CHAPTER-II

Performance Reviews relating to Government Companies

2.1 Rajasthan Renewable Energy Corporation Limited

Performance Audit of promotion and development of power generation through non-conventional energy sources

Highlights

Against a gross potential of 5400 MW and wind policies targets of 800 MW for promotion of wind power projects in the State, the Company succeeded in securing 464.64 MW only up to 31 March 2007. This was mainly due to frequent policy changes and delays in project approval. Delays in approval ranged between 7 days and 21 months as against one month specified in the policy.

(Paragraphs 2.1.9 and 2.1.12)

Rollover of an old Power Purchase Agreement (PPA) executed under Wind Policy 2003 for purchase of power at higher price to a new project, the PPA of which was to be executed at lower price under Wind Policy 2004 resulted in undue favour of Rs.2.80 crore to a private developer.

(Paragraph 2.1.11)

In 13 out of 41 cases, the developers initiated project activities prior to approval of project by SLEC and the Company allowed the grid connectivity without levy of penalty of Rs.3.03 crore as specified in the policy.

(Paragraph 2.1.13)

Failure of the Company in performance of its duty as facilitator for getting PPA executed in time, resulted in deprivation of revenue of Rs.4.45 crore to the IPPs.

(Paragraph 2.1.14)

Despite a big potential for biomass based power projects in the State, the Company succeeded in getting only 46.8 MW biomass power projects commissioned during the period of eight years up to March 2007.

(Paragraphs 2.1.16 and 2.1.17)

Due to selection of an expensive mode of electrification by installation of 10 KW solar power plants, instead of electrification through solar home lighting system, the Company incurred avoidable extra expenditure of Rs.22.29 crore on electrification of 2,097 households of 73 villages.

(Paragraph 2.1.18)

Despite having manpower for identification of beneficiaries and collection of their shares, the Company awarded work for installation of Solar Home Lighting to contractors. This resulted in an extra expenditure of Rs. 5.41 crore which was passed on to the beneficiaries.

(Paragraph 2.1.23)

Failure of the Company in getting timely registration of its 25 MW wind power plant under Clean Development Mechanism led to deprival of credits of Rs.8.97 crore for sale of 1,40,890 Certified Emission Reduction.

(Paragraph 2.1.25)

Installation of 100 KW grid interactive solar power plant at Gorir without ensuring sufficient grid availability in that area rendered the total cost of the plant of Rs.2.55 crore uneconomical.

(Paragraph 2.1.27)

Introduction

2.1.1 Rajasthan State Power Corporation Limited (RSPCL) was incorporated (April 1995) with the aim to plan, promote and organize integrated and efficient development of solar, wind, biomass and other non-conventional and renewable energy based power plants and power transmission system. The erstwhile Rajasthan Energy Development Agency (REDA) was wound up (August 2002) and its assets and liabilities were simultaneously transferred to RSPCL. After merger of REDA, the RSPCL was renamed as Rajasthan Renewable Energy Corporation Limited (Company) with additional main objective to promote, support, assist and sponsor the use of non-conventional energy sources. The Union/State Governments notify policy for promoting power generation through Non Conventional Energy Sources (NCES) from time to time. The State policy provides various benefits to eligible power producers such as allotment of land at concessional rate, attractive power purchase rate, exemption from electricity duty, grant of incentive available to industries, exemption from sales tax *etc*. The Company is the nodal agency for implementation of various schemes/policies of Union/State Government for promoting power generation through NCES.

The Company is responsible for:

- registration of NCES based power projects of eligible power producers;
- assisting in allotment of government land to Independent Power Producers (IPPs);
- assisting in power evacuation arrangements;
- facilitating in execution of Power Purchase Agreements (PPAs);

- assisting in grid connectivity after commissioning of project;
- ensuring implementation of Union/State Government's NCES policies issued from time to time; and
- installation of power projects/systems under various schemes of the Union Government.

The Company also carries out commercial activity through installation and operation of its own NCES based power projects, through contractors.

The total installed capacity for power generation in the State was 4292.19 Mega Watt (MW), out of which the share from renewable sources was 511.89 MW as on 31 March 2007.

The management of the Company is vested in a Board of Directors (BOD) consisting of not less than three and not more than 12 directors. As on 31 March 2007, there were six directors on the Board.

Scope of audit

2.1.2 The present review, conducted during August 2006 to March 2007, covers promotional support aspect, sponsorship and commercial activities of the Company for development of NCES during the period of five years ended 31 March 2007. The audit findings are based on examination of records relating to clearances given to all IPPs for installation of power projects, implementation of Rural Electrification Programme under Prime Minister Gramodaya Yojna (PMGY) and other schemes and all power projects installed by the Company during the period under review.

Audit objectives

2.1.3 Performance audit of the Company was carried out to assess whether:

- long term and short term corporate plans were formulated to achieve the assigned goals/targets and the achievements were commensurate with the targets set based on the potential available in the State;
- oversight/monitoring mechanisms were in place to ensure risk mitigation in achievement of targets/goals;
- the Company successfully promoted and developed NCES power plants within policy/guidelines of the Union/State Government;
- the Company devised and followed an adequate and dependable system for clearance and monitoring of execution of projects by IPPs;

- the Rural Electrification Programme under PMGY and Solar Photovoltaic (SPV) Programme of MNES were executed economically and efficiently to achieve the desired targets;
- the Company had installed its own wind and solar based power plants as per the prescribed guidelines, within the time frame and had achieved the projected benefits;
- operation and maintenance of the plants was economical, efficient and their actual performance was consistent with projections made in the Detailed Project Reports (DPRs);
- proper and timely billing of power supplied to electricity companies was done and payments received as per the terms of the power purchase agreements; and
- grants received from the Governments were utilised timely for the specified purposes.

Audit criteria

2.1.4 The performance of the Company was assessed against:

- policies of the State Government for generation of power through NCES;
- guidelines of Union/State Government for implementation of various schemes/programmes;
- targets fixed by Union/State Government for various programmes;
- policies, procedures and targets laid down by the Company;
- projections given in feasibility reports of various projects;
- terms and conditions of power purchase agreements; and
- rules, instructions and guidelines for utilization of grants received from Government.

Audit Methodology

2.1.5 The following mix of methodologies was adopted:

- review of implementation of the policies and guidelines of the Union/ State Government and targets fixed by the Company for various schemes/programmes;

- review of agenda and minutes of the Board meetings, Feasibility Reports of the various projects and records relating to award and execution of various works;
- review of power purchase agreements and billing for electricity supplied to Electricity Distribution Companies (Discoms);
- analysis of data relating to clearances of projects of private investors/IPPs, installation of plants/systems by the Company under various schemes and utilisation of grants received from the Government;
- review of records relating to operation and maintenance of own plants specially operation agreements with contractors; and
- interaction with the management at various levels.

Audit Findings

2.1.6 The audit findings were reported (April 2007) to the Government/Management and discussed (5 July 2007) at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE), where the Secretary (Energy) represented the Government and the Chairman and Managing Director represented the Company. The review was finalised after taking into account the views of the Government/Management.

Financial Management

2.1.7 The paid up capital of the Company increased from Rs.10.08 crore (2002-03) to Rs.12.94 crore (2005-06). The Company has been earning profits since 2002-03 mainly due to income from application processing fee received from promotional activities and interest earned on investments. As a result Reserve and Surplus increased from Rs.2.02 crore to Rs.10.30 crore during the above period. For installation of 25 MW wind power project costing Rs.101 crore, the Company invested Rs.12.10 crore from its own sources and obtained (2004-05) a loan (lease finance) of Rs.88.90 crore from Power Finance Corporation (PFC), out of which Rs.78.31 crore were outstanding (31 March 2006). Similarly, the Company obtained (March to July 2006) another loan of Rs.29.75 crore from the Bank of Rajasthan to part finance for 10.2 MW wind power project at Jaisalmer costing Rs.48.40 crore. The Company paid to the State Government dividend of Rs.54.24 lakh (2004-05) and Rs.59.33 lakh (2005-06).

Promotional activities

Wind power projects

State's contribution in installation of wind power projects was 6.53 *per cent* of National achievement and the Company's contribution was 0.58 *per cent.*

2.1.8 Wind energy constitutes one of the largest sources of renewable energy. Against the national achievement of 7,111 MW of Wind Power Projects as on 31 March 2007, the State's contribution was 464.64 MW representing 6.53 *per cent* of the national achievement. The State contribution was far below as compared to contribution of Tamil Nadu (48.61 *per cent*), Maharashtra (20.88 *per cent*) and Karnataka (11.93 *per cent*). The Company's contribution of 41.55 MW was 8.94 *per cent* of the State's contribution and 0.58 *per cent* of nation's total achievement in wind power.

In order to increase generation of grid quality power from NCES through private sector, MNES issued (September 1993) guidelines for promotional and fiscal incentives to be given by the State Governments. Belatedly the State Government framed (March 1999) its first policy for generation of power through NCES in private sector. The policy was operative up to 31 March 2004.

Targets and achievement

2.1.9 As per the various Wind Policies notified up to March 2007, the targets of capacity addition and achievements there against are tabulated below:

Policy	Target (MW)	Achievements (MW)						
		Up to 01-02	02-03	03-04	04-05	05-06	06-07	Total
1999	Not fixed	4.25	-	-	-	-	-	4.25
2000	100	13.24	43.99	-	25.00	-	-	82.23
2003	250	-	-	114.4	59.89	24.00	-	198.29
2004	450	-	-	-	18.85	49.27	111.75	179.87
Total	**800**	**17.49**	**43.99**	**114.4**	**103.74**	**73.27**	**111.75**	**464.64**

Against the targeted capacity of 800 MW, the Company succeeded in providing only 464.64 MW (58.08 *per cent*) up to March 2007, out of which only 41.55 MW (8.94 *per cent*) was owned and commissioned by the Company. Audit observed, that, frequent changes in the policy by the State Government at the initiation of the Company, project installation capacity limitation in the policy and delay in approval of projects by the Company were the main reasons for non-achievement of targets. The MNES had estimated (March 2005) the State's gross potential of 5,400 MW for wind power. Against this, the Government fixed a target for generation of 800 MW (14.81 *per cent*). The Company failed to achieve the target despite the fact that the applications received for installation of wind power projects by the IPPs were more than the target fixed as discussed in subsequent paragraphs.

The Management in ARCPSE meeting stated (July 2007) that the targets were not achieved as the State Government frequently curtailed operative periods of the policies. The policies needed constant revision as the activity was an emerging field. The reply is not tenable in view of the fact that curtailment in policy periods was made at the initiation of the Company. Further in view of high wind power potential in the State as well as proposals from IPPs for installation of wind power projects, the Company could have achieved the targets during operative period of the policies.

Wind policy under NCES

2.1.10 The State Government notified (1999 to 2004) four Wind Policies under NCES. The table below indicates operative periods and salient features of the policies for generation of power through wind energy:

Policy	**Original operative period**	**Revised operative period and reasons thereof**	**Salient features**
Policy for Promoting Generation of Power through NCES 1999	11.3.1999 to 31.3.2004	11.3.1999 to 3.2.2000 as separate policy for installation of 100 MW capacity from wind energy was notified.	(i) REDA was nominated as nodal agency to facilitate clearance of projects. (ii) Setting up of State Level Advisory Council (SLAC) for monitoring the progress of generation of electricity, to review the policy and to advise the State Government.
Policy for Promotion of Electricity Generation from Wind 2000	4.2.2000 to 31.3.2004	4.2.2000 to 29.4.2003. As a new policy in the wake of encouraging growth of wind power projects in the State and reduction in installation cost was notified on 30.4.2003.	(i) Corporate entrepreneurs (developers) having experience of setting up 7.5 MW wind generation capacity or manufacturers of wind energy generators were eligible for development of wind energy farm. (ii) The developers were to arrange investors for installation and commissioning of projects.
Policy for Promotion of Electricity Generation from wind 2003	30.4.2003 to 31.3.2009	30.4.2003 to 24.10.2004	(i) Reduction in power purchase price for electricity purchased by RRVPNL/Discoms from the power producers
Policy for Promoting Generation of Power NCES 2004	25.10.2004 to date	Not revised	(i) Introduction of single window clearance of the project within a period of one month by constitution of long awaited State Level Empowered Committee (SLEC). (ii) Prior approval of SLEC before commencement of project activities. (iii) Time frame prescribed for commissioning of the projects *viz.* six to eight months for wind projects and 28 to 30 months for Biomass projects from the date of approval of the projects. (iv) Reduction in power purchase price.

Audit noticed that during currency of NCES 1999 policy, neither was the SLAC set up by the State Government as envisaged nor did the Company introduce any mechanism to monitor the progress of installation of power projects. Further, though the State had a large potential for wind power, the Company could install projects of 4.25 MW only.

Under the Wind Policy 2000, upto April 2003 ten developers applied with prescribed fee for development of wind farms of 494.93 MW (36 projects) at various locations in the State, out of which eight projects of 82.23 MW only were approved and commissioned. As the project is approved by the Company after allotment of land by the District Collector and approval of power evacuation plan by RRVPNL*, the remaining 28 applications for 412.7 MW were returned to the developers on notification of wind policy 2003 due to non-allotment of land till notification (April 2003) of new Wind Policy.

Under the Wind Policy 2003, 51 projects of 806.20 MW were registered up to July 2004. It was envisaged in the policy that it would not be obligatory for RRVPNL to purchase power beyond 250 MW. Audit noticed that the Company did not sanction the projects of sufficient capacity so as to commission the capacity up to 250 MW. Thus as mentioned above despite the great potential, the Company failed to tap this environment friendly source of energy as it was unable to back up the energy developers. Resultantly up to December 2004, projects of only 174.29 MW could be commissioned. One project of 24 MW, which was wrongly considered under this policy as discussed in paragraph 2.1.11 was commissioned in March-June 2005.

Other irregularities noticed under these policies are discussed in the following paragraphs:

Undue benefits to a private developer at the cost of State PSU

2.1.11 J.N. Investment and Trading Company (Developer) registered (December 2002) a project for development of 24 MW wind power project at Gorera, Jaisalmer. The developer identified Enercon Wind Farm, Rajasthan (EWR) as investor and the PPA between EWR and Discom was executed (July 2003) under Wind Policy 2003. The developer subsequently requested (December 2003) the Company to allow them to utilise this capacity by small investors in place of EWR for which PPAs were executed (February/March 2004) and the project was commissioned (March/April 2004). Thus, with the commissioning of the project the PPA with EWR became null and void.

EWR applied (January 2004) for development of a 24 MW wind power project at Soda, Jaisalmer. As land was not allotted till the announcement (October 2004) of new NCES policy, the application was returned (November 2004) with instruction to file fresh application under the new policy. The State Government amended (December 2004) the 2004 NCES policy to the effect that the projects where PPAs were executed but land was not allotted up to the date of announcement of new 2004 policy, may be allowed under Wind Policy

* Rajasthan Rajya Vidyut Prasaran Nigam Limited.

2003 subject to commissioning of the project by 31 March 2005.

Allowing the installation of project deviating the provision of NCES Policy 2004, resulted in payment of higher price of Rs.2.80 crore for purchase of power.

Despite the fact that no PPA with EWR for Soda project existed, the Company allowed (January 2005) EWR to install the project under Wind Policy 2003. The project at Soda was commissioned in April-June 2005. Allowing the installation of the project under Wind Policy 2003 was not in order, as, no PPA with EWR for Soda project had been executed under Wind Policy 2003. The power purchase price in wind policy 2003 was higher than the price allowed in NCES Policy 2004. This has resulted into payment of higher price of Rs.2.80 crore by Jodhpur Vidyut Vitaran Nigam Limited (Jd.VVNL) for purchase of power during 2005-07. This would further result into extra payment of Rs.30.23 crore on purchase of 306.26 lakh units of electricity per year during next 18 years period of PPA.

The Management stated (June 2007) that the Company permitted EWR to set up project at Soda under Wind Policy 2003 in accordance with the amendment (December 2004) in the policy. The reply is not tenable as neither the PPA was signed nor land was allotted for the Soda project till announcement of NCES policy 2004. Moreover the PPA signed (5 July 2003) with EWR for Gorera project was project specific which, after commissioning of the Gorera project by other investors, became null and void, thus allowing PPA signed for Gorera project against Soda project was unjustified.

Time taken in approval of projects

2.1.12 The State Government, in NCES Policy 2004 introduced single window clearance of the projects and for this purpose constituted a State Level Empowered Committee (SLEC) headed by Additional Chief Secretary (Infrastructure). The SLEC was to give approval to the projects within one month of in-principle clearance by the Company. The Company was to give in-principle clearance after satisfying that the plan/layout of the project was in accordance with the standard guidelines of MNES and acceptance of the grid interfacing arrangement by RRVPNL/Discom was available.

Excess time in approval of the projects deprived the state of 2,272 lakh units of electricity.

Proposals for 41 projects of 1,095 MW capacity were received (up to March 2006) under NCES Policy 2004. The SLEC approved 19 projects of 312.48 MW capacities up to November 2006 (**Annexure-10),** against which projects of 106.62 MW were commissioned (March 2005 to November 2006) and remaining projects are under commissioning. Audit observed that out of 19 projects approved by SLEC, eight projects in which land had already been allotted under the previous policy, the approval of projects took 7 days to 11 months. In other 11 projects, the time taken for approval ranged between 6 to 21 months. The delay in approval of projects was mainly due to inordinate delay in vetting the application by the Company and grant of approval for power evacuation arrangement by RVPN/Discom. Thus, the objective of speedy approval of the projects through single window clearance was defeated and as a result the projects could not be commissioned in time depriving the State of 2,272 lakh units[*] of electricity.

[*] Capacity in kilowatt x delay in days x 24 hours x plant load factor of 13 *per cent*.

Initiation of project activities without project approval

Deviating from the provisions of policy, the Company allowed grid connectivity without levy of penalty of Rs.3.03 crore.

2.1.13 The NCES Policy 2004 also provides that the developer would initiate project activities only after approval is granted by SLEC. It was noticed that the Company did not have a system of monitoring the progress of project activities of IPPs. Audit review of data of SLEC approval and project commissioning revealed that in 13 (out of 41) projects (**Annexure-11)**, the developers/power producers had initiated project activities without SLEC approval. Thus five power projects (**Annexure-11**) of 18.85 MW were commissioned (March 2005) on the same day or next day of SLEC approval. To prevent the practice of IPPs to commence the project activity without obtaining approval of SLEC, the State Government, through amendment (February 2006) in the policy provided that in case of initiation of project activity without approval of SLEC, the grid connectivity to such project would be allowed only after payment of penalty of Rs.5 lakh per MW to the Company. The Company, however, in eight projects (commissioned after the amendment) allowed grid connectivity without levy of penalty of Rs.3.03 crore as specified in the policy.

The Management stated (June 2007) that the role of the Company was to facilitate private investment and any officialdom nature of working, where there seems no loss to the State, may curtail investment in the State. The reply is not tenable as the decision of recovery of the penalty was a conscious decision of the Government to restrict initiation of project by IPPs without approval of SLEC as mentioned above.

Delay in execution of PPA

The Company's failure in its role of facilitator resulted in deprival of revenue of Rs.4.45 crore to the IPPs.

2.1.14 After approval of the project by the SLEC, the IPP submits the PPA to the Company for forwarding the same to RRVPNL/Discoms for execution. Despite timely submission of the draft PPAs to RRVPNL/Discoms by the Company, PPA of 44 IPPs were executed after 12 to 142 days of the commissioning of the projects as detailed in **Annexure-12**. Audit observed that neither the Company nor IPPs pursued timely execution of PPAs, which resulted in deprival of revenue of Rs.4.45 crore to the IPPs. Thus, the Company failed in its role of facilitator to extend the required assistance to the IPPs in execution of the PPAs, the adverse impact of which on development of wind power projects in the State cannot be ruled out.

The Management stated (June 2007) that the signing of PPAs depended on all the parties including investors themselves and in some cases the investors were not in a position to get the PPAs executed due to their non-availability on the specific dates. The reply itself speaks that except the cases where the investors were short of time on the specific dates, the Company has no justification for delay in other cases. Further, the Company failed to evince the efforts made for arranging suitable dates for execution of PPAs.

Biomass Power Projects

2.1.15 Biomass is a renewable energy resource derived from the carbonaceous waste of various human and natural activities. It is derived from numerous sources, including by-product from the timber industry, agricultural crops, raw material from forest, major part of household waste and wood. Rajasthan has immense potential in the form of Julie flora, mustard husk, rice husk and other agricultural residues for the biomass fuel. The State Government initiated (1999) the programmes for generation of power from biomass fuel and issued the policy (1999 and 2004).

Biomass Policy under NCES Policy 1999

2.1.16 The State Government issued (March 1999) NCES Policy 1999 including generation of power from biomass fuel. The policy did not contain any targets for commissioning of biomass power projects. The erstwhile REDA was nominated as nodal agency for promotion of biomass based power project. No biomass based power project came up during the regime of REDA as nodal agency. In absence of records, the efforts made by REDA and reasons for failure thereof could not be analysed by audit. The Company, after coming into existence, initiated (2002-03) action for installation of two biomass based power projects of 1 MW each but failed to install the projects, the reasons thereof were not found on record.

Later on five entrepreneurs executed (August 2000 and March 2003) eight PPAs for installation of 116.3 MW capacity biomass based power projects. Out of these, even after more than five years of PPA execution, only four plants of 31.3 MW capacity were commissioned till March 2007 and two projects of 15.5 MW were in progress and are expected to be commissioned by September 2007. As IPPs were not coming forward after execution of PPAs, the PPAs for 69.5 MW capacity have been cancelled without enquiring into the reasons for unwillingness of the IPPs.

Thus, it was observed in audit, that in the absence of close monitoring of implementation of projects, the power producers had either withdrawn their projects or delayed commissioning of the projects. Resultantly, the State was deprived of the possible power generation from these available renewable resources.

The Management stated (June 2007) that at that time the biomass power sector was in a nascent stage grappling with initial teething troubles and the Company took various initiatives to solve these problems including several meetings at various levels. The fact remains that the Company failed in its duty of facilitator and tangible results could not be achieved.

Biomass Policy under NCES Policy 2004

Reduction in tariff without proper analysis of cost of generation caused delay in installation of biomass based process projects.

2.1.17 The State Government introduced (October 2004) a new policy for all the NCES based power projects including biomass. Under the 2004 Policy, 15 biomass based projects of total 144.6 MW capacity were registered (December 2004 to September 2006), out of which one project of 15 MW capacity was commissioned (December 2005) by a private entrepreneur for captive use and two projects (15.6 MW) were cancelled/withdrawn. In the remaining 12 cases, the Company neither granted approval, nor did it sign any PPA. It was noticed that in 2004 Policy, the State Government without proper analysis of cost of generation reduced the tariff, as a result, IPPs did not come forward for one year for installation of power projects.

Later on Rajasthan Electricity Regulatory Commission (RERC) sought (November 2005) opinion of the Company/IPPs about justified tariff. The Company/IPPs suggested for increase in the tariff. The issue was decided (March 2007) by RERC by increase in the tariff. Thus, due to lower tariff coupled with uncertainty about the tariff rates for a considerable period no significant progress was achieved in installation of biomass based power projects despite adequate potential in the State.

Rural Electrification under PMGY

2.1.18 Remote villages were envisaged to be electrified through 10 KW solar power plants by providing 150-Watt connection to each household for a minimum of 50 households with the financial assistance received from the MNES. The MNES scheme aimed at electrification of villages located in forest or desert area, which was not feasible for electrification, by the Discoms. The other scheme was solar home lighting system of households by installing two solar module of 37 watt each. The Union Ministry of Power (MoP) covered rural electrification as one of the areas under PMGY from the year 2001-02 and issued (September 2001) guidelines for implementation of the scheme targeted for electrification of all villages by March 2007. The proposal of funds duly approved by the State Level Monitoring Committee (SLMC) was to be sent annually to MoP. The funds allocation (Rs.10.80 crore for 2001-02) for rural electrification through conventional system was considered insufficient by the State Government. The Secretary Energy of the State, hence, obtained (October 2001) approval of the Planning Commission to allow rural electrification through non-conventional and renewable resources. The Company installed (March 2007) 77 solar power plants at a total cost of Rs.31.47 crore against the target of 107 power plants up to the year 2004-05. The scheme was discontinued from year 2005-06.

