Chapter III

3. Transaction Audit Observations

Important audit findings arising out of test check of transactions made by the State Government Companies/Corporations are included in this chapter.

Government Companies

Rajasthan Rajya Vidyut Utpadan Nigam Limited, Rajasthan Rajya Vidyut Prasaran Nigam Limited, Jaipur Vidyut Vitran Nigam Limited, Ajmer Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited

Avoidable payment of interest

Non-insertion of put/call option clause in the bonds issued during 2001-02 caused avoidable payment of interest of Rs.3.40 crore.

3.1 The five Power Sector Companies* with a view to finance their capital expenditure decided (May 2001) to raise funds by issue of secured redeemable non-convertible bonds (the bonds) on private placement basis. The Companies engaged a three-member committee to recommend the structuring of bonds and to select agencies for appointment as arrangers to the proposed bond issue. The committee took into consideration the results of discussion held by Director (F&CA) of Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL) with Chief Executive of financing companies and seven public sector banks, the availability of liquid funds with investors particularly with commercial banks, the likely forthcoming issues of some other State Utilities and the rating given by CARE# for the proposed bond issues. The committee recommended, *inter alia*, the following:

- the issue size may be Rs.350 crore with option to retain over-subscription to the extent of Rs.100 crore. The coupon rate may be 11.70 *per cent* per annum;

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* Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL), Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL), Jaipur Vidyut Vitran Nigam Limited (JVVNL), Ajmer Vidyut Vitran Nigam Limited (AVVNL) and Jodhpur Vidyut Vitran Nigam Limited (Jd.VVNL).

\# Credit Analysis and Research Limited

- the tenure of the bonds may be seven years with no put and call option;

- the bonds may be secured in the same way as bonds issued by the erstwhile Rajasthan State Electricity Board (Board) in years 1996 to 2000; and

- the principal may be repaid in three instalment *i.e*. 30 *per cent* at the end of sixth year, 30 *per cent* at the end of six and half year and 40 *per cent* at the end of seventh year.

The Companies accordingly issued (June 2001) the bonds to be redeemed between July 2007 and July 2008 with no put and call option.

Audit analysis revealed that there was steady fall in interest rate on borrowings since January 1998 and considering this trend the erstwhile Board kept the put and call option in its bond issue of Rs.400 crore raised in the year 2000-01 at coupon rate of 12.25 *per cent* per annum. Further analysis revealed that despite lower rating and downward ranking, the erstwhile Board and these Companies were enjoying positive sentiments of the financial institutions/commercial banks as corroborated/proved in succeeding bond issues of RRVPNL raised during years 2002-03 to 2005-06 where the funds were raised at lower coupon rate ranging 10.75 to 6.25 *per cent* with put/call option. In the instant issue, the Companies, however, did not keep the put and call option which caused avoidable excess interest payment of Rs.3.40 crore[**] during July 2006 to June 2008.

The Government stated (September 2007) that this bond issue was the first ever after unbundling of erstwhile Board and the terms and conditions were finalised and recommended by the expert committee. Further, in future if the investors chose to exercise 'put' option, it would be difficult to arrange fresh borrowings of Rs.450 crore for pre-mature redemption.

The reply is not acceptable in view of the fact that such option was inserted in the bonds issued by the erstwhile Board in the year 2000 and also by the power companies in subsequent years. Moreover, the Companies could have reconsidered/reviewed the suggestions of the expert committee in the backdrop of steady declining trend in the interest rates of borrowing since January 1998.

[**] RRVUNL - Rs.1.36 crore, RRVPNL - Rs.1.19 crore, JVVNL & AVVNL - Rs.34 lakh each, and Jd.VVNL - Rs.17 lakh.

Rajasthan Rajya Vidyut Prasaran Nigam Limited

Undue benefit to supplier

The Company extended undue benefit to the supplier by allowing price variation of Rs.3.30 crore on the purchase order at fixed price.

3.2 Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) invited (April 2001) open tenders for supply of 20/25 MVA, 132/33 KV Power Transformers in three different lot under International Competitive Bidding (ICB) package. The Company placed (September 2001) a supply order (Lot No. 3) on IMP Power Limited, Mumbai for supply of 18 Nos. Power Transformers with mandatory spares at a fixed price of 1,15,235 US$ plus Rs.1,85,000 towards freight & insurance per transformer. As per clause 5 of terms and conditions of the supply order, delivery of transformers was to commence after six months from the date of release of 10 *per cent* advance payment or opening of Letter of Credit (LC) equal to this amount in favour of suppliers and to be completed in 12 months thereafter, at quarterly rate. The supplier furnished (December 2001) Bank Guarantee (BG) and LC opened (September 2002). Thus, as per terms of the supply order, delivery was to be completed by February 2004.

The supplier could supply only six transformers (valued at 6,91,410 US$ plus Rs.11,10,000 towards freight and insurance) within the delivery schedule and one transformer (valued at 1,15,235 US$ plus Rs.1,85,000 towards freight and insurance) in May 2004. Thus the supplier failed to complete the supply as per the delivery schedule. The Company served (June 2004) a notice for purchase of balance transformers at the risk and cost of the supplier. The supplier explained (July 2004) that due to financial restructuring of their firm, the supplies could not be completed and requested to reschedule the supply period. The Company revised (July 2004) the delivery schedule up to January 2005 as agreed with the supplier for supply of remaining 11 transformers. The supplier however, supplied (January 2005) only one transformer and again requested (February 2005) to revise the delivery schedule and allowing price variation due to unprecedented rise in cost of raw materials.

The Management, on a representation made by the supplier extended the delivery schedule* up to June 2006 with price variation (except for the supply of one transformer in pipe line) on the plea that the provisions of the contract were extremely difficult to be enforced in practice, and also to avoid litigation considering the unprecedented rise in the cost of raw material and flood in Silvasa area and all India transport strike for a short period. The supplier supplied the remaining nine transformers as per the revised schedule on escalated price. The Company allowed price variation amounting to Rs.3.30 crore to the supplier.

* January to March 2006- three transformers, April to June 2006- six transformers.

Audit observed that the decision of the Management to allow price variation was not justified, as the contract was awarded on fixed price basis and the supplier failed to execute the contract despite extending of the delivery schedule by the Company by one year. Further the reasons accepted by the Committee were normal for any business of similar nature; and precisely for these reasons in WTD*/CMD** level committees/meetings, earlier representations of the supplier had been turned down. Moreover, the supplier's demand of price variation due to delay in opening of LC was also not justified in view of the fact that the Company had already rescheduled the delivery period upto February 2004 after considering the delay in opening of LC.

Thus unjustified decision of allowing price variation by the Committee, led to loss of Rs.3.30 crore to the Company.

The Management while accepting the fact of available clause of purchase of material at the risk and cost of the supplier, stated (July 2007) that the working of this clause is very difficult and time consuming hence settlement committee decided to allow price variation. It was also stated that even after allowing price variation, the balance supplies of transformers under TR-088 were availed at lower unit FOR destination price than the price at which the supply of transformers was availed from the supplier against domestic contracts during the corresponding period in which pending supplies of transformer were availed under TR-088 from supplier, and thus saved Rs.10.29 crore.

The reply is not acceptable as the contract was on FIRM prices and to allow price variation for delay in supply after extended period (up to February 2005) by the supplier lacked justification. The Management's view regarding 'Risk and Cost Clause' is also totally unacceptable as non-invocation of contract clause undermines the sanctity of tendering process and vitiates the agreement. Moreover, the ICB package rates cannot be compared with domestic contract rates as ICB package includes various other benefits to the supplier.

The Government endorsed (September 2007) the reply of the management.

Loss of incentive

Due to non-enhancing the value of the LC the Company was deprived of incentive of Rs.1.13 crore.

3.3 With a view to reduce the overdue of State Electricity Boards (SEBs) or its successor Companies, towards Central Public Sector Undertakings (CPSUs) by shifting the burden of clearing dues to the State Governments, the Union Ministry of Power (MoP), introduced (August 2001) a scheme for securitisation of dues. The scheme of securitisation was effective from

* Whole time Director.

** Chairman & Managing Director.

1 October 2001 and the cut off date of reckoning of outstanding payment was 30 September 2001. The scheme, *inter alia,* envisaged that:

- the State Government would issue tax-free bonds of the undisputed amount through Reserve Bank of India (RBI) to respective CPSUs;

- the bonds would carry interest rate of 8.5 *per cent* and would be redeemed in 20 equal six monthly instalments commencing from 1 October 2006; and

- SEBs or their successor entities that open the irrevocable Letter of Credit (LC) equal to 105 *per cent* of their average monthly billing for the preceding 12 months or establish acceptable security mechanisms by 30 June 2002 and operate them without any default until 31 December 2002 would be entitled to a cash incentive equal to 2 *per cent* of the nominal value of bonds issued.

