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 2011, the State of Rajasthan had 42 working PSUs (39 companies and 3 Statutory corporations) and 3 non-working PSUs (all companies), which employed 0.85 lakh employees. The working PSUs registered a turnover of ₹ 30152.24 crore for 2010-11 as per their latest finalised accounts. This turnover was equal to 9.94 *per cent* of State GDP indicating an important role played by State PSUs in the economy.

Investments in PSUs

As on 31 March 2011, the investment (Capital and long term loans) in 45 PSUs was ₹ 47144.61 crore. It grew by over 192.41 *per cent* from ₹ 16122.90 crore in 2005-06. Power Sector accounted for nearly 93 *per cent* of total investment in 2010-11. The Government contributed ₹ 3546.82 crore towards equity, loans and grants/subsidies during 2010-11.

Performance of PSUs

During the year 2010-11, out of 42 working PSUs, 12 PSUs earned profit of ₹ 529.68 crore and 19 PSUs incurred loss of ₹ 1077.82 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 (₹ 143.54 crore) and Rajasthan State Industrial Development and Investment Corporation Limited (₹ 292.18 crore). The heavy losses were incurred by Rajasthan Rajya Vidyut Prasaran Nigam Limited (₹ 815.94 crore) and Rajasthan State Road Transport Corporation (₹ 186.84 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 ₹ 1300.20 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 46 accounts finalised during October 2010 to 30 September 2011, 36 accounts received qualified certificates and four accounts received adverse certificate from Statutory Auditors. CAG gave adverse certificates on two accounts of PSUs relating to power sector during the supplementary audit. There were 79 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

Seventeen working PSUs had arrears of 24 accounts as on 30 September 2011. The arrear needs to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. Out of three non-working PSUs, one PSU has arrear in account for more than one year while one other PSU has arrear in 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 Distribution Utilities'** ***i.e.*** **Ajmer Vidyut Vitran Nigam Limited**, **Jaipur Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited** and **'Industrial Promotion and Infrastructure Activity' by Rajasthan State Industrial Development and Investment Corporation Limited** were conducted. Executive summary of audit findings is given below.

'Power Distribution Utilities' i.e. Ajmer Vidyut Vitran Nigam Limited, Jaipur Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited

Electricity is an essential requirement for all facets of our life and its supply at reasonable rate to all the sectors is very crucial for sustained economic development. In Rajasthan, distribution of electricity is managed by Ajmer Vidyut Vitran Nigam Limited, Jaipur Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited. As on 31 March 2011, the State had distribution network of 6.33 lakh Circuit Kilometer of lines (33/11 KV and LT), 3498 Sub-Stations and 813808 transformers of various categories. The number of consumers was 95.27 lakh as on 31 March 2011. The turnover of DISCOMs was ₹ 21807.49 crore in 2009-10, which was equal to 65.98 *per cent* and 9.92 *per cent* of the turnover of State PSUs and State Gross Domestic Product respectively. The DISCOMs employed 41040 employees as on 31 March 2011.

Distribution Network Planning

The increase in distribution capacity could not match the pace of growth in consumer demand, as against the planned additions of 1200 sub-stations during 2006-11, the actual addition was only 1142 sub-stations and further, as compared to the growth of connected load from 11792 MW as on April 2006 to 20857 MW as on March 2011, the increase in transformers capacity was from 11310 MVA to 15469 MVA. In JdVVNL, delay ranging between five and 27 months in completion of 28 sub-stations against scheduled dates of completion as on 31 March 2011 deprived envisaged energy savings of 17.44 MUs valuing ₹ 11.37 crore.

Centrally Sponsored Schemes

RGGVY The State Government notified the Rural Electrification Plan with a delay of 18 months. The DISCOMs against the target of electrification of all villages by March 2009 under Rajiv Gandhi Grameen Vidyutikaran Yojna, electrified only 1661 villages out of total 6538 un-electrified villages and further, only 1488 more villages could be electrified by March 2011. JdVVNL departmentally executed the projects in violation of the provisions of scheme which resulted into deprival of subsidy of ₹ 2.11 crore for Barmer project and likely deprival of ₹ 19.58 crore for four projects of tenth plan.