Scrutiny of records of generation of power by these Solar Power Plants (SPP) revealed that the Company had given (2001-04) connection to 2097 households from 73 power plants, with an average of 29 households per plant, with load of 100 watt each against the targeted 50 households with load of 150 watt each. As a result of connecting low load with these power plants, the actual power generation of 10 KW Solar plants was 29.38 *per cent* of the potential generation. Thus provision of 77 SPP at a cost of Rs.40 lakh per SPP for electrification of 29 houses per SPP was hardly cost effective especially when the SPP output was also not as per capacity. It was noticed that neither did the scheme provide detailed guidelines for implementation, nor, did the Company carry out any feasibility studies to assess the required plant capacity according to demand of intended consumers, before installation of the plants.

It was also observed, that, the cost of electrification by installing two modules of 37 watt of solar home lighting system per household along with cost of change of battery after four years was Rs.36,000, whereas the cost per household through 10 KW solar power plant was Rs.1.42 lakh. Looking to the unwillingness of villagers and lower consumption of power by the households, the cheaper mode of electrification appeared more feasible. The Company electrified 2,097 households of 73 villages through 10 KW solar power plants during three years 2000-01 to 2003-04 and spent Rs.29.84 crore which could have been done in Rs.7.55 crore through solar home lighting systems. This resulted in avoidable infructuous expenditure of Rs.22.29 crore which could have been used for electrification of further 6,192 households under solar home lighting.

The Management stated (June 2007) that the decision for electrification through 10 KW solar power plants was taken by the State Government. Further, electrification of villages is more of social upliftment rather than commercial consideration and hence there was no need to carry out cost effectiveness of the mode of electrification. The reply is not tenable as the exercise to assess cost-effectiveness and pilot projects first would have benefited electrification of more households in rural areas.

Extra expenditure on distribution lines

Deviation from the guidelines resulted in extra expenditure of Rs.1.44 crore.

2.1.19 As per the guidelines (December 2001) of the State Government, priority was to be given to villages having households in clusters to economise on stringing[♣] of lengthy lines. The Company called for the tenders (January 2002 and January 2004) for electrification of 45 villages with the tentative estimate of stringing of 2 Kms distribution lines and 20 villages with stringing of 3 Kms distribution lines. As per work orders, the contractor was to prepare a project report before commencement of the work on the project. Though, the project reports were prepared by contractor, he did not mention the length of lines. Audit noticed that in 19 villages (out of 65) the actual length of distribution lines was up to 8.5 Kms as against the estimated length of 2/3 Kms. Contravention of guidelines resulted in extra expenditure of Rs.1.44 crore.

The Management stated (June 2007) that selection of villages could not be made on the basis of clustered houses and excess lines were laid to cater to the maximum number of beneficiaries. The reply is not tenable as the State Government guidelines provided prioritization of villages having houses in clusters. Further, the Company did not pay attention to the actual length of

♣ laying of overhead electricity distribution lines.

lines before commencement of work to ensure economy.

Short recovery of liquidated damages

2.1.20 For installation of 10 KW solar power plants under PMGY, the Company issued work orders for 22 villages in 2001-02, 38 villages in 2002-03 and 27 villages in 2003-04. As per terms of the work orders, the plants were to be commissioned within 24 weeks of the allotment of sites. In case of delay, liquidated damages (LD) equal to 2.5 to 10 *per cent* of contract value according to the extent of delay was leviable on the contractors. It was, however, seen that out of 77 plants commissioned up to March 2007, 30 plants were commissioned with delays of 5 to 246 days totalling to a cumulative delay of 2,724 days. The Company did not recover/short recovered LD of Rs.30.35 lakh in respect of 11 villages where delay was attributable to the contractors as detailed below:

S. No.	Name of village	LD Short recovered (Rs. in lakh)	Reasons for waiver/non-recovery	Audit observation
1	Bhawatra, Juwarawa and Pal GP	4.94	LD @ Rs. 100 per day was recovered instead of LD on percentage basis.	LD @ 2.5 *per cent* to 10 *per cent* was to be recovered as done in other cases.
2	Punron Ki Basti, Choria Khata Nibhera, Asha Ki Guari and Marmada	13.72	Delay in recovery of beneficiary share, for which contractors were not liable.	Beneficiary share was recovered before handing over the sites to the contractors hence delay was on part of contractors.
3	Bhaopur	3.66	Penalty was recovered considering the date of handing over the site as 20.10.2004.	The site was actually handed over on 25.3.2004 and substantial work had been done by 20.10.2004.
4	Maharajpura and Chacheri	8.03	The date of commissioning of the plants was considered as 17.10.2005.	The actual dates of commissioning of the plants were 11.1.2006 and 17.2.2006, respectively.
Total		**30.35**		

Loss due to lack of follow up in arbitration

2.1.21 Tenders for installation of 10 KW SPP in 38 villages under PMGY 2002-03 were opened (December 2002). The offer of Suntime Energy Limited, Mohali (SELM) for Rs.32.30 lakh per plant was found lowest for 10 villages. After acceptance of the offer, the Company asked (January 2003) SELM to submit the detailed project profiles for electrification of 10 villages, which was submitted (January 2003) by SELM. Later on SELM intimated

(January 2003) that there was a clerical error in their bid in one item which was wrongly written as Rs.47,000 instead of Rs.4,70,000. The Company rejected the request and issued work orders (February 2003) for installation of plants in eight villages at a cost of Rs.32.30 lakh per plant as sites of two villages were not available.

After issue (May 2003) of a reminder by the Company SELM accepted (June 2003) the work order and executed (July 2003) agreement. SELM also deposited the bank guarantees towards mobilisation advance (Rs.25.84 lakh) and performance security (Rs.38.76 lakh) based on the rate quoted by it. The Company released (July 2003) the mobilization advance.

SELM did not start the work and again requested (May 2004) for increase in price. The request was not acceded (June 2004) to by the BOD as the revision in price was demanded after opening of tenders. The BOD also decided to invoke the BG and to take legal action. SELM approached (September 2004) the District Court, to stay the invocation of BG but the Court rejected the appeal. The Company invoked (August 2004) the BG of Rs.64.60 lakh and received (October 2004) the amount and terminated (January 2005) the contract. The work was got executed (July 2005) at the risk and cost of SELM at an extra cost of Rs.41.04 lakh.

SELM, however, approached (February 2005) the Secretary (Energy), Government of Rajasthan to decide the matter as an arbitrator under clause 2.36 of the tender documents. The Company did not depute any senior advocate/senior officer of the Company to pursue the matter in arbitration. The Secretary, Energy as a sole arbitrator passed (August 2006) the arbitration award for refund of Rs.38.76 lakh to SELM.

Despite having strong arguments in its favour the Company extended undue benefit of Rs.41.04 lakh instead of defending on the matter in the Court of law.

Audit observed that the Company, in spite of having strong arguments in its favour, neither filed an appeal in the Court of law against the arbitration award nor filed a suit for recovery of extra expenditure incurred by it to get the work done. Contrary to it, the Company refunded the available security amount of Rs.38.76 lakh. Thus, the Company extended undue benefit to SELM by not enforcing the risk and cost clause which resulted in loss of Rs.41.04 lakh to the Company as MNES will not reimburse it for the extra cost.

The Management stated (June 2007) that there was no sufficient ground for the Company to go in for appeal against the arbitration award as per legal opinion received. The reply is not tenable in view of the fact that the legal opinion was obtained from an expert in environmental matters, which was contradictory to the earlier opinion (May 2003) of an advocate and the decision of the District Court.

Solar Photovoltaic Programme

2.1.22 MNES issues guidelines and provides yearly targets and Central Financial Assistance (CFA) to the States for promotion of Solar Photo Voltaic (SPV) as environmental friendly solar energy in rural areas. The State

Government also provides yearly targets and funds under this programme. Subsidy equivalent to 50 *per cent* of the cost of the Solar Home Lighting System (SHS) or amount specified by MNES, whichever is less is provided to eligible beneficiaries under the programme. Position of targets, achievements, availability of funds and utilisation thereof during 2001-02 to 2005-06 is given below:

Year	Physical Target (No.)		Physical Achievement (No.)		Financial Allocation (Rs. in lakh)		Expenditure (Rs. in lakh)	
	MNES	State	MNES	State	MNES	State	MNES	State
2001-02	6000	2504	6000	1000	342.00	137.69	342.00	55.00
2002-03	10000	1602	10000	2386	570.00	88.10	570.00	131.23
2003-04	10466	2615	10466	1667	497.14	119.00	497.14	75.85
2004-05	Nil	3138	Nil	Nil	Nil	142.80	Nil	Nil
2005-06	1621	6868	1621	10006	77.00	318.97	77.00	461.72
2006-07*								
Total	**28087**	**16727**	**28087**	**15059**	**1486.14**	**806.56**	**1486.14**	**723.80**

Lack of planning caused wide variations ranging from zero to 148.94 *per cent* in achievement as compared to targets.

It is seen from the above that against the target of 16727 SHS under the State Grant, the achievement was 15,059 SHS. There were wide variations ranging from zero to 148.94 *per cent* in achievements as compared to targets under State grant in all the five years which is indicative of lack of planning in implementation of the programme. Further, no SHS was installed (2004-05) due to non-finalisation of tenders according to the guidelines issued by MNES. The lesser installation of SHS led to deprival of basic facilities of power to the people in remote areas.

Defective procurement system of SHS

2.1.23 In order to streamline the process of procurement and installation of SHS by State Nodal Agencies (SNA), MNES constituted (December 2003) a Joint Implementation Board (JIB), which included Chief Executive Officers of all the SNA and some other members. Based on the tendering process finalised by JIB, MNES communicated (May 2004) maximum rate of Rs.9850 each for 37-Watt capacity module and a panel of 15 manufacturers for supply, installation and maintenance of complete systems of SHS in Rajasthan.

Despite having manpower for identification of beneficiaries and collection of their share, the work was got done through contractor at a cost of Rs.5.41 crore.

The Company invited (June 2004) 11 suppliers (out of the panel of 15) for discussion to supply, install and commission 15,000 SHS. In addition to the scope of the work decided by JIB, the Company included additional work of identification of beneficiaries in villages and collection of their share of cost in the scope of work.

The work for installation of 11,625 SHS including the scope of identification of beneficiaries and collection of their share was awarded (October 2005) to REIL and TATA BP with an additional cost of Rs.4,652 per SHS towards the increase in scope of the work. Audit noticed that the Company had deployed nine project officers for implementation of SPV programme in the State.

* Figures yet to be compiled by the Company.

During the review period, only SHS was implemented by the Company under SPV. The project officer's work was, therefore, limited to identification, collection of beneficiaries share and inspection of installed SHS. It was observed that the Company did not identify any targets for these Project officers for achievement of their assigned duties. Further, the Company without analysis of actual work load of the project officers and cost benefit analysis of alternate mode awarded the work of identification and collection of share from the beneficiaries to the supplier at an additional cost of Rs.5.41 crore for installation of 11,625 SHS.

The Management stated (June 2007) that it has very thin staffing in the field to manage work of beneficiary motivation, beneficiary selection and collection of beneficiary share in the field. The reply defies logic of having field offices without carrying out the basic duty of motivation and identification of beneficiaries.

Commercial activities

Wind power projects

2.1.24 The Company has installed and commissioned its own three demonstration wind power plants of 2 MW, 2.25 MW and 2.10 MW at Jaisalmer, Devgarh and Phalodi in April 2000, August 2000 and April 2001 respectively. A 25 MW wind power plant was commissioned (July 2004) at Jaisalmer. Another wind power plant of 10.2 MW capacity was commissioned (March/May 2006) at Akal, Jaisalmer. The power generated by these plants is sold to RRVPNL/Discoms at the rates specified in the respective PPA. Audit observed that against the 5,400 MW wind power potential in the State, the Company has set up the power plants of 41.55 MW representing 0.77 *per cent* only defeating its objective of development of wind power plants. The deficiencies noticed in audit are discussed below:

Loss due to delay in registration of 25 MW wind power project under Clean Development Mechanism

2.1.25 To save the Earth from green house gases (GHG) a number of countries including India signed the 'Kyoto Protocol' (Protocol). Article 3 of the Protocol targeted reduction of emission of GHG by five *per cent* in the developed countries. Power plants based on renewable energy sources do not emit GHG; hence developed countries could achieve their targets for reduction of GHG by setting up such plants. Further, if the developed countries were unable to erect such renewable energy plants in their country, they could book the savings of GHG of such plants installed in developing countries in their account by paying some money to the concerned country. The booking of such saving of GHG is called purchase of Certified Emission Reduction (CER) and the whole system is named Clean Development Mechanism (CDM).

For sale of CER, registration of the power plant is required as a CDM project with United Nations Framework Convention on Climate Change (UNFCCC). The power plants that commenced operations on or after 1 January 2000 were eligible for registration retrospectively provided a request was submitted for validation before 31 December 2005 to Designated National Authority (DNA). In India, the Union Ministry of Environment and Forest (MOEF) is nominated as DNA.

Despite involvement in installation of wind power project since April 2000, the Company failed to register its projects under CDM, which led to not getting credit of Rs.8.97 crore.

Despite involvement of erstwhile RSPCL in installation of such projects since April 2000 and of the Company since June 2003, no initiative was taken for registration of such plants and for sale of CER. Later in a meeting (December 2004) in MOEF, in which a representative of the Company was also present, the issue of registration under CDM was discussed. No prompt action was, however, taken for getting its 25 MW project registered under CDM. The Company invited (May 2005) short-term tenders for appointment of a consultant for facilitation of CDM, but due to vague terms and conditions of tender the State Government did not accord its approval. Almost a year later, the Company appointed (March 2006) Senergy Global Private Limited as consultant for registration of the plant under CDM for prospective period. The work for registration was in progress (March 2007).

It was noticed that Rajasthan State Mines and Minerals Limited (RSMML) had successfully registered its plant before 31 December 2005 and got credit for CER retrospectively. Due to delay and faulty tendering, the Company failed to sell 1,40,890 CER of 25MW plant retrospectively (19 July 2004 to 18 June 2007) at Rs.636.36 per CER totalling Rs.8.97 crore.

The Management stated (June 2007) that CDM phenomenon was not widely discussed and it was not easy to get projects registered as CDM projects during that time. Further, not a single project from wind sector was registered from India up to December 2005. The reply is not tenable as RSMML, which was a developer of wind power project successfully got CER credits.

Mini Hydel Project

Avoidable infructuous expenditure

2.1.26 The State Government declared (January 2000) the erstwhile RSPCL (now RRECL) as the implementing agency for small hydel power projects up to 25 MW and transferred (February 2000) the Jakham Hydel Power Project (2x2.75 MW) from erstwhile Rajasthan State Electricity Board (RSEB) to the Company for execution. The project was to be installed in the centre of Sitamata wild life sanctuary. The Supreme Court imposed (February 2000) an absolute embargo on any activity in Sanctuaries and stayed the operation of any order to this effect passed by the State Governments. Despite the ban of the Apex Court, an expenditure of Rs.28.37 lakh (2000-01 to 2002-03) was incurred on study of technical viability, advertisement for inviting tenders and salary and allowances. The project was called off (October 2004). As a result the entire expenditure proved unfruitful.

The Management stated (June 2007) that the Company came to know only on 30 May 2003 about the decision of the Supreme Court and all the major expenses were incurred prior to notice of this decision. The reply is not acceptable as the Company in its letter dated 6 August 2001 to the State Government had mentioned about the judgment of the Apex Court.

Solar Power Project

Avoidable infructuous expenditure

2.1.27 MNES issued (September 2002) a scheme for providing maximum grant of Rs.2 crore covering two-third of the project cost for installation of grid connected solar power plants. In view of the poor availability of the grid in the rural areas, the Company applied (March 2003) to MNES for setting up a 100 KW grid interactive Solar Power Plant with a battery bank at village Gorir, district Jhunjhunu at a cost of Rs.2.85 crore. MNES, however, sanctioned (March 2003) establishment of 100 KW grid interactive power plant without battery bank with financial assistance of Rs.1.90 crore.

To ensure grid availability at least for twelve hours in the day time, as required by Ajmer Discom, the Company constructed a separate 11 KV feeder from Mehara to Gorir and commissioned (21 June 2004) the plant at a cost of Rs.2.55 crore. As against the estimated annual generation of 1.74 lakh units, the generation from the plant was very poor at 7,260 units, 40,168 units, and 22,184 units during 2004-05, 2005-06 and 2006-07, respectively due to availability of the grid between 2.30 PM and 6 PM only as against twelve hours as envisaged. Audit observed that the Company installed the plant without obtaining a firm commitment regarding availability of the grid from Ajmer Discom and did not take prompt action for ensuring grid availability due to which the expenditure of Rs.2.55 crore proved uneconomical. It was further observed that out of the grant of Rs.1.69 crore to be received from MNES, an amount of Rs.63.41 lakh is still outstanding; the reasons thereof are not on record.

The Management stated (June 2007) that the project had been developed to carry out Research and Development (R&D) in the area of power electronics and generation of power from SPV system and that the Company was making all out efforts to receive the remaining amount from MNES. The reply is not tenable as the Company already had the experience of installation of two 25 KW grid interactive solar power plants in the State. Further, they went ahead with the project without firm commitment of grid availability which was essential for grid interactive power plant.

Internal control and internal audit system

2.1.28 Internal control is a management tool to ensure that the objectives are achieved in an effective and orderly manner, assets are safeguarded and rules and procedures are complied with. For documentation of rules and procedures of various activities of the Company and duties and responsibilities of the employees executing such activities, the Company had not formulated manuals particularly the Accounts manual, Purchase manual, Works manual, manual for implementation of various scheme/programmes and Project clearance manual, even after its existence for more than 10 years. Statutory auditors in their audit reports had repeatedly commented that internal control procedure in respect of purchase of stores, plant & machinery, equipments and other assets needed strengthening.

The Company had no internal audit system prior to the year 2005-06. The system was introduced in the Company in 2005-06. The Company did not have an Internal Audit Wing or Internal Audit Manual nor had it prescribed any Internal Audit Standards. The internal audit was got conducted from a firm of Chartered Accountants. It was observed in audit that internal audit done by the firm was deficient, as it did not cover examination of records relating to selection of villages and beneficiaries under PMGY and RE programme and clearance of the power projects of IPPs. It was also observed in audit that the copies of reports were forwarded to the respective heads of the departments but no compliance was reported back as there was no compliance mechanism on internal audit observations. Statutory auditors in their reports had commented that looking to nature and size of the Company, the internal audit system needed further strengthening. Though the Audit Committee discussed the internal audit report, yet the Committee as well as the Management has not taken action for improvement of the internal audit system.

Conclusion

The performance of the Company with regard to promotion and development of generation of power through non-conventional energy sources was not satisfactory. No corporate long term or short term strategies were formulated. Frequent changes in the policy for promotion of renewable energy sources, fixation of low targets, lack of adequate monitoring over progress of the power projects of developers, delay in approval of projects by SLEC, delay in execution of PPA between IPP and Discoms and other deviations in implementation of provisions of the policies contributed to installation of less number of power plants in comparison to the potential. Absence of cost benefit analysis in installation of 10 KW solar power plants under PMGY and defective tendering system for procurement of solar home lighting system also deprived the rural population of basic need of electricity. The Company incurred infructuous expenditure in installation of its own solar and mini hydel power plants due to improper selection of sites.

Recommendations

The Company needs to:

- **formulate corporate long term and short term strategic plans in consultation with the State Government so that the confidence of the IPPs in the Company increases. The Company must learn to build on gains;**
- **spread awareness of renewable energy resources and create a strong public sentiment;**
- **encourage infrastructure services across the State through public private partnership;**
- **fix reasonable targets in accordance with the potential of non-conventional energy resources available in the State;**
- **conceive and implement an effective system of monitoring, risk assessment and risk analysis of the power projects of IPP from planning stage to execution so as to avoid delay at various stages of implementation;**
- **undertake proper surveys/cost-benefit analysis while taking decisions for implementation of a scheme/project;**
- **observe necessary financial canons of propriety so as to execute the works at minimum cost; and**
- **strengthen internal control and internal audit system.**

2.2 Rajasthan State Industrial Development and Investment Corporation Limited

Performance Audit on Financial and Investment Activities

Highlights

The Company sustained losses in three out of five years ranging Rs.7.13 crore (2004-05) to Rs.15.84 crore (2001-02) in its investment activities except in the years 2002-03 and 2005-06.

(Paragraph 2.2.7)

The targets for sanction of term loan were kept lower than the actual loan proposals accepted in all five years (2002-06).

(Paragraph 2.2.9)

The Company sanctioned loans after delays ranging between 3 to 164 days against 60 days as prescribed in the Industrial Policy, 1998.

(Paragraph 2.2.10)

The Company did not sanction loan to any unit in 5 of the 11 thrust sectors and 4 of the 11 thrust geographical areas notified in the Industrial Policy, 1998 and thus failed to ensure sectoral and geographical industrial development of the State.

(Paragraph 2.2.17)

Due to lack of action under State Financial Corporation Act in respect of 5 cases, the Company sacrificed Rs.6.39 crore

(Paragraph 2.2.23)

The Company settled (2002-06) an outstanding amount of Rs.75.48 crore, for only Rs.27.84 crore in 34 cases and thus sacrificed Rs.47.64 crore under One Time Settlement Scheme (OTS).

(Paragraph 2.2.24)

Out of 39 units involving outstanding dues of Rs.57.84 crore, 37 units were sold at a deficit of Rs.27.76 crore constituting 48 *per cent* of the total dues.

As on 31 March 2006, 34 units involving outstanding dues of Rs.51.20 crore were lying unsold for which the Company had to incur expenditure of Rs.91.16 lakh on their watch and ward.

(Paragraph 2.2.26)

In 76 units, the market value of investment made at a cost of Rs.28.93 crore reduced to Rs.13.60 crore resulting in erosion of over 47 *per cent* of the Company's investments as on 31 March 2006.

(Paragraph 2.2.33)

Lack of proper follow-up action in terms of buy-back agreements, disinvestment of Rs.11.16 crore in 42 equity investment cases was overdue as on 31 March 2006.

(Paragraph 2.2.35)

Introduction

2.2.1 The main objective of Rajasthan State Industrial Development and Investment Corporation Limited (Company) is to develop industrial areas and promote entrepreneurship by providing aid, assistance and finance to industrial undertakings, projects or enterprises. The Company provides long-term loan/working capital loan and participates in their equity capital either on buy-back arrangement with the promoters of the entity or otherwise.

The application of an entrepreneur for Term-loan/Working Capital Term Loan (WCTL)/Equity Capital is appraised at three stages *i.e.* Project Appraisal Team (PAT), Initial Project Clearance Committee (IPCC) and Financial Assistance Approval Committee (FAC). The PAT conducts preliminary appraisal of the project and prepares its report for consideration of IPCC. The IPCC take a *prima facie* view on acceptance or rejection of a loan application. The FAC considers mainly the technical aspects and cost of the project, proposed financing pattern, marketing and selling arrangements, profitability /cash flow and risk factors of the proposed project.

The loan applications accepted by FAC are submitted with detailed appraisal memorandum to the Managing Director (MD)/Industrial Committee/Board of Directors (BOD) for sanction of loans/equity. The State Industrial Policy, 1998 prescribed a time limit of 60 days for sanction of a term-loan from the date of receipt of loan application from an entrepreneur. The sanction is conveyed to the entrepreneur by a Letter of Intent (LOI) with instructions to complete the requisite formalities. On satisfactory completion of these formalities, disbursement of the loan amount is made in accordance with the stage of completion of the project. The loan along with interest is recovered in instalments on due dates. In cases of default, action is taken for recovery as per the provisions of the State Financial Corporations Act, 1951 (SFC Act).

The sources of finance of the Company comprises equity capital, borrowings from the Government, refinance loans from IDBI[*]/SIDBI[**] and retained earnings. The Company had stopped (2002-03) availing refinance from IDBI/SIDBI. The Company also obtains loans from commercial banks as and when required. The Company undertakes two types of activities *i.e.*,

[*] Industrial Development Bank of India

[**] Small Industrial Development Bank of India

infrastructure development and investment. The Company procures funds and utilised for both of its activities without any segregation, therefore, segregation of funds for investment activity alone is not possible.

The management of the Company is vested in a BOD consisting of nine directors, including a Chairman and a MD as on 31 March 2007. The MD is the Chief Executive of the Company who is assisted by an Executive Director (post lying vacant since June 2005) and a Financial Advisor.

