

## Chapter IV

### 4. 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 and Jaipur Vidyut Vitran Nigam Limited

##### 4.1 Loss due to irrational price variation formula

**AVVNL and JVVNL provided PV on the meter box on the basis of PV formula prescribed for aluminium wound transformers instead of formula prescribed for steel thereby causing extra expenditure of ₹ 78.02 lakh.**

The Electricity Companies use IEEMA<sup>1</sup> Price Variation (PV) clauses for settling claims of the suppliers for variation in the basic price of raw materials from the period of tendering till the date of delivery. The PV clauses provide variations on both sides, either upwards or downwards by substituting the prices of raw materials in the given formulae appropriately.

The power Distribution Companies<sup>2</sup> (DISCOMs) of Rajasthan decided (January/February 2011) to consider the distribution transformer and the meter box as one unit. As such the price of meter box was made variable for allowing PV and included in the cost of the transformer. The decision (29 January 2011) was taken on the representation of the 'Rajasthan Transformer Manufacturers Association' to overcome frequent changes in the prices of steel. Prior to this decision, the DISCOMs procured transformers and meter box as separate units. The price of transformer was variable as per PV formula<sup>3</sup> of IEEMA while the price of meter box was firm as IEEMA had not prescribed any PV formula for meter box.

We noticed (March 2013) that Jaipur Vidyut Vitran Nigam Limited (JVVNL) invited (April 2011) tenders (TN-2138) for purchase of 87473 number of 16 KVA Aluminium wound four star rating distribution transformers with meter box on behalf of all the three DISCOMs. It was mandatory for the suppliers to quote one rate for both the items (transformer and meter box) and the quoted price was variable as per PV formula of IEEMA without any ceiling. The price bids were opened (September 2011) wherein the lowest quoted price was ₹ 38525 per unit. The Corporate Level Purchase Committee (15 September

1 Indian Electricals and Electronics Manufacturers Association.

2 Ajmer Vidyut Vitran Nigam Limited (AVVNL), Jaipur Vidyut Vitran Nigam Limited (JVVNL) and Jodhpur Vidyut Vitran Nigam Limited (JdVVNL).

3  $Po/100 (13+15AL/AL_o +42ES/ES_o+10IS/IS_o+2IM/IM_o+6TO/TO_o+12W/W_o)$ .

2011), however, in view of first time purchase of this type of transformers decided to go for in-house cost analysis to ascertain the estimated cost of transformer and meter box. The in-house analysis worked out the total cost per unit at ₹ 37795 which included the cost of meter box as ₹ 2700. On acceptance of the in-house rates by the bidders, Ajmer Vidyut Vitran Nigam Limited (AVVNL) placed (November 2011/December 2012) purchase orders for 22741 transformers (including repeat order of 10741 transformers) and JVVNL placed (November 2011) purchase orders for 66773 transformers. Against the total ordered quantity, AVVNL received supply of 20728 transformers by March 2013 while JVVNL received the supply of 47104 transformers during the period from November 2011 to January 2013. Both AVVNL and JVVNL also allowed applicable PV to the suppliers on the composite price of transformer and meter box as per PV formula prescribed for aluminium transformer.

We observed that the decision of DISCOMs to allow PV on the composite price was not prudent as the same was prescribed and applicable for only aluminium wound transformers. The Committee overlooked the fact that the PV formula provided for escalation/de-escalation in the prices of aluminium, transformer oil and other elements which are not used in the manufacturing of meter box. Keeping in view the concerns of manufacturers association, the Committee should have allowed PV on the meter box as per PV formula<sup>4</sup> prescribed for steel fabrication as the same is being used in the manufacturing of meter box.

The decision to allow PV on the meter box as per PV formula prescribed for aluminium wound transformers, caused extra payment of ₹ 78.02 lakh<sup>5</sup> to suppliers on the supplied quantity after considering justified PV payable on steel component utilised for manufacturing of meter box.

The Government/Management in respect of JVVNL stated (June/November 2013) that the PV formula for transformer includes 17 *per cent* ferrous metal component and that there is no harm in adding the price of meter box in the cost of transformer when there is in-built component in the formula for allowing PV on ferrous metal. The Management of AVVNL replied (November 2013) that IEEMA has not circulated any formula for meter protection box and the common specification committee of DISCOMs allowed PV on meter box and transformer considering meter box as an integral part of transformer. The replies are not convincing as the ferrous metal used in transformer is different from the steel used in meter box. Even, if the view point of JVVNL is considered, the DISCOMs are un-necessarily paying price variation for 83 *per cent* of the material not used in manufacturing of meter box. Further, prior to this tender, the DISCOMs had been purchasing transformer and meter protection box as separate items.

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4  $P_0 (0.11 + 0.66 (SBI/SBI_0) + 0.23 (L/L_0))$ .

5 AVVNL - ₹ 15.19 lakh and JVVNL - ₹ 62.83 lakh.

**Chhabra Power Limited****4.2 Loss due to non-inclusion of temperature variation adjustment clause**

**The Company sustained minimum loss of ₹ 33.51 lakh due to non-inclusion of temperature variation adjustment clause in supply orders.**

Chhabra Power Limited (Company), a subsidiary of Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL) procures furnace oil<sup>6</sup> from Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL). During the period from 2009-10 to 2012-13, the Company procured 20033.06 KL<sup>7</sup> of furnace oil from these oil companies.

Furnace oil is highly viscous and as such it is hot loaded (*loading is done at a temperature more than the normal loading temperature of furnace oil*) by the refineries to improve its flowability. Furnace oil is supplied on volume basis and hot loading results in expansion of volume with contraction on cooling. To overcome this variance and not to cause un-necessary loss to the recipient, the oil companies provide the benefit of Temperature Variation Adjustment (TVA) in the invoices.

Our scrutiny disclosed (February 2013) that the Company did not include any such clause in the supply orders issued to IOCL, BPCL and HPCL though the same was included in the supply orders issued by RRVUNL in case of supplies made at Suratgarh Super Thermal Power Station (SSTPS). Further, TVA is a common phenomenon but the oil companies neither furnished test reports (except HPCL) disclosing the loading temperature with the invoices nor allowed TVA in the invoices as was done for supplies made to SSTPS. The test reports/certificate of TVA furnished by HPCL were incomplete and did not mention the loading temperature.

However, in case of IOCL, we noticed that the supplies were made from Koyali and Mathura refinery where furnace oil was hot loaded and IOCL allowed TVA to SSTPS ranging between 3.17 and 3.49 *per cent*. Considering minimum TVA of 3.17 *per cent* as allowed by IOCL to SSTPS, the Company sustained minimum loss of ₹ 68.36 lakh<sup>8</sup> against supply of 5816.03 KL (₹ 21.56 crore) of furnace oil to it from Koyali and Mathura refinery. In absence of test reports/incomplete reports we could not ascertain the loss/applicability of TVA on the supplies received from BPCL and HPCL.

The Company raised (May 2013) the issue with the suppliers after pointing out by us. The IOCL provided credit of ₹ 22.74 lakh against ₹ 34.85 lakh calculated by us on the supplies made from its Koyali refinery. TVA adjustment of ₹ 33.51 lakh for the supplies made from Mathura refinery was pending (November 2013). The other suppliers did not compensate for the loss

6 Furnace oil is a Heavy Fuel Oil (HFO) and as per the Controller of Explosives classification, it falls in the class 'C' category.