JdVVNL incurred excess expenditure of ₹ 13.05 crore from its own sources during tenth plan while funds released by REC under eleventh plan remained unspent due to slow progress of work. The excess expenditure incurred on the projects of tenth plan were not reimbursed by REC due to failure of JdVVNL to submit closure certificates. This has cost JdVVNL of ₹ 3.20 crore on account of interest paid on borrowed funds.

APDRP/R-APDRP The works of ₹ 163.62 crore executed by DISCOMs did not match the sanctioned list of the GOI under mandatory and non-mandatory item list as a result the DISCOMs were deprived of the subsidy of ₹ 40.91 crore. For implementing SCADA in Jodhpur and Bikaner city, the implementing agency could not achieve the target of 'Go Live' by due date. Further, the JdVVNL could ring fence only 19 out of 31 towns, which resulted in undue delay in commencement of activities. The DPRs of the projects were under preparation stage and only ₹ 16.35 crore could be utilised (June 2011) against loan funds of ₹ 102.63 crore.

Operational Efficiency

The DISCOMs purchased excess power of 7524 MUs beyond the approval of RERC. The long-term purchases were not enough to fulfill the demand of power in the State and shortage was met from short-term purchases at a higher cost ranging between ₹ 3.87 per unit and ₹ 7.52 per unit and UI purchases ranging between ₹ 3.65 and ₹ 9.20 during 2006-11. The DISCOMs also did not maintain the Grid discipline. The energy losses in DISCOMs were in excess than approved by RERC during 2006-07 and 2009-10 by 1386 MUs valuing ₹ 751.50 crore. Further, the expenditure on repairs of failed DTRs in JdVVNL increased from ₹ 7760 per DTR in 2006-07 to ₹ 19952 per DTR in 2009-10 despite no major change in contractual rates of repair. The significant shortfall in addition of capacitor banks and non- repairing of the defective capacitors in JdVVNL led to loss of targeted energy saving of 161.47 MUs valued at ₹ 89.59 crore. The JdVVNL could not achieve the targets of vigilance checking and theft detection and further, the targets of assessment in respect of detected cases despite declining trend were not achieved except in 2009-10 and 2010-11.

Financial Management

Inadequate State Government support, non-release of subsidy and non-revision of tariff during the review period worsened the financial position of DISCOMs. The increase in tariff (September 2011) was inadequate to cover the average cost of supply and deficit in subsequent years. As on 31 March 2010, the subsidy receivable from State Government inclusive of revenue deficit was ₹ 27612.97 crore. During 2006-10, the DISCOMs incurred cash losses of ₹ 33916.88 crore which was overcome mainly by borrowings from commercial banks/financial institutions. The dependence of DISCOMs on borrowed funds increased from ₹ 8601.72 crore to ₹ 32859.51 crore during 2006-10 and simultaneously, the interest burden also increased from ₹ 694.08 crore to ₹ 2611.69 crore. The cost of power purchase was more than the revenue realised from sale of power and the percentage of cost to revenue realised increased from 94.15 *per cent* to 162.43 *per cent* during 2006-10.

Energy Conservation

The JdVVNL though created 'Demand Side Management' cell but the cell remained non-functional since creation and was discontinued in 2006. The JdVVNL did not conduct mandatory Energy Audit from 2007 as was required under Energy Conservation Act, 2001. JdVVNL also did not install meters at all feeders to achieve the objective of energy accounting.

Further, against the direction of RERC to convert unmetered FRAC into metered category, JdVVNL could not adhere the annual targets and only 9799 FRAC against the target of 20037 were converted into metered category during 2006-10. JdVVNL also could not replace the defective meters within scheduled time and resultantly consumers were billed on average basis.

Conclusion and Recommendations

DISCOMs did not prepare plans for capacity additions keeping in view the load growth. The DISCOMs could not achieve the targets/objectives of RGGVY and APDRP/R-APDRP due to deficient planning. Long-term power purchase agreements were not adequate even to meet the demand approved by RERC and power was purchased at high cost through short-term agreements and UI purchases. Sub-transmission and distribution losses in JdVVNL were in excess than approved by RERC. Delay in revision of tariff, inadequate State Government support and supply of power to flat rate agricultural consumers at subsidised rates caused wide gap between revenue realised and cost of power supply which was funded through borrowings from financial institutions. Even after revision of tariff, cross subsidy was non-existent and all categories of consumers were still being supplied power at less than average cost of supply. The targets of vigilance checking and theft detection were not adequate and age -wise analysis of outstanding dues from sale of power and assessment of vigilance reported cases was not proper in JdVVNL which affected the recovery of debts/old debts. Further, JdVVNL did not get done mandatory energy audit under Energy Conservation Act, 2001 and also could not install meters at all feeders to achieve the objective of energy accounting. The review contains eight recommendations which includes financial package for reviving the financials of DISCOMs, ensure timely revision of tariff, adherence to the norms of RERC, timely completion of schemes, re-assessment of targets of vigilance checking and theft detection and to get done energy audit and accounting *etc.*