The investment activity of the Company for the four years from 1996-97 to 1999-2000 was last reviewed in the Report of the Comptroller and Auditor General of India for the year 2000-01 (Commercial). The Report has been discussed (September 2006) by the Committee on Public Undertakings (COPU).

Scope of Audit

2.2.2 The present review conducted during April 2006 to March 2007 covers the performance of the Company with regard to investment activity for the period of five years (2001-02 to 2005-06). The audit findings are based on test check of records of appraisal, disbursement, with follow-up and recovery cells at the Company's head office at Jaipur. Audit reviewed 340 different types of cases (47.62 *per cent*) out of total 714 cases. Selection of cases was made on the basis of quantum of loan amount, sector and geographical area, and amount under default (overdues/deficit). All the 215 cases of term-loan defaulters, equity investment and disinvestments were reviewed.

Audit Objectives

2.2.3 Performance audit on financial and investment activities of the Company has been conducted in order to evaluate and assess whether the Company has:

- formulated a corporate plan both short-term and long-term for financing activities aimed at fast industrial development of the State, and to attract entrepreneurs by offering competitive finance;
- formulated its term-lending schemes in consonance with industrial policy of the State and successfully implemented the same;
- carried out a transparent assessment of risk associated with sanction and disbursement of term-loans and in providing equity assistance and incorporated in its procedures controls/checks for minimising such risks;
- put in place system and procedure for effective monitoring of recovery of its dues as per the SFC Act and ensured its proper application; and

- an efficient internal control system sufficiently sensitive to business risks and providing adequate assurance for safeguarding financial interests of the Company.

Audit Criteria

2.2.4 The performance of the Company has been assessed against:

- the State Industrial Policy;
- the instructions/guidelines of IDBI/SIDBI;
- the laid down policy and procedure of the Company in respect of sanction, disbursement and recovery of loans;
- the provisions of SFC Act; and
- the decision of BOD, executive instructions and circulars issued from time to time.

Audit Methodology

2.2.5 The following mix of audit methodologies has been adopted:

- scrutiny of records related to mobilization and deployment of resources;
- scrutiny of agenda and minutes of the Board meetings related to investment activity;
- review of records related to loan applications appraised by IPCC and FAC;
- verification of records relating to sanction of loans under various schemes;
- checking of records relating to recovery action against the defaulting assisted units; and
- interaction with the management at various levels.

Audit Findings

2.2.6 The audit findings were reported (April 2007) to the Government/ Company and discussed (July 2007) at a meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) where the Principal Secretary to the Government of Rajasthan, Industries Department represented the Government and the General Manager (Appraisal) and the General Manager (FR) represented the Company. The review was finalised after considering the views of the Government/Management. The audit findings are discussed in the succeeding paragraphs.

Working Results

2.2.7 The working results of the investment activities of the Company for the five years up to 2005-06 are given in **Annexure-13**.

It is seen from the Annexure that the Company sustained losses in three out of five years *i.e.* 2001-02, 2003-04 and 2004-05. Audit noticed that one of the main reasons of incurring losses was writing-off its dues amounting to Rs.60.31 crore and making provision for doubtful debts of Rs.15.56 crore during the three years ended 31 March 2006.

Audit further observed that the income from investment activities remained almost stagnant at Rs.42.59 crore (2001-02) to Rs.43.76 crore (2005-06).

Classification of Assets

2.2.8 In lines with the guidelines of the Reserve Bank of India, IDBI issued (March 1994) guidelines to classify the loan assets into the following four categories depending upon their chances of realisation:

		Up to 31 March 2005	**From 1st April 2005**
1.	Standard assets	where repayments are regular.	where repayments are regular.
2.	Sub-standard assets	where loan as well as interest remain overdue over a period of six months but not exceeding two years.	where loan as well as interest remain overdue for a period less than or equal to 12 months.
3.	Doubtful assets	where loan as well as interest remain overdue beyond two years.	where loan as well as interest remain overdue more than 12 months.
4.	Loss assets	where losses are identified but not written off at the end of the year.	where losses are identified but not written off at the end of the year.

The loan assets other than standard assets are known as non-performing assets (NPAs).

Total loan assets, standard loan assets, NPAs and percentage of NPAs to total loan assets for the five years up to 2005-06 were as follows:

(Amount: Rupees in crore)

S. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Standard loan assets	194.00	176.85	168.38	137.93	154.64
2.	Non-performing loan assets:					
	(a) Sub-standard loan assets	20.07	16.10	9.51	10.37	8.89
	(b) Doubtful loan assets	57.45	65.27	32.26	21.84	22.03
	(c) Loss assets	0.00	1.11	1.11	1.11	1.11
	Tota1 (2)	77.52	82.48	42.88	33.32	32.03
	Tota1 Loan assets (1 + 2)	**271.52**	**259.33**	**211.26**	**171.25**	**186.67**
	Percentage of NPA to total assets	**28.55**	**31.81**	**20.30**	**19.46**	**17.16**

Audit noticed that the steep decline in NPA from 31.81 *per cent* in 2002-03 to 17.16 *per cent* in 2005-06 was not due to recovery of outstanding dues but because of writing-off of Rs.27.08 crore of doubtful loan assets by the Company as given in **Annexure-13** and prepayments of loan accounts by loanees of the Company as indicated below:

(Amount: Rupees in crore)

S. No.	Years	No. of loan accounts	Amount of term loan prepaid	Amount of premium received
1	2001-02	-	-	-
2	2002-03	19	8.09	0.41
3	2003-04	15	12.44	0.32
4	2004-05	26	38.90	1.34
5	2005-06	14	8.34	0.35
	Total	**74**	**67.77**	**2.42**

Audit noticed that the main reason of premature repayment by the borrowers was non-competitiveness of the rate of interest of the Company, than those charged by peer financial institution, *i.e.*, RFC and Commercial banks particularly during 2002-03 to 2005-06.

Sanction of loan

2.2.9 A comparative statement showing the receipt of applications, sanctions and disbursements of term-loans during the last five years upto 2005-06 is given in **Annexure-14.**

It can be seen from **Annexure-14** that the targets for sanction of term-loans in all the five years were kept lower than the loan proposals accepted for sanction and thereby the Company was able to achieve its targets for sanction of term-loan during all the five years up to 2005-06 (except in 2001-02). On enquiry about the basis for fixation of these targets, the Management stated (January/July 2007) that fixing of target is an intermittent process and targets fixed for the year are not constraining factor for actual sanction being ongoing process. The targets usually based on the achievement/target during preceding years which can be treated as a planning tool without any implication on actual sanction. The reply is indicative of system defects, as the targets of sanction and disbursement were not based on preceding years as indicated in the annexure and Company has no long-term or short-term strategic plans. Further, without clear annual allocation of funds between the infrastructure and investment activities of the Company, with well set anticipated return, the process could not serve as a planning tool.

Scrutiny of records of appraisal and sanction of term loans revealed the following:

Delay in sanction of term-loan

2.2.10 The Industrial Policy, 1998 of the State, prescribed a time period of 60 days for sanction of term loan. Audit scrutiny revealed that out of 288 cases of sanction of term-loan during the period (2002-06), in 60 cases there were delays ranging from 3 to 164 days over and above the prescribed maximum period of 60 days. Further in 39 cases of delays of more than 30 days over the prescribed period, it was noticed that delays were attributable to the Company as it delayed calling for the desired information from the entrepreneurs/ financial institutions regarding project profile and antecedents of the promoters for its appraisal. It also delayed holding of the meetings of Industrial Committee for clearance of the projects. The Management stated (July 2007) that the delay in sanction occurred only in about 20 *per cent* cases and the reasons attributed were beyond the control of the Company. Reply is not tenable as reasons for delay in some cases were well within control of the Company as, mentioned above.

Cancellation/withdrawal of term-loan applications after sanction

2.2.11 It was observed that 30 entrepreneurs, to whom term-loans of Rs.56.22 crore were sanctioned by the Company during 2001-02 to 2005-06, had withdrawn their applications or had got their loans cancelled. The Company did not analyse the reasons of cancellation/withdrawal of loan applications after their sanction. Audit, however, noticed that Murarka Suitings Pvt. Limited, Bhilwara and Mewar Fabrics Pvt. Limited, Bhilwara withdrew their applications in view of higher rate of interest being charged by the Company in comparison with other financial institutions resulting not only in loss of business but also of interest revenue.

Sanction of term-loan without analysing market potential

2.2.12 The success of any industry largely depends on the market for its product hence in the appraisal of term loan proposal marketability plays a vital role.

The Company sanctioned (June 1999) term loan of Rs.1.71 crore to Sadhna Phosphate and Chemicals Limited (SPCL) for expansion of capacity of their Single Super Phosphate (SSP) plant from 66,000 tones per annum (TPA) to 99,000 TPA and Rs.2.46 crore to Manglam Phosphate Limited (MPL) for setting up a project for manufacture of SSP @ 66,000 TPA. During appraisal it was seen that the installed capacity of SSP plants in the country was 65 lakh TPA as against the demand of 36.93 lakh TPA. This vital feasibility factor was ignored by the Company while sanctioning the loans to these firms.

Sanction of loan without proper assessment of demand and supply position caused loss of Rs.3.38 crore.

It was noticed that SPCL and MPL failed in marketing their product and defaulted in payment from April 2001 to November 2001 respectively. SPCL incurred heavy losses and got itself registered (January 2005) with BIFR after erosion of its net worth. SPCL and MPL both applied for settlement of their dues under One Time Settlement scheme (OTS). The outstanding dues of Rs.5.12[*] crore of SPCL and Rs.3.41[**] crore of MPL were settled (June 2006) for Rs.3 crore and Rs.2.15 crore respectively. Thereby, the Company suffered a loss of Rs.3.38 crore due to Company's failure to assess marketability of their product when their proposals for loans were scrutinised.

The Management stated (January 2007) that all India consumption of phosphatic fertilizers (SSP, DAP *etc.*) was 41.12 lakh tonne in the year 1998-99 against which the supply was 31.70 lakh tonne and total imports in the year were 20.90 lakh tonne which clearly established that there was short supply of phosphatic fertilizers in the country and accordingly the financial viability of the projects was worked out. The reply is not tenable as the consumption and supply figures were for all phosphatic fertilizers and hence not comparable with the demand and supply position of SSP only. Thus, the sanction of the loans for creating additional annual capacity of 99,000 MT of SSP based on incomparable demand and supply position lacked justification. The fact is that had the proposal of SPCL been sound and feasible, it would not have landed up in the BIFR.

The Management further stated (July 2007) that in case of SPCL the loan for expansion of capacity was based on its agreement with Shri Ram Chemicals & Fertilisers Limited for lifting of 25,000 tonne of SSP during the year 1999-2000 to be renewed on year to year basis subsequently. Its strength was also sensed in its locational advantage of being in the vicinity of Jhamarkotra mines and zinc smelter of Hindustan Zinc Limited which used to supply

[*] Principal: Rs.2.68 crore including Rs.1.40 crore of earlier loan and interest: Rs.2.44 crore including Rs.96.03 lakh against earlier loan.

[**] Principal: Rs.2.15 crore and interest: Rs.1.26 crore.

important raw material for manufacture of SSP. The reply is not tenable as the capacity utilisation of SPCL during the period of five years up to 2003-04 was 49, 63, 48, 5.60 and 14.03 *per cent* respectively which indicates that the excess capacity creation was totally unfruitful and the SPCL could have easily catered to the demand by better utilisation of its existing installed capacity of 66,000 TPA. The reply on locational benefits is not also relevant as they relate to availability of raw material and not to marketing of the product.

Sanction of loan to promoters having doubtful integrity

Due to sanction of loan to a promoter having doubtful integrity chances of recovery of over dues become bleak.

2.2.13 Ratangiri (India) Limited, Bhilwara (RIL) applied (December 2001) for a term-loan of Rs.3.40 crore for expansion of its existing weaving unit. During appraisal of the project, the Company received (April 2002) information/complaints from various authorities about the deeds of distrust of promoters of RIL, *i.e.,* non-payment of the loan of the Industry Department, misrepresentation about address of their residence, misuse of funds, black-marketing of excise duty-free yarn, and non-production of important records *etc.* The Company ignoring these facts, however, sanctioned (November 2003) Rs.3.07 crore and disbursed (up to December 2004) Rs.2.99 crore without obtaining collateral security. The Company cancelled (May 2005) balance loan of Rs.8.32 lakh on default in repayment by RIL. The Company issued (October 2005) a notice under section 30 of the SFC Act calling back its entire dues of Rs.3.16 crore (principal Rs.2.89 crore and interest Rs.26.94 lakh). RIL, in the meantime, approached (July 2005) BIFR by fabricating their annual accounts with the sole intention of getting protection of SICA[*]. Thus, due to sanction of term-loan to RIL, whose promoters were of doubtful integrity, the chances of recovery of Rs.3.37 crore are bleak.

The Management stated (January/July 2007) that the term-loan was sanctioned as no financial irregularities/liabilities were noticed against the two Directors/Promoters and one Director, against whom decree was passed, had already resigned (July 2002) from the Board of RIL. The reply is not tenable as before sanctioning of term loan the Company was aware of various complaints of financial irregularities/liabilities, which indicated that the integrity of the promoters was doubtful *ab initio*. The reply was silent on sanction of loan without collateral security.

Sanction of Working Capital term-loan in violation of a scheme

2.2.14 For sanctioning a Working Capital Term-loan (WCTL) under the Scheme of WCTL, the unit should be standard assets and earning profits at least for a period of three years. It was observed that the Company sanctioned (January 2001) WCTL of Rs.2 crore to Alcobex Metals Limited, Jodhpur (AML) despite the fact that AML was a defaulter (Rs.1.83 crore) against earlier term loan of Rs.2.50 crore provided by the Company (September 1997 to January 1999). Further before sanction of WCTL a survey was also conducted (December 2000) by the officials of the Company which revealed that the AML had not accounted for many expenses and losses in its books of accounts, the inclusion of which would erode their net worth. A joint meeting

[*] Sick Industrial Companies (Special Provisions) Act, 1985

of all financial institutions (UTI, ICICI, IDBI, IIBI, Bank of Baroda, Bank of Rajasthan, PNB and Vijaya Bank) was called (December 2000) by Secretary (Industries), Government of Rajasthan, to revive AML, wherein it was considered to provide fresh assistance of Rs.12 crore to be shared by all the financial institutions in proportion to principal outstanding loan. On this basis the share of the Company worked out to Rs.1.26 crore but the Secretary (Industries) decided that the Company's share would be Rs.2 crore, which was sanctioned (January 2001) by the Company. Further, with a view to change the classification of account to a performing asset, the Company, as a special case, also sanctioned (January 2001) a fresh loan of Rs.1.83 crore to regularise overdue amount (principal Rs.72.94 lakh and interest Rs.1.10 crore) against its previous loan of Rs.2.50 crore. Thus, the Company extended unviable financial aid to a firm having dissatisfactory financial position.

AML later on registered (January 2002) with BIFR as a sick unit, but by that time a disbursement of Rs.1.90 crore of WCTL had already been made to AML by the company.

The Management stated (January/July 2007) that the Company enhanced its share to Rs.2 crore as the State Government wanted to give a message through its own PSUs to other financial institutions that it was not lagging behind in the rehabilitation of sick units. Moreover, the unit had more than 500 employees and closure could have created problem for law and order and revival through BIFR would have taken longer time. The reply confirms that loan was sanctioned to the Company without commercial considerations leading to loss of Rs.1.90 crore.

Sanction of loan to a defaulter unit

2.2.15 Hotel Dhola Maru Pvt. Limited, Jaisalmer (HDMPL) applied (May 1999) for sanction of a term loan of Rs.1.02 crore for repayment of Rajasthan Financial Corporation (RFC) loan (Rs.64.80 lakh) and for expansion and renovation of existing capacity (Rs.37.50 lakh).

Sanction of loan to a defaulter firm for swapping their loan dues of RFC cause loss of Rs.19.50 lakh.

It was observed that the Company obtained the views on creditworthiness of HDMPL from RFC, which informed (September 1999) that the hotel business at Jaisalmer was unsatisfactory from the last 2-3 years and HDMPL was defaulting in their loan repayment. Despite this the Company sanctioned (December 1999) a term loan of Rs.80 lakh of which Rs.70.29[*] lakh was disbursed up to February 2000. No collateral security was obtained from HDMPL. The promoters defaulted in making repayment since beginning and the Company had to settle (March 2003) the dues under One Time Settlement (OTS) scheme by sacrificing interest of Rs.19.50 lakh.

The Management stated (July 2007) that RFC had subsequently informed that HDMPL had cleared (17 November 1999) their overdue interest and its account was no more an NPA. The reply is not tenable in view of the fact that,

[*] Rs.60.58 lakh for refund of RFC loan and Rs.9.71 lakh for the expansion and renovation of the existing rooms of Hotel.

RFC again intimated (27 November 1999) *i.e.* prior to sanction of loan that interest amounting to Rs.10.08 lakh was overdue as on 1 October 1999.

Thus, the decision of the Company to sanction loan to a defaulter unit for swapping up its dues lacked justification.

Loan without tie-up for requisite raw material

Sanction of loan without ensuring the raw material arrangement by loanee unit caused loss of Rs.1.90 crore.

2.2.16 The Company sanctioned (November 1994) and disbursed (up to March 1997) a loan of Rs.85 lakh to Hi-tensile Steels Pvt. Limited, Bhiwadi (HSPL) for setting up a unit for manufacturing rolled MS Structural Products without ensuring the supply/tie-up of raw material *i.e*. mild steel ingots for uninterrupted running of the project and obtaining collateral security. The HSPL became sick and closed (April 1999) within 21 months of commencement of operations due to non-availability of raw material. The Company settled (June 2004) the overdues of Rs.2.78 crore for Rs.88 lakh sacrificing balance Rs.1.90 crore.

The Management stated (July 2007) that at the time of appraisal the aspect of availability of steel ingots was considered. The Company, however, did not emphasise for tie-up as per the industry practice. The reply is not tenable. A prudent appraisal of any term loan to a manufacturing unit requires ensuring regular availability of raw material which is the basic requirement for regular operation. Failure in operation leads to loss to the financing institutes by way of non-recovery of its dues as is proved in this case.

Promotion of Sector/District Wise Industries

The Company made no efforts for sectoral industrial development and also failed to ensure a balanced geographical industrial development in the State.

2.2.17 The Industrial Policy, 1998 notified 11[*] thrust sectors for development. The Company, however, had not formulated any plan/policy for promoting industries in any of the thrust sectors. The Company did not sanction any term-loan for five thrust sectors, namely Garment and knitwear, Information technology, Agro processing, Footwear and leather and Cement.

Audit noticed that out of the total term-loans sanctioned (Rs.392.67 crore) during 2001-02 to 2005-06, 55.57 *per cent* (Rs.218.22 crore) were sanctioned to only one thrust sector *i.e.* textiles. Remaining five sectors were sanctioned term-loans ranging from 0.07 *per cent* to 3.25 *per cent* only.

Similarly the policy *ibid* also notified 11 districts[$] for industrial development by the Company. It was observed that no term-loan was sanctioned in four districts namely Bikaner, Chittorgarh, Pali and Jaisalmer during all the five years up to 2005-06. Of the remaining seven districts, in two districts, *i.e.*, Jaipur and Bhilwara loans for Rs.308.76 crore (78.63 *per cent*) were

[*] Gems and jewellery, automobiles, glass and ceramics, information technology, electronics and telecommunications, textiles, agro processing, footwear and leather, garments and knitwear, dimensional stone and cement.

[$] Jaipur, Alwar, Bikaner, Bhilwara, Pali, Jodhpur, Barmer, Jaisalmer, Ajmer, Udaipur and Chittorgarh.

sanctioned out of total sanction of Rs.392.67 crore. The percentage of term loans in balance five districts ranged from 0.11 to 4.43 *per cent* of total sanctions. Thus, the Company made no efforts for ensuring sectoral industrial development. Moreover, the Company also failed to ensure a balanced geographical industrial development in the State.

The Management stated (July 2007) that in no way the Industrial Policy entails any obligation on the part of the Company to make investment in thrust areas by way of term-loan or equity assistance. They further stated that locating industry is an exclusive prerogative of entrepreneurs and the Company has no control/role in influencing entrepreneurs' choice of location and sector and that attracting investment in thrust areas through the term loan route is not feasible in the given competitive dynamics of the market. The fact remains that the Company did not take suitable measures to ensure industrial development of the State covering all identified sectors and geographical areas despite mandate given in industrial policy 1998.

Disbursement of term-loan

2.2.18 The targets and disbursal of loans are indicated in the **Annexure-14**. It is seen from **Annexure-14** that the targets were fixed on lower side during the years 2002-03 to 2005-06 as compared to 2001-02 and the targets were also not achieved by the Company during the years 2001-02 to 2004-05. There were no plans either short-term or long-term for improvement in achievement of the targets. The point noticed during scrutiny of records relating to disbursement of loans is as under:

Delay in disbursement resulting in cancellation of loan

2.2.19 The Company sanctioned (January 2003) loan of Rs.96 lakh to Dayal Synthetics Pvt. Limited, Bhilwara (DSPL) and asked to complete the requisite formalities including investment of promoters' contribution. DSPL completed the requisite formalities including details of the investments made out of the promoters' contribution and requested (April 2003) for release of the first instalment of Rs.19.20 lakh. The Company, instead of releasing the instalment, asked (June 2003) the promoter to first utilise the amount of Rs.57 lakh lying in Fixed Deposit Receipt (FDR). DSPL subsequently informed (July 2003) the Company regarding utilisation of FDR and requested for disbursement of first instalment of loan. The Company, however, delayed processing of case by over two months, which prompted DSPL to withdraw (September 2003) their application.

The Management stated (January 2007) that all legal and special terms and conditions of letter of intent (LOI) were not complied with and utilisation of promoters contribution was not made, therefore, first disbursement was not made. The reply is not tenable as all formalities were completed by 3 July 2003 and delay in processing the case prompted DSPL to withdraw its loan application.

Follow-up and Recovery Performance

Procedure

2.2.20 Timely and effective recovery of dues is the most critical component for any financing company for sustaining its capacity to finance and reduce risks of debts. On failure of units to make timely repayment of the term-loan dues, as per IDBI guidelines, the Company changes classification of loan assets from standard assets to sub-standard assets, doubtful assets or loss assets depending upon the period of default and initiates action against it under the provisions of SFC Act as follows:

- issue notice under Section 30, to discharge forthwith in full its liabilities to the Company;
- on failure of the borrower to comply with the above mentioned notice, issue notice under Section 29, to take over the management or possession of assets or both of the industrial concern; and
- sell the property pledged, mortgaged, hypothecated or assigned as security of the loan; enforcing the liability of any surety.

Besides above, the Company also settles cases of heavy overdues, after considering their merits, under scheme of One Time Settlement (OTS) by recovering dues of principal and some of the interest, liquidated damages, charges *etc.*

Non-monitoring of the assisted units

2.2.21 Submission of progress reports by the assisted units has been envisaged in the loan agreement with the borrowers. The Company did not ensure timely receipt of such returns, it also did not have any system for post-disbursement inspection of assisted units to watch and monitor operations and to take timely corrective measures in case of serious deviations.

The Management stated (July 2007) that the Company had adopted a procedure of selective monitoring of its loan portfolio wherein on default the Company investigates the reasons and takes remedial measures. The fact remains that the Company has not taken action for recovery of its dues immediately after default as stated in para 2.2.23.

2.2.22 The Company disbursed (upto August 1994) Rs.60.18 lakh to Jagdamba Processors Pvt. Limited (JPPL) without obtaining collateral security. Audit noticed that JPPL in contravention to clause-7 of the loan agreement obtained (20 September 2002) insurance cover only in its name without any mention of the fact of mortgage of the assets of the unit in favour of the Company.

The assets, which were mortgaged to the Company, were damaged (September 2002) in fire. The claim lodged by JPPL was closed by the insurance company for want of certain information, the claim of the Company was also not entertained in absence of the mortgage clause in the policy cover. The Company had to write-off the outstanding term-loan of Rs.60.18 lakh on 31 March 2005.

The Management stated that insurance cover was taken at the time of disbursement (up to August 1994) of loan. The reply is not tenable, because as per the terms and conditions of the sanction, the Company had to obtain the joint insurance cover for the entire currency of the loan to safeguard its financial interest.