The State Government issued (August 2003) bonds amounting to Rs.56.98 crore in favour of NHPC* for securitisation in lieu of outstanding dues of Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) till September 2001.

It was noticed that NHPC asked (June 2002) the Company to enhance the existing irrevocable LC from Rs.11.25 crore to Rs.15.42 crore (105 *per cent* of average monthly billing for preceding 12 months). The average monthly bills of NHPC for the period from June 2001 to May 2002 was of Rs.12.92 crore and the Company was required to enhance the existing LCs of Rs.11.25 crore to Rs.13.57 crore *i.e.* 105 *per cent* of the monthly average billing. The Company without enhancing the LC amount lodged (October 2004) a claim with NHPC for reimbursement of 2 *per cent* cash incentive. The NHPC rejected (December 2004) the claim of the Company.

It was observed that Bank charges for enhancing the existing LC were 0.8 *per cent* per annum payable in quarterly instalments at the rate of 0.2 *per cent* per quarter. Hence, to enhance the existing LC limit from Rs.11.25 crore to Rs.13.57 crore, the Company had to pay only Rs.0.93 lakh (Rs.2.32 crore X 0.4 *per cent*). The Company, however, did not enhance the LC, which deprived it of cash incentives of Rs.1.13 crore.

The Government stated (September 2007) that the LC coverage of 105 *per cent* could not be provided due to exposure difficulties with bankers. Moreover, the LC coverage though not provided to other CPSUs like NTPC & PGCIL yet they allowed incentive payable under clause 13 of the scheme as such the stand taken by NHPC was not correct and it unauthorisedly withheld/rejected its claim.

The reply is not tenable as the claim for incentive was dependant on opening LC equal to 105 *per cent* of the average monthly billing as per the GOI scheme.

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* National Hydroelectric Power Corporation Limited

Non-availing of the opportunity to procure the material at lower rates

Non-enforcing the agreement clause to procure additional material at lower rates caused extra expenditure of Rs.16.48 lakh.

3.4 Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) placed (September 2004) a purchase order under TN-3540 on Techno Engineering Company, Chandigarh for supply of 2,303 MT of galvanized steel structures for 220 KV Grid sub-station at FOR[*] destination price of Rs.43,070.50 per MT. The price was variable as per price variation formula given in the order and the supplies were to be completed by 12 November 2005. As per clause 7 of the purchase order, the Company had the right to increase or decrease the ordered quantity by 15 *per cent* within one year from the date of order or during the currency of contract whichever was later at the prices and terms & conditions of the order.

It was observed that while the supplies were in progress; the Company invited (March 2005) fresh tender (TN-3579) for purchase of 3,748 MT of same structures. The firm also participated in this tender and stood at L-1 with an all adjusted unit FOR destination price of Rs.49,600/-. The counter offer at the same rate was given to L-2 and L-3 firms and on their acceptance, the orders were placed (November 2005) on them for 3,748 MT (including order for 1874 MT on the above Firm).

Audit, however, observed that the rate in the new tender (Rs.49,600/- per MT) was higher by Rs.4,777.59 per MT as compared to the updated rate (Rs.44,822.41 per MT) of previous order. Though the Company had a right to procure additional quantity of 345 MT at lower rates against previous order yet, instead of availing the opportunity of procuring material at lower rate, the Company placed fresh Purchase Order at higher rate on the same firm and thus, incurred an extra expenditure of Rs.16.48 lakh.[**]

The Government stated (August 2007) that as per the clause of the purchase order the delivery for additional quantity was to be mutually agreed upon between the supplier and the purchaser. Thus, the clause was not binding on the supplier. Moreover, it was experience of the Company that whenever there was an abnormal rise in raw material prices, the suppliers did not agree for delivery at old prices. Looking into the practical difficulties the clause has now been deleted by the Company.

Reply is not acceptable, since as per the contract, the firm was bound to supply additional quantity at the same price, on the same terms and conditions within the mutually agreed delivery period. Here the company failed to issue the supply order for additional quantity.

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[*] Free on Rail

[**] 345 MT @ Rs.4777.59

Jaipur Vidyut Vitran Nigam Limited

Loss of interest due to excess exemption of electricity duty

Grant of relief of 50 *per cent* electricity duty on entire consumption instead of additional consumption over and above the highest in past three years resulted in loss of interest Rs.44.70 lakh.

3.5 With a view to attract investment in the State, the State Finance Department introduced (July 2003) Rajasthan Investment Promotion Scheme 2003 (July 2003 to March 2008). Under the scheme, various benefits *viz*; interest, wage/employment subsidies and exemptions in luxury/entertainment/ mandi tax and electricity/stamp duty were extended to all new investments on capital works and the investments made by existing units and enterprises for modernisation/expansion/diversification subject to the conditions that such units commence commercial production/operation and fulfil other conditions stipulated in the scheme. Clause 9 of the scheme stipulates that the Member Secretary of the appropriate Screening Committee, after registration of application of investor and approval of the appropriate Screening committee would issue the 'Entitlement Certificate' indicating concessions admissible to the applicants. Clause 8 of the scheme stipulates that the eligible beneficiary shall be entitled to claim 50 *per cent* exemption in electricity duty for seven years.

As per clause 7(i)(b) of the scheme, in case of investment made in modernization/expansion/diversification, the amount of subsidy admissible shall be maximum of 50 *per cent* of the additional amount of State/Central Sales Tax or VAT deposited by the units over and above the highest tax deposited in any of the three immediately preceding years. The State Finance Department, also clarified (August 2006) that in case of expansion/ modernisation/diversification; 50 *per cent* exemption in electricity duty should be allowed only on additional electricity duty payable/deposited by the unit over and above the highest electricity duty which was payable/deposited (whichever is higher) in any of the three immediately preceding financial years (before carrying out the expansion *etc*.).

It was noticed (June/August 2006) that Jaipur Vidyut Vitran Nigam Limited (Company) allowed remission of 50 *per cent* electricity duty levied on the entire electricity being consumed by such beneficiaries instead of restricting the benefit to the additional amount over and above the highest duty paid by the units in the three preceding years and thus have given excess exemption of electricity duty amounting to Rs.5.90 crore to 50 consumers. As per the Financial Restructuring Plan, the State Government allowed the Company to retain the amount of electricity duty collected from consumers against its commitment to provide transition period support till financial year 2011-12.

The Management after seeking clarification (August 2006) from the State Finance Department accepted (June 2007) the fact of excess remission of

electricity duty and recovered excess rebate of Electricity Duty amounting to Rs.1.57 crore up to the billing month of June 2007. The Hon'ble High Court of Rajasthan had earlier stayed the recovery of balance Rs.4.33 crore which has commenced from the billing month of June 2007 in twelve equal monthly instalments as per interim order of the Court. Audit observed that due to wrong interpretation of the clause relating to the exemption of Electricity Duty, the Company not only invited unnecessary litigation but also sustained/would sustain loss of interest of Rs.44.70 lakh* by recovering Rs.4.33 crore in twelve instalments.

Excess rebate to consumer

Erroneous computation of load factor resulted in allowance of excess rebate of Rs.16.54 lakh.

3.6 With a view to encourage industrial growth, Jaipur Vidyut Vitran Nigam Limited (Company) issued (May 2003) an incentive scheme duly approved by the Rajasthan Electricity Regulatory Commission (RERC) for granting concession in tariff to large industrial consumers having at least 2.5 *per cent* more consumption than the base year (2002-03). The scheme, *inter alia,* envisaged that the incentive to consumers would be regulated as under:

Up to 50 *per cent* load factor	10 *per cent* rebate on energy charges for excess units consumed above the base year.
More than 50 *per cent* load factor	15 *per cent* rebate on energy charges for excess units consumed above the base year.

The Company, in cases where the consumers did not keep the same contract demand as was in the base year, clarified (May 2003) that the average load factor would be calculated on the basis of load factor computed separately for various contract demands. The Company also specified a formula for working out the average load factor for such cases. The Company, however, did not obtain approval of RERC for this formula.

Audit analysis of the specified formula, revealed that in order to compute the average load factor, the actual consumption for 365 days had been divided by contract demand and power factor of 360 days, which resulted in computation of erroneous load factor.

Due to this error, the load factor of Prithivi Steel Rolling Mills (consumer) was worked out to 50.46 *per cent* against the correct load factor of 49.77 *per cent.* The Company allowed 15 *per cent* incentive applicable for load factor of more than 50 *per cent* instead of 10 *per cent* applicable for correct

* Rs.25.95 lakh for the period September 2006 to May 2007 and Rs.18.75 lakh for the period June 2007 to May 2008.

load factor. This resulted in allowance of excess rebate of Rs.16.54 lakh to the consumer for the billing month May 2004 to April 2005.

