Chapter IV

4. Transaction Audit Observations

Important audit findings arising out of test check of transactions made by the State Government companies/corporations are included in this chapter.

Government companies

Jaipur Vidyut Vitran Nigam Limited, Ajmer Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited

Undue benefit to suppliers in Purchase of PCC Poles

Had the condition with regard to date of casting of poles been incorporated in the purchase orders for PCC poles, additional payment of Rs.37.04 lakh could have been avoided.

4.1 Ajmer Vidyut Vitran Nigam Limited (AVVNL), Jaipur Vidyut Vitran Nigam Limited (JVVNL) and Jodhpur Vidyut Vitran Nigam Limited (Jd.VVNL) placed purchase orders (July/August 2004) on various firms (manufactures) for supply of 8 and 9 meter long PCC poles. Clause 5 (A), 2(A) and 7 of these purchase orders *inter alia* provided for price variation based on the ex-stockyard price of 5.5 mm dia high carbon steel rod at the base rate of Rs.23,100 per MT on 1 February 2004 for AVVNL and Rs.22,100 per MT on 1 March 2004 for JVVNL and Jd.VVNL. The price variation on account of change in price of steel would be based on the price prevailing on the first day of the Calendar month preceding the calendar month in which the material has been offered for inspection or the month in which delivery is due whichever is advantageous to the companies.

It was noticed in audit that the companies as per the extant provisions allowed price variation of Rs.37.04 lakh on 1,12,052 poles.

Since the intention behind allowing price variation in any agreement is to compensate the supplier for any increase/decrease in price of raw material used in manufacturing of poles and further if it was found difficult to consider the actual date of purchase of steel; the month of casting of poles (which is embossed on the poles) should have been considered for calculating price variation.

In the absence of a provision of the date of casting of poles in the purchase order, the three Discoms allowed price variation of Rs.37.04 lakh based on the date of inspection or delivery rather than the date of casting of poles by the suppliers. Had the provision relating to date of casting of poles been incorporated in these purchase orders, additional payment of Rs.37.04 lakh could have been avoided.

The Government stated (June 2006) that it is practically very difficult to segregate poles as per their dates of casting, keeping this practical aspect and as a common policy the price variation is allowed and it was further stated (October 2006) that the provision of applicability of price variation on the first day of the calendar month preceding the month in which material is offered for inspection have been kept with a view that curing time of poles is about one month which covers the pole casted one month prior to inspection offer.

The reply is not tenable as the pole casting period pointed out by Audit is more than one month prior to inspection offer and to safeguard their financial interest the companies should have worked out a suitable *modus operandi* to keep a record of lot wise dates of casting of poles.

Rajasthan Rajya Vidyut Prasaran Nigam Limited

Extra expenditure of Rs.41.31 lakh

Company's failure to invoke risk purchase clause resulted in avoidable loss of Rs.41.31 lakh.

4.2 Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) placed a supply order (June 2003) on R.S. Industries, Jaipur (supplier) for supply of 218 MT M.S. Flats and 60 MT M.S. Angles at Rs.18,497.28 per MT and 19,462.40 per MT respectively (FOR destination inclusive of Excise duty, Sales tax, and transportation up to Heerapura store). The delivery was to commence from 6 July 2003 and completed by 5 October 2003. The supply order, *inter alia*, stipulated that if the supplier failed to complete the supply within the specified delivery period, the Company shall be entitled at its option to obtain the quantities not supplied from other agencies at the risk and cost of the supplier.

The supplier supplied only 4.985 MT of M.S. Angle within the delivery schedule, and for the balance supply, the supplier intimated (23 December 2003) that due to sudden increase in steel price they were unable to supply the balance material and requested for extension of the delivery period up to 31 March 2004. The Company accepted their request and extended delivery period upto 31 March 2004. The supplier, however, did not supply the balance material. The Company later procured the unsupplied material from an alternate source by incurring extra expenditure of Rs.43.40 lakh.

It was seen during audit that despite there being a clear provision in the supply order for 'risk and cost' purchase, the Company merely imposed a penalty of Rs.2.09 lakh and did not recover the extra expenditure of Rs.41.31 lakh (Rs.43.40 lakh - 2.09 lakh of penalty recovered) from the supplier. Thus, non-enforcement of the clear provision of the supply agreement resulted in loss of Rs.41.31 lakh to the Company.

The Government stated (June/August 2006) that supply orders on two other firms were also placed and they also could not supply the material whereas in one case the order was cancelled without any financial liability on either side and in yet another case the order was cancelled after forfeiting the earnest money deposit of the firm. Accordingly, it was not considered appropriate to invoke the risk and cost clause against the supplier.

The reply is not tenable as in the other two cases the firms did not accept the purchase orders issued by the Company, and hence the Company was not in a position to take action against them. In the instant case, however, since the supplier had accepted the purchase order by supplying some material, the Company was in a position to invoke the risk and cost clause in its financial interest.

Rajasthan Rajya Vidyut Utpadan Nigam Limited

Avoidable payment of interest

Avoidable payment of interest of Rs.73 lakh due to restructuring of bond of Rs.50 crore on unfavorable terms and conditions despite having 'Put and Call' option.

4.3 The erstwhile Rajasthan State Electricity Board (RSEB) raised funds of Rs.400 crore (June 2000) through bonds carrying interest rate of 12.25 *per cent*. The tenure of the bonds was seven years with a 'Put and Call' option at the end of the fifth year. The bonds were redeemable in three installments *viz.* 20 *per cent* at the end of the sixth year, 40 *per cent* at the end of six and half years and balance 40 *per cent* at the end of the seventh year. On unbundling of RSEB (19 July 2000), the bonds amounting to Rs.305.10 crore were allocated to Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL).

The debt servicing on account of all the five successor companies of the erstwhile RSEB was assigned to the Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL), who requested (August 2004) all the bond holders to consider restructuring of the bonds at a maximum coupon rate of 7.00 - 7.50 *per cent*. All the bondholders except Life Insurance Corporation (LIC) (bond holding Rs.50 crore) showed their inability. LIC agreed (September 2004) to restructure bonds at the interest rate of 8.50 *per cent* (reset coupon) with the condition that the Company would pay premium of 50 *per cent* of the

net present value for loss of interest up to the date of maturity and remove the 'Put and Call' option from the terms and conditions set out in the bonds issued to LIC. The decision to restructure the bonds on the conditions offered (September 2004) by LIC was taken on 29 December 2004 by the Board of the RRVPNL without referring it to the RRVUNL.

It was noticed (February 2006) in audit that though it was known to the RRVPNL and the RRVUNL that they had the 'Put and Call' option for redemption at the end of fifth year, RRVPNL preferred to restructure (February 2005) the bonds held by LIC on unfavorable terms and conditions.

Had RRVPNL exercised their put and call option at the end of the fifth year (*i.e.* after June 2005) for redemption of bonds of Rs.50 crore held by LIC, as it did for the remaining bonds, the Company could have avoided extra interest payment of Rs.73 lakh on redemption of bonds.

