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 the Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by the CAG. The Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2014, Rajasthan had 48 working PSUs (45 Companies and three Statutory Corporations) and three non-working PSUs (all Companies), which employed around 1.03 lakh employees. The working PSUs registered a turnover of ₹ 38953.84 crore during 2013-14 as per their latest finalised accounts. This turnover was equal to 7.58 *per cent* of the State Gross Domestic Product indicating an important role played by the State PSUs in the economy of the State.

Stake of Government of Rajasthan and Budgetary support

As on 31 March 2014, the investment (Capital and long term loans) in 51 PSUs was ₹ 86903.73 crore. It grew by over 205.08 *per cent* from ₹ 28485.12 crore in 2008-09. Power Sector accounted for 90.53 *per cent* of the total investment in 2013-14. The Government contributed ₹ 10883.72 crore towards equity, loans and grants/subsidies during 2013-14.

Performance of PSUs

During the year 2013-14, out of 48 working PSUs, 21 PSUs earned profit of ₹ 943.61 crore and 21 PSUs incurred loss of ₹ 13173.95 crore. Out of the remaining PSUs, three PSUs had no profit and loss for the year 2013-14 while three PSUs did not submit annual accounts since inception. Further, out of 48 PSUs, 18 PSUs incorporated during 2006-07 to 2013-14 did not commence their business activities till 2013-14. The purpose of incorporation of these PSUs was therefore defeated. The Government should take appropriate action to commence business activities of these PSUs. The major contributors to profit were Rajasthan State Mines and Minerals Limited (₹ 615.83 crore) and Rajasthan State Industrial Development and Investment Corporation Limited (₹ 132.64 crore). The heavy losses were incurred by the three power distribution companies (Jodhpur Vidyut Vitran Nigam Limited - ₹ 4285.26 crore, Jaipur Vidyut Vitran Nigam Limited - ₹ 4161.23 crore and Ajmer Vidyut Vitran Nigam Limited - ₹ 3904.73 crore).

The losses were attributable to various deficiencies in the functioning of PSUs. A review of the present Audit Report of the CAG shows that the State PSUs incurred losses to the tune of ₹ 367.91 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 41 accounts finalised during October 2013 to 30 September 2014, the Statutory Auditors gave qualified certificates on 21 accounts, disclaimer on two accounts and adverse certificates on one account. There were 53 instances of non-compliance of Accounting Standards by the PSUs. Reports of the Statutory Auditors on internal control of the Companies indicated several weak areas.

Arrears in accounts and winding up

Twenty one working PSUs had arrears of 29 accounts as on 30 September 2014. Among non-working PSUs, 'Rajasthan State Agro Industries Corporation Limited', accounts were in arrears for two years. The Government may take a decision regarding winding up of the non-working PSUs.

(Chapter 1)

2. Performance Audit relating to Government Companies

Performance Audits relating to '**Rajasthan Renewable Energy Corporation Limited', 'Gypsum and Lignite activities of Rajasthan State Mines and Minerals Limited' and 'Billing system implemented by Jaipur Vidyut Vitran Nigam Limited'** were conducted.

Performance Audit of Rajasthan Renewable Energy Corporation Limited

The Performance Audit covers the performance of the Company in promotion of power generation from Wind, Solar and Biomass during 2009-10 to 2013-14.

Wind Energy

The Company facilitated installation of wind power projects of 2797.845 MW (51.81 *per cent*) in the State during 1999-2014 against the estimated wind potential of 5400 MW. During last five years (2009-14), the installed capacity increased significantly from 1084.695 MW to 2797.845 MW showing an increase of 157.94 *per cent* in the installed capacity. The Government of Rajasthan (GoR) as well as the Company, however, had not prepared any long term plan for exploitation of the wind potential. The Policy 2004 did not specify targets for establishment of power projects based on Non-Conventional Energy Sources (NCES). The targets declared by the GoR for establishment of wind power projects were not achieved during 2013-14 due to delay in initiation of action to remove the difficulties of the developers regarding competitive bidding process. Resultantly, only 98.8 MW (24.70 *per cent*) could be commissioned against the target of 400 MW. The power Distribution Companies (DISCOMs) could not achieve Renewable Purchase Obligation (RPO) targets during 2009-10 and 2010-11 due to non-availability of commensurate wind power energy in the State.

Non-adherence to Policy provisions caused non-recovery of extension fees of ₹ 3.41 crore, non-forfeiture of security deposit of ₹ 6.20 crore, irregular adjustment and non-recovery/short-recovery of processing fee of ₹ 83.40 lakh.

