Chapter III

3. 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

Rajasthan Rajya Vidyut Prasaran Nigam Limited

3.1 Non-adherence of procedure/system

The Company by not following the laid down system continued to make payment at higher rates on the basis of invoices raised by the supplier leading to excess payment of ₹ 2.10 crore which was recovered at the instance of Audit.

As per system in vogue, the Transmission Line Procurement Circle (TLPC) of Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) places work order for procurement of transmission line material. The TLPC issues dispatch instructions in triplicate to the supplier, consignee office and Centralised Payment Cell (CPC). The payment of invoices raised by the supplier is made by the CPC on the basis of challans/material receipt notes received from unit consignee offices and price variation instructions conveyed by the TLPC.

As per the terms and conditions of purchase order (TN 3649), the Teracom Limited (supplier) was free to raise the invoices with the CPC at purchase order prices after certifying that there had been no reduction in the basic price of aluminium wire rods and galvanized steel wire. However, to claim price variation, the supplier was to furnish documentary evidence in the shape of price circulars (duly authenticated) issued by the Cable and Conductor Manufacturer's Association of India (CACMAI) for approval by TLPC. Further, the supplier was also to furnish undertaking on a non-judicial stamp paper of Government of Rajasthan that in case of decrease in basic prices, the same shall be immediately brought to the notice of the purchaser to revise the prices accordingly.

We noticed that the basic prices of aluminium wire rods and galvanized steel wire started declining from October 2008 but the supplier raised all the invoices at purchase order prices without incorporating the effect of negative price variation and submitted false undertaking that the prices have not gone downward. We further noticed that the intimation dated 29 December 2008

and 29 June 2009 by TLPC to CPC conveying the reduction in prices were not acted upon by CPC while making payments to the supplier. Even the communication dated 4 December 2009 by TLPC seeking confirmation from CPC whether payments were being made at reduced prices did not alert the CPC to check up and recover the excess payments that were being made to the supplier. The Company does not have a system in place to monitor the movement of prices of commodities that were being bought from the supplier to ensure that the reduction in prices were passed on to the Company as per the terms and conditions of the purchase order. Further, the Company does not have a system in place to correlate the prices of same commodities being supplied by yet another supplier. It went on paying the supplier on the original rates on the basis of false certificates and the undertaking by the supplier that the prices were not falling.

However, on being objected to by audit about excess payment of ₹ 2.10 crore as compared to the market prices, the Company recovered the same from the supplier in September 2010.

The Government while accepting the fact of overpayment replied (March 2011) that it was the duty of the supplier to raise bills as per reduced prices and the excess payment was released on submission of false undertaking and false price variation certificates. It further stated that the excess payment have been recovered (September 2010) from the supplier. However, the reply is silent about the fixation of responsibility for not acting upon the advise of TLPC to CPC in December 2008 and June 2009 about the reduction in prices and the issue of investigation about the non-receipt of above intimation by CPC.

Rajasthan Renewable Energy Corporation Limited

3.2 Loss due to excess payment of subsidy

The Company failed to safeguard its financial interests by incorporating a vague condition of providing subsidy in the work order without obtaining concrete concurrence of MNRE and sustained loss of ₹ 92.63 lakh due to excess payment of subsidy.

Rajasthan Renewable Energy Corporation Limited (Company) acts as a nodal agency on behalf of the Government of Rajasthan (GOR) for implementation of centrally sponsored Rural Electrification Programme through installation of Solar Domestic Lighting System as per the guidelines issued by Ministry of New and Renewable Energy (MNRE). The Company implemented Solar Photovoltaic Programme (SPV) in 2003-04 to install Domestic Lightening System (DLS) and Street Light System as per the instructions issued (28 March 2003) by MNRE. In accordance with the instructions of MNRE, the Company awarded (8 August 2003) work orders to REIL and TATA BP (contractors) for installation of 5000 and 2500 DLS. The terms and conditions

of work orders for sharing the cost of DLS stipulated that subsidy of ₹ 5500 or as sanctioned by MNRE/GOR per DLS shall be provided by the Company.

The Company enhanced (November 2003) the work order quantity of REIL and TATA BP by 1000 and 1250 DLS respectively on the condition that MNRE sanction was awaited and in case there is any change in targets/subsidy pattern, then financial implications if any, shall be borne by REIL and TATA BP, which was accepted by them.

Our scrutiny of the records revealed that MNRE issued (11 December 2003) guidelines for implementation of SPV programme 2003-04 with revised subsidy pattern, limiting it to ₹ 4550 per DLS instead of ₹ 5500 in 2002-03. It was noticed that the contractors had installed 9750 DLS SPV systems by December 2003 and the Company paid the subsidy portion at the rate of ₹ 4550 per DLS system, as released by MNRE. However, the Contractors claimed the shortfall of ₹ 950 per DLS system on the basis that even if the amount of subsidy has been reduced by the MNRE, then the GOR or the Company was liable to make payment of the reduced portion of subsidy as per work order condition. The Company approached (January 2004) MNRE through GOR for compensation of differential amount of subsidy but the same was rejected (July 2004) on the grounds that this amount was not committed by it.

We further noticed that the Company rejected the claims of contractors (2004-2006) due to rejection by MNRE and GOR. However, on regular pursuance by the contractors during this period, the Company again approached (25 September 2009) GOR for allocation of funds under State Plan of Rural Electrification Programme to settle this liability but the same was refused (November 2009) by Finance Department. On refusal by Finance Department, the matter was placed (December 2009) before Board of Directors (BOD) wherein this liability was admitted and it was resolved to compensate the contractors from the profits of the Company. Accordingly, the Company released (January 2010) the payment of ₹ 92.63 lakh.

Thus, the Company failed to safeguard its financial interests by incorporating a vague condition of providing subsidy in the work order without obtaining concrete concurrence of MNRE and further, by releasing subsidy for enhanced quantity despite clear cut acceptance of the clauses by the contractors.

The Management while accepting the facts stated (October 2011) that the claim of subsidy difference was settled after approval of BOD of the Company.

Rajasthan State Ganganagar Sugar Mills Limited

3.3 Loss due to defective planning in launching heritage liquor

Defective planning in launching heritage liquor led to excessive production as well as procurement of tailor made packing and packaging material without requirement.

The Rajasthan State Ganganagar Sugar Mills Limited (Company) decided (2005) to launch new heritage liquor brands. The Board of Directors (BOD) approved the proposal (June 2005) with the directions to develop one brand as a test case and after exploring the possibilities of its marketing and revenue generation, a detailed project report with cost benefit analysis was to be prepared for launching heritage liquor brands. Accordingly, the Company prepared the feasibility report and it was envisaged to develop five brands of heritage liquor with capital investment of ₹ 78.30 lakh. The actual capital outlay towards infrastructure creation for launching of heritage liquor was ₹ 1.08 crore. The Company commenced the production of eight brands with two to three category for each brand from 2005-06 onwards.