While accepting the facts, the Government stated (May 2006) that the loss on account of not exercising the 'Put and Call' option in respect of bonds held by LIC was negligible. The fact remains that the Company could have saved interest outgo of Rs.73 lakh by exercising the available option.

Extra expenditure on procurement of imported coal

Inordinate delay in obtaining Government's approval and placement of purchase order on MMTC without ascertaining the market rates resulted in extra expenditure of Rs.3.22 crore.

4.4 Government of India (GOI), Ministry of Power apprised (20 September 2004) all Power utilities about the gap of 10 Million Tonnes (MT) of coal between demand and actual availability from all indigenous sources in that year as well as during 2005-06 and 2006-07. The Government also advised all State Power utilities to act fast and plan in such a way that the imported coal started coming from January 2005 onwards. The Central Electricity Authority (CEA) also identified 16 Thermal Power Stations including Kota & Suratgarh Thermal Power Stations for importing coal for their power generation.

GOI again stressed (16 October 2004) that the Power utilities should make arrangements for import of required quantity of coal under a time bound programme to meet the gap in the supply of coal. It was also mentioned that Rajasthan Rajya Vidyut Utpadan Nigam (Company) was required to import 1.26 lakh MT of coal per month.

The Company informed (27 September 2004) the Government of Rajasthan (GOR), Energy Department, the complete position about import of coal to meet the fuel requirements of Kota Thermal Power Station (KTPS) and Suratgarh Thermal Power Station (STPS). The Company again requested (22 November 2004) GOR to accord approval for import of one lakh MT coal. The Energy Department, GOR accorded 'in principle' approval only on

22 January 2005 to source coal for immediate requirements from any source including MMTC[$] and other PSUs that are able to offer coal immediately. The Board of the Company approved the award of contract to MMTC for supply of 2 lakh MT of imported Chinese coal at the rate of 74.70 US$ per MT on 'High Seas Sales Basis' for KTPS and STPS at a total adjusted price of Rs.98.10 crore.

It was noticed in audit that despite GOI's advice in September 2004, the Company did not initiate timely action to explore the market for import of coal at their end but merely kept waiting for the State Government approval, which came only in January 2005. Finally, to meet the urgent requirement (when there was a stock of only six to seven days against the requirement of minimum 15 days), the Company placed a 'desperate' purchase order (19 February 2005) for supply of 2 lakh MT Chinese Origin Imported Coal through MMTC without any enquiry from any other source including neighboring thermal power stations of Gujarat regarding price and quality of coal.

It was further noticed in audit that the Gujarat Electricity Board (GEB), at the same time had placed a purchase order for import of 3.2 lakh MT of non-coking steam coal of similar specifications at a lower rate (71.00 US$ per MT) on another firm.

Thus, due to delay in initiation of action for purchase of coal, without exploring the market with regard to the prevailing rates, the Company placed purchase order on MMTC, hurriedly to maintain minimum stock level of coal. This resulted in an extra expenditure of Rs.3.22 crore[*] in comparison to GEB which had also imported similar coal on high seas sales basis at the same port.

The Government stated (April 2006) that as per their directions, the coal was to be imported from MMTC and other PSUs only, as such, there was no necessity to undertake any exercise/inquiry from other power stations. The reply is factually incorrect since as per the direction of the Government, the Company was to import coal from any source including MMTC and other PSUs.

The Government further stated that in case of GEB; the price basis is Net Calorific Value 6300 Kcal/Kg whereas in case of RRVUNL the basis of price is Gross Calorific Value 6850 Kcal/Kg and hence the two were not comparable. The reply is not tenable as there was no difference in quality of coal with reference to Gross/Net Calorific Value[**] of coal imported by GEB and the RRVUNL.

[$] Mineral and Metal Trading Corporation.

[*] Gujarat Electricity Board [71.00 USD (CIF Price per MT at Indian port)] - Company [74.70 USD (CIF Price per MT at Indian port)] = 3.70 USD x 2 lakh tones (quantity) x Rs.43.48 (dollar rate) = Rs.3,21,75,200.

[**] Gross Calorific Value ranging between 6500 to 7000 Kcal/Kg is equal to Net Calorific Value ranging between 6000 to 6300 Kcal/Kg.

Jaipur Vidyut Vitran Nigam Limited

Avoidable extra expenditure of Rs.78.98 lakh

Due to non-acceptance of firm's offer to supply balance material at contract price, the Company had to incur avoidable extra expenditure of Rs.78.98 lakh.

4.5 Jaipur Vidyut Vitran Nigam Limited (Company) placed (May 2002) a purchase order (PO) on Techno Engineering Company (firm) for supply of 4,506.22 MT MS fabricated material on behalf of three* Discoms on FOR destination basis at a fixed price of 363 US$ per MT against International Competitive Bidding package against Letter of Credit (LC).

In terms of clause 3 of the PO, the date of commencement of delivery was to be reckoned from the date of release of 10 *per cent* advance payment. The delivery was to commence after three months and completed in 12 months at equal rate in each quarter. The Company released 10 *per cent* advance on 6 August 2002.

The Company, before commencement of supply, requested (27 August 2002) the firm to accept payment of their bills within three days of receipt of verified challan and completion of related contractual formalities instead of through LC. The firm agreeing (12 October 2002) to the proposal offered 3,464.46 MT material between 16 October 2002 and 14 July 2003 against supply of first three quarters. On 19 November 2003, after supplying 3,708.91 MT materials, the firm stopped further supplies as the Company had delayed inspection of material and payment by 17 to 65 days. Meanwhile, though the prices of steel had increased, the firm, on 24 December 2003 and 9 January 2004 offered to supply the material at the contracted price if timely inspection and payment were ensured. The Company, however, did not respond to the offer. The management advised (3 June 2004) the firm to submit the proposal for price escalation which the firm submitted on 4 June 2004. Managing Directors (MDs) of the three Discoms allowed (25 June 2004) price escalation, with base price prevailing in the month resulting in 10 *per cent* increase in the contracted price.

Audit analysis revealed that while paying the escalation, the Company worked out the price escalation by taking the prevailing rate of steel and labour on the date of bid opening instead of the month from which prices of steel were hiked by 10 *per cent* by the MDs of the three Discoms, which resulted in excess payment of Rs.23.79 lakh. Audit analysis also showed that had the Company accepted the offer of the firm (December 2003 and January 2004) for supply of the balance quantity, the Company could have saved Rs.78.98 lakh towards total escalation paid to the firm.

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* Jaipur Vidyut Vitran Nigam Limited, Ajmer Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited.

The matter was reported to the Government/Management (July 2006); their replies are awaited (September 2006).

4.6 Undue benefit to a supplier

Non-opening of Letter of credit in time as per the terms and conditions of the purchase order and acceptance of unreasonable request for price variation of the supplier resulted in extra expenditure of Rs.1.33 crore.

4.6.1 Jaipur Vidyut Vitran Nigam Limited (Company) placed (May 2002) a purchase order on Marson's Electrical Industries (Supplier) for supply of 80 numbers of 5 MVA, 33/11 KV Power Transformers on firm and fixed price basis.