Solar Energy

The State Government issued Solar Energy Policy-2011 with the prime objective to develop Rajasthan as a global hub of solar power generation. As on March 2014, solar power plants with capacity of 725.50 MW (52.59 *per cent*) were installed against the sanctioned capacity of 1379.67 MW. The Company, however, did not fix year-wise targets of solar power projects in conformity with the Rajasthan Solar Energy Policy 2011. The progress in installation/ commissioning of power plants was slow due to failure of the Company in facilitating allotment/delay in allotment of land to developers, un-satisfactory progress of developers in implementation of the projects, *etc*. The progress of projects approved under Renewable Energy (RE) Solar Certificate Mechanism was very slow due to poor marketability of RE certificates. The DISCOMs could not achieve RPO targets in any of the years during 2011-14 due to failure in timely commissioning of the solar power projects.

Out of 924 (17437 MW) applications registered for solar projects during 2009-14, only 177 projects of 1380 MW (7.91 *per cent*) were approved by the State Level Screening Committee/State Level Empowered Committee. Further, only 140 projects of 725.50 MW (52.57 *per cent*) could be commissioned during this period. Non-adherence to the Policy provisions caused non-recovery of development charges of ₹ 27.50 crore, processing fee of ₹ 3.10 crore, loss of ₹ 2.50 crore due to non-forfeiture of security deposit/ invoking of bank guarantee.

Biomass power projects

The State Government issued (February 2010) a new Biomass Policy aimed to accelerate the rate of growth of biomass power projects in the State. The Policy contained incentives for installation of biomass projects. However, biomass projects of only 114.30 MW (11 *per cent*) could be installed upto March 2014 against the estimated potential of 1039 MW. The Company did not prepare any strategic plan to explore the available potential of biomass in the State in line with the projected estimates. The major constraint in installation of biomass projects was stated to be non-availability of biomass at the price reckoned by the Rajasthan Electricity Regulatory Commission while fixing the tariff. All the commissioned projects were registered prior to March 2009 and out of 60 projects (413.88 MW) registered with the Company during the period 2009-14, not a single project was commissioned. Registration of 49 projects (350.48 MW) was cancelled due to meagre progress and only 11 projects (63.40 MW) were in process at preliminary stage as on October 2014. The DISCOMS could not achieve the RPO targets in any of the five years ending March 2014 due to non-commissioning of the targeted capacity. The Company in violation of the Policy provisions did not recover processing fee of ₹ 74.13 lakh, extension fees of ₹ 28 lakh and registration fee of ₹ 2.50 lakh.

Solar City Programme

The Company did not make adequate efforts in implementation of the programme as master plan of only one city (Jodhpur) had been prepared and submitted to the Ministry of New and Renewable Energy (MNRE). The master plan for Ajmer and Jaipur had not been prepared (October 2014). The programme, therefore, could not be implemented even after six years from the date of its launch (February 2008).

Remote Village Electrification Programme

The Company's proposals (2010-12) for installation of 27875 DLS were not sanctioned by the MNRE and, therefore, no significant work of installation of DLS under the programme was done after 2010-11 which led to non-electrification of 2440 remote hamlets. Further, the Company without obtaining concurrence of the MNRE, conducted (May 2011) third party evaluations from private parties which were not accepted and the MNRE did not release balance CFA of ₹ 3.29 crore.

Rajasthan State Energy Conservation Fund

The Rajasthan State Energy Conservation Fund was constituted (2007) for promotion of efficient use of energy and its conservation in the State. However, the Company utilised only 37.22 *per cent* of the Fund during 2010-14. The SLSC, which was supposed to review and monitor the progress of the activities carried out by the Company met only six times during 2010-14 against the requirement of atleast one meeting in every three months.

Operation and maintenance activities of Company's projects

Delay in issuance of energy bills for the power generated at three plants of the Company caused loss of interest of ₹ 35.78 lakh. The Company belatedly issued notice to L&T to deposit ₹ 64.13 lakh towards shortfall in net minimum guaranteed generation at Phagi power plant which was pending for recovery (October 2014). Further, the Company did not recover liquidated damages of ₹ 17.61 crore from the contractor for short generation of power at Pohara plant.

