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

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

4.1 Non-recovery of power purchase cost adjustment

Inaction on the part of Vitran Nigams in effecting recovery of PPCA charges led to loss of Rs. 650.50 crore.

The Aggregate Revenue Requirement (ARR) for the year 2006-07 submitted by the three Distribution Companies* (Vitran Nigams) to Rajasthan Electricity Regulatory Commission (Commission) indicated revenue deficit of Rs. 638.61 crore**. The Commission while approving the ARR directed (July 2006) the Vitran Nigams to file tariff petition within 30 days failing which the Commission may undertake a *suo-moto* determination of tariff in accordance with para 8.1(7) of the tariff policy. As the Vitran Nigams did not file the tariff petition, despite extension of time, and also had not reached the stage of earning profit, the Commission *suo-moto* initiated action for rationalizing the existing tariff structure. The Commission, after considering the objections/comments/suggestions from the interested parties and from the Vitran Nigams, proposed (August 2007) the Power Purchase Cost Adjustment (PPCA) formula# for recovering the additional charge for adjustment of tariff on account of fuel related cost of electricity generation and purchase of electricity.

The Commission observed (August 2007) that the PPCA formula was by and large acceptable to all the stakeholders barring some apprehensions raised during hearing. The Commission considered it appropriate to decide that the benefit of PPCA in full would be allowed to Vitran Nigams only after tariff petition is filed by them. The Commission also decided that the Vitran

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

** JVVNL Rs. 51.68 crore, AVVNL Rs. 306.85 crore and JdVVNL Rs. 280.08 crore.

\# Increase in power purchase cost over the base period.

Nigams may, as an ad-hoc arrangement till a decision is taken on the tariff petition and approval of formula, levy 50 *per cent* of the PPCA (ad-hoc PPCA) as per the formula worked out by it. The Commission also suggested that initially the base rate may be adopted for the year 2006-07 and first levy may be for the third quarter of the year 2007-08 based on the calculations for the second quarter. It was also directed that before claiming any amount from the consumer on account of ad-hoc PPCA, the Vitran Nigams shall submit the detailed calculations for scrutiny and approval of the Commission.

Audit observed (April 2009) that the Vitran Nigams submitted (October 2007) the ad-hoc PPCA, worked out as per formula prescribed, to the Commission for its approval. Simultaneously, they apprised the State Government about the decision of the Commission. The Commission made (25 October 2007 and 2 November 2007) some observations with regard to the calculations furnished by the Vitran Nigams and asked them to re-work ad-hoc PPCA rate. The Commission also directed the Vitran Nigams to effect recovery from various categories of consumers with effect from 1 October 2007 as per clause 7(2) of the RERC (Terms & Conditions for Determination of Tariff) Regulations, 2004. The calculation along with details thereof was to be submitted to the Commission for scrutiny and approval as per clause 7(3) of the said Regulation. Audit observed that the State Government had no jurisdiction to intervene in the decision of the Commission except as provided in Section 65 of the Electricity Act, 2003 which clearly stipulated that in case the State Government requires the grant of any subsidy to any consumer or class of consumers in the tariff determined by the State Commission, it should compensate in advance an equivalent subsidy to the Vitran Nigams. In case of non-receipt of subsidy in accordance with the provisions, no direction of the State Government shall be operative.

The Vitran Nigams without effecting recovery from the consumers submitted (8 November 2007) the reworked rate of ad-hoc PPCA to the Commission. Audit noticed that the Vitran Nigams, instead of effecting recovery of ad-hoc PPCA charges from various categories of consumers requested (February 2008 and June 2008) the State Government to allow them to charge ad-hoc PPCA from the consumers and also to file petition before the Commission for recovering 100 *per cent* as per PPCA formula. It was also requested that in case the Government finds it difficult to accord approval for charging ad-hoc PPCA/filing tariff petition, the State Government may provide equivalent subsidy.

The State Government directed (May 2008) the Vitran Nigams not to file the tariff petition for charging the PPCA from the consumers of all categories including agriculture consumers, however, without agreeing to grant subsidy as provided in the Electricity Act and therefore decision/instruction of State Government was not binding on the Vitran Nigams. The Vitran Nigams again approached (February 2009) the State Government for staying the Fuel Price Adjustment (FPA) cost being charged by Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL) from April 2007 onwards as per the orders of the Commission as it would further increase their revenue deficit and deteriorate the financial position. The State Government, however, did not respond to the request of the Vitran Nigams.

Audit further noticed that ad-hoc PPCA charges worked out by the Vitran Nigams for the period from October 2007 to March 2008 were to the tune of Rs. 300.08* crore including the additional cost incurred on purchase of power from RRVUNL. The additional cost incurred on purchase of power during 2008-09 was, however, not worked out by the Vitran Nigams on the plea that the State Government had not accorded its approval to recover the same from the consumers. However, considering the FPA charged by the RRVUNL from the Vitran Nigams for the year 2008-09, the additional cost on purchase of power works out to Rs. 350.42** crore.

Audit observed that the Vitran Nigams being commercial undertaking failed to protect their commercial interest as they did not recover the ad-hoc PPCA charges despite rising power purchase costs and approval of the Commission and therefore suffered a loss of Rs. 650.50 crore. The decision of the Vitran Nigams to take up the matter with the State Government was imprudent as they were competent to proceed for levy of PPCA as per approval of the Commission. The State Government had power to intervene on orders of the Commission only when it agrees to provide equivalent subsidy (*i.e.* Share the burden of PPCA) in cash in advance. Thus, the Vitran Nigams suffered a loss of Rs. 650.50 crore due to non-recovery on account of ad-hoc PPCA. This also had an adverse impact on their already deteriorating financial position.

The Management in its reply stated (June 2009) that the Energy Department did not accord its approval to file the tariff petition for charging the PPCA from the consumers of all categories including agriculture consumers. It further stated that the recovery of dues from consumers was a sensitive issue and therefore it was necessary to apprise the State Government the real situation and only after getting the confidence and support of the State Government the Vitran Nigams can move forward for effecting recovery. The Government endorsed (July 2009) the reply of the management.

The reply is not convincing as there exists a mechanism of Commission to regulate the tariff. The Vitran Nigams were competent to file tariff petition and prior permission of the State Government was not necessary to file tariff petition or to recover ad-hoc PPCA charge on an ad-hoc basis. Further, non recovery of PPCA by the Vitran Nigams had not only violated the orders of Commission which were acceptable to all stake holders by and large but also placed them under critical financial strain.

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* JVVNL: Rs.110.02 crore, AVVNL: Rs. 94.27 crore, JdVVNL: Rs. 95.79 crore.

** JVVNL: Rs.133.15 crore, AVVNL: Rs. 113.30 crore, JdVVNL: Rs. 103.97 crore.

Rajasthan Rajya Vidyut Prasaran Nigam Limited

4.2 Improper planning led to delay in execution of project and cost escalation

Untimely procurement of shunt reactors worth Rs. 11.85 crore coupled with improper planning for execution led to blocking of interest bearing funds and increase in the project cost by Rs. 56.78 lakh.

Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) invited (May 2006) tender in two parts *i.e.* technical and financial bid for supply, erection, testing and commissioning of two 50 MVAR 400 KV shunt reactor and 400 KV bays for 400 KV double circuit line from Kota to Merta City. The technical bids, which were to be opened initially in July 2006, were extended four times and finally opened in November 2006. The matter was put up to the committee of Whole Time Directors (WTD) in March 2007 with the recommendation to open price bids of both the bidders *viz;* Crompton Greaves Limited (CGL) and Bharat Heavy Electrical Limited (BHEL). The WTD committee enhanced (May 2007) the tendered quantity from two shunt reactor to four shunt reactor as two bays were to be constructed for 400 KV double circuit lines coming from Raj West Power Ltd. (Rajwest) for which tenders of lines were under issue. During analysis of the price bid, the WTD committee observed that CGL was the lowest (L_1) bidder. On the advice of the WTD, negotiation was held with the CGL on 25 May 2007 and after obtaining discount of two *per cent* on the quoted price excluding taxes, the letter of intent (LOI) was issued (31 May 2007) in favour of CGL for Rs. 23.80 crore (including type test charges Rs. 11 lakh) and Rs. 1.85 crore towards supply of four sets of shunt reactors and associated equipments and for erection, testing and commissioning (including civil works) respectively. The detailed purchase/work orders were issued on 12 June 2007 with scheduled delivery period of 12 months for supply and 15 months for erection, testing and commissioning. CGL completed the supply of shunt reactors within the delivery schedule *i.e.* by June 2008 and payment was made in October 2008.