Audit scrutiny revealed (December 2004) that inspite of a clear stipulation in the purchase order for payment through Letter of Credit (LC), the Company did not open LC and requested (November 2002) the supplier to accept payment directly within three days of the supply instead of through LC. The supplier did not accept the offer and insisted on opening the LC. The supplier, however, co-operated with the Company to meet out their urgent requirement and supplied 49 transformers between March 2003 and June 2004.

In June 2004, the supplier informed the Company that further supplies of 31 transformers would not be possible due to non opening of LC as also due to price hike of raw material in the international market and asked for price variation for future supplies. Dy. Chief Engineer (MM) apprised (August 2004) the Corporate Level Committee that the delivery was linked with the opening of LC but it could not be opened in time. The Committee decided to allow price escalation to the supplier for supply of balance 31 transformers.

Thus, due to non-opening of LC in time as per the terms and conditions of the purchase order, the Company had to pay Rs.1.17 crore extra on account of price variation (paid on 6 October 2005) against the fixed price contract.

The Government stated (February 2006) that generally there was no practice to open an LC at the initial stage in World Bank contracts and, therefore, the supplier was requested to accept payment directly within three days from the date of furnishing of receipted challans by the supplier. Further, the LC was later opened in favour of the supplier but after opening of LC, the supplier insisted on price variation on the balance supplies due to steep price rise in the cost of raw material.

The reply is not tenable as opening of LC in time was essential and a prerequisite as per the terms of the agreement. Further, non- opening of LC in time resulted in extra payment towards price variation despite the fact that the contract with the supplier was for fixed price. The Company could have avoided this extra payment had the Company adhered to the provisions of the contract.

4.6.2 Similarly, the Company placed (December 2003) a purchase order on Speed Craft Industries (Supplier) for supply of 1,000 MT Sub-station structure at the fixed rate of Rs.23,300 per MT plus 4 *per cent* Sales tax. The supplier, after supply of 696.60 MT of material between February 2004 and April 2004, demanded (June 2004) price variation on the plea that the Company had allowed price variation to other defaulter suppliers also. The Company accepted the plea of the supplier and agreed (July 2004) to allow price variation on the balance supplies. The supplier completed the supply in September 2004 at the rate of Rs.28,557.69 per MT against the contracted price of Rs.23,300 per MT. Thus, the Company made an inadmissible payment of Rs.16.59 lakh to the supplier on balance supply of 303.40 MT.

It was noticed during audit that the decision for allowing price variation was not justified as there existed a firm and fixed rate contract between the Company and the supplier which, *inter alia*, envisaged that the Company had a right to purchase material at the risk and cost of the supplier in the event of default by the latter in supply of material.

The Government stated (August 2006) that steep hike in steel prices was an unforeseen and unpredictable condition considered by the Company and therefore price variation was allowed to the supplier. It was further stated that even after allowing price variation, the Company obtained material at prices lower than the prevailing market prices.

The reply is not acceptable as the agreement clearly stipulated the right to purchase the unsupplied material at the risk and cost of the supplier which was not exercised by the Company and resulted in undue benefit of Rs.16.59 lakh to him.

Undue benefit to a consumer

Violation of its own Tariff provisions and billing the consumer on actual consumption resulted in undue benefit to the consumer to the extent of Rs.42 lakh.

4.7 Jaipur Vidyut Vitran Nigam Limited (Company) disconnected the power supply of Pratap Raj Special Steel Limited, Jaipur (an HT Consumer) on 24 July 2001 due to non payment of electricity dues of Rs.25.38 lakh as the consumer was declared a sick industry by BIFR in December 1991. In September 2002, the Company, on the request of the consumer, adjusted their outstanding dues against their security deposit of Rs.43.89 lakh and refunded the balance amount.

The consumer, on revival of the industrial unit under the BIFR scheme, again approached (February 2004) the Company for release of a new connection. The Company released the new connection on 20 March 2004 for a contract demand of 4500 KVA on 132 KV. In the first billing month (March 2004), the Company raised bill of minimum charges as per 'Tariff for supply of electricity, 2004'.

The consumer, however, requested for billing on the actual consumption instead of minimum charges, it being a new connection. Since the consumer asked for the connection on revival of its industry after sickness, it was a reconnection and not a new connection and hence his request for minimum charges was not acceptable as per the Tariff provisions. The Company, however, violating its Tariff provisions accepted the plea of the consumer and billed for actual consumption instead of minimum charges which were higher than the actual consumption during the period from March 2004 to August 2004.

Thus, in violation of its own Tariff provisions, the Company extended undue benefit to the consumer to the extent of Rs.42 lakh.

The Government stated (June 2006) that there is no ban on allowing concession of minimum billing to a new industry, even if it happens second time and the first industry has closed down and new industry stepping in. The reply is not relevant as, this was a case of reconnection on revival of the sick industrial unit by the same promoter and not a connection to new industry and hence as per tariff provisions, minimum billing was chargeable from the consumer.

Rajasthan State Mines and Minerals Limited

Avoidable extra expenditure on reclamation of mining area

The Company incurred extra expenditure of Rs.17.66 lakh due to non-clubbing of two works *i.e.* (i) removal of over burden and excavation of lignite and, (ii) reclamation of topsoil in the pit.

4.8 The Government of India, Ministry of Environment and Forest, while giving environmental clearance for Giral mines, directed (12 December 1994) that the mining area was to be biologically reclaimed after excavation of minerals therefrom. The erstwhile Rajasthan State Minerals Development Corporation Limited* (Company) estimated (February 2001) requirement of about 1.9 lakh cubic meter (Cum) topsoil for reclamation of the pit of its Giral mines from where mineral had already been excavated. The Company estimated Rs.20 per Cum for excavation, transportation and filling of topsoil in the said pit. The Company, after detailed deliberations (between 2002 and 2004) invited tenders in June 2004 for excavation, transportation and filling of topsoil from nearby Jelelo block to the pit area in Giral mines. The lowest offer received was Rs.36 per Cum. Based on an analysis of rates by the tender committee it was recorded that the rate quoted by the tenderers was high. The Company, however, awarded (April 2005) the contract to the lowest bidder

* Now Rajasthan State Mines and Minerals Limited (after amalgamation of Rajasthan State Minerals Development Corporation Limited with Rajasthan State Mines and Minerals Limited).

(Roper construction, Mohali), for 2.25 lakh Cum topsoil for reclamation at the quoted rate of Rs.36 per Cum on the plea that the rate was received through open tender. The actual quantity of topsoil excavated, transported and filled for reclamation was 2.58 lakh Cum.

It was noticed in audit (December 2005) that the Company was simultaneously in the process of awarding the work of removal of overburden and excavation of lignite from Jalelo block. The Company invited (March 2005) tenders for removal of over burden and excavation of lignite and awarded (31 August 2005) the work to Ranjeet Construction at the rate of Rs.349.41 per MT for excavation of 446.86 lakh Cum overburden and 27.085[**] lakh Cum lignite, for seven years.

It was further noticed in audit that the effective rate per Cum for excavation of overburden for this work worked out to Rs.23.96 per Cum compared to the effective rate of Rs.30.80[***] per Cum of the work awarded to Roper construction for reclamation of topsoil (*i.e.* over burden) in the pit.