Recommendations

Audit recommends that (i) To further harness the wind potential and keeping in view the enormous potentiality of solar energy in the State, the Company may consider preparing long-term/short-term plans specifying year-wise targets to be achieved; (ii) The Government/Company may impress upon the RERC for fixation of tariff which encourages the developers for setting up of biomass power projects in the State; (iii) The Government/ Company may consider preparing a database of the available vacant land to facilitate developers in getting allotment of land; (iv) The Government should explore possibilities to ensure marketability of Renewable Energy certificates; (v) The Company should watch the progress of execution of projects and utilisation of the allotted land by the developers and cancel the allotment of land in case of failure of projects or breach of conditions; (vi) The Company should recover various fees/charges as per Policy provisions; and (vii) The Government may activate the monitoring mechanism to ensure execution of activities for promoting conservation of energy by better utilisation of the Fund.

(Chapter 2.1)

Performance Audit of Gypsum and Lignite activities of Rajasthan State Mines and Minerals Limited

The Performance Audit covers the Gypsum and Lignite activities of the Company during the period from 2009-10 to 2013-14.

Financial Position

The profit from Gypsum activity increased (63.90 *per cent*) from ₹ 58.94 crore to ₹ 96.60 crore and the profit from Lignite activity increased (178.13 *per cent*) significantly from ₹ 23.46 crore to ₹ 65.24 crore during 2009-13.

Mining of Gypsum and Lignite

Rajasthan State is the major producer of Gypsum in India. The Company had contributed 70 to 89 *per cent* of the total production of Gypsum in the Country during 2009-13. As on March 2014, the Company was carrying out mining activities in 10 Gypsum mines (5396.95 hectare) out of total 29 Gypsum mines (12521.985 hectare). The remaining 19 mines were non-operational due to non-surrender of depleted mines, non-availability of environmental clearance (EC), non-availability of land from Khatedars, non-renewal of mining lease by the State Government and non-finalization of contracts for excavation of mineral.

The Ministry of Coal (MoC) allocated seven Lignite blocks to the Company between November 1994 and November 2006 but mining operations had commenced in only three blocks *i.e.* Giral (1995-96), Kasnau-Matasukh (2003-04) and Sonari (2012-13). One block (Mokala, Nagaur) was de-allocated (December 2013) by the MoC due to non-completion of pre-mining development activities by the Company causing infructuous expenditure of ₹ 46.78 lakh. The remaining three blocks could not be operated due to non-availability of EC and delay in submission of mine plan.

Planning and Statutory compliance

The Company did not prepare a strategic/long term perspective plan despite directions of the Committee on Public Undertakings to ensure sustainable development of minerals in a cost effective manner. The market demand and supply of Gypsum and Lignite was never assessed despite the fact that the entire production was sold in the year itself. The Company did not take timely action for renewal of expired mining leases and inadequate monitoring, arrangement of resources and follow up of the targets led to non-achievement of the laid down targets.

Absence of a robust statutory compliance management system to ensure strict adherence to the mining and environmental Rules and Regulations resulted into de-allocation of the allocated blocks, non-surrender of depleted mines; closing of mining operations, non-availability of EC and withdrawal of mining permission under Mines Regulations, 1957 by Directorate of Geology (Mines and Safety). This resulted into unfruitful expenditure of ₹ 12.47 crore towards land tax and dead rent.

Production and sale of minerals

The annual budgetary targets were always fixed on lower side in comparison to the capacity approved in the EC/mine plans. The Company even could not achieve the annual budgetary targets in respect of both Gypsum and Lignite in all the five years. The sales targets were fixed similar to that of production but lower levels of production affected the sales as the entire production was sold in the year itself. The annual production of Gypsum declined (35.14 *per cent*) from 34.63 lakh MT in 2010-11 to 22.46 lakh MT in 2013-14 due to non-finalisation of excavation contracts, reluctance by Khatedars in providing land, depletion of mines, non-lifting of Gypsum by cement industries due to low purity, *etc*. The annual production of Lignite decreased from 12.07 lakh MT in 2009-10 to 8.83 lakh MT in 2010-11 and thereafter increased to 14.28 lakh MT in 2013-14. Decrease in Lignite production during 2010-11 was due to non-finalization of excavation contract for Kasnau-Matasukh mine while increase in production during 2012-14 was due to operation of a new mine (Sonari). Non-finalization of contract for excavation of Lignite in Matasukh pit for a period of 21 months caused loss of production of 7.94 lakh MT as per mine plan besides unfruitful expenditure of ₹ 86.17 lakh towards dead rent and land tax. The mining operations at Kasnau pit were closed (March 2004) due to heavy inrush of underground water. Thereafter, no efforts were made for dewatering and excavation of Lignite which caused loss of production of 28.35 lakh MT, besides unfruitful expenditure of ₹ 24.91 lakh towards land tax during 2009-14. The increase in profit in both Gypsum and Lignite was due to increase in sales price.

