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 the CAG. These accounts are also subject to supplementary audit conducted by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2013, Rajasthan had 46 working PSUs (43 Companies and three Statutory Corporations) and two non-working PSUs (all companies), which employed around one lakh employees. The working PSUs registered a turnover of ₹ 33486.33 crore for 2012-13 as per their latest finalised accounts. This turnover was equal to seven *per cent* of the State GDP indicating an important role played by the State PSUs in the economy.

Stake of Government of Rajasthan and Budgetary support

As on 31 March 2013, the investment (Capital and long term loans) in 48 PSUs was ₹ 72018.13 crore. It grew by over 227.39 *per cent* from ₹ 21997.39 crore in 2007-08. Power Sector accounted for 92.31 *per cent* of total investment in 2012-13. The Government contributed ₹ 8570.76 crore towards equity, loans and grants/subsidies during 2012-13.

Performance of PSUs

During the year 2012-13, out of 46 working PSUs, 18 PSUs earned profit of ₹ 1071.40 crore and 26 PSUs incurred loss of ₹ 14782.25 crore. Out of remaining two PSUs, Rajasthan State Refinery Limited had no profit and loss for the year 2012-13 and Kota City Transport Services Limited did not submit annual accounts since its incorporation in 2006-07. The major contributors to profit were Rajasthan State Mines and Minerals Limited (₹ 615.83 crore) and Rajasthan State Industrial Development and Investment Corporation Limited (₹ 271.39 crore). The heavy losses were incurred by the three power distribution companies (JdVVNL - ₹ 6178.90 crore, JVVNL - ₹ 4161.23 crore and AVVNL - ₹ 3904.73 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of latest Audit Report of CAG shows that the State PSUs incurred losses to the tune of ₹ 96.67 crore which 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 59 accounts finalised during October 2012 to 30 September 2013, the Statutory Auditors gave qualified certificates on 24 accounts, disclaimer on two accounts and adverse certificates on 11 accounts.

There were 111 instances of non-compliance of Accounting Standards by the PSUs. Reports of Statutory Auditors on internal control of the Companies indicated several weak areas.

Arrears in accounts and winding up

Thirteen working PSUs had arrears of 21 accounts as on 30 September 2013. Among non-working PSUs, Rajasthan State Agro Industries Corporation Limited had arrear in account for two years. The Government may take a decision regarding winding up of the non-working PSUs.

(Chapter I)

2. Performance Audit relating to Government Companies

Performance Audit on Rajasthan Tourism Development Corporation Limited was conducted. The executive summary of audit findings is given below.

Rajasthan Tourism Development Corporation Limited (Company) is a nodal agency of the Government of Rajasthan (GoR) for development of tourism in the state of Rajasthan. The major activities of the Company include providing accommodation and catering in hotels/motels, operation of tourist trains, bar facility in selected hotels/motels, package tours, transport and boating facilities to tourists. As on March 2013, the Company was operating 45 hotels/motels and two tourist trains *i.e.* Palace on Wheels (PoW) and Royal Rajasthan on Wheels (RRoW).

Financial profile

The financial position of the Company remained weak as it earned meagre profit of ₹ 0.05 crore during 2007-08 and thereafter incurred losses which accumulated to ₹ 72.12 crore by the end of March 2012. Only PoW and packaged tours contributed to the profits while all other activities *i.e.* the hotels/motels (comprising accommodation, catering etc.) and RRoW incurred losses during the five years ending March 2012.

Planning and implementation of State Tourism Policy

The Company had not taken any steps to implement the tourism policy 2001. Long-term/short-term action plan or policy for promotion of tourism and development of tourism infrastructure in the State were not prepared. The Company neither acquired nor got allotted any land for development of any project except a camping site (Ganehra) at Pushkar. The camping site was developed in October 2009 at a cost of ₹ 2.02 crore and was closed down in 2012 due to lack of profitability.