The Management accepted (August 2007) the interpretation of Audit and agreed that the excess incentive allowed was debitable to consumer's account. Report on recovery has not been received (September 2007).

The Government endorsed (August 2007) the reply of the management.

Jodhpur Vidyut Vitran Nigam Limited

Payment of salaries and wages to idle staff

Non- diversion of staff even after awarding the work on contract basis, resulted in idle expenditure of Rs.39.98 lakh on salaries and wages.

3.7 Erstwhile Rajasthan State Electricity Board (RSEB) {now Jodhpur Vidyut Vitran Nigam Limited (Jd.VVNL)} entered into an agreement (30 November 1998) with Border Security Force (BSF) for operation and maintenance (O&M) of 11/0.4KV service lines and sub-stations for Border Flood Lighting (BFL). The RSEB created (June 1999) one Circle, two Divisional and six Sub-divisional offices for O&M of High-Tension (HT) service lines and sub-stations set up for BFL. Total 81 posts[*] were sanctioned (June 1999) for BFL Circle.

Against the overall sanctioned posts of 81, the actual working strength as on 1 June 2000 was 64. The shortage of staff, consequently affected the working of O&M of 33/11 KV Sub-stations and associated lines of 'BFL' and therefore, the Nigam level committee decided (October 2000) to award the O&M work of four 33/11 KV Sub-stations out of total ten Sub-stations, 11 KV lines and 11/0.4 KV Sub-stations in Jaisalmer sector on contract. Also, owing to transfer of work on contract basis; the committee decided to divert the excess manpower[**] and envisaged a saving of Rs.12.5 lakh on establishment expenditure on this account. Subsequently, it was decided (February 2002) to carry out the O&M work of all the Sub-stations (10 Nos.) and lines on contract basis and the work orders were placed (April 2002) on five firms for O&M of two Sub-stations each, with associated lines, for one year, which were extended from time to time.

It was observed that, though the work of O&M of all the 33/11 KV Sub-stations (10 Nos.) and associated lines was awarded on contract basis, the staff was not diverted thus negating the very basis on which this decision was

[*] One Superintendent Engineer (SE), three Executive Engineers (XEN), six Assistant Engineers (AEN), 12 Junior Engineers (JEN), three Stenographers, one Upper Division Clerks (UDC), six Lower Division Clerks (LDC), 24 Technicians, 16 Drivers and nine Helpers.

[**] AENs-two Nos., LDCs-two Nos., Technicians-10 Nos. and Helpers- two Nos.

taken. The Company incurred (2002-06) an infructuous expenditure of Rs.39.98 lakh on salaries and wages due to non-diversion of staff. Besides the financial implications, the human resource capital was not utilised and they remained idle when other units of the Company were in need of such services.

The Government stated (September 2007) that the services of the technical staff were utilised for maintenance of six Nos. 11 KV feeders for BFL emanating from 33/11 KV Sub-station falling under S.E. (O&M), Sriganganagar and 33 KV lines which were not given on contract. Further the post of AENs were of supervisory capacity which can not be diverted elsewhere.

The reply is not acceptable as the maintenance of 11 KV feeders under SE (O&M), Sriganganagar can not be co-related with the work of SE (BFL) Circle. Also the scope of work given on contractual basis covered the maintenance of 33 KV lines. Audit has pointed out non-diversion of only those staff, who were identified by the Company as surplus at the time of awarding the O&M of four Nos. of Sub-stations on contract basis.

Rajasthan State Beverages Corporation Limited

Irregular grant to Rajasthan State Sports Council

In violation of the Companies Act, 1956, the Company provided financial aid of Rs.20 lakh to Sports Council.

3.8 Section 293(1) (e) of the Companies Act, 1956 restricts the powers of the BOD of a public/private Company to contribute to charitable and other funds not directly relating to the business of the Company or the welfare of its employees, any amount the aggregate of which within any financial year exceeds fifty thousands rupees or five *per cent* of its average net profits during the last three years, whichever is greater. Further, all the powers under the section are exercisable only with the prior consent of the Company in general meeting.

It was observed that Rajasthan State Beverages Corporation Limited, (Company) in its first year of incorporation (2005-06) with profit of Rs.6.22 lakh only and with no free reserve, contributed (October 2006) Rs.20 lakh to Rajasthan State Sports Council as a grant for promotion of sports in the State, which was neither the objective of the Company nor demanded by the council. The act of the Company was subsequently ratified (December 2006) by the Board of Directors.

Thus, the action of the Company to give financial aid of Rs.20 lakh to Sports Council without prior approval in its general meeting, and in excess of the five *per cent* of net profits was not only in violation of the Companies Act but also against the canons of financial prudence.

The Management stated (August 2007) that approval under section 293(1) (d) of the Companies Act, 1956 for payment of Rs.20 lakh to Rajasthan State Sports Council, Government of Rajasthan as contribution from the Company for improvements of games in the State was granted vide its Extra Ordinary General Meeting held on Wednesday, the 25th July, 2007.

The reply is, however, silent on the issue of contribution not related to business of the Company, hence not acceptable. Further the Board exceeded its permissible powers as per the Companies Act and the ex-post facto approval in extra ordinary general meeting is also not in consonance of the provisions of the Act *ibid*.

Non-investment of the surplus fund

The inaction by not investing the surplus funds of Rs. One crore deprived the Company to earn interest income of Rs.14.99 lakh.

3.9 Rajasthan State Beverages Corporation Limited (Company) was incorporated (February 2005) as a wholly owned Government Company with authorised share capital of Rs. five crore divided into 5,00,000 equity share of Rs.100 each. The State Government released (30 March 2005) an amount of Rs. two crore as contribution towards equity share capital and deposited the same in non-interest bearing Personal Deposit (PD) Account of the Company. In pursuance, the Company allotted (7 April 2005) the shares of Rs. two crore to the Government. The Company withdrew (31 March 2005) an amount of Rs. one crore for its working capital requirement and remaining one crore was kept lying in the non-interest bearing PD account (March 2007).

The Company has central collection accounts with three banks at Jaipur, in which the entire sale realisation is deposited. The Company has made an arrangement with these banks to convert the sale realisation in its term deposit for seven days and more and thereby earned interest of Rs.58.85 lakh during financial year 2005-06. Though there was no ban to withdraw the amount of Rs. one crore lying in non-interest bearing PD account, yet the Company allowed the funds remain idle. The Company by investment of surplus funds in fixed deposit with bank on six monthly basis could have earned (April 2005 to March 2007) interest of Rs.14.99 lakh.

The inaction of the Company by not investing the surplus funds of Rs. one crore, precluded it from earning interest income of Rs.14.99 lakh.

The Management stated (August 2007) that as per the State Government directives the surplus funds were to be kept in PD account which was followed by the Company.

The reply is not tenable because as per the Government directives the funds were to be kept in interest bearing PD account whereas the Company kept the same in non-interest bearing PD account and therefore was deprived of interest of Rs.14.99 lakh.

Rajasthan State Ganganagar Sugar Mills Limited

Revenue loss due to acceptance of exclusive privilege

The injudicious approach adopted in acceptance of the privilege rights without safeguarding the financial interest led to a revenue loss of Rs.3.43 crore.

3.10 As per Section 24 of the Rajasthan Excise Act, 1950 (Act), the Excise Commissioner may grant a licence for exclusive privilege for wholesale supply of liquor, levy fee (Section 30) in consideration of exclusive privilege. The Company upto the financial year 2003-04 was the sole supplier of country liquor in the State and no privilege fee was levied on the Company. The State Government, under the Excise policy for the financial year 2004-05 granted the Company privilege rights of 75 *per cent* by imposing fee of Rs. two crore. The rights were reduced to 25 *per cent* in the year 2005-06 for which a fee of Rs.12.50 crore was levied. To recover the loss arising out of the privilege fee, the Company approached the State Government for increase in the issue price. Issue price of liquor was increased (June 2005) with the approval of Excise Commissioner by Rs.30 per case and subsequently reduced (March 2006) by Rs.15 per case. The liquor sale in the year 2005-06, however, decreased due to hike in the issue price of liquor and the Company could recover Rs.11.07 crore by increasing the issue price of liquor in year 2005-06 against privilege fee of Rs.12.50 crore. Audit further noticed that for the years 2004-05 and 2005-06 the Company held a market share of 81 *per cent* and 65 *per cent* respectively against 75 *per cent* and 25 *per cent* privilege rights. This clearly indicates that the Company did not require any privilege rights. As per Hon'ble Supreme Court decision[$] privilege fee was neither tax nor excise duty, the exclusive privilege was a contract and was hence open for acceptance or otherwise of such a privilege. The Company did not analyse the pros and cons of payment of such privilege fee and accepted the privilege rights without any analysis and rationale. Thus, by acceptance of privilege, the Company suffered revenue loss of Rs.3.43[*] crore.

