

## Overview

### Functioning of Public Sector Undertakings

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

As on 31 March 2018, Rajasthan had 43 State Public Sector Undertakings (PSUs) consisting of three Statutory Corporations and 40 Government Companies (including three non-functional Government Companies) under the audit jurisdiction of the Comptroller & Auditor General of India. The working PSUs registered a turnover of ₹ 69516.67 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to 8.27 *per cent* of the Gross State Domestic Product (GSDP) of Rajasthan. As on 31 March 2018, the investment (Capital and long term loans) in 43 PSUs was ₹ 127732 crore. The power sector received 94.40 *per cent* of total investment (₹ 40828.27 crore) made during the period from 2013-14 to 2017-18.

### 1. Functioning of Power Sector Undertakings

#### *Formation of Power Sector Undertakings*

The State Government enacted (January 2000) the Rajasthan Power Sector Reforms Act 1999 (RPSRA 1999) which *inter alia* provided for re-organisation of electricity industry and preparation of a scheme for transferring the powers, duties and functions of Rajasthan State Electricity Board (RSEB) to one or more power sector companies of the State Government. The State Government accordingly formulated (19 July 2000) the Rajasthan Power Sector Reforms Transfer Scheme 2000 (RPSRT Scheme 2000) for unbundling of Rajasthan State Electricity Board (RSEB) and transfer of assets, properties, liabilities, obligations, proceedings and personnel of RSEB to power sector companies. Resultantly, five power sector companies came into existence *w.e.f.* 19 July 2000 and all the assets and liabilities of RSEB were distributed among these companies according to the provisions of the RPSRT Scheme 2000. The State Government incorporated three other power sector companies (one company in 2002-03 and two companies in 2015-16). Besides these eight companies, seven other companies were also incorporated in the Power Sector between November 2006 and January 2012 as subsidiary of other power sector companies. Thus, the State had 15 Power Sector companies as on 31 March 2018. Audit of these power sector companies is governed by Sections 139 and 143 of the Companies Act, 2013. The financial statements of these companies are also audited by the Statutory Auditors appointed by the CAG subject to supplementary audit by the CAG.

Of these 15 companies, six companies did not commence any commercial activities till 2017-18. The purpose of incorporation of these companies was,

therefore, defeated. The Government should take appropriate action to commence business activities of these companies.

The Power Sector Undertakings registered a turnover of ₹ 55605.46 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to 6.62 *per cent* of the GSDP of Rajasthan indicating an important role played by the Power Sector companies in the economy of the State.

#### ***Stake of Government of Rajasthan***

As on 31 March 2018, the total investment (equity and long term loans) in 15 power sector undertakings was ₹ 117215.41 crore. The investment consisted of 35.73 *per cent* towards equity and 64.27 *per cent* in long-term loans. The Long term loans advanced by the State government constituted 44.07 *per cent* (₹ 33204.48 crore) of the total long term loans whereas 55.93 *per cent* (₹ 42134.88 crore) of the total long term loans were availed from other financial institutions.

#### ***Performance of Power Sector Undertakings***

The overall profit earned by the 15 power sector companies was ₹ 2750.85 crore in 2017-18 against losses of ₹ 12678.18 crore incurred in 2013-14. According to accounts for the year 2017-18 of the power sector companies, seven companies earned profit of ₹ 2994.36 crore and four companies incurred loss of ₹ 243.51 crore. Remaining four companies incurred marginal losses during the year 2017-18. The top profit making companies were Ajmer Vidyut Vitran Nigam Limited (₹ 1199.08 crore), Jaipur Vidyut Vitran Nigam Limited (₹ 943.16 crore), Rajasthan Rajya Vidyut Utpadan Nigam Limited (₹ 607.26 crore) and Rajasthan Rajya Vidyut Prasaran Nigam Limited (₹ 195.71 crore) while Giral Lignite Power Limited (₹ 241.45 crore) incurred substantial loss.

