Overview

1. Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Rajasthan had 29 working PSUs (26 companies and 3 Statutory corporations) and 4 non-working PSUs (all companies), which employed 0.85 lakh employees. The working PSUs registered a turnover of Rs. 17,510.67 crore for 2008-09 as per their latest finalised accounts. This turnover was equal to 9.12 *per cent* of State GDP indicating an important role played by State PSUs in the economy.

Investments in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 33 PSUs was Rs. 28,485.12 crore. It grew by over 102.35 *per cent* from Rs. 14,077.15 crore in 2003-04. Power Sector accounted for nearly 93 *per cent* of total investment in 2008-09. The Government contributed Rs. 2,792.11 crore towards equity, loans and grants/subsidies during 2008-09.

Performance of PSUs

During the year 2008-09 as per their latest finalised accounts, out of 33 working PSUs, 13 PSUs earned profit of Rs. 348.40 crore and three PSUs incurred loss of Rs. 34.41 crore while five power sector PSUs incorporated in 2000-01 prepared accounts on No Profit No Loss basis by showing revenue gap as recoverable from the State Government which was not as per Generally Accepted Accounting Principles (GAAP) prevailing in the country. The major contributors to profit were Rajasthan State Mines and Minerals Limited (Rs. 183.45 crore) and Rajasthan State Industrial Development and Investment Corporation Limited (Rs. 131.21 crore). Heavy losses were incurred by Rajasthan State Road Transport Corporation (Rs. 23.57 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of Rs. 1005.55 crore were controllable with better management.

Thus, there is tremendous scope to improve the functioning and enhance profits. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Out of 22 accounts finalised during October 2008 to 30 September 2009, 21 accounts received qualified certificates. CAG gave adverse certificates on four accounts of PSUs relating to power sector during the supplementary audit. There were 18 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

All working PSUs were finalizing their accounts yearly on regular basis except Ajmer Vidyut Vitran Nigam Limited (AVVNL) and Kota City Transport Services Limited. AVVNL could not finalize its accounts due to non compliance with Accounting Standards and other observations of Statutory Auditors, while Kota City Transport Services Limited was a new PSU. There were four non-working PSUs of which two PSUs had arrears of accounts for one year. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

Discussion of Audit Reports by COPU

The Audit Reports (Commercial) for 2006-07 onwards are yet to be discussed fully by COPU. These two audit reports contained 10 reviews and 42 paragraphs of which three reviews and 11 paragraphs for the year 2006-07 have been discussed.

(Chapter 1)

2. Performance Audit relating to Government Companies

Performance Audit relating to **'Fuel Management' in Rajasthan Rajya Vidyut Utpadan Nigam Limited** and **'IT Audit on Computerisation of revenue billing system' by Ajmer Vidyut Vitran Nigam Limited** were conducted. Executive summary of audit findings is given below.

Fuel Management in Rajasthan Rajya Vidyut Utpadan Nigam Limited

The Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL) operates two coal based thermal power stations at Kota (1,045 MW) and Suratgarh (1,250 MW) and two gas based thermal power stations at Ramgarh (110.5 MW) and Dholpur (330 MW). Fuel comprising of coal and gas were major component for generation of electricity. Fuel cost (Rs. 14,336.59 crore) constituted 88.69 *per cent* of total generation cost (Rs. 16,165.25 crore) during 2004-05 to 2008-09 in respect of Kota, Suratgarh and Ramgarh power stations. The performance audit was conducted to ascertain fuel efficiency in power generation, economy in procurement and transportation, effectiveness of quality assurance and energy audit, actual consumption against norms, inventory management and financial management with reference to fuel.

Procurement of fuel

Coal is allotted by Standing Linkage Committee (SLC) from different collieries. As against required quantity of 647.53 lakh MT, SLC allotted 691.50 lakh MT but the actual receipt thereagainst was only 592.68 lakh MT during 2004-09. Since RRVUNL had projected the requirement above the Central Electricity Authority targets for generation, there was no shortfall. The cost of coal was Rs. 7,584.73 crore. There was decrease in linkages from superior coal fields. The beneficiation of coal was not 100 *per cent* resulting in savings of Rs. 24.79 crore not achieved.

The tie-up with GAIL for supply of gas was not for adequate quantity. This resulted in loss of generation of 1,426.64 MUs as the Plant Load Factor ranged between 36 and 45 as against 70 *per cent* fixed by Rajasthan Electricity Regulatory Commission (RERC).

Transportation of fuel

The coal is transported through Railway wagons. Out of total cost of Rs. 13,847.14 crore on coal fuel, transportation accounted for Rs. 6,262.41 crore (over 45 *per cent*). No norm for transit loss was fixed. Taking the norm of 1.5 *per cent* fixed for contractor of beneficiated coal, the excess transit loss worked out to Rs. 49.95 crore. The RRVUNL didn't follow the proper quality assurance procedures. The claims for Rs. 94.12 crore for under loading and over loading were not preferred/adjusted.

