87.17 lakh was raised on APCPL towards the transfer charges of subdivided plot.

We noticed that both APCPL and SGGIL requested (May 2009) the Company for waiver of transfer charges. The matter was placed (June 2009) before the Infrastructure Development Committee[*] (IDC) for waiver of transfer charges on the grounds that SGGIL was a subsidiary of Saint Gobain Group and SGGIL either itself or through other Saint Gobain owned companies would invest ₹ 1,000 crore in the State of Rajasthan in next seven years. The same was approved by the IDC.

We observed that the justifications given for waiver of transfer fee were not reasonable in view of the fact that the transfer fee was payable by the transferor *i.e.* APCPL in accordance with the Disposal of land Rules and therefore the Company extended an undue benefit to APCPL by waiver of the transfer fee of ₹ 87.17 lakh. It was also observed that the sale of land was from one private party (APCPL) to another private party (SGGIL) and therefore the transfer fee could not be waived as per the provisions of the RIICO Disposal of Land Rules.

The Government stated (July 2010) that IDC was competent to reduce/relax the rates, rules, terms and conditions decided/framed in the RIICO Disposal of Land Rules. It further stated that IDC, looking to the overall scenario and in the interest of the State, decided for waiver of transfer fee of APCPL as SGGIL either through itself or through other Saint Gobain majority owned Companies would invest at least ₹ 1000 crore in the next seven years for setting up a float glass plant in the State.

The justification of huge investment being brought out by SGGIL was not convincing and had no relation regarding waiver of transfer fee to be paid by APCPL as it was selling part of its land to SGGIL at a premium of ₹ 5.53 crore but not willing to pay dues of the Company.

Thus, the decision of the IDC to waive transfer fee of ₹ 87.17 lakh was imprudent as well as in violation of laid down rules of the Company. The Company's decision should not be discriminatory to favour a single entrepreneur and it should evolve a system to recover its legitimate dues.

---

[*] Chairman, MD, Financial Advisor, Advisor Infra and Sr. DGM (P&D) of RIICO.

3.12 Loss due to allotment of plot below the prevailing rate of development charges

The Company, in violation of its own policy, sustained a loss of ₹ 23.40 lakh by allotting a plot keeping the reserve price at 75 *per cent* of the prevailing rate of the development charges.

As per the policy of the Rajasthan State Industrial Development and Investment Corporation Limited (Company), plots classified as abnormal in saturated industrial areas*, *viz;* plots of irregular shape, in depression on account of nallah, plots on undulated land or plots located on hillocks may be disposed off through open auction keeping the reserve price equal to 75 *per cent* of rate of the development charges prevailing in the area.

The Company gave (May 2007) administrative approval for development of Industrial Area, Kishangarh Phase-V keeping the development charges of the area at ₹ 1,600 per square metre (sqm.). The land allotment process in the industrial area was also started simultaneously.

Scrutiny of records (November 2009) of the Head Office of the Company revealed that R.K. Marbles Private Limited (Entrepreneur) requested (October 2007) the Company for allotment of Plot No. SP-29, at the Industrial Area, Kishangarh Phase-V (measuring 10,000 sqm.) at 50 *per cent* of the prevailing development charges on the grounds that the plot was undulated and of irregular shape. The plot was located adjacent to the existing land of the entrepreneur. We noticed that the Head Office of the Company rejected (December 2007) the request of the Entrepreneur for allotment of plot at concessional rate and decided to allot the plot on prevailing rate of development charges. Subsequently, the Entrepreneur made a representation (December 2007) to the Company and office of the Chief Minister, Rajasthan Government for allotment of the plot at 50 *per cent* of the prevailing development charges. In response to the instruction (February 2008) from office of the Chief Minister, the matter was placed (April 2008) before Infrastructure Development Committee (IDC) of the Company. The IDC accorded its approval for auctioning the plot by reducing the reserve price by 25 *per cent* on the basis of the request of the Entrepreneur keeping in view the irregular shape of the plot. The plot was put to auction on 11 June 2008 wherein the Entrepreneur made the highest bid of ₹ 1,206 per sqm. against the reserve price of ₹ 1,200 *i.e.* 75 *per cent* of the prevailing rate of the development charges. Accordingly, the plot was allotted (June 2008) to the Entrepreneur and lease agreement executed in September 2008.