The Company produced 249102[1] bulk litre (BL) of heritage liquor of various brands till the production was stopped in May 2008. The sale of heritage liquor during 2005-06 to 2010-11 was 191269[2] BL. Further, as on 31 March 2011, 47090 BL of heritage liquor valued at ₹ 2.02 crore was lying at Jhotwara distillery and with the Rajasthan State Beverages Corporation Limited on behalf of the Company. The Company also awarded (2005-06) orders for supply of tailor made packing and packaging material for heritage liquor. The whole of the packing and packing material was procured during 2005-08 and the material valuing ₹ 1.03 crore as on 31 March 2011 was lying unused in the stores due to stoppage of production. The Company constituted (2010) an enquiry committee to investigate into the matter of procurement of huge quantity of packing and packaging material without requirement as the sale and production of heritage liquor did not commensurate with the procured packing and packaging material.

We observed that the Company did not follow the BOD directives of developing only one brand as a test case to explore the market demand of heritage liquor and commenced production of eight brands in full swing at one stretch without assessing the demand of heritage liquor among consumer. Further, the Company despite low sale ratio continued production till May 2008 which led to accumulation of inventory, whose value and quality deteriorates with passage of time as the ingredients include blend of various spices.

We further observed that the decision for procurement of huge quantity of packing and packaging material for heritage liquor without requirement and

1 2005-06 – 6220 BL, 2006-07 – 111643 BL, 2007-08 – 128572 BL and 2008-09 – 2667 BL.

2 2005-06 – 288 BL, 2006-07 – 50711 BL, 2007-08 – 46271 BL, 2008-09 – 30942 BL, 2009-10 – 22633 BL and 2010-11 40424 BL

low sale was a sign of gross mismanagement and defective planning as the material was tailor made and could not be used for packing of other country liquor produced by the Company.

Thus, the defective planning in launching heritage liquor led to excessive production as well as procurement of tailor made packing and packaging material without requirement which led not only to blockage of funds to the tune of ₹ 2.02 crore but also idle expenditure of ₹ 1.03 crore invested in packing and packaging material.

The Management stated (July 2011) that private distillers came up with similar brand names with low quality, cheaper products in the market and utilised the demand generated by the Company for its product and thus snatched sales. It further stated that inventory of packing and packaging material was required due to specific design, size and inscription on them regarding Royalty/Kingship and are saleable in the market in case the heritage liquor project is finally closed off. The reply is not convincing as the Company produced eight brands of two to three category for each brand against directions of BOD to produce one brand as test case and further besides knowledge of low market availability due to snatching of sales by the private players, continued production of heritage liquor which led to heavy accumulation of stock and the whole stock could not be disposed off by September 2011. Further, the reply as regards to inventory of packing and packaging material is factually incorrect in view of deterioration/impairment of the material with passage of time and enquiry committee set-up for investigation of this. Further, the packing and packaging material was tailor made specifically for heritage liquor of the Company and could not be used for other purpose or for sale in the market.

Rajasthan State Mines and Minerals Limited

3.4 Non-compliance of statutory requirements led to unproductive expenditure towards land tax and dead rent.

The Company paid dead rent and land tax amounting to ₹ 1.10 crore due to non-compliance of statutory requirements and defective asset management planning.

The Strategic Business Unit and Profit Center-Bikaner (SBU&PC) of Rajasthan State Mines and Minerals Limited (Company), engaged in the mining and marketing of gypsum mineral could not get surrendered the Kaonee and Kundal mines till March 2011 despite the fact that the mines were exhausted in January 2006 itself and paid ₹ 1.10 crore towards dead rent and land tax during the period 2006-11 on these mines.

We noticed that the Kundal mine was not got transferred in the name of the Company after its amalgamation with e-RSMDC (2001) which prevented it from surrendering to the Department of Mines and Geology (DMG), Government of Rajasthan while in case of Kaonee mine, the surrender

application (9 January 2009) was not accepted for non-submission of Progressive Mine Closure Plan (PMCP) as required under Mineral Concession Rules 1960 (MCR). The SBU&PC requested (March 2010) DMG for cancellation of Kaonee mine which was accepted in April 2011 while the Kundal mine could not be surrendered for non-compliance of the requirements of MCR 1960.

We observed that the MCR 1960 was amended in April 2003 and accordingly the requirement of PMCP was to be complied within 180 days. However, the Company continued mining operations till January 2006 by violating the rules and as a result the mine could not be surrendered after depletion of reserves. Further, the asset management planning was also deficient as the Company made no efforts to transfer the assets in its name after amalgamation with e-RSMDC.

Thus, the Company was not vigilant towards statutory compliance and incurred unproductive expenditure of ₹ 1.10 crore towards dead rent and land tax on depleted mines.

The Government while accepting the facts stated (September 2011) that the mining lease of Kaonee mine has been cancelled by the DMG after forfeiting the security deposit in April 2011 and the matter of executing mining lease in favour of Company for Kundal mine has been taken up with DMG.

3.5 Unproductive expenditure of premium charges for mines held on agency basis

The Company did not initiate any action to surrender the 12 areas where there was no ab-initio planning to undertake mining operations and incurred unproductive expenditure of ₹ 1.92 crore towards payment of minimum premium charges.

Rajasthan State Mines and Minerals Limited (Company) accepted (April 2005) 27 areas[3] of five *hectare* each from Government of Rajasthan on agency basis for Gypsum excavation in Bikaner, Hanumangarh, Sriganganagar and Nagaur District for a period of five years. The terms and conditions of agency *inter alia* provided that in addition to statutory levies, the Company shall pay ₹ 20 per tonne as premium charges on gypsum dispatched every month subject to minimum monthly premium charges of ₹ 40000 for 2000 MT.

The Company accepted these areas without conducting any preliminary study as to whether it would be able to operate in all the areas with the minimum excavation stipulated in the State Government order. This deficiency was commented in the Report of the Comptroller and Auditor General of India (Commercial) Government of Rajasthan for the year ended 31 March 2006. The matter was discussed (15 May 2008) in Committee on Public Undertakings where the Company supplemented its earlier reply stating that due to sudden closure of other mines, it had no option except to accept the

3 Bikaner district (13 areas), Hanumangarh district (10 areas), Sriganganagar district (3 areas), Nagaur district (one area).

areas and condition of payment of minimum premium charges to fulfil the market demand.