7 IOCL-5816.03 KL, BPCL-2881.18 KL and HPCL-11335.85 KL.

8 ₹ 34.85 lakh from Koyali refinery (2939.75 KL X ₹ 37395.30/KL X 3.17/100) and ₹ 33.51 lakh from Mathura refinery (2876.28 KL X ₹ 36750/KL X 3.17/100).

and stated that no TVA was applicable as loading was done on ambient temperature.

The Government/Management accepted (September/August 2013) the facts and stated that the matter regarding supplies from IOCL (Mathura refinery) was under consideration at their end. The Management, however, did not seek the basis of calculations from IOCL and test reports from BPCL and HPCL.

### **Jaipur Vidyut Vitran Nigam Limited**

#### **4.3 Excess payment towards price variation**

**The Company by not allowing PV as per revised formula made excess payment of ₹ 1.03 crore towards PV.**

Jaipur Vidyut Vitran Nigam Limited (Company) placed 34 purchase orders to various suppliers on different dates (under TN 2138) for purchase of four star rated Aluminium Wound distribution transformers upto 33 KV during 2011-12. The terms and conditions of purchase orders stipulated that the prices were variable as per Price Variation Formula (PV) prescribed by the IEEMA<sup>9</sup> and in case of change in PV formula, the same shall be applicable for PV. The IEEMA revised (March 2012) the PV formulae for 'BEE Star Three and above rated' Aluminium and Copper Wound Distribution Transformers upto 33 KV. The revised formulae were made operational<sup>10</sup> from 1 January 2012.

Our scrutiny of records disclosed (April 2013) that the Company allowed PV to the suppliers on the basis of revised formula from the month of February 2012 on the plea that IEEMA circulated new indices with effect from 1 January 2012 and accordingly the applicable month for providing PV would be February 2012. We observed that the plea of the Company was not correct as the IEEMA changed<sup>11</sup> only the multiplying factors in the revised formula while there was no change in the indices. Further, it is pertinent to mention that purchase orders were also placed by Ajmer Vidyut Vitran Nigam Limited under the same tenders and it recovered (June 2013) the excess payment amounting to ₹ 14.60 lakh towards PV for the month of January after pointing out (April 2013) by us.

The Company, by not allowing PV for the month of January 2012 as per revised PV formula, made excess payment of ₹ 1.03 crore towards PV on the supplies of 9058 transformers.

The Management/Government in reply (October/August 2013) reiterated that IEEMA circulated new indices from 1 January 2012 and as such the offer month considered for these indices was February 2012. However, AVVNL

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9 Indian Electrical and Electronics Manufacturer's Association.

10 Draft formulae were circulated by IEEMA in January 2012 for view and comments from SEBs/Utilities and listed purchasing organisations. However, in view of no adverse comments, the same was made operational w.e.f 1 January 2012.

11 Old formula for allowing PV on Aluminium wound distribution transformers was  $P = P_o/100 (13 + 15AL/AL_o + 42ES/ES_o + 10FE/FE_o + 2IM/IM_o + 6TO/TO_o + 12W/W_o)$  while New Formula was  $P = P_o/100 (12 + 18AL/AL_o + 26ES/ES_o + 17FE/FE_o + 4IM/IM_o + 12 TO/TO_o + 11W/W_o)$ .

accepted the audit contention and applied the revised formula *w.e.f.* 1 January 2012 as already mentioned above.

#### 4.4 Purchase of short term power at high cost

**The RDPPC did not take timely action on the offer of HZL and subsequently purchased power at high cost from HZL causing extra expenditure of ₹ 26.43 lakh.**

To meet the shortage of power during rabi season, the Rajasthan Discoms Power Procurement Centre (RDPPC) invited (22 June 2011) bids for purchase of short term day power (0600 – 1700 hours) on firm basis commencing from 1 November 2011 or any later date to 31 March 2012 from various trading licensees/generators/State utilities/CPPs<sup>12</sup>/Distribution licensees/SEBs<sup>13</sup>. The minimum quantum to be offered was 5 MW from single source in case of generator situated outside the state and 1 MW for generators situated within Rajasthan. In response, 10 bidders offered (tenders opened on 11 July 2011) rates for various quantum of supply for different months at the rates ranging between ₹ 4.60 and ₹ 9.40 per unit.

We noticed (November 2012) that the RDPPC negotiated (21 July 2011) with the bidders and offered a rate of ₹ 3.50 per unit. Letters to this effect were also issued (27 July 2011) to the bidders for submitting the revised offers latest by 3 August 2011. However, only one bidder, Hindustan Zinc Limited (HZL) offered (3 August 2011) to supply 3 MW power at the rate of ₹ 3.50 per unit. The offer of HZL was valid upto 10 August 2011.

Our scrutiny of records disclosed that the offer of HZL was received on 3 August 2011 but no action was taken during the validity of offer. The matter was belatedly apprised to Chairman DISCOMs on 19 August 2011 who after discussion (5 September 2011) with Chief Engineer (RDPPC) instructed to offer a rate of ₹ 3.75 per unit to all bidders. The rate was offered (6 September 2011) to all the bidders but none of the bidders agreed on the offered rate. Consequently, the RDPPC in order to meet the power gap during rabi season increased the counter offer thrice<sup>14</sup> during the period from 13 October 2011 to 22 November 2011 on the instructions of Chairman DISCOMs. All the counter offers were not responded to except the last one at the rate of ₹ 4.15 per unit to which HZL offered (5 December 2011) to supply 30 MW day power during the month of December 2011. RDPPC accepted the offer of HZL and letter of intent (LOT) was issued (7 December 2011) for supply of 30 MW power during the period from 9 December 2011 to 31 December 2011 at the above mentioned rate. Subsequently, the RDPPC to bridge the power gap again accepted (19 December 2011) further offer<sup>15</sup> of HZL and also

12 Captive Power Plants.

13 State Electricity Boards.

14 ₹ 4.00 per unit (13 October 2011), ₹ 4.10 per unit (17 November 2011) and ₹ 4.15 per unit (22 November 2011).

15 HZL offered (17 December 2011) for supply of 15 MW and 30 MW during December 2011 and January 2012 respectively at the rate of ₹ 4.15 per unit.

negotiated<sup>16</sup> (3 January 2012) with bidders and purchased power at the rates of ₹ 4.15 per unit and ₹ 4.25 per unit.

We observed that the RDPPC purchased power at the rates of ₹ 4.15 per unit (9 December 2011 to 31 January 2012) and ₹ 4.25 per unit (January 2012 to March 2012) after various negotiations and counter offers at different rates. Had timely action been taken on the offer of HZL for purchase of 3 MW day power at the rate of ₹ 3.50 per unit, the DISCOMs could have avoided extra expenditure of ₹ 26.43 lakh<sup>17</sup> on purchase of power.

The Government/Management stated (September 2013) that power could not be purchased from HZL due to severe financial crisis. Additional power was purchased only after obtaining financial assistance from the Government in the month of October 2011. The reply was not convincing as the tenders were invited for supply of power from 1 November 2011 onwards and RDPPC made (5 September 2011) offers at an enhanced rate (₹ 3.75 per unit) than that of HZL before getting financial support from the Government.