We observed that the decision of the IDC was against the policy of the Company and hence not justified as the industrial area was not saturated at that time. The Company was aware about the existing land of the Entrepreneur which was adjacent to the plot being demanded by the Entrepreneur. Allotment of the plot to the Entrepreneur resulted in a combined rectangular plot with proper approach and roads and hence appreciation in the

---

* Where the minimum 90 *per cent* of the total industrial area is allotted.

value of the combined land benefiting the Entrepreneur was to be expected. Despite being aware of the overall area, the reserve price was reduced to 75 *per cent*. Thus, due to allotment of plot by keeping the reserve price at 75 *per cent* of the prevailing rate of the development charges the Company sustained a loss of ₹ 23.40 lakh even after considering the rebate of 10 *per cent* in the rate of development charges on industrial plot measuring 10,000 sqm.

The Government stated (July 2010) that IDC is mandated for taking policy decision in regard to infrastructure development activities which includes framing and amendment of rules/policies and also to relax the terms and conditions of rules/policies. It further stated that in view of powers delegated to IDC, it decided for auction of the plot in the unsaturated area.

The reply is not convincing as the IDC did not exercise its powers cautiously as it was well aware about the entrepreneur's interest and keenness to get the plot allotted which was adjacent to its existing land. Therefore relaxation in its own laid down policy for one entrepreneur was not in the best financial interest of the Company. Besides, the development plan of industrial area was also defective *abinitio* as the Company while approving the lay out plan of the industrial area kept aside the plot measuring 10,000 sqm. with irregular shape instead of earmarked it into smaller size plots.

Rajasthan State Seeds Corporation Limited

3.13 System lapses in subsidy claims and its utilisation

System lapses in subsidy claims, its utilisation, non-adherence to guidelines and lack of monitoring led to non delivery of intended benefits to the farmers.

Rajasthan State Seeds Corporation Limited (Company) was incorporated in March 1978 with the main objectives of production of certified seeds and its marketing at reasonable price to farmers. The Government of India (GOI) emphasized on development and strengthening of existing infrastructure facilities for production and distribution of certified seeds to the farmers. The Government of Rajasthan (GOR) nominated the Company as nodal agency for procurement of breeder seeds and to undertake production of foundation and certified seeds and marketing of certified seeds of various crops under different schemes.

The Company receives subsidy from State /Central Government under various schemes *viz*; Work Plan, Integrated Scheme of Oil Seeds, Pulses, Oil Palm and Maize (ISOPAM), National Food Security Mission (NSFM), Seeds Bank scheme, Development and strengthening of infrastructure facilities under Central Sector Scheme *etc*. The subsidy amount so received is to be utilized for specific purpose for which it was granted *i.e.* for construction of godowns, marketing subsidy for selling the seeds to farmers at subsidized rates, production subsidy to weaker section farmers and development and

strengthening of infrastructure facility for production and distribution of quality seeds to farmers.

In order to assess the system prevailing in the Company, we made an attempt to analyze it whether the claims, utilization and disbursement of subsidy among beneficiaries have been done by the Company in an effective and efficient manner. Based on the scrutiny of documents for the period 2006-09, the observations noticed during this assessment are discussed below:

Under utilisation of subsidy

GOI provides subsidy for production and marketing of foundation and certified seeds for all crop seasons *i.e.* Kharif, Rabi and Zaid seasons under various schemes. The GOI sanctions the subsidy in accordance with the requirement/proposal submitted by the Company. The season-wise production and marketing subsidy sanctioned, released by GOI and utilisation thereof is given in **Annexure 22**. It could be seen from the annexure that the Company availed production and marketing subsidy amounting to ₹ 48.30 crore and ₹ 41.25 crore against the sanctioned amount of ₹ 61.01 crore and ₹ 50.89 crore respectively during 2006-09. Further, the Company could utilize production subsidy of ₹ 40.43 crore and marketing subsidy of ₹ 40.60 crore which was 66.27 and 79.78 *per cent* of sanctioned subsidy.