Our scrutiny (January 2011) further revealed that the Company never undertook mining operations in six areas[4] of Bikaner district and even did not take possession of another six areas[5] of Hanumangarh and Sriganganagar district. The Company approached the State Government (May 2007) to withdraw the condition of payment of minimum premium charges for those areas where mining operations were not undertaken by it since award of agency. However, the State Government granted concession (August 2010) in payment of minimum premium charges for first six months only for those areas where the Company neither submitted approved mining plan nor excavated the area, being the minimum time required to commence mining operations as per clause 2 of the agency notification. As the Company neither complied with the terms and conditions of agency nor carried out mining operations, the State Government *suo-moto* cancelled (7 June 2008) the agency on six areas of Bikaner district and issued demand notice (January 2010) for payment of minimum charges on these areas. Demand notice for six other areas of Hanumangarh and Sriganganagar district was also issued in May 2010 and the Company paid (October 2010) dues amounting to ₹ 1.92 crore[6] on account of minimum premium charges on these 12 areas.

We observed that the project management planning of the Company was weak as it neither prepared mining plans nor commenced mining activities in the 12 areas despite knowing the fact that these areas were available only for a limited period of five years. The Company was also apathetic to safeguard its financial interests by not initiating any action to surrender the areas where there was no *ab-initio* planning to undertake mining operations. Further, it continued to rely on the assertion that the State Government will provide relaxation in the condition of payment of minimum premium charges where the Company had not undertaken mining activities.

Thus, weak project planning coupled with defective financial management led to unproductive expenditure of ₹ 1.92 crore towards payment of minimum premium charges without any mining activity on 12 areas.

The Government while accepting the facts stated (September 2011) that the premium charges paid by the Company will ultimately go to the State Government and the Company had got some relief as six areas were cancelled by the Government. The reply is not proper as the Company should have considered its financial interest instead of government exchequer and besides it continued to hold the 12 areas without any *ab-initio* planning to operate and excavate gypsum on these areas.

4 Kundal-A, Nursar-A, Jalasar-2, Khinchiya-2, Mehrasar-A, Mehrasar-B.

5 Bhagsar, Mahila Ki Dhani, Khoda, Fogla, Devasar, Gusainsar.

6 ₹ 74.40 lakh for six mines of Hanumangarh and Sriganganagar district and ₹ 1.18 crore for six mines of Bikaner district.

Rajasthan State Road Development and Construction Corporation Limited

3.6 System lapses in processing the tenders for toll collection

The Company could not finalise the tenders for toll collection due to delay in inviting tenders and unrealistic and irrational fixation of reserve price.

Rajasthan State Road Development & Construction Corporation Limited (Company) acts as nodal agency for construction of bridges, buildings and other industrial structures funded by Government of Rajasthan. The Company is also engaged in construction of privately financed infrastructure projects, mainly highways, bridges and rail over bridge on Built Operate and Transfer (BOT) system of funding.

During the period 2007 to 2010, the Company was collecting toll on nine[7] BOT projects with right to recover the investment by levy of user fee (toll) during concession period. The Company collects toll in accordance with Rajasthan Road Development Act, 2002 by inviting tenders through contractors and in absence of any such contract toll collection is being done departmentally through ex-servicemen societies.

The Company implemented new toll policy in March 2007. Audit analysed the system of toll collection keeping in view the toll tax rules and new toll policy framed by the Company.

Delay in finalisation of tenders

The toll tax rules and toll policy of the Company prescribe that notice inviting tender (NIT) for toll collection contract will be issued every year which shall be finalised by a committee. The following deficiency was noticed wherein delay in finalisation of tenders by the Company led to departmental toll collection which was lower than the contractual toll collections.

In case of Sriganganagar-Hanumangarh BOT project, the Company issued NIT on 1 June 2009 for the ongoing toll collection contract, which was going to expire on 1 July 2009 but no response was received from the bidders. A fresh NIT was again issued on 15 June 2009 and the bids were opened on 29 June 2009, wherein it was found that the highest bidder has quoted conditional tender. The Company intimated (30 June 2009) the highest bidder to withdraw the condition but he refused (7 July 2009) and these rates were offered (13 July 2009) to the second highest bidder which was not agreed by him. Consequently, the tender finalisation committee gave (16 July 2009) its recommendations in favour of the second highest bidder but the Company belatedly awarded the contract on 6 August 2009 at the rates quoted by him.

7 1. Massi Bridge, 2. Chala-Neemkathana, 3. Chomu-Ajitgarh, 4. Alwar Bhiwadi, 5. Mangalwar-nimbahera, 6. Banswara-dhaod, 7. Sriganganagr-Hanumangarh, 8. Hanumangarh-Pilibanga-Suratgarh, and 9. Bikaner-Jaiselmar-Sriganganagar.

Thus, it could be seen that the Company delayed in finalisation of tender in favour of second highest bidder after refusal of the highest bidder and further delayed in awarding contract to the second highest bidder at his quoted rates. The Company incurred loss of ₹ 7.12 lakh[8] due to delay in awarding the contract to the second highest bidder after approval of tender committee on the basis of rates finalised in new contract.

We observed that the Company was well aware of the fact of low departmental toll collection and procedural delays in finalisation of tenders, yet the tender for this project was invited when the ongoing contract was going to be expired in a shorter period. This resulted in delay in finalisation of new toll collection contract and loss to the Company due to low departmental toll collection.

The Management accepted (October 2011) the fact of delay and stated that the delay was in the process of finalisation of tenders at various stages which was beyond the control.

Irrational system of reserve price fixation

The toll policy (March 2007) framed by the Company prescribes that reserve price of the bid shall be finalised by a committee based on the traffic census conducted by the Resident Engineer (RE) for seven days.

Our scrutiny revealed that the new toll policy was deficient as regards to the proper system of fixation of reserve price, which resulted into unrealistic and irrational fixation of reserve price and consequently low response from interested parties. The case to case deficiencies noticed by us are as below:

1. The RE in view of substantial completion of newly executed BOT project (Bikaner-Jaisalmer-Sriganganagar) by 20 December 2009, intimated (10 September 2009) to initiate the process of toll collection and submitted (27 October 2009) reserve price of ₹ 5.25 crore on the basis of project report. The project was completed on 31 December 2009 and the Company decided to go for departmental toll collection for first three months and to fix the reserve price on the basis of first one month toll collection. The RE proposed (1 February 2010) reserve price of ₹ 4.30 crore on the basis of highest one day toll collection during first month after considering all weather conditions and the designated committee also approved the same for issue of NIT. However, the Chairman directed (30 March 2010) to review the reserve price considering winter and summer traffic conditions and to continue with departmental collection for another three months. The RE again proposed (21 April 2010) reserve price of ₹ 3.22 crore on the basis of average daily collection of toll from 31 December 2009 to 20 April 2010 covering winter and summer season. The designated committee however, approved (3 May 2010) the previously recommended reserve price of ₹ 4.30 crore and the same was also approved by Chairman for issuing tenders (13 May 2010).The

8 Bid value of new contract ₹ 3 crore X 21/365 days *less* ₹ 17.39 lakh X 21/36 days (net departmental toll collection).

Company issued (18 May 2010) NIT and the contract was awarded in favour of highest bidder (₹ 5.56 crore) on 21 July 2010 for a period of one year.