### **Jodhpur Vidyut Vitran Nigam Limited**

#### **4.5 Systemic lapses in annual review of security deposit**

**The Company did not annually review the adequacy of security deposit which led to shortfall of ₹ 18.05 crore in selected categories of consumers in three circles.**

Clause 16 (D) of the 'Terms and conditions for supply of Electricity – 2004' (TCOS) provides for annual review of security amount in respect of electricity supplied. The clause provides that DISCOMs may review the adequacy of security amount at the beginning of each financial year on the basis of actual average consumption of electricity during preceding twelve months and intimate the consumer. Further, clause 16 (E) provides that if the security amount is insufficient on the basis of annual review and the difference between the amount so worked out and the security amount already deposited with the DISCOMs exceeds ₹ 500 or 10 per cent of the existing security amount whichever is more, a notice may be given to the consumer to deposit the difference within 30 days of service of notice. Besides, the agreement (9 September 2012) with billing agencies stipulates that ledger of consumers requiring notices for enhanced security deposit are required to be printed while providing updated ledgers of such consumers twice in a financial year in the month of January and July. However, the State and Central Government Departments including Railways were exempted from payment of security deposit as per clause 23(a) of the TCOS.

With a view to assess the compliance of the provisions of TCOS relating to annual review of security deposit in Jodhpur Vidyut Vitran Nigam Limited (Company) for the year 2012-13, we collected (May 2013) the electronic

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16 RDPPC negotiated with the bidders on 3 January 2012 and offered rate of ₹ 4.25 per unit. The rate was accepted by HZL and PTC India Limited for supply during January to March 2012.

17  $3 \text{ MW} \times 1000 \times 54 \text{ days} \times 11 \text{ hours} \times (\text{₹ } 4.15 - \text{₹ } 3.50) \text{ per unit plus } 3 \text{ MW} \times 1000 \times 60 \text{ days} \times 11 \text{ hours} \times (\text{₹ } 4.25 - \text{₹ } 3.50) \text{ per unit.}$

billing data of Low Tension (LT) consumers for the year 2011-12 of three circles (Pali, Jodhpur City and Bikaner) out of nine circles. The billing data was analysed using 'Interactive Data Extraction and Analysis' (IDEA) software in respect of (1) Medium Industrial Service (MIP), (2) Non-Domestic Service (NDS), (3) Bulk Supply for Mix Load (Mix) and (4) Small Industrial service (SIP) category consumers. Further, in respect of these categories of consumers, billing data of only those consumers were selected whose data for all the 12 months were available during the billing cycle from May 2011 to April 2012.

The scrutiny of records and billing data disclosed that the security deposit for the selected category of consumers was not reviewed by the Company since last many years except MIP consumers (in all circles) in 2010-11. We noticed that annual review of security deposit was inevitable at the beginning of 2012-13 due to revised tariff approved (September 2011) by the Rajasthan Electricity Regulatory Commission after a period of six years. Further, the billing agency neither printed/issued notices for enhanced security deposit nor provided updated ledgers of the consumers requiring additional security amount. The category-wise analysis of consumers in three selected circles has been given in **Annexure-17** and summarized results derived from IDEA are as below:

| Particulars  | Name of circle |              |         | Total |
|--|----------------|--------------|---------|-------|
|  | Pali           | Jodhpur City | Bikaner |       |
| Total consumers in selected category                                 | 34543          | 32044        | 5510    | 72097 |
| Less: Consumers with nil initial security deposit                    | 9284           | 8982         | 601     | 18867 |
| Less: Consumer exempted and consumers with adequate security deposit | 11909          | 9224         | 1743    | 22876 |
| Remaining consumers with inadequate security deposit                 | 13350          | 13838        | 3166    | 30354 |
| Security deposit required <sup>18</sup> (₹ in crore)                 | 8.23           | 14.00        | 3.69    | 25.92 |
| Available security deposit (₹ in crore)                              | 2.42           | 4.48         | 0.97    | 7.87  |
| Shortfall (₹ in crore)   | 5.81           | 9.52         | 2.72    | 18.05 |

It could be seen that the Company had adequate security deposit in respect of only 31.73 per cent consumers including the exempted category. Of the remaining consumers, 42.10 per cent were without adequate security deposit and 26.17 per cent of the consumers were those whose initial security deposit was mentioned nil in the billing data. The data regarding consumers with nil security deposit seems to be incorrect as the Company does not release electricity connection without payment of security deposit. While there was shortfall of ₹ 18.05 crore towards security deposit in respect of consumers with inadequate security deposit, we were not able to calculate shortfall in respect of consumers where the billing data indicated nil security deposit. Further, the billing agency would not be able to assess the requirement of additional security deposit in respect of consumers where the billing data indicated nil security deposit as the initial deposit data were not made available by the Company.

18 Average twelve months consumption X 2 X applicable tariff.

We observed that adequate security deposit provides minimum financial safeguard to the Company against the consumers for consumption of electricity.

Further, we observed that there were 15156 permanently disconnected consumers in three circles in the selected categories having outstanding amount of ₹ 11.68 crore as on March 2012. The available security deposit against these consumers was only ₹ 1.69 crore leaving shortfall of ₹ 9.99 crore. For the Company as a whole, the outstanding amount (March 2012) against permanently disconnected consumers was ₹ 82.80 crore as per the financial statements.

Thus, non-review of the adequacy of security deposit annually left the Company financially unsecured to the extent of ₹ 18.05 crore for the year 2012-13 in these selected circles. The Company should annually review the adequacy of security deposit made by the consumers to ensure minimum financial safeguard against supply of electricity.

The Government/Management accepted (August/July 2013) the facts and stated that the billing agency had been directed (June 2013) to print notices for enhanced security deposit and to provide updated ledger of the consumers requiring additional security deposit. It was also stated that the existing manpower always remained occupied in day-to-day technical and revenue related activities and in absence of adequate manpower, proper monitoring at different levels was not possible.

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| <b>Rajasthan State Industrial Development and Investment Corporation Limited</b> |
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**4.6 Systemic lapses in completion of construction and commencement of production activities and recovery of retention charges**

Rajasthan State Industrial Development and Investment Corporation Limited (Company) is a sole agency of Government of Rajasthan (GoR) involved in development of land for industrial enterprises. Allotment of land to entrepreneurs is done as per the provisions of 'RIICO Disposal of Land Rules, 1979' (Disposal Rules) framed by the Company. The Company, since inception (March 1969) allotted 52030 plots upto February 2013 in 323 industrial areas developed by it in various parts of Rajasthan. Out of the allotted plots, 9833 plots were lying vacant and in 3703 plots, the entrepreneurs had not commenced the production activities.

The present study was done (April 2013 to May 2013) to evaluate whether:

- the Company has evolved an efficient and effective system to ensure that the entrepreneurs adhered to the time schedule of commencement/completion of construction activities and commencement of production activities;
- time extension for commencement/completion for construction activities and commencement of production activities was granted as per Disposal Rules; and



- the Company recovered retention charges and took proper action against the defaulting entrepreneurs as per Disposal Rules.