The percentage of foreign tourists availing Company's accommodation declined from 0.38 (6076) to 0.14 (2247) during 2007-13. The percentage of domestic tourists availing Company's accommodation also declined from 0.79 to 0.58 during 2007-13. The overall performance of the Company took a downslide as against 2.21 lakh tourists (0.77 *per cent*) availing Company's accommodation in 2007-08, the numbers decreased to 1.71 lakh (0.56 *per cent*) in 2012-13.

Operational performance and budgetary analysis

Out of 45 to 47 operated hotels/motels, 34 to 39 (76 to 85 *per cent*) hotels/motels incurred losses during 2007-08 to 2011-12. The Company incurred loss of ₹ 7.82 crore from operation of hotels/motels during 2007-12. The Company could not achieve the targets of profitability in any activity during all the five years except in PoW (2007-09) and RRoW (2010-12). The budgeted surplus was always higher when compared to actuals and the variation during 2007-12 ranged between 28.33 and 85.62 *per cent* in case of accommodation, 24.35 and 105.49 *per cent* in catering, 36.30 and 60.83 *per cent* in bar and 33.59 and 170.37 *per cent* in transport and boating.

Accommodation

Hotels/motels ranging between 52.17 and 71.11 *per cent* incurred losses during 2007-12. The occupancy declined from 42 to 33 *per cent* during 2007-13 which was far below than the all India average occupancy. Even the hotels/motels located at famous tourist places failed to capture the inflow of tourists due to lack of efforts towards promotion of tourism in the State.

The Company did not formulate any marketing or advertisement policy to ensure promotion of hotels/motels, luxury trains, tour packages and other facilities offered by it.

Catering

More than 50 *per cent* of the hotels/ motels incurred operational loss of ₹ 5.24 crore in catering activity during 2007-12. During 2007-12, 29 to 35 hotels/motels incurred excess expenditure on raw material (including wastage) than the prescribed norms while 5 to 25 hotels/motels incurred excess expenditure on fuel. Excess consumption of raw material and fuel resulted into excess expenditure of ₹ 2.69 crore and ₹ 6.47 lakh respectively during five years ending March 2012.

PoW and RRoW

PoW has been a profitable venture and the surplus from this activity increased from ₹ 8.80 crore to ₹ 9.64 crore during 2007-12. The occupancy of the train, however, declined from 100 to 80.12 *per cent* during the same period which further declined to 66.63 *per cent* during 2012-13. The increase in surplus was due to increase in tariff which increased between 19.33 and 32.35 *per cent* during October 2007 to March 2012 in various types of occupancy.

The performance of RRoW was poor as the Company could operate 16 to 23 trips against 34 projected trips annually, during 2009-13. The response of the tourists was poor and the Company could achieve occupancy of 49.20 *per cent* by March 2013. Higher occupancy of 58 *per cent* during 2011-12 was due to reduced number of trips. The project of RRoW was covered under the GoI scheme for assistance to large revenue generating projects in tourism sector but the Company short claimed grant-in-aid of ₹ 3.27 crore.

Central/State assisted projects

The Company could not complete the Central assisted works within scheduled completion period of 12 and 36 months from the date of sanction. Out of 120 works executed during 2007-13, 65 works were completed after delays ranging between one and 44 months. Among these, tenders for 20 works were invited after period of upto 19 months from the schedule date of completion of the works. Project wise details of funds received and expenditure incurred against each project were not maintained and there were unutilized funds of ₹ 1.08 crore as on March 2013. The Company incurred excess expenditure of ₹ 96 lakh over the sanctioned amount in 23 works and adjusted the same from the unutilized funds. Out of 64 works assigned by the State Government during 2007-13, 11 works allotted during 2010-12 were pending (October 2013) for completion due to delay in invitation of tenders and slow progress of the works by contractors. Further, out of 10 works allotted during 2012-13, nine works were to be completed by March 2013 and one work by March 2014 as per terms of sanction. However, only three works were completed by October 2013.