Thus, irrational system of fixation of reserve price led to extension of departmental collection for next three months and the Company incurred loss of revenue of ₹ 1.10 crore[9] on the basis at which contract was finalised in favour of highest bidder.

The Management stated (October 2011) that the tender was invited after proper assessment of traffic and fixed the reserve price to avoid retendering in case of non-participation of bidders and to avoid un-necessary expenditure on NIT. The reply is not convincing as the designated committee and the Chairman approved the same reserve price as recommended by the RE earlier in February 2010.

2. The toll collection contract on Hanumangarh-Pilibanga-Suratgarh BOT project was expiring on 7 September 2008. The Company invited tenders for four times between 9 July 2008 and 19 November 2008 but no response was received from the bidders. We noticed that the RE recommended the reserve price of ₹ 5.01 crore on the basis of traffic census but the designated committee raised the reserve price to ₹ 5.76 crore on the basis of previous finalised contract. As no bids were received on first two occasions at the approved reserve price, the reserve price was lowered to ₹ 5.01 crore for next two tenders. However, no response from bidders was received even on the reduced reserve price. The Company finally invited tenders (11 February 2009) at reserve price of ₹ 4.60 crore (fixed on the basis of actual toll collection) and the contract was awarded to the highest bidder at ₹ 4.68 crore (11 May 2009).

In the instant case we observed that the rates finalised in the expiring contract (7 September 2008) were abnormally high but the designated committee neither gave cognizance to this very fact nor considered the reserve price recommended by the RE. Thus, unrealistic fixation of reserve price led to loss of revenue ₹ 50 lakh[10] on the basis of rates finalised in new contract.

The Management stated (October 2011) that the delay was due to follow up of the procedures for finalisation of reserve price, NIT and other approval of tender by competent authority.

9 Bid value of finalised contract ₹ 5.56 crore X 112/365 days *less* net departmental toll collection ₹ 60.96 lakh during 1 April 2010 to 21 July 2010.

10 Bid value of new contract ₹ 4.68 crore X 246/365 days *less* net departmental toll collection ₹ 265.45 lakh.

3.7 Imprudent decision led to loss of revenue

The Chairman did not extend the ongoing toll collection contract by three months as per prevailing rules despite knowing the fact of low departmental collection which led to loss of revenue of ₹ 35 lakh.

Rajasthan State Road Development and Construction Corporation Limited (Company) was collecting user fee (Toll) on Chala-Neemkathana Road as per agreement with State Public Works Department (PWD). The concession period was ending on 4 October 2010 and thereafter the road was to be handed over to PWD. The Company collects toll in accordance with Rajasthan Road Development Act 2002 through contractors and in absence of any such contract, toll collection is being done departmentally through ex-serviceman societies.

The Company awarded (24 May 2009) a toll collection contract on the aforesaid road for a period of one year ending on 23 May 2010 at a price bid of ₹ 5.34 crore. As per toll tax rules framed by the Company, the authority higher than the tender accepting committee, in exceptional cases can increase the toll contract for three months by increasing 7.5 *per cent* of the existing tender rate. Since the remaining concession period after expiry of this contract was only four months and 12 days, the Resident Engineer (RE) on request of present contractor recommended (February 2010) for extending the contract for remaining concession period instead of calling fresh tenders. However, the Chairman being the approving authority did not agree (May 2010) to the proposal on the pretext that remaining concession period after expiry of contract is not an exceptional case and toll tax rules allows for three months extension only. He further observed that even after extension for three months, departmental toll collection has to be made for remaining one month and 12 days and, therefore, it would be better to collect the toll departmentally for the whole period after expiry of the existing contract. The net departmental toll collection through ex-servicemen society during 24 May 2010 to 4 October 2010 was ₹ 1.60 crore[11].

We observed that the decision to go for departmental toll collection was not based on the merits of prevailing circumstances and was against the financial interests of the Company as departmental toll collection has always been lower in comparison to contractual earnings. The present contract was an exceptional case as the concession period was going to expire in four months and 12 days after completion of the present contract and the reserve price ₹ 2.01 crore fixed (March 2010) by the Company for inviting fresh bids was also lower than the revenue of ₹ 2.11[12] crore accruing to the Company, in case extension was granted to the existing contractor.

11 ₹ 15979784 (Revenue collected ₹ 17599637 *less* expenditure incurred ₹ 1619853).

12 ₹ 21074712 (₹ 53400000 X 107.5 *per cent* X134 days/365 days).

We further observed that extending the period of contract by three months, which is as per prevailing rules, would have been in financial interests of the Company and would have earned additional revenue of ₹ 34.60[13] lakh.

The Management stated (June 2011) that the decision regarding departmental toll collection was taken by competent authority as per the prevailing rules/practices and due to rainy season during departmental toll collection, the traffic flow on the road was reduced. The reply is not convincing as the Chairman had not implemented the rules in the best financial interest of the Company despite knowing the fact of low departmental collection. Further, the decision to go for departmental toll collection was also not judicious in view of rainy season during May to September as replied by the Company.

Rajasthan State Seeds Corporation Limited

3.8 Imprudent decision of providing subsidy on kernel

The Company provided additional subsidy of ₹ 600 per quintal against the policy of Government of India and sustained loss of ₹ 2.06 crore.

The department of Agriculture and Co-operation, Government of India (GOI) grants subsidy on marketing of certified groundnut seed (Pod) at the rate of 25 *per cent* of the cost of seed or ₹ 600 per quintal whichever is less.

In view of high demand for groundnut GG-20 seed in Kernel (Guli) form and high cost of certified seed, the Rajasthan State Seeds Corporation Limited (Company) decided (21 April 2005) to distribute groundnut seed in kernel (Guli) form to the farmers as truthful seed after getting it tested from the Seed Testing Laboratory (STL). The Company routed the proposal to the GOI through the State Government for providing subsidy on marketing of truthful seed (kernel) for 2008-09. This was accepted by the GOI in view of shortage of groundnut seed, low seed replacement and to enhance the productivity of groundnut seed as a special case.