The Management further stated (July 2007) that insurance authorities had never denied the Company's claims and all documents had been submitted to the insurance company long back. The reply is not based on facts. In fact the insurance company had already closed the case of claim in the year 2003 as mentioned above.

Not taking action under SFC Act

2.2.23 The deficiencies in follow-up and recovery noticed during audit are given in **Annexure-15**.

It would be seen from the annexure that the Company sacrificed an amount of Rs.6.39 crore in settlement of loan account due to improper follow up and recovery actions:

- take over of possession of assets (Rs.2.80 crore);
- action under Negotiable Instrument Act, 1930 for bouncing of the cheque (Rs.2.54 crore);
- cessation of first *pari passu* charge on mortgaged assets (Rs.0.22 crore); and
- failure to insert a guarantee clause for its repayment of loan in the tripartite agreement (Rs.0.83 crore).

One Time Settlement Scheme

2.2.24 The Company introduced (November 1997) a scheme of One Time Settlement (OTS). The scheme remained in force up to 30 March 1999 and thereafter the loan accounts were settled under OTS on case-to-case basis. The table below indicates the cases settled by the Company during five years (2002-06).

(Rupees in crore)

Year	No. of cases settled	Amount outstanding			Market Realisable Value (MRV)	Amount realised in One Time Settlement	Amount sacrificed		
		Principal	Interest	Total			Principal	Interest	Total
2001-02	4	4.08	4.00	8.08	2.38	3.75	0.43	3.90	4.33
2002-03	9	6.14	8.04	14.18	14.93	6.26	0.00	7.92	7.92
2003-04	5	7.77	7.16	14.93	15.44	8.83	0.00	6.10	6.10
2004-05	6	2.93	9.25	12.18	3.75	3.02	0.00	9.16	9.16
2005-06	10	6.17	19.94	26.11	29.60	5.98	0.19	19.94	20.13
Total	**34**	**27.09**	**48.39**	**75.48**	**66.10**	**27.84**	**0.62**	**47.02**	**47.64**

The Company had sacrificed outstanding interest of Rs.47.02 crore in settling the dues of Rs.75.48 crore despite of pledged assets of Rs.66.10 crore.

It is evident from the above, that the Company had sacrificed as much as 97.17 *per cent* of the outstanding interest (Rs.47.02 crore out of Rs.48.39 crore) apart from principal amount of Rs.62 lakh while settling the outstanding dues of Rs.75.48 crore despite the fact that it had pledged assets of Rs.66.10 crore. Audit scrutiny of the settled cases revealed that seven cases given in **Annexure-16** were settled only for Rs.13.74 crore against the dues of Rs.20.85 crore, though the Market Realisable Value (MRV) of the assets was Rs.29.78 crore.

The Management stated (July 2007) that OTS is resorted only in sticky accounts, where due to technological obsolescence/market forces, operations have become unviable, after weighing various pros and cons and keeping in view the realisable value and saleability of assets. It further stated that the take over and sale could have resulted in more losses as compared to the sacrifice made in OTS as MRV is only indicative assessment and realisation depends upon various factors such as relevance of technology, position of industry, condition of assets *etc*. at the time of sale. The reply is presumptive and not tenable as the Company had no guidelines/system to regulate the process of OTS. Moreover in the event of sale of assets in deficit, the Company has recourse to recover further from the properties of guarantors and sale of collateral securities.

Possession and sale of units

Procedure

2.2.25 In case the borrower defaults in payments, the Company by virtue of the powers vested in it under Section 29 of the SFC Act can take action for taking-over the possession of the assets of the units mortgaged and hypothecated in favour of the Company. After taking the assets in possession, the Company takes steps to sell the assets through bids. The bids received are opened in the presence of the bidders and the loanee. Final offer prices are considered by a Disposal Committee of the Company. The borrower is also informed about the accepted offer price with a view to offer priority to him. For the un-recovered amount, if any, the Company initiates legal action against personal guarantees given by the directors/guarantors of the unit sold to the extent.

Non-disposal of units under possession

2.2.26 During the five years ended 31 March 2006, the Company sold 39 units having outstanding dues of Rs.57.84 crore of which, 37 units were sold at a deficit of Rs.27.76 crore.

The Company had no system of keeping record of probable diminution in value of the assets and status of physical inventory.

There were 34 units under the possession of the Company involving recoverable amount of Rs.51.20 crore as on 31 March 2006. Of these 7 units (Rs.5.24 crore) were lying for more than 10 years, 15 units (Rs.18.46 crore) for 5 years to 10 years and 12 units (Rs.27.50 crore) for period up to five years. The Company incurred an expenditure of Rs.91.16 lakh (up to 31 March 2006) on watch and ward of these units. Moreover, the Company had no system of keeping record of the probable diminution in value of the assets and the status of physical inventory.

The Management stated (July 2007) that Company has been making efforts for disposal of these assets. But these assets could not be disposed of because of non-availability of adequate/appropriate response. This indicates that the Company had approved unviable projects. The reply is not tenable in view of the fact that the Company did not take timely action for taking over possession of assets and also did not develop system for reassessment of market value of the assets proposed for disposal as discussed below:

Deficiencies in possession and sale of assets

Sale of fixed assets at lower price

2.2.27 The fixed assets of Quality Syntex Pvt. Limited, Bhiwadi (QSPL) were taken over (March 1993) by the Company due to non-payment of overdue of Rs.1.17 crore (principal: Rs.74.06 lakh and interest: Rs.42.72 lakh). QSPL filed (March 1993) a writ-petition in Court against the possession of its assets on which stay was granted (August 1994). The Court finally dismissed (December 2000) the writ-petition.

The Company, without assigning any reasons rejected (December 2000) the offer of Delhi Orthopaedic Centre & Nursing Home (DOCNH) for buying only land and buildings (worth Rs.51.88 lakh) for Rs.30 lakh, but sold (February 2003) the entire fixed assets to one Mr. Rajendra Gupta at a lesser amount of Rs.24.85 lakh.

Audit noticed that the prevailing (November 2002) sale price of land measuring 3,480 square meter was Rs.34.80 lakh at Rs.1,000 per square metre. Thus, the decision to sell assets for this amount lacked justification in view of rejection of offers of higher prices received in past.

The Management stated (July 2007) that initially the offer was not accepted as the Company expected more realisations for the assets. The reply however, is silent about selling entire assets for a lesser amount of Rs.24.85 lakh while the value of land alone was Rs.34.80 lakh at that time.

Inordinate delay in taking over the possession of assets

The Company did not initiate action for the missing plant and machinery and for recovery of deficit amount of Rs.1.57 crore.

2.2.28 Fixed Assets of KSG Oil & Extraction Pvt. Ltd, Alwar, a sick unit were sold (December 1997) by the Company to Jai Hind Food & Allied Products Limited, New Delhi (JHFAPL) on deferred payment basis for a sale consideration of Rs.1.22 crore. JHFAPL defaulted (February 1999) in making payments since beginning. The Company after a delay of 44 months issued legal notice (October 2002) under Section 30 of SFC Act. Though JHFAPL did not respond to the notice but the Company took possession (October 2004) of the fixed assets after delay of 24 months which caused mounting of overdues to the tune of Rs.2.62 crore. Audit noticed that various plant and machineries including 250 KV DG Set and 500 KV Transformer (value Rs.10.75 lakh), 14 Motors, Grinders, MS Oil Tank, Oil Filter Press and 5 number Electric Starters *etc.* (value not available) were found missing while taking over the possession, however, no FIR was lodged by the Company. Later on the Company sold (June 2006) the assets for Rs.1.05 crore, leaving a deficit of Rs.1.57 crore.

No action was taken by the Company against JHFAPL either for the missing plant and machinery or for recovery of the deficit amount of Rs.1.57 crore.

The Management stated (July 2007) that with regard to the shortfall in assets noticed at the time of take-over, it was responsibility of the promoters to take proper care of the assets of the unit. The shortfall in the account including that on account of theft would be taken care of while filing application under section 31 of SFC Act for recovery of shortfall. The reply is not tenable as the Company failed to timely detect the short fall in assets due to non inspection of unit regularly. It also failed to lodge FIR for the theft assets.

Settlement of account without opening the tenders for sale of assets

2.2.29 The assets of Simra Industries Pvt. Limited, Bhiwadi (SIPL) were taken in possession (May 2002) by the Company due to non-payment of overdues (principal: Rs.58.58 lakh and interest: Rs.20.20 lakh). These mortgaged assets worth Rs.2.48 crore (valued by Company's officials) were advertised for sale. The tenders were to be opened on 16 September 2002. The Company, however, before opening the tender settled with SIPL the overdues of Rs.78.78 lakh for Rs.58.58 lakh sacrificing interest of Rs.20.20 lakh despite having adequate security worth Rs.2.48 crore.

The Management stated (July 2007) that the OTS of SIPL was approved by the SLSC. The tenders were not opened as the promoters expressed willingness to settle the amount and that first right on the assets is of the unit if it offers a favourable term. SLSC decided that in case a settlement is arrived at, the offer received be returned. The reply is not tenable as without knowing the amount of offers received in the tender the promoter's offer could not be termed as favourable.

Filing of Recovery Petitions

2.2.30 Under Section 31 of the SFC Act, the Company is empowered to recover the deficit amount remaining un-recovered after sale of assets by operating the collateral security/personal guarantee.

The deficiencies noticed in audit were as under:

Failure in getting court decrees executed

The Company in absence of details of addresses of guarantors and details of their properties did not file Court cases for outstanding dues of Rs.6.26 crore.

2.2.31 The Company filed court cases against the promoters for recovery of deficit dues against their personal guarantees. Audit observed that in 15 cases (**Annexure-17)**, involving decree amount of Rs.6.26 crore, decree orders were passed in favour of the Company. It, however, filed cases for execution of decree in two cases only after delays ranging from 35 to 43 months. In balance 13 cases, cases were not filed for execution of the decree as the current addresses of the guarantors and details of their properties were not available with the Company. Thus, chances of recovery of outstanding dues of Rs.6.26 crore are bleak.

Audit further noticed that despite giving assurance (July 2004) to the State Legislative Assembly to collect details of the promoters and to take action for execution of decrees, the Company neither succeeded in getting details about the promoters/guarantors/directors nor did it take any action for fixing the responsibility of officers, as desired (June 2003) by the Assembly. Thus, it is evident that there was no system in the Company of maintaining/keeping track on the whereabouts of the promoters and their properties.

The Management stated (July 2007) that delay in filing suits was due to delay in locating details of properties and addresses of the promoters. However, this work had since been entrusted to outside agencies. Management's reply confirms the audit observation of system deficiency in maintaining track on whereabouts and properties of promoters.

Equity Investment

2.2.32 Company participates in the equity of the assisted units with the following objectives:

- to provide the required equity capital for the project at the initial stage;
- to attract successful and reputed groups of companies for setting up industries in the State;
- to stimulate the capital market; and

- to promote joint venture in areas prohibited or otherwise not considered attractive by entrepreneurs ordinarily.

Even after 28 years of its existence the Company did not have any investment policy for guiding the flow of equity investment.

The equity participation was in buy-back and non-buy-back shares schemes. Under the buy back scheme of shares, the promoters undertake to buy the shares back within a specified period (generally three to seven years) at prices arrived at by compounding the cost price of the shares at a specified rate of interest, less dividend received, if any. In respect of non-buy-back shares scheme the Company is free to disinvest its shares after their listing on Stock Exchange and in case of non-listed shares, after the lock-in-period. Audit noticed that even after 28 years of its existence the Company did not formulate any investment policy for guiding the flow of equity investments between buy-back and non-buy-back shares. The Management stated (July 2007) that equity assistance had been stopped by the Company and was made only in Joint Sector Government Companies.

Audit noticed that the Company had invested Rs.8.56 crore by way of equity during the last five years (2001-02 to 2005-06) except for the year 2003-04.

It was further noticed that the investments of Rs.2.56 crore (2002-03) and Rs.5.44 crore (2005-06) were made in Rajasthan Venture Capital Fund (a joint-sector fund of RIICO with SIDBI) and Rs.49 lakh (2004-05) was involved in Rajasthan Electronics and Instrumentation Limited (a joint-sector project of RIICO and Instrumentation Limited (IL) - a Government of India Company). Thus, the Company's investment in equity during the period of five years up to 2005-06 was limited to the two joint-sector units only resulting in its failure in achieving three out of the four objectives of the equity participation scheme. Lack of any policy for deciding cases where equity investments are to be made was the main reason of Company's failure in equity participation. The Management stated (July 2007) that looking to the past experience of the Company it had stopped equity participation in the projects. The participation, however, is considered only in Joint Sector Government Companies.

Performance of Equity Investment

2.2.33 Cumulative balance of investments in shares at the end of five years up to 2005-06 is indicated in **Annexure-18** along with their market value and return thereon.

Out of 76 units as many as 60 units were sick/under winding up/ rehabilitation with BIFR.

It can be seen from the Annexure that the market value of the investment of Rs.28.93 crore was Rs.13.60 crore in 2005-06. The Company received only nominal return varying from 0.85 to 1.23 *per cent* on its investments during the period of five years up to 2005-06. Out of total 76 units involving investment of Rs.28.93 crore as on 31 March 2006 as many as 60 units (74.07 *per cent*) having investment of Rs.17.12 crore (59.18 *per cent*) were sick/under winding-up/under rehabilitation with BIFR[*]/AAIFR[**] and thus, did not pay any dividend to the Company. Thus, the equity portfolio of the

[*] Board for Industrial and Financial Reconstruction

[**] Appellate Authority for "Industrial and Financial Reconstruction"

Company consisted of a considerably large number of loss making/sick units and was not healthy.

Disinvestment of Equity Shares

2.2.34 Company's avowed objective of holding equity was quick recycling of funds so as to promote maximum number of projects with the scarce funds available. For this purpose, the shares held by the Company under buy-back and non-buy-back agreements were to be disinvested at appropriate time to avail gainful opportunity.

Buy-back disinvestments

2.2.35 The following deficiencies were noticed in audit in disinvestment of equity shares under buy-back portfolio of the Company.

Table below summarises amount of equity due for buy-back and the equity actually disinvested during the last five years up to 2005-06:

(Amount: Rupees in crore)

Year	Equity due for buy-back		Disinvestments of equity#		Percentage of actual disinvestments	Disinvestments overdue	
	No. of units	Amount	No. of units	Amount		No. of units	Amount
(1)	(2)	(3)	(4)	(5)	(6)=5/3x100	(7)	(8)
2001-02	48	15.75	3	1.27	8.06	45	14.48
2002-03	46	15.12	2	0.52	3.44	44	14.60
2003-04	45	13.91	3	2.32	16.68	42	11.59
2004-05	44	12.01	1	6.22	51.79	43	5.79
2005-06	43	11.61	1	0.45	3.88	42	11.16

The Company did not have regular oversight over the assisted units to watch reality of its investment.

It was noticed that the Company failed to find the whereabouts of nine units from whom Rs.2.06 crore were recoverable, which indicates that the Company did not have regular oversight over the assisted units in watching the security of its investments. Further, no legal action was initiated in respect of 10 units from whom Rs.1.88 crore were recoverable for non-compliance of terms of buy-back agreements. The Company issued (August 1994 to April 2006) legal notices to enforce terms of the buy-back agreements in respect of seven units, from whom Rs.1.71 crore were recoverable. In respect of three units from whom Rs.1.44 crore were recoverable, the cheques given by promoters bounced on presentation. The Company, however, did not take any further action for recovery of its dues. Thus, the investment to the extent of Rs.7.09 crore became irrecoverable as chances of realisation of this are bleak.

Includes partial disinvestment also.

The Management stated (July 2007) that the promoters could not honour buy back agreements due to poor performance of their projects. It further stated that efforts are being made to locate the promoters and properties of their units through personal contacts with the help of detective agencies. In regard to 10 units efforts for recovery were in progress. The reply is not tenable as most of the agreements were executed with the promoters in their personal capacities and the Company could have recovered the amounts due in terms of buy back agreement irrespective of the performance of the projects.

Non-buy-back disinvestments

2.2.36 The details of investment in equity held by Company under non-buy-back scheme for the period of five years up to 2005-06 are given in the table below:

(Amount: Rupees in crore)

<table>
<tr><th rowspan="3">Year</th><th colspan="6">Investment in non-buy-back equity shares</th><th colspan="2">Disinvestments of non-buy-back / quoted equity during the year</th><th colspan="2">Closing balance</th><th rowspan="3">Percentage of disinvestments made to total investment</th></tr>
<tr><th colspan="2">Opening balance</th><th colspan="2">Investment made during the year</th><th colspan="2">Total</th><th rowspan="2">No. of units</th><th rowspan="2">Amount</th><th rowspan="2">No. of units</th><th rowspan="2">Amount</th></tr>
<tr><th>No. of units</th><th>Amount</th><th>No. of units</th><th>Amount</th><th>No. of units</th><th>Amount</th></tr>
<tr><td>2001-02</td><td>45</td><td>23.52</td><td>2</td><td>0.02</td><td>47</td><td>23.54</td><td>2</td><td>0.01</td><td>45</td><td>23.53</td><td>0.04</td></tr>
<tr><td>2002-03</td><td>45</td><td>23.53</td><td>2</td><td>2.61</td><td>47</td><td>26.14</td><td>3*</td><td>0.10</td><td>46</td><td>26.04</td><td>0.37</td></tr>
<tr><td>2003-04</td><td>46</td><td>26.04</td><td>-</td><td>0.00</td><td>46</td><td>26.04</td><td>2</td><td>0.09</td><td>44</td><td>25.95</td><td>0.37</td></tr>
<tr><td>2004-05</td><td>44</td><td>25.95</td><td>1</td><td>0.49</td><td>45</td><td>26.44</td><td>-</td><td>0.00</td><td>45</td><td>26.44</td><td>0.00</td></tr>
<tr><td>2005-06</td><td>45</td><td>26.44</td><td>1</td><td>5.44</td><td>46</td><td>31.88</td><td>7*</td><td>6.74</td><td>42</td><td>25.14</td><td>21.15</td></tr>
</table>

It is, evident from the table above that the percentage of disinvestments to total investment was negligible and ranged from 0.04 to 0.37 *per cent* during 2001-05, which is indicative of lack of efforts on the part of the Company in this regard. The Company however, was able to make disinvestment of about 21.15 *per cent* of its total investments in the year 2005-06 because of the favourable market conditions in the Indian Stock Market.

The Management stated (July 2007) that the stock market quotations were watched daily and whenever the quotations of any share appeared to be reasonable the same was being reported to Disinvestment Committee for taking disinvestment decision. The reply could not be verified in audit in absence of records showing the details of quotation reported to disinvestment committee.

* Includes partial disinvestment also.

A few cases of such failures are given below:

Deficiencies in disinvestments of market quoted equity shares

2.2.37 The Industrial Committee (IC) of the Company decided (March 1995) to disinvest the equity shares acquired under institutional quota through empanelled brokers of the Stock Exchange. The price range and quantity of shares to be disinvested was to be decided by a Disinvestment Committee (DC). The meeting of the DC was to be held fortnightly and progress was to be apprised to IC half-yearly. The Company empanelled (July1995 to January 1997) 11 brokers including - Prem Somani Share Brokers Pvt. Limited, Jaipur (PSSBPL).

It was observed that:

- As against 120 envisaged meetings of DC during 2001-06, only 26 meeting (21.67 *per cent*) were held for deciding cases of disinvestment. Against the stipulated 15 days gap between two meetings, the actual gap ranged between 15 and 174 days. In 24 cases (of total 26 meetings) the time-gap was more than 15 days. The reasons for the extraordinary delays in holding the meetings of DC were not found on record. The Management stated (July 2007) that the meetings of the DC were held as and when there was a need. The reply is not tenable as there was a set fortnightly schedule for meeting of DC and it was not a need based reporting.

- The proceedings of DC were never appraised (2001-06) to the IC. The IC also, in spite of violation of its own set out policy, did not call for any proceedings reports. The Management stated (July 2007) that the performance of disinvestment of shares was reported thrice during 2001-02 to 2005-06. Reply shows violation of the set norms as proceedings of DC were required to be reported to IC half yearly.

- The “Securities and Exchange Board of India" (SEBI) through orders issued from time to time, made it mandatory for each member of stock exchange to issue a “Contract Note” in form ‘A’ to each client for each and every transaction executed showing the following details:

  - sale rate and brokerage separately;

  - securities transaction tax;

  - order number, time, Trade number, and time;

  - service tax and other charges levied by the broker; and

  - unique identification number / Code number of client, Code number and SEBI registration number of the broker.

Audit noticed that the Company disinvested (2002-07) securities worth Rs.12.62 crore, however, the broker of the Company PSSBPL never issued any Contract Note to the Company. Despite the fact that it is only the Contract Note that gives rise to rights and obligations of the parties to the trade, the Company never insisted for issue of the Contract Note.

Absence of these details deprived the Company of the opportunity to verify the quantity and rates of transactions executed with the stock exchange. Manipulation in rates by the broker in the absence of proper Contract Notes is not ruled out.

The Management stated (July 2007) that information regarding prescribed Contract Note had been called from PSSBPL. It was further stated that the Company was satisfied with the details provided in the bills. Reply shows complacency of the Company in satisfying itself without the verification of mandatory forms.

Risk Management and Internal Control

2.2.38 The activity of financing various industrial projects by providing term-loan is becoming more and more competitive day-by-day. Operating in liberal and global environment, the Company is exposed to various kinds of risks; therefore, effective risk management is essential for achieving financial soundness and profitability. The Company is primarily exposed to credit risks, *i.e.*, risk of defaults in repayments by the loanees, risk of fluctuation in interest rates, organisational deficiencies, delays, fraud, system failure *etc*. Although risk cannot be eliminated, it should be managed/mitigated through internal controls. Audit observed that the Company, since its incorporation (1979) has not yet prepared any Manual prescribing procedures and guidelines in this regard.

Since its inception to 2002-03 there was no system of internal audit of investment activity.

It was noticed during audit that up to 2002-03 there was no system of internal audit in relation to the investment activities of the Company. Only the quarterly statements of Account-cum-Interest Memos of the borrowers prepared by the Company were got checked by a firm of Chartered Accountants. Internal audit of the working of the Follow-up & Recovery (F&R) Cell was conducted (from the year 2003-04) by a firm of Chartered Accountants, which was deficient as the Company did not define the scope of audit. The Management stated (July 2007) that internal audit of Follow-up and Recovery Cell is got conducted from a firm of Chartered Accountants. The reply is partially correct as the firm of Chartered Accountants mainly checks the quarterly statements of account-cum-interest memos of the borrowers. No internal audit of entire activities of F&R Cell as mentioned in the reply was found to be conducted during the period under review.

The following further deficiencies of internal control/risk management system were noticed:

- Fixing of prudent exposure limits for each industry/sector was necessary not only for an effective compliance of the Industrial Policy, but also for diversifying the risk with a view to minimise them. The Company, however, did not fix any such limits for its term lending activities. The Management stated (July 2007) that the Company tries to diversify its exposure in the sound industries/sectors. The reply is not tenable as the main objective of the Company is a balanced industrial development of the State covering all geographical areas.

- The interest rates charged by the Company for its term-lending are not commensurate with the degree of risk involved. With a view to minimise the number of borrowers who were deserting the Company by making premature payments in order to take benefits of the competitive interest rates offered by other FIs/Banks and to maximize the number of applicants for further/fresh term-loans, rate of interest correlated with the amount of risk involved was necessary. Audit noticed that no efforts were made by the Company to correlate its interest rates with other FIs/Banks. The Management stated (July 2007) that differential interest rates for existing good borrowers and new borrowers to mitigate the risk of borrowers deserting the Company. Reply is not tenable as competitiveness of the rates of interest needs to be correlated with reference to other Financial Institutions.

- The Company has not drawn up any policy for collateral security to be obtained from the entrepreneurs or the extent of collateral security against the loan. The collateral security was taken arbitrarily on case-to-case basis and no collateral security was taken in some of the cases.

- Since the Company was not appointing its nominee directors on the Board of assisted units, it could not keep a constant watch over the state of affairs of these units which was not only a forbearance on the part of the Company from exercising the powers given to it by the SFC Act but also against its financial interests. The Company also has not evolved any alternate system. The Management stated (July 2007) that a close monitoring is done over those projects which are either not performing well or not making timely payment. Reply is not acceptable as it did not mention the specific method employed to check the performance of the borrowers.