The Management stated (March 2007) that during the year 2005-06, the profit from liquor segment had increased from Rs.10.85 crore in 2004-05 to Rs.14.56 crore. The reply is not tenable, as the profit of the Company had increased owing to reduction in the purchase price of the rectified spirit used in the production of country liquor.

The fact is that despite the Company's monopoly being reduced from 100 *per cent* to 75 *per cent* (2004-05) and further to 25 *per cent* (2005-06), it still controlled 81 *per cent* (2004-05) and 65 *per cent* (2005-06) of the market. The Government while reducing the exclusive privilege of the Company levied fees of Rs. two crore (2004-05) and Rs.12.50 crore (2005-06) but the

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[$] AIR 1975 SC 360, 1975 SC 1121 and ILR (1969) 2 ker. 71 Foll.

[*] Rs.2 crore plus (Rs.12.50 crore – Rs.11.07 crore).

same principle was not applied on the other players. The Company also did not approach the Government for exemption of fees so that the expected profits are not reduced. Thus though there was no loss to the Government, the Company lost revenue of Rs.3.43 crore during 2004-06. These losses would have recurring effect in future years.

Extra expenditure in purchase of rectified spirit

Non-relaxation in tender condition about strength of rectified spirit led to extra expenditure on purchase of rectified spirit at higher rate.

3.11 Rajasthan State Ganganagar Sugar Mills Limited (Company) invited (December 2005) tenders from Distilleries for supply of 75 lakh Bulk Liters (BL) of potable rectified spirit having 66^0 Over Proof (OP) strength for the period January to March 2006. As per the condition of the tender document, the consignment of strength lower than 66^0 OP would be rejected on suppliers risk and cost. The tenders were opened (January 2006). Three firms submitted their offers, out of which two firms *viz*; UP Co-operative Sugar Factory Federation and Bajaj Hindustan Limited quoted prices of Rs.23.80 and Rs.26.00 per BL inclusive of Central Sales Tax did not agree to tender terms. They mentioned that rectified spirit having strength between 64^0 OP and 66^0 OP would be supplied subject to *pro rata* deduction for strength less than 66^0 OP, as per previous tenders. The Company decided (January 2006) to reject the tender and to invite fresh tenders. The Company, however, considering the shortage of stock also decided (January 2006) to place order in relaxation of condition of strength of spirit between 64^0 and 66^0 OP. Accordingly, orders for supply of 15 lakh BL (January 2006) and 8 lakh BL (February 2006) at the rate of Rs.23.80 per BL on UP Co-operative Sugar Factory Federation and Bajaj Hindustan Limited respectively were placed. The ordered quantity of Bajaj Hindustan was further increased by 4 lakh BL. Both the firms completed supply during January 2006 to October 2006.

The Company meanwhile re-invited (24 January 2006) short term tender against requirement for the months of February and March 2006 for supply of 50 lakh BL rectified spirit of 64^0 OP to 66^0 OP strength. The tenders were opened on 30 January 2006 where in the lowest rate of Rs.25.50 per BL inclusive of CST was received, which was higher than the previous rate of Rs.23.80 per BL. The Company finalised the orders on three firms including UP Co-operative Sugar Factory Federation to which supply order of 40 lakh BL @ Rs.25.50 per BL was placed on 22 March 2006. The order on other two firms were placed for supply of 5 lakh BL each @ Rs.25.50 per BL and Rs.26.25 per BL.

Audit observed that the Company was purchasing rectified spirit having strength between 64^0 OP and 66^0 OP for last many years subject to proportionate deduction in rates for strength less than 66^0 OP. In this tender (December 2005), the Company unreasonably put a stringent condition of strength of 66^0 OP, to be withdrawn in the subsequent tender (January 2006).

Thus, unreasonable decision of the Company in putting in a stringent tender condition without proper market study regarding availability led to purchase of rectified spirit at higher rate which resulted in avoidable extra expenditure of Rs.83.85[*] lakh on purchase of balance 48 lakh BL rectified spirit.

The Government stated (July 2007) that rectified spirit having 66^0 OP instead of 64^0 OP was kept in tender (January 2006) for improvement in quality/taste of liquor and according to requirement and storage capacity. The reply is not tenable as country liquor is marketed after further dilution. Further the condition was withdrawn in the next tender.

Rajasthan State Mines and Minerals Limited

Avoidable payment of interest

Extra payment of interest due to non-insertion of Put/Call option caused loss of Rs.35 lakh.

3.12 In order to meet the cost of various capital projects (particularly wind power projects), the Board of Directors (Board) of Rajasthan State Mines and Minerals Limited (Company) decided (March 2001) to raise funds of Rs.50 crore by issue of secured non-convertible debentures (with interest rate not more than 12.25 *per cent* per annum). The other condition was that the tenure of debentures would be 7 years including moratorium period with put/call option after 5 years.

The Company raised the funds in three phases as per its requirement between September 2001 to September 2002. Audit noticed that while offering the debentures in first phase amounting to Rs.20 crore, the Company deviated from the Board decision and gave two options to the subscribers *viz.* 11 *per cent* rate of interest without Put/Call option and 10.5 *per cent* with Put/Call option after three years. The debentures were to be redeemed in eight years in six annual installments commencing from the end of 36 months instead of seven years tenure as decided by the Board. The debentures were subscribed by the Life Insurance Corporation of India (LIC) without put/call option. The Company had surplus funds from 2003-2004 onwards and hence made an effort (April 2004) to buyback these debentures, but in the absence of Put/Call option, LIC refused (May 2004) the Company's offer.

It was observed that in the absence of Put/Call option, the Company paid (September 2006 to March 2007) extra interest of Rs.35 lakh on debentures of Rs.10 crore even after adjusting the interest (5 *per cent*) earned by the Company in its Personal Deposit (PD) account. This would also result in

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[*] 45 lakh BL x (Rs.25.50 - Rs.23.80) Rs.1.70 = Rs.76.50 lakh and 3 lakh BL x (Rs.26.25 - Rs.23.80) Rs.2.45 = Rs.7.35 lakh (Total Rs.83.85 lakh).

avoidable payment of extra interest of Rs.30.36 lakh till the date of maturity of debentures *i.e.* 1 September 2009.

The Management stated (March 2007) that when two options with and without Put/Call condition were offered to the subscribers in first issue of debentures, the subscriber had chosen the option without put/call condition. The reply is not tenable as in case the Put/Call option had been inserted pre-cautiously giving due regard to the directions of the Board and keeping in view of the downward trend of interest rates as well as credit ratings given to the Company; the Company could have redeemed all the debentures out of its surplus funds and averted from further payment of interest.

Hence, the imprudent decision of the Company led to avoidable payment of interest of Rs.35 lakh.

Delay in finalisation of tender

Delay in finalisation of the tender led to loss of Rs.95.94 lakh on account of (i) Insurance charges (ii) Transmission and Distribution network (iii) Facility for receiving power and also loss of potential revenue of Rs.21.17 lakh due to decrease in tariff of power sale in new Wind Power Policy.

3.13 The BOD of the Rajasthan State Mines and Minerals Limited (Company) accorded (December 2003) approval for installation of 5 MW wind power project in Phase IV and also decided to invite limited enquiry so that the work could be awarded by March 2004. The limited tender enquiries were sent (January 2004) to 12 firms, which *inter alia* included the conditions of Net Minimum Guaranteed Generation (NMGG) per annum for a period of minimum 15 years and retention of 25 *per cent* of project value as interest free deposit with the Company, to be released in 10 equal instalments. Only one firm *i.e.* Suzlon Energy Limited (SEL) responded to the tender enquiry as these conditions were not acceptable to the Indian Wind Turbine Manufacturers Association (IWTMA).