Audit noticed (February 2009) that the orders for other related works, which were required to be completed prior to installation of shunt reactors at 400 KV Grid Sub-station for terminating 400 KV double circuit line from Rajwest to Jodhpur, were placed subsequently to the date of orders placed for supply and erection, testing and commissioning of two sets of shunt reactor and associated equipments. Orders for supply of material and erection of lines were placed (September 2007) on KEC International Limited with scheduled completion period of 18 months from the date of receipt of detailed order *i.e.* by March 2009. Order for supply of ACSR MOOSE conductor was placed (July 2008) on Sterlite Technologies Limited. The delivery of conductor was to commence from second month and to be completed by the end of twelfth month from the date of receipt of purchase order *i.e.* by July 2009. Audit further noticed that the Company had not placed orders for supply of connected bays by March 2009. The progress of erection of line was also minimal as only 49 circuit KM line *i.e.* 11 *per cent* of total line was erected (February 2009) as against the scheduled completion date.

Audit observed that the shunt reactors, which were to be commissioned after erection of the line and installation of the bay, were procured well before its actual requirement, thus blocking the funds to the tune of Rs. 11.85 crore from October 2008. This led to increase in project cost by Rs. 56.78 lakh* upto March 2009. There was lack of proper planning in award and execution of the project. WTD erred in increasing the quantity of shunt reactors without assessing the probable dates of requirement of shunt reactors keeping in view the progress of works which was to be completed before shunt reactors could be used.

The Government in its reply (June 2009) stated that as per provisions of the purchase manual, WTD was empowered to approve purchase of any quantity upto tendered quantity and could have also approved repeat order to this extent. The WTD committee exercised its power in anticipation that additional order may be at higher rate. Further, due to increase in quantity, CGL also agreed for two *per cent* discount on its quoted ex-works price as against 0.75 *per cent* offered initially. It further stated that in a multi task project, all the activities/work can not be planned to simultaneously complete in a particular month.

The reply is not convincing as the purchase manual empowered the WTD to approve tendered quantity in repeat order *i.e.* supply order to be placed subsequent to original order. In the instance case, the WTD committee wrongly interpreted the provisions of the purchase manual and erroneously enhanced the tendered quantity of shunt reactors from two to four, which was beyond its powers. The decision of WTD to enhance quantity after opening of financial bid was also imprudent, against established commercial practices and lacked transparency in adopting purchase procedure as the other bidder was not given opportunity for quoting competitive price for enhanced quantity of shunt reactors. The Company should have either invited fresh tenders for the enhanced quantity or asked both the qualified firms to give their revised financial bids. The contention of the Government that all the activities/works can not be planned to simultaneously complete is also not convincing as in the project having financial implication of Rs. 170 crore approximately excluding bay work, the Company should have prepared a schedule of activities on Critical Path Method (CPM) before initiating project activities and accordingly placed various orders. The Company needs to improve upon its project management capability.

4.3 Extra expenditure

Decision of the Company to scrap the tender of the bays at terminal end, ignoring the overall lowest bid, resulted in extra expenditure of Rs. 40.66 lakh and also led to increase in cost of project by Rs. 4.63 crore.

For strengthening the 400 KV network, Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) proposed (October 2003) a 180 KM. long 400 KV transmission line between Ratangarh and Merta. For commissioning of the transmission line, readiness of bays at terminal ends is prerequisite, hence the

* Rs. 11.85 crore x 11.5% x 5/12 = Rs. 56.78 lakh

Company invited (July 2004) tender for supply of equipment/material, construction, erection, testing and commissioning of 400 KV bays at 400 KV Grid Supply Station (GSS) at Ratangarh, Merta and Heerapura. Offers were received from only two firms *viz;* Areva and Larson & Toubro Limited (L&T). The technical bids and financial bids were opened in August 2005 and December 2005 respectively. The price quoted by Areva (L_1 Firm) was Rs. 35.89 crore including Rs. 5.66 crore on civil works. L&T (L_2) offered Rs. 41.10 crore including civil works of Rs. 3.86 crore. The L_1 Firm was asked to reduce the prices of civil works but the firm expressed its inability to provide any reduction in the price quoted and stated that the bid may not be compared on the basis of price of individual component/activity and should be seen in totality, as the tender was floated on turnkey basis.

The matter was put up to the Whole Time Directors (WTD) of the Company in February 2006 wherein it was decided to scrap the tender as the L_1 firm had quoted abnormally high prices for civil works and the progress of the line work was likely to be delayed by 2-3 months. It was also decided to invite fresh tenders after including proposed deposit bay works of Power Grid Corporation of India Limited (PGCIL).

Fresh tenders were invited (May 2006) in two packages *i.e.* Package I for Merta city including deposit bay works of PGCIL and Package II for Ratangarh, Jodhpur and Heerapura on turnkey basis. The technical and financial bids were opened in August 2006 and November 2006 respectively. As L&T stood lowest for total adjusted price of Rs. 28.29 crore for Package-I and Rs. 34.22 crore for Package-II, a detailed order was placed (February 2007) with the stipulated completion period of 12 months (December 2007) from the date of letter of intent.

Audit noticed that the decision of the WTD to scrap the first tender was not based on financial prudence as only two aspects were considered by the WTD *i.e.* higher prices for civil works quoted by the then L_1 Firm and progress of line work ignoring the vital fact that the overall price offered by the L_1 Firm was lower as compared to L_2 Firm for supply of equipment, erection and testing *etc*. (excluding civil works) by Rs. 7.01 crore and by Rs. 5.21 crore including civil works. Further the Company had taken different parameters while analyzing the prices offered in fresh tender and previous tender, as in fresh tender the prices for civil works offered by L&T were higher by Rs. 3.20 crore as compared to L_2 Firm but the same was ignored and order was placed keeping in view the overall lowest bid.

Audit observed that the work for survey, supply and construction of 400 KV transmission line from Ratangarh to Merta awarded (May 2005) to L&T on turnkey basis was completed in July 2007 at a total cost of Rs. 97.49 crore including interest during construction period but the line could not be commissioned immediately as the associated work of bays at the terminal end was completed in May 2008 due to delay in placing the order. The decision to invite fresh tender was not justified as for a turnkey contract it was imprudent to compare bids on the basis of individual component or activity. This not only resulted in extra expenditure of Rs. 40.66 lakh on erection of bay and other associated work (difference of cost of lowest offer of original scrapped tender and order placed in fresh tender) but also led to delay of 10 months in commissioning of line resulting in idling of project assets of Rs. 97.49 crore. Further the benefit of savings envisaged by reducing the transmission losses could not be derived. This also resulted in increase in cost of project by Rs. 4.63 crore due to excess capitalisation of interest on account of delay in commissioning of line.

The Government while accepting the facts stated (May 2008) that the WTD had decided to scrap the tender considering the progress of 400 KV Ratangarh-Merta line which was likely to be delayed by 2-3 months and the placement of order for construction of 400 KV terminal bays was not critical at that stage. It further stated that the line work is yet to be completed and the work of 400 KV terminal bays is likely to be completed by May 2008, thus commissioning of both the projects is matching with each other.

The reply is factually incorrect as the erection of the line was completed in July 2007 but the line could not be charged for 10 months due to delay in the bay work at Ratangarh and Merta. Moreover, while evaluating the turnkey tenders the Company adopted different parameters and the WTD was not right in scrapping tender based on comparison of individual component/activity instead of comparing overall price, thus overlooking the spirit of turnkey project.

The Company needs to incorporate guidelines/instructions for proper evaluation of turnkey contracts in its purchase manual.

4.4 Avoidable extra payment on account of price variation

The disadvantageous decision of the Company to allow price variation considering the date of readiness as date of delivery resulted in avoidable extra payment of Rs. 17.45 lakh.

Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) placed (December 2005) an order for supply of two Nos. 100 MVA 220/132/11 KV Auto Power Transformers along with Nitrogen Injection Fire Prevention & Extinguishing System with mandatory spare set in favour of ABB Limited, Vadodara (Supplier Firm). As per the delivery schedule envisaged in the purchase order, the first and second unit were to be supplied between 1 September 2006 to 30 November 2006 and 1 December 2006 to 28 February 2007 respectively. The price was variable with base date 1 April 2005 as per IEEMA price variation formula for power transformers. Clause 3 (v) of the purchase order provided that the purchaser would not be responsible to bear any additional liability on account of price variation due to delay in supply beyond the stipulated period of delivery for any reason, however, if price variation decreased during such delayed period, the price variation should be considered accordingly. Clause 3 (vi) provided that for supplies made after expiry of schedule delivery, price variation applicable as per schedule delivery or applicable as per actual delivery, whichever is advantageous to the purchaser shall be allowed.