- The Company was not carrying out periodical inspections of the assisted units in order to assess their financial health, especially of the units in default. The Management stated (July 2007) that inspections were carried out in respect of defaulter units. Reply could not be vouched in audit as the Company did not maintain any record showing details of inspection carried out and the inspection notes of inspecting officials.

- The Company did not ensure receipt of audited annual accounts and periodical returns on physical and financial performance of the assisted units as required under the terms and conditions for grant of loan. The Management stated (July 2007) that the financial performance of the defaulter units was being closely watched. Reply is not tenable as there is no system in vogue in the Company.

Conclusion

Performance of the Company in respect of projects appraisal, timely sanction of loan and effective recovery of the dues from the entrepreneurs was found to be deficient. Concentration of financial assistance to few sectors and in limited areas besides inadequate follow-up of recovery of overdue led to mounting of overdue and contributed significantly to writing-off of loan assets.

Non-competitiveness of interest rates resulted in foreclosure of loan accounts. The Company had to settle overdue of Rs.75.48 crore by sacrificing Rs.47.64 crore due to non-obtaining/obtaining inadequate collateral securities. Due to non-disposal of 34 units under possession for a long period, the Company had to incur expenditure of Rs.91.16 lakh on watch and ward of their assets. Lack of system of keeping track of whereabouts of the promoters/guarantors and their properties caused non recovery of Rs.6.26 crore even after obtaining decrees from the Courts. Similarly, lack of proper follow-up action and efforts against the defaulters caused non recovery of Rs.11.16 crore from promoters who defaulted in buy-back of equity shares.

Recommendations

The Company should:

- **strengthen and systematise its project appraisal system so as to eliminate delays and minimise possible risk of default in repayments by borrowers;**

- **redefine its term lending and equity participation schemes with a view to develop sectoral and geographical industrial growth of the State;**

- **ensure efficient and timely recovery action including equity buy backs under various provisions of SFC Act;**

- **ensure prompt disposal of units taken into possession to avoid blocking of funds and watch and ward costs;**

- **reorganise and synergise itself for the future especially in promotion of dedicated centres of excellence;**
- **ensure standardisation and uniformity in settlement of dues;**
- **adopt proper risk management techniques to minimise various kind of risks involved in its business;**
- **strengthen its internal audit and controls; and**
- **computerise its activities to take advantage of e information management, e governance and e tendering *etc.***

2.3 Power Sector Companies

Performance Audit on implementation of Accelerated Power Development Reforms Programme by Power Sector Companies in Rajasthan

Highlights

Objective of APDRP to bring commercial viability was defeated as the Discoms did not give due emphasis to the circles having higher AT&C losses.

(*Paragraph 2.3.14)*

Despite lucrative incentive scheme in APDRP, cash losses in all the three Discoms (Jaipur, Jodhpur and Ajmer) increased.

(Paragraph 2.3.17)

Reliability and quality of power supply was not improved as the Discoms could not achieve even the modest target of 4 to 18 *per cent* reduction in DT failure rate.

(Paragraph 2.3.18)

Delay in release of Government of India funds to Discoms by the State Government resulted in loss of interest amounting to Rs.1.73 crore.

(Paragraph 2.3.21)

Due to inordinate delay in execution work, the various works valuing Rs.108.66 crore were short closed by the Discoms. This resulted in deprival of grant of Rs.27.16 crore and anticipated savings of Rs.11.31 crore.

(Paragraph 2.3.23)

Due to non-commencement/partial completion of works, the Discoms could not achieve possible energy savings of Rs.6.03 crore per annum as envisaged in Detailed Project Reports.

(Paragraph 2.3.26)

Deviating from APDRP guidelines, the Discoms utilised incentive of Rs.137.71 crore as revenue grant for reducing revenue gap instead of improvement in the power sector.

(Paragraph 2.3.32)

Expenditure of Rs.1.26 crore incurred on outsourcing the feeder meter reading and its analysis became infructuous as the work of consumer indexing and Distribution Transformer metering was not complete.

(Paragraph 2.3.33)

Introduction

2.3.1 To accelerate Power sector reforms, Union Ministry of Power (MoP) approved (February 2001) the Accelerated Power Development Programme (APDP) and renamed (June 2003) it as Accelerated Power Development and Reforms Programme (APDRP). APDRP is being implemented by the State Government through power sector companies with the objective of reduction of Aggregate Technical and Commercial (AT&C) losses, reduction in outages and interruptions in power supplies, improvement in financial viability of power utilities and consumer satisfaction. For the purpose, up-gradation of sub transmission and distribution system (33 KV and below) including energy accounting and metering with financial support of the MoP were to be undertaken. The MoP entered (June 2002 to March 2003) into a Memorandum of Agreement (MoA) with the three distribution Companies (Jaipur Discom, Jodhpur Discom and Ajmer Discom) for implementation of APDRP. Funds from MoP were to be released to the Companies through the State Government. The programme was to be completed within 24 months from the date of approval (August 2002 to November 2002) of Detail Project Report (DPR). The distribution Companies constituted (January 2003) a State Level Distribution Reforms Committee (SLDRC) to review the progress of APDRP project implementation, compliance of conditions of MoA and performance against APDRP targets and bench marks.

The Chairman and Managing Director (C&MD) is the chief executive of each distribution Company (Discom). The Superintending Engineer (Plan) in each Discom is responsible for implementation of these schemes.

Scope of audit

2.3.2 The performance audit of the APDRP schemes was conducted (September 2006 to March 2007). The audit findings are based on test check of records at the head offices of each Discom and of 15 selected schemes out of total 19 schemes approved under APDRP by the MoP. Selection of 15 schemes was based on materiality and risk in the form of energy losses and covered projected financial outlay of Rs.1,068.88 crore out of the total projected outlay of Rs.1,119.90 crore. For evaluation of these schemes, detailed scrutiny of four[*] out of 24 circles of the three Discoms was also conducted.

[*] Jaipur Discom (Jaipur District & Jhalawar Circle), Ajmer Discom (Jhunjhunu Circle), Jodhpur Discom (Jodhpur District Circle)

Audit objectives

2.3.3 The audit objectives of the review were to assess whether:

- the DPRs were prepared on correct estimation of various item of works to obtain the desired objectives of APDRP, after due investigation and prioritisation;
- the funding requirements were realistically assessed, the means for providing the same were clearly identified and the funds were sanctioned and released in time by the State Government and the Board;
- the Companies were able to successfully execute the project planned and the AT&C losses were reduced to the extent envisaged in the schemes;
- the objective of commercial and financial viability was met and the available incentive was optimally availed/utilised;
- the reliability and quality of power supply was improved by reducing outages and interruptions;
- the system approach with Management Information System (MIS) and bringing transparency through computerisation was adopted for increasing consumer satisfaction;
- the expenditure on schemes was incurred economically to obtain the desired results as envisaged in DPRs; and
- the scheme had provided for effective and functional monitoring mechanism at all levels.

Audit criteria

2.3.4 The performance and effectiveness of APDRP schemes of Jaipur, Ajmer and Jodhpur Discoms in respect of achievements of envisaged objectives was assessed with reference to:

- targets and benchmarks laid down in the MoA and guidelines issued by the MoP/ State Government;
- terms and conditions of the loan agreements;
- projections/targets set out in DPRs; and
- conditions stipulated in various work orders and contracts.

Audit methodology

2.3.5 The following mix of methodologies was adopted:

- scrutiny of records relating to implementation of terms and conditions of MoA and guidelines issued by MoP;
- scrutiny of records relating to loan availment and utilisation;
- scrutiny of records relating to preparation and execution of DPRs of the schemes and contracts entered into for execution of works;
- review of minutes of SLDRC, MIS reports of RRVPNL (Rajasthan Rajya Vidyut Prasaran Nigam Limited) and Discoms;
- examination of records relating to project execution, receipt of funds, expenditure incurred; and
- interaction with the management at various levels.

Audit findings

2.3.6 The audit findings were reported (June 2007) to the Government/ Discoms and discussed (August 2007) at the meeting of Audit Review Committee for Public Sector Enterprise (ARCPSE), where the Secretary, Department of Energy represented the State Government and the Chairman & Managing Director and Director (Finance) represented the Jaipur Discoms. Ajmer and Jodhpur Discoms were represented by their Director (Finance). The review was finalised after considering the views of the Government/ Management.

The audit findings are discussed in the subsequent paragraphs.

APDRP schemes

Objectives

2.3.7 The main objectives of APDRP were:

- reduction of existing AT&C[*] losses *(40 per cent)* to 15 *per cent*;
- bring about commercial viability in State power utilities;

[*] Aggregate Technical and Commercial losses (AT&C losses) is a measure of overall efficiency of power distribution. AT & C losses is calculated as ratio of difference of energy input and energy realised with energy input where energy realised is energy billed multiplied by collection efficiency.

- reducing outages and interruptions and thereby increasing reliability & quality of power supply; and
- use of information technology and computer aided tools.

Funding Pattern

2.3.8 MoP's funding under APDRP had the following two components:

- investment for strengthening and up-gradation of the sub-transmission and distribution system, with a view to reduce Transmission and Distribution (T&D) losses; and
- incentive to encourage/motivate utilities to reduce cash losses.

Investment component

2.3.9 As per the terms of MoA, 50 *per cent* of the project cost was to be provided by MoP through a combination of grant (25 *per cent*) and loan (25 *per cent*) to the State Government as an additional Central Plan assistance. The remaining 50 *per cent* of the project cost was required to be arranged through counter funding from Financial Institutions (FI) or through internal resources by the utilities. The central plan assistance was to be released as upfront amount of 25 *per cent* on approval of project, 50 *per cent* after spending upfront amount along with equal amount of counter funding and remaining 25 *per cent* after spending 75 *per cent* of project cost. The MoP also directed that the State Government should release the fund to State utilities within a week of the said amount being credited to State Government account. The loan component under central plan assistance of APDRP was withdrawn by MoP in November 2005. A sum of Rs.192.91 crore as loan was released by MoP to State Government before withdrawal of the loan component.

Incentive component

2.3.10 The State Government was eligible for incentive equivalent to 50 *per cent* of the actual cash loss reduction by the State Electricity Boards/Utilities taking 2000-01 as the base year. The amount of incentive received was to be allocated to individual power utilities in the ratio of their contribution to the total loss reduction. The grant received under incentive was to be utilised only towards improvement in power sector. The MoP released (2001-02) Rs.137.71 crore as incentive for reduction in losses in three Discoms. No incentive was received thereafter as there was no reduction in cash losses of the three Discoms.

Conditionalities

2.3.11 The APDRP had the following conditionalities:

- States receiving APDRP assistance will have to open a separate account for enabling proper audit certification;
- State Government shall release the funds to State Power utility within a week of the amount credited to the State Government account;
- State Government/Power utilities would be required to submit monthly progress report, fund utilisation *etc.*;
- State Government/Power utilities would be required to include information technology intervention for improving systems and reducing commercial loss; and
- State Power utilities shall implement projects on turnkey basis to ensure quality and expeditious implementation.

Project cost and cost benefit analysis

2.3.12 The detail of schemes sanctioned, project cost (revised), nature of expenditure, funds received, actual expenditure and anticipated annual benefit as per the DPRs is given in **Annexure-19**.

It is seen from the annexure that 23.66 *per cent* annual benefits in the form of energy savings were anticipated from the implementation of APDRP. Audit noticed that the anticipated benefits significantly varied from circle to circle and ranged between 13.19 and 60.98 *per cent* in three Discoms. Further, the financial progress was slow as only 75.03 *per cent* of revised project cost was spent up to January 2007 as against the target of spending whole of revised project cost by November 2004 for achieving anticipated annual benefit of Rs.264.97 crore.

Achievement of the objectives

Policy formulation and project planning

2.3.13 An effective policy and planning are prerequisites for any scheme to achieve its objectives and become successful. Policy formulation and project planning by the utilities were to be done in accordance with the detailed guidelines for the implementation of projects issued by the MoP. Therefore, the utilities were to prepare DPR's for each of the high density areas in order of priority, which were to be vetted, validated and appraised by Advisor-cum-Consultants appointed by the MoP.

Selection of circles

Lack of due emphasis in selection to circles having higher AT&C losses defeated the objective of bringing commercial viability in power utilities.

2.3.14 The primary objective of the APDRP was to reduce AT&C losses to 15 *per cent* (existing losses of circles ranged between 20 to 62 *per cent*) and thereby improve financial viability. As per the guidelines, the utilities were required to prioritise project formulation for densely electrified urban industrial zones. MoP approved (August 2002) three schemes with the objective to reduce AT&C loss from 30, 39, 47 *per cent* to 15 *per cent* in Alwar (Jaipur Discom), Jhunjhunu (Ajmer Discom) and Jodhpur District circle (Jodhpur Discom) involving project outlays of Rs.155.38 crore, Rs.118.20 crore and Rs.215.02 crore respectively. 13 circles were selected for development in the next phase for achieving quick results in reducing losses and improving quality in concentrated zones. Audit noticed that while making selection of circles due emphasis was not given to the circles where the AT&C losses were significantly higher ranging from 30 *per cent* to 60 *per cent* and the city circles of Jaipur, Ajmer and Jodhpur were selected which were having AT&C losses of less than 23 *per cent* during the year 2002-03.

The Government in regard to selection of Jaipur, Jodhpur and Ajmer Discom stated (August 2007) that Jaipur City Circle was selected keeping the aim of the scheme and to get quick results; Jodhpur city circle was selected after posing scheme of Jodhpur District circle having highest losses; and Ajmer city circle was recommended by Advisor cum consultants for preparing DPR for APDRP. The reply is not tenable as audit was not shown any analysis made before selection of these circles. Further the reply in respect of Ajmer Discom is not tenable as the schemes were prepared by the consultants after consultation with the Management.

Unrealistic estimates in DPRs

Wide variations in projected cost per unit ranging from 17 to 533 *per cent* indicated absence of due care in estimation of project costs.

2.3.15 DPRs were to realistically estimate cost for each item of works. Test check of 20 out of 299 works (Jaipur Discom 10, Ajmer Discom 6, and Jodhpur Discom 4 works) revealed that there were wide variations in projected cost per unit and actual cost per unit. In 13 cases, the actual cost per unit was higher by 16 to 533 *per cent* as compared to the projection in DPRs. In seven cases, the actual cost per unit of items of work was lower by 10 to 96 *per cent* as compared with projections in DPRs. It was observed that in case of bifurcation of 11 KV feeders (Ajmer Discom) the unit rate as per DPR was Rs.1.20 lakh per Km while actual cost incurred was Rs.7.60 lakh per Km. For construction of 33KV line (Jodhpur Discom) the unit rate as per DPR was Rs.5.54 lakh per Km while actual cost incurred was Rs.22.18 lakh per Km. Further, in case of installation of Additional Distribution Transformers (DTs) (Jaipur Discom) the unit rate as per DPR was Rs.0.65 lakh per DT while actual cost incurred was Rs.1.91 lakh per DT. The details of such cases are given in **Annexure-20**. These indicate that due care was not taken in estimation of cost of work projected in DPR since these were prepared by various consultants {MECON[$] (three DPRs), PGCIL[#] (three DPRs) and

[$] MECON India Limited.
[#] Power Grid Corporation of India Limited.

NTPC* (two DPRs)} and by the Discoms (12 DPRs) itself. Further, the Discoms neither reported nor analysed the reasons for such wide variations obviously as these were prepared by different sources. The Discoms also did not seek approval of appropriate authority for variations in cost of work.

The Government stated (August 2007) that the DPRs were prepared under guidance of NTPC and on the pattern given by the MECON/PGCIL. The reply is not tenable as financial discipline and propriety requires that the Discoms should have also analysed the cost estimation independently before accepting the DPR's prepared by the NTPC. Moreover 12 out of 20 DPRs were prepared by the Discoms themselves. Therefore the fact remains that DPRs were defective and cases of significant deviations were neither reported nor approved by the competent authority.

Reduction of AT&C losses

2.3.16 The position of AT&C losses in the year 2002-03 (period in which all the schemes were approved) and 2005-06 (during which the benefits of schemes were expected to arrive) in respect of three Discoms is given below.

Description	Jaipur Discom		Jodhpur Discom		Ajmer Discom	
	2002-03	**2005-06**	**2002-03**	**2005-06**	**2002-03**	**2005-06**
Energy Input (MU)	8681.72	11671.45	6827.53	9538.44	8591.37	10585.12
Energy sold (MU)	5275.17	6892.83	4031.91	5265.43	5163.31	5773.85
T&D Loss (MU)	3406.55	4778.62	2795.62	4273.01	3428.06	4811.27
Percentage of T&D Loss	**39.24**	**40.94**	**40.95**	**44.80**	**39.90**	**45.45**
Collection efficiency	100.00	97.88	100.0	97.52	100.00	100.00
Percentage of AT&C Loss	**39.24**	**42.19**	**40.95**	**46.17**	**39.90**	**45.45**

Note: Figures for the year 2006-07 are yet to be compiled by the Companies.

It is seen from the above that the AT&C losses increased from 39.24 *per cent* to 42.19 *per cent* in Jaipur Discom, 40.95 *per cent* to 46.17 *per cent* in Jodhpur Discom and 39.90 *per cent* to 45.45 *per cent* in Ajmer Discom during 2002-06. The position of the AT&C losses during 2001-06 in 14 circles test checked is given in **Annexure-21.**

It was noticed that:

In Jaipur Discom total Rs.589.37 crore were to be invested out of which Rs.388.39 crore were spent up to January 2007. The AT&C losses of two circles *viz*; (Alwar and Jaipur city) reduced by 1.18 and 5.45 *per cent* (**Annexure-21**) respectively as all the major works had completed. In three circles (Jaipur District, Kota and Jhalawar), however, the AT&C losses increased by 0.64 *per cent* to 2.99 *per cent* despite partial completion of various works. The Company did not analyse the reasons for increase in losses. The Management of Discoms while accepting the fact stated (August

* National Thermal Power Corporation.

2007) that increase in AT&C losses of Jaipur District, Kota and Jhalawar circle was due to increase in duration of single phase supply to rural areas and block hours supply to farmers.

In Ajmer Discom total Rs.171.23 crore were to be invested out of which Rs.140.15 crore were spent up to January 2007. The AT&C losses in three circles *viz;* Ajmer, Bhilwara and Jhunjhunu increased by 0.96 to 8.03 *per cent* (**Annexure-21**). Audit noticed that in Jhunjhunu circle the Scheme was short closed by Rs.50.48 crore by deleting items of work like inter-connected control cabling, renovation of DTs, replacement of high efficiency transformers, augmentation of spur lines. In Ajmer city circle the works of installation of new 11 KV lines, reconductoring of 33 KV line, and installation of DT Meters were not carried out. In Bhilwara circle shortfall in renovation of DTs was 62 *per cent*.

The Government in regard to Ajmer Discom accepted (August 2007) the fact that APDRP could not be implemented effectively due to non-availability of departmental manpower as well as capable contractor, hence percentage of AT&C losses had increased.

In Jodhpur Discom total Rs.359.30 crore were to be invested out of which Rs.311.70 crore were spent up to January 2007. The AT&C losses in five circles *viz*; Pali, Barmer, Jodhpur city, Sriganganagar and Bikaner circles were reduced by 5.70 to 12.07 *per cent* (**Annexure-21**) due to completion of major works whereas AT&C losses of Jodhpur District Circle increased by 9.29 *per cent* due to non/partial completion of major works *viz*; renovation of DTs, installation of HT capacitors, installation of 11 KV Vacuum Circuit Breakers (VCBs).

The Management of Jodhpur Discom stated (August 2007) that because of load growth the reduction in losses was offset and thereby not depicted fully as achieved reduction in T&D losses. Aggregate T&D losses had, however, reduced in 2006-07 with implementation of feeder renovation programme. The reply is not tenable in view of the fact that losses had increased.

Reduction in cash losses

2.3.17 The DPRs of the schemes were prepared with the objective to reduce commercial losses and to increase revenue collection. The position of cash losses of the Discoms is given in **Annexure-22.**

Despite undertaking various work under APDRP, cash losses of the Discoms increased due to increase in T&D losses and heavy interest burden of loans taken for bridging the revenue gap.

It was observed that, cash losses in all the three Discoms *viz*; Jaipur, Jodhpur and Ajmer had increased due to higher T&D losses, in 2005-06 (40.94 *per cent* in Jaipur Discom, 44.80 *per cent* in Jodhpur Discom and 45.45 *per cent* in Ajmer Discom) against T&D losses in 2002-03 (39.24 *per cent* in Jaipur Discom, 40.95 *per cent* in Jodhpur Discom and 39.90 *per cent* in Ajmer Discom). The T&D losses increased despite works under taken under APDRP. The Discoms did not analyse the reasons behind increase in T&D losses. Heavy interest burden of loans taken for bridging the revenue gap, which had increased from Rs.246.74 crore in 2000-01 to Rs.561.90 crore in 2005-06 as the State Government did not release financial support as per approved

Financial Restructuring Plan also contributed towards increase in cash losses. Thus, the objective of improving financial viability was not met despite very attractive and lucrative cash incentive proposed in the APDRP.

The Government stated (August 2007) that reasons for increase/decrease in T&D loss *vis-a-vis* increase/decrease in cash losses should be analysed at Micro level. Further the distribution losses in Jaipur Discom are on declining trend (Jaipur Discom). The reply is incorrect as the T&D loss, during envisaged period up to 2005-06, has not been declined (as per Balance sheet figures) as compared to the year 2002-03.

The Government in regard to Jodhpur Discom stated (August 2007) that it has always been the endeavour to reduce the T&D losses but it had always eluded the organisation. The Discom, however, has completely re-oriented the strategy and the loss reduction is taking place.

The Government in regard to Ajmer Discom accepted (August 2007) the fact that cash losses have increased due to increase in purchase cost and quantum without revenue growth.

Reliability & quality of power supply

2.3.18 DPRs recognised that there was wide gap between installed capacity of DTs *vis-a-vis* requirement of electricity which resulted in overloading and failure of large number of DTs affecting the quality and reliability of power supply. The percentage of shortfall in augmentation/renovation of DTs as on 31 January 2007 was 30, 78 and 12 for Jaipur, Jodhpur and Ajmer Discom respectively as given below:

Discom	No. of DT's targeted in DPR	Actual installed upto January 2007	Shortfall	
			No.	Percentage
Jaipur	12921	9060	3861	30
Jodhpur	29686	6402	23284	78
Ajmer	13246	11707	1539	12

Discoms could not achieve even the modest target of reduction in failure rate of DTs and failed to achieve the objective of the quality and reliable supply of power.

The MoP had fixed the target for reduction in DT failure rate of 1.5 *per cent*, however, the Discoms fixed circle wise targets ranging between 4 and 18 *per cent*. An analysis of relevant records revealed that actual DT failure rate ranged between 5.32 *to* 30 *per cent* during the year 2005-06. Thus the Discoms could not achieve even the modest target of reduction in failure rate of DTs, which adversely affected the achievement of objective of the quality and reliability of power supply. Audit noticed that non installation of required number of DT protection equipment *i.e.* capacitor banks and 33/11KV VCBs by the three Discoms attributed to higher failure rate of DTs. Audit further noticed that the three Discoms also failed in reconditioning/augmentation of 33/11KV lines and feeders as per the targets fixed for the respective schemes. Non augmentation of DTs, DT protection equipments and 33/11KV lines and feeders also adversely affected the achievement of quality and reliability of power supply.

The Government stated (August 2007) that as the scheme has been extended up to March 2008, all these activities shall be completed by that time (Jaipur Discom); shortfall in installation of VCB's was due to non-availability of VCB and reduction in the failure rate of DT was not achieved due to unauthorised increase in load by agriculture consumers (Jodhpur Discom). The fact remains that Discoms failed to ensure reliable and quality power supply to the consumers.

Use of Information Technology and Computer aided tools

2.3.19 One of the main objectives of APDRP was to strengthen management information system (MIS) and computerisation so as to increase the effectiveness in decision-making and consumer satisfaction. Accordingly, the role of Information Technology (IT) and computer aided tools for increase in revenue, consumer satisfaction, outage reduction, monitoring and control was recognised and therefore DPRs contained provision of Rs.88.78 crore out of total financial outlay of Rs.1,119.90 crore. The position of expenditure against the above schemes as on 31 March 2006 and 31 January 2007 is given below.

