

Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2010, the State of Rajasthan had 37 working PSUs (34 companies and 3 Statutory corporations) and 4 non-working PSUs (all companies), which employed 0.70 lakh employees. The working PSUs registered a turnover of ₹ 25,275.63 crore for 2009-10 as per their latest finalised accounts. This turnover was equal to 11.50 *per cent* of State GDP indicating an important role played by State PSUs in the economy.

Investments in PSUs

As on 31 March 2010, the investment (Capital and long term loans) in 41 PSUs was ₹ 35,277.13 crore. It grew by over 155.30 *per cent* from ₹ 13,817.95 crore in 2004-05. Power Sector accounted for nearly 94 *per cent* of total investment in 2009-10. The Government contributed ₹ 5,780.11 crore towards equity, loans and grants/subsidies during 2009-10.

Performance of PSUs

During the year 2009-10, out of 37 working PSUs, 10 PSUs earned profit of ₹ 361.34 crore and eleven PSUs incurred loss of ₹ 1,562.24 crore while three power sector PSUs incorporated in 2000-01 prepared accounts on No profit no loss basis by showing revenue gap as recoverable from the State Government

which was not as per Generally Accepted Accounting Principles (GAAP) prevailing in the country. The major contributors to profit were Rajasthan State Mines and Minerals Limited (₹ 174.57 crore) and Rajasthan State Industrial Development and Investment Corporation Limited (₹ 142.56 crore). The heavy losses were incurred by Rajasthan Rajya Vidyut Prasaran Nigam Limited (₹ 860.77 crore) and Rajasthan Rajya Vidyut Utpadan Nigam Limited (₹ 495.54 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of ₹ 1305.56 crore were controllable with better management.

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

Quality of accounts

The quality of accounts of PSUs needs improvement. Out of 27 accounts finalised during October 2009 to 30 September 2010, 25 accounts received qualified, one account received adverse and one account received disclaimer certificate from Statutory Auditors. CAG gave adverse certificates on two accounts of PSUs relating to power sector during the supplementary audit. There were 73 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on

internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Twenty one working PSUs had arrears of 28 accounts as on 30 September 2010. The arrear needs to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of

accounts. There were four non-working companies of which two PSUs had arrears of accounts for one year. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

(Chapter 1)

2. Performance reviews relating to Government companies

Performance Audits relating to 'Power Generating Stations' of Rajasthan Rajya Vidyut Utpadan Nigam Limited, 'Mining and Marketing of Rock Phosphate and Limestone' by Rajasthan State Mines & Minerals Limited and 'IT Audit on computerisation of revenue billing system' by Jodhpur Vidyut Vitran Nigam Limited were conducted. Executive summary of audit findings is given below.

Power Generating Stations of Rajasthan Rajya Vidyut Utpadan Nigam Limited

Power is an essential requirement for all facets of life and has been recognised as a basic requirement. In Rajasthan, the generation of power is managed by the Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL), which was incorporated on 19 June 2000 as per the Rajasthan Power Sector Reforms Transfer Scheme 2000 under the administrative control of the Energy Department of the Government of Rajasthan. As on 31 March 2010, RRVUNL had four thermal generation stations and 12 hydro generation stations with installed capacity of 2,930.50 MW and 163.85 MW respectively. The turnover of RRVUNL was ₹ 5,101.12 crore in 2008-2009, which was equal to 29.13 and 2.66 per cent of the State PSUs turnover and State Gross Domestic Product respectively. It employed 3,492 employees as on 31 March 2010.

Capacity Addition and Project Management

Against the envisaged capacity addition of 3,020 MW to meet the energy

generation requirement in the State during 2005-10, the actual addition was 2,519.82 MW. Though 1,525 MW of capacity was planned to be added by RRVUNL during the five years ending March 2010, the actual addition was only 525 MW leaving a deficit of 1,000 MW. The State was not in position to meet the demand as the power generated as well as purchased fell short to the extent of 678.02 MUs to 2,693.10 MUs during 2005-10 due to non-commencement of commercial production by the newly established generation stations/ units as per the scheduled plan.