Consumption of fuel

The actual consumption of coal and gas was higher than the norms fixed by RERC.

The excess consumption of coal due to higher Station Heat Rate than the norms was valued at Rs. 245.10 crore.

Inventory management

Safe and critical level of coal stock was prescribed at 15 days and 7 days respectively. On several occasions the coal level remained critical during 2006-07 to 2008-09.

Financial management

The financial management was deficient as instances of delay in realisation of claims, payment for coal supplies *etc*. were noticed.

Energy audit

Energy audit was not undertaken for reducing the heat losses.

Conclusion and Recommendations

Fuel management system of RRVUNL did not meet the expectation of being operated economically and efficiently. System of procurement and transportation of fuel was deficient and the actual consumption of coal and gas was higher. There was considerable scope for improvement in performance of fuel management system to enhance overall operational performance. The review contains eight recommendations which include close monitoring of transit losses and analysis of reasons for excess consumption of coal for taking remedial measures.

(Chapter 2.1)

IT Audit on Computerisation of revenue billing system by Ajmer Vidyut Vitran Nigam Limited

Ajmer Vidyut Vitran Nigam Limited (Company) outsourced (May 2005) the work of design, development and maintenance of billing software, data processing of billing data, printing of bills and preparation of various management reports in respect of various circles to two service providers viz; Business Information and Processing Services (BIPS) and Aditi Computers. An Information Technology Audit on billing system of the Company was attempted to ascertain that the Company, before awarding the work of its core activity of revenue realisation, has adequately addressed the associated risks of outsourcing. Further, the audit was also conducted to examine, analyse and to assess adequacy and effectiveness of billing process and revenue realisation.

Computerisation of revenue billing of the Company was assessed against the Tariff for supply of electricity-2004, and Terms and Conditions of Supply

(TCOS) -2004, Rules, notifications, directions issued by the Rajasthan Electricity Regulatory Commission (Commission) and orders and circulars issued by the Company. The data available with the Company was analysed with the help of Computer Assisted Audit Techniques.

Though the system developed by both the service providers was adequate as regards to processing of billing data and generation of electricity bills yet there were many shortcomings leading to incorrect billing as well as not achieving full potential of IT applications. In a broader way, observations of audit have been categorised as deficiencies of general controls, system design deficiencies, deficient mapping of business rules, application controls such as deficient input controls and validation checks etc. Besides, some contractual deficiencies, non-reconciliation of data available in the system with financial statements of the Company were also noticed. Need to establish an effective internal control mechanism as regards to IT applications was also felt.

(Chapter 2.2)

3. Performance Audit relating to Statutory Corporation

Performance Audit on the **'Functioning of Rajasthan State Road Transport Corporation'** was conducted. Executive summary of audit findings is given below.

The Rajasthan State Road Transport Corporation (Corporation) provides public transport in the State through its 48 depots. The Corporation had fleet strength of 4,875 buses as on 31 March 2009 and carried an average of 10.62 lakh passengers per day. It accounted for a share of 17.31 *per cent* in public transport with rest coming from private operators. The performance audit of the Corporation for the period from 2004-05 to 2008-09 was conducted to assess efficiency and economy of its operations, ability to meet its financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the Corporation.

Finances and Performance

The Corporation suffered a loss of Rs. 88.16 crore in 2008-09 without considering prior period adjustments. Its accumulated losses and borrowings stood at Rs. 602.51 crore and Rs. 210.24 crore as at 31 March 2009, respectively. The Corporation earned Rs. 18.01 per kilometre and expended Rs. 19.47 per kilometre in 2008-09. Audit noticed that with a right kind of policy measures and better management of its affairs, it is possible to increase revenue and reduce costs, so as to earn profit and serve its cause better.

Declining Share

Of 19,268 buses licensed for public transport in 2008-09, about 25.30 *per cent* belonged to the Corporation. The percentage share declined marginally from 25.85 *per cent* in 2004-05. However, since the load factor (percentage of passengers carried to seating capacity) of buses of private operators was higher, the percentage of the Corporation in public transport was estimated at 17.31 *per cent* in 2008-09 which declined from 18.27 *per cent* in 2004-05. The decline in share was mainly due to its operational inefficiency (leading to non-availability of adequate funds to replace/add new buses) and lack of support from the State Government. Nonetheless, vehicle density (including private operators buses) per one lakh population increased marginally from 28.75 in 2004-05 to 28.89 in 2008-09 indicating stability in the level of public transport in the State.

Vehicle profile and utilisation

Corporation's buses consisted of own fleet of 4,680 buses and 195 hired buses. Of its own fleet, 514 (10.98 *per cent*) were overage, *i.e.*, more than eight years old. The percentage of overage buses declined from 19.70 *per cent* in 2004-05 due to acquisition of 2,044 new buses during 2004-09 at a cost of Rs. 236.09 crore. The acquisition was primarily funded through net addition of loans (Rs. 61.71 crore) and deferment of payment of current liabilities.