(Rs. in crore)

Name of Discom	Position as on 31 March 2006 `		Position as on 31 January 2007	
	Projected	Actual	Projected	Actual
Jaipur	36.56	0.65	36.56	9.56
Jodhpur	41.61	1.57	41.61	1.57
Ajmer	10.61	1.66	10.61	1.82
Total	**88.78**	**3.88**	**88.78**	**12.95**

Expenditure of less than 15 *per cent* of the targeted expenditure resulted in non achievement of objective to increase the effectiveness in decision making and consumer satisfaction.

It will be seen that even after more than two and half years from the schedule date of completion of schemes, less than 15 *per cent* of the targeted expenditure was incurred. Out of Rs.88.78 crore, a provision of Rs.56.74 crore was meant for consumer indexing and Data logging/automation in sub-stations and Rs.32.05 crore for various other IT initiatives such as computerised billing, centres for billing/call/complaint and development of digital power map. Audit noticed that Jodhpur and Ajmer Discom did not undertake the work of data logging/automation in sub-stations whereas Jaipur Discom incurred an expenditure of Rs.4.79 crore against the provision of Rs.7.79 crore on these works. Further, the Discoms had incurred an expenditure of Rs.4.41 crore on consumer indexing up to January 2007 against the provision of Rs.20.62 crore. The progress on works of Computerised billing, Consumer Indexing/Mapping/Sub-station Automatic Data Acquisition (SCADA) work and related IT and allied activity works was very slow. Lack of strategy, planning and monitoring of the expenditure on important works related with IT and automation led to non achievement of main objectives of the scheme.

The Government in regard to Jaipur Discom stated (August 2007) that these works would be completed by the end of current financial year. The implementation of IT scheme did not materialise in Jodhpur Discom as the required parameters were not available at reasonable cost. Ajmer Discom could not achieve it at desired level because of primitive stage of IT in State, however, efforts are being made to speed up the work. The fact remains that despite an accepted condition of APDRP, the Discoms did not take initiative to implement use of IT and computer aided tools.

Financial resources mobilisation and management

2.3.20 Timely mobilisation of funds at competitive rates and their proper and efficient use enhance the chances of achieving envisaged benefits. The position of funds received from MoP in the form of grants and loan and counter part funds arranged from various sources up to 31 January 2007 is given below.

(Amount: Rs. in crore)

Name of Discom	Revised projected cost of various schemes	Funds received				Percentage of funds received to revised projected cost	Grant yet to be received from MoP	Counter part funds to be arranged
		From MoP		Loan from financial institutions	Total			
		Grant	Loan					
Jaipur Discom	589..36	97.697	88.697	REC 60.69 PFC 37.57 WB 103.74	388.39	65.90	49.64	151.33
Jodhpur Discom	359.30	62.15	57.41	LIC 64.66 World Bank 14.42 Equity 88.40 Others 24.66	311.70	86.75	27.67	19.93
Ajmer Discom	171.23	50.56*	46.81*	World Bank* 63.62 LIC 30.00 REC10.25	201.24*	117.53	-	-

Note: * This includes grant, loan and counter part funds for new schemes sanctioned during 2004-05.

As per approved scheme 50 *per cent* cost of projects *i.e.* Rs.559.95 crore was to be arranged by the Discoms from other sources including internal sources as counter part funding. Audit noticed that Discoms failed to tie up counter part funds which delayed the implementation of schemes. After lapse of more than one year of approval of schemes, Discoms requested (December 2003) the World Bank for allowing them to utilise the already sanctioned loan (which was taken by the Discoms for power sector reforms) as counter part fund for APDRP works. The World Bank approved (March 2004) for dovetailing of funds of Rs.393.82 crore subject to the condition that the proceeds would be used in accordance with the loan agreement for the World Bank project and with the agreed procurement plan. It was further noticed that Jaipur Discom could utilise Rs.103.74 crore out of Rs.148.18 crore and Jodhpur Discom utilised only Rs.14.42 crore out of Rs.188.53 crore from the World Bank funds. Moreover, schemes to the extent of Rs.248.57 crore are yet to be implemented for which funds have not been obtained/arranged. This clearly indicates failure of the Discoms to mobilise funds effectively for timely completion of the schemes.

Delay in release of funds by the State Government.

Deviating from the conditions of APDRP, the State Government transferred MoP funds with delay, resulting in loss of interest of Rs.1.73 crore to Discoms.

2.3.21 As per the condition of APDRP, the State Government was required to release the funds to the Discoms within a week from the date of receipt from the MoP. Audit scrutiny revealed that the State Government transferred the funds to the utilities after delays ranging from 7 to 300 days*. The delay in release of funds resulted in loss of interest amounting to Rs.1.73 crore to the Discoms as per detail given in **Annexure-23.** Further, it would also results in time and cost overrun of projects. During ARCPSE meeting Jaipur Discom agreed that there was substantial delay of 300 days in one case for which they have taken up the matter with the State Government for waiver of interest.

Non opening of separate bank accounts and temporary use of APDRP funds for other purposes

2.3.22 As per MoA, the Discoms were to open a separate bank account in Schedule Bank/Nationalised Bank for the purpose of implementing the project of APDRP. The purpose of separate bank account was to ensure utilisation of all APRDP funds including counter part funds for APDRP only and to avoid diversion of funds for any other use. None of the three Discoms complied with the condition of opening of separate bank account. Jaipur Discom, however, belatedly opened (March 2005) separate bank account. As all funds relating to APDRP were merged with the common bank account, the possibility of use of these funds for other short term liquidity purposes in violation of terms of APDRP can not be ruled out.

The Government in regard to Jodhpur Discom stated (August 2007) that opening of separate bank account for APDRP is not possible, while in case of Ajmer Discom it stated that management has decided not to open separate account. The reply of the Jodhpur and Ajmer Discom indicate reluctance of the utilities to adhere to the MoP guidelines.

Project management and implementation

Short closure of scheme

Inordinate delay in execution of works led to short closure of schemes, which resulted in deprival of grant of Rs.27.16 crore.

2.3.23 The original approved (August 2002 to November 2002) cost of Rs.1,255.10 crore for 19 schemes was revised (November 2004 and October 2005) to Rs.1,119.90 crore by short closure of various works valuing Rs.108.66 crore consisting of Rs.55.95 crore of Ajmer Discom and Rs.52.71 crore of Jaipur Discom and consultancy charges of Rs.26.54 crore included in the original DPRs of all Discoms. It was noticed that short closure of schemes was proposed (April 2004) by the Discoms due to inordinate delay

* In four cases the delay varies from 7 to 17 days beyond the permissible limit and in one case the delay is 300 days beyond the permissible limit.

in execution of works which resulted in deprival of grant of Rs.27.16 crore being 25 *per cent* of the cost of short closed schemes in addition to anticipated savings of Rs.11.31 crore per annum were foregone.

The detailed analysis of short closed scheme in two circles is as under:

Jhunjhunu circle (Ajmer Discom)

Due to deletion of major works, energy savings of Rs.1.67 crore per annum were reduced.

2.3.24 MoP approved (August 2002) the DPR of Rs.118.20 crore for Jhunjhunu circle which envisaged energy savings of Rs.14.97 crore per annum involving various works *viz*; renovation of DTs, replacement of high efficiency transformers, augmentation of 11KV lines, installation of 33/11 KV feeder metering, 11KV VCB, feeder protection equipment, conversion of LT* lines into 11 KV lines and erection of new 33/11KV lines *etc.* The progress of the scheme was very slow from beginning as against targeted financial progress of 75 *per cent*, the actual progress was only 17.06 *per cent* of the project cost up to March 2004. Ajmer Discom requested (April 2004) MoP for short closure of scheme to Rs.67.72 crore which was accepted and approved (November 2004). Major works like renovation of DTs, replacement of high efficiency transformers, augmentation of 11KV lines, 33/11 KV feeder metering, 11KV VCB, erection of new 33KV lines of the scheme were completed (January 2007) by incurring Rs.62.69 crore. Audit noticed that due to deletion/reduction of major works *i.e.* feeder protection equipment, renovation of DT, conversion of LT lines into 11 KV lines and erection of new 11KV lines *etc.* the savings as envisaged in DPR were reduced by Rs.1.67 crore per annum. It was further noticed that even after incurring Rs.62.69 crore, the AT&C losses of the circle increased from 45.75 *per cent* in 2002-03 to 47.36 *per cent* in 2005-06 instead of energy savings of Rs.13.30 crore per annum as envisaged in DPR. The Discom did not analyse the reasons for increase in AT&C losses.

The Government stated (August 2007) that the cost of work was taken on broad estimates which later on reduced on the basis of actual cost. The reply is not correct in view of the fact that envisaged savings of Rs.1.67 crore per annum were also reduced in revised DPR due to deletion of above mentioned major works.

Jaipur District Circle (Jaipur Discom)

Slow progress of major works caused non achievement of energy saving of Rs.24.24 crore.

2.3.25 The DPR of Jaipur District circle involving various works *viz*; refurbishment of existing system, bifurcation of existing KV feeders, creation of new substations, erection of new 33 KV lines, installation of capacitor banks, consumer indexing, DT metering/consumer metering was approved (October 2002) by MoP at a revised total project cost of Rs.173.95 crore as against original project cost of Rs.198.13 crore. Thereby the scheme was short closed by Rs.24.18 crore on account of reduction in DT/consumer metering, energy accounting, remote metering, fault monitoring and computerisation for decentralised energy billing.

* Low Tension

The Discom incurred (January 2007) an expenditure of Rs.78.28 crore (45 *per cent*) only. It was observed that though the work of bifurcation of 11KV feeders and erection of new 33KV sub-stations/lines was completed, the refurbishment of existing system and installation of 11 KV capacitor bank (1.2 & 2 MVAR) was completed only upto 26 *per cent* and 52 *per cent*. The savings of Rs.24.24 crore per annum as envisaged in the DPR were not achieved.

The Government stated (August 2007) that as the APDRP scheme has been extended up to March 2008 by which balance work would be completed. Further the short closed works are not directly related to reduction of T&D losses. These works are for efficiency improvement, which are now being taken at a lesser expenditure than envisaged in the scheme. The reply is not tenable due to the fact that DT/consumer metering, energy accounting, *etc.* are for prevention of theft and for improving collection efficiency and are thereby directly related to reduction in AT&C losses.

Non-execution of works/partial execution of works

2.3.26 It was noticed that out of 299 works of these 19 schemes, no expenditure had been incurred on 57 works costing Rs.171.51 crore and 122 works costing Rs.560.86 crore were partly completed (January 2007) by incurring an expenditure of Rs.335.43 crore as indicated in **Annexure-24.**

Due to partial installation of capacitor banks, power transformers and sub-stations, Discoms could not achieve energy savings of Rs.6.03 crore.

Audit analysis of five* works out of 25 partially completed works of four** circles revealed that installation and replacement of capacitor banks, power transformers and 11/0.4 KV sub-stations were either delayed or partially executed. Thereby the Discoms could not achieve possible energy saving of Rs.6.03 crore per annum as envisaged in the DPRs. Besides, important works like installation and replacement of capacitor banks, power transformers, VCB, LT feeders and LT lines, consumer indexing/mapping, SCADA and related IT and allied activity *etc.* were not completed.

The Government in regard to Jaipur Discom stated (August 2007) that the delay was caused due to delay in decision over dovetailing of World Bank Funds as counter parts funds. Further the scheme had been extended up to March 2008 by that time the balance works are expected to be completed. As regards non-commencement of various works, the Management of the Discoms in the entry conference stated (November 2006) that some of the works were not initiated/undertaken as outsourcing involved less expenditure *i.e.* call centres, billing and complaints centres *etc.* The Discoms, however, have not finalised the list of all such works along with financial implication for seeking approval of MoP for short closing such works by modification/revision in the DPRs.

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* Installation of Capacitor Banks (1.2 MVAR), Installation of Capacitor Banks (2 MVAR), replacement of Power Transformers, creation of KV substation, relocation of DTs.

** Jaipur District circle, Kota circle, Jodhour District circle, Jodhpur City circle.

Detailed analysis of partially executed schemes of two circles are discussed below:

Jodhpur District Circle (Jodhpur Discom)

2.3.27 The DPR of Jodhpur District circle involving various works[@] was approved (August 2002) by MoP at a total project cost of Rs.204.78 crore. The scheduled date of completion was September 2004, but Rs.182.32 crore was spent up to January 2007. The number of tripping in 33KV feeders were as high as 818 and 233 at the time of preparation of DPR due to over current and earth fault respectively. Further with a view to reduce outages/number of tripping, it was noticed that the DPR contained provision of Rs.46.61 crore for renovation of existing sub-stations and Rs.8.73 crore for creation of sub-stations and replacement of power transformers of rating below 3.15 MVA by 3.15 MVA capacity. A saving of more than 34.5 lakh units of energy per annum was envisaged on completion of these works. Audit noticed that as against the target for replacement of 65 power transformers, only eight power transformers were replaced up to January 2007. The non-replacement of 57 nos. of power transformers deprived the circle of saving of 30.25 LU per annum valuing Rs.86.83 lakh. Further, it was also noticed that the number of tripping, remained (January 2007) 345 and 275 due to over current and earth fault respectively.

Jhalawar Circle (Jaipur Discom)

2.3.28 The DPR of Jhalawar circle involving various works[$] was approved (October 2002) by MoP for Rs.47.82 crore. The schedule date of completion was September 2004.

The scheme envisaged increase in revenue realisation of Rs.26.06 crore per annum, reduction in outages and reduction in T & D losses up to 27.5 *per cent* with improvement in quality and reliability of power. Audit noticed that despite time overrun and incurring expenditure of Rs.45.20 crore (January 2007) on major works of the scheme, the T&D losses of the circle, instead of decreasing, increased from 58.27 *per cent* in 2001-02 to 60.19 *per cent* in 2005-06.

Non-execution of works on turnkey basis

2.3.29 As per APDRP guidelines, the Discoms were required to implement projects on turnkey basis through contractors selected on a competitive basis to ensure quality and expeditious implementation. It was, however, noticed that only 3[*] out of 299 works were executed/awarded on turnkey basis. Most

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@ Improvement in service connection, system metering, consumer indexing, replacement of power transformers, installation of LT/HT capacitors, repairs and maintenance of 33/11KV sub stations, augmentation/renovation of DTs, creation of sub-stations, computerised billing, data logging and augmentation of KV feeders.

$ System metering, renovation and modernisation of sub-stations, installation of capacitor banks, reconductoring of LT feeders/33 KV lines, modernisation work.

* SCADA in Jaipur city circle and consumer indexing in Jaipur district circle of Jaipur Discom and Jodhpur Discom.

of the APDRP works were executed departmentally using central labour rate contract (CLRC) and material was procured and supplied by Discoms. Thus, the Discom violated one of the primary conditions of the APDRP.

The Government in regard to Jaipur Discom stated (August 2007) that due to utilisation of World Bank loan as counter part fund of APDRP, the material had to be purchased as per specifications of the World Bank and therefore the works common to both could not be awarded on turnkey basis. The Government in regard to Jodhpur and Ajmer Discom stated (August 2007) that the contractors were not available in their vicinity to carry out turnkey work. The fact, however, remains that despite being an accepted condition, the Discoms did not notify the works to be awarded on turnkey basis for timely completion of the schemes.

Delay in preparation and submission of utilisation certificate

Absence of system for timely preparation of utilisation certificates led to delay in release of further funds.

2.3.30 The Discoms were required to submit utilisation certificates (UC) in nine months of the completion of the scheme/financial year (which ever was earlier). Further, release of funds was dependant upon submission of UC. The Discoms did not devise any system for preparing UC as soon as works were completed or at the end of financial year. The Discoms issued UC after close of the financial year. Audit noticed that the UC were not issued for the amount incurred upto end of financial year thereby the outstanding UC had increased from Rs.164.10 crore as on 31 March 2005 to Rs.328.24 crore as on 31 March 2006. The absence of a system for timely preparation of UC led to delay in receipt of APDRP funds.

Excess expenditure over and above DPR provisions

2.3.31 The position of excess expenditure over and above DPR provisions in respect of the three Discoms is given below.

(Amount: Rs. in crore)

Name of Discom	**No of works**	**Financial target as per DPR**	**Actual amount incurred upto 31 January 2007**	**Excess amount incurred over and above DPR provision**	**Amount for excess physical work over and above DPR provision**	**Amount for cost over-run incurred over and above DPR provision**
Jaipur Discom	20	100.35	173.40	73.05	19.18	53.87
Jodhpur Discom	33	98.27	207.91	109.64	108.92	0.72
Ajmer Discom	16	28.72	39.08	10.36	(-)2.95	13.31
Total	**69**	**227.34**	**420.39**	**193.05**	**125.15**	**67.90**

It can be seen that Jaipur Discom had incurred excess expenditure of Rs.73.05 crore over and above DPR provisions for 20 works. Excess expenditure over and above DPR provision incurred was Rs.109.64 crore in 33 works of Jodhpur Discom and Rs.10.36 crore in 16 works of Ajmer

Due to faulty process of booking expenditure, the cost of other works was booked under the APDRP schemes.

Discom. Thus excess expenditure of Rs.193.05 crore (84 *per cent* above DPR provision) was incurred in 69 works. The excess expenditure on works was due to extra physical works (Rs.125.60 crore) as compared to that envisaged in DPRs and also due to increase in cost of works (Rs.67.90 crore) as compared to the cost estimated in DPRs. It was noticed that wrong expenditures were booked under the APDRP. This fact was also pointed out by the consultant appointed by the MoP.

Other important issues

Irregular use of incentive

Incentive amount of Rs.137.71 crore was used as revenue grant instead of capital grant, which defeated the objective of scheme and deprived Discoms for subsidy from GOR.

2.3.32 The State Government lodged (February 2003) a claim with MoP for incentive of Rs.144.45 crore being 50 *per cent* of loss reduction (Rs.288.90 crore) during 2001-02 from the base year of 2000-01. The Union Ministry of Finance sanctioned (December 2003) the incentive claim of Rs.137.71 crore on the basis of recommendation of MoP. The incentive component was to be utilised as capital grant for improvement in the power sector. Audit, however, noticed that the Discoms had used the grants as revenue for reducing revenue gap. The treatment of the incentive component as revenue grant defeated the objectives of APDRP scheme and also deprived the Discoms to get subsidies from the State Government as per Financial Restructuring plan.

The Government stated (August 2007) that funds were released for reducing commercial losses and therefore were rightly accounted for in revenue account. The reply is not tenable as the incentive amount was to be utilised for capital works for reform process. Further while releasing the incentive amount the MoP directed that the level of subsidy support provided by the State Government should in no case be reduced on account of receipt of incentive under the scheme. Thus the accounting of incentive as revenue grant was against the directions of MoP.

Improper Energy Accounting & Audit

Despite non completion of consumer indexing work, Discoms incurred infructuous expenditure of Rs.1.26 crore on feeder meter reading and their analysis.

2.3.33 One of the primary objectives of APDRP was to have proper energy accounting system in each of the circles. In absence of adequate metering arrangement at strategic locations, it was not possible to pinpoint the areas where maximum energy losses were occurring. Under APDRP, energy meters on 1,255 feeders (1,025 Ajmer and 230 Jodhpur Discoms) were installed up to January 2007 at a total cost of Rs.6.16 crore. The work relating to meter readings and analysis was outsourced. Audit noticed that the work of feeder meter reading and their analysis was outsourced without completing the work of consumer indexing (which was essential for correct assessment of feeder wise AT&C losses) *i.e.* identifying individual consumer with specific feeder and DT metering. The reports submitted by the service provider* were not

* KLG System Ltd., Galaxy Data Processing Centre and Sands Utility Services Pvt. Ltd.

reliable as these showed negative losses *i.e.* energy billed was more than energy supplied. Further, the reported losses varied significantly from month to month of the same feeder. Audit noticed that these variations were also due to absence of matching period of energy inputs with the period of energy billing. Similar position prevailed in respect of Jodhpur and Ajmer Discoms. The Discoms had spent Rs.1.26 crore (Rs.29.74 lakh by Jaipur Discom, Rs.66.86 lakh by Jodhpur Discom and Rs.29.69 lakh by Ajmer Discom) during 2003-07 for feeder meter reading and their analysis, which become infructuous, as it could not be utilised for the purpose of enhancing vigilance operations to curb commercial losses including theft.

The Government in regard to Jodhpur Discom stated (August 2007) that mismatch would reduce after carrying out corrections in coding, consumer indexing *etc.*

Evaluation of implementation of the APDRP

Ineffective monitoring of implementation and evaluation

Evaluation

2.3.34 APDRP guidelines provide that the evaluation of implementation would be done by an independent agency. MoP entrusted evaluation work in respect of 11 out of 19 schemes of three Discoms to independent agencies *i.e.* MECON (two schemes), IIM[*] (nine schemes). The evaluation report was to be submitted by June 2006. It was noticed that the Discoms have taken corrective action as per interim evaluation reports submitted (April/May 2006) by MECON. Interim evaluation reports of IIM in respect of nine schemes were, however, pending despite completion of more than 50 *per cent* works by March 2006.

The Government stated (August 2007) that IIM was carrying out evaluation for 2005-07, the schemes of Jhalawar and Bharatpur circle (Jaipur Discom) and Pali, Jodhpur, Barmer and Bikaner circles (Jodhpur Discom). The fact remains that the monitoring and evaluation was not done in time.

Monitoring

2.3.35 As per MoA, the SLDRC was to meet once in two months. It was noticed that since its constitution (January 2003) as against targeted 25 meetings, SLRDC conducted only eight meetings up to March 2007. Thus the SLRDC did not monitor the work as warranted. It was also noticed that despite being highlighted in its eight meetings by SLDRC, Discoms did not take any effective initiatives to complete the works of DT metering, implementation of consumer indexing *etc.* within the scheduled time.

[*] Indian Institute of Management, Ahmedabad.

Internal control and internal audit

2.3.36 Internal control and Internal Audit is important appraisal activity within organisation to examine and evaluate the activity of the organization. Besides assisting in financial control, it is expected to help in the achievement of organisational objectives by improving the effectiveness of control and governance process within the organization.

Internal audit of expenditure of Discoms is conducted by the Internal Audit wing headed by a Financial Advisor and Controller of Accounts (FA&COA) in all the three Discoms. All the Discoms follow the Internal Audit Manual (IAM) adopted by the erstwhile Board. As per IAM, expenditure audit of each circle should be done once in a year. It was noticed during audit that the internal audit was done for a period of 2 to 3 years instead of every year of Jaipur city circle, Jaipur District circle (Jaipur Discom) and Jodhpur district circle, Bikaner circle, Pali circle (Jodhpur Discom). It was further noticed that the management did not prescribe coverage of APDRP specifically for examination with a view to take remedial measures on weakness or shortcomings in implementation of APDRP and hence there were no internal audit findings *viz*; delay in implementation of scheme, excess booking of expenditure, and non adherence to guidelines *etc*. relating to APDRP included in the Inspection Reports of internal audit wing.

Impact analysis and achievement of actual benefits of APDRP

2.3.37 As brought out in para 2.3.12, the Discoms were to achieve the benefits in the form of energy savings of Rs.264.97 crore per annum though implementation of APDRP schemes. The achievement of the envisaged annual savings remained doubtful as the overall losses had increased. The Discoms could not complete the schemes even after more than two years from the scheduled completion. The Discoms had also not made any analysis of the actual savings achieved as against the envisaged savings based on which these schemes were justified and taken up for implementation. Thus the objectives of APDRP were not achieved.

Conclusion

The primary objective of APDRP to reduce the existing AT&C losses to 15 *per cent* was not achieved, instead losses increased from an average of 40 *per cent* in 2002-03 to an average of 44.35 *per cent* in 2005-06 due to improper planning, slack monitoring and delay in implementation of works. This also adversely affected the financial viability of the Discoms. The quantity and value of work/materials were not realistically assessed in DPRs. Incentive of Rs.137.71 crore was utilised as revenue for reducing the revenue gap instead of using the same for capital works. MoP guidelines to open separate bank account for APDRP funds, execution of

works on turnkey basis were not adhered to which affected the implementation of scheme. Weak monitoring of expenditure, delay in preparation of utilization certificate and failure to study the benefits achieved *vis-a-vis* envisaged benefits also precluded achievement of the objectives of APDRP.