The techno commercial part of the bid was opened (March 2004) in which SEL gave a deviation statement to the tender conditions of NMGG and retention money. SEL, however, subsequently agreed (April 2004) to these conditions provided the order placed before expiry of validity of their bid *i.e.* 31 May 2004. The financial bid was opened (May 2004) wherein SEL quoted Rs.23.76 crore (inclusive of service tax) for supply and erection of 5 MW wind turbine on turn key basis and the operation and maintenance (O&M) charges for 20 years at the rate of 22 paise to 93 paise per unit of electricity generated inclusive of insurance charges with NMGG of 90 lakh units (KWH) per annum. SEL also offered a discount of 7.5 *per cent* of the project value *i.e.* Rs.1.80 crore if bank guarantee was accepted by the Company in lieu of retention money, making the effective quoted rate of SEL Rs.21.96 crore. The Company, however gave a counter offer (June 2004) of Rs.22.25 crore which was not accepted by SEL. Hence, the Company finally decided (June 2004) to

scrap the tender and recall tender. The State Government meanwhile, revised (October 2004) its policy for purchase of power, in which the effective tariff for power purchase was reduced from Rs.3.45 per unit to Rs.3.25 per unit for the year 2005-06 with subsequent reduction in tariff ranging between Re.0.13 to Re.0.25 per unit up to committed period 2019-2020. The new policy also introduced charges towards Transmission and Distribution Network Augmentation (Rs.15 lakh per MW) and for creation of proper facilities for receiving power (Rs.2 lakh per MW).

The Company did not issue tenders in next eight months and belatedly invited (March 2005) the tender with the same terms and conditions of NMGG and retention money. Due to poor response in this tender also, the matter regarding relaxing the condition of NMGG was put up before the Board where in it was decided (September 2005) to drop the condition of NMGG in future and invite fresh tender. Accordingly fresh tenders were invited (October 2005) and the techno-commercial bids were opened (18 November 2005). The offer of SEL of Rs.22.78 crore including the service tax and BG in place of retention money was accepted and letter of intent was issued on 15 December 2005.

Audit noticed that:

- the Company included unacceptable conditions in their tender documents, which resulted in low participation and delay in finalisation of the tenders;

- the Company could not execute the Power Purchase Agreement (PPA) though its project was approved (December 2003). This deprived the Company from taking advantage of higher tariff as the revised policy allowed the power purchase rates of previous policy for the projects, where PPA had been executed before new policy and commissioned up to 31 March 2005. Thus not entering in to PPA under wind policy 2003 and delay in finalisation of tender resulted in avoidable expenditure of Rs.85 lakh (towards Transmission and Distribution Network Augmentation charges of Rs.75 lakh and for creation of proper facilities for receiving power of Rs.10 lakh). The delay in commissioning the project has also resulted in loss of potential revenue of Rs.21.17 lakh on power generated during 25 March 2006 to 31 March 2007 due to reduction in tariff of power purchase in new policy; and

- by scrapping the earlier bid of SEL the Company had also to bear the extra burden of insurance of Rs.5.47 lakh per annum, which would aggregate to Rs.1.09 crore during the committed period of 15 years *i.e.* up to the year 2019-20. Till (August 2007) the Company has paid avoidable payment for insurance of Rs.10.94 lakh.

The Government stated (October 2007) that the Company based on its experience of earlier contracts realised that there are wide variations in the wind speed. The Company, therefore, adopted Power Curve based Guaranteed Generation (PCGG) in place of NMGG.

The fact remains that despite having adequate experience the Company had put the unacceptable condition of NMGG which led to delay in finalisation of tender and thereby suffered loss of Rs.1.17 crore.

Rajasthan State Industrial Development and Investment Corporation Limited

Loss due to allotment of industrial plots at pre-revised rates

Delay in imposing ban on allotment coupled with non-levy of revised development charges led to loss of revenue of Rs.30.29 lakh.

3.14 The Infrastructure Development Committee (IDC) of Rajasthan State Industrial Development and Investment Corporation Limited (Company) framed (November 1990) a policy regarding revision in the rates of development charges. The policy stipulates that whenever a revision in the rate of development charges is proposed, it would be made effective from the date of the meeting of the IDC or the date from which the allotments in the area have been banned pending rate revision, whichever is earlier. Further, in the event of delay in finalisation of revised rate, the allotment of plot would be made at the rate equivalent to anticipated revised rate on an undertaking taken from the applicant that difference between the proposed rate and the final rate would be deposited within 30 days of the notice. The policy also stipulates that the ban should be imposed on further allotments in the following manner:

- In the case of Regional Offices sending a proposal to Head Office, the ban would be imposed by Senior Regional Manager/Regional Manager (Sr.RM/RM) from the date the proposal sent.

- In the case of rate revision being initiated and under consideration at the Head Office, the order imposing ban would be issued at the earliest from a specified date approved by the Chairman and Managing Director (CMD).

The CMD of the Company was authorised (March 2001) by the IDC for determining and revising the rates of development charges of industrial areas without any ceiling, from time to time.

It was observed that the Sr.RM, Bhiwadi-II Unit submitted (February 2005) a proposal to Head Office for revision of development charges of Chopanki Industrial area from Rs.600 to Rs.660 - 690 per sq. meter with effect from 1 April 2005. The CMD approved (March 2005) the rates of Rs.700/- per Sq. meter. Audit noticed that though the revised rates were effective from 1 April 2005 yet the Company issued order on 26 April 2005 making the effective date for revision from 25 April 2005. The Company also issued (April 2005) an office order, vide which ban on allotment was made *w.e.f.* 25 April 2005 on the plea that revision in rate was under consideration in other industrial areas.

Audit further noticed that the Bhiwadi-II Unit allotted 16 plots to different entrepreneurs between 21 April 2005 and 23 April 2005 at the pre-revised rates in contravention of the policy of the Company.

Thus, delay in imposing the ban on allotment by Head Office of the Company coupled with non-levy of development charges equivalent to revised rate resulted into loss of revenue of Rs.30.29 lakh to the Company.

The Government stated (October 2007) that the allotment of plots by the Unit office, Bhiwadi-II was in accordance with the policy decision taken by the competent authority and was before imposition of ban *i.e.* 25 April 2005.

The reply is not acceptable as the delayed issue of ban order was against the policy of the Company as the competent authority had already revised the rates on 17 March 2005 applicable from 1 April 2005.

Rajasthan State Road Development and Construction Corporation Limited

Avoidable loss

Avoidable delay in starting collection of toll led to loss of Rs.31.78 lakh.

3.15 The State Public Works Department (PWD), invited (February 2004) tenders for widening and strengthening of Chala-Neemkathana-Kotputli Road on the basis of Build Operate Transfer (BOT). The Rajasthan State Road Development and Construction Corporation Limited (Company) participated in the bid and quoted (February 2004) a period of 5 years 6 months (including construction period) for the project. The offer of the Company was accepted by the State Government and work was awarded on 12 May 2004. Accordingly, a concession agreement was executed (May 2004) between the Company and the State Government for the work on BOT basis. As per clause 2.2 of the agreement, a period of 66 months was allowed as concession period to implement and operate the project. Further, as per clause 4.1(e), the Company was entitled to collect user fee (toll) at prescribed rates during operation period after completion of at least 50 kms of road length.

The Company completed (February 2005) the major work of road and requested (February 2005) PWD for issue of completion certificate and necessary permission to start toll collection, which in turn issued (30 March 2005) provisional completion certificate along with a notice that the toll collection can be started any time during the first week of April 2005. The Company meanwhile invited (March 2005) tenders for collection of toll for six months with date of opening on 31 March 2005. Only one bid for Rs.207.71 lakh against the reserve price of Rs.207.60 lakh was received which was considered and approved (2 April 2005) by the Tender Approval Committee. The Chairman of the Company, however, decided (5 April 2005)

that it would be appropriate to start toll collection after the Assembly Session. Hence, the same was deferred and the collection of toll was started *w.e.f.* 29 April 2005.

Audit observed that as per the concession agreement, the toll was to be collected within the concession period. Hence, had the Company started its tendering process immediately after completion of all major requisite work (February 2005) as intimated by resident engineer and started toll collection based on the PWD certificate (30 March 2005), it could have avoided revenue loss of Rs.31.78 lakh. Further, the decision of the Chairman regarding deferment of toll collection also lacked justification.

The Government stated (September 2007) that the toll collection could be started from 29 April 2005 after observing the procedure and instructions of the client department. It further stated that a claim has been raised to PWD for extending the concession period for 29 days.

The reply is not tenable as the Company was entitled to collect the toll during operation period after completion of 50 kms of road length. Moreover, no instruction of client department was found on record.

Avoidable extra expenditure

Unnecessary involvement of the architectural consultant by the Company at higher rates caused avoidable extra expenditure of Rs.31.12 lakh.

3.16 The State Government awards various civil engineering works to the Rajasthan State Road Development & Construction Corporation Ltd. (Company) on the basis of actual cost plus overheads at the rates given below:

- Where design and drawing is prepared by the Company at their own level — 9 *per cent*
- Where design and drawings are supplied by the client department/organisation — 7.5 *per cent*

Thus, in first case the Company gets 1.5 *per cent* of the cost towards drawing and design and out of this, it normally pays consultancy fee up to 1.25 *per cent* of construction cost to the appointed architect consultant and keeps 0.25 *per cent* towards its overheads in respect of drawing and design.