(Chapter 2.1)

Industrial Promotion and Infrastructure Activity by Rajasthan State Industrial Development and Investment Corporation Limited

Rajasthan State Industrial Development and Investment Corporation Limited was renamed (January 1980) to undertake exclusively the activities promoting industrialisation in the State and to achieve the objectives of State Industrial Policy/Policies. The Company is mainly engaged in acquisition of land, building infrastructure and developing industrial areas, financial assistance to industrial projects and provide concessions as per the policy of the State Government. As on March 2010, the Company developed 322 industrial areas by acquiring about 60395 acres of land wherein 27130 industrial units are established. IPI activity contributed 86 *per cent* of the total revenue earned during 2005-10, whereas remaining 14 *per cent* was contributed by investment and other activities.

Implementation of State Industrial Policy

The Company did not plan to develop thrust sectors envisaged in the Industrial Policy i.e. Auto Ancillary at Sitapura (Jaipur), textile at Sitapura and Sanganer (Jaipur) and Jodhpur. Further, the development of wool industry sector and handicrafts sector at Bikaner and Jaisalmer was not achieved (July 2011) even after elapse of 13 years.

Acquisition and development of land

During 2005-10, the Company planned for development of 26 industrial areas on 8986 acre of land. There was significant delay upto 143 months in planning for development of 2445 acre land (12 industrial areas) acquired prior to April 2005. Similarly, 2159 acre of land acquired during 2005-09 was not planned for development at the end of March 2010. Further, the Company also failed to take possession of 2014.04 acres of land despite payment of premium/compensation of ₹ 117.54 crore. Out of pending possession of 787.08 acre as on April 2005, the Company was able to take possession of only 27.32 acre land during 2005-10.

As on April 2005, 8224 acre of land was lying undeveloped in 68 industrial areas of 24 units. However, while fixing the targets for development of industrial areas this was not considered. Accordingly, the targets set for development were at lower side and not commensurate with total land lying undeveloped at the beginning and acquired during the year.

The Company did not adhere the terms and conditions of allotment of the Government land and did not execute the lease deed for 8536 acre of land. Further, there was delay in mutation of land in revenue records in 21 units for 2532 acre private land acquired during 2005-10.

The land under encroachment/ litigation increased from 260.03 acre (₹ 7.80 crore) in 2004-05 to 651.37 acre (₹ 83.63 crore) in 2009-10. Further, improper planning and delay in providing information hampered the industrial development and also led to blockage of funds.

Without ensuring physical possession of entire land, approval of lay-out plan of industrial areas delayed the development process. Decision of the Infrastructure Development Committee (IDC) for not providing infrastructure facilities in 'other areas' defeated the very basic objective of industrial development and adversely affected the industrial growth in these areas.

The industrial areas remained deprived from quality services for which the Company paid a bit higher cost than the normal contracts as the Company did not invoke the defect liability clause despite various defects noticed in the works executed at different units.

Allotment of land

The targets for allotment of plots were on lower side (ranged between 11.96 and 23.34 *per cent*) and not commensurate with the total plots remained un-allotted at the beginning of the year. Despite low targets, the Company could not achieve the same during 2007-10. The Company did not take corrective measures by analysing the reasons of non/slow-allotment of plots in 39 areas where the plots (ranged between 9 and 138) remained un-allotted for more than five years.

The concessions available at the time of initiating land allotment process in new industrial areas were not publicised which led to non-allotment of plot to ex-servicemen/war-widows, women and SC/ST category entrepreneurs in 20, 14 and 17 industrial areas launched during 2005-10. Further, in absence of maximum ceiling, allotment of concessional plots in excess of prescribed limit to SC/ST and women category of entrepreneurs led to loss of ₹ 27.79 crore during last five years.