An analysis of production subsidy received under Integrated Cotton Development Project (ICDP) and its utilisation during 2006-09 revealed that as against sanctioned amount of ₹ 1.34 crore the subsidy received was ₹ 1.04 crore of which ₹ 57.37 lakh could only be utilized by the Company. The reasons for non-utilisation of funds were not analysed by the Company. The shortfall in utilisation of subsidy indicates the inadequate efforts on the part of Company for production and marketing of seeds.

The Government stated (August 2010) that utilisation of sanctioned production and marketing subsidy was mainly affected due to adverse agro-climatic conditions, less irrigation facilities, conversion of marketing subsidy for production programme/other schemes of Government and change/variety of crop as per market trends. It further stated that in some cases the differential amount of subsidy was paid on submission of utilisation certificate whereas in some cases unspent amount was adjusted in next season.

The reply is not convincing in view of the fact that significant amount of production and marketing subsidy remained un-utilized and the Company did not take suitable measures to improve the performance.

Subsidy for development and strengthening of infrastructure facilities under Central Sector Scheme

GOI introduced (2007) Central Sector Scheme (CSS) for development and strengthening of infrastructure facilities for production and distribution of quality seeds. The Agriculture Department (GOR) prepared (2007-08) a plan for distribution of 3,225 quintals foundation seeds, imparting training to 17,000 farmers and distribution of storage bins among these farmers. The

GOR directed the Company to carry out this work and asked GOI to release the necessary funds directly to the Company. The GOI released (October 2007) ₹ 1.17 crore in the form of subsidy towards seed distribution (₹ 34.06 lakh), training to farmers (₹ 51 lakh) and for distribution of storage bins (₹ 31.87 lakh). The Company could utilize only ₹ 27.48 lakh (80.68 *per cent*) towards seed distribution and ₹ 12.42 lakh (24.35 *per cent*) towards training to farmers leaving an unutilized balance of subsidy ₹ 77.03 lakh. The Company decided (March 2008) that due to unavoidable reasons, it would not distribute the storage bins to the farmer. Despite this decision, the Company did not refund the subsidy amount for distribution of storage bins (₹ 31.87 lakh) till April 2010. Thus, this not only deprived the farmers to avail the facility planned in the scheme but also defeated the objectives of the scheme.

The Government stated (August 2010) that it had intimated (June 2009) GOI that total amount of CCS would be utilized under seed distribution and farmers training only.

Non-adherence to guidelines

GOI prescribed provisions for allocation of production programme to farmers in ISOPAM and Work Plan schemes in the ratio of 70.28, 17.16 and 12.56 to General, Schedule Caste (SC) and Schedule Tribes (ST) categories respectively and accordingly the seed was to be distributed in the same ratio. It was also reiterated in the scheme that 30 *per cent* of seed production be allocated horizontally to small, marginal and women farmers among the aforesaid targets in each category. It was observed that the Company did not adhere to the prescribed ratio for production of seeds in any of the crop seasons during last three years ending 31 March 2009. We noticed that the actual percentage in allocating production programme ranged between 0.61 and 15.55 in case of SC category whereas in case of ST category, it ranged between 3.42 and 15.84 *per cent*. However, the Company did not maintain proper records to show the achievement of percentage of production performance of small, marginal and women farmers.

The Department of Agriculture, Government of Rajasthan, while releasing the subsidy for production of certified seeds in Kharif 2008, deducted ₹ 84.72 lakh for non adherence to caste ratio in providing certified seed production programme during Kharif 2006, Rabi 2006-07 and Zaid[♣] 2007 crop seasons.