Had the Company coordinated its work and clubbed the two works *i.e.* (i) removal of over burden and excavation of lignite and (ii) reclamation of topsoil in the pit, the Company could have avoided extra expenditure of Rs.17.66[$] lakh.

The matter was referred to the Government/ Company (April 2006); their replies had not been received (September 2006).

Excess allowance of bulk discount to buyers

Allowing bulk discount to the buyers of rock phosphate during 2003-2005 on the gross quantity resulted in excess allowance of bulk discount to the tune of Rs.17.56 lakh.

4.9 Rajasthan State Mines & Minerals Limited (Company) issued circulars during 2003 to 2005 announcing their prices and terms of sale for various grades of Rock Phosphate. The circulars *inter alia* provided for bulk discount according to the rates specified in the price circular on the entire quantity on the basis of physical lifting of Rock phosphate. The price circulars also provided that the moisture rebate would be allowed on moisture content of above 2 *per cent* and credit for the same would be allowed in the invoice itself (*i.e.* gross quantity minus quantity having more than two *per cent* moisture).

Audit scrutiny revealed (December 2005) that though the sale value, royalty and sales tax including surcharge thereon was realised, levied and paid respectively on the net quantity *i.e.* quantity after deduction of moisture

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** Gravity 1.20 Tones per Cum.

*** Rs.36 per Cum minus Rs.5.20 per Cum towards transportation charges.

$ 2.58 lakh Cum (Actual quantity of topsoil excavated, transported and filled for reclamation) x Rs.6.84 (difference of rate 30.80 per Cum – 23.96 per Cum) = Rs.17.66 lakh.

contents of 2 *per cent*; the bulk discount was allowed on the gross quantity *i.e.* quantity inclusive of moisture. By allowing bulk discount on the gross quantity instead of the net quantity, the Company incurred additional expenditure to the tune of Rs.17.56 lakh during 2003-2005.

The management stated (December 2005) that allowance of bulk discount had been discontinued with effect from 1 April 2005 onwards and the point raised by Audit would be kept in mind in case of reintroduction of such discount in future.

The matter was reported to the Government (March 2006); their reply had not been received so far (September 2006).

Under utilisation of power generation plant

Purchase of power at higher rate from Ajmer Vidyut Vitran Nigam Limited instead of utilising power from own plant resulted in extra expenditure of Rs. 25.56 lakh.

4.10 The Rajasthan State Mines & Minerals Limited (Company) commissioned a 3.8 Mega Watt (MW) Power Plant on 30 March 2001 in synchronised mode with the power grid of the Ajmer Vidyut Vitran Nigam Limited (AVVNL) to provide uninterrupted power supply to its Industrial Beneficiation Plant (IBP) at Jhamarkotra. The operation and maintenance of the power plant was entrusted for three years to a firm of Faridabad which was further extended from time to time on the same terms and conditions up to February 2005.

As per the agreement, the operation and maintenance (O&M) charges were payable at the rate of 31 paisa/KWH on net electrical energy (after auxiliary consumption) made available to the Company for the entire period of the contract. Further, the contractor was required to generate minimum 19 lakh units per month failing which Company would claim compensation and in case the latter failed to utilise the minimum generated units it had to pay deemed generation charges to the former at the accepted O&M rate less ten *per cent* (Rs.0.279 per unit).

It was noticed in audit that the Company failed to utilise the minimum energy (*i.e.* 19 lakh unit per month) during December 2002, April 2003, May 2003, November 2003, February 2004 and May 2004 and had to pay deemed generation charges on 26,03,692 units to the firm. Audit analysis revealed that during the said period, the Company drew excess power from AVVNL over and above their minimum contract demand of 6.5 lakh units per month.

Thus, due to non utilisation of even the minimum energy from its own Power Plant, the Company not only had to pay Rs.7.26 lakh to the contractor towards deemed generation charges on 26.04 lakh units but to keep the IBP operating,

had to draw power from AVVNL at a higher tariff at an extra cost of Rs.18.30 lakh*.

The Government stated (May 2006) that IBP cannot put on operation its 3.8 MW power plant as stand alone as the initial load is very high and frequent stopping and starting of the power plant is not considered good for the health of the engine. Low generation from the power plant is related to the period of commissioning of expansion unit of IBP.

The reply is not acceptable as all these parameters were known and should have been factored in before entering into an agreement with the firm.

Undue benefit extended to a contractor

The Company paid enhanced rate during the extended period of contract without any additional work resulting in undue financial benefit of Rs.41.30 lakh to a contractor.

4.11 Rajasthan State Mines & Minerals Limited (Company) awarded a transport contract (April 2000) for two years to R.K. Carriers, Udaipur for feeding, 3500 MT per day of High Grade Ore (HGO) into crushing plants by deploying tipper/loader combinations from the designated site for a fixed rate of Rs.6.86 per MT. As there were 285 mining working days in a year, the contractor was required to feed 9.98 lakh MT HGO each year.

On completion of two years, the Company extended (19 April 2002) the contract on the request of the contractor for a further period of two years effective from 1 April 2002 with an enhanced rate of Rs.8.86 per MT. The increase of Rs.2 per MT in the rate was made on the condition that the contractor would deploy one additional loader and a tipper. There was, however, no corresponding increase in the quantity of the ore to be fed in a year. The contract continued up to 22 July 2004 and further extension for the period from April 2004 was approved on the last day of the contract.

Audit scrutiny revealed (October 2005) that the rate (*i.e.* Rs.6.86 per MT) fixed in the initial work order was for transporting the ore to be fed into the hopper of crushing plants and was without any correlation with the number of equipment to be deployed by the contractor. The contractor never achieved the required level of annual quantity (9.98 lakh MT) of work order either during initial contract period or in the extended period of the contract. The actual quantities fed during 2001-02, 2002-03, 2003-04 and 2004-05 (*i.e.* up to 22 July) were 7.84 lakh MT, 8.54 lakh MT, 9.08 lakh MT and 3.03 lakh MT respectively.

Thus, the decision of the Company to pay enhanced rate for deployment of additional loader and tipper for the extended period without linking it to the

* *i.e.* difference between the cost of power received from AVVNL and cost of power generated from own plant.

quantity of ore transported lacked justification and resulted in undue benefit of Rs.41.30 lakh to the contractor.

The matter was reported to the Government (March 2006); their reply had not been received so far (September 2006).

Rajasthan State Industrial Development and Investment Corporation Limited

Avoidable expenditure due to acceptance of higher rates

Acceptance of higher rates due to non-comparison of the rates of tenders of similar running work in the same area resulted in avoidable extra expenditure of Rs.42.99 lakh.

4.12 Rajasthan State Industrial Development and Investment Corporation Limited (Company) undertakes development works on contractual basis for its own industrial areas. The Company does not have its own civil works manual and estimates are prepared on the basis of Basic Schedule of Rates (BSR) of the State Public Works Department.