The Medical and Health Department of the State Government decided (June 2004) to award the work of construction of 300 beds hospital in Jhalawar to the Company on cost plus overheads basis. It was also decided that the concept plan *i.e.* drawing and design of the building would be prepared by Dr. Utpal Roy of Medicare Services India Limited, Kolkata (Consultant) and after receipt of the concept plan, the Company would submit a presentation to the State Government showing lines of progress of work.

It was observed that though the Company was not asked to prepare the concept plan yet it entered into an agreement with the consultant to get this work at the rate of 2.5 *per cent* of contract value plus travelling expenses. Audit further noticed that drawings and designs of other works including a work of construction of 150 beds hospital building at Jaipur where the preparation of drawing and design was Company's responsibility, the Company got these works within the limit of 1.25 *per cent* through invitation of open tenders as required under schedule of power of the Company.

The appointment of architectural consultant for this work was, however, made without obtaining competitive bids through open tender. Thus, unnecessary involvement of the architectural consultant in awarding work for preparation of drawings and design at the rate of 2.5 *per cent* against the normal rate of 1.25 *per cent* without calling tenders resulted into avoidable extra expenditure of Rs.31.12 lakh including service tax of Rs.2.88 lakh. An amount of Rs.23.52 lakh has been paid (March 2007) including service tax of Rs.2.18 lakh and remaining is payable with the progress of work.

The Government stated (September 2007) that the Hospital project cannot be compared to the much smaller hospital project at Pratap Nagar, Jaipur due to large difference in size, nature of facilities and location of the two projects. Further, in view of the specialized and prestigious nature of the project and being the work of its largest client (State Government) it was in the interest of the Company to absorb the additional expenditure of one *per cent* as an exception. The reply is not tenable as the fee on account of architectural consultancy is dependent on the total cost of the project which increases with the increase of cost of the project due to inclusion of specialised facilities. Moreover, the appointment of the consultant was made by Medical and Health Department therefore the liability of architectural consultancy lay with them and not the Company.

Avoidable extra expenditure due to procurement of cement at higher rate

Invitation of new tender even after having valid offer resulted in extra expenditure of Rs.16.54 lakh.

3.17 Rajasthan State Road Development and Construction Corporation Limited (Company) invited (February 2006) tenders for supply of 3,10,000 bags of cement {1,55,000 bags each of Ordinary Portland Cement (OPC) and Pozzolana Portland Cement (PPC)}. Only one offer from M/s J.K Laxmi Cement Limited (Firm) was received (17 March 2006) which quoted Rs.164.90 and Rs.159.90 per bag for OPC & PPC respectively. The quoted rates were with the conditions that (i) statutory increase in Sales Tax/VAT, Excise Duty to be borne by the Company and (ii) 100 *per cent* advance payment along with order. The Company asked (18 March 2006) the firm to withdraw these conditions and also to reduce the rates. The firm refused (21 March 2006) to reduce the rates, without any specific reply on withdrawal

of conditions. The Company decided (4 April 2006) to reject the tender and fresh tenders were invited (6 April 2006) with date for sale of tender forms between 10 April 2006 and 15 April 2006 and tender opening date on 17 April 2006. Meanwhile, the firm agreed (7 April 2006) to withdraw the conditions of its offer. Scrutiny of records revealed that the rates of cement in the open market increased (April 2006) sharply to Rs.175- 200 per bag and looking to the rising trend in rates, the Chief Project Manager recommended (10 April 2006) to consider the offer of the firm. It was further revealed that though the sale of tender forms of fresh invitation had not commenced, yet the Company decided to reject the offer. In the new tender again, only the same firm quoted their rates as Rs.169.75 and Rs.164.75 per bag for OPC & PPC respectively which was higher by Rs.4.85 per bag as compared to the earlier offer. Looking to the urgent requirement and the rising trend in rates, the Company placed (21 April 2006) order on the firm on these rates, for supply of 3,10,000 bags. As per clause 4, the ordered quantity was further increased (26 August 2006) by 10 *per cent* making the total ordered quantity as 3,41,000 bags. The firm completed the supply in September 2006.

It is observed that the decision to reject the offer of the firm was not justified in view of rising trend of cement price and this was the only firm, which was responding to previous tenders. Moreover, the offer of the firm was valid upto 17 April 2006 and as such it was open for the Company to hold further negotiations with the firm. The urgent requirement of the material, if any, could be met by utilising the powers/options available in Schedule of delegation of power.

Thus, the injudicious decision of the Management in availing the available options with financial prudence led to an avoidable extra expenditure of Rs.16.54 lakh.

The Government stated (April 2007) that as per tender conditions the conditional tender was rejected and it could not be reconsidered subsequently. The reply is not tenable as the decision of the Company was not prudent since the management was aware about the rising trend in the prices of cement in open market as well as in neighbouring States and that only single bid was being received in previous tenders.

3.18 Performance of Handicraft Activity of Rajasthan Small Industries Corporation Limited

Introduction

3.18.1 The Rajasthan Small Industries Corporation Limited (Company) was registered (June 1961) as a Public Limited Company. The main objectives of the Company are to promote handicrafts of Rajasthan and extend support to artisans. The objective of promoting handicrafts is being managed by running of nine* emporia for handicrafts at various locations in and out side the State

* Rajasthali, Delhi, Mumbai, Kolkata (Chowrangee and Garihat), Agra, Jaipur, Mount Abu, Udaipur and Jaisalmer

and a Handicraft Design Development and Research Centre (DDRC) at Jaipur.

Contribution of Handicraft Activity in profits of the Company

3.18.2 The contribution of handicraft activity towards profits has been indicated in the **Annexure-28**. It is seen that contribution during 2002-07 was negative in three out of five years and the Company earned marginal contribution of Rs.16.11 lakh in 2003-04 and Rs.5.44 lakh in 2004-05 even without considering the share of head office expenses. The overall negative contribution was of Rs.2.52 crore.

Audit findings

Audit findings are based on evaluation of handicraft activities over a period of five years from 2002-07, conducted during December 2006 and October 2007. These findings are discussed in the succeeding paragraphs.

Performance of Emporia

3.18.3 The sale of handicraft items was made through own counters and also through counters given to artisans or other private parties on minimum sales guarantee (MSG) basis. The MSG counter holders were to pay commission to the Company on actual sales or minimum guaranteed amount, whichever was higher and rent, in the form of licence fee, for the space provided to them in emporia. Thus, the income from the MSG counters was assured/guaranteed and without any investment in goods or manpower for effecting and promoting sales.

The performance of emporia was last reviewed in Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Commercial), Government of Rajasthan wherein the poor performance of emporia was pointed out. The review was discussed (November 2005 and July 2006) by the COPU. Audit further noticed that the three emporia (Mumbai, Agra and Udaipur), which incurred losses of Rs.1.34 crore in the past five years up to March 2002, continued to incur losses of Rs.1.12 crore in these five years also. Similarly, the Kolkata emporia (Garihat) which incurred losses of Rs.8.18 lakh in four years in past five years upto March 2002 also continued to incur loss of Rs.17.45 lakh in four years out of five years upto March 2007. Besides Kolkata (Garihat), the Jaipur emporia also incurred losses of Rs.1.40 crore in four years out of five years ended 31 March 2007. Only one emporia at Jaisalmer had been able to make positive contribution in all the five years and had contributed Rs. two lakh (before apportioning share of head office expenses). Delhi and Mount Abu emporia had been able to make positive contribution (Rs.1.65 crore) during 2002-07. Remaining six emporia incurred negative contribution of Rs.2.76 crore during the period of five years despite having earned commission of Rs.6.93 crore on MSG without incurring any expenditure. Audit analysis revealed that loss incurred by emporia was due to unscientific method of fixation of sale price, excessive employees cost, non-achievement of targets of sale and failure in taking corrective action as discussed below.