Scrutiny (May 2008) of records of the Superintending Engineer, Sub Station Procurement Circle, Rajasthan Rajya Vidyut Prasaran Nigam Limited, Jaipur indicated that the Supplier Firm after attending the observations and carrying out necessary rectification as pointed out by the Company during final inspection (December 2006), requested (February 2007) the Company to release despatch instruction for supply of the first unit. The first unit was supplied on 8 March 2007. The second unit was offered for inspection on 5 March 2007 and supplied on 26 March 2007.

It was observed that the delay in supply of the transformer was due to non-compliance to approved drawings by the Supplier Firm and non-availability of duly calibrated impulse measuring system as per the Company's specification provided in the purchase order. The Company, however, allowed price variation for the first unit up to February 2007 treating the date of readiness for inspection as date of delivery whereas the unit was actually supplied in March 2007 when the price variation had decreased the cost by Rs. 14.42 lakh. Thus, the injudicious decision of the Company resulted in avoidable extra payment of Rs. 17.45 lakh on account of price variation including excise duty and Value Added Tax.

In reply the Government stated (September 2009) that the price variation was allowed as per IEEMA price variation formula, the date of delivery was the date on which the transformer was notified as being ready for inspection/despatch or contracted delivery date, whichever was earlier. Further in order to have the clarity for the date to be considered for allowing price variation, Price Variation clause has been standardised (February 2007) for incorporation in future specification.

In the instant case the unit was actually supplied in March 2007 *i.e.* after expiry of scheduled delivery. In such cases of supplies due to delay on part of the supplier, price variation applicable as per scheduled delivery or applicable as per actual delivery whichever was advantageous to the purchaser should have been allowed. However, the Company allowed price variation upto February 2007 treating the date of readiness for inspection as the date of delivery and thus failed to protect the financial interest of the Company.

Jaipur Vidyut Vitran Nigam Limited

4.5 Avoidable extra payment of interest

Delay in completion of procedural formalities led to avoidable extra payment of interest of Rs. 1.53 crore.

The Rajasthan Stamp Act, 1998 provides that an agreement or memorandum of agreement, if relates to the repayment of a loan or debt made by a bank or Finance company, stamp duty at the rate of 0.1 *per cent* of the amount of loan or debt is required to be paid. Jaipur Vidyut Vitran Nigam Limited (Company) obtains term loan/short term loan (STL) from various banks/financial institutions to meet its funds requirement. The Company, however, paid the stamp duty on execution of loan agreement only in such cases where the bank/financial institutions insisted upon. The Company made a reference (August 2007) to the State Government for general exemption from payment of stamp duty on the grounds that the agreement with the banks for term loan/STL are not for securing repayment of loan, as Government guarantee is provided separately for the purpose and a guarantee commission at the rate of 0.1 *per cent* is already paid to the Government by it. Audit noticed that the State Government had deducted the unpaid stamp duty amount for the previous year while releasing the subsidy to the Company.

Meanwhile, Oriental Bank of Commerce (Bank) sanctioned (10 July 2008) a long term loan of Rs. 76.72 crore to the Company for a period of 10 years including an initial moratorium period of 3 years at interest rate of 10.75 *per cent* per annum (Prime Lending Rate (PLR) 13.25 minus 2.50 *per cent*). The rate of interest was further subject to reset every two years. The Board of the Company approved (30 July 2008) the proposal and concurrence of the State Government was received on 30 August 2008. The Government guarantee was also issued on 9 September 2008. The Bank intimated (13 September 2008) the Company to complete the documentation formalities and affix thereon proper stamp duty as per the Stamp Act.

Scrutiny (February 2009) of records of the Company indicated that the Company instead of depositing the stamp duty amounting to Rs. 7.70 lakh and executing loan document, put the matter of availing loan on hold (15 September 2008) for awaiting decision on exemption of stamp duty pending with the State Government. On non-receipt of decision in the matter of exemption from the Government, the Company approached (30 September 2008) the Bank for execution of loan documents with its readiness for payment of stamp duty to the Government. The bank informed (5/6 November 2008) the Company that it had revised the rate of interest to 12.75 *per cent* per annum (PLR 14.00 minus 1.25 *per cent)* subject to annual reset clause. The interest rate was finally agreed to (18 November 2008) by the bank at the rate of 11.75 *per cent* per annum *i.e.* (PLR 13.25 minus 1.50 *per cent*). As a result, delay in documentation led to revision in interest reset clause and increase in interest rate due to reduction of discount over PLR by one *per cent i.e.* from 2.50 *per cent* to 1.50 *per cent* as the financial markets turned volatile amidst acute liquidity crisis. While accepting all terms and conditions of the Bank the Company executed loan documents and availed loan of Rs. 26.72 crore (18 November 2008) and Rs. 50 crore (1 December 2008).

Thus, the imprudent decision of the Company to keep the payment of stamp duty on hold awaiting relaxation led to additional burden of avoidable extra payment of interest of Rs. 1.53 crore during initial two years. The Company has already made payment of avoidable interest of Rs. 19.85 lakh up to February 2009.

The Government accepted (May 2009) the facts mentioned above.

4.6 Undue benefit to the consumers

Undue benefit of Rs. 66.02 lakh to consumers in violation of terms and conditions of supply (TCOS).

In pursuance of the Electricity Supply Code and Connected Matters Regulation 2004, notified (June 2004) by the Rajasthan Electricity Regulatory Commission (RERC), the Jaipur Vidyut Vitran Nigam Limited (Company), after approval of the RERC, issued (August 2004) Terms and Conditions of Supply, 2004 (TCOS). As per clause 40(6) of the TCOS hundred *per cent* cost including overhead charges was to be recovered from the consumer in case of shifting of lines. There was no provision under the TCOS for waiver/sharing of any amount chargeable on account of shifting of connection/lines. The Company filed (February 2007) a petition in the RERC for amendment to this clause of TCOS allowing it to share 50 *per cent* of cost of shifting. The RERC issued (August 2007) orders approving amendments in supply code and stated that revision in the TCOS shall be subsequent step to be taken up separately.

During scrutiny of records of the Company, Audit noticed that four consumers[*] of Jaipur had approached (between February 2006 and September 2007) the Company for shifting of 33 KV Double Circuit and 11 KV over head lines passing through their land. The shifting of 33/11 KV overhead lines was proposed through underground cable. The Company accordingly prepared estimates of Rs. 80.66 lakh. It was noticed that estimates of two consumers[**] were prepared taking into consideration the cost 3 x 185 mm square XLPE cable and 185 mm square ST joint instead of 300 mm square XLPE cable and 300 mm square ST joint. Both these works were, however, carried out by using the 300 mm square XLPE cable and 300 mm square ST joint, which were much costlier, on the ground that neither the 3 x 185 mm square XLPE cable was available in the stores nor in the process of procurement. Audit observed that the estimates prepared by the Company were not accurate and the same were not even revised before carrying out the work of shifting and thereby the Company incurred an extra expenditure of Rs. 25.69 lakh on shifting of these two lines, which were recoverable from the consumers as per prevailing rules. Further the Company allowed shifting of over head lines by allowing waiver of Rs. 40.33 lakh being 50 *per cent* cost of estimates.

Thus, by waiving Rs. 40.33 lakh being 50 *per cent* of cost of shifting of lines and also not recovering the extra expenditure of Rs. 25.69 lakh due to wrong preparation of estimates, the Company extended undue benefit of Rs. 66.02 lakh to consumers which was in contravention to the provision of sub-clause 6 of clause 40 of the TCOS.

The Government while accepting the facts stated (April 2009) that the cost of shifting of HT/EHT lines is normally very high and therefore it was

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* Mahaveer Hunuman Mandir Seva Samiti, Abha Paliwal and other inhabitants of Sri Gopal Nagar, Jai Narayan Verma, Chairman Jai Bhawani Colony Nagrik Samiti and Sr. Manager, RIICO, VKIA.

** Mahaveer Hunuman Mandir Seva Samiti, Abha Paliwal and other inhabitants of Sri Gopal Nagar.

practically not possible for the applicant as individual to bear the same. It was, therefore, considered that the provision of sharing 50 *per cent* cost as prescribed earlier by the erstwhile Rajasthan State Electricity Board and after unbundling by the Company in 1996 and 2002 respectively may be followed in such type of cases. It further stated that 185 mm XLPE cable was neither available in the stock nor in the process of procurement and using of 300 mm size cable would also be suitable to meet out future load.

The reply confirms the fact that as after approval of TCOS -2004, hundred *per cent* cost including overhead charges was to be recovered from the consumer in case of shifting of lines. The Company deviated from the provisions of the TCOS and thereby extended undue favour to the consumers. Moreover in another instance, the Company recovered (January and June 2006) full cost *i.e.* hundred *per cent* of line shifting charges amounting to Rs. 7.94 lakh from the Secretary, Krishi Upaj Mandi Samiti, Surajpol, Jaipur for shifting of 11 KV overhead lines.