The accumulated losses of the power sector companies were ₹ 98929.72 crore as against the capital investment of ₹ 41876.05 crore as on 31 March 2018. Of the 15 Power Sector Undertakings, the net worth was eroded completely in Jaipur Vidyut Vitran Nigam Limited (₹ -22341.63 crore), Jodhpur Vidyut Vitran Nigam Limited (₹ -22116.53 crore), Ajmer Vidyut Vitran Nigam Limited (₹ -20551.94 crore) and Giral Lignite Power Limited (₹ -570.59 crore).

#### ***Financial Turnaround of DISCOMs under Ujwal DISCOM Assurance Yojana (UDAY)***

The tripartite Memorandums of Understanding (MoUs) were signed (27 January 2016) between the Ministry of Power (MoP), Government of India, the GoR and respective State DISCOM (i.e. JVVNL/JdVVNL/AVVNL) for providing assistance to the State owned power sector PSUs. As per provisions of the UDAY Scheme and the MoUs, out of total outstanding debt (₹ 83229.90 crore) pertaining to three State DISCOMs as on 30 September 2015, the GoR had taken over total debt of ₹ 62421.95 crore during the period 2015-16 and 2016-17 against which the GoR provided equity of ₹ 8700 crore and grant of ₹ 9000 crore during the same period. The remaining amount of ₹ 44721.95 crore which was converted into loans under UDAY Scheme, was to be converted into equity and grant over a period of three years *i.e.* 2017-18,

2018-19 and 2019-20. Against this amount, the GoR provided equity of ₹ 3000 crore and grant of ₹ 12000 crore during 2017-18 whereas remaining loan amount was to be converted in subsequent years as per budget approvals of the GoR.

### ***Quality of accounts***

The quality of accounts of power sector companies needs improvement. Out of 15 accounts finalised during 1 October 2017 to 30 September 2018, the Statutory Auditors gave qualified certificates on eight accounts. There were 12 instances of non-compliance with Accounting Standards by the Power Sector Undertakings.

### ***Coverage of this Report***

This Report contains a performance audit *i.e.* on Performance Audit on Procurement and Inventory Management by Ajmer Vidyut Vitran Nigam Limited and five compliance audit paragraphs involving financial effect of ₹ 309.05 crore.

## **2. Performance Audit relating to Power Sector Government Companies**

### **Ajmer Vidyut Vitran Nigam Limited**

#### **Performance Audit on Procurement and Inventory Management**

This Performance Audit covers the procurement and management of inventory in Ajmer Vidyut Vitran Nigam Limited (Company) during the period from 2013-14 to 2017-18.

#### ***Rajasthan Transparency in Public Procurement (RTPP) Act 2012***

The Government of Rajasthan enacted (May 2012) RTPP Act 2012 and notified (January 2013) the RTPP Act and Rules there under. The Act repealed all the prevailing rules and regulations relating to procurement of goods, services and works. The Company, however, did not revise the Purchase Manual and Standard Bid Document as per the Act/Rules.

#### ***Assessment of requirement of material***

The Company did not follow the prescribed procedure for assessment of requirement of material. The circle offices and the sub-divisions did not send work wise/sub-division wise requirement of material to the Zonal office. The Chief Engineer (Material Management) therefore invited tenders for procurement according to the adhoc requirements projected by Zonal Chief Engineer, which were not indicative of the actual requirement of field offices.

#### ***Finalisation of tenders***

Review of 69 selected tenders disclosed that the Company finalised 40 tenders beyond the stipulated period of 120 days. The finalisation of tenders was delayed upto 20 months. Further, the concerned authority violated the

provisions of Purchase Manual by finalising these tenders without approval of the next higher authority.

***Efficiency and effectiveness in procurement of material***

The Company procured prepaid energy meters without online communication facility for recharging valuing ₹ 13.62 crore. The Company also violated the specifications prescribed under the Government of India (GoI) order/guidelines for procurement of transformers valuing ₹ 1.54 crore. Further, instances where the Company accepted material ahead of the prescribed delivery schedule without assessing proper requirement and availability of stock and placed orders for supply of material on higher rates for repeat orders were also noticed.