The Company invited tenders between February 2003 and September 2003 for construction of Retaining (boundary) wall and drains at Agro Food Park, Ranpur (Kota) and Kuber Industrial Area, Ranpur (Kota). The work wise details are as under:-

Sl. No.	Name of Industrial area	Work description	Name of Contractor	Work order No. & date	Rate of Tender premium
1.	Agro Food Park, Ranpur (Kota)	Construction of Retaining Wall	Ronak Construction, Kota	U (16)-2(319) 03/503-8 dated 6.5.03	29.40 *per cent* below BSR 1998
2.	Agro Food Park, Ranpur (Kota)	Construction of drains	Gupta Ji Construction, Kota	U(16)-2(348) 03/3722-28 dated 4.8.03	34.03 *per cent* below BSR 1998
3.	Kuber Industrial area, Ranpur (Kota)	(A) Construction of drain	Munnilal & Company, Kota	U(16)-2 (385) 03/8355-60 dated 16.1.04	Item A 17.50 *per cent* below BSR 1998
		(B) Construction of Retaining Wall			Item B 18.10 *per cent* below BSR 1998

(All three contractors completed all the above works between January 2004 and May 2004)

Audit analysis revealed (June 2005) that while finalising the tenders for works at Sl. No. 1 and 2 above, the Tender Finalisation Committee (TFC) compared the tender premium rates with the prevailing rates of the works in other industrial areas situated at Kota. No such comparison was, however, made in case of Sl. No. 3.

Thus, non-comparison of the rates of the tender of similar running works in the same area resulted in acceptance of higher rates which led to avoidable extra expenditure of Rs.42.99 lakh (difference between prevailing rates of existing works and actual rates finalised for the work at Sl. No. 3 with reference to BSR 1998). In addition, this would have consequential impact of higher development charges leviable on the entrepreneurs.

The Government stated (June 2006) that it was a separate tender; therefore, a strict comparison of rates with the approved rate of another tender is not possible. The reply is not tenable as financial prudence warranted comparison of rates of similar other work in progress in the same area, as done in earlier cases, to protect the financial interest of the Company.

Undue benefit to Technical Institutes

Company extended undue benefit of rebate of Rs.19.99 lakh in development charges to Technical Institutes.

4.13 Infrastructure Development Committee (IDC) of Rajasthan State Industrial Development and Investment Corporation (RIICO) vide its resolution of 12 July 1999 approved separate terms and conditions for allotment of land for Technical Institutes *i.e.*, institutes affiliated with All India Council of Technical Education (AICTE). As per Rule 3(E) of the Disposal of Land Rules, 1979 of RIICO, the allotment of land to Technical Institutions was to be made at the prevailing rate of development charges in the respective industrial area.

RIICO allotted (October 2003) 52,720 Sqm of land to two Technical Institutes at Kuber Industrial Area, Ranpur, Kota at the prevailing development charges of Rs.305 per Sqm. It was, however, observed in audit that though the allotment of industrial land was initially made at the prevailing rate, subsequently the incharge of the unit office, violating the policy, allowed rebate of Rs.19.99 lakh at the rate of Rs.37.92 per Sqm in development charges towards bulk land allotment admissible to educational institutions.

Since these Technical Institutes were not educational institutions, the extension of this benefit of rebate in development charges was not only irregular but also resulted in inadmissible benefit to the former and avoidable loss to RIICO.

The Government stated (July 2006) that the rebate for bulk land allotment has been provided as per office order dated 5 December 2003 and accordingly rule 3 (E) of RIICO Disposal of Land Rules, 1979 has been amended.

The reply is not tenable as amendment in Rule 3(E) to provide 10 *per cent* rebate to Technical Institutes was made as per IDC decision of 12 October 2004 whereas the land was allotted to these Institutions in October 2003 when these provisions did not exist as also the fact that this amendment does not provide for re-opening of old cases of land allotment.

Rajasthan State Ganganagar Sugar Mills Limited

Avoidable loss of Rs.35.42 lakh

Company's failure to invoke the risk purchase clause resulted in avoidable loss of Rs.35.42 lakh.

4.14 Rajasthan State Ganganagar Sugar Mills Limited (Company) placed (May 2004) a supply order on Kesar Enterprises Limited (firm) for supply of 4.20 lakh Bulk Litre (BL) rectified spirit at Rs.24.52 per BL FOR[#] its 22 warehouses. The supply order, *inter alia*, stipulated that in case the firm failed to supply the ordered quantity in full/part, it would be purchased at the risk and cost of the firm.

The terms and conditions of the supply order (May 2004), further provided that rectified spirit was to be supplied within 45 days from the date of issue of NOC[##] by Excise Commissioner, Rajasthan *i.e.* by 15 July 2004. The Company issued (3 June 2004) the Excise Import Permit for 4.20 lakh BL to the firm. The firm, however, failed to supply the spirit as per the delivery schedule. The Company extended the delivery schedule upto 30 September 2004 but despite the extension of the delivery period and notice by the Company to the effect that, if supply was not made, the spirit would be purchased at the risk and cost of the firm, it did not supply the ordered quantity of rectified spirit. Finally, the Company forfeited the security deposit (Rupees Seven lakh) and purchased (August/September 2004) the spirit from another firm at a higher rate of Rs.34.62 per BL.

It was noticed in audit that despite there being a clear provision in the supply order for risk and cost purchase; the Company did not recover the difference amount of Rs.35.42 lakh (Rs.42.42 lakh – Rs.7 lakh towards security deposit) from the firm. This resulted in avoidable loss of Rs.35.42 lakh to the Company.

The Government stated (July 2006) that action for recovery under the risk and cost clause was being taken through arbitration.

[#] Free On Rail

[##] No Objection Certificate

The reply is not tenable as there was nothing on record to show that action was taken. Thus, due to not taking action against the supplier even after a lapse of 19 months (up to March 2006), recovery remained pending (September 2006).

Loss due to procurement of infected sugar cane

The Company suffered a loss of Rs.95.75 lakh due to procurement and crushing of infected sugar cane.

4.15 During the year 2004-05, the Company procured infected sugarcane, which resulted in lower sugar recovery, ranging between 6.01 to 8.26 *per cent* against the budgeted recovery rate of 9.51 *per cent.* During the period of 17 days from 11 February 2005 to 27 February 2005, sugar recovery was the lowest and ranged from 6.01 to 7.07 *per cent* only. Thus, procurement and crushing of infected and unhealthy sugar cane with low recovery of sugar during the above period of 17 days resulted in extra expenditure of Rs.68.70 lakh[**].

Besides, the process loss in crushing the infected sugarcane was 2.84 *per cent* against the norm of 2.50 *per cent* fixed by the National Sugar Institute (NSI) based on a study of the conditions of old plant, availability of sugarcane *etc*. Thus, the excess process loss resulted in 1,778.54 qtls of sugar loss valuing Rs.27.05[*] lakh.

While accepting (July 2006) the facts of low recovery of sugar and high process loss due to infected sugarcane; the Government stated that other causes like adverse agro climatic condition and inadequate machinery were also responsible for higher process losses. The reasons of adverse agro climatic condition and inadequate machinery are not tenable as climatic conditions were more or less the same as other years and similar was the case for machinery. Further, these aspects of climatic conditions and status of machinery were considered by NSI while fixing norms for process loss.