Gypsum grinding units

The Company laid more emphasis on the contractual grinding units instead of its own Centralised Gypsum Grinding (CGG) unit. The production at CGG unit against the contracted capacity ranged between 17.60 and 70.13 *per cent* during 2009-14. The actual utilisation of CGG unit against the workable capacity of 16 lakh MT ranged between 5.50 and 21.92 *per cent* during 2009-14. Preference to contractual unit at Ballar instead of owned CGG unit caused excess expenditure of ₹ 1.11 crore during 2009-14. The Company could effectively fulfill 69.18 *per cent* of the total demand of Gypsum powder during 2009-14 due to non-finalisation of excavation contracts, non-availability of land from Khatedars, awarding of grinding contracts for lower quantity at Ballar unit and failure in fully utilising the CGG unit. The Company was deprived of additional revenue of ₹ 20.23 crore due to non-fulfillment of the demand of Gypsum powder and additional profit of ₹ 29.36 lakh due to supply of Gypsum Run of Mine instead of Gypsum powder.

Marketing management

The Company did not give cognizance to the sale price declared by the Indian Bureau of Mines during November 2011 to December 2012 which caused short recovery of royalty of ₹ 1.32 crore. Selling of Lignite through auction/ e-auction at a price below the average cost of production during 2009-10 and 2011-13 caused operating loss of ₹ 43.68 crore. Rajasthan Rajya Vidyut Utpadan Nigam Limited made payment of bills with delay ranging between 17 and 337 days in absence of any penalty prescribed in the Fuel Supply Agreement for delay in payment of bills. This caused loss of interest of ₹ 4.52 crore to the Company during 2009-14.

Contract Management

The Company lost an opportunity to earn additional profit of ₹ 1.26 crore due to non-supply of contracted quantity to Uttar Pradesh Bhumi Sudhar Nigam. Rejection of lowest offers selectively without any uniform policy on the basis of workability of rates despite the fact that the bidders were technically qualified caused an extra expenditure of ₹ 37.98 lakh. The Company relaxed the prequalification and performance criteria as mentioned in the Contract Manual which resulted into awarding of contracts to in-eligible bidders causing loss of revenue of ₹ 5.08 crore due to non-fulfillment of contractual obligations.

Recommendations

Audit recommends that (i) The Company should prepare a broad strategic corporate plan including sector-wise plans for production and marketing of minerals with specific targets and firm timelines to ensure sustainable development of minerals in a cost effective manner to cater to the market demand. Further, the Company should assess the demand of minerals and take action for timely renewal of mining leases to fulfill the market demand; (ii) The Company should implement a robust statutory compliance management system to ensure adherence to the mining and environmental Rules and Regulations; (iii) The Company should adopt best practices for contract management to ensure timely finalisation of excavation contracts, awarding of contracts in a manner so as to safeguard the financial interests and to adhere to the provisions of contract manual; and (iv) The Company should plan and step up vigilance activities besides better liasoning with the State Government to curb the practice of illegal mining.

(Chapter 2.2)

Performance Audit (IT) on the billing system implemented by Jaipur Vidyut Vitran Nigam Limited

The Company outsourced the work of design, development, implementation of application software and preparation/ printing of electricity bills to Data Infosys Private Limited (December 2006) and Bellary Computer IT Solution Private Limited (July 2007). Data Infosys Private Limited provided services in the Jaipur City Circle while Bellary Computer IT Solution Private Limited provided services in remaining 12 Circles. The Performance Audit (IT Audit) covers both the High Tension (HT) and Low Tension (LT) consumers of the Company. The results are based on the analysis of 100 *per cent* HT consumers and 57.71 *per cent* LT consumers of four selected Circles.

The electronic billing data for the period April 2012 to December 2013 was collected from the billing agencies and was analysed through Computer Assisted Audit Techniques using Interactive Data Extraction and Analysis software.

Analysis of the billing data of HT and LT consumers of selected four Circles disclosed cases of short recovery of energy charges, security deposit, statutory levies *etc*. having financial implication of ₹ 177.60 crore on the revenue of the Company.