Recommendations

The Performance Audit contains seven recommendations which include implementation of the tourism policy and preparation of long-term/short-term action plan for tourism promotion and development of tourism infrastructure in the State; preparation of realistic budgets and action plan to support and achieve the targets; improvement of occupancy through improved facilities and better marketing; bringing food cost within norms; preparation of action plan to improve occupancy of PoW and RRoW; adherence to the guidelines of Centre/State in completion of projects; and to streamline the Internal Audit and Vigilance functions.

(Chapter II)

3. Performance Audit relating to Statutory Corporations

Performance Audit on 'Recovery of Loans' by Rajasthan Financial Corporation was conducted. The executive summary of audit findings is given below.

Rajasthan Financial Corporation (Corporation), constituted (17 January 1955) under the State Financial Corporation Act, 1951 (SFC Act), provides medium and long-term loan to micro, small and medium scale industries in Rajasthan. During the period from 2008-09 to 2012-13, the Corporation sanctioned loans of ₹ 1778.72 crore, out of which disbursements of ₹ 1364.57 crore were made to various industrial units. The total recoveries during this period stood at ₹ 2091.62 crore including prepayments of ₹ 596.55 crore.

Financial and business performance

The financial position was weak as the accumulated losses increased from ₹ 53.58 crore in 2008-09 to ₹ 130.10 crore in 2012-13. Recovery of principal amount was the major source of financing the business operations during 2008-13 as the borrowings from SIDBI and other banks were not even sufficient to repay the loans raised from them. Shortfall in recovery targets occurred despite the targets having been fixed on lower side (between 65.90 and 81.09 *per cent*) than the net collectable amount during the year. The business performance sharply declined during 2008-13 as the sanctions decreased (75.90 *per cent*) from ₹ 473 crore to ₹ 114 crore while the disbursements decreased (59.12 *per cent*) from ₹ 340 crore to ₹ 139 crore. No amount was sanctioned by five Branch offices during 2012-13.

Recovery performance against major indicators

Non-performing Assets (NPAs)

The Corporation could not confine the NPAs within the agreed limit of 10 *per cent* of total outstanding loans as per tri-partite MOU executed in December 2003 (renewed in July 2009) between the Corporation, GoR and SIDBI. The percentage of NPAs to total outstanding loans ranged between 21.06 and 30.47 during 2008-13. Out of total loans of ₹ 966 crore disbursed during 2008-11, 16 loan accounts (₹ 33.24 crore) became NPA within a short span of two years while other three loan accounts (₹ 57.67 lakh) became NPA within three years.

Sector wise performance

Major thrust of the Corporation was on promotion of Commercial Real Estate (CRE) sector as out of total sanctions of ₹ 1778.72 crore during 2008-13, the share of CRE sector was ₹ 599.73 crore (33.71 *per cent*). The sector received financial assistance of ₹ 527.27 crore (38.64 *per cent*) out of total disbursements of ₹ 1364.57 crore made during 2008-13. The Corporation neither fixed industry wise exposure limits nor evolved any system to ensure that financial assistance to CRE sector does not exceed the prescribed limits at a point of time.

Appraisal, Sanction and Disbursement

There were instances of deficient appraisal, sanction and disbursement of loans *viz.* non-adherence to credit appraisal parameters (past history of the promoters, financial soundness, marketability of the proposed project, reports of Credit Information Bureau of India Limited etc.), disbursement without ensuring utilisation of promoter's contribution, in-adequate security etc. which led to grant of loans to in-eligible borrowers and caused difficulties in recovery of loans.

Re-scheduling of loan accounts

Out of 172 loan accounts re-scheduled during 2008-13, 121 loan accounts (70.35 *per cent*) were re-scheduled beyond last date of repayment ranging between nine and 96 months. Further, 18 borrowers out of 85 re-scheduled accounts in six selected units defaulted in repayment of dues of ₹ 20.37 crore as on May 2013. Defaulters also include five and two borrowers where re-scheduling was done for second and third time respectively.