Thus, the action of the Company of shifting of overhead lines passing through the premises of these consumers by waiving 50 *per cent* of cost and without recovering the revised estimate tantamounted undue benefit to consumers, in violation of TCOS-2004.

The Company should adhere the provisions of TCOS-2004 and should not deviate from the same unless approved by the RERC.

4.7 Non-recovery of interest

The Company extended undue benefit to the consumer by relaxing the conditions of the rehabilitation package. The Company also did not recover the interest of Rs. 52.69 lakh as per BIFR sanctioned scheme.

Jaipur Vidyut Vitran Nigam Limited (Company) issued (between July 2004 and September 2004) orders for rehabilitation package for revival of sick industries. The rehabilitation package *inter alia* includes the following concessions:

- The outstanding dues, excluding the interest, penal interest, late payment surcharge and delayed payment surcharge, as on date of request for revival, shall be allowed to be paid in six half yearly installments and first half yearly installment shall be paid before reconnection, wherever applicable;

- On the outstanding dues as per para (i), no penalty and interest shall be levied;

- The minimum charges for the closure period if any, prior to the date of request for revival and during the period of sickness shall be waived.

Scrutiny of records indicated (April 2009) that Lords Chloro Alkali Limited (consumer), a sick industrial unit since January 2002, having outstanding dues of Rs. 55.71 crore (Principal Rs.14.48 crore, Interest Rs. 28.37 crore and late payment surcharge Rs. 12.86 crore) requested (February 2005) the Company for settlement of its dues under the rehabilitation package. Pursuant to the provisions of the concessional package, the Company waived the interest and late payment surcharge and allowed (March 2005) the consumer to deposit the principal amount of Rs. 14.48 crore in six half yearly installments commencing from March 2005. Board for Industrial and Financial Reconstruction (BIFR) also approved (November 2006) the scheme for revival of the consumer, which included provisions regarding settlement of outstanding electricity dues. Clause 14 of Para 10.8 provided that in case of delay in payment of any installment by the consumer, interest at the rate of six *per cent* shall be levied after allowing a grace period of six months for payment of installments on interest free basis.

Audit observed that the consumer did not adhere to the terms and conditions of rehabilitation package and the scheme sanctioned by the BIFR. As against the settled amount of Rs. 14.48 crore, the consumer had deposited only Rs. 6.84 crore up to the scheduled date *i.e.* September 2007. The concession package allowed (March 2005) clearly provided that in case of default in payment of installments, besides disconnecting the electric supply of the consumer, the facility of concession package shall also be withdrawn and the consumer would be liable to pay outstanding dues in normal course. The sanctioned scheme of BIFR allowed the Company to charge interest in case of delay of more than six months. Despite these provisions, the Company did not safeguard its financial interest and accepted the payments up to February 2009 *i.e.* with a delay of 17 months from originally committed period.

Thus, the Company extended undue benefit to the consumer as it failed to recover the interest of Rs. 52.69 lakh for delayed period which was beyond the grace period of six months as per BIFR sanctioned scheme. Further, this relaxation in the conditions of the rehabilitation package was extended without the approval of Board of Directors. The Company should evolve a system to ensure that in case of settlement of dues, the terms and conditions of settlement are adhered to by the consumer to safeguard its financial interest.

The matter was reported to the Government/management (April 2009) and their replies were awaited (September 2009).

4.8 Undue benefit of power factor rebate to consumers

In violation of orders of the Commission and norms fixed by the Central Electricity Authority, the Company extended undue benefit of power factor incentive amounting to Rs. 31.04 lakh to consumers.

Tariff for supply of electricity-2004 of Jaipur Vidyut Vitran Nigam Limited (Company) provides that consumers having sanctioned connected load of more than 25 HP (18.65 KW) shall maintain an average power factor of not less than 0.90 (90 *per cent*). In case the average power factor falls below 0.90, a surcharge at one *per cent* of energy charges for every 0.01 (one *per cent*) fall in average power factor below 0.90, shall be charged. Also an incentive of one *per cent* of energy charges shall be provided if average power factor is above 0.95 (95 *per cent*).

In a *suo moto* petition in the matter of rationalisation of retail tariff for the Company, the Rajasthan Electricity Regulatory Commission (Commission) amended the above clause and decided (August 2007) that incentive be provided for each 0.001 (0.1 *per cent*) improvement in average power factor beyond 95 *per cent* (0.950) and surcharge be levied for fall of each 0.001 (0.1 *per cent*) of average power factor below 90 *per cent* (0.900). This facility was, however, applicable only where the installation of the meters at the consumer's premises comply with the requirements of Central Electricity Authority (Installation & Operation of Meters) Regulation, 2006 which stipulated that in case of supply of electricity above 33 KV, the accuracy class of meters should be 0.2S. Wherever the meters of required specifications were not provided, the existing incentive scheme was to be continued till the meters were replaced by the Company. Pursuant to these orders, the Company issued (September 2007) a commercial order specifying amendments in provisions of tariff.

Scrutiny (September 2008) of records of High Tension (HT) billing of the Company for the period from November 2007 to July 2008 indicated that there were 19 HT consumers having sanctioned connected load of more than 25 HP (18.65 KW) and to whom the electricity was being supplied on 132 KV. Out of these 19 consumers, the Company allowed the incentive for improvement in average power factor as per amended provisions to 10 consumers though the meters installed at their premises were not compliant with the required accuracy of 0.2S. Thus, the Company extended undue benefit of power factor incentive amounting to Rs. 26.29 lakh to these consumers for the period from November 2007 to July 2008.

In reply, the Government accepted the audit observations and stated (April 2009) that the Company had made a reference to the Commission seeking directions in the matter and on receipt of the clarifications necessary action for debiting the amount would be taken. The Management subsequently intimated (June 2009) that the incentive amount was debited/credited against the consumers. However, verification of reply revealed that though the Company had debited the excess incentive passed on to these consumers yet the recovery of Rs. 31.04 lakh for the period November 2007 to June 2009 from two[*] consumers was not effected. The Company should take immediate steps to recover the undue benefit extended to consumers and fix the responsibility for the lapse.

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* Synergy Steel Limited Rs. 7,91,985 and Lords Chloro Alkali Limited Rs. 23,12,256

Rajasthan State Industrial Development and Investment Corporation Limited

4.9 Loss due to non-recovery of amount paid to Village Amenities Development Fund

Payment to Village Amenities Development Fund without recovering the same from the Honda Siel Cars India Limited led to loss of Rs. 1.74 crore to the Company.

The Government of Rajasthan (GOR), Department of Industries, with the objective to provide financial assistance to welfare projects in the affected village and to provide training and skill development facilities to the affected persons whose land was acquired, formulated (December 1995) two scheme *viz;* Village Amenities Development Fund (VADF) Scheme and Skill Development Fund (SDF) Scheme. Rajasthan State Industrial Development and Investment Corporation Limited (Company) was designated as a nodal authority for implementation of VADF scheme and was to contribute one *per cent* of total acquisition cost of Government/Private land to VADF and an equal amount was to be contributed by the GOR. Accordingly, for creation of VADF, the Company issued (April 1996) instructions to its Land Acquisition Cell that a sum equivalent to one *per cent* of total acquisition cost of Government/Private land should be included in the proposal for Administrative sanction.

Audit noticed (October 2008) that a Memorandum of Understanding (MOU) between the GOR and Honda Siel Cars India Limited (HSCIL) was executed on 3 May 2007 for setting up of Car Manufacturing Plant (CMP), Research & Development (R&D) Centre and Suppliers' Units in Rajasthan. As per MOU, the GOR undertook to allot, through the Company, about 600 acres of contiguous land (For CMP-350 acres, for R&D Centre-100 acres and for Suppliers' unit-150 acres) to HSCIL on lease for 99 years. As per MOU, HSCIL was required to pay the following amounts for the allotted land:

- an amount equal to actual cost of acquisition of 450 acres of land for CMP and R&D Centre;

- an amount equal to 115 *per cent* of the actual cost of acquisition of 150 acres of land for suppliers' units;

- lease rent at the rates applicable for industrial plots, presently Rs. 237 per acre per annum.

In terms of MOU, the Company acquired (between April 2007 and April 2008) 777.78 acres of private land for extension of Tapukara Industrial Area (Bhiwadi Unit) and paid compensation of Rs. 189.84 crore (between April 2007 and March 2008) towards acquisition of land. The Company allotted 609.64 acres of land (CMP and R&D Centre-455.43 acres and Suppliers' units-154.21 acres) to HSCIL (between May 2007 and November 2008). HSCIL and its suppliers units paid Rs. 157.82 crore to the Company towards land allotted, economic rent, lease rent *etc.* (between May 2007 and November 2008).