Recommendations

The Discoms may:

- **minimise AT&C and T&D losses;**
- **streamline the system of preparation of DPRs, and ensure effective estimation and planning for the future. Fact is that outlays do not necessarily mean outcomes. Important role is to ensure delivery of these outcomes;**
- **improve execution of projects through constant monitoring and efficient management and accounting of funds for timely completion;**
- **evolve an effective system for evaluation of the progress and performance of works to identify weak areas for remedial action;**
- **consider improvements in the system of procurement of material for Schemes to avoid blocking of funds and idling of material; and**
- **spread awareness on power sector reforms through various media and create a strong active public sentiment and co-ordinate with concerned connected State Government departments to fuel and implement societal benefits.**

2.4 Rajasthan State Mines & Minerals Limited

Performance Audit of Mining and Marketing of Lignite

Highlights

The Company did not carry out geo-technical and hydro geological studies prior to opening of mine pit, which resulted in premature payment of Rs.11.07 crore to the contractor.

(Paragraph 2.4.10)

The Company paid Rs.1.95 crore on hiring of DG sets though two DG sets were lying idle with it.

(Paragraph 2.4.11)

The Company had to pay higher rates for excavation of lignite due to the rider agreement with the contractor and suffered loss of Rs.84.05 lakh.

(Paragraph 2.4.14)

The Company suffered loss of Rs.60 lakh due to preferring DG sets over grid power supply for depressurization.

(Paragraph 2.4.12)

The Company incurred idle expenditure of Rs.4.37 crore on excess manpower.

(Paragraph 2.4.15)

The Company did not adhere to environmental rules and regulations, which resulted in operation of mines without reclamation of land.

(Paragraph 2.4.16)

Introduction

2.4.1 Rajasthan State Mines & Minerals Limited (Company) incorporated in June 1973 is involved in mining of Rock Phosphate, Gypsum, Limestone, Lignite and other minerals in the State. The main objective of the Company is to procure, purchase, take on lease or otherwise acquire and deal with any mines, mining rights and concessions, prospecting and development rights at any place and to acquire by purchase or otherwise land containing mineral of all descriptions and any interest therein and to explore, work exercise, develop and turn to account the same. Erstwhile Rajasthan State Mineral Development Corporation Limited (another State Government Company) engaged in similar activities was amalgamated with the Company in the year 2001-02 with the objective of achieving economy of scale and reduction in overheads.

Lignite is a type of coal, having low calorific value and is mainly used in captive power plants, textile processing units and brick kilns. It is also used to generate natural gas and in chemical, paper and solvent extraction plants. The total lignite reserve in Rajasthan as estimated by Geological Survey of India, as on 31 March 2006, was 42,353.50 lakh MT[♣] and is available in Bikaner, Nagaur and Barmer districts of Rajasthan. The Company is the only agency in the State for mining of lignite. It operates two lignite mines, one at Giral in Barmer district and another at Kasnau-Matasukh in Nagaur district having lignite reserves (as on 31 March 2006) of 340.10 lakh MT and 169.80 lakh MT respectively. The reserves of these two leases are only 1.20 *per cent* of the total reserves available in the State. The mining and marketing of lignite is carried out on contractual basis. The marketing is being carried out through Registered Area Sales Agents (RASA). The consumers whose annual consumption is more than 50,000 MT can, however, procure lignite directly from the Company after execution of a purchase agreement.

The management of the Company is vested in a Board of Directors (BOD) consisting of seven Directors including the Chairman and the Managing Director (MD). The MD is the Chief Executive of the Company who is assisted by four Group General Managers (one for each Strategic Business Unit & Profit Centre {SBU&PC}), two Financial Advisors, one Chief Personnel & Administration and one Company Secretary.

A comprehensive review on the working of erstwhile Rajasthan State Mineral Development Corporation Limited appeared in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 (Commercial) wherein the lignite activity was also covered. The Committee on Public Undertakings (COPU) discussed the review in November 2005.

Scope of Audit

2.4.2 The present performance review was conducted during August 2006 to March 2007 and covers the mining and marketing of lignite by the Company during the five-year period 2002-07. The audit findings are based on test check of records of both the mining projects at Barmer and Nagaur, the SBU&PC (Lignite), Jaipur, and the Corporate office at Udaipur.

The audit findings were reported (May 2007) to the Government/Management and discussed (August 2007) at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) where the Secretary, Department of Mines, Government of Rajasthan represented the Government and the MD represented the Company. The review was finalised after considering views of the Government/Management.

♣ Metric tonnes.

Audit objectives

2.4.3 The performance audit was carried out to evaluate and assess whether:

- the management had undertaken activities in conformity with applicable statutes; rules of mining activities, policies laid down by Union/State Government and Company's business plan and also the environmental law;
- the Company had prepared its Corporate strategic long-term plan, annual plan, mining plan so as to ensure optimum exploitation of the available lignite reserves;
- the Company carried out mining activities efficiently and economically;
- the management awarded contracts for excavation and over burden (OB) removal at competitive rates; and
- the management devised and made operational an effective marketing mechanism for the sale of lignite.

Audit criteria

2.4.4 The following audit criteria were adopted:

- rules and regulations prescribed in the Mines Act 1957, Mines and Minerals (Development and Regulations) Act 1957, Mineral Concession Rules 1960, Environment (Protection) Act, 1986 and Forest (Conservation) Act 1980;
- orders issued by Department of Mines and Department of Coal, Government of India (GOI);
- directions/guidelines of the Board of the Company; and
- terms and conditions of the contracts executed by the Company with contractors and sales Agents, Sale policy of the Company and sales records.

Audit Methodology

2.4.5 Audit followed a mix of the following methodologies:

- review of the Mining Act, rules and regulations, orders of the Directorate of Mines and Geology (DMG), Department of Coal with reference to lease management and project implementation;

- review of assessment of demand and actual production of lignite;
- review of Feasibility/Project/Experts' Reports and their utilization/ implementation;
- review of records relating to sale and fixation of sale price;
- review of appointment of marketing agents and their performance; and
- review of various contracts/agreements for excavation and execution of civil works.

Regularity Framework of Minerals

2.4.6 Section 4(1) of the Mines and Minerals (Development and Regulation) Act, 1957 provides that no person shall undertake any reconnaissance, prospecting or mining operations in any area, except on conditions of a reconnaissance permit or of a prospecting licence granted under the Act and Rules. Section 5(2)(b) of the Act *ibid* and Rule 22A of the Mineral Concession Rules, 1960 provides that no mining lease shall be granted unless mining plan is approved by the State Government. Any further modification in the approved mining plan, during the operation of a mining lease, also required prior approval of the State Government. Section 3(3)(a) of the Coal Mines (Nationalisation) Act, 1973 provides that all mining rights would be vested in Central Government and/or a Government Company owned, managed or controlled by Central Government. This was relaxed (July 1979 and December 2001) by Ministry of Coal and Mines, GOI by allowing mining by State Government Company or Undertaking with prior permission from Neyveli Lignite Corporation (NLC) in respect of lignite.

Audit findings

Performance of the SBU&PC (Lignite)

Physical performance

2.4.7 The Company did not prepare any corporate plan for mining and marketing of lignite. The Company, however, prepared annual budget estimates for production and sale of lignite. Table given below indicates mine/lease wise budget estimates for production as well as sale of lignite and actuals their against for last five years ended on 31 March 2007.

(In lakh MT)

Mine	Particulars		2002-03	2003-04	2004-05	2005-06	2006-07
Giral (Barmer)	Production	Budget	3.00	3.00	5.00	4.50	6.50
		Actual	4.74	5.68	5.48	5.86	3.02
		Percentage	158	189	110	143	46
	Sales	Budget	3.00	3.00	5.00	4.50	6.50
		Actual	4.74	5.68	5.48	5.86	3.02
		Percentage	158	189	110	143	46
Kasnau-Matasukh (Nagaur)	Production	Budget	0.00	3.50	7.00	4.50	2.70
		Actual	0.00	1.10	0.00	1.01	1.61
		Percentage	0	31	0	22	60
	Sales	Budget	0.00	3.50	7.00	4.50	2.70
		Actual	0.00	1.10	0.00	0.87	1.65
		Percentage	0	31	0	19	61

Despite higher sales than the budget estimates, and provision for higher quantum of excavation in mining plan, the targets of production and sale for next years were fixed on lower side.

It will be seen from the above that the actual production as well as sale of lignite at Barmer ranged between 110 and 189 *per cent* which was above the budgeted quantity except for 2006-07. Despite higher sales during the previous years, the budget estimates for production/sale for the years 2003-04 to 2005-06 were fixed on lower side. The mining plan also envisaged annual excavation of 10 lakh MT lignite. All these facts indicate that the budget estimates were not realistic. Audit noticed that the budget estimates of production of lignite at Barmer could not be achieved during 2006-07 due to heavy flood and closure of mine (19 August 2006 to 18 March 2007).

The budget estimates for Kasnau-Matasukh mines could not be achieved in any year as mining operation remained suspended (March 2004 to November 2005) due to heavy inrush of water in the mining area. The shortfall in achievements of budgeted estimates in 2006-07 was due to intermittent mining operations.

Financial Performance

2.4.8 Table given below indicates the working results of SBU&PC (Lignite) for last five years ending on 31 March 2007:

(Rupees in crore)

S. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07♣
	A. Income					
1.	Operational revenue	33.88	49.91	49.30	61.34	42.04
2.	Other revenue	0.19	0.32	0.34	0.47	0.69
3.	Increase/decrease in stock	-	-	-	0.31	(-) 0.31
	Total	**34.07**	**50.23**	**49.64**	**62.12**	**42.42**
	B. Expenditure					
1.	Mining and other operating expenses	21.69	33.38	42.85	43.20	36.34
2.	Establishment and financial expenses	1.37	1.32	3.57	4.17	4.12
3.	Depreciation	0.20	1.20	1.31	1.42	1.69
4.	Other expenditure	-	-	0.03	-	-
	Total	**23.26**	**35.90**	**47.76**	**48.79**	**42.15**
	C. Profit for the year (A-B)	**10.81**	**14.33**	**1.88**	**13.33**	**0.27**

♣ Figure for 2006-07 are provisional.

From the above table it is seen that the profit of Rs.14.33 crore (2003-04) declined to Rs.1.88 crore (2004-05). The main reason for decline in profit was payment of Rs.11.07 crore to the mining contractor of Kasnau-Matasukh mine, which was not due as per the contract agreement but was paid in advance due to closure of mine because of heavy inrush of water. The profit declined to Rs.27 lakh in 2006-07 because of lower production due to heavy flood in Barmer area.

Mine/lease wise positions of working results are given in **Annexure-25.** It is seen from annexure that though the SBU&PC (Lignite) was earning profit in all the years under review but its Kasnau-Matasukh, mine was incurring losses (except for the year 2003-04) due to heavy expenditure on depressurisation of water coupled with lower production.

Establishment and financial expenses had increased manifold mainly due to excess manpower, as discussed in paragraph 2.4.15.

Mining lease and their operation

2.4.9 The procedure and stages for obtaining mining lease are given as under:

- submission of application to Union Ministry of Coal (MOC), GOI for allotment of lignite block and Mining Lease application to DMG of the State Government for issue of mining lease;
- No Objection Certificate for Forest and *Charagah* land at the selected area from the State Government;
- obtaining of geological reports from MECL[*]/NLC/DMG;
- approval for detailed Mine Plan from MOC and EIA[$]/EMP[#] study from Ministry of Environment and Forest (MOEF); and
- land acquisition through concerned District Collector.

The Company submitted (1996-2005) nine applications to MOC for obtaining mining leases of lignite at Bikaner, Barmer and Nagaur Districts. The position of allocation of mining blocks, geological reserves, mineable reserves, schedule date of approval of mine plan, date of submission and approval of mine plan is given in the **Annexure-26**. It would be seen from the annexure that the Company undertook mining operation only in one block at Kasnau-Matasukh. It was noticed that though the mining lease for Kasnau-Matasukh block was awarded (August 2001), the mining operations commenced (January 2003) after one and a half years due to delay in land acquisition.

Against the remaining blocks having lignite reserve of 7,068.48 lakh MT, the Company prepared mining plan for two blocks Soneri (Barmer) and Gurah

[*] Mineral Exploration Company Limited.
[$] Environment Impact Assessment.
[#] Environment Management Plan.

West (Bikaner) in June 2005 and November 2006 respectively. The approval of mining plan for these blocks was received in January 2006 and June 2007 respectively. The Company, however, did not prepare mining plan for other three blocks**. Audit noticed that the Mokala block was allotted in July 2003 but the Company failed to prepare mine plan despite lapse of more than three years of its allotment. The two blocks*** are in joint venture with Barmer Lignite Mining Company Limited and one block## was withdrawn by MOC.

The Government stated (July 2007) that out of total nine blocks allotted to the Company, production at two blocks *i.e.* Giral and Kasnau-Matasukh had been started and the Company was in process of getting approval of mine plan, environment clearance and land acquisition in other blocks which it proposed to operate in near future. The reply is not tenable as in three blocks the Company is yet (September 2007) to take steps for preparation of mine plan. Thus, the Company could not ensure optimum utilisation of the available lignite resources.

Kasnau-Matasukh Mines

Deviation from mining plan

2.4.10 The State Government granted (August 2001) the mining leases for Matasukh-Kasnau block in favour of the Company and allotted 7,509 bigha land at a total cost of Rs.17.19 crore for the project. As per the environment clearance the Company was required to conduct hydro geological and geo-technical studies before start of mining. The Company did not carry out these studies due to eagerness of launching the project expeditiously. Further, as per the approved mining plan, Matasukh pit was to be exploited in first phase and Kasnau pit was to be exploited after two years in second phase. This was so planned to enable the Company to know the market acceptability of lignite and acquire sufficient experience for opening the Kasnau pit in future. The Company, however, in deviation from the mining plan, opened both the pits simultaneously and accordingly floated (June 2001) tenders for mining of saleable lignite from Matasukh and Kasnau pit. The Letter of Intent (LOI) was issued (July 2002) in favour of National Construction Company (NCC) for Matasukh pit @ Rs.294 per MT and Sainik Mining and Allied Services (SMAS) for Kasnau pit @ Rs.400 per MT for mining of saleable lignite. The contractors commenced (January 2003) excavation and produced 1,00,236.21 MT and 9,357.970 MT of saleable lignite from Matasukh and Kasnau pits respectively up to 20 March 2004. The excavation was, however, stopped (March 2004) in both the pits due to heavy inrush of brackish water and collusion of the benches of these pits.

** Mokala (Nagaur), Sachha Sauda and Shivkar-Kurla (Barmer)
*** Jalipa and Kapurdi (Barmer)
Raneri (Bikaner)

Non-carrying out the hydro geological and geo-technical studies and deviation from mining plan resulted in premature payment to contractor of Rs.11.07 crore.

The Company assigned (May 2004) the work for preparation of rehabilitation plan to Central Mine Planning & Development Institute Limited (CMPDI), a GOI undertaking. CMPDI assessed (March 2005) that both the pits could be restored for mining operations subject to depressurisation programme by disposing at least 64800 cum♣of water per day from each pit. As quantity of this saline water was enormous its disposal was neither cost effective nor environmentally acceptable, hence, it was decided (December 2004) to rehabilitate Matasukh pit initially and the Kasnau pit was to be kept in abeyance at least for one year when the depressurisation requirement of the first pit would reduce. The Company meanwhile suspended (December 2004) the contract of mining at Kasnau pit on the basis of interim report of CMPDI/NLC. SMAS demanded (December 2004) payment for the work executed by them till suspension of work. The Empowered Committee appointed by BOD assessed (March 2005) the volume of work done and rate of remuneration as 41.26 lakh cum and Rs.27.75 per cum respectively. The total amount payable worked out to Rs.11.45 crore, of which Rs.0.38 crore related to payment towards excavation of 9,357.970 MT of lignite till March 2004 and remaining Rs.11.07 crore related to excavation of overburden for which no payment was due as per the contract.

Thus, due to not carrying out the hydro geological and geo-technical studies, the Company was unable to ascertain the quantum of aquifer which resulted in heavy inrush of water in both the pits. The suspension of mining work at Kasnau pit resulted in premature payment of Rs.11.07 crore, the benefit of which would arrive only on recommencement of mining operation, which is uncertain till date (July 2007).

The Government stated (July 2007) that both environment clearance and mine plan approval did not restrict the Company to commence mining activity at Matsukh and Kasnau simultaneously and before commencement of mining operation the Company had referred the report of Ground Water Department, Jodhpur, (May 1999) for Nagaur district. The reply is not tenable as the Ground Water Department report was a primary report, which had suggested for detailed study. The environment clearance clearly stated that no change in the calendar plan including excavation, quantum of mineral coal and waste should be made.

Extra expenditure due to hiring of DG Set

2.4.11 The Company assessed power requirement of 2000 KVA for depressurisation work at Matasukh mine and accordingly included the requirement of Diesel Generating Sets (DG sets) of 2000 KVA as standby arrangement while inviting tenders for depressurisation of water. The depressurisation work was awarded (February 2005) to SMAS for a period of two years. The agreement was later extended (February 2007) for one year (March 2008). As per clause 14(iv) (b) of the agreement, Rs.60,000/- per tube well per month *i.e.* Rs.11.40 lakh was payable towards rent of DG sets for operation of maximum 19 tube wells at a time.

♣ Cubic meter

Imprudent decision to hire the DG sets caused avoidable expenditure of Rs.1.95 crore.

Audit noticed that the Company was having two DG sets of 630 KVA each *i.e.* 1,260 KVA lying idle at SBU&PC (Rock Phosphate), Udaipur and the balance requirement could be met through purchase of three additional DG sets of 250 KVA each, available at an estimated cost of Rs.50 lakh (appox.). The Company, however, did not consider this aspect and entered into a contract for hiring of DG sets at a monthly rental of Rs.11.40 lakh for a period of two years.

Thus, due to non utilisation of its idle DG sets, the Company had to incur an avoidable expenditure of Rs.1.95 crore during August 2005 to March 2007 and would also incur Rs.1.33 crore for next one year.

The Management during ARCPSE meeting stated (August 2007) that the shifting cost for these two DG sets would have been Rs.25 lakh. The management's view is not tenable as even after considering the shifting cost of Rs.25 lakh and purchase of balance DG sets for Rs.50 lakh, own arrangement of DG sets would have been more cost effective.

Avoidable expenditure on running of pumps through DG Sets

2.4.12 To meet the power requirement for depressurisation at Matasukh block, the Company applied (June 2004) for power connection to the Ajmer Vidyut Vitran Nigam Limited (AVVNL) and deposited Rs.1.17 crore for construction of 33 KV Grid Sub-station (GSS) and erection of 21 Kms line. The AVVNL completed (October 2005) the work and the Company entered (November 2005) into an agreement with AVVNL to draw power up to maximum demand of 2,000 KVA.

Thus, despite entering into agreement with AVVNL the Company did not obtain power connection and decided to run pumps with DG sets based on the economics assessed for power connection *vis-a-vis* running of DG sets.

Improper working of economics for selection of better option deprived from saving of Rs.60 lakh.

It was noticed that while calculating (November 2005) the economy for permanent power connection, the Company took minimum charges of Rs.7.80 lakh per month for 11 months considering that after 35 days pumping no activity of depressurisation will be carried out for next eleven months. As the option of permanent connection was costlier, the Company opted for DG sets to carry the depressurisation operation. The Company was conceptually incorrect in considering the minimum charges of grid power for 11 months in view of the fact that as per terms and conditions for supply of electricity, if an applicant failed to take supply of electricity within sixty days of service of notice, the AVVNL would recover minimum billing amount determined for that category after expiry of the notice. In the instance case, the AVVNL issued (November 2005) a notice to the Company to take grid power connectivity. Moreover, the CMPDI in its interim report had recommended 60 days cycle each for depressurisation and mining (*i.e.* 6 month depressurisation) and accordingly the Company awarded depressurisation contract for two years. The Company later on obtained permanent power connection from AVVNL in July 2006. Had the Company opted for permanent power connection through grid supply from November 2005 onwards it could have saved Rs.60 lakh♣ up to July 2006.

The Government stated (July 2007) that using DG sets for a 35 days cycle at a cost of Rs.1.05 crore was cheaper option than using state power on permanent connection at a cost of Rs.1.34 crore as the Company could avoid minimum charges for 11 months if the permanent connection was not obtained. It was further stated (August 2007) by the MD during ARCPSE meeting that the Company was not having any plan for second cycle in next six/eight months and second cycle of pumping actually started (November 2006) *i.e.* after one year only. The reply is not acceptable. The Company at the time of applying (June 2004) for GSS and releasing Rs.1.17 crore as cost did not consider this issue. Even now the economies of DG set *i.e.* cost of operation, cost of operators, overhaul and idling during 11 months have not been worked out. No action was taken also to reduce the load.

Avoidable expenditure due to payment of higher remuneration

2.4.13 As mentioned in para 2.4.10, the Company awarded (July 2002), work for mining of saleable lignite from Matasukh pit, to NCC for a period of seven years. The mining operation was started (January 2003) but was stopped (March 2004) due to heavy inrush of water in the pit. Further, the remuneration for mining of saleable lignite for the first three years was to remain same and thereafter it was to increase every year. The mining operations were restored (November 2005) with revised mining plan, according to which the quantum of OB in initial period was expected to be much more than the envisaged quantum in the original mine plan. The NCC was to receive payment only on production of saleable lignite and no payments were to be made against OB excavation, therefore, they requested to allow advance payment against actual excess OB excavation. The Board in its meeting (27 August 2004) considered and decided to pay advance for excavation of OB. It was also decided to adjust the stripping ratio every year instead of at the end of contract period *i.e.* in the seventh year. The details of advance paid to the contractor during last three years were as under:

(Rs. in crore)

Sl. No.	Year	Nature of advance	Opening Balance	Addition during the year	Adjustment during the year	Closing balance
1	2004-05	Excavation	0	1.55	0	1.55
		Diesel cost	0	1.77	0	1.77
2	2005-06	Excavation	1.55	1.84	0.11	3.28
		Diesel cost	1.77	3.80	1.04	4.53
3	2006-07	Excavation	3.28	7.03	3.64	6.67
		Diesel cost	4.53	3.43	3.26	4.70

♣ Actual expenditure incurred on consumption of diesel by DG Sets *i.e.* Rs.2.02 crore ***minus*** expected expenditure in case permanent connection would have obtained Rs.1.42 crore.

The Company failed to safeguard its interest while extending benefit beyond contract term to the contractor.

Thus, though the Company agreed for various modifications and amendments in the terms and conditions of the agreement favourable to NCC, it did not safeguard its own interest. The Company was also deprived from excavation of saleable lignite up to the quantum (13 lakh MT) envisaged in original contract but it did not negotiate to pay initial rate of remuneration for saleable lignite till excavation of envisaged quantum. Had the Company negotiated payment of saleable lignite upto the quantity envisaged for first three years in contract at the rate applicable for first three years it could have saved Rs.14.25 lakh (1,61,550.25 MT x Rs.8.82 per MT) during the period January 2006 to March 2007. The Company would also be deprived of savings till excavation reached to the level envisaged in the contract.

The Government stated (July 2007) that due to underground water problem in Matasukh, NCC did not get adequate business and their resources remained idle for considerable period. Therefore, the Board had consciously allowed certain modifications in the terms and conditions of the contract. The reply of management is not tenable in view of fact that the Company should have also safeguard its own interest as it was also deprived from production of saleable lignite as envisaged in original contract.

Giral Mines

Avoidable payment of Rs.84.05 lakh due to entering into rider agreement with the contractor

2.4.14 The Company executed (September 2002) an agreement for a period of five years with Dholu Contracts Company (DCC) for excavation of 12.5 lakh MT (2.5 lakh MT per annum) lignite from ABCDEFGHA pit of Giral Mines at the rate of Rs.353.70 per MT of saleable lignite. The price included 20 *per cent* as diesel component, which was subject to revision with increase and decrease in diesel price on pro-rata basis after the base date (28 February 2002) and the remaining rate was firm for first three years and thereafter an annual escalation of one *per cent* was payable from fourth year onwards.

While the contract was in force, the Company without considering the available mineral reserves in pit, entered (July 2003) into a rider agreement to excavate 10 lakh MT lignite during remaining period of four years. The actual excavation in first two years was 4.79 lakh MT and 5.48 lakh MT. In view of increase in quantum of excavation, the Company asked (July 2004) DCC to negotiate the rates but DCC refused to reduce the rates. The Company sought legal opinion for termination of contract on completion of contracted quantity. The legal advisor opined (April 2004) that as per assurance given to the contractor, the Company was bound to give business for the period of four years *i.e.* up to 15 July 2007. Meanwhile, the DCC requested (October 2004) to provide a new pit to continue the excavation. Accordingly, the Company allotted (January 2005) a new block (HIJKLMN) to DCC. The DDC excavated 14.16 lakh MT till 20 March 2005 from the earlier pit.