The Government stated (August 2010) that the prescribed provisions for allocation of production programme to the farmers could not be achieved as the seed producers belonging to SC/ST did not come forward because of very small land holding, less facilities of assured irrigation and their poor financial position.

♣ Name of crop sown in February and March.

Issue of utilisation certificates

The Company has not maintained proper records having progressive details as regards to utilisation of subsidy under various schemes. In fact, it ascertains the information from its unit offices as and when required and compiled the same. Based on such compilation it issued utilisation certificates for production and marketing of seeds under ISOPAM, ICDP (Cotton) and work plan schemes. We noticed that non-maintenance of proper records regarding utilisation of subsidy as well as non-reconciliation of subsidy in various scheme caused short recovery of subsidy of ₹ 2.62 crore during 2006-09.

Monitoring of various schemes

In order to achieve the objectives of various schemes to promote interests of the farmers and weaker sections of the society, it is essential that an adequate system should have been developed by the Company for availing and distributing subsidy so that desired goals could be achieved. We, however, noticed that the Company did not evolve system to implement and to monitor the various schemes.

Thus due to system lapses in subsidy claims, its utilisation, non-adherence to guidelines and lack of monitoring led to poor implementation of schemes and intended benefits could not reach the farmers.

3.14 Extra expenditure on procurement of certified seed of ground-nut

The Company incurred extra expenditure of ₹ 15.47 lakh due to failure in confirming the required quantity of seed timely.

Rajasthan State Seeds Corporation Limited (Company) invited (January 2008) tenders for procurement of 5,000 quintal of certified seed of ground nut (GG-20) for Kharif 2008 season. The Company placed (18 February 2008) supply orders on Murlidhar Seeds Corporation (MSC) and Varad Agri Tech Limited (VATL) for supply of 1,500 and 3,500 quintal of certified seed of ground-nut respectively at the negotiated rate of ₹ 5,075 per quintal with scheduled date of supply as 15 April 2008. The agreements to this effect were also executed with both the supplier Firms *viz;* MSC and VATL on 18 February 2008. Clause 11 of the agreement stipulated that in case the supplier failed to supply the complete quantity of seed within the specified time period, the Company, besides imposing penalty up to 5 *per cent* for the unsupplied quantity, would also be entitled to arrange the seed from the open market/other seeds producers at the risk and cost of the supplier Firms.

Scrutiny of records revealed that both the supplier Firms intimated the Company on 13/14 February 2008 respectively that they would not be able to supply the seed until the quantity is confirmed at the time of entering into agreement. Despite this condition of the supplier Firms, the Company did not confirm the quantity of seed/schedule of supply except last date of supply and placed supply order for tentative quantity. Due to non-confirmation of the quantity at the time of executing the agreement, the supplier Firms did not furnish any security deposit. It was also noticed that the Company, after

placement of supply orders, called for (February/March 2008) the demand of ground-nut seed from its units. The units sent (March 2008) total requirement of 11,930 quintal of certified seed of ground-nut (GG-20) for Kharif 2008 out of which a quantity of 4,500 quintal was available with the Company. In view of availability of own production of 4,500 quintal, the Company decided (March 2008) to increase the quantity of seed to be supplied by MSC and VATL as 2,250 and 5,250 quintal respectively.

We noticed that the Company belatedly confirmed (11 April 2008) the quantity of 1,500 and 3,500 quintal of seed to be supplied by MSC and VATL. MSC, however, informed (21 April 2008) the Company that it did not get the confirm quantity of seed to be supplied till date, hence, it was too late to procure the seed and requested to cancel the order. VATL supplied 6,200 quintal of seed against the extended quantity of 5,250 quintal at the rate of ₹ 5,075 per quintal. Meanwhile, Gujarat State Seeds Corporation Limited (GSSCL) also offered (May 2008) the Company for supply of certified seed of ground nut (GG-20) at the rate of ₹ 6,250 per quintal. The Company, looking to the demand and also non-receipt of supply from MSC, accepted the offer of the GSSCL and procured 1,317 quintal of seed from it at higher rate of ₹ 6,250 per quintal.