We noticed that the Company sold 27997 quintal groundnut kernel seed during kharif/Zaid 2009 to the farmers by allowing subsidy of ₹ 1500 per quintal from own funds and ₹ 600 per quintal on the assumption of getting subsidy from the GOI. The Company requested the State Government (January 2009) for recommending to the GOI to grant subsidy on marketing of truthful groundnut seed for the year 2009 on the basis of subsidy received during 2008-09. However, the proposal was turned down by the State Government (March 2010) on the grounds that groundnut seed distributed during kharif 2009 was of sub-standard category and the GOI do not provide subsidy on marketing of truthful seed.

13 ₹ 534.00 lakh plus 7.5 *per cent* X 91/365 *less* net departmental toll collection i.e ₹ 159.80 lakh X 91/134.

We further noticed that the Company distributed 6333.20 quintal groundnut seed during Kharif 2010 by allowing subsidy of ₹ 600 per quintal and did not send the proposal for providing subsidy on the same on the grounds of rejection of claims for 2009.

We observed that the decision of the Company to provide additional subsidy of ₹ 600 per quintal to the farmers during kharif/Zaid 2009 was imprudent as it was well aware of the GOI's policy of granting subsidy on certified seed only. Further, allowing subsidy during Kharif 2010 was against financial prudence and lacks justification as the State Government had already turned down the proposal in 2009 itself.

We further observed that the GOI's decision to grant subsidy on groundnut kernel seed during kharif 2008-09 was an exceptional case to motivate the distribution of kernel seed and to enhance the productivity of groundnut due to shortage and low seed replacement. The GOI's decision cannot be considered as policy decision as the subsidy was exceptionally granted for Rajasthan State for the year 2008-09 under the ISOPAM[14] and Seeds Village Programme.

Thus, the decision of the Management to provide additional subsidy due to incorrect interpretation of GOI's order for granting subsidy caused substantial monetary loss of ₹ 2.06[15] crore to the Company.

The Government stated (July 2011) that the seed has already been sold by the time of rejection of subsidy claims by the GOI in 2009 and subsidy during kharif 2010 was allowed in anticipation of getting it under the National Agriculture Development Scheme. The reply is not convincing as the GOI allowed subsidy specifically for 2008-09 as an exceptional case and there was no assurance for subsequent years. It may be seen that the claim of the Company was not even forwarded to GOI by GOR in view of the policy of GOI for not providing subsidy on truthful seed.

3.9 Loss due to negligence in processing of groundnut seed

Negligence in processing of groundnut pods caused abnormal failure of seed and loss of ₹ 42.46 lakh.

Rajasthan State Seeds Corporation Limited (Company) is distributing groundnut seed in kernel (Guli) form since 2006-07 either by purchasing directly from the seed suppliers or by processing groundnut pods[16] into kernel. As the kernel seed is not a certified seed[17], it is sold by the Company as truthful seed[18] after getting it tested from the Seed Testing Laboratory (STL).

The Company purchased 5967.28 quintal groundnut pods from the seed growers during kharif 2009 at its Mohangarh and Mandore units between

14 Integrated scheme of oil seeds, pulses, oil palm and maize.
15 34330.20 quintal X ₹ 600 =₹ 2.06 crore.
16 Groundnut seed with shell.
17 Quality guaranteed by certification agency.
18 Quality guaranteed by producing agency.

November 2009 and January 2010. The pods were processed at Mandore unit for conversion into kernel between April 2010 and June 2010 and 2879.60 quintal kernel was obtained. The lot-wise samples of the kernel seeds were drawn and sent to STL Jodhpur for testing. However, the STL declared (May 2010 and June 2010) 1824.80 quintal seeds as of sub-standard category due to excessive percentage of dead seeds. As the sub-standard seeds could not be sold as truthful seed, the Company decided to auction the failed seeds on the proposal of Regional Manager Mandore unit. Accordingly, tenders were invited (December 2010) and 1812.54 quintal failed seeds were sold (February 2011) at ₹ 3351 per quintal whose procurement and processing cost to the Company was ₹ 5693.70 per quintal.

Our scrutiny of the records revealed that the Company constituted (December 2010) a committee to find out the reasons for abnormal failure of seeds at Mandore unit. The findings of the committee revealed (February 2011) that groundnut pods were processed for the first time at Mandore unit and the officers/staff at the plant were neither trained nor had adequate knowledge of the processing the groundnut pods. The report also mentioned that proper arrangements for spraying water on pods and drying the kernel were not available at the plant.

We observed that the findings of the committee did not highlight the negligence observed by the officers in processing of groundnut pods despite pointing out by the Managing Director and rather it provided a shelter to them on the logic of inadequate knowledge, lack of training and non-availability of proper processing arrangements.

We further observed that spraying of water on groundnut pods and drying of kernel are crucial steps in the processing as excess moisture absorption by the seed begins the germination process by activating its embryo and drying the seed thereafter also dries up the partially activated embryo, thereby converting the seed into a dead seed. However, the officers at Mandore unit overlooked this basic fact and the kernel with excessive moisture was packed which resulted into early germination of the seed and finally causing them into dead seeds.

This has not only resulted in failure of seeds but also deprived the farmers of availability of seeds at economical rate and loss of ₹ 42.46 lakh to the Company due to auction of failed seed at a price below its procurement and processing cost.

The Government stated (September 2011) that the moisture percentage of seed as indicated by STL was within permissible limits which eliminated the possibility of packing of kernels with high moisture content. It further stated that decortication of groundnut seed involves inherent risk and as such, kernels are not granted the status of certified seed by Government of India. The reply of the Government is factually incorrect as the findings of the committee and STL report clearly stated that due to excess absorption of moisture during processing by the seed, led to activation of embryo and its conversion into dead seed on being drying again.

Rajasthan Tourism Development Corporation Limited

3.10 Improper management of closed units created for tourism development

Lack of strategic planning and improper selection of sites led to non-utilisation of assets created for tourism development.

The Government of India (GOI) formulated National Tourism Policy in 2002 to develop tourism in India in a systematic manner, position it as a major engine of economic growth and to harness its direct and multiplier effect on employment and poverty eradication in an environmentally sustainable manner. Before the policy of 2002, the GOI had been framing various schemes in five year plans for promotion of tourism sector in which the land was to be provided by the State Governments free of cost and the cost of construction thereon was to be borne by the GOI. The State Governments were responsible for operation, maintenance and management of the assets so created.

Rajasthan Tourism Development Corporation Limited (Company) is the nodal agency for execution of tourism development project/schemes of GOI along with the operation and maintenance thereof on behalf of the Rajasthan State Government. The project estimates were prepared by the Company and submitted to the State Government for approval from GOI. After approval from GOI, the projects were executed, maintained and operated by the Company unless otherwise decided by the State Government.