Settlement of loan accounts

The State Level Committee and Head Office Level Committee settled 317 cases for ₹ 45.90 crore against outstanding dues of ₹ 168.71 crore and thereby sacrificed an amount of ₹ 122.81 crore (72.79 *per cent*) during 2008-13. The Corporation settled 39 cases below principal amount (₹ 4.39 crore) at ₹ 2.90 crore and 158 other cases were settled for merely ₹ 29.93 crore against outstanding amount of ₹ 121.13 crore despite availability of prime and collateral security with MRV of ₹ 72.06 crore.

Enforcement of Section 29

Out of 109 units sold during 2008-13, 87 units were sold within five years, 13 units were sold between five and 10 years, eight units between 10 and 20 years and one unit after time lag of more than 20 years of taking possession. The Corporation also sold out 52 units without recovering even the principal amount and sacrificed ₹ 3.69 crore towards principal against these units. Analysis of 50 units taken in possession during 2008-13 at selected Branch Offices disclosed that there was delay upto 100 months in issue of legal notices under Section 29 since inception of default by the borrower. Further, there was time gap upto 109 months between issue of first notice and taking of possession of defaulting unit by the Corporation. Out of 51 units under possession, the latest Market Realisable Value of 21 units (₹ 7.31 crore) was not sufficient to cover the outstanding dues (₹ 21.99 crore) and there was shortfall of ₹ 14.68 crore towards recovery of dues.

Recovery under Rajasthan Land Revenue Act, 1956

The Corporation settled 2076 cases during 2008-13 and 1098 cases involving amount of ₹ 198.75 crore were pending for recovery as on March 2013. The District Collector returned 173 Requisition of Demands (RODs) during 2008-13 due to non-identification of properties in the name of promoters/guarantors. Out of pending cases, the Corporation either did not have adequate security or other properties of promoters/guarantors were not identified in 323 cases pertaining to nine selected Branch offices.

Recommendations

The performance audit contains five recommendations which include finding of alternate source of finances to improve the disbursements for promotion of MS&ME sector; close monitoring of Standard Assets to ensure prevention of slippages of accounts into NPAs; ensure adherence to the parameters of sanction and disbursements to minimise the risk; take prompt and effective action for recovery of dues as per Rules; and to strengthen the internal control and internal audit systems.

(Chapter III)

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/non-recovery of ₹ 5.99 crore in six cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 4.1, 4.5, 4.6, 4.7, 4.8 and 4.9)

Loss of ₹ 2.32 crore in four cases due to non-safeguarding the financial interests of organisation.

(Paragraphs 4.2, 4.3, 4.4 and 4.11)

Loss of ₹ 30.42 lakh in one case due to lack of fairness/transparency and competitiveness in operations.

(Paragraph 4.10)

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

Chhabra Power Limited sustained minimum loss of ₹ 33.51 lakh due to non-inclusion of temperature variation adjustment clause in supply orders.

(Paragraph 4.2)

Jodhpur Vidyut Vitran Nigam Limited did not annually review the adequacy of security deposit which led to shortfall of ₹ 18.05 crore in selected categories of consumers in three circles.

(Paragraph 4.5)

Systemic deficiencies by **Rajasthan State Industrial Development and Investment Corporation Limited** in implementation of Rules, revision of water charges and lack of clarity in Rules resulted into incurring of losses on supply of water to the industrial units.

(Paragraph 4.7)

Rajasthan State Industrial Development and Investment Corporation Limited regularized sale of land in violation of rules and incurred loss of ₹ 1.02 crore.

(Paragraph 4.8)

Rajasthan State Road Transport Corporation had to bear extra expenditure of ₹ 68.78 lakh due to failure in placing repeat order as per the policy and terms and conditions of agreement.

(Paragraph 4.11)