During scrutiny of records of the Company, audit noticed that instead of Rs. 1.91 crore *i.e.* one *per cent* of total acquisition cost towards contribution under VADF, the Company included a provision of Rs. 17 lakh only in Administrative Sanction issued (August 2007) for acquisition/development for allotment to HSCIL. Audit observed that the Company has made a payment of Rs. 1.74 crore to the District Collector, Alwar under VADF against land acquired for HSCIL without charging the same to HSCIL while working out the actual cost of acquisition.

The Management while accepting the facts stated (August 2009) that pursuant to the directions of the State Government, the Company had started making provision of one *per cent* of the total acquisition cost of Government/private land for each scheme. It further stated that sometimes private land is acquired and allotted to prestigious projects as per the directions of the State Government and in such a case no additional charge on account of VADF is levied.

The reply is not convincing as contribution towards VADF is part of direct cost of acquisition of Government/private land. Further, there was no specific direction from the State Government not to treat contribution towards VADF as part of direct cost of acquisition in this case. Hence, non-recovery of the amount contributed to VADF from the HSCIL led to a loss of Rs. 1.74 crore to the Company.

4.10 Undue benefit extended in change of land use

The Company violated its own policy for change of land use by permitting the conversion before expiry of three years and also granted extension in time limit for depositing the conversion charges without charging interest of Rs. 26.81 lakh.

Rajasthan State Industrial Development and Investment Corporation Limited (Company) is engaged in development of industrial areas and allotment of land to the entrepreneurs in the State. The Company, for allotment and use of allotted land, framed its rules namely ‘RIICO Disposal of Land Rules-1979’. Rule 20 (c) provided that change in land use of industrial plots or part thereof for commercial purpose may be allowed. An allottee of industrial plot desirous to change land use may apply to the Company, in prescribed format, after three years of allotment along with plan, utilisation proposal of plot and proposed investment. The conversion charges for change of land use would be three times of the prevailing rate of development charges of the area and required to be paid in one go for which no installment would be allowed. If an entrepreneur failed to deposit the conversion charges within a period of three months from the date of approval of change in land use, the approval will automatically lapse. In such case no further correspondence or request will be entertained by the Company for the next three years.

Audit scrutiny (December 2007 and March 2009) of the records of the Company indicated that a plot measuring 6,053 square metres (Sqm.) at Bhiwadi Industrial Area-I was transferred/allotted (7 December 2005) in the name of Jagrit Infrastructure Private Limited (entrepreneur). As per the terms and conditions, a manufacturing unit of steel fabrication and machinery items was to be established by the entrepreneur. The entrepreneur, however, before establishing the unit applied (July 2006) for change of land use of this plot from industrial to commercial. The Company in violation of its own policy for change of land use accorded (October 2006) its approval for change of land use from industrial to commercial even before three years of allotment. The entrepreneur was also directed (November 2006) to deposit Rs. four crore upto 17 January 2007, failing which the permission would automatically lapse. The entrepreneur, however, instead of depositing the conversion charges, requested (November 2006) the Company for relaxation in set-backs allowed in building plan while approving the change in land use. The Company acceded (February 2007) the request for relaxation in set-backs and accordingly informed (March 2007) the entrepreneur to deposit total conversion charges of Rs. 4.11 crore (including interest amounting to Rs. 11.34 lakh for the period 17 January 2007 to 31 March 2007). The entrepreneur, however, deposited Rs. 50 lakh only and requested (March 2007) to extend the period by another three months without interest. The Managing Director of the Company allowed (June 2007) time extension for payment of conversion charges up to 31 July 2007 without interest.

Audit observed that the Company in violation of its own policy regarding change of land use permitted conversion of land before expiry of three years and also granted extension in time limit for depositing the conversion charges. Further the Company approved the set-backs as per RIICO Disposal of Land Rules-1979, it should, therefore, have at least safeguarded its financial interest while extending benefit to the entrepreneur by charging interest of Rs. 26.81 lakh for the delayed payment (17 January to 27 July 2007 at the rate of 14 *per cent*).

The Government in its reply stated (March 2008) that as per policy, conversion charges were to be levied at current rates and the development charges of this industrial area were unchanged since the demand was issued to the entrepreneur, hence allowing time extension would not attract any financial implication to the Company *vis-a-vis* the provisions of the policy.

The reply is not convincing as the Company not only violated its own policy but also extended undue benefit to the entrepreneur by waiving of interest on delayed payment. It is also pertinent to mention here that after being pointed out by Audit, the Company has amended (April 2008) its policy and authorized the Managing Director of the Company to grant time extension upto further three months for depositing the requisite conversion charges beyond the prescribed three months period on payment of interest at the prescribed rates. The Company should evolve a system to deal with such cases as per the rules, regulations and policy thereof and not on case to case basis.

4.11 Loss due to injudicious settlement of case under One Time Settlement (OTS) Scheme

The Company, in violation of the OTS scheme, waived the principal amount and extended undue benefit of Rs. 15.29 lakh to the GCPL.

Rajasthan State Industrial Development and Investment Corporation Limited (Company) introduced (November 2007) One Time Settlement (OTS) Scheme for speedy recovery of old outstanding dues from the entrepreneurs. The loan accounts were to be settled under OTS on case to case basis by the State Level Settlement Committee (SLSC). The salient features of the scheme included that OTS amount shall be principal outstanding plus token interest to be decided by SLSC, in addition to Industrial Promotion and Infrastructure dues, which shall be paid separately. It was also envisaged that no permission shall be granted for sale of assets until entire OTS amount is received.

The Company took (April 1993) possession of the assets of RT Udyog Pvt. Ltd. (Firm)- a Mini Cement Plant at Behror Industrial Area, Alwar under Section 29 of the State Financial Corporations Act, 1951 for outstanding dues of Rs. 83.29 lakh. Instead of recovering its whole dues of Rs. 83.29 lakh through sale of assets on outright payment basis and passing on excess sale proceeds, if any, to the Firm, the Company injudiciously decided to sell the assets on deferred payment basis (April 1993) to Gauri Cement Pvt. Ltd. (GCPL), a co-promoter of the Firm, at a sale consideration of Rs. 1.52 crore. As per terms and conditions of the sale, the GCPL paid Rs. 38 lakh as down payment and the balance Rs. 1.14 crore was to be repaid in quarterly installments over a period of five years with interest at the rate of 22 *per cent* per annum compounded on quarterly basis with usual liquidity damages clause. Thus, the Company entered into fresh agreement with the co-promoter without ensuring the process of settling the excess receipt of Rs. 68.71 lakh (*i.e.* difference of Rs. 114 lakh –Rs. 45.29 lakh).

GCPL defaulted in repayment of Company's dues as per terms and conditions of the sale agreement. In the meanwhile the outstanding dues mounted (December 2007) to Rs. 19.59 crore (Principal: Rs. 1.14 crore and Interest: Rs. 18.45 crore), out of which Rs. 7.47 crore (Principal: Rs. 45.29 lakh and Interest: Rs. 7.02 crore) pertained to the share of the Company. GCPL approached (February 2007) the Company for OTS of its outstanding dues and also proposed to pay 80 *per cent* of the balance principal amount of Rs. 1.14 crore if all its liabilities towards the Company be treated as settled. The SLSC, however, rejected (May 2007) the offer of the GCPL on the grounds that the market realisable value of land itself had increased substantially. The Company decided to take over the possession of the assets to recover its dues through sale of assets. The assets of the GCPL, however, could not be taken over due to a *status quo* order from the Alipore Court, Calcutta given in the matter of settlement of excess receipts in deferred sale of assets of RT Udyog Pvt. Ltd. The fair market value of assets as assessed by the Chartered valuer and the Company itself was Rs. 1.43 crore and Rs. 1.72 crore respectively. Further the value of land was continuously increasing being located in the National Capital Region (NCR). On being again approached by the GCPL (November 2007) for OTS of its outstanding dues, the SLSC decided (February 2008) to settle the outstanding dues of GCPL for Rs. 30 lakh only against Rs. 7.47 crore, despite fair market value of assets at Rs. 1.72 crore, thus extending undue benefit in settlement of dues.

It was noticed in audit that the Company injudiciously sold assets on deferred payment to the co-promoter at first place and failed to protect its financial interest over long period of 15 years. Finally the Company settled the amount at a substantially lower price at just 4.02 *per cent* of outstanding dues. The settlement by the SLSC, at Rs. 30 lakh, when the GCPL offered higher amount earlier and despite fully knowing the facts, on the basis of which the case was rejected on earlier occasions indicates that the case was settled extending undue benefit of Rs. 15.29 lakh on principal amount. The settlement did not recover even the principal amount and was much below the fair market value of assets which were located in NCR. Thus, the sale of assets on deferred basis as well as settlement of dues at Rs. 30 lakh without recovering even principal amount was irregular as well as injudicious.