General Controls

The IT Policy of the Company did not cover billing system which was critical to the operations of the Company. The IT policy lacked clear objectives and responsibilities of the officers as regards security of IT assets (software and hardware). Further, the Company did not give cognizance to any standard guidelines relating to IT policies and procedures with respect to physical and logical security, quality maintenance by vendors and contingency planning. The Company did not obtain the backup of billing data from the billing agencies and was not having any business continuity plan/recovery procedures except manual generation of bills in case of any untoward incident.

Application Design Deficiencies

The billing software was not designed in a robust manner to ensure validation of input advice and output results as per the business rules. Our analysis disclosed that the application software was deficient as regards provisions relating to accuracy class of meters; supplementary agreement with HT consumers; disconnection in case of non-maintenance of power factor and acceptance of security deposit from a consumer other than the owner.

Mapping of business rules

The billing agencies did not correctly map the provisions of Tariff and Terms and Conditions of Supply of Electricity relating to rebate to LT consumers; transfer of disconnected consumers to permanently disconnected consumers; maximum demand indicator; rebate in case of defective meters; grace period in payment of bills and allowance of rebate for use of Solar Water Heating System.

Input Control and Validation Checks

Input control minimizes the possibilities of error or irregularities in computerised systems due to incorrect or irregular input. Input control and validation checks were deficient as regards installation of shunt capacitors; rebate for domestic connections in rural areas; assessment of energy charges in case of defective meter; assessment in case of inaccessibility of meters; recovery of CTPT Security, urban Cess and water Cess; Security deposit from LT consumers, payment of interest on security deposit; adjustment of revenue with respect to consumption of electricity and categorization of consumers.

Completeness of data

The database suffered from absence of vital details of consumers; incorrect feeder codes; non-availability of Service connection order number and date.

Internal Controls

The existence of an adequate system of internal control minimises the risk of errors and irregularities. Our analysis disclosed abnormal delay in issue of bills; release of more than one industrial/non-domestic connection in the same premises; non-realisation of assessed revenue and charge of compounding charges in case of second offence.

Recommendations

The Performance Audit includes recommendations regarding formulation and implementation of a clear and comprehensive IT policy and periodical review according to changing business environment; obtaining regular backup of the data and develop a reliable business continuity plan in case of any untoward incident; ensure mapping of business rules in accordance with the tariff provisions and TCOS and periodically review and update them; building input controls and validation checks to ensure completeness and correctness of the data and strengthening the internal control mechanism to ensure proper monitoring of billing system, including timely issuance of bills and recovery of energy charges from defaulters/ permanently disconnected consumers.

(Chapter 2.3)

3. Compliance Audit Observations

Compliance 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 ₹ 6.26 crore due to non-safeguarding of financial interests of the organisation.

(Paragraphs 3.1 and 3.5)

Loss of ₹ 7.67 crore due to non-compliance with rules, directives, procedures, terms and conditions of contract in eight cases.

(Paragraphs 3.2, 3.3, 3.4, 3.6, 3.7, 3.9, 3.10 and 3.11)

Loss of ₹ 124.41 crore due to non-realisation/partial realisation of objectives and non-safeguarding of financial interests of the organisation in one case.

(Paragraph 3.8)

Gist of some important Audit observations is given below:

Rajasthan State Industrial Development and Investment Corporation Limited extended undue benefit of interest to the applicants and thereby incurred loss of ₹ 6.02 crore.

(Paragraph 3.5)

Rajasthan State Industrial Development and Investment Corporation Limited incurred minimum loss of ₹ 1.90 crore by allotting the plot without invitation of sealed bids in a saturated industrial area.

(Paragraph 3.6)

The sub-group/Infrastructure Development Committee of **Rajasthan State Industrial Development and Investment Corporation Limited** caused loss of revenue of ₹ 124.41 crore by not implementing the amendment (January 2011) in Rule 3 (W) of the RIICO Disposal of Land Rules, 1979 as regards rate of allotment in saturated industrial areas.

(Paragraph 3.8)

Rajasthan Rajya Vidyut Prasaran Nigam Limited made irregular payment of ₹ 3.56 crore to IMP Powers Limited towards price variation by accepting its claims as per new formula in contravention to tender conditions.

(Paragraph 3.9)

Rajasthan State Food and Civil Supplies Corporation Limited paid interest of ₹ 66.90 lakh for delay in deposit of service tax.

(Paragraph 3.11)