The Company sustained loss of ₹ 9.56 crore due to non-adherence to RIICO Disposal of Land Rules in allotment of land and violating the laid down rules/policy. Besides, there were instances of allotment of land without ensuring physical possession of land/allotment before possession.

Central Assisted Schemes

The various Centrally sponsored schemes viz; Integrated Infrastructural Development, Agro Food Park, Growth Centre, Apparel Park for Export, Special Economic Zones *etc.* implemented by the Company to attain the objectives of promoting industrial growth, removing regional disparities and improving infrastructure in the State, could not be implemented within time schedule and there was delay upto 148 months. Further, improper planning, defective project reports indicate the Company's failure towards achievement of very purpose of the schemes.

Corporate Social Responsibility

The corpus of Village Amenities Development Fund (VADF) and Skill Development Fund (SDF) created as per the State Government directives was not utilised in true spirits to fulfill the objectives of CSR as envisaged in the scheme. Further, the Company could not recover ₹ 4.27 crore towards VADF/SDF due to non-insertion of clause in MOUs executed with six cement companies.

Entrepreneur Satisfaction Survey

Entrepreneur Satisfaction Survey (ESS) conducted by us during the course of performance audit revealed that the unit offices of the Company largely failed to provide basic infrastructural facilities to the entrepreneurs in the industrial areas which had adversely affected the units in production and consequently the pace of industrialisation in the State.

Conclusion and Recommendations

The performance of the Company towards industrial promotion and development in the State was deficient as it did not prepare long term plans for balanced regional development and the acquired land remained undeveloped for long period. The objective of developing thrust sectors at identified places in the State Industrial Policy 1998 was not fully achieved. There were discrepancies in land records and the Company did not adhere to the terms and conditions of Government allotted land and the mutation of private land in revenue records was also not done. Further, improper planning, inadequate site survey caused non-acquisition/partial acquisition of land which hampered the industrial development process besides blockage of funds. Faulty approval of lay out plans due to non-acquisition/obtaining physical possession of entire land caused allotment of un-acquired land. The IDC violated the laid down rules and made decisions on case-to-case basis, which led to undue benefit to some entrepreneurs besides causing loss of revenue. Non-monitoring of centrally sponsored schemes by the apex management led to delay in implementation of the schemes and consequently, the State was deprived of the envisaged benefits of industrial growth. The review contains seven recommendations which includes adherence to the procedure of land acquisition, preparation of long term plans, compliance of rules, regulations and policies, effective monitoring of schemes, providing quality infrastructure facilities *etc.*

(Chapter 2.2)

3. Transaction audit observations

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

Loss of ₹ 5.48 crore in six cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.2, 3.6, 3.7, 3.8, 3.12 and 3.13)

Loss of ₹ 0.42 crore in two cases due to inadequate/deficient monitoring.

(Paragraphs 3.9 and 3.10)

Loss of ₹ 4.97 crore in three cases due to defective/deficient planning.

(Paragraphs 3.4, 3.5 and 3.11)

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

Rajasthan Rajya Vidyut Prasaran Nigam Limited by not following the laid down system continued to make payment at higher rates on the basis of invoices raised by the supplier leading to excess payment of ₹ 2.10 crore which was recovered at the instance of Audit.

(Paragraph 3.1)

Rajasthan Renewable Energy Corporation Limited failed to safeguard its financial interests by incorporating a vague condition of providing subsidy in the work order without obtaining concrete concurrence of Ministry of New and Renewable Energy.

(Paragraph 3.2)

Defective planning in launching heritage liquor by **Rajasthan State Ganganagar Sugar Mills Limited** led to excessive production as well as procurement of tailor made packing and packaging material without requirement.

(Paragraph 3.3)

Rajasthan State Mines and Minerals Limited paid dead rent and land tax amounting to ₹ 1.10 crore due to non-compliance of statutory requirements and defective asset management planning.

(Paragraph 3.4)

Rajasthan State Seeds Corporation Limited provided additional subsidy of ₹ 600 per quintal against the policy of Government of India and sustained loss of ₹ 2.06 crore.

(Paragraph 3.8)

Barmer Lignite Mining Company Limited paid upfront fee without any planning to avail loan from Infrastructure Development Finance Company Limited and instead obtained loan from Raj West Power Limited and other financial institutions.

(Paragraph 3.11)