As on 31 March 2011, the Company had 22[19] closed units created under various tourism development schemes. Of these 22 units, 16 units were constructed under GOI schemes, five units were transferred by the State Government and one unit was constructed by Company from its own sources as detailed in **Annexure-21**.

We conducted the audit of the system of identification of tourist destinations/sites and operation and maintenance of developed units under tourism development project/schemes to uncover the reasons of non-operation/closure.

Lack of strategic planning

The State Government notified (2 July 1997) the 'Rajasthan Tourism Disposal of Land and Properties by DOT/RTDC Rules 1997' for disposal of land and property by auction, allotment of lease or license or by joint venture agreement. The rules authorised the committee consisting of Managing

19 **(A) Projects constructed under centrally sponsored scheme-** (1) Café Menal, (2) Café Mandawa, (3) Café Mahensar, (4) Hotel Bhilwara, (5) Hotel Hanumangarh, (6) Yatrika Kaila Devi (7) Yatrika Salasar, (8) Motel Baap, (9) Motel Dhechu, (10) Motel Deeg, (11) Motel Deoli, (12) Motel Gogunda, (13) Motel Merta, (14) Motel Osia, (15) Motel Pindawara, and (16) Motel Sikar. **(B) Projects transferred by State Government** -(1) Café Appolo, (2) Hotel Purjan Niwas, (3) Hotel Haldighati, (4) Hotel Jaisamand and (5) Café Talvirach. **(C) Unit constructed by RTDC** (1) Motel Gulabpura.

Director (RTDC), Special Secretary (Revenue), Special Secretary (Finance-Revenue), Special Secretary (GAD) and Director Tourism, to finalise the disposal of properties.

The Company invited tenders to lease out the loss making units at various intervals during the period 2001-10 without conducting any study as regards market potential, tourist traffic or location advantage. However, the response of private parties remained poor and very few units could be given on lease.

The Company while considering the poor response from private parties decided (May 2007) to hire the services of PDCOR Limited for preparation of detailed report covering marketability and to attract the entrepreneurs to participate and develop the properties in order to strengthen the available infrastructure in tourism sector. However, the proposals of PDCOR Limited were not accepted and the Tourism department constituted a new committee (October 2007) to undertake disposal of units. The new Committee appointed (March 2008) Yes Bank Limited (consultant) for undertaking the market assessment and evaluation of Company's properties at a cost of ₹ 51 lakh. On the recommendations of consultant (November 2008), the Company decided (August 2009) to lease out five units having good potential and 12 units with less potential for a lease of 30 years and sent the proposal to the State Government (26 August 2009) for approval which is still awaited. We noticed that the Company was not required to send the proposal to the State Government and the committee constituted under Disposal Land and Properties Rules 1997 was competent to take the decision.

Thus, lack of strategic planning and due to improper selection of sites for construction of these units coupled with inaction on the part of management to implement the recommendations of the consultant, not only a sum of ₹ 3.33 crore remained blocked for a long period but also the company was deprived of revenue from tourism sector.

The Government stated (August 2011) that the Company being nodal agency for execution of tourism development projects on behalf of GOR, selected sites for construction of highway facility/yatrika/hotel where no facility was available and a small set-up can provide some basic facilities to the travellers, to fulfil the moto of promoting the lesser known destinations. It further stated that Company is seriously taking up the leasing out work of various closed and loss making properties as per the recommendations of the consultant. The reply is not convincing as the Company never operated/operated for a short period, most of the units created for providing facilities to travellers/tourists and thus the prime objective of GOI schemes was never fulfilled. Further, the Company had not taken steps (September 2011) to initiate the bidding process for leasing out closed units as per the recommendations of the consultant which were submitted way back in November 2008 and instead convoluted the matter by submitting proposal to the GOR un-necessarily.

Barmer Lignite Mining Company Limited

3.11 Improper financial planning

The Company paid upfront fee without any planning to avail loan from IDFC and instead obtained loan from RWPL and other financial institutions which led to loss of ₹ 1.95 crore.

The Rajasthan Electricity Regulatory Commission approved (19 October 2006) the lignite mining project of Barmer Lignite Mining Company Limited (Company) with a project cost of ₹ 467 crore to be funded in debt-equity mix of 70:30. The land acquisition proceedings for the project at Kaprudi and Jalipa mines were carried on by Rajasthan State Mines and Minerals Limited (RSMML) while subordinate debt for financing the project was being provided by Raj West Power Limited (RWPL), both Joint Venture partners.

The Company approached Infrastructure Development Finance Company Limited (IDFC) to finance the debt portion of the proposed project. The IDFC agreed to finance the project and issued (29 August 2007) letter of intent (LOI) to grant term loan of ₹ 327 crore being 70 *per cent* of the total project cost at an interest rate of 11.70 *percent*, upon payment of non-refundable and non-adjustable upfront fee of 0.50 *per cent* of the loan amount. The pre-disbursement conditions of LOI primarily consist of obtaining all land required for the project free of all encumbrances with transfer of the same to the Company within six months from the first disbursement and obtaining MOEF clearance for Jalipa and Kaprudi mines. However, the Company did not sign the loan agreement with the IDFC and the sanctioned loan was not availed as the land acquisition proceedings at Kaprudi and Jalipa mines was at initial stage.

We noticed that the Company further, approached IDFC (June 2008) for availing the sanctioned loan to finance the land acquisition proceedings (₹ 46.82 crore demanded by RSMML in April 2008) and the same was agreed by IDFC with minor changes in letter of intent already issued in August 2007. Accordingly, the Company paid (July 2008) ₹ 1.95 crore towards upfront fee (₹ 1.84 crore) and legal charges (₹ 0.11 crore) as per the terms and conditions of LOI but did not avail the term loan due to uncertainties in land acquisition and the demand of RSMML for land acquisition was financed (₹ 47 crore in May 2008) by availing subordinate loan from RWPL.

We further noticed that land acquisition for the project remained a very critical issue since inception and faced severe resistance from the landowners due to low compensation. In view of increasing project cost, the Company did not avail loan from IDFC and decided to manage funds upto ₹ 400 crore by availing short-term loan from RWPL which was available at 10 *per cent* per annum (June 2009) and short-term loans (₹ 750 crore) from other banks.