Excessive manpower cost

3.18.4 The Company has not fixed norms for manpower cost. The position of Company's own counter sale vis-a-vis employees cost for the period of five years up to 2006-07 is given below:-

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Own counter sale (Rs.in lakh)	202.04	198.76	179.80	186.48	203.79
Employees cost (Rs.in lakh)	231.39	215.18	205.38	218.39	235.86
Percentage of employees cost to own counter sale	114.53	108.26	114.23	117.11	115.74

It will be seen from the above that the percentage of employees cost to own counter sale was as high as 117.11 *per cent* in 2005-06 due to increase in pay and allowances and the Company failed to recover even salary and allowances of emporia staff. Audit observed that although 98 employees in the Company as a whole including emporia, retired voluntarily during 2002-03 and 2003-04, the percentage of employees cost to sale progressively increased (2004-06) due to decrease in counter sale, as Agra and Udaipur (Chetak Circle) emporia were given on MSG basis. This indicates that the Company had not taken effective steps to increase the sale and reduce the manpower cost to make the emporia profitable. Belatedly, the Company approved (August 2006) a revised staffing plan based on the proposals of Strategic Business Unit (SBU) heads and as per plan 266 employees were required as against the actual working strength of 342 employees. According to the revised staffing pattern, out of 76 surplus employees, 42 employees relate to emporia. These 42 posts were deemed to be abolished with the promotion or retirement of present post holders. Thus this strength of 42 employees remained unutilised for which the Company paid Rs.2.94 lakh per month (considering average salary of Rs.7000 per month) to these employees as idle wages. The Company, however, has not taken any further action to remove/utilise the surplus employees.

The Management agreed (September 2007) to the fact of excess/surplus employees and stated that employees strength can only be reduced by retirement, promotion or death of employee and cost of manpower is cheaper in private sector in comparision to Government sector. Reply is not tenable as by adopting this strategy performance of emporia would not improve for a longer time. Further, the Company is a commercial organisation it should control its cost to sale more goods and help the artisans.

Non-achievement of target of sale

3.18.5 The table below indicates the target and actual for own counter sales for the five years ending 31 March 2007:

(Rs. in lakh)

Year	Targeted sales	Staff establishment cost	Actual sales	Percentage of actual to targeted sales	Percentage of staff establishment cost to actual sale
2002-03	310.14	231.39	202.04	65.14	114.53
2003-04	311.10	215.18	198.76	63.89	108.26
2004-05	260.00	205.38	179.80	69.15	114.23
2005-06	250.50	218.39	186.48	74.44	117.11
2006-07	191.97	235.86	203.79	106.16	115.74

It would be seen from the above that the Company failed to achieve the target of sales in all the four years upto 2005-06 even after considerable reduction in targets. The percentage of achievement ranged between 63.89 and 106.16 *per cent*. The actual sales had declined from Rs.202.04 lakh in 2002-03 to Rs.186.48 lakh in 2005-06. The Company had not analysed the reasons for non-achievement of target and decline in sales and consequently not taken any corrective measures to increase the sales. Audit analysis however, revealed that unhealthy competition in handicraft market was the main reason for decline in sales and the Company had not adopted aggressive marketing strategy to boost the sales by introducing diversity in the handicraft products as well as offering suitable incentives. The Company had also not taken effective steps to create brand image of 'Rajasthali' by suitable publicity measures and by exercising proper control on quality of products.

The Management stated (September 2007) that targets are always estimated and generally on higher side. Reply is, however, silent about reasons for keeping continually higher targets despite non achievement in earlier years.

Closure of loss making emporia

3.18.6 The BOD decided (June 2001) to close down the loss making emporia *viz*; Mumbai, Agra and Udaipur. However, the Management did not take any action (September 2007). The Company also did not analyse the reasons for continuous losses and consequently did not address the same with emporia specific measure *i.e.* change of location, improving marketing strategy, accepting larger role of MSG counter with proper safeguards regarding risk of inferior quality and high prices *etc*. The Company later invited (July 2004) proposals to run these emporia on MSG counter basis and engaged

(September - October 2004) two firms to work on MSG basis at Udaipur and Agra. No offers were, however, received for Udaipur (Jagdish chowk) and Mumbai emporia. It was observed that although the Company sent tender forms to local parties, tender notice was not published in Mumbai edition of newspapers. The Company did not close the Mumbai emporia despite the fact that employees cost was more than the counter sale. Audit further observed that despite giving the entire emporia on MSG basis, Agra emporia incurred loss of Rs.4.73 lakh during 2005-06 and 2006-07 due to more establishment and employees cost than the commission earned on minimum sale guarantee.

The Management stated (September 2007) that decision to close the emporia was reconsidered (31 May 2004) by the Board and decided to sale all type of handicrafts item on MSG basis. Reply is not tenable as reasons for reconsideration of decision was not on record. Further, the Company reconsidered (January 2005) to sale only precious/semiprecious items on MSG basis. Thus, Company was not firm on its own decision.

Poor Performance of Design Development and Research Centre

3.18.7 Design, Development and Research Centre (DDRC) was established for development and improvements in design of blue pottery and handicraft items being sold at Company's emporia. The State Government provided a partial grant for meeting the expenditure of the centre. The Government discontinued providing grant from the year 1999-2000, and the activity of development and improvements in designs was discontinued. Later, Indian Institute of Crafts and Design, Jaipur carried out a study for revitalisation of DDRC and submitted (January 2000) its report suggesting development of a model craft complex having Design and research cell, Prototype museum, Resource centre, Market information cell, Auditorium, Library, Craftsman gallery and shop cum exhibition cum workshop space. The Company, however, did not take final decision on implementation of the report.

The work of DDRC has now been limited to production of Jaipur quilts, which is being done partly on contractual basis and partly on department basis by issue of raw material to contractor for making of quilts. Thus staff posted at DDRC rendered surplus, however, the Company has not made any plan to utilise them. The working results of DDRC for the period of five years upto 2006-07 are tabulated below:

(Rs. in lakh)

Particulars	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Sale	16.77	16.30	17.01	16.87	16.27
Manufacturing cost	15.25	12.84	14.73	13.63	13.65
Employees cost	44.48	22.42	25.45	25.28	23.19
Other establishment cost	3.00	2.77	2.82	2.84	4.70
Net loss	45.96	21.73	25.99	24.88	25.27
Percentage of employees cost to manufacturing cost	292	175	173	185	170

It would be seen that the DDRC had been in continuous loss totalling Rs.1.44 crore during the period of five years up to 2006-07 and could not recover even employees cost. Audit observed that as against the norm of 5 *per cent* overhead on manufacturing cost of quilts, the actual employees cost ranged between 170 and 292 *per cent* representing abnormally high employees cost of idle staff which was the sole reason for non generation of surplus in DDRC. Audit further observed that the Company could have avoided the loss by utilisation of services of DDRC staff elsewhere.

Delay in Construction of Rajasthali Building at Jaipur

3.18.8 It was pointed out in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Commercial), Government of Rajasthan that Company dismantled its portion of existing emporia building and started construction of the new emporia building and completed two floors at a cost of Rs.2.09 crore and shifted its show room in new building (May 2000). The emporia started functioning at the rear part of old demolished building with no direct approach. The unfavourable site resulted in reduction of sales, turning profitable emporia into loss making unit.

Audit observed that construction of new building was kept in abeyance because of dispute with two tenants of the old building, who wanted space in the new complex. The matter was finally resolved (January 2004) and a Memorandum of Understanding (MOU) was executed (April 2004) with Avas Vikas Limited (AVL) to complete the work at an estimated cost of Rs.5.93 crore including supervision charges and fee of architect. The work was to be completed within 12 months *i.e.* up to March 2005. A Project Management Group (PMG) was constituted (March 2005) under Chairmanship of CMD of the Company to monitor the progress of the project and to take all decisions in this respect. The work was completed (March 2007) at a cost of Rs.10.33 crore after delay of about two years. It was observed during audit that main reasons for unusual delay in execution of project were frequent modification and changes in design with additional cost of Rs.2.45 crore, slow progress by construction agency and delay in appointment (April 2006) of new interior designer by the Company after withdrawal of interior designer initially appointed (August 2005) due to unsatisfactory services. Audit further observed that despite knowing that the delay in completion of work was causing heavy loss to the Company, the PMG did not take effective steps for timely appointment of interior designer and also failed to monitor the progress of the work. Thus due to significant delay in completion of the emporia, the sale of emporia reached at bottom level ranging between Rs.35.49 lakh to Rs.44.87 lakh during 2002-06 as against the sale of Rs.1.73 crore and Rs.1.22 crore in 1999-2000 and 2000-01 respectively. Employees cost and establishment cost of emporia ranged between Rs.53.24 and Rs.43.57 lakh and Rs.10.28 and Rs.12.08 lakh respectively during 2002-06.

