

## Overview

### 1. Functioning of Public Sector Undertakings

Audit of Government Companies is governed by Sections 139 and 143 of the Companies Act, 2013. 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 by the CAG. The Audit of Statutory Corporations is governed by their respective legislations.

As on 31 March 2017, Rajasthan had 48 Public Sector Undertakings (PSUs) consisting of 42 working Companies, three working Statutory Corporations and three non-working PSUs (all Companies), which employed around one lakh employees. The working PSUs registered a turnover of ₹ 62,186.43 crore during 2016-17 as per their latest finalised accounts. This turnover was equal to 8.29 *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*

As on 31 March 2017, the investment (Capital and long term loans) in 48 PSUs was ₹ 1,37,679.06 crore. It grew by over 91.17 *per cent* from ₹ 72,018.13 crore in 2012-13. The power sector received 92.79 *per cent* of total investment made during 2012-13 to 2016-17. The State Government contributed ₹ 31,115.76 crore towards equity, loans and grants/subsidies during 2016-17.

#### *Performance of PSUs*

During the year 2016-17, out of 45 working PSUs, 23 PSUs earned profit of ₹ 1,193.49 crore and 16 PSUs incurred loss of ₹ 2,808.01 crore. Six PSUs had no profit or loss for the year 2016-17. Further, out of 45 PSUs, 12 PSUs incorporated during 2006-07 to 2016-17 did not commence their business activities till 2016-17. The purpose of incorporation of these PSUs was, therefore, defeated. The Government should take appropriate action with regard to these PSUs.

The top profit making companies were Rajasthan Rajya Vidyut Utpadan Nigam Limited (₹ 351.80 crore), Rajasthan State Industrial Development and Investment Corporation Limited (₹ 349.58 crore), Rajasthan State Mines and Minerals Limited (₹ 200.33 crore), Rajasthan State Ganganagar Sugar Mills Limited (₹ 56.69 crore) and Rajasthan State Warehousing Corporation (₹ 34.83 crore). Heavy losses were incurred by Jodhpur Vidyut Vitran Nigam Limited (₹ 1,028.68 crore), Jaipur Vidyut Vitran Nigam Limited (₹ 615.75 crore), Ajmer Vidyut Vitran Nigam Limited (₹ 336.69 crore), Rajasthan State Road Transport Corporation (₹ 492.41 crore) and Giral Lignite Power Limited (₹ 235.97 crore).

The capital investment and accumulated losses of the State PSUs as per their latest finalised accounts were ₹ 41,465.19 crore and ₹ 1,01,241.75 crore respectively. Analysis of investment and accumulated losses disclosed that net worth was eroded in 19 out of 48 PSUs. The capital investment and

losses of these 19 PSUs were ₹ 25,219.56 crore and ₹ 99,077.80 crore respectively. Of these 19 PSUs, the net worth was primarily eroded in power sector companies like Jaipur Vidyut Vitran Nigam Limited (₹ 24,446.69 crore), Jodhpur Vidyut Vitran Nigam Limited (₹ 23,213.83 crore), Ajmer Vidyut Vitran Nigam Limited (₹ 22,829.59 crore), Giral Lignite Power Limited (₹ 329.14 crore) and Barmer Thermal Power Company Limited (₹ 13.49 crore). The accumulated losses of the power sector PSUs were ₹ 1,01,239.35 crore as against the capital investment of ₹ 38,026.84 crore. Among non-power sector PSUs, the net worth was primarily eroded in Rajasthan State Road Transport Corporation (₹ 2,830.55 crore), Rajasthan Tourism Development Corporation Limited (₹ 103.11 crore), Rajasthan State Agro Industries Corporation Limited (₹ 47.20 crore), Rajasthan Small Industries Corporation Limited (₹ 10.33 crore) and Rajasthan Skill and Livelihoods Development Corporation (₹ 7.95 crore).

### ***Quality of accounts***

The quality of accounts of PSUs needs improvement. Out of 43 accounts finalised during 1 October 2016 to 30 September 2017, the Statutory Auditors gave qualified certificates on 18 accounts. There were 30 instances of non-compliance with Accounting Standards by the PSUs.