The nine units taken up for implementation during the review period were not completed within scheduled time. The slippage in time schedule were due to delay in signing of gas supply agreement for Gas based plant, finalisation and approval of drawings, execution of work of main plant by BHEL, providing input from Balance of Plant contractors/RRVUNL etc. Three units could not be commercially operated even after synchronization due

to technical problems which could not be resolved till September 2010. Time overrun varied from 12.5 to 48 months in commercial operation of projects, which led to cost overrun amounting to ₹ 1,133.44 crore.

Contract Management

During 2005-10, contracts valuing ₹ 5,121.35 crore were executed. RRVUNL failed to recover liquidated damages of ₹ 222.34 crore being the penalty for the delay in commissioning of the projects. RRVUNL also failed to impose penalty for extra cost of dismantling and rework at SSTPS-Unit VI and thus had to bear an extra cost of ₹ 1.95 crore due to modification in approved drawings which could have been avoided.

Operational Performance

Performance of the existing generation stations depends on efficient use of material, manpower and capacity of the plants so as to generate maximum energy possible without affecting the long term operations of the plants. Audit scrutiny of operational performance revealed the following:

Procurement of fuel

Short receipt of coal (14.91 *per cent*) against the total linkage approved by Standard Linkages Committee during the four years upto 2008-09 led to shortfall in achievement of the generation targets by 3,289 MUs in the TPSs valued at ₹ 777.99 crore. In absence of any agreement with the coal companies from May 2002 to August 2009, RRVUNL failed to procure allotted quantity of coal. Similarly, short receipt of gas at DCCPP resulted in shortfall in achievement of the generation targets by 23.86 MUs valued at ₹ 6.34 crore.

Consumption of fuel

Use of coal having less gross calorific value coupled with Station Heat Rate (SHR) above the Rajasthan Electricity Regulatory Commission (RERC) norms and leakages of steam in the ageing units of power plants caused excess consumption of coal to the tune of 38.34 lakh MT (₹ 892.12 crore) during 2005-10. Similarly, in case of gas based DCCPP, SHR in excess of RERC norms led to excess consumption of 18.03 MMSCM of gas valued at ₹ 16.73 crore.

Deployment of Manpower

RRVUNL had 3,492 employees as on 31 March 2010. The deployment of manpower was not rational as the manpower deployed at gas based and hydro power station was in excess of the norms fixed by CEA whereas the manpower at coal based power stations was inadequate.

Plant Load Factor

The PLF of KSTPS, SSTPS and DCCPP was above the national average of 77.2 *per cent* but the PLF of RGTPS, was lower (36 *per cent* than the national average in 2008-09) due to non availability of gas. The estimated shortfall in generation as compared to national average PLF works out to 1,782.93 MUs during 2005-10 resulting in loss of contribution amounting to ₹ 46.36 crore. Decline in PLF of hydro power projects was due to less availability of water.

Outages

The total number of hours lost due to planned outages increased from 7,718 hours in 2005-06 to 8,528 hours in 2009-10. The unit wise analysis of planned outages revealed that total 4,800 hours were lost in excess of annual all India average. The forced outages remained less than the norm of 10 *per cent* fixed by CEA in all the five years, but it increased by 4.42 to 99.23 *per cent*

during 2006-10 as compared to the year 2005-06.

Auxiliary Consumption

The actual auxiliary consumption at RGTPS was more than the norms fixed by RERC during the period under review resulting in loss of generation of 76.53 MUs valuing ₹ 18.11 crore.

Financial Management

Dependence on borrowed funds increased from ₹ 4,723.23 crore in 2005-06 to ₹ 7,521.25 crore (59.24 *per cent*) in 2008-09, which resulted in interest burden of ₹ 360.86 crore. Heavy capital expenditure coupled with interest commitment on loans without adequate returns due to delay in commercial operation of the plants caused significant increase in cost of operations. RRVUNL's own inclination for equity support of 20 *per cent* of project cost as against 30 *per cent* prescribed by CERC caused short receipt of equity support from the State Government by ₹ 433 crore.

Environmental Issues

RRVUNL could not get registered its Gas based DCCPP under Clean Development Mechanism and consequently could not earn Certified Emission Reduction. Further, it did not initiate any action for washing of 117.28 lakh MT of high ash content coal (weighted average of ash ranged between 35.85 and 39.01 *per cent*) before use to meet the MOE&F norm of less than 34 *per cent* ash. KSTPS and SSTPS neither installed adequate silencing equipments nor installed noise

monitoring equipment to record noise levels.