Comparison of MSG counters versus own counter

3.18.9 The table below indicates the position of sales made and profit/loss incurred on Company's own counters as well as MSG counters during last five years ended on 31 March 2007:

(Rs.in lakh)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Own counter					
Sales	202.04	198.76	179.80	186.48	203.79
Loss	271.21	237.64	237.16	264.65	226.87
MSG counters					
Sales	380.10	389.39	430.58	457.44	288.94
Profit	186.27	201.20	195.23	165.90	108.26

It would be seen that the MSG counters had been continuously generating profit with increased sales whereas own counters had mounting losses with decline in sale. Despite this, BOD reversing their earlier decision of May 2004 decided (December 2005) that the system of sales of items through MSG counter would be discontinued except for precious, semiprecious stone and their studded jewellery, on the plea that MSG counter holders may keep inferior quality goods and sell at higher prices.

Audit, however, observed that above contention of management did not hold good as the Company could exercise proper control on quality to the satisfaction of the customer and prices of products being sold at MSG counters as per terms & conditions of the agreement. Thus, due to discontinuance of MSG counters, loss of emporia increased from Rs.11.11 lakh in 2005-06 to Rs.113.08 lakh in 2006-07. Thus, the discontinuation of MSG counters before taking appropriate measures to increases its own sales and reduce overheads costs to achieve turn around in the working of its own sale counter, was not prudent.

The Management stated (September 2007) that there was no effective control of the Company on quality and prices of MSG holders and in long term, the strategy to limit MSG system would result in higher turnover which is the focus of this activity to run under no-profit no loss basis. Reply is not tenable as the Company could have made control on price and quality of MSG holders as per the agreement. Further, despite marginal increase in own sale, loss of the Company increased substantially from Rs.35.99 lakh in 2005-06 to Rs.138.35 lakh in 2006-07.

Export and institutional sales

3.18.10 Audit analysis revealed that total exports of handicrafts of the Country as reported by Export Promotion Council for Handicraft had increased from Rs.13,032.70 crore in 2004-05 to Rs.14,526.85 crore *i.e.* 11.46 *per cent* growth during 2005-06. Export of handicraft items from Rajasthan State also increased threefold from Rs.551.62 crore in 2001-02 to Rs.1,609.05 crore in 2005-06.

Thus, despite ample opportunities and good potential for exports, the Company did not make any efforts for exports over the period of four years and there was no separate marketing policy for exploring Institutional sales market.

The Management stated (September 2007) that Rajsthali is retail chain catering to foreign and domestic tourists. The sales to foreign tourist are made though counter sale. This confirm the audit comment that the Company did not take any steps to enter in export market.

Conclusion

The contribution of handicraft activity was negative in two out of five years and earned marginal contribution of Rs.16.11 lakh in 2003-04 and Rs.5.44 lakh in 2004-05 without deducting the expenses of the head office. Despite having been pointed out by audit and the Board's decision taken more than five years back, the Company did not close the loss incurring emporia. The loss was primarily due to excessive employees and establishment cost and declining own counter sales. The decision to discontinue MSG counters without taking appropriate measures to increase own counter sales would further aggravate losses. Continuation of Design Development and Research Centre, no breakthrough in export and institutional sales, delay in construction of 'Rajasthali' building at Jaipur also contributed towards the dismal performance of the handicraft activity of the Company.

Recommendations

The Company may consider:

- **keep in abeyance the decision to discontinue MSG counters till the turnaround in own counter sales and revival of loss making emporia is achieved;**
- **devising aggressive marketing policy to enhance the own counter sales;**
- **devising strategy to promote exports and institutional sales of handicraft to offset declining sales;**
- **explore possibility of marketing brand name of Rajasthali in potential tourist cities, where it is not possible to open its own emporia, by adopting suitable franchise system; and**
- **taking effective steps for reduction in manpower cost.**

Statutory Corporations

Rajasthan Financial Corporation

Infructuous expenditure towards payment of facility maintenance charges, leased line charges and annual technical support charges

Without ensuring the timely operation of application software, payment of annual charges of Rs.35.59 lakh for facility maintenance, leased lines and annual technical support resulted in infructuous expenditure.

3.19 Rajasthan Financial Corporation (Corporation) invited (May 2004) tenders for installation of hardware and software with the prime objective to have online network connectivity between its branches and head office. After evaluation of the financial and technical bids, the purchase orders for procurement of hardware and net working were placed (September 2004) on HCL Info System Limited and for application software, on Kensoft Infotech Limited (KIL) at a total cost of Rs.2.42 crore and Rs. one[*] crore respectively. The cost of hardware includes Rs.14 lakh towards payment of Annual Facility Maintenance Charges (FMC) for maintenance of leased line, implementation and configuration of Wide Area Network (WAN). The agreements with suppliers were executed on 29 October 2004 and 10 November 2004 respectively. As per the terms and conditions of the purchase order, the supply of hardware was to be completed within 90 days from the date of order. The supply of hardware was completed by December 2004.

In regard to application Software, it was noticed that before finalisation of supply order the Company assessed that the KIL had also supplied such software in Oracle platform to Andhra Pradesh State Finance Corporation (APSFC) and found that KIL has a ready product which can be adopted by the Corporation with less customisation (around 20 *per cent*) and within the time frame targeted by the Corporation. Accordingly, the Corporation placed purchase order with stipulated period of 90 days for supply and operation of application software. It was further noticed that while entering into the agreement with KIL in November 2004, the Corporation agreed with specific milestone to operate the software within 20 weeks from the date of signing of the agreement. The software was, however, not made operational till August 2007 due to frequent modifications suggested by the Corporation.

Audit observed that due to non-operation of software, the branches could not be connected on line. Despite the fact that the software was not operational, leased lines were obtained from BSNL by the Corporation for its 16 branches and payment of annual lease line charges of Rs.13.17 lakh was made

[*] Rs.48 lakh for application software product and rest for Oracle licence and annual technical support *etc*.

(November 2004) without ensuring their utilisation. Besides above, the Corporation also paid (March 2006) KIL an amount of Rs.42.78 lakh towards Oracle database and licence fee for developer which included Rs.8.42 lakh for Annual Technical Support (ATS) charges for Oracle database and Developer license. This (ATS) also remained unutilised due to non-operation of software.

Thus, the Corporation failed to ensure timely installation of software owing to non-finalising the required specifications, which took almost three years. This affected the operation of networking of all branches and defeated the very purpose of computerisation aimed at close monitoring of loans recovery. Besides, this resulted in infructuous expenditure of Rs.35.59 lakh on account of FMC (Rs.14 lakh), leased line charges (Rs.13.17 lakh) and ATS charges (Rs.8.42 lakh).

The Government stated (April 2007) that expenditure towards facility maintenance charges and annual lease lines charges were incurred for management of network, software, hardware and to cultivate the habit among staff to use the computers for creating technology savvy environment. Further, the network was used for video conferencing, net meeting, transfer of data/information *etc*. The penalty clause in this type of agreement could not be incorporated as both parties have to move in tandem for successful implementation.

The reply is not tenable as the implementation and configuration of Corporation's Wide Area Network i.e. total network connectivity between branches and the head office, which was the main objective behind the expenditure, has not been done so far (August 2007). Moreover, the main objective of the computerisation work was not to cultivate the habit in staff but to have online control on the overall loans and advances activity of the Corporation.

GENERAL

Response to Inspection Reports, Draft Paras and Performance Reviews

3.20 Audit observations noticed during audit and not settled on the spot are communicated though Inspection Reports (IRs) to the Heads of respective Public Sector Undertakings (PSUs) and concerned departments of the State Government. The Heads of PSUs are required to furnish their replies to the IRs through the respective Heads of the departments within a period of six weeks. A half yearly report is sent to Principal Secretary/Secretary of the department in respect of pending IRs to facilitate monitoring of the audit observations contained in those IRs.

Inspection Reports issued up to March 2007 pertaining to 21 PSUs disclosed that 2,152 paragraphs relating to 723 IRs involving monetary value of

Rs.2,275.51 crore remained outstanding at the end of September 2007. Even initial replies were not received in respect of 143 paragraphs of eight PSUs. Department-wise break up of IRs and audit observations as on 30 September 2007 is given in **Annexure-29**. In order to expedite settlement of outstanding paragraphs, Audit Committees were constituted in 13 out of 26 PSUs. Ninety Audit Committee meetings were held during 1999-2007 wherein positions of outstanding paragraphs were discussed with executive/administrative departments to ensure accountability and responsiveness.

Similarly, draft paragraphs and performance reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. All the reviews have been discussed in the Audit Review Committee on Public Sector Enterprises. It was, however, observed that seven draft paragraphs forwarded to the various departments during March to July 2007, as detailed in **Annexure-30** had not been replied till September 2007.

It is recommended that the Government may ensure that: (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/reviews and ATNs to recommendations of COPU, as per the prescribed time schedule; (b) action to recover losses/outstanding advances/overpayments is taken within a prescribed period and (c) the system of responding to the audit observations is revamped.

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