#### ***Scope and Audit Criteria***

The present study reviews the system developed by the Company to ensure adherence to the time limits of commencement/completion of construction and commencement of production activity by the entrepreneurs. Audit examination involved scrutiny of records for the period 2010-11 to 2012-13 at the Head Office and five<sup>19</sup> randomly selected units out of 26 units of the Company. Further, 50 cases among selected units were randomly picked up and analysed. The sources of audit criteria to achieve the audit objectives were:

- Rule 21 of Disposal Rules regarding time period for commencement and completion of construction activities and commencement of production activities;
- Rule 23(C) of Disposal Rules regarding time extension for delay in commencement of production activity or activity for which the plot is allotted;
- Rule 4(C) of Accounting and Business Rules, 1999 regarding verification of recoveries against rent/penalty/transfer/restoration/other charges by the accounts incharge;
- Agenda and minutes of Board of Directors, Infrastructure Development Committee (IDC) and Waiver Committee; and
- MIS and allotment files of individual entrepreneurs.

#### ***Audit findings***

##### ***Commencement/completion of construction and commencement of production activities***

Rule 21 of Disposal Rules provides that as a general provision, an allottee would be required to have construction activities completed within a period of two years and production activities started within a period of three years from the date of possession or execution of lease deed whichever is earlier. In cases of allotments in NCR<sup>20</sup> made on or after 19 May 2006, the allottees as a specific provision were required to commence construction activities within six months, complete the construction within 18 months and start production within 24 months from the date of possession or execution of lease deed whichever was earlier. Further, in cases of allotments made prior to 2 February 2004, allottees as a specific provision were required to commence production activities within a period of five years from the date of possession or execution of lease deed whichever was earlier.

Our scrutiny of records disclosed that the Company did not evolve any mechanism to monitor and satisfy itself about timely commencement/completion of construction and commencement of production activities by the entrepreneurs. Cases relating to non-adherence of time limits came to the

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19 Sitapura, Jaipur (North), Bhiwadi-I, Bhiwadi-II and Boranada.

20 National Capital Region.

notice of Company during inspections/visits made by Unit Heads in Industrial areas. The MIS prepared by the unit offices indicated only number of vacant plots and number of plots where production had not been commenced. The plot wise details as regards date of allotment and stipulated date of commencement/completion of construction and commencement of production activities were not maintained to ensure adherence of stipulated time period by the allottees.

Detailed scrutiny of the 50 selected cases disclosed that the plots were allotted between 1989 and 2010 but the production activity as on February 2013 was commenced only in 24 plots. The earliest allotted plot where production activity had not commenced (June 2013) pertained to 1991. The delay in commencement of production activities ranged between one and 20 years.

***Time extension and levy of retention charges***

Rule 23 (C) of the Disposal Rules provides time extension to the allottees on payment of retention charges, on the basis whether the plot was allotted upto 9 May 2005 or thereafter. In case of allotments made upto 9 May 2005, the Units Heads were delegated powers for granting extension for a maximum period of two years at a time and not exceeding five years beyond prescribed period of three years or till the industrial area was declared saturated, whichever was later. The Executive Director could grant further extension upto five years and the Managing Director had full powers for allowing extension. In case of allotments made after 9 May 2005, the Unit Heads were empowered to grant maximum extension for a period of one year in Category-A, two years in Category-B and three years in Category-C industrial areas. The Executive Director could grant further extension beyond that granted by Units Heads, one year at a time and upto maximum of two years in Category-A, three years in Category-B and five years in Category C industrial areas. No further extension beyond the maximum specified periods were to be granted and if the condition of completion of construction activities/commencement of production activities was not complied at the end of such extended period, the allotment was liable for cancellation. The Rule also provided that the Unit Heads would issue notice as wakeup call to plot allottees six months prior to expiry of stipulated/extended period for completion of construction activities/commencement of production activities. The allottees were either required to fulfill the conditions or get the stipulated time extended from competent authority on payment of retention charges, failing which the plot would be subject to cancellation.

Our scrutiny of the records of selected cases where allotment was made after 9 May 2005 disclosed that the Company allowed extension beyond the maximum time period of three years in violation of Rules. Out of total 19 cases among selected cases, the Company allowed time extension ranging between 41 and 69 months in six cases while in five other cases the Unit Heads granted extension upto 30 months. The production activities in remaining eight cases were commenced within the extended period of three years.

We noticed that there was no system in place to assess the dates on which the wakeup calls were to be issued through Show Cause Notices (SCN). As a result, wakeup calls prior to expiry of stipulated period were not found issued.

In 46 cases, we found that delay in issue of SCNs to defaulting entrepreneurs, after expiry of stipulated period, ranged between two and 162 months. In four cases, the SCNs were not even issued (April 2013) despite lapse of stipulated period of construction during May 2001 to June 2009.

The terms and conditions of SCNs issued to entrepreneurs provided 30 days to respond for breach of terms and conditions of allotment by paying retention charges for delay failing which the allotment was to be cancelled without any further notice or intimation. Our scrutiny of records disclosed that the entrepreneurs either did not respond to the SCNs or responded belatedly. However, the Company did not cancel the plots of the defaulting entrepreneurs except for re-issue of SCNs. In three cases, the plots were cancelled but the same were restored on payment of retention and restoration charges by the entrepreneurs.

#### ***Under recovery of retention charges***

Rule 23 (C) of Disposal Rules allows extension on payment of retention charges. In case of allotments made upto 9 May 2005, retention charges at the rate of 0.50 *per cent* per sqm. per quarter delay of prevailing rate of development charges were to be levied. For allotments made after 9 May 2005, retention charges at the rate of 0.75 *per cent* and 0.50 *per cent* per sqm. per quarter delay of prevailing rate of development charges for construction and production respectively were to be levied in case extension was granted by the Unit Heads. If the extension was granted by the Executive Director, retention charges at the rate of one *per cent* and 0.75 *per cent* per sqm per quarter delay of the prevailing rate of development charges for construction and production respectively were to be levied.

Our scrutiny of records at the selected unit offices disclosed that the retention charges were not levied as per rules and the Company short levied retention charges of ₹ 2.68 crore in 13 cases while in 16 cases, the retention charges of ₹ 1.02 crore were not levied.

As per Rule 4 (C) of the Accounting and Business Rules, 1999 the accounts incharge should check and verify the amount to be recovered on account of rent/penalty/transfer/restoration/other charges as the case may be. However, the retention charges levied were never checked and vetted by the local finance cell. Further, the retention charges for the allotments made prior to and after 9 May 2005 were calculated without referring to the Circulars/Rules.

#### ***Conclusions and recommendations***

**The Company failed to develop an effective and efficient system to monitor the compliance of provisions relating to commencement/completion of construction and commencement of production activities. There was no proper mechanism for issue of wakeup calls and SCNs. Further, the entrepreneurs failed to complete construction/commencement of production activities despite granting extension several times which defeated the very purpose of accelerating industrialization in the State.**

**The Company should evolve an efficient and effective system to ensure that the entrepreneurs adhere to the time schedule of commencement/completion of construction and commencement of**

**production activities. It should provide time extension, levy retention charges as per rules and take effective action against the defaulter entrepreneurs to sustain the pace of industrialisation.**

The reply of the Government and Management was awaited (November 2013).