The Government stated (May 2009) that the settlement was considered appropriate as there were multiple litigations right from the beginning and in some of the cases RIICO was also made party. Mini cement sector on the whole did not fare well in the State and in most of the cases recovery had to be made in terms of the settlement scheme. It further stated that the Company recovered an amount of Rs. 38 lakh immediately at the time of sale of assets to GCPL and against interest bearing portion of Rs. 45.29 lakh it further recovered a sum of Rs. 34.87 lakh towards interest time to time. The additional payment of Rs. 30 lakh under OTS covered the liability due from the Firm.

The reply is not convincing as the Company violated its own policy to recover the principal outstanding plus token interest under OTS. The Company should adhere to its policy/rules/regulations related to OTS and also watch its financial interest while settling the cases in OTS. The Company should realise its own dues on immediate cash basis instead of selling the same to the co-promoters who had already defaulted and created unnecessary litigations.

Rajasthan Small Industries Corporation Limited

4.12 Loss due to allotment of counter without execution of agreement

The Company sustained a loss of Rs. 62.14 lakh due to non-execution of agreement, before handing over the possession of the counter and non-deposit of full security deposit.

The Rajasthan Small Industries Corporation Limited (Company) invited (February 2007) tenders for allotment of earmarked 450 square feet (sq. ft.) space, in the basement of newly constructed building of Rajasthali emporium at Jaipur, for sale of precious and semi-precious jewellery (Counter) for a period of two years on minimum sales guaranteed (MSG) basis. The Company allotted (April 2007) the counter to Laroc International (Firm), whose offer for MSG was Rs. 4.41 crore, for a period of two years at a commission of 22.5 *per cent* and license fee of Rs. 25 per sq. ft. per month. As per the terms and conditions of tender document and allotment letter, the Firm, besides executing an agreement, was required to deposit six months commission on MSG (60 *per cent* in cash/demand draft and 40 *per cent* in the form of bank guarantee) and also six months license fees as security deposit. Allotment letter also stipulated that in case of non-execution of agreement and inadequate security deposit, permission to start sale on counter would not be accorded.

Scrutiny of records (January 2009) of the Company indicated that against security deposit of Rs. 26.52 lakh, the firm deposited (April 2007) Rs. 15 lakh only and requested the General Manager of the Company to treat the commencement date from 16 May 2007 instead of 16 April 2007 as the firm required time to deposit the required amount as well as to prepare itself by arranging required material for sale. The Company agreed (24 April 2007) to treat commencement date as 1 May 2007. Audit further noticed that the Manager, Rajasthali emporium handed over (16 June 2007) possession of 1,146 sq. ft. space to the Firm though no agreement was executed by the Firm and full security deposit was not deposited. Thus, the Firm was given undue favour without adequately protecting the Company's interest.

Audit observed that the security deposited by the Firm was hardly enough to cover monthly commission and license fees of Rs. 4.42 lakh for four months period. Despite repeated correspondence made by the Company to execute the agreement and also to deposit the shortfall in the security deposit, the firm, instead of depositing the shortfall in security deposit and executing the agreement, started representing (August 2007) that MSG had been imposed on it as all other counter holders were not bound by this clause. The Firm also alleged that it could not achieve the MSG due to poor footfalls of tourists as well as not bringing tourists of Palace on Wheel to the emporium *etc.* for which no commitment was made in the terms and conditions of tender by the Company.

Despite non-adhering to the terms and conditions of the allotment and raising dispute on various grounds by the Firm, the Company failed to take timely action for vacation of the counter and irregularly allowed occupation of the counter upto March 2009. The total outstanding accumulated to Rs. 62.14 lakh after adjusting the security deposit and other retention money of Rs. 46.36 lakh by March 2009. The firm left (March 2009) the premises without clearing the outstanding dues of Rs. 62.14 lakh and served legal notice for adjusting Rs. 46.36 lakh and invoking arbitration in terms of tender conditions.

Thus, the Company lost revenue of Rs. 62.14 lakh due to inadequate security deposit, non-execution of agreement and delay in getting the counter vacated despite failure of the Firm to comply with the terms and conditions of tender. Moreover it could not protect its interest and landed itself into avoidable litigation jeopardizing its financial interest in the absence of legal enforceable agreement. The Company needs to fix responsibility for the lapse in handing over the possession of counter without entering into agreement and obtaining requisite security deposit.

The matter was reported to the Government/Management (July 2009) and their replies were awaited (September 2009).

Rajasthan State Mines and Minerals Limited

4.13 Loss due to faulty agreement for sale of limestone

The Company sustained a loss of Rs. 2.41 crore due to faulty agreement.

Rajasthan State Mines and Minerals Limited (Company) entered (November 2004) into a long term agreement with Grasim Industries Limited (Grasim) for supply of 1.50 lakh metric tonne (MT) of white cement grade limestone per annum keeping an average quarterly quantity of 37,500 MT. The price per MT was fixed at Rs. 82 per MT exclusive of royalty and all other statutory levies which were to be charged on actual basis. The price was effective from 1 April 2004 for an initial period of one year and thereafter a general escalation of two *per cent* on prevailing sales price every year was also provided in the agreement.

The Company awarded (July 2004) the work of raising of the three lakh MT per annum limestone from its mines at Gotan to Jai Bhairav Shramik Teka Sahakari Samiti (Contractor), for a period of three years from March 2004 to March 2007, at a rate of Rs. 56.70 per MT with the usual provision for escalation of diesel prices.

Scrutiny (April 2009) of records of the Company indicated that the estimated total cost of raising limestone stood at Rs. 95.88[•] and Rs. 99.06[Π] per MT as against the sale price fixed at Rs. 82 and Rs. 84 per MT, for the years 2004-05 and 2005-06 respectively, leaving an unfilled gap of Rs. 13.88 and Rs. 15.06 per MT during that period excluding the diesel price escalation.

It was also noticed that in the new contract (August 2007) of raising of limestone, the direct cost increased from Rs. 56.70 per MT inclusive of explosive cost to Rs. 101.92 per MT as against sale price of Rs. 88 per MT leaving a gap of Rs. 13.92 per MT even in the recovery of direct cost for the year 2007-08.

Audit noticed that the estimated total cost of raising limestone for supplying to Grasim worked out to Rs. 159.14 per MT as against the sale price of Rs. 88 per MT for the year 2007-08. The Company, however, did not take any action either to renegotiate the price as it was not able to recover the direct cost or to

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• The work of raising limestone awarded to the Contractor @ Rs. 56.70 per MT + the overhead expenditure (other than the direct cost of raising lime stone) which was Rs. 39.18 per MT.

Π The work of raising limestone awarded to the Contractor @ Rs. 56.70 per MT + the overhead expenditure (other than the direct cost of raising lime stone) which was Rs. 42.36 per MT.

invoke Clause 11 for termination of the agreement. Thus, the Company incurred a loss of Rs. 36.36 lakh* due to under recovery of direct cost during 2007-09, while loss due to under recovery of the unit overheads was Rs. 2.05 crore** during 2004-09.

Audit observed that the decision of the Company to accept the general escalation ceiling at the rate of two *per cent* per annum was against the financial interest of the Company, particularly when the Company had entered into the long term contract at much below its cost and inflation in consumer price index itself had ranged between five *per cent* to 16 *per cent* during last seven years. The Company had no cushion in the form of profits, which could take care of cost increase.

Thus, due to entering into injudicious contract, which was not only unviable and loss making right from the beginning but also did not contain sufficient provision for protecting financial interest of the Company, resulted in loss of Rs. 2.41 crore during the period 2004-09.

The Government stated (July 2009) that the market of white cement grade limestone was competitive and the sale was governed by the market conditions, as such the consumers have got an upper hand because of plenty of suppliers in the market. Thus, the Company considered it appropriate to enter into a long term agreement with Grasim Industries Limited as it could not dictate its terms and conditions to the buyers of white cement grade limestone. It further stated that the Company also got reimbursed the amount of service tax and land tax imposed by the Government of India/State Government despite not provided in the agreement.

The reply is not convincing as the Company did not protect its financial interest while entering into long term agreement for supply of limestone. Further, as regards to reimbursement of service tax/land tax, the agreement clearly stipulated that the prices are exclusive of royalty and all other statutory levies and to be charged on actual basis.

The Company should have made adequate provision for increase in price based on relevant price index as against two *per cent* per annum included in the agreement and also provided for a cushion in the form of profit while entering into long term agreement. The Company also needs to take timely action to invoke the clause of the agreement to protect its financial interest.