We observed that despite the fact that quantity of seed to be procured was to be confirmed at least two months before the stipulated date of supply, the belated action of the Company to confirm the quantity to MSC just before four days of last day of supply, resulted into non-receipt of supply from MSC. It was also observed that the Company could not initiate any action against MSC due to its failure in confirming the required quantity of seed in time. Thus, the Company incurred extra expenditure of ₹ 15.47 lakh on procurement of 1,317 quintal of ground nut seed at higher rate from GSSCL.

The Government stated (July 2010) that the tendered quantity was indicative and alteration in quantity was possible as per market analysis which took time. It further stated that as against the tendered quantity of 5,000 quintal, 6,200 quintal of seed was procured at the rate of ₹ 5,075 per quintal and seed procured from GSSCL was as per original plan excluding the tendered quantity.

The reply is not convincing as the Company decided to increase the quantity of seed to be supplied by MSC and VATL as 2,250 and 5,250 quintal respectively. However, due to non-obtaining supply from MSC, it had to procure compulsorily the same from GSSCL at higher rate.

The Company should evolve a mechanism to ensure timely ascertainment of the demand from its unit offices so that the orders may be placed on the suppliers for confirm quantity in time to avoid any spontaneous purchases at higher rate.

Statutory Corporations

Rajasthan State Road Transport Corporation

3.15 Undue benefit to a private transporter

The Corporation enhanced the rates before expiry of the agreement and thus extended undue benefit of ₹ 59.99 lakh to the Transporter.

Rajasthan State Road Transport Corporation (Corporation) decided (March 2007) to hire three Volvo buses to operate them on Jaipur-Delhi route. On the basis of an offer received (February 2007) from J.D. Transporter (Transporter), three Volvo buses of 2007 model were hired in July 2007 for a period of four years at the rate of ₹ 12.25 and ₹ 11.50 per kilometre (KM) excluding diesel for a run of 562 KM per day and more than 562 KM per day respectively. Separate agreement for each bus was executed with the Transporter in September 2007. The Corporation further assessed (December 2007) the requirement of four more Volvo buses. The Transporter again offered (January 2008) to provide four more Volvo buses at the rate of ₹ 14.50 per KM excluding diesel for a run of 600 KM or more. The Corporation gave (February 2008) counter offer of ₹ 12.80 per KM excluding diesel, which was accepted (March 2008) by the Transporter. Accordingly, four new Volvo buses were provided by the Transporter in June/July 2008 and the agreements were also executed for these buses for a period of four years.

The Transporter soon after executing the agreements requested (July 2008) the Corporation to increase the rates of all the seven buses to ₹ 14.65 per KM excluding diesel on the plea that there was an increase of 1.5 *per cent* in rate of interest on finance, increase in annual maintenance cost, spare parts, oil, tyres and establishment cost. It was also mentioned that ASRTU* recommended payment of ₹ 15.11 per KM from 1 October 2007 for hiring of Volvo buses and that the Corporation has approved ₹ 14.65 per KM excluding diesel on the basis of subsequent tenders finalised for hiring of Volvo buses. The request of the Transporter was placed before the Board of the Directors (BOD) of the Corporation in September 2008. The BOD considered the issue at length and resolved to increase the rates for all the seven buses to ₹ 14.62 per KM excluding diesel on the ground that the Corporation has earned profits from operation of Volvo buses and it would be in the interest of the Corporation to continue these services being a proprietary item. While resolving, it was also felt that in case the transporter stops the operation, the Corporation would suffer losses.

We noticed that the Transporter was legally bound by the clause of the agreements executed and there was no provision in the agreements to enhance the rate as rates were firm for the agreement period. It was further noticed that the Corporation did not include any suitable clause to safeguards its interest in

---

* Association of State Road Transport Undertakings.

case of cancellation of the agreement except to recover the Special Road Tax, if it becomes payable, and a nominal amount of ₹ one lakh per bus as security deposit. We observed that due to deficiency in the agreement regarding adequacy of performance guarantee, the BOD of the Corporation had to accept the unjustified demand of the Transporter to increase the rates as there was no remedial measure left with the Corporation if the Transporter stopped the operation of Volvo buses. Thus, the Corporation extended undue benefit to the Transporter by enhancing the rates which led to extra expenditure of ₹ 59.99 lakh upto February 2010.