#### **4.7 Systemic deficiencies in recovery of water charges**

**Systemic deficiencies in implementation of Rules, revision of water charges and lack of clarity in Rules resulted in Company incurring losses on supply of water to the industrial units.**

Rajasthan State Industrial Development and Investment Corporation Limited (Company) is a nodal agency of Government of Rajasthan for industrial promotion in the State. The Company develops industrial areas in various parts of the State and facilitates the industrial units by providing/arranging essential ancillary services *viz.* supply of water, power *etc.* for industrialization. The facility of water supply in the industrial areas is either provided by the Company through own operated bore wells or after taking bulk supply from the Public Health Engineering Department (PHED). As on March 2013, the Company had developed 323 industrial areas out of which water supply in 162 areas was being provided through own operated bore wells while in remaining areas water was supplied by the PHED.

The water supply facility was reviewed (April 2013 to May 2013) to assess whether:

- The Company evolved an effective and efficient system for recovery of water charges, rates of water supply were fixed and revised in commensurate with the expenditure incurred there against; and
- The billing system was efficient, defective meters were replaced timely and security deposit was adequate to safeguard the financial interests of the Company.

#### **Scope and criteria**

Out of total 26 units of the Company providing water supply facility, five<sup>21</sup> units (19 *per cent*) were selected on the basis of losses, highest water charges outstanding, quality of record maintenance and mix of new and old industrial areas for detailed examination of records. Besides, the records at the Head office of the Company were examined to assess the overall system of water supply. The source of audit criteria were:

- Water Supply Rules, 1976<sup>22</sup>,
- RIICO Disposal of Land Rules, 1979, and
- RIICO Accounting and Business Rules, 1999, and other circulars issued from time to time.

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21 Sitapura, Jaipur (North), Bhiwadi-I, Bhiwadi-II and Boranada.

22 Framed by erstwhile Rajasthan State Industrial and Mineral Development Corporation Limited.

**Audit findings****Revenue/expenditure and surplus/deficit on water supply facility**

The position of revenue/expenditure and surplus/deficit on water supply facility during five years ending March 2013 is given below:

(₹ in crore)

| Year         | Recovery     | Expenditure  | Surplus/(deficit) | Percentage of expenditure over revenue |
|--------------|--------------|--------------|-------------------|--|
| 2008-09      | 5.36         | 11.04        | (5.68)            | 205.97                                 |
| 2009-10      | 5.48         | 11.43        | (5.95)            | 205.58                                 |
| 2010-11      | 5.46         | 11.85        | (6.39)            | 217.03                                 |
| 2011-12      | 6.29         | 10.29        | (4.00)            | 163.59                                 |
| 2012-13      | 6.57         | 9.90         | (3.33)            | 150.68                                 |
| <b>Total</b> | <b>29.16</b> | <b>54.51</b> | <b>(25.35)</b>    | <b>185.25</b>                          |

It could be seen that there was wide gap between recovery of water charges and expenditure incurred on the supply of water to industrial units which led to deficit of ₹ 25.35 crore during five years ending March 2013. Further, the financial statements disclosed outstanding water charges of ₹ 1.34 crore against the available security deposit of ₹ 1.08 crore as on 31 March 2012.

We noticed that the Company did not evolve any effective, efficient and uniform system as regards maintenance of records of drawal of ground water, distribution, security deposit from entrepreneurs *etc.* The selected units either did not maintain proper record or the record was not sufficient to assess the position of water supply made to the entrepreneurs. There was lack of uniformity in application of Rules followed by the selected five unit offices as the unit offices at Bhiwadi-II and Jaipur (North) issued bi-monthly bills where monthly bills were to be issued.

The Government accepted (October 2013) the facts and stated that losses in providing water supply facility were due to increase in energy charges and wages of the employees.

**Non-revision of water charges**

Rule 17 of the Water Supply Rules, 1976 provides for levy of water charges as per the rate fixed by the Company from time to time.

We noticed that the Company has no prescribed policy/system for revision of water charges commensurately with the expenditure incurred on supply of water. The economic viability of water supply schemes was never worked out and the Company followed PHED rates to levy water charges. The scrutiny of records disclosed that the unit offices proposed for revision of rates several times during the last 15 years ending March 2013 but the charges were revised only in November 2012 after December 1998 except at five<sup>23</sup> industrial areas at Boranada and one at Mandore where charges were revised in May 2004. Revision in these areas was on account of heavy cost of water supply due to acceptance of bulk supply from PHED at single point and thereafter distribution to industrial units by own mechanism. Further, it was noticed that the Company even failed to maintain parity with PHED rates because PHED

23 (1) Industrial Area Boranada, (2) Export Promotion Industrial Park Boranada, (3) Special Economic Zone Boranada, (4) Agro Food Park Boranada, (5) Shilpgram Boranada and (6) Industrial Area Mandore.

revised the rates in September 2007 but no proposal for revision was found on the records of the Company.

We observed that the Company was bound to incur losses on supply of water to industrial units as the rates of PHED were highly subsidized by the State Government. Further, the Company had to incur additional expenditure towards manpower, pumping, maintenance *etc.* on further distribution of water after receiving bulk supply from PHED at single point. This led to wide gap between recovery and expenditure incurred on water supply. The percentage of expenditure over recovery during five years ending March 2013 ranged between 150.68 and 217.03 *per cent*.

The Government accepted the facts and stated that the Company would follow a system to ensure that rates of water charges are reviewed periodically to reduce losses.

**The Company should evolve a system for revision of rates in accordance with the expenditure incurred on water supply in different industrial areas.**

#### *Defective Meters*

Rule 22 of the Water Supply Rules, 1976 provides that consumption through a water meter is prima-facie a record for all purposes and in case meter is reported to be or is out of order, the water consumption shall be computed as per prescribed criteria. The prescribed criteria include (i) average of the immediately preceding month or average of preceding three months, (ii) corresponding consumption of previous year period, and (iii) such reliable data as may be considered by the concerned Regional Manager. Rule 16 (e), further, provides that the consumer shall repair or replace the defective meter at his own cost failing which the connection is liable to be disconnected and recovery to be made as per Public Demand Recovery Act, 1952 or Company rules. The position of total number of connections and defective meters during three years ending March 2013 was as below:

| Name of Unit   | Connections at the end of year |      |      | Defective meters/connection at the end of the year |      |      | Percentage of defective meters to total connections |       |       |
|----------------|--------------------------------|------|------|--|------|------|---|-------|-------|
|                | 2011                           | 2012 | 2013 | 2011   | 2012 | 2013 | 2011  | 2012  | 2013  |
| Sitapura       | 1544                           | 1544 | 1544 | 381  | 416  | 448  | 24.68   | 26.94 | 29.02 |
| Jaipur (North) | 1545                           | 1697 | 1776 | 227  | 219  | 228  | 14.69   | 12.91 | 12.84 |
| Boranada       | 630                            | 661  | 690  | 145  | 151  | 118  | 23.02   | 22.84 | 17.10 |
| Bhiwadi-I      | 1166                           | 1171 | 1173 | 48   | 52   | 68   | 4.12  | 4.44  | 5.80  |
| Bhiwadi-II     | 272                            | 190  | 215  | 70   | 84   | 94   | 25.74   | 44.21 | 43.72 |

It could be seen that the percentage of defective meters in the selected units during three years ending March 2013 ranged between 4.12 *per cent* (Bhiwadi-I) and 44.21 *per cent* (Bhiwadi-II). Our scrutiny of records disclosed that the Company was billing water charges as per the criteria prescribed in case of defective meters. However, the units did not maintain uniformity in the application of prescribed criteria as the selected units other than Jaipur (North) were charging the maximum rates worked out as per prescribed criteria while Jaipur (North) was billing on the basis of average of preceding three months or any other rate which was not in accordance with the Rules.