The Company simultaneously invited (June 2005) tenders for removal of OB and excavation of lignite from the Jalelo block in proximity of the existing mines and the work was awarded (August 2005) at the rates of Rs.349.41 per MT with price variation on the base diesel rate applicable as on 30 March 2005. After receipt of lower rates, DCC was again called for price negotiation. DCC reduced their rates to Rs.358 per MT with a base price of diesel *w.e.f.* 15 July 2005.

Entering into rider agreement without assessing the available reserves resulted in loss of Rs.84.05 lakh.

Thus, DCC excavated 1.81 lakh MT of lignite between 21 March 2005 and 14 July 2005 from the new block allotted and was paid Rs.7.20 crore. Due to entering into rider agreement without assessing the available reserves, the Company was compelled to allot another block to DCC without invitation of tenders. It was further noticed that the Company agreed to pay reduced rates from 15 July 2005 instead of 21 March 2005, the date from which the excavation was started at newly allotted block which resulted in loss of Rs.84.05 lakh during the period 21 March to 14 July 2005.

The Government stated (July 2007) that as a result of these negotiations followed by rider agreement, RSMML was benefited to the tune of Rs.5.66 crore from the excavated quantity of lignite during 4th and 5th year (*i.e.* contract year commencing from 15 July 2005 to 14 July 2007). Moreover, the rate of remuneration was fixed on yearly basis and was not changeable on allocation of pit. The reply is not tenable. Had the rider agreement not entered into and the reduced rate implemented from 21 March 2005 (the date of operation of the new block), the benefit to the Company would have further increased by Rs.84.05 lakh.

Manpower analysis

2.4.15 The State Government, in public interest, decided (March 2001) to amalgamate erstwhile Rajasthan State Mineral Development Corporation Limited (RSMDC) with the Company to ensure better co-ordination in discharge of functions with efficiency at a reduced cost by eliminating duplication of efforts and expenses. The manpower of amalgamated Company was got assessed from a consultant who proposed (March 2003) manpower of 46 executives and 111 workmen for SBU&PC (lignite). The position of actual manpower at the end of each year March 2004 to March 2007 was as under:

	As on 31 March 2004			As on 31 March 2005			As on 31 March 2006			As on 31 March 2007		
	Executives	Work-men	Percentage of executive to workman	Executives	Work-men	Percentage of executive to workman	Executives	Work-men	Percentage of executive to workman	Executives	Work-men	Percentage of executive to workman
Barmer	8	68	11.76	7	69	10.14	7	63	11.11	11	68	16.18
Nagaur	11	58	18.97	8	53	15.09	11	66	16.07	10	65	15.38
Jaipur	16	49	32.65	27	62	43.55	28	80	35.00	24	77	31.17
Gurah Bikaner										2	3	66.67
Total	**35**	**175**	**20.00**	**42**	**184**	**22.83**	**46**	**209**	**22.01**	**47**	**213**	**22.07**

It would be seen from the above that as on 31 March 2004, the Company had 175 workmen as against 111 workmen recommended by the consultant for SBU&PC (Lignite). It was noticed that despite excess manpower, the Company further shifted 38 workmen from other SBU&PCs to SBU&PC (Lignite) between March 2004 and March 2007 even though most lignite activities were on contractual basis.

Excess manpower than the norms caused idle expenditure of Rs.4.37 crore.

Thus, 64 to 102 workmen were in excess of the required manpower. The reasons and justification for further shifting of manpower were not on records. The Company incurred (2004-07) idle expenditure of Rs.4.37 crore and would continue to incur recurring expenditure of Rs.1.69 crore per annum at average emoluments of Rs.13,856 per month per workmen. Thus, the very purpose of amalgamating the two companies to reduce the cost by eliminating duplication of efforts and expenses was defeated.

It was further observed that 11 workmen were working in the office of the Minister of Mines since October 2004 and had drawn salary of Rs.27.68 lakh (October 2004 to March 2007) from the Company. Thus, the Company had paid pay and allowances to the workmen without any fruitful work done by them for the Company since October 2004.

The Government stated (July 2007) that the consultant had recommended 46 executives and 111 workmen for SBU&PC (Lignite) when only Giral Mine was in operation and the project work of Kasnau-Matasukh was in progress. Afterwards, executives and other workmen were posted from time to time as per the requirements of the various projects under the SBU&PC. The reply is not tenable as the consultant suggested the manpower for the Company as a whole including Kasnau-Matasukh mine. The Government further stated (August 2007) that presently three workmen are working on secondment basis in the office of the Principal Secretary, Law & Justice Department. Remaining eight workmen are posted in SBU&PC (Lignite) and have been allotted the work of coordination at the Secretariat level so as to ensure better co-operation from the concerned Government Department. Fact is that these eight workmen comprise driver (one), steno (one), helpers (five) and personnel assistant (one) and by no description of imagination can these personnel do any co-ordination work.

Environment planning and Management

2.4.16 Ministry of Coal formulated the National Mineral (NM) Policy 1993, emphasising the need to minimise adverse effects of mineral development on forest, environment and ecology. It also directed implementation of afforestation programme concurrently with acquisition of land and a comprehensive programme for back filling and biological reclamation of the mining areas. The MOEF provides environment clearance for each mine based on provision contained in NM policy 1993.

As per EIA/EMP report prepared for the mines, the back filling was to be started after first year of commercial production of lignite. The commercial production at Giral mines had commenced from the first year itself *i.e.* 1995 and mine pits were in regular production during the review period.

It was noticed that against an excavated area of 130.75 Hectares in Giral, the area backfilled up to 31 March 2007 was only 80 Hectares *i.e.* 61.19 *per cent* of total excavated area and the biological reclamation was 37.20 Hectares *i.e.* 46.50 *per cent* of the total backfilled area. This indicates that the reclamation of excavated area was not executed as per the EIA/EMP plans. Due to delay in reclamation the possibility of ecological imbalance cannot be ruled out.

The Government stated (July 2007) that lignite as a mineral was being produced and marketed by the Company for the first time in the State and so it took some time to establish its market and hence the production was proportionate to the demand. This resulted in delay in availability of space for back filling. The back filling was started in the year 1997-98 and Central Arid Zone Research Institute (CAZRI), Jodhpur was appointed (1998-99) as consultant for undertaking biological reclamation. The reply is not tenable as the area backfilled in June 2002 was reclaimed in September 2005 after a delay of three years.

Exchequer Control

Delay in transfer of excess funds

2.4.17 At the time of amalgamation of RSMDC with the Company, a separate SBU&PC for each mineral was created; and for operation of each SBU&PC guidelines were issued which *inter alia* included that all payments and remittances would initially be deposited with the SBU&PC which in turn would transfer the funds to the corporate office on the same day. For day to day functioning and other payments/expenditure for the month, the SBU&PC shall send the detailed funds requirement to the Finance and Accounts Division at the corporate office with a detailed weekly break up of funds requirement at least one week before the beginning of month. It was further provided that the SBU&PCs would also have a cash credit limit available with it to meet contingent requirements, which would be replenished as per the weekly requirement. The SBU&PC (Lignite) has a Current Account with the Bank of Rajasthan Limited, Khanij Bhawan, at Jaipur.

It was observed that the SBU&PC (Lignite) failed to adhere to the guidelines and retained huge funds in its bank account ranging from Rs.25.21 lakh to Rs.8.12 crore. Further, instead of transferring the funds to the corporate office on the same day, the SBU&PC (Lignite) kept the funds with them for periods ranging from 1 to 13 days. The corporate office not only failed in evolving a suitable mechanism with its banker for transfer of funds immediately but also failed in monitoring the fund lying with SBU&PC (Lignite).

The Government stated (July 2007) that the payments for all the units of SBU&PC (Lignite) are centralised and are released from Jaipur office.

Therefore, in case bank balance had exceeded Rs.25 lakh at any particular point of time, it was for releasing payments in a day or couple of days. The reply is not tenable as the funds ranging from Rs.25.21 lakh to Rs.8.12 crore remained in bank for as long as 13 days. Moreover, for daily requirements the SBU&PC (Lignite) was to send its requisition to the Head office as per the prescribed procedure.

Internal Control and Internal Audit

2.4.18 In order to achieve its objectives, every organisation requires an effective system of Internal Control, so as to ensure that all the activities of the Company are performed in accordance with the rules, standardised procedures and system for accomplishment of desired goals. It was noticed in audit that the Company had not prepared any manuals relating to its core functions such as Cost and Budget, Marketing and Sales, Internal Audit *etc.* till March 2007. In absence of these manuals, the standardised procedures and systems are deficient and vulnerable to deviations/manipulations, which may remain undetected by the management. This is a major area that required action.

The Company also failed to exercise internal control on the issues like need for required studies and adhering to the mine plan, premature payment of Rs.11.07 crore (refer para 2.4.10), non utilisation of idle equipment lying with the Company resulting in unwarranted hiring of DG Sets (refer para 2.4.11), imprudent financial decision to use DG sets instead of Grid Power supply (refer para 2.4.12) and improper vetting of contract documents resulting in insertion of faulty clauses (refer para 2.4.13). The Company outsourced Internal Audit to Chartered Accountants firm. Statutory Auditor, however, in their report (2002-03 to 2005-06) under section 227 (4A) of the Companies Act, 1956 have reported that Internal Audit needs to be strengthened.

The Government stated (July 2007) that the Company has already prepared manuals for major activities like marketing, purchase contract. The fact remains that the Company worked without manuals during review period.

The Right to Information Act, 2005

2.4.19 With a view to setting out the practical regime of right to information for the citizens, to secure access to information under the control of public authorities and in order to promote transparency and accountability in the working of every public authority, the GOI enacted an act named Right to Information (RTI) Act. The RTI Act, 2005 came into force from June 2005. Section 5 of the Act *ibid* stipulates that every public authority is to designate officers to provide information as desired by the persons. In terms of section 7 of the Act *ibid*, the information was to be provided/rejected within thirty days of receipt of request. In case of default, penalty of Rs.250 per day (maximum Rs.25,000) is leviable under Section 20 of the Act *ibid*.

The Company nominated (September 2005) an Assistant Public Information Officer for the SBU&PC lignite. A review of records revealed that the Company did not evolve any effective system to monitor the receipt and disposal of applications. As a result, seven applications (out of eight received up to March 2007) were disposed of with a delay ranging from 2 to 62 days.

The Government stated (July 2007) that the delay was mainly on account of streamlining procedure for processing applications. In a few cases applicants had not deposited the requisite fee in time, which also resulted in delay. Efforts, however, were being made now to provide information in time.

Conclusion

The Company did not have a Corporate Plan. It operated Kasnau-Matasukh mine pits without conducting geo-technical and hydro geological studies. As a result, there was heavy inrush of brackish water and collusion of the benches of both the mine pits, which resulted in suspension of the mining operation at Kasnau pit and premature payment of Rs.11.07 crore. The Company preferred use of DG sets to grid power supply for depressurisation of water, which resulted in excess expenditure of Rs.60 lakh. The Company without assessing the reserve in the pit agreed to provide business for certain period which led to higher cost of mineral excavation. Absence of structured manpower study resulted in deployment of excess manpower at SBU&PC (Lignite). The reclamation of excavated area was not done as per EIA/EMP plans.

Recommendations

The Company may consider:

- **preparing broad strategic corporate plan with specific targets;**
- **ensuring appropriate studies are undertaken before commencement of mining operation;**
- **streamlining and professionalising contract management as per commercial practices to avoid insertion of faulty clauses and losses to the Company;**
- **assessing the quantum of reserves before entering a contract leaving no scope for ambiguity;**
- **reassessing manpower requirements and ensuring optimum utilisation;**
- **ensuring compliance to EIA/EMP plans for Environment protection; and**
- **strengthening Internal Audit System.**

2.5 Jaipur Vidyut Vitran Nigam Limited

Information Technology Audit review on the High Tension Billing System

Highlights

The Company neither formulated nor documented Information Technology policy/security policy.

(Paragraph 2.5.6)

The Company could not ensure compliance to the provisions of the service level agreement by the vendor.

(Paragraph 2.5.7)

The Company did not formulate a Business Continuity Plan nor could ensure the availability of updated data and the application leading to risk of unavailability of the data in case of any eventuality.

(Paragraph 2.5.8)

Non mapping of business rule into the system led to short realisation of revenue by the Company.

(Paragraph 2.5.10)

Introduction

2.5.1 Government of Rajasthan issued (July 2000) a gazette notification unbundling Rajasthan State Electricity Board into five Companies *i.e.* Rajasthan Rajya Vidyut Utpadan Nigam Limited (generation Company); Rajasthan Rajya Vidyut Prasaran Nigam Limited (transmission Company) and three regional distribution Companies namely Jaipur Vidyut Vitran Nigam Limited, Ajmer Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited.

Jaipur Vidyut Vitran Nigam Limited (Company) was incorporated under the Companies Act, 1956 by Government of Rajasthan, and was created with the principal object of engaging in the business of distribution and supply of electricity in 12 districts[*] of Rajasthan. The operation of Company is managed by eight distribution circles[**].

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[*] Jaipur, Dausa, Alwar, Bharatpur, Dholpur, Kota, Bundi, Baran, Jhalawar, Sawaimadhopur, Tonk and Karauli.

[**] Jaipur City, Jaipur Distt., Dausa, Alwar, Bharatpur, Kota, Jhalawar and Sawaimadhopur.

The consumers of power were mainly divided into two categories *i.e.* High Tension (HT) and Low Tension (LT) consumers. During the year 2005-06, the HT consumers contributed Rs.914.53 crore against the total revenue of Rs.2,523.68 crore of Jaipur Discom. As on December 2006 the Company was billing 1,330 number of consumers. The computerized HT billing system was initially implemented in 1993 in COBOL[*] /Unix platform[**] by BSES computer agency. The computerized billing of the Company was outsourced to M/s Aditi Computer Agency (vendor) in November 2004.

Administrative Structure

2.5.2 The Company is managed by BOD. Chairman and Managing Director is the Chief Executive of the Company and is assisted by various departmental heads at the corporate level.

At present, the IT needs of the Company are seen by Executive Engineer (IT) and Executive Engineer (CRP), who function under the Chief Engineer (RP). However, prior to this (*i.e.* audit period), Superintendent Engineer (Commercial) and Chief Accounts Officer were looking after the implementation and maintenance of HT billing system.

Audit Objectives

2.5.3 IT Audit on the High Tension billing system of the Company was conducted in order to evaluate the effectiveness of the present application software with reference to the requirement of commercial division of the Company and to ensure that the relevant business rules, terms and conditions of the tariff and periodical operational instructions have been correctly embedded in the software and the input control ensure the correctness and completeness of data.

Audit Criteria

2.5.4 The Billing system has been assessed against:

- circulars/orders issued by the Company regarding HT billing;
- tariff rules of Rajasthan Electricity Regulatory Commission (RERC); and
- terms & conditions of the contract with the vendor.

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[*] COBOL-Common business oriented language.
[**] Operating system developed by Unix.

Scope and Methodology of Audit

2.5.5 The scope of audit included the evaluation of controls specific to computerised HT billing system and the effectiveness of this system in generating correct billing for the Company. The data of HT bills pertaining to April 2005 to November 2006 of all eight circles of the Company was selected for checking with a view to ascertain completeness, regularity and consistency of data.

The entire data of the above period was obtained in TEXT format (*i.e.* converted from COBOL to TEXT) and was analysed using Computer Assisted Audit Technique.

Audit Findings

Lack of IT policy

2.5.6 The Company have not formulated a formal IT policy and a long-term/medium-term IT strategy for monitoring the implementation of IT application in a systematic manner with clear roles and responsibilities.

The Government stated (August 2007) that there is no IT Policy for HT billing system.

Non-implementation of service level agreement

2.5.7 As per the service agreement, the vendor was to develop the software and provide flow chart of the programme as well as the system design document. The vendor was also to provide back up of the database and training to the employees of the Company. It was observed that the provisions of the service level agreement were not implemented by the vendor and the Company failed to enforce the same as brought out below:

- It was observed that vendor did not develop the required software as per terms of the work order and worked on the platform (COBOL/UNIX) used by the earlier vendor (M/s BIPS, Jaipur) which was basic and involved simple computation of the bill amount and the printing of the bills**.** As per terms of contract, the vendor neither documented the application software nor provided the flow chart, SDD and source code to the Company.

  The Management stated (April 2007) that system documentation will be provided by the vendor on completion of the work order.

- Audit further observed that the Company awarded the work of calculating security deposit to another vendor (Mahima Marketing) at a cost of 80 paise per entry despite it was the part of the contract awarded to the vendor M/s Aditi computer. This led to creation of another database as well. Creation of duplicate database could lead to inconsistencies in the data between the two databases apart from additional expenditure*.

The Management accepted (April 2007) the audit observation.

- As per terms of contract, the vendor did not provide training to the personnel nominated by the Company.

Thus, the inability of the Company in enforcing the provisions of the service level agreement on the vendor led to a basic and primitive application software in place.

Inadequate Business Continuity Plan

2.5.8 The HT billing system was a critical system as the bills were being generated through the system based on which the revenue was realised by the Company. Although backup of HT billing data was taken at periodical intervals, there was no formal policy regarding the frequency of test checking the backup for recovery. Moreover the backups received from the vendor were never tested by the Company. Further, the vendor was to provide utility programme for use of the backup database. However, the Company replied that no utility programme was provided by the vendor for use of the database.

Audit also observed that the back up data made available by the earlier vendor (M/s BIPS, Jaipur) could not be used as the vendor did not hand over the application programme as well as source code. The Management stated (May 2007) that backup provided by the vendor could not be checked due to non-availability of the person/official accustomed or well versed with the software. Further, it was also noticed that the Company did not have any disaster recovery plan or a business continuity plan either.

Thus the Company was not in a position to ensure the continuity of the billing function in case of any eventuality.

Non-mapping of business rules

2.5.9 As the billing system is the most important aspect of revenue realisation for the Company, it is imperative that the business rules are mapped completely in the application with all the necessary controls to ensure that the amount billed and collected according to the prescribed rules. Audit observed that the relevant business rules had not been fully and correctly mapped into the application, which had an impact on the revenue realisation. The deficiencies noticed are discussed in the succeeding paragraphs.

Incorrect rounding off of power factor (PF)

2.5.10 As per the "Tariff for Supply of Electricity-2004" (clause V(e) of part II of Tariff Structure), consumers having sanctioned connected load more than

* The claim by the new vendor has not been submitted so far (September 2007).

150 HP had to maintain an average power factor of not less than 0.90. In case the average power factor falls below 0.90, a surcharge at one *per cent* of energy charges for every 0.01 fall in average power factor below 0.90, is leviable. Otherwise an incentive of one *per cent* of energy charges is to be provided if average power factor is above 0.95 for each improvement of power factor by 0.01 above 0.95.

On analysis of bills generated for the year 2005-07 (up to November 2006), it was observed that due to adoption of incorrect method for rounding off the power factor, an amount of Rs.6.80 crore was either granted as excess incentive or short levied as surcharge, as the case may be **(Annexure-27).**

On being pointed out, the Company referred (December 2006) the matter to RERC for clarification for the method used by them for rounding off of the power factor. RERC clarified (December 2006) that rounding off method as adopted by the Company to calculate the average power factor was incorrect.

The Government stated (August 2007) that pursuant to RERC clarification, the practice of rounding of average power factor has been modified from the billing month (April 2007). The fact remains that by grant of excess incentive/short levy of surcharge, the Company sustained loss of revenue of Rs.6.80 crore.

Incorrect adoption of the power factor

2.5.11 As per the direction of RERC, the Company vide its Commercial order number JPR-5-188 (10 May 2004) directed that whenever any change in contract demand/connected load is affected in the middle of the month, bills for each period should be prepared separately considering all the charges like demand charges, fixed charges, minimum billing, power factor surcharge/incentive on *pro rata* basis, separately for each period.

However, on analysis of the bills generated it was observed that the power factor in such cases was worked out by the system on average basis (*i.e.* by combining consumption of both the period) instead of separate calculation for each period indicating that the business rule was incorrectly mapped. However, as the energy reading database was not made available to audit, the impact of this deficiency could not be worked out by audit.

Application of incorrect tariff

2.5.12 The Company prescribed the current transformer/potential transformer rent and transformer rent with reference to their voltage supply and contract demand respectively for different categories of consumers of electricity. Any changes in the contract demand and the voltage supply was communicated to the vendor by the Company. A review of current transformer/potential transformer (CT/PT) rent revealed that the application software did not have provision to apply correct CT/PT rent rate on the consumers as per their voltage supply and the transformer rent rate as per their contract demand. Thus the Company also had to provide the rates of tariff applicable along with the contract demand/ voltage supply and energy usage to the vendor. Audit observed that the CT/PT rent was not charged correctly from six HT consumers during 2005-07 (up to November 2006) whose voltage supply had changed and the transformer rent was incorrectly charged from three consumers whose contract demand had changed when the Company did not intimate the rates of tariff along with these changes to the vendor.

The Government stated (August 2007) that the programme to charge the CT/PT rent according to the voltage of supply has now modified. As regards to incorrect charging of transformer rent, the Government stated that in case the consumers having contract demand more than 160 KVA it is hardly feasible for the software to incorporate the inbuilt provisions. The reply of the Government in respect of short collection of transformer rent was not acceptable since it involved mapping of business rules by incorporating necessary validation checks. Moreover the contract demand in respect of cases pointed out were less than 160 KVA only.

Non/short recovery of transformation losses

2.5.13 As per the provisions of Tariff the Company may, provide metering equipments on low voltage side of consumer's transformer and in such a case; an amount equal to 3 *per cent* (three *per cent*) shall be added to the recorded energy consumption and demand to cover transformation losses.

A review of computation of the tariff calculation including the transformation losses revealed that the application software did not have provision to apply correct rate of tariff as per the contract demand. Audit observed that due to this deficiency the required transformation losses were not charged correctly, as prescribed in the tariff in case of four consumers (having contract demand more than 5,000 KVA but metering equipment on 33 KV instead of 132 KV) which resulted in under recovery of Rs.96.21 lakh towards energy charges and Rs.9.60 lakh towards electricity duty and in case of five consumers (having contract demand of more than 1,500 KVA & up to 5,000 KVA, but metering equipment was on 11 KV instead of 33 KV) which resulted in under recovery of Rs.1.18 crore towards energy charges and Rs.11.76 lakh towards the electricity duty.

Other points of interest

Undue benefit allowed to Large Industrial Consumers

2.5.14 As per the provisions of Terms and conditions for supply of Electricity (TCOS) – 2004 security to be deposited with the Company against electricity to be supplied to large industrial consumers applying for supply of electricity was equivalent to two month's average consumption of electricity for the preceding twelve months for fortnightly billing consumer.

On scrutiny of bills generated, it was observed that in case of 25 consumers, the required security deposit was short recovered to the tune of Rs.7.09 crore during 2006-07, which also resulted in loss of interest of Rs.9.31 lakh[*].

The Management stated (July 2007) that they had approached the State Government for guidance. The Government instead of providing guidance/instructions endorsed (August 2007) the reply of the management.

Conclusion

The Company did not ensure the implementation of service level agreement with the vendor. Incorrect mapping of business rules resulted in deficient billing application software. This led to incorrect billing of the consumers, especially in cases of changes in the consumer parameters leading to financial loss to the Company.

The Company did not have adequate back up policy nor a disaster recovery plan. Thus continuation of the billing function in case of any eventuality was not ensured.

Thus, the Company was vulnerable to the risk of loss of revenue apart from disruption of important function of the revenue realisation.

Recommendations

- **Management should enforce the Service level agreement.**
- **An internal control mechanism should be developed to monitor the working of the billing system through the outsourced vendor.**
- **A comprehensive business continuity plan has to be formulated and implemented.**
- **Spread awareness of initiatives undertaken by the Company through various media and create a strong active public sentiment.**

[*] (Interest = Rs.7,09,45,897 x 1.75 *per cent* (interest 7.75 *per cent* - 6 *per cent*) x 9 months/12 months =Rs.9.31 lakh)