Thus, the Company incurred a loss of Rs.95.75 lakh on account of lower sugar recovery, and excess process loss due to procurement and crushing of infected cane.

[**] On 4516.852 qtls lesser production of sugar at the average sale price of sugar of Rs.1520.90 per qtl in 2004-05.

[*] 1778.54 qtls X Rs.1520.90 per qtl sugar sale price in 2004-05.

Statutory corporations

Rajasthan State Road Transport Corporation

Loss due to failure to comply with the statutory provisions

Due to not obtaining valid permit as required under the Motor Vehicle Act, 1988, the Corporation lost revenue of Rs.19.75 crore.

4.16 In order to reduce its losses the Rajasthan State Road Transport Corporation (Corporation), decided (September 2004) to diversify non-operational revenue, which, *inter alia,* included operating parcel/courier services in its buses through private firms/Institutions. The Corporation invited (28 April 2005) tenders for appointing sole licensees for transportation of parcels, domestic goods/commercial goods through its Passenger vehicles. Seven offers were received, which were opened on 6 May 2005. The highest offer of license fee of Rs.4.02 crore per month was received from Rachana Parcel & Courier Agency (firm).

The Corporation accepted the offer (May 2005) and asked the firm to submit security deposit. The firm, however, requested (May 2005) for providing a copy of valid permit for inter State and intra State parcel/courier service as per Motor Vehicles Act (MV Act), 1988.

The Corporation instead of initiating action to obtain the required permit; decided (17 June 2005) to forfeit the earnest money of the firm and awarded (20 June 2005) the work to the second highest bidder *i.e.* Shri Enterprises for a license fee of Rs.26 lakh per month. The award letter could not be delivered due to 'incomplete address'. The Corporation decided (July 2005) to award the work for one year to the third highest firm *i.e.* Kalpana Cargo (Pvt.) Limited for a fee of Rs.7.01 lakh per month and entered into an agreement (28 September 2005) with this firm for one year.

It was noticed during audit that the Corporation did not have a valid permit as required under the MV Act, 1988 for transportation of parcel, domestic goods/commercial goods through its Passenger vehicles. Had the Corporation obtained and provided a valid permit to the first bidder *i.e.* Rachana Parcel & Courier Agency, it could have earned extra revenue of Rs.19.75 crore[*] upto 27 March 2006.

The Government stated (May 2006) that the request made by Rachana Parcel & Courier Agency for goods permit was not in accordance with the terms and conditions of the tender. Hence, their offer was cancelled and the work was awarded to third lowest firm who did not ask for goods permit.

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[*] Rs.3.95 crore x 5 months from 28 October 2005 to 27 March 2006.

The reply is not acceptable as the permit was a legal requirement binding on the Corporation. Even when questioned by the highest bidder; the Corporation continued illegal operations through the third highest bidder. Thus, the management decision and action was against statutory requirements and financial prudence. Incidentally, seeking permission of the Transport authorities for operating this service would not have entailed extra expenditure barring some conditions/regulations by the Transport authorities as stipulated in section 79 of MV Act.

The Corporation stated (July/September 2006) that the Corporation was established under section 97 of MV Act and thereby it was eligible to carry both passengers and luggage in its buses. It added that the Transport Department while issuing permit for the Corporation buses did not impose any condition for not carrying luggage other than the luggage of passengers under section 72 of MV Act. Hence the Corporation was eligible to carry goods in its buses.

The reply is not tenable as the constitution of the Corporation under MV Act does not absolve it from following the mandatory provision of obtaining specific permit for carrying passenger and/or luggage. Further, the Corporation did not provide any details of luggage other than luggage of passengers which it intended carrying in its buses along with passengers. Thereby, there was no occasion for Transport Department to impose conditions in the permits under section 72 of MV Act. Thus, assuming non-imposition of any condition on permits as permission to run a courier service was not correct.

Rajasthan Financial Corporation

Non-recovery of service tax from the borrowers

Imprudent decision of the Corporation regarding recovery of service tax from the borrowers resulted in avoidable loss of Rs.59.53 lakh.

4.17 The 'Lending' service by financial institutions was brought under the purview of service tax vide Finance Act, 2004 (September 2004), Government of India. Resultantly, Rajasthan Financial Corporation (Corporation) became liable to pay service tax on various charges like application fee, documentation fee, processing charges, service charges *etc*. recoverable from the borrowers. The Corporation, however, did not comply with these provisions till a notice from the Central Excise Department was received in August 2005.

The Corporation placed (September 2005) the matter before the Board of Directors for decision on payment of service tax and its recovery from the borrowers. While, the Board approved (15 September 2005) the payment of service tax, it decided not to recover the dues from the borrowers.

Accordingly, the Corporation paid Rs.59.53 lakh towards service tax including interest of Rs.1.94 lakh for delayed payment.

Thus, due to imprudent financial decision of the Board not to recover service tax from the borrowers despite a provision in the contractual terms and conditions, the Corporation incurred avoidable expenditure of Rs.59.53 lakh. Audit analysis further revealed that all other financial/banking institutions, including State Government financial company (RIICO) had been collecting the service tax from the borrowers.

The Government stated (August 2006) that the Board decided not to recover service tax from its borrowers as addition of service tax would have increased the financial cost to the borrowers and would have impacted Corporation's business adversely.

The reply is not tenable as service tax being a statutory levy was recoverable from the service users and there was no question of taking a decision otherwise. Thus, the decision of the management against the financial interest of the Corporation led to a loss of Rs.59.53 lakh.

GENERAL

Loss incurring companies: Blocking of funds

4.18 There were 16[*] working Government companies as on 31 March, 2005, out of which two companies (Rajasthan State Hotels Corporation Limited and Rajasthan State Handloom Development Corporation Limited) had been incurring persistent losses for five consecutive years and one company (Rajasthan Small Industries Corporation Limited) was incurring losses for the last four years, as detailed in the **Annexure-21**. A total of Rs.30.02 crore (Equity: Rs.13.08 crore and long term loans: Rs.16.94 crore) as on 31 March 2005 had been invested by the State Government in these three stressed companies out of a total of 16 working companies.

The Rajasthan State Hotels Corporation Limited (Company) was selected for in-depth study of its functioning with a view to analyse the reasons for its continuous losses.

Introduction

4.18.1 The Rajasthan State Hotel Corporation Limited, Jaipur was incorporated in June 1965 as a State owned Tourism Company and was

[*] RIICO, RSIC, RSHDC, RSSC, RSRDCC, RTDC, RREC, RRVUNL, RRVPNL, JVVNL, AVVNL, JdVVNL, RSMM, RSGSM, RSHCL, RJVNL

running two hotels namely Hotel Khasa Kothi, Jaipur and Hotel Anand Bhawan, Udaipur. While Khasa Kothi was built by Swai Ram Singh-II, about a century back for use as State Guest House, Anand Bhawan was built by Maharana of Udaipur about seven decades back. Department of Tourism, Government of India has classified these in the category of 'Heritage Hotels'.