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* Direct cost: 93,571.94 MT x Rs. 13.92 per MT for the supplies during the period September 2007 to March 2008 plus 1,95,728.32 MT x Rs. 11.92 per MT for 2008-09

** Overhead: 2004-05:1,58,445.71 MT x Rs. 13.88 per MT, 2005-06: 1,60,059.49 MT x Rs. 15.06 per MT, 2006-07: 1,09,160.63 MT x Rs. 26.12, 2007-08: 26,036.51 MT x Rs. 25.92 per MT for the supplies made during April 2007 to August 2007 plus 93,571.94 MT x Rs. 57.22 per MT for the supplies during the period September 2007 to March 2008 plus 1,95,728.32 MT x Rs. 35.66 per MT for 2008-09.

4.14 Loss due to non-recovery of royalty at enhanced rate

Non-recovery of royalty at enhanced rate on the sale of limestone in respect of the open market sale led to loss of Rs. 28.93 lakh.

Rajasthan State Mines and Minerals Limited (Company) sells limestone produced at Gotan (Jodhpur) to various parties as open market sales. During the year 2006-07, the Company had fixed ex-mine open market selling price limestone (Lumps) at Rs. 156 per metric tonne (MT) which included royalty (Rs. 45 per MT), cess and land tax but was exclusive of sales tax/Value Added Tax (VAT).

Scrutiny (April 2009) of records of the Company indicated that Government of Rajasthan had increased the rate of royalty, recoverable on sale of limestone, from existing rate of Rs. 45 per MT to Rs. 55 per MT from 6 September 2007. However, the Company sold 2,89,264.3 MT of limestone in open market and paid royalty of Rs. 1.59 crore without recovering the increased rate of royalty from 6 September 2007 to 28 February 2009. The Company was required to recover the statutory increase in the rate of royalty by revising sale price for open market sale as it is the usual practice to pass on all increases in Government levy to the buyer.

Thus, defective system of determining the sale price inclusive of royalty, other statutory duties and indecision of the management to recover royalty at enhanced rate led to loss of Rs. 28.93 lakh on sale of limestone in open market.

The Government stated (August 2009) that the rates of royalty for chemical grade limestone and cement grade limestone were different *i.e.* Rs. 55 and Rs. 45 per MT respectively. Accordingly, the effective sale prices of both these grades were also different *viz;* Rs. 156 and Rs. 146 per MT during 2007-08 (upto August 2007). It further stated that the production at Gotan was commenced after 15 September 2007 when the rates of royalty for both the grades were Rs. 55 per MT and their selling price was equal *i.e.* Rs. 186 per MT.

The reply is not relevant as the sale price of the limestone was increased in August 2007 whereas the notification issued for enhancing the royalty by Rs. 10 was issued on 6 September 2007 and was effective from the same date. Further, the invoices furnished in support to the reply were not admissible as both invoices were for chemical grade limestone and the difference in rates was because of inclusion of loading charges in one invoice while the same was excluded in another invoice and not because of different royalty as claimed in reply. Moreover, the notification issued by the Government did not differentiate the rates of royalty as per the grade of limestone.

4.15 Avoidable payment to the sampling contractor

Despite reduction in scope of work of the Sample Analyst and enabling provision in the contract, the Company made avoidable payment of Rs. 14.37 lakh.

Rajasthan State Mines and Minerals Limited (Company) supplies steel grade limestone to Steel Authority of India (SAIL) at its five plants located at Bhilai, Durgapur, Rourkela, Bokaro and Burnpur. Pursuant to the requirements of the purchase order placed by SAIL, the Company was required to analyse the material at loading point before loading and during the process of loading and submit the analysis report for both chemical and size. The Company awarded (March 2006) the work of sampling for chemical and size analysis of steel grade limestone at the loading points and at unloading destination points of steel plants of SAIL to Mitra S.K. Private Limited (Sampling Analyst) for a period of 3 years which could be extended for another one year on the same terms and conditions. The rate for joint sampling, size and chemical analysis, weighment supervision, follow up action for payment at the plants located at Bhilai and Rourkela, where auto sampler* was installed, was Rs. 4.55 per MT. The rate for the plants located at Durgapur, Bokaro and Burnpur, where auto samplers were not installed, was Rs. 2.65 per MT.

Audit scrutiny of records (April 2009) indicated that the Company entered (May 2008) into a Memorandum of understanding (MOU) with SAIL for supply of steel grade limestone for a period of 10 years. Accordingly, SAIL placed (June 2008) a purchase order on the Company for supply of steel grade limestone. As per the MOU, the SAIL had revised the provision for sampling and size analysis making sampling and size analysis at loading point as final in all the cases, where even auto samplers were installed at plants *i.e.* Bhilai and Rourkela with effect from 1 July 2008.

Audit observed that under the new agreement, the requirement of sampling at destination points was dispensed with and sampling analysis at loading point was considered as final for payments for all the plants including Bhilai and Rourkela plants. Thus, the scope of work for these two plants was changed to match with the plants at Durgapur, Bokaro and Burnpur. The Company, however, instead of revising the rates of the Sampling Analyst in line with the Durgapur, Bokaro and Burnpur plant continued to make payment at Rs. 4.55 per MT instead of Rs. 2.65 per MT.

Thus, the Company made avoidable payment of Rs. 14.37 lakh during the period from July 2008 to April 2009 in respect of Bhilai and Rourkela plants despite reduction in scope of work of the Sample Analyst and enabling provision in the contract.

The Government stated (August 2009) that every new process requires gestation period as such the procedure under old purchase order was continued till establishment of new process as well as the purchasers' faith in

* Equipment for sampling and size analysis and chemical analysis to determine CaO, MgO, SiO_2, $A1_2O_3$ and Fe_2O_3.

new process. It further stated that it was practically not possible to modify the terms and conditions of the contract for a short period, hence, the payment to the contractor was made as per prevailing terms and conditions of the contract.

The reply is not convincing as there was no new process involved and similar provisions have already been included in the contract for supply of limestone at plants located at Durgapur, Bokaro and Burnpur. Further SAIL had already been accepting the sampling and size analysis of loading points for these plants.

The Company should evolve a system of internal control so that immediate action could be taken for revision in scope of work with the change in scope of work in other related contracts.

Rajasthan State Road Development and Construction Corporation Limited

4.16 Accumulation of dues from sundry debtors

In absence of effective system of billing and follow up for recovery, the dues from sundry debtors for completed works accumulated to the tune of Rs. 19.96 crore.

Rajasthan State Road Development and Construction Corporation Limited (Company) is engaged in construction of roads, bridges, buildings, flyovers *etc.* These works are either secured on competitive tender basis or on cost plus fixed centage charges basis allotted by the State Government and other agencies. The Company is also empowered to undertake the construction and subsequent maintenance of the existing projects executed by the State Government from its funds and retains the right of levy and collection of toll/service charges on such projects.

Scrutiny of records (May 2009) indicated that share of old outstanding dues from sundry debtors for works done by the Company has been rising continuously over the last few years. Audit noticed that as on 31 March 2008, the total outstanding sundry debtors for works for more than six months were to the tune of Rs. 19.96 crore. An analysis of outstanding sundry debtors pertaining to various works showed that out of total Rs. 19.96 crore, Rs. 17.14 crore (representing 85 *per cent* of total sundry debtors for works) were outstanding for more than five years. It was also noticed that the said works had already been completed long back but the client departments did not clear the dues of the Company. It was observed that in last three years no amount was recovered. The accumulation of sundry debtors can be attributed to undertaking extra work without proper authorization from the client departments, non-issue of revised administrative and financial sanction for the related works, delay in completion of works, disputes regarding quality of works, non-rectification of shortcomings pointed out by the client departments *etc.* apart from lack of adequate and proper documentation to pursue its claims.

Audit observed that despite accumulation of sundry debtors for completed works, the Company did not evolve any mechanism to effectively control the continuous rising trend of sundry debtors. The system of billing and follow up for recovery was ineffective and the level of pursuance with controlling authorities was poor. Further, there was no system of periodical reconciliation as well as confirmation of dues from the client departments. The Company neither devised any workable system nor laid down any norms for effecting timely recovery from the sundry debtors which became more than six months old. Further the defective system of management of dues was prevailing continuously for long time without being rectified or improved, despite concern being shown at the highest level by the Audit Committee of Board of Directors on various occasions.

Thus, failure of the management to improve the system of recovery may lead to possibility of losses by way of writing off as well as carrying cost of sundry debtors in terms of interest of Rs. two crore per annum. The Company should devise internal control mechanism for proper billing and effecting recovery of dues *vis-à-vis* to avoid undertaking works without proper authorisation, timely completion of works and issuance of revised administrative and financial sanction wherever required.

The matter was reported to the Government/Management (June 2009) and their replies were awaited (September 2009).

Rajasthan Tourism Development Corporation Limited

4.17 Unviable decision to operate Heritage on Wheels

The Company sustained a loss of Rs. 1.40 crore on operation of "Heritage on Wheels".