### ***Arrears in accounts and winding up***

Seven working PSUs had arrears of nine accounts as on 30 September 2017. Among non-working PSUs, one PSU had three accounts in arrears. The Government may take appropriate decision regarding the non-working PSUs.

### ***Coverage of this Report***

This Report contains one performance audit *i.e.* on 'Performance Audit on Procurement and Inventory Management by Jaipur Vidyut Vitran Nigam Limited' and 10 compliance audit paragraphs involving financial effect of ₹ 384.52 crore.

## **2. Performance Audit relating to Government Companies**

### **Jaipur Vidyut Vitran Nigam Limited**

#### **Performance Audit on 'Procurement and Inventory Management'**

The Performance Audit covers procurement and inventory management functions of Jaipur Vidyut Vitran Nigam Limited (Company) during the period from 2012-13 to 2016-17. Some of the highlights are given below:

#### ***Rajasthan Transparency in Public Procurement Act 2012 (RTPP Act)***

The Government of Rajasthan (State Government) enacted (May 2012) RTPP Act and notified (January 2013) Rules there under. The Act repealed all the prevailing rules and regulations relating to procurement of goods, services and works. The Company, however, failed to revise the Purchase Manual and Standard Bid Document as per the Act/Rules.

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### ***Assessment of requirement of material***

The selected Assistant Controller of Stores (ACOS) and selected sub-divisional stores did not follow the prescribed procedure of assessment of requirement of material. The Circle offices and the sub-divisions did not have any documents regarding work wise/sub-division wise requirement of material submitted to the Zonal Chief Engineer (ZCE). The assessment for the current year was made on the basis of previous year without considering the actual requirement. Further, the Procurement Planning and Management Committee (PPM Committee) never finalised the requirement of material before commencement of the financial year during 2012-13 to 2016-17.

### ***Finalisation of tenders***

The Company finalised 29 (72.50 per cent) out of 40 selected tenders beyond the stipulated time period of 120 days. The delay ranged between 4 and 589 days. Further, the concerned authority finalised these tenders without approval of the next higher authority in violation of the Purchase Manual.

### ***Efficiency and effectiveness in procurement of material***

The Company procured sub-standard material not conforming to the prescribed specifications valuing ₹ 83.80 crore. The Company incurred extra expenditure of ₹ 6.31 crore by purchasing material at higher rates due to acceptance of supplies even after opening of new tender with lower rates, procurement of material at unreasonably higher rates and imprudent cancellation of tenders. The Company also blocked funds of ₹ 38.84 crore by accepting supplies ahead of delivery schedule without any requirement. Further, the Company procured material without proper inspection and testing which resulted in procurement of sub-standard or inferior quality of material.

### ***Inventory control***

The Company did not fix the critical levels of inventory and also did not carry out either the value analysis or the movement analysis. The storage rate was also not fixed on the basis of actual expenditure incurred on the storage. The ACOS and sub-divisional stores did not maintain the record of inventory in the prescribed format. The indents submitted by the sub-divisions to all selected ACOS did not have reference of the work identification memos and the material was issued without presentation of the estimate cards. None of the selected sub-divisional stores maintained job card as per the work identification memo for each work order, transformer movement register and material estimate card for each job. The Assistant Engineers violated the directions and approved the hand written indents in place of printed indents. The Storekeepers also issued material against these hand written indents.

The Company did not annually conduct physical verification of inventory at the ACOS and sub-divisional stores. The time period covered under physical verification of ACOS ranged between 12 and 51 months while in case of sub-divisional stores it ranged between 16 and 57 months.

### ***Idle inventory, storage, excesses and shortages and theft, fire and embezzlement***

The Company accepted surplus material of ₹ 8.18 crore from the turnkey contractors which remained unutilised in the stores due to lack of directions,

delay in closure of contracts by the Corporate Level Purchase Committee and change in technology. The Company procured material in excess of requirement and material valuing ₹ 10.49 crore was lying unutilised at the ACOS and sub-divisional stores due to lack of demand from the field offices.