We noticed that the Rules neither prescribed any time limit for repair/replacement of defective meters nor provided for any penalty for failure in carrying out repairs and replacements. In absence of clarity in Rules, the meters remained defective for as long as 48 months and the Company also did not disconnect the water supply. The internal correspondence (June 2006) between Sikar unit and civil unit of the Company disclosed that in the past, there was a provision for incremental increase of the billing amount by 10 *per cent* every month till repair/replacement of meter to compel the entrepreneurs to carry out timely repair/replacement. However, this provision was discontinued but no record was produced to show the date of coming into effect of this discontinuance.

The Government accepted the facts and stated that the Company had issued instructions to all the units and action would be taken at the Head office level to ensure compliance of the Water Supply Rules.

**The Company should ensure timely replacement of defective meters to avoid any possible losses on account of inaccurate meter reading.**

***Security deposit***

The Company decided (May 1998) to keep security deposit equivalent to three months gross minimum charges subject to a minimum of ₹ 500 per establishment. The minimum limit of security deposit was scaled down to ₹ 200 per establishment at the time of tariff revision during December 1998. However, the unit offices accepted security deposit on the basis of both circulars/criteria.

We noticed that water charges amounting to ₹ 24.77 lakh were pending for recovery as on March 2013 in respect of disconnected consumers in selected units. Test check of records in respect of 50 disconnected consumers disclosed that the available security deposit was ₹ 0.28 lakh only against outstanding water charges of ₹ 2.36 lakh. Besides this, the records also disclosed that the Company continued to supply water to consumers who did not pay water bills as long as 12 months.

We observed that the security deposit clause was not proper to safeguard the financial interests of the Company as it was based on three months gross minimum charges instead of actual consumption of water. Further, Bhiwadi-I unit was collecting security deposit at the rate of ₹ 500 or three months net minimum charges instead of three months gross minimum charges. This led to under levy of security deposit and shows disparity in implementation of orders by the different units. Timely action for revision of security deposit based on the pattern of past consumption could not be taken due to fixation of minimum charges as per the category of service connection/size of pipe.

The Government accepted the fact and stated that the Company would follow a system to ensure the periodical revision of security deposit amount.

**We recommend that the Company should periodically review the actual consumption pattern of its consumers and revise the security deposit accordingly.**

Thus, the Company incurred heavy losses on supply of water to industrial units due to non-revision of tariff periodically and the gap between recovery of

water charges and expenditure led to deficit of ₹ 25.35 crore at the end of March 2013. The meters of the consumers remained defective as long as 48 months but the same were neither replaced by the consumers nor their supplies disconnected. Moreover, inadequate security deposit also led to non-recovery of outstanding water charges of the disconnected consumers.

#### 4.8 Regularisation of sale of land in violation of rules

**The Company regularized sale of land in violation of rules and incurred loss of ₹ 1.02 crore.**

Rule 3(W) of RIICO Disposal of Land Rules, 1979 (Rules) of Rajasthan State Industrial Development and Investment Corporation Limited (Company) provides allotment of land on the condition that sale of land will not be allowed before commencement of commercial production. The Company allotted (28 November 2007) 28000 sqm land to Sriram Cables Private Limited (Sriram Cables) at ₹ 6.35 crore under Rule 3(W) at industrial area, Pathredi for setting up 'Manufacturing of wires and cables' unit on deposit of 25 per cent development charges. Sriram Cables was required to deposit the remaining 75 per cent development charges within 60 days, commence construction activity within six months and production activities within the next 18 months as per the terms and conditions of allotment letter. Further, transfer of vacant plot before commencement of production was not permitted and in case of failure to adhere to the terms and conditions, the allotment was to be automatically treated as cancelled and the deposited amount was to be forfeited.

We noticed (May 2013) that Sriram Cables did not adhere to any of the above mentioned terms and conditions of the allotment. The balance payment of ₹ 4.76 crore towards development charges was not deposited within the time schedule of 60 days. The Company belatedly (1 August 2008) issued notice responding to which Sriram Cables asked for (18 August 2008) calculation sheet for making payment to be made in installments. The Company granted (17 September 2008) permission for payment in six quarterly installments ending 31 December 2009 but the same were not paid. A Show Cause Notice (SCN) was also issued (23 December 2008) for violation of terms and conditions of allotment, which remained un-replied to. Later on, Sriram Cables deposited four installments on 29 June 2009 and remaining two installments with interest and other dues on 2 July 2009 respectively. Accordingly, lease deed was executed on 7 July 2009.

We further noticed that the Company issued (1 November 2011) SCN to Sriram cables for non-commencement of production activity and in response it was informed (18 November 2011) that the land had already been sold to Lorom India Corporation Private Limited (LICPL) for a consideration of ₹ 8.90 crore. A copy of sale deed dated 7 August 2009 was also submitted with the request to transfer the land in favour of LICPL.

The Infrastructure Development Committee (IDC) of the Company approved (June 2012) transfer of land to LICPL as a special case. The IDC also decided, only to recover transfer charges of ₹ 1.62 crore at the rate of 18.75 per cent of prevailing development charges from LICPL and the applicable retention charges of ₹ 43.09 lakh were waived on its request. Further, the transfer



charges were reduced (January 2013) to 15 per cent on the request (14 August 2012) of the Joint Secretary, Ministry of Commerce and Industry, Government of India.

We observed that Sriram Cables had no intention to commence the proposed business as even the construction activity was not started till sale of land to LICPL. This defeated the very purpose of allotment under Rule 3(W) as preferential allotment was made after dispensing with the requirement of invitation of expression of interest in newspapers. The Company by not taking action as per Rules, provided opportunity to Sriram Cables to sell the land in violation of the terms of allotment. Sriram Cables made full payment of all the installments on 29 June 2009 (₹ 4.30 crore)/2 July 2009 (₹ 1.37 crore) only when it had sold the land to LICPL on 8 May 2009 for which it received payment of ₹ 6.69 crore during 8 May 2009 to 7 July 2009 in three<sup>24</sup> installments and balance payment of ₹ 2.21 crore on 7 August 2009.

Sriram Cables had earned a profit of ₹ 1.57 crore<sup>25</sup> on an investment of ₹ 1.66 crore<sup>26</sup> as it made payment of the remaining amount to the Company only after agreement of sale with LICPL and on receipt of two installments from LICPL towards sale consideration. Besides, the decision of IDC to waive retention charges of ₹ 43.09 lakh and provide discount of 3.75 per cent (₹ 32.32 lakh) in payment of transfer charges to LICPL was contrary to the laid down rules.

The Company instead of cancelling the allotment of Sriram Cables had extended undue favour by regularizing the sale in violation of rules. Had the Company made fresh allotment to LICPL at the prevailing rate of development charges, it could have earned revenue of ₹ 1.02 crore<sup>27</sup>.

The reply of the Government and Management was awaited (November 2013).