Conclusion and Recommendations

RRVUNL could not keep pace with growing demand of power in the State due to non-commencement of commercial production by the newly established generating stations/ units as per their scheduled plan. The project management was ineffective as there were instances of time and cost overrun in all the projects taken up during 2005-10. Delay in completion also caused significant increase in interest cost during construction period. Operational performance of the plants was adversely affected due to short receipt as well as inferior quality of coal/gas, low heat rate causing excess consumption of coal/gas. Further though plant load factor, plant availability and capacity utilization remained higher than the national average level, there was a declining trend since 2007-08 due to increase in forced outages and auxiliary consumption. Heavy capital expenditure coupled with interest commitment on loans without adequate returns due to delay in commercial operation of the plants caused significant increase in cost of operations. The top management did not take corrective measures to ensure adherence to norms/targets in respect of input efficiency parameters. The review contains seven recommendations which include effective planning and monitoring, ensuring consumption of coal/gas within the prescribed norms, minimise forced outages and auxiliary consumption and ensure compliance to environmental laws, *etc.*

(Chapter 2.1)

Mining and Marketing of Rock Phosphate and Limestone by Rajasthan State Mines & Minerals Limited

Rajasthan State Mines & Minerals Limited incorporated as Government Company in December 1974 is involved in mining and marketing of Rock Phosphate, Gypsum, Limestone, Lignite and other minerals. The Company has four mineral based Strategic Business Units and Profit Centre (SBU&PC) at Udaipur, Bikaner, Jodhpur and Jaipur engaged in mining and marketing of Rock Phosphate, Gypsum, Limestone and Lignite respectively. The Company is mining 87 *per cent* of the total Rock Phosphate production in the country and fulfils 19 *per cent* of total demand of Rock Phosphate and balance 81 *per cent* demand is fulfilled by imported Rock Phosphate. Rock Phosphate and Limestone had contributed almost 59 and 12 *per cent* respectively of the total revenue earned by the Company during 2004-09.

Planning and statutory compliance

The Company's planning was not adequate as it failed to prepare long term plan and the mining schemes were also faulty. The company did not comply with the statutory requirements viz; obtaining environment clearance, preparation of mine plan, operating mines under minor mineral category despite being covered under major mineral, delay in reclamation of excavated mine area. The Company had to close down its mining operations at eight mines since May 2004 due to non compliance of the statutory requirements. Resultantly, the Company incurred idle expenditure of ₹ 62.46 crore on these closed mines towards land tax and dead rent. Non converting the Limestone mines under major mineral resulted in avoidable payment of premium charges amounting to

₹ 66.49 lakh on transferring the same in its name.

Production of minerals

The production performance of the Company was at variance with both Mine Plan (MP) and Annual Plan (AP). The quantity of ore (Rock Phosphate) excavated during 2004-09 ranged between 85 and 110 *per cent* whereas the quantity of over burden removed ranged between 86 and 123 *per cent* of quantity projected in the AP. The excavation targets fixed for contractors for SMS grade Limestone were not commensurate with the MP/AP projections. The Limestone produced by the Company at Gotan was 12.68 *per cent* of the total production despite the fact that it had 43.58 *per cent* of total lease area.

The Company could not utilise the heavy earth moving machines (HEMMs) optimally in excavation of mineral due to high number of breakdowns which resulted in loss of production of 4.17 lakh MT during 2004-09. Despite having sufficient quantity of low grade ore, the crusher plant was not utilised optimally. Consequently, the Industrial Beneficiation Plant (IBP) could not be utilised to its installed capacity. The crushing and screening plant at SBU&PC-Limestone also remained idle. As a result the Company was deprived of revenue of ₹ 23.16 crore.

Contract Management

The contract management of the Company was deficient in award of contracts and their execution. The Company ignoring the defects noticed during inspection/trial run of the excavator accepted the supply. The Company awarded repair and maintenance contract without obtaining

competitive bids. The Company did not include any penal provision in the contract awarded for determining load limits in wagons due to which the Company failed to recover penalty from the transporters for overloading and got involved in unnecessary litigation resulting in payment of ₹ 6.84 crore as penalty charges to Railways.