***Inventory control***

The Company did not fix critical levels of inventory and neither carried out value analysis nor movement analysis of material. The storage rate was not fixed on the basis of actual expenditure incurred on storage. The Assistant Controller of Stores (ACOS) and sub-divisional stores did not maintain the record of inventory in the prescribed format. The indents submitted by the sub-divisions at all selected ACOS did not have reference of the work identification memos and the material was issued without presentation of the estimate cards. The selected sub-divisional stores did not maintain job cards, transformer movement register and material estimate card as per norms laid down.

The Company did not conduct annual physical verification of inventory at the ACOS and sub-divisional stores. The period covered under physical verification of ACOS ranged between one and four years. In 12 out of 15 test checked sub-divisions, physical verification of stores was not conducted during the last ten years.

***Idle inventory, storage, excesses and shortages and theft, fire and embezzlement***

The Company accepted surplus material of ₹ 10.47 crore from turnkey contractors without testing of material at Central Testing Laboratory (CTL) and utilised the material without proper approval. Further, surplus material worth ₹ 1.24 crore remained unutilised with the Stores. The Company procured material in excess of requirement and material valuing ₹ 9.11 crore at the ACOS and sub-divisional stores was not utilised due to lack of demand from the field offices.

The ACOS and sub-divisional stores neither maintained records nor stacked the inventory as per prescribed directions. The stock verifiers pointed out unadjusted shortages of ₹ 0.96 crore and excesses of ₹ 1.11 crore as on March 2017 in physical verification reports of all the ACOS. Non-maintenance of prescribed records, lack of inspection by the competent authorities and improper storage of inventory provided opportunities for embezzlement and loss of material due to occurrence of fire. Further, the Company did not insure the material at sub-divisional stores.

### **Recommendations**

The Performance Audit contains eight recommendations viz. (i) revision of the Purchase Manual to conform to provisions of Rajasthan Transparency in Public Procurement Act 2012 and Rules there under, (ii) streamlining the assessment of requirement of material to ensure that procurement is done as per requirements, (iii) finalising the tenders within the prescribed time frame, ensure approval of the higher authorities in case of delay in finalisation and follow the procedures as prescribed for tendering and award of contracts, (iv) strengthen the inspection and testing procedures and ensure strict adherence to the technical specifications by the suppliers, (v) adoption of inventory control techniques for efficient management of inventory and proper maintenance of the prescribed records for better control and monitoring of inventory (vi) conduct physical verification of inventory at specified intervals and take corrective action on discrepancies reported in physical verification reports (vii) implement IT based inventory management system and (viii) dispose scrap promptly.

### **3. Compliance Audit Observations relating to Power Sector Undertakings**

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

Loss/extra expenditure/non-recovery/loss of opportunity to earn revenue of ₹ 30.57 crore due to non-compliance with rules, directives, procedures, terms and conditions of contract in two cases.

*(Paragraphs 3.4 and 3.5)*

Loss/extra expenditure/non-recovery of ₹ 143.30 crore due to failure to safeguard financial interests of the organization in two cases.

*(Paragraphs 3.2 and 3.3)*

Gist of some important Audit observations is given below:

The failure rate of Distribution Transformers (DTs) in **Jaipur Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited** remained high in comparison to the maximum failure rate specified by the Ministry of Power. The assessment of DTs was not based on the actual requirement framed by the field offices and on-going schemes/ works. The Companies were not prompt in depositing the transformers which failed within the guarantee period. Substantial quantity of transformers was lying in stores of the Companies and with suppliers.

*(Paragraph 3.1)*

**Rajasthan Rajya Vidyut Utpadan Nigam Limited** did not ensure availability of gas for Gas based Ramgarh Combined Cycle Power Project (Stage-IV) before incurring ₹ 90.64 crore towards interest on loan and insurance of plant/equipments procured for the project. The Company has also

incurred ₹ 107.41 crore towards plant/equipments lying idle and also has further committed liabilities to the tune of ₹ 103.87 crore.