#### 4.9 Rebate on larger size plot in violation of rules

**The IDC allowed rebate of ₹ 48.83 lakh for larger size plot in violation of the rule of saturation of the industrial area.**

The Infrastructure Development Committee (IDC) of Rajasthan State Industrial Development and Investment Corporation Limited (Company) adopted revised (5 September 2011) norms of classifying an industrial area as 'saturated'. As per new norms, an industrial area was saturated, once more than 80 per cent of the saleable industrial land is allotted instead of the existing 90 per cent threshold limit. In the same meeting (5 September 2011), IDC also accorded approval for preferential allotment of 11000 sqm land to Harmony Systems Private Limited (HSPL) under Rule 3(E) of RIIICO Disposal of Land Rules, 1979 (Disposal Rules) for setting up a design institute

24 ₹ 2.28 crore on 8 May 2009, ₹ 2.20 crore on 18 June 2009 and ₹ 2.21 crore on 7 July 2009.

25 ₹ 8.90 crore being sales proceeds received by Sriram Cables from LICPL less ₹ 7.33 crore being the amount paid by Sriram Cables to the Company.

26 ₹ 16604085 deposited by Sriram Cables for getting allotment in November 2007 include ₹ 15876000 towards 25 per cent development charges and ₹ 728085 towards economic rent, security money for land etc.

27 [Prevailing rate (₹ 3100 per sqm) less allotment rate (₹ 2268 per sqm)] X Area of plot (27800 sqm) less transfer charges recovered from LICPL (₹ 12927000).

at industrial area Ramchanderpura. The approval was accorded as a special case by relaxing the provisions of Rule 3(E) as the proposed design institute did not fall under the definition of educational institute.

We noticed (November 2012) that the IDC allotted land to HSPL at the rate applicable for educational institute without allowing rebate under Rule 3(E) (iii)<sup>28</sup> for larger size plot. Accordingly, the unit office issued (23 September 2011) allotment letter to HSPL for 10851 sqm land at the rate of ₹ 4500 per sqm. Subsequently, HSPL submitted (5 November 2011) a representation for allowing rebate in rate under Rule 3(E) (iii). The request was examined by the unit office which observed that HSPL was not eligible for rebate as the industrial area was saturated<sup>29</sup> under the revised norms of saturation. The Head Office instead recommended to IDC for allowing rebate on the plea that HSPL had filed (16 August 2011) the application for allotment of land before declaration of the area as saturated. The IDC approved (9 March 2012) the recommendation and HSPL was allowed rebate of ₹ 48.83 lakh.

We observed that the plea of management was not correct as on the date of allotment of above land to HSPL, the new revised saturation norms had come into effect. As the decision to revise the saturation norms and the allotment were made on the same day (5 September 2011), the IDC should have allowed the rebate under Rule 3(E) (iii) on this same date but it was not so. The decision of the IDC to allow rebate in already saturated industrial area was in violation of its own decision and Rule 3(E) (iii) besides loss of revenue of ₹ 48.83 lakh to the Company.

The Government stated (October 2013) that the IDC was competent committee authorised by the Board to take decisions on such matters. The IDC after due deliberation accorded approval for 10 per cent rebate in rate of allotment. The fact remained that the IDC allowed rebate in violation of its own decision and Rule 3(E) (iii) of Disposal Rules.

#### 4.10 Undue favour to bidders by out of court settlement

**The Company extended undue favour to the bidders by making out of court settlement and incurred minimum loss of ₹ 30.42 lakh by allotting plots in June 2011 at the rates of July 2009.**

Bhilwara unit of Rajasthan State Industrial Development and Investment Corporation Limited (Company) published (28 May 2009) notice for auction of E-492 (3308 sqm) and E-493 (3233 sqm) plots besides 18 other plots at Growth Centre, Hamirgarh. The terms and conditions of auction notice specifically provided that the Company reserves the right to accept/reject any auction or bid. During auction, two bidders<sup>30</sup> submitted highest bids of ₹ 406 per sqm and ₹ 408 per sqm for plot no. E- 492 and E- 493 respectively against

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28 Rule 3(E) (iii) provides that a 10 per cent rebate in rate of development charges shall be allowed while allotting minimum land of 10000 sqm in unsaturated industrial areas. The rebate shall increase by @ 0.5 per cent per 1000 sqm for land allotment of more than 10000 sqm, subject to maximum rebate of 25 per cent on both the counts put together.

29 86 per cent of the saleable area had already been allotted by the time allotment was made to HSPL.

30 Smt. Sangeeta Bapna for plot no. E-492 and Shri Saransh Bapna for plot no. E-493.

reserve price of ₹ 400 per sqm. The auction committee, however, recommended for cancellation of bids and re-auction after advertisement. The Managing Director also rejected the bids considering them non-competitive on the recommendation of Advisor (Infra) and directed (6 July 2009) to issue fresh notice for auction. The notice was issued (15 July 2009) and re-auction was held on 30 July 2009 wherein highest bids of ₹ 825 per sqm and ₹ 1100 per sqm for plot no. E- 492 and E- 493 respectively were received. The bidders<sup>31</sup>, however, did not deposit the amount as per terms and conditions of the auction and as such the bids were cancelled.

We noticed (November 2012) that both the highest bidders of auction dated 28 May 2009 filed (20 July 2009) a civil suit in the court of Civil Judge (Junior Division), Bhilwara to restrain the Company from re-auction of plot no. E- 492 and E- 493. However, the applications were rejected on 30 July 2009. On rejection, they filed (12 August 2009) an appeal before District Judge Court, Bhilwara where the Company was directed (23 September 2009) not to carry out any auction proceedings till disposal of the appeal. The Company filed (January/February 2010) a writ petition in Jodhpur High Court against the order of District Judge.

While the petition was pending before High Court, both the applicants submitted (15 November 2010) representation to the Company for considering allotment of the plots to them as per their bid dated 28 May 2009 with the proposal to withdraw cases. The matter was placed (24 March 2011) before the State Level Settlement Committee<sup>32</sup> (SLSC) to consider allotment of plot no. E- 492 and E-493 at ₹ 755 per sqm and ₹ 672.66 per sqm (average rate of allotment received during second auction held on 30 July 2009). The SLSC, however, rejected the requests of applicants on the ground that their bids were found non-competitive and rejected by the auction committee. Thereafter, the case was discussed (11 April 2011) by Minister, Industries with the applicants and the Managing Director of the Company wherein he was apprised about rejection of the applicants request by SLSC. It was also apprised that the auction committee did not mention any ground for cancellation of bids above the reserve price in the auction held on 28 May 2009. The Minister directed (11 April 2011) that the case be put up again before SLSC.

The Management after the meeting with Minister, Industries, again examined the case and found that the cancellation of the bids was not justified as no reasons were assigned by the auction committee. It took the decision to put up the matter before Infrastructure Development Committee (IDC). The IDC decided (9 June 2011) to allot both the plots at the rate of ₹ 805 per sqm, being the highest rate received in auction held on 30 July 2009 other than auction rate for E- 492 and E- 493 plots.

We observed that the Company failed to apprise the Minister, Industries about the true reasons of cancellation of bids as the Managing Director had himself approved re-auction on the recommendations of the auction committee and Advisor (Infra) due to non-competitive bids. Further, instead of putting the

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31 Vimla Devi Bapna for Plot no. E- 492 and Vimla Devi for plot no. E- 493.