The ACOS and sub-divisional stores neither maintained records nor stacked the inventory as per directions. The stock verifiers pointed out unadjusted shortages of ₹ 2.28 crore and excesses of ₹ 2.61 crore as on March 2017 in physical verification reports of all the ACOS. Non-maintenance of prescribed records and lack of inspections, lack of control and monitoring by the competent authorities provided opportunities for embezzlement and occurrence of fire. Further, the Company did not insure the material at sub-divisional stores.

### **Recommendations**

The Performance Audit contains six recommendations which includes (i) revision of Purchase Manual as per RTPP Act and Rules, (ii) streamlining the process of assessment of requirement of material (iii) finalisation of tenders within prescribed time frame, following procedures prescribed for tendering and award of contracts scrupulously (iv) strengthening inspection and testing procedures and ensure strict adherence to the technical specifications at the time of the supply of material by the suppliers, (v) adopting inventory control techniques and maintaining prescribed inventory records and (vi) conducting physical verification at specified intervals and taking corrective action on discrepancies reported in physical verification reports.

## **3. Compliance Audit Observations**

Compliance Audit observations included in this Report highlight deficiencies in the management of Public Sector Undertakings, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature.

Loss/extra expenditure/non-recovery/opportunity to earn revenue of ₹ 100.79 crore due to non-compliance with rules, directives, procedures, terms and conditions of contract in six cases.

*(Paragraphs 3.1, 3.5, 3.7, 3.8, 3.9, and 3.10)*

Loss/extra expenditure/non-recovery of ₹ 45.54 crore due to non-safeguarding of financial interests of the organisation in four cases.

*(Paragraphs 3.2, 3.3, 3.4 and 3.6)*

Gist of some important Audit observations is given below:

**Jodhpur Vidyut Vitran Nigam Limited** failed to adhere to the provisions of 'The Rajasthan Guaranteed Delivery of Public Services Act, 2011' and it could not resolve the bill related complaints of the consumers within the time period prescribed in the Act. The State Government also failed to monitor the delivery of services by the Company as per Act as no directions/instructions were issued by the Administrative Reforms and Co-ordination Department for non-submission of information by the Company in the prescribed format.

*(Paragraph 3.1)*

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**Rajasthan Rajya Vidyut Utpadan Nigam Limited** allowed a particular Contractor to lift dry fly ash from Suratgarh Thermal Power Station without executing any agreement and depositing the security amount. This led to non-recovery of liquidated damages of ₹ 4.80 crore from the Contractor. Further, the Company did not take action against three other Contractors as per the terms and conditions of tender and Letter of Award despite all of them failing to lift the allocated quantity of fly ash and to deposit the liquidated damages of ₹ 0.83 crore.

*(Paragraph 3.3)*

**Rajasthan Rajya Vidyut Utpadan Nigam Limited** incorporated defective clause in the work order which resulted in excess payment of ₹ 2.08 crore to the Contractor at Suratgarh and Kota Super Thermal Power Stations for excess transit losses allowed over Railway Receipt weight.

*(Paragraph 3.4)*

**Rajasthan State Mines and Minerals Limited** incorporated unrealistic clauses in the work order regarding payment/recovery of compensation for shortfall in production which made it obligatory for the Company to pay compensation to the Contractor without any possibility of recovery. This led to payment of compensation of ₹ 78.86 lakh to the contractor.

*(Paragraph 3.6)*

The toll collection activity undertaken by **Rajasthan State Road Development and Construction Corporation Limited** suffered extensively due to delay in processing tenders and improper fixation of reserve price. The Company failed to commence toll collection activity on newly constructed roads due to delay in construction of toll plazas; and fixing higher reserve price based on Detailed Project Reports instead of traffic census in violation of the Toll Policy 2012. The Company also violated the Toll Policy 2012 in fixing reserve price for ongoing toll projects by adopting different criteria.

*(Paragraph 3.7)*

**Rajasthan Tourism Development Corporation Limited** defaulted in depositing provident fund dues of ₹ 12.35 crore during the period from July 2015 to August 2017 and therefore runs the risk of penalty damages of ₹ 4.05 crore as per Clause 32 A of the Employees' Provident Fund Scheme, 1952 besides payment of interest under Section 7(Q) of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

*(Paragraph 3.10)*