We observed that the financial planning of the Company was not proper and it acted in a hasty manner to obtain loan from IDFC without ensuring fulfillment of pre-disbursement conditions of LOI, increased project cost and easy

availability of subordinate loan from RWPL. Further, in view of considerable increase in the project cost (₹ 1783 crore by January 2011) and Company's decision to finance the same through a consortium of banks (Punjab National Bank, UCO Bank and Yes Bank), its understanding with the IDFC to provide term loan of ₹ 327 crore on certain terms and conditions has already been purged as IDFC is not a member of the consortium. We also observed that the adjustability of upfront fee in some new agreement in the changed scenario for requirement of huge funds seems remote as the terms and conditions of letter of intent clearly stipulated that the loan agreement was to be executed within 30 days and the upfront fee was non-adjustable and non-refundable.

Thus, improper financial planning had led to unproductive payment of upfront fee of ₹ 1.95 crore and the Company has lost this amount without any resultant benefit. The Company should have fulfilled the various requirements of IDFC and considered the scenario of increase in the project cost before paying up-front fee and legal charges.

The Government while accepting the facts stated (September 2011) that the Company did not go ahead for execution of loan agreement with IDFC as the land acquisition cost increased substantially which was more than the cost determined by RERC in its tariff order. However, the fact remains that the Company paid up-front fee and legal charges without complying with the pre-disbursement conditions of IDFC and did not give any cognizance to the prevailing factors of increased project cost.

Statutory Corporations

Rajasthan Financial Corporation

3.12 System lapses in recovery of dues as land revenue under section 32-G

The Corporation could not derive the benefits of section 32-G to recover its dues as an arrear of land revenue as there was significant delay in identifying and registering the cases under section 32-G.

The Rajasthan Financial Corporation (Corporation) was constituted (17 January 1955) under the State Financial Corporations (SFCs) Act 1951 to provide medium and long term financial support to small scale and medium scale industries in the State of Rajasthan. As on 31 March 2010, the outstanding term loans to various establishments were ₹ 1010.39 crore. As per the norms for non-performing assets[20] (NPAs) prescribed by Small Industries Development Bank of India for State Finance Corporations, loans amounting to ₹ 307.87 crore were considered as NPAs and were further categorised as sub-standard assets ₹ 84.69 crore, doubtful assets ₹ 99.29 crore and loss assets ₹ 123.89 crore. The ratio of NPA to total loan as on 31 March 2010 was 30.47 *per cent.* The loss assets increased significantly from ₹ 10.76 crore to ₹ 123.89 crore during the period between 2005-06 and 2009-10.

The Corporation till 1985 was empowered and endowed with legal remedies under the provisions of section 29, 31 and 32 of SFCs Act 1951 to recover its dues from the borrower, guarantor or any other surety. Section 29 provided the right to take over the management or possession or both of the industrial concern as well as the right to transfer by way of lease or sale and realise the property pledged, mortgaged, hypothecated or assigned to it. Section 31 and 32 empowers the Corporation for filing of civil suit in case where no action is permissible under the provisions of SFCs Act. The SFCs Act was amended in August 1985 and a new section 32-G was inserted which allowed the Corporation to recover its dues as an arrear of land revenue in the manner prescribed by the State Government.

As there were large number of defaulting units and the Corporation carried huge NPAs, we conducted audit of the debt recovery system for assessing the performance of the Corporation in effecting recovery of dues as land revenue under section 32-G. This audit was also aimed to analyse whether the claims have been lodged with the District Collector in an effective and efficient manner as required under the provisions of section 32-G with subsequent pursuance and recovery thereof.

20 Categories of non-performing assets includes (A) Sub-standard i.e where borrower has defaulted in repayment for three months, (B) Doubtful i.e where an asset remains in sub-standard category for 12 months and (C) Loss assets i.e where mortgaged security does not exist in respect of loans and advances.

Our scrutiny of the records/database revealed that the Corporation filed 3166 cases under section 32-G for recovery of dues amounting to ₹ 283.05 crore with the District Collector upto March 2010 and of these, 2398 cases involving recovery of ₹ 239.38 crore were pending for disposal at the end of March 2010. The Corporation was yet to file application for recovery under section 32-G in respect of 1811 eligible cases amounting to ₹ 84.13 crore and further, 701 cases involving recovery of ₹ 53.44 crore were returned by the District Collector for want of property details/whereabouts of promoters/guarantors.

Based on the scrutiny of 286 cases out of 701 cases returned by the District Collector in six[21] units selected for audit, following shortcomings in the debt recovery system of the Corporation under section 32-G were noticed by us:

Delay in issue of notice under section 32-G

Before invoking the provisions of section 32-G, the Corporation was required to issue notice under section 30 to the defaulting unit for making payment of the dues failing which legal recourse under section 32-G would be taken.

We noticed that the management was not swift and there was considerable delay in issuing notice to the defaulters under section 30, which ranged between one and 60 months in 53 *per cent* cases, upto 180 months in 33 *per cent* cases and upto 276 months in 14 *per cent* cases.

The Government while accepting the fact of delay in issue of notices stated (August 2011) that delay was due to non-availability of whereabouts of the promoters/guarantors/properties of the defaulting units.

Delay in registering the case under section 32-G

After non-compliance of notice issued under section 30 by the defaulter unit, the Corporation was required to send requisition in prescribed format along with copies of loan document and notice issued under section 30 to the District Collector for enforcing the provisions of section 32-G and recovering the dues as an arrear of land revenue. The process of registering the cases with the District Collector under section 32-G is being done at the Head Office (HO) of the Corporation on the basis of cases forwarded by the unit offices.

We noticed that even after non-recovery of dues/no response from the defaulting units for notice issued under section 30, the unit offices did not act promptly and forwarded the cases to the HO with a delay ranging between one and 74 months. Further, there was significant delay at HO level ranging between one and 122 months in registering the cases with the District Collector under section 32-G either due to non-furnishing of complete details by the unit offices or lacklustre approach of the HO.

21 Audit selected six units (Alwar, Bhilwara, Jaipur city, Jhunjhunu, Sriganganagar and Udaipur) out of total 41 units including four sub-offices.

The Government while accepting the facts stated (August 2011) that delay in registering the cases at the head office occurred due to incomplete details furnished by unit offices.

Inaction on the cases returned by the District Collector

Our scrutiny of cases returned by the District Collectors revealed that most of the cases were returned due to non-existence of properties of the promoters of defaulting units. In certain cases the District Collectors also asked the Corporation to furnish details as regard to complete/present address of the promoter, assets yet not sold belonging to promoters that could be auctioned, certificate that case is not under litigation, certified copy of loan account along with outstanding loan amount, efforts made to recover the dues along with copies of notices issued to recover the amount outstanding and also the address on which the notice under section 32-G was served with copy of receipt of notice served.

We, however, noticed that despite lapse of considerable period upto 130 months as on March 2010 these details were not provided to the District Collectors.