Working results

4.18.2 The working results of the Company for the last five years upto 2004-05 are given below.

(Amount: Rupees in lakh)

	2000-01	2001-02	2002-03	2003-04	2004-05
(1) Operational Income	308.57	312.84	308.64	322.52	132.50
(2) Other Income	17.91	19.23	33.11	28.56	41.03
(3) Total Income (1+2)	326.48	332.07	341.75	351.08	173.53
(4) Operational Expenditure	319.33	336.78	337.91	334.41	201.53
(5) Operating loss (1-4)	10.76	23.94	29.27	11.89	69.03
(6) Depreciation	6.91	8.28	8.13	7.59	5.80
(7) Financial Expenses	5.51	6.07	6.04	5.99	5.60
(8) Profit/Loss (3-(4+6+7))	(-)5.27	(-)19.06	(-)10.33	3.09	(-)39.40
(9) Extraordinary Expenditure (VRS)	86.71	32.21	28.64	28.64	28.64
(10) Prior period adjustment (Net)	(-)3.62	0.08	(-)0.87	(-)3.21	(-)0.01
(11) Profit/Loss after prior period adjustment (8-(9+10))	(-)88.36	(-)51.35	(-)38.10	(-)22.34	(-)68.03

It would be seen from the above that the Company incurred losses in all the five years. Whereas the losses of the Company declined from Rs.88.36 lakh in 2000-01 to Rs.22.34 lakh in 2003-04, these again increased to Rs.68.03 lakh in 2004-05. It was noticed that losses increased during 2004-05 due to closure of 'Beer Trade' activity by the State Government from April 2004. Audit analysis revealed that the Company incurred loss of Rs.2.68 crore during the period of five years, out of which Rs.2.05 crore related to expenditure on voluntary retirement scheme (VRS) and was in the nature of extra ordinary expenditure for reduction of staff and improving the viability of operations.

The Percentage of Operating loss to Operational income ranged from 3.49 to 9.48 *per cent* during 2000-01 to 2003-04 and increased to 52.10 *per cent* in 2004-05 on closure of 'Beer Trade'. Lower operating and overall losses despite significant low room occupancy indicated significant strategic potential due to the status and prime location of Heritage Hotel properties owned by the Company. It was further noticed in audit that the Company did not tap the growing opportunities from its prestigious prime property of Heritage Hotels

from tourist traffic to Jaipur and Udaipur; especially in the backdrop of a tourism boom in the State when other hotels are booked in advance for years.

Low occupancy

4.18.3 The information relating to boarding receipt, lettable rooms, rooms occupied *etc.* for the last five years from 2000-01 to 2004-05 is given below.

	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**
Accommodation receipts (Rupees in lakh)	70.73	53.62	52.32	55.08	65.51
Lettable Rooms (No.)	20723	20344	20003	19659	19471
Rooms Occupied (No.)	5087	3836	3645	3764	4879
Occupancy Percentage	24.55	18.86	18.22	19.15	25.06
Room rent realisation per day (In Rupees)	1390	1398	1435	1463	1343

It would be seen that occupancy rate ranged between 18.22 and 25.06 *per cent*. Room realisation increased from Rs.1,390 in 2000-01 to Rs.1,463 in 2003-04 and then declined to Rs.1,343 in 2004-05. Audit noticed that the room occupancy did not increase despite non-revision of tariff since 1996-97. The Company stated that low occupancy was due to low tourist arrival in the post 11/9 period and owing to its reputation of being a guest house for senior politicians and Government officials. The fact, however, remains that tourist traffic increased considerably over this period and management of the Company failed to tap the significant potential of its low tariff hotels effectively.

Non-refurbishing of hotel rooms

4.18.4 Moderately priced, prime location, good service coupled with better furnishing & amenities can attract tourists and therefore timely changes in furnishing and improvising amenities is essential to attract/retain tourists. Capital Expenditure on furnishing and improving amenities during the last five years is given below.

(Amount: Rupees in lakh)

	2000-01	2001-02	2002-03	2003-04	2004-05
Capital Expenditure on furnishing and improving amenities	7.00	17.72	0.87	4.26	3.35

As is evident from above, the expenditure on facilities of capital nature was meagre and ranged between Rs.0.87 lakh to Rs.17.72 lakh during 2000-01 to 2004-05, which indicates a very casual approach in refurbishing the property especially when there is stiff competition with other hotels in private sector which were mushrooming at a fast pace. This coupled with non-maintenance of the rooms in proper condition adversely impacted the marketability and demand of its rooms.

The Management while accepting the fact of losses stated (October 2006) that it has decided to upgrade rooms and services of the hotels.

Ineffective marketings

4.18.5 The Company had more than 15,000 surplus lettable rooms in all the five years due to low occupancy. It was noticed in audit that the Company did not initiate any marketing campaign to effectively market these to domestic and international tourists by either adopting aggressive marketing strategy by way of advertisement and publicity or engaging marketing agents for promotion. The Company incurred meagre expenditure on advertisement ranging from Rupees 22,000 to 68,000 per year in all these years indicating that there was virtually no promotion/marketing of these Hotels despite surplus lettable rooms every year. Lack of marketing assumes greater significance especially when all other private hotels are thrusting on aggressive marketing and promoting their business.

The Management stated (October 2006) that it has now decided to have road shows and publicity for better marketing.

Delay in implementation of proposed merger

4.18.6 In pursuance of the decision taken by the State Cabinet, the Board of Directors approved (February 2000) the merger of the Company with Rajasthan Tourism Development Corporation Limited and prepared an action plan for merger. A Scheme of amalgamation was submitted by the merger consultant appointed for this purpose, however, no further progress made was found on record. The Company stated that the work of merger is in progress (May 2006), which could be completed in 3 to 4 months after approval. Meanwhile, the Board of Directors also 'in principle' approved (December

2001) a proposal for private participation *viz.* lease/ joint venture /management control *etc.* This was also not implemented for no reasons on records. It was further observed that the Expenditure Reforms Commission of the Government of Rajasthan in view of the poor financial position had recommended (June 2005) for disinvestment of properties of the Company but action thereon is also still awaited (May 2006).

Thus, inordinate delay in decision making either for merger or any other turnaround strategy perpetuated the continuation of *status quo*.

The Management stated (October 2006) that decision for private participation could not be implemented in absence of the Government's approval.

Summary

The Company has been running two hotels at Jaipur and Udaipur for the last four decades and had been suffering continuous losses mainly due to low occupancy ranging from 18.22 to 25.06 *per cent* due to non-maintenance of the hotel's rooms in proper condition, ineffective marketing strategy, non-revision of accommodation tariff during 1997-98 to 2004-05, closure of 'Beer Trade' and expenditure on VRS. Significant delay in decision making for merger of the Company with Rajasthan Tourism Development Corporation Limited pending for the last six years perpetuated the *status quo* and resulted in denial of any direction for improving its working. Expenditure Reforms Commission of the Government of Rajasthan had recommended (June 2005) for disinvestment of properties of the Company, but action thereon is still awaited (May 2006). Thus, due to inaction by the Government/Management, the Company could not achieve its true potential and remained stressed.