Marketing/sales Management

There was no documented sales policy at SBU&PC Rock Phosphate and Limestone. Due to non-review of sale price in comparison to effective increase in cost led to loss of revenue of ₹ 60.23 crore. The losses of the SBU&PC-Limestone (Gotan) were exceptionally high in 2007-08. The Company also failed to recover ₹ 46.27 crore towards Mineral Right Cess imposed retrospectively by the State Government from the consumers.

Financial Management

The SBU&PC- Limestone in violation of the guidelines kept the funds with the unit without any use. The Company did

not utilise the corpus fund and adopted other methods for financial assurance.

Manpower Management

The company did not have any structured manpower policy. The manpower deployed at SBU&PC-Limestone was excess whereas SBU&PC- Rock phosphate was facing shortage of manpower.

Conclusion and Recommendation

The Company's planning was inadequate and the mining schemes were also faulty. The Company also did not comply with the statutory requirements. The production performance of the Company, utilisation of HEMMs and IBP was not satisfactory. There was no documented sales policy. The review contains nine recommendations which includes preparation of broad strategic corporate plan, compliance of statutory requirements and optimal utilisation of HEMMs/IBP and best practices for contract management.

(Chapter 2.2)

IT Audit on computerisation of revenue billing system by Jodhpur Vidyut Vitran Nigam Limited

Jodhpur Vidyut Vitran Nigam Limited (Company) outsourced (2008) work of generation of electricity consumption bills of all the nine circles. It awarded generation of electricity bills of five circles including electricity bills of all HT consumers to K & D Engineers and Consultants and the work of electricity bills of remaining four circles to KLG Systel Limited, Gurgaon (Haryana). An Information Technology Audit on billing system of the Company was attempted to ascertain that the Company before awarding the work of its core activity of revenue realisation has adequately addressed the associated

risks of outsourcing. Further, the audit was also conducted to evaluate controls of application software and to ascertain completeness, regularity and consistency of data.

Computerisation of revenue billing of the Company was assessed against the Tariff for supply of electricity-2004, and Terms and Conditions of Supply (TCOS) -2004, Rules, notifications, directions issued by the Rajasthan Electricity Regulatory Commission (Commission) and orders and circulars issued by the Company. The data available with the Company was

analysed with the help of Computer Assisted Audit Techniques.

Though the system developed by both the service providers was adequate as regards to processing of billing data and generation of electricity bills yet there were many shortcomings leading to incorrect billing as well as not achieving full potential of IT applications. The observations of audit have been categorised as deficiencies of general controls, system design drawbacks,

mapping of business rules and lacunae in application controls such as deficient input controls and validation checks. Besides, some contractual deficiencies, non-reconciliation of data available in the system with financial statements of the Company were also noticed. It is also felt that there is a requirement for effective IT application internal control mechanism so as to get the best results of computerisation of billing system.

(Chapter 2.3)

3. Transaction audit observations

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

Loss of ₹ 14.89 crore in seven cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.2, 3.3, 3.5, 3.10, 3.11, 3.12 and 3.15)

Loss of ₹ 1.29 crore in one case due to non-safeguarding the financial interests of organisation.

(Paragraph 3.7)

Loss of ₹ 2.17 crore in three cases due to defective/deficient planning.

(Paragraphs 3.4, 3.6 and 3.14)

Loss of ₹ 0.35 crore in four cases due to inadequate/deficient monitoring.

(Paragraphs 3.1, 3.8, 3.9 and 3.13)

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

Gross negligence on the part of the officials of **Ajmer Vidyut Vitran Nigam Limited**, in extending the contract period of the Collection Agent being aware of financial and other irregularities, caused cash embezzlement of ₹ 35.35 lakh.

(Paragraph 3.1)

Decision of **Jaipur Vidyut Vitran Nigam Limited** 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.

(Paragraph 3.2)

Rajasthan Rajya Vidyut Prasaran Nigam Limited 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.

(Paragraph 3.4)

Failure of **Rajasthan Renewable Energy Corporation Limited** to timely offload Carbon Financial Instruments resulted into a loss of ₹ 1.29 crore.

(Paragraph 3.7)

Rajasthan State Industrial Development & Investment Corporation Limited 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.

(Paragraph 3.10)

Rajasthan State Road Transport Corporation extended undue benefit of ₹ 59.99 lakh to the Transporter by enhancing the rates before expiry of the agreement.

(Paragraph 3.15)