*(Paragraph 3.2)*

**Rajasthan Rajya Vidyut Utpadan Nigam Limited** could not recover statutory charges of ₹ 52.66 crore from the Companies supplying coal due to absence of relevant clause in the coal supply agreements.

*(Paragraph 3.3)*

#### **4. Functioning of State Public Sector Undertakings (other than Power Sector)**

As on 31 March 2018, Rajasthan had 28 State Public Sector Undertakings (other than Power Sector) consisting of 22 working Companies, three working Statutory Corporations and three non-working PSUs (all Companies). The working PSUs registered a turnover of ₹ 13911.21 crore during 2017-18 as per their latest finalised accounts. This turnover was equal to 1.66 *per cent* of the State Gross Domestic Product indicating the role played by these State PSUs in the economy of the State.

##### ***Stake of Government of Rajasthan***

As on 31 March 2018, the total investment (equity and long term loans) in these 28 PSUs was ₹ 10516.59 crore. The investment consisted of 34.14 *per cent* towards equity and 65.86 *per cent* in long-term loans. The Long term loans advanced by the State government constituted 27.96 *per cent* (₹ 1936.85 crore) of the total long term loans whereas 72.03 *per cent* (₹ 4989.87 crore) of the total long term loans were availed from other financial institutions.

##### ***Performance of State PSUs (other than Power Sector)***

The profit of ₹ 447.84 crore earned by working PSUs in 2013-14 transformed into losses of ₹ 928.35 crore in 2017-18 due to substantial increase in losses of Rajasthan State Road Transport Corporation and Jaipur Metro Rail Corporation Limited. According to latest finalised accounts of the 25 working State PSUs, 19 PSUs earned profit of ₹ 350.08 crore and six PSUs incurred losses of ₹ 1278.43 crore in 2017-18.

The top profit making companies were Rajasthan State Industrial Development and Investment Corporation Limited (₹ 142.94 crore), Rajasthan State Mines and Minerals Limited (₹ 109.68 crore), Rajasthan State Ganganagar Sugar Mills Limited (₹ 23.51 crore) while Rajasthan State Road Transport Corporation (₹ 1169.76 crore) and Jaipur Metro Rail Corporation Limited (₹ 90.12 crore) incurred heavy losses.

##### ***Quality of accounts***

The quality of accounts of PSUs needs improvement. Out of 14 accounts finalised during 1 October 2017 to 30 September 2018, the Statutory Auditors gave qualified certificates on seven accounts. There were five instances of non-compliance with Accounting Standards by the PSUs.

***Arrears in accounts and winding up***

Thirteen working PSUs had arrears of 17 accounts as on 30 September 2018. Among non-functional PSUs, one PSU had three accounts in arrears. The Government may take a decision regarding winding up of the non-functional PSUs.

<b>5. Compliance Audit Observations relating to State PSUs (other than Power Sector)</b>
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Compliance Audit observations included in this Report highlight deficiencies in the management of Public Sector Undertakings, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

Loss/extra expenditure/non-recovery/loss of opportunity to earn revenue of ₹ 38.85 crore due to non-compliance with rules, directives, procedures, terms and conditions of contract in one case.

*(Paragraphs 5.1)*

Loss/extra expenditure/non-recovery of ₹ 4.50 crore due to failure to safeguard financial interests of the organization.

*(Paragraphs 5.2)*

Gist of some important Audit observations is given below:

**Rajasthan State Industrial Development and Investment Corporation Limited** did not ensure issue of notices on time to allottees who defaulted in completion of construction activities and commencement of production activities. The unit offices did not maintain proper database to monitor and ensure that the allottees commenced construction and production activities as per schedule. Instances were noticed where the Company did not recover retention charges as per Rules and waived retention charges without justified reasons.

*(Paragraph 5.1)*

**Rajasthan State Industrial Development and Investment Corporation Limited** did not ensure prior approval of the Government of Rajasthan for reimbursement of differential cost before issuing the orders for allotment of land at concessional rates.

*(Paragraph 5.2)*