The Government while accepting the fact of inaction on the cases returned by revenue authorities stated (August 2011) that most of the cases pertains to cluster finance/shilpbadi/loan granted to SC/ST, ex-serviceman/mahila udhyam nidhi schemes etc. sponsored by the State Government/SIDBI where either promoter/guarantor or property or both are not traceable.

The quality of loan assets and an efficient, articulate and developed debt recovery system invariably accompanied by an effective implementation of the laws and established procedures/guidelines is indispensable for maintaining the profitability and basic viability of a financial corporation. However, we observed that the Corporation, despite having the protection of stringent provisions of section 32-G to recover its dues as an arrear of land revenue and defined procedures/guidelines, failed to implement the laid down system. The Corporation could not derive the benefits of section 32-G as there was significant delay in identifying and registering the cases under section 32-G with the District Collector. There was lack of monitoring/inspection of closed/defaulting units which led to non-identification of whereabouts of the promoters/guarantors and non- availability of the mortgaged assets for auction. Further, the Corporation did not provide the details of properties of promoters/guarantors of the defaulting units to the District Collector at the time of registering the cases under section 32-G or the details provided were not correct in absence of which the State Government could not initiate action for recovery of Corporation's dues as land revenue.

Thus, the slackness in existing procedure for recovery of debts due to the Corporation under section 32-G led to non-registration of 1811 eligible cases as on 31 March 2010 and has blocked a significant portion of funds amounting to ₹ 239.38 crore in unproductive assets, the value of which deteriorates with the passage of time. The Corporation needs to develop a mechanism to verify periodically the whereabouts of property details of

borrowers and confirmation of their dues against them in order to safeguard its financial interests.

Rajasthan State Road Transport Corporation

3.13 Loss of revenue due to incorrect interpretation of directions

The Corporation did not provide the buses to the licensee for advertisement after completion of one year operational service due to incorrect interpretation of directions of the apex management and sustained loss of revenue of ₹ 46.92 lakh.

Rajasthan State Road Transport Corporation (Corporation) appoints sole advertising agency (licensee) to earn non-operating income through display of advertisement upon specified space on its blue line buses (ordinary and express). The licensee is authorised to display advertisement on the buses provided by the Corporation and makes payment at an agreed rate on per bus per month basis. The Corporation, however, provides the newly procured buses to the licensee only after elapse of one year from their date of allotment to the depots as per the directions of the apex management so that the beauty of buses may not be marred due to advertisements.

The Corporation invited tenders (March 2008) for appointment of sole licensee to display advertisements upon specified space on its ordinary and express buses for a period of three years. Only one offer from Proactive In & Out Advertising Private Limited, Jaipur (licensee) was received (21 April 2008) who quoted the license fee of ₹ 441 per bus per month. The firm revised the offer (16 May 2008) at its own to ₹ 451 per bus per month, which was approved by the Corporation and accordingly the firm was appointed (29 May 2008) licensee for a period of three years (2 June 2008 to 1 June 2011) on the condition of 10 *per cent* compound increase in the rate of previous year for every next year[22].

We noticed that the Corporation procured and allotted 1120 new blue line buses to various depots between June 2008 and August 2009 but made them available to the licensee for displaying advertisement in September 2010 only.

We further observed that the time period of one year reckoned by the Corporation from August 2009 on the basis of allotment of last lot of buses to the depots was not based on the correct interpretation of directions and clauses of appointment letter issued to the licensee. It was clearly stipulated that the licensee was authorised to display advertisement on newly procured buses after one year from the date of their allotment to the depots. It may be seen that the buses allotted to the depots were put to operation immediately after their allotment and as such the buses allotted between June 2008 and July

22 Rate for second year (2 June 2009 to 1 June 2010) was ₹ 496.10 being 110 *per cent* of ₹ 451 and rate for third year (2 June 2010 to 1 June 2011) was ₹ 545.71 being 110 *per cent* of ₹ 496.10.

2009 had already completed operational service beyond one year ranging from 1 to 14 months.

Had the first lot of buses allotted to depots in June 2008 to ply on road and subsequent lots allotted thereafter in phased manner till August 2009 were made available to the licensee immediately after completion of one year from their allotment, the Corporation could have earned ₹ 46.92 lakh as non-operational revenue by way of display of advertisement.

Thus, the Corporation sustained loss of revenue of ₹ 46.92 lakh by not providing the buses to the licensee after completion of one year operational service due to incorrect interpretation of directions of the apex management.

The Government stated (July 2011) that it was directed (13 April 2009) not to display advertisement on newly procured buses and disciplinary action would be taken for non-compliance of the same. The reply is not justifiable as the apex management issued directions not to display advertisement on newly procured buses upto one year from the date of their allotment to depots, which was misinterpreted by the depots as the buses were allotted to depots from June 2008 onwards in phased manner.

The Corporation should implement the decisions of the apex management in true spirit to safeguard their financial interest in order to earn non-operational revenue.

General Paragraph

3.14 Follow-up action on Audit Reports

3.14.1 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 performance audit included in the Audit Reports within three months of their presentation to the Legislature.

Though the Audit Report for the year 2009-10 was presented to State Legislature in March 2011, in respect of one performance audit and one draft paragraph out of three performance audit and 16 draft paragraphs, which were commented in the Audit Report, two[23] departments had not submitted explanatory notes up to September 2011.

3.14.2 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 2011 pertaining to 23 PSUs disclosed that 2368 paragraphs relating to 651 IRs involving monetary value of ₹ 1838.01 crore remained outstanding at the end of September 2011. Even initial replies were not received in respect of 262 paragraphs of 13 PSUs. Department-wise break up of IRs and audit observations as on 30 September 2011 is given in **Annexure-22**. In order to expedite settlement of outstanding paragraphs, Audit Committees were constituted in 14 out of 42 PSUs. 25 Audit Committee meetings were held during 2010-11 wherein position of outstanding paragraphs was discussed with executive/administrative departments to ensure accountability and responsiveness.

Similarly, draft paragraphs and report on performance audit on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. We, however, observed that four draft paragraphs and one performance audit

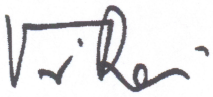
23 Energy (one draft paragraph) and Mines and Petroleum (one performance audit).

report forwarded to various departments between June 2011 and October 2011, as detailed in **Annexure-23** had not been replied to so far (October 2011).

We recommend that the Government may ensure that: (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/performance audit report 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.

JAIPUR **(H.K. DHARMADARSHI)**
The 14 February 2012 Accountant General
(Commercial and Receipt Audit), Rajasthan

Countersigned



NEW DELHI **(VINOD RAI)**
The 17 February 2012 Comptroller and Auditor General of India