Rajasthan Tourism Development Corporation Limited (Company) is engaged in rail tourism in joint venture with Indian Railways. Consequent to the Indian Railways according approval for running a Meter Gauge Luxury Tourist Train the Company decided (August 2005) to run a train namely 'Heritage on Wheels' (HOW). The Company executed (February 2006) a Memorandum of Understanding (MOU) with Indian Railways according to which the itinerary* of the train HOW was decided with stipulation that operational feasibility would be reviewed at the end of the first season in May 2006. The revenue sharing ratio between the Indian Railways and the Company was 56:44 respectively.

The Company determined the financial viability of operating the train by working out the break-even point (BEP *i.e.* No profit – No loss level) at

* Jaipur-Bikaner-Tal Chhapar (Padhiyar)-Nawalgarh-Jaipur

18 passengers (total capacity: 104 passengers) per tour. The Company estimated the variable cost at Rs. 3,100 per passenger and fixed cost at Rs. 1,21,000 per tour for working out the BEP on the basis of tariff on double occupancy less commission of General Sales Agents/marketing agents.

The train remained operated continuously during a period spread over four seasons upto 2 January 2009 and thereafter it was stopped due to commencement of gauge conversion work. During the first season (February 2006 to April 2006), the Company operated 11 tours carrying on an average six passengers per tour utilising only 5.77 *per cent* of its total capacity and incurred loss of Rs. 29.25 lakh. Audit observed that the Company, while assessing the financial viability of the train, did not assess the variable cost correctly as the same was significantly higher at Rs. 6,604 for the first season as against estimated variable cost of Rs. 3,100. Fixed cost was also substantially higher ranging from Rs. 1,89,000 to 2,36,000 as against estimated fixed cost of Rs. 1,21,000 per tour. It was further noticed that the capacity of train on double occupancy was only 72 passengers as against estimated capacity of 104 passengers, thus substantially underestimating the BEP level which was deciding factor for arriving at financial viability of the train.

The Company operated 98 tours carrying average of 22 passengers per tour in next three seasons. The capacity utilisation remained very low ranging between 14.21 and 25.41 *per cent*. Thus, the Company suffered heavy financial losses of Rs. 139.87 lakh (2006-07: Rs. 75 lakh, 2007-08: Rs. 37.03 lakh and 2008-09: Rs. 27.84 lakh). It was noticed that the Company did not carry out the financial viability for running the HOW at the end of the first season in May 2006, though losses were incurred in the first season itself. Further, due to ongoing unigauge programme of the Railways the availability of the HOW was very short and uncertain. Despite knowing these vital facts, the Company failed to correctly assess variable cost per tour per passenger and fixed cost which resulted in erroneous financial viability and lower BEP level. Thus, continuous operation of the train led to loss of Rs. 1.40 crore due to incorrect assessment of financial viability at first place and non review of the same subsequently.

The Government replied (August 2009) that whenever a new product is launched in the market it takes some time to achieve the optimum level of appreciation.

The reply does not address the core issue. It was known to the Company that the train was available only for two years. The Company failed to work out correct financial viability and the BEP level. The Company should have worked out the variable cost and fixed cost on a realistic basis and should have avoided operation of train below the BEP as it was not a long term project.

General Paragraph

4.18 Opportunity to recover money ignored

10 Public Sector Undertakings neither seized the opportunity to recover their money nor pursue the matters to their logical end. As a result, recovery of Rs. 8.25 crore remains doubtful.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were 27 paras in respect of 10 Public Sector Undertakings (PSUs) involving a recovery of Rs. 8.25 crore. As per the extant instructions of the State Government given in May 1997*, the PSUs are required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end, *i.e.*, to recover money from the concerned parties. As a result, these PSUs did not avail the opportunity to recover their money which could have augmented their finances.

PSU wise details of paras and recovery amount are given below. The list of individual paras is given in **Annexure-12**.

(Rupees in crore)

Sl. No.	**Name of Public Sector Undertaking**	**No. of paras**	**Amount for Recovery**
1.	Rajasthan Financial Corporation	14	4.69
2.	Rajasthan State Agro Industries Corporation Limited	1	1.03
3.	Rajasthan State Handloom Development Corporation Limited	1	1.19
4.	Rajasthan State Mines and Minerals Limited	1	0.66
5.	Rajasthan State Industrial Development and Investment Corporation Limited	3	0.33
6.	Rajasthan State Road Development and Construction Corporation Limited	1	0.17
7.	Ajmer Vidyut Vitran Nigam Limited	1	0.11
8.	Rajasthan Rajya Vidyut Prasaran Nigam Limited	1	0.05
9.	Rajasthan Tourism Development Corporation Limited	3	0.01
10.	Rajasthan Small Industries Corporation Limited	1	0.01
	Total	**27**	**8.25**

The paras mainly pertain to dues from debtors, recovery from loanee against dues of principal/interest/deficit amount and recovery of service charges, development charges from entrepreneurs *etc*.

Above cases point out the failure of respective PSU authorities to safeguard their financial interests. Audit observations and their repeated follow up by

* Letter No.: State Government, Finance Department (Audit Section) F.12(5)Fin./Audit/97 Dated 15.5.97

Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU Management periodically, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to recover the money and complete the exercise in a time bound manner.

The matter was reported to the Government/Management (July 2009) and their replies were awaited (September 2009).

4.19 Lack of remedial action on audit observations

Three Public Sector Undertakings did not take remedial action to address the deficiencies pointed out in audit.

A review of unsettled paras from Inspection Reports (IRs) pertaining to periods upto 2003-04 showed that there were three paras in respect of three Public Sector Undertakings (PSUs), which pointed out deficiencies in the functioning of these PSUs. As per the extant instructions given by State Government May 1997*, the PSUs are required to take remedial action within one month after receipt of IRs from Audit. However, no effective action has been taken to take the matters to their logical end, *i.e.*, to take remedial action to address these deficiencies. As a result, these PSUs have so far lost the opportunity to improve their functioning in this regard.

PSU wise details of paras are given below. The list of individual paras is given in **Annexure-13**.

Sl. No.	PSU Name	No. of paras
1.	Rajasthan Small Industries Corporation Limited	1
2.	Rajasthan State Seeds Corporation Limited	1
3.	Rajasthan State Industrial Development and Investment Corporation Limited	1
	Total	**3**

The paras mainly pertain to expenditure incurred in excess of estimated cost without obtaining approval of the competent authority, procurement of seed without required test and inaction in removing encroachment from industrial area *etc*.

Above cases point out the failure of respective PSU authorities to address the specific deficiencies and ensure accountability of their staff. Audit observations and their repeated pursuance by Audit, including bringing the pendency to the notice of the Administrative/Finance Department and PSU

* Letter No.: State Government, Finance Department (Audit Section) F.12(5)Fin./ Audit/97 Dated 15.5.97

Management periodically in the Audit Committee Meetings, have not yielded the desired results in these cases.

The PSUs should initiate immediate steps to take remedial action on these paras and complete the exercise in a time bound manner.

The matter was reported to the Government/Management (July 2009) and their replies were awaited (September 2009).

4.20 Follow-up action on Audit Reports

4.20.1 Replies outstanding

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 reviews included in the Audit Reports within three months of their presentation to the Legislature.

Though the Audit Report for the year 2007-08 was presented to State Legislature in February 2009, in respect of one performance review and five draft paragraphs out of five performance reviews and 22 draft paragraphs, which were commented in the Audit Report, two[*] departments had not submitted explanatory notes up to September 2009.

4.20.2 Response to Inspection Reports, Draft Paras and Performance Audit

Audit observations noticed during audit and not settled on the spot are communicated though 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 six 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 2009 pertaining to 22 PSUs disclosed that 2,114 paragraphs relating to 645 IRs involving monetary value of Rs. 1,981.71 crore remained outstanding at the end of September 2009. Even initial replies were not received in respect of 154 paragraphs of 10 PSUs. Sector-wise break up of IRs and audit observations as on 30 September 2009 is given in **Annexure-14**. In order to expedite settlement of outstanding paragraphs, Audit Committees were constituted in 13 out of 29 PSUs. 28 Audit Committee meetings were held during 2008-09 wherein position of outstanding paragraphs was discussed with executive/administrative departments to ensure accountability and responsiveness.

Similarly, draft paragraphs and 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. Both the performance audits have been discussed in the Exit Conference. It was, however, observed that 13 draft paragraphs forwarded to various departments

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* Industries (one draft paragraph and one general paragraph) and Mines (three draft paragraphs and one general paragraph).

between June and August 2009, as detailed in **Annexure-15** had not been replied to so far (September 2009).

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 to 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 the audit observations is revamped.

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Countersigned

V. Rai

NEW DELHI **(VINOD RAI)**
The Comptroller and Auditor General of India