The Government, while agreeing to the fact that there was no provision in the terms and conditions of the agreement for change of law, replied (August 2010) that in case the Transporter withdrew the buses, the Corporation would have not only lost the profit of ₹ 8.43 crore earned through Volvo buses up to January 2010 but also deprive the expected average profit of ₹ 2.24 crore during the agreement period. It further stated that non-operation of these luxury buses would have not only adversely affected the reputation of the Corporation but the passengers would also suffer and the possibility of increase in unauthorized operation of private vehicles on this route could not be ruled out.

The reply is not convincing in view of the fact that had the suitable clauses to safeguard the financial interest of the Corporation been included in the agreements, the unwarranted demand of the Transporter to enhance the rate could be avoided. Moreover, the Board of the Corporation was misled by giving incorrect justifications at the time of deciding the increase in rates as demanded by the Transporter stating that Volvo buses are proprietary item.

General Paragraph

3.16 Follow-up action on Audit Reports

3.16.1 Replies outstanding

The Report of the Comptroller and Auditor General of India represents the culmination of the process of audit scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Rajasthan issued (July 2002) instructions to all Administrative Departments to submit replies, duly vetted by Audit, indicating the corrective/remedial action taken or proposed to be taken on paragraphs and performance audit included in the Audit Reports within three months of their presentation to the Legislature.

Though the Audit Report for the year 2008-09 was presented to State Legislature in March 2010, in respect of three performance audit and 15 draft paragraphs out of three performance audit and 20 draft paragraphs, which were commented in the Audit Report, four[*] departments had not submitted explanatory notes up to September 2010.

3.16.2 Response to Inspection Reports, Draft Paras and Performance Audit

Audit observations noticed during audit and not settled on the spot are communicated though Inspection Reports (IRs) to the Heads of respective Public Sector Undertakings (PSUs) and concerned departments of the State Government. The Heads of PSUs are required to furnish replies to the IRs through the respective Heads of the departments within a period of six weeks. A half yearly report is sent to Principal Secretary/Secretary of the department in respect of pending IRs to facilitate monitoring of the audit observations contained in those IRs.

Inspection Reports issued up to March 2010 pertaining to 22 PSUs disclosed that 2,358 paragraphs relating to 663 IRs involving monetary value of ₹ 1,598.91 crore remained outstanding at the end of September 2010. Even initial replies were not received in respect of 206 paragraphs of 10 PSUs. Department-wise break up of IRs and audit observations as on 30 September 2010 is given in **Annexure 23**. In order to expedite settlement of outstanding paragraphs, Audit Committees were constituted in 13 out of 37 PSUs. 23 Audit Committee meetings were held during 2009-10 wherein position of outstanding paragraphs was discussed with executive/administrative departments to ensure accountability and responsiveness.

Similarly, draft paragraphs and performance audit on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative

[*] Energy (Two reviews including one IT audit and 10 draft paragraphs including two general paragraphs), Transport (one performance audit and one general paragraph), Industries (three draft paragraphs including two general paragraphs) and Mines (six draft paragraphs including three general paragraphs).

department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that two draft paragraphs forwarded to various departments in July 2010, as detailed in **Annexure 24** had not been replied to so far (November 2010).

It is recommended that the Government may ensure that: (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/performance audit and ATNs to recommendations of COPU, as per the prescribed time schedule; (b) action to recover loss/outstanding advances/overpayments is taken within a prescribed period and (c) the system of responding to the audit observations is revamped.

JAIPUR **(MEENAKSHI SHARMA)**
The Accountant General
(Commercial and Receipt Audit), Rajasthan

Countersigned

NEW DELHI **(VINOD RAI)**
The Comptroller and Auditor General of India