32 SLSC comprised of Commissioner Industries, Commissioner (Investment and NRI), Chairman and Managing Director (RFC), Principal Secretary Mines and Petroleum and Managing Director (RIICO).

case before SLSC, the matter was put up (9 June 2011) before IDC with the recommendation that the cancellation was not justified. Besides, the Company completely ignored the fact that the applicants influenced the bidding process of the auction held on 30 July 2009. This was evident from the verification of bid-sheet wherein the person who submitted highest bid for plot E- 492 was the same who submitted highest bid on 28 May 2009 on behalf of applicants. The applicants, therefore, subverted the bidding process by submitting the highest bid and not depositing the amount so as to get the allotment at the bids submitted on 28 May 2009.

Thus, the Company extended undue favour to the bidders by making out of court settlement and incurred minimum loss of ₹ 30.42 lakh<sup>33</sup> by allotting plots in June 2011 at the rates of July 2009 whereas in auctions held during March 2011, the rates ranged between ₹ 877 per sqm and ₹ 2351 per sqm. As the Company reserved the right to accept/reject the auction or bid and had filed an appeal in the High Court its action to settle the land dispute with the bidders was questionable.

The Government stated (September 2013) that the IDC took decision to resolve the matter out of court in the interest of the Company. However, the fact remains that the IDC did not consider prevailing rates while making out of court settlement.

## **Statutory Corporations**

### **Rajasthan State Road Transport Corporation**

#### *4.11 Avoidable extra expenditure*

**The Corporation had to bear extra expenditure of ₹ 68.78 lakh due to failure in placing repeat order as per the policy and terms and conditions of agreement.**

The Bus Body Building Policy of the Rajasthan State Road Transport Corporation (Corporation) provides that tenders for fabrication of bus-bodies should be invited for fixed quantity and rates should be valid for 12 months or for specified quantity whichever is later. The Corporation invited (May 2011) tenders (a) for procurement of 840 number of chassis of super express blue line buses and (b) fabrication of bus-bodies on chassis procured. The financial bids for fabrication of bus-bodies were opened on 4 August 2011 wherein the offer of 'Asia Body Builders and Manufacturers, Jaipur' (ABBM) was found lowest at the rate of ₹ 356500 per bus excluding taxes with fabrication capacity of 30 buses per month. The Bus-body Building Committee (BBC) requested (10 August 2011) ABBM to submit increased capacity for fabrication of super express blue line buses. The lowest rate was also offered to other bidders but none of the bidder accepted the offer. However, ABBM revised (16 August 2011) its capacity to 420 in 11 cycles (months).

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33 As per weighted average rate of auction received during auction held on 7, 9 and 11 March 2011.

We noticed (May 2013) that the BBC instead of placing order to ABBM as per its revised capacity, decided (30 August 2011) to place order for only 240 bus bodies and to invite short term tender for remaining 600 bus bodies. An agreement with ABBM for fabrication of 240 bus-bodies was executed on 12 September 2011 and work order was issued on 15 September 2011. The terms and conditions of the agreement provided that the repeat order for fabrication of bus bodies other than ordered quantity could always be placed on the same rates during a period of one year from the date of signing of the agreement and ABBM was bound to accept the same otherwise earnest money and security deposit would be forfeited. The ABBM fabricated the ordered quantity of 240 bus bodies upto September 2012 as per the schedule provided by the Corporation.

Our scrutiny of records disclosed that the Corporation as per its decision invited (September 2011) short term tender notice for remaining 600 number of bus-bodies. The lowest quoted rate was ₹ 3.70 lakh per bus from ABBM for five bus-bodies per month. However, the BBC counter offered (10 October 2011) rate of ₹ 3.65 lakh per bus (2<sup>nd</sup> lowest of previous tender) which was accepted by four firms and work orders for 127 bus bodies were placed in December 2011. Further, the BBC placed orders for 60 bus-bodies to three<sup>34</sup> firms in August 2012, 80 bus-bodies to ABBM and 86 bus-bodies to other five firms in September 2012 at the rate of ₹ 3.65 lakh per bus. The Corporation again invited (September 2012) tender for remaining 247 bus bodies and orders were placed (March 2013) on six<sup>35</sup> firms at the rate of ₹ 4.15 lakh per bus including VAT.

We observed that the decision of the BBC to place order to ABBM for only 240 bus-bodies against the capacity of 420 buses was not prudent as the offered rate was lower than the rate (₹ 4.22 lakh per bus) at which bus-bodies were fabricated prior to this order. Further, the decision to invite short term tenders in September 2011 was also not correct as the Corporation could have placed repeat order to ABBM and ABBM was bound to accept repeat order within one year from the date of signing of the agreement. Besides, in case order was placed for 420 buses, ABBM was to complete the same at the rate of ₹ 356500 per bus during the schedule provided by the Corporation.

Thus, the Corporation had to bear extra expenditure of ₹ 68.78 lakh<sup>36</sup> due to failure in placing repeat order for 240 more bus-bodies to ABBM as per the policy and terms and conditions of agreement.

The Government/Management accepted (August/July 2013) the facts and stated that decision to invite short term tender for remaining 600 number of bus bodies was taken in anticipation of lower fabrication rates.

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34 Orders for 20 chassis each to Mohindra Coaches (India) Private Limited Jaipur, Bharat Metal fabricators, Jaipur and Shyam Coach Engineers, Jaipur were placed on 7 August 2012.

35 Mohindra Coaches (India) Private Limited, Jaipur (96 bus bodies), Asia Body Builders and Manufacturers, Jaipur (48 bus bodies), Shyam Coach Engineers, Jaipur (48 bus bodies), Bharat Metal fabricators (45 bus bodies) and Ameriya Brothers, Jaipur (10 bus bodies).

36 (₹ 365000 - ₹ 356500) X 80 buses and (₹ 395238 excluding taxes - ₹ 356500) X 160 buses.

## **General Paragraph**

### **4.12 Follow-up action on Audit Reports**

#### **Replies outstanding**

**4.12.1** 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.

The Audit Report for the year 2011-12 was presented to State Legislature in March 2013 and explanatory notes in respect of 14 draft paragraphs and two performance audits were received from the Government.

#### **Response to Inspection Reports, Draft Paras and Performance Audit**

**4.12.2** Audit observations noticed during audit and not settled on the spot are communicated through 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 four 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 2013 pertaining to 26 PSUs disclosed that 2597 paragraphs relating to 658 IRs involving monetary value of ₹ 1705.98 crore remained outstanding at the end of September 2013. Even initial replies were not received in respect of 33 paragraphs of four PSUs. Department-wise break up of IRs and audit observations as on 30 September 2013 is given in **Annexure-18**. In order to expedite settlement of outstanding paragraphs, Audit Committees were constituted in 14 out of 48 PSUs. 39 Audit Committee meetings were held during 2012-13 wherein position of outstanding paragraphs was discussed with executive/administrative departments to ensure accountability and responsiveness.

Similarly, draft paragraphs and report on performance audit on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. We, however, observed that four draft paragraphs and two performance audit reports forwarded to various departments between August 2013 and October 2013, as detailed in **Annexure-19** had not been replied to so far (November 2013).

We recommend that the Government may ensure that: (a) procedure exists for action against the officials who fail to send explanatory notes to paragraphs in Audit Reports and replies to inspection reports/draft paragraphs/performance audit report, 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**  
**The**

**(S. ALOK)**  
Accountant General  
(Economic and Revenue Sector Audit), Rajasthan

Countersigned



**NEW DELHI**  
**The**

**(SHASHI KANT SHARMA)**  
Comptroller and Auditor General of India