Corporation's fleet utilisation at 93.48 *per cent* in 2008-09 was above All India Average (AIA) of 92 *per cent*. Its vehicle productivity at 388 kilometres per day per bus was above the AIA of 313 kilometres. Similarly, its load factor at 71.83 *per cent*, remained above the AIA of 63 *per cent*. However, the Corporation could not achieve its own targets of vehicle productivity and load factor though the same were fixed after taking into consideration the local factors and constraints. Though, the Corporation did well on operational parameters, its 87 *per cent* schedules of buses were unprofitable due to high cost of operations and non-reimbursement of full cost of free/concessional passes by the Government. Corporation's performance on preventive maintenance was poor with only about 42-43 *per cent* maintenance done on time.

Economy in operations

Manpower and fuel constitute 75.69 *per cent* of total cost. Interest, depreciation and taxes account for 14.05 *per cent* and are not controllable in the short term. Thus, the expenditure control has to come from manpower and fuel. The Corporation succeeded in reducing the manpower per bus from 5.21 in 2004-05 to 4.70 in 2008-09. However, the expenditure on repairs and maintenance was Rs. 97.39 crore (Rs. 2.08 lakh per bus) in 2008-09, of which nearly 89 *per cent* was on manpower. The Corporation did not attain its own fuel consumption targets resulting in excess consumption of fuel valued at Rs. 30.42 crore during 2004-09.

The Corporation has just 195 hired buses where bus owners provide buses with drivers and incur all expenses. The Corporation provides conductors and makes payment as per kilometres operated. The Corporation earned a net profit of Rs. 3.53 crore from hired buses. As this arrangement has the potential to cut down the cost substantially, the Corporation needs to explore possibility to replace overage buses by hired buses in future.

Revenue Maximisation

Corporation's staff at depot and Head office conduct enroute checking of buses. The ticket less travel reported by Headquarters staff was much higher than that reported by depot level staff. This is one area for the Corporation to plug leakage of revenue. The Corporation also incurred a loss of Rs. 31.60 crore during 2004-09 due to non-reimbursement of free/concessional passes by the Government. Further, the Corporation has about 16 lakh Square metres of land. As it mainly utilises ground floor/ land for its operations, the space above can be developed on public private partnership basis to earn steady income which can be used to cross-subsidise its operations. The Corporation has not framed any policy in this regard.

Need for a regulator

The fare per kilometre stood at 52 paise from 28 June 2008. Though the Government approves the fare increase, there is no scientific basis for its calculation. The Corporation has also not formed norms for providing services on uneconomical schedules. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical routes and address grievances of commuters.

Inadequate monitoring

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. The monitoring by the Board of Directors fell short as it did not take/recommend suitable measures to control the cost and increase the revenue.

Conclusion and Recommendations

Though the Corporation is incurring losses, it is mainly due to its high cost of operations and negligible reliance on hired buses and not due to low fare structure. The Corporation can control the losses by resorting to hiring of buses and tapping non-conventional sources of revenue. This review contains seven recommendations to improve the Corporation's performance. Hiring of buses, creating a regulator to regulate fares and services and tapping non-conventional sources of revenue by undertaking PPP projects are some of these recommendations.

(Chapter 3)

4. Transaction audit observations

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

Loss of Rs. 652.42 crore in six cases due to non compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 4.1, 4.4, 4.6, 4.8, 4.11 and 4.12)

Loss of Rs. 5.52 crore in six cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 4.3, 4.7, 4.9, 4.13, 4.14 and 4.15)

Loss of Rs. 3.50 crore in three cases due to defective/deficient planning.

(Paragraphs 4.2, 4.5 and 4.17)

Loss of Rs. 0.27 crore in one case due to lack of fairness/transparency and competitiveness in operations.

(Paragraph 4.10)

Loss of Rs. 19.96 crore due to inadequate/deficient monitoring.

(Paragraph 4.16)

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

Inaction on the part of **Jaipur, Ajmer and Jodhpur Vidyut Vitran Nigams Limited** in effecting recovery of PPCA charges led to loss of Rs. 650.50 crore.

(Paragraph 4.1)

Decision of **Rajasthan Rajya Vidyut Prasaran Nigam Limited** 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.

(Paragraph 4.3)

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 **Rajasthan State Industrial Development and Investment Corporation Limited.**

(Paragraph 4.9)

Rajasthan State Mines and Minerals Limited sustained a loss of Rs. 2.41 crore due to faulty agreement.

(Paragraph 4.13)

In absence of effective system of billing and follow up for recovery by **Rajasthan State Road Development and Construction Corporation Limited**, the dues from sundry debtors for completed works accumulated to the tune of Rs. 19.96 crore.

(Paragraph 4.16)