Non-placement/delayed placement of the Annual Reports of Government Companies before the State Legislature

Due to non-placement/delayed placement of Annual Reports before the State Legislature, Companies/State Government failed to provide information regarding working of the Companies to the State Legislature.

4.19 As per Section 619 A (3) of the Companies Act, 1956, where the State Government is a member of a Company, the State Government shall cause an Annual Report on the working and affairs of the Company to be prepared and be laid before the State Legislature along with Audit Report and comments, of the Comptroller and Auditor General of India, within three months from the date of holding of the Annual General Meeting (AGM) in which the accounts have been adopted. The Annual Report consists of a report by the Board of Directors on the working of the Company as required in Section 217 of the Companies Act, 1956, annual financial statements for the year and Auditors' Report thereon along with the comments/supplementary report of the Comptroller and Auditor General of India. The placing of the Annual Report

provides an opportunity to the State Legislature to get an insight into the performance of a Government Company, in which the State Government is the major shareholder.

Audit scrutiny of records of 18 Companies for the period 2000-01 to 2004-05, revealed that the Companies had not evolved a system for monitoring the preparation and placement of their Annual Reports before the State Legislature within the stipulated period as envisaged in the Companies Act, due to which the Companies failed to place their Annual Reports in the State Legislature.

Details of the extent of delay in placement of annual reports (ARs) before the State Legislature by Government Companies are given in A**nnexure-22.**

It would be seen from the annexure that: -

- The Annual Reports of four Companies (RSHDC, RRVUNL, Jd.VVNL and HPGL) for the period 2000-01 to 2004-05 were not placed before the State Legislature, although the Annual General Meetings of these companies were held on the dates mentioned in the Annexure.

- The Annual Reports in case of four Companies (RSSC, RSHC, RTDC and AVVNL) were not placed before the State Legislature for periods ranging from two to four years from 2000-01 to 2004-05.

- In case of 11 Companies out of 18 (working:16 and non-working:2) there were delays ranging from three to 35 months from the stipulated dates envisaged in the Companies Act for placing the Annual Report before the State Legislature, for the period 2000-01 to 2004-05 as shown in the Annexure.

Thus, due to non-placement/delay in placement of Annual Reports before the State Legislature, the Companies/State Government not only failed to provide important information regarding working of the Companies to the State Legislature but also the statutory requirement of the Companies Act was contravened.

The Government in regard to RRVPNL stated (June 2006) that after receipt of CAG's comments, considerable time was taken for Hindi translation and in future, the time for translation will be reduced to the extent possible so that report may be laid before the State Legislature well in time.

As regards JVVNL, the Government stated (October 2006) that time taken in submitting Hindi version has reduced considerably in the year 2003-04 & 2004-05 and efforts would be made to reduce the time lag in translation.

The Government, with regard to RSHCL, stated (June 2006) that delay was due to non-translation of Annual Reports and the work was being taken up shortly.

As regards RSGSM, the Government stated (July 2006) that instructions had already been issued to the Company for timely presentation of the Reports in the State Legislature.

As regards RSIC, RIICO and RRVPNL, the Government stated (June and July 2006) that the time limit of three months is relevant only for preparation of annual reports and does not relate to the placement before the State Legislature. In regard to RIICO & RSIC it was further stated that there have been no delays on the part of Companies to place the annual reports before the State Legislature. The reply is not tenable as the period of delay in submission of reports has been pointed out only after allowing three months period for preparation of reports after AGM.

As regards RRECL, the Government stated (June/October 2006) that delay was due to time taken in the translation of the annual report. Efforts would be made in future for timely placement.

While accepting the delay in 2000-01 & 2001-02 for RSRDCC, the Government stated (June/October 2006) that the Company had initiated action against defaulting official/officers. As regards 2002-03, delay was due to delay in printing.

Thus, due to delay/non-placement of Annual Reports in respect of Government Companies the Legislature were deprived of relevant information in respect of these Companies which is necessary to enable it to discharge its constitutional function of exercising financial control on these Companies.

Persistent non-compliance with Accounting Standards in preparation of financial statements

4.20 Accounting Standards (AS) are the acceptable standards of accounting recommended by the Institute of Chartered Accountants of India and prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the annual accounts prepared exhibit a true and fair view of the transactions and also to facilitate comparability of the information contained in published financial statements of various companies.

Under the Companies Act, 1956, it is obligatory for each Company to prepare financial statements (Profit & Loss account and Balance sheet) in accordance with the AS. In case the financial statements of a Company do not comply with the Accounting Standards, such companies shall disclose in their financial statements the fact of deviation from the Accounting Standards, reasons for such deviation and the financial impact of such deviations. A review of the financial statements and the Statutory Auditor's reports thereon for the five years up to 31 March 2005 in respect of 16 working Companies out of 21 Government companies revealed not only persistent non compliance of Accounting Standards but also non disclosure of reasons for deviations and

their financial impact by these companies. **Annexure-23A** gives details of the Companies and the AS violated while **Annexure-23B** details the specific violations in case of each Company.

It would be seen from the Annexures that all the 16 companies persistently violated one or more Accounting Standards. The Managements of these companies have not taken action to rectify the non-compliance even after this has been pointed out by Audit.

Follow-up action on Audit Reports

Outstanding departmental replies on paragraphs that appeared in the Audit Reports

4.21 Audit Reports of the Comptroller and Auditor General of India represent 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 instructions to all Administrative Departments to submit detailed notes, duly vetted by Audit, indicating the corrective/remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature.

Though the Audit Report for the year 2004-05 was presented to State Legislature on 10 March 2006, in respect of 32 paras out of 97 paras, which were commented in the Audit Report, the respective departments had not submitted explanatory notes up to September 2006.

Response to Inspection reports, draft paras and reviews

4.22 Audit observations noticed during audit and not settled on the spot are communicated though Inspection Reports (IRs) to heads of respective PSUs and concerned departments of the State Government. The heads of PSUs are required to furnish their replies to the IRs through respective heads of the departments within a period of six weeks. A half yearly report is sent to the 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 2006 pertaining to 20 PSUs disclosed that 2,878 paragraphs relating to 953 IRs involving monetary value of Rs.2,345.38 crore remained outstanding at the end of September 2006, of which 10 IRs containing 16 paragraphs had not been replied to though more than two years had elapsed. Even initial replies were not received in respect of 137 paragraphs of 7 PSUs. Department-wise break up of IRs and audit observations as on September 2006 is given in **Annexure-24**. In order to

expedite settlement of outstanding paragraphs, Audit Committees were constituted in 13 out of 26 departments. Sixty seven Audit Committee meetings were held during 1999-2006 wherein the position of outstanding paragraphs was discussed with executive/administrative departments to ensure accountability and responsiveness.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of the facts and figures and their comments thereon within a period of six weeks. All the reviews have been discussed in the Audit Review Committee on Public Sector Enterprises. It was, however, observed that seven draft paragraphs forwarded to the various departments during March to August 2006, as detailed in **Annexure–25** had not been replied to so far (September 2006).

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

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The Accountant General
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