1. Introduction of State Public Sector Undertakings

General

1.1 State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and they occupy an important place in the economy of the State. As on 31 March 2020, there were 45 State PSUs in Rajasthan which included 38 Government Companies (including three[1] inactive government companies[2]), three[3] Statutory Corporations and four[4] Government Controlled other Companies under the audit jurisdiction of the Comptroller & Auditor General of India (CAG). During the year 2019-20, two Government Companies[5] got liquidated and four Government Controlled other Companies came under the purview of the CAG for audit.

Audit universe and coverage

1.2 Out of total 45 State PSUs, audit of 30 State PSUs is entrusted to this office (Office of the Accountant General, Audit-II, Rajasthan) whereas audit of remaining 15 State PSUs is entrusted to office of the Accountant General, Audit-I, Rajasthan. During 2019-20, 1130 units pertaining to 30 State PSUs were under audit universe of this office. Besides financial attest audit of all these State PSUs, 295 units of these 30 PSUs, were selected for compliance audit.

Compliance Audit Paragraphs

1.3 For Part-II of the Compliance Audit Report of the CAG for the year ended 31 March 2020, six compliance audit paragraphs relating to State PSUs were issued to the concerned Principal Secretary of Government of Rajasthan with request to furnish replies within two weeks. Replies on all the six compliance audit paragraphs have been received (August 2021) from the State Government and suitably incorporated in this report. The total financial impact of the compliance audit paragraphs is ₹ 114.26 crore.

1 Rajasthan State Agro Industries Corporation Limited, Rajasthan Jal Vikas Nigam Limited and Rajasthan Civil Aviation Corporation Limited.
2 Inactive PSUs are those which have ceased to carry out their operations.
3 Rajasthan State Road Transport Corporation, Rajasthan State Warehousing Corporation and Rajasthan Financial Corporation.
4 Jaipur Smart City Limited, Udaipur Smart City Limited, Kota Smart City Limited and Ajmer Smart City Limited.
5 Keshoraipatan Gas Thermal Power Company Limited and Rajasthan Rajya Vidyut Vitran Vitta Nigam Limited.

Follow up action on Audit Reports and Inspection Reports

1.4 The Report of the CAG is the product of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, GoR issued (July 2002) instructions to all Administrative Departments to submit replies/explanatory notes to paragraphs/ performance audits (PAs) included in the Reports of the CAG within a period of three months after their presentation to the Legislature, in the prescribed format, without waiting for any questionnaires from the Committee on Public Undertakings (COPU).

Table 1.1: Position of explanatory notes on Audit Reports related to State PSUs as on 30 November 2020

Year of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total number of PAs and Paragraphs related to State PSUs in the Audit Report[6]		Number of PAs and Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2018-19	21.08.2020	1	9	1	9

Source: Compiled based on explanatory notes received from respective Departments of GoR.

Explanatory notes on one performance audit and nine compliance audit paragraphs were pending with one department till November 2020.

Audit observations noticed during audit and not settled on the spot are communicated through Inspection Reports to the Heads of respective State PSUs and concerned Departments of the State Government. The Heads of State PSUs are required to furnish replies to the Inspection Reports within a period of one month.

Inspection Reports issued upto March 2020 pertaining to 30 State PSUs disclosed that 2580 paragraphs relating to 587 Inspection Reports involving monetary value of ₹ 23269.49 crore remained outstanding at the end of September 2020. Company wise status of Inspection Reports and audit observations as on 30 September 2020 is given in ***Appendix-3.*** Further, during 2019-20 audit of 295 units of 30 State PSUs was conducted and 147 Inspection Reports containing 1014 paragraphs were issued. In order to expedite settlement of outstanding paragraphs, Audit Committees were constituted in 17 out of 21 State PSUs (excluding the nine subsidiary companies). During 2019-20, total 34 meetings of these 15 Audit Committees (excluding two Audit Committees in respect to which no meeting was held during 2019-20) were held wherein position of outstanding paragraphs was discussed with executive/ Administrative Departments to ensure accountability and responsiveness.

Recovery at the instance of Audit

1.5 During the course of compliance audit in 2019-20, recoveries of ₹ 1549.03 crore were pointed out to the Management of State PSUs. Further, an amount of ₹ 32.86 crore (₹ 9.10 crore against the recoveries pointed out during

6 Includes PA and paragraphs belonging to State PSUs under audit jurisdiction of O/o the Accountant General (Audit-II) Rajasthan.

2019-20 and remaining ₹ 23.76 crore towards the recoveries pointed out in previous years) had been affected during the year 2019-20.

Discussion of Audit Reports by COPU

1.6 The status of discussion of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) by the COPU as on 30 September 2020 was as under:

Table 1.2: Performance Audits/Paragraphs appeared in Audit Reports *vis-a-vis* discussed as on 30 September 2020

Period of Audit Report	Number of Performance Audits/Paragraphs			
	Appeared in Audit Report[7]		Paragraphs discussed	
	Performance Audit	Paragraphs	Performance Audit	Paragraphs
2015-16	2	10	1	9
2016-17	1	10	1	4
2017-18	1	7	-	-
2018-19	1	9	-	-

Source: Compiled based on the discussions of COPU on the Audit Reports.

The discussion on Audit Reports (PSUs) up to 2014-15 has been completed.

2 Compliance Audit Observations

This Chapter includes important audit findings emerging from test check of transactions of the State PSUs.

Rajasthan State Road Development and Construction Corporation Limited

2.1 Construction activity of Rajasthan State Road Development and Construction Corporation Limited

Introduction

2.1.1 Rajasthan State Road Development and Construction Corporation Limited (Company[8]) was incorporated (February 1979) for carrying out construction activities *viz.* construction and maintenance of roads, paths, bridges, sideways, tunnels and other structural/architectural works being part of the activities carried out by the Public Works Department (PWD), other departments and autonomous bodies of the Government of Rajasthan (GoR), Government of India (GoI) and all other States/Union Territories of India.

7 Includes PA and paragraphs belonging to State PSUs under audit jurisdiction of O/o the Accountant General (Audit-II) Rajasthan.

8 Formally known as Rajasthan State Bridge and Construction Corporation Limited.

The Company undertakes construction activities *viz;* constructions of buildings, Rail/Road Over Bridges (ROBs) and roads under Build-Operate-Transfer (BOT) and other similar schemes introduced from time to time. The projects/ works obtained by the Company are broadly classified into two categories *viz;* (i) tender works- contracts procured through participation in competitive bidding and (ii) deposit works- projects/works entrusted on cost plus basis Besides, the PWD entrusts construction of BOT roads on cost (including renewal cost) plus agency charges[9] basis.

During 2016-17 to 2019-20, the Company obtained projects from client departments/organisation having sanctioned cost of ₹ 5164.03 crore (453 works) and completed/handed over projects worth ₹ 4700.82 crore (288 works). All the projects obtained during this period were BOT/ deposit works.

Organisational Set-up

2.1.2 The management of the Company is vested with the Board of Directors (BoD) comprising Chairman, Managing Director and Directors appointed by the State Government. The Managing Director is the Chief Executive Officer of the Company and is assisted by the Financial Advisor, General Manager and other staff. Apart from the Head office, the Company had 25 Unit offices headed by Project Directors. The construction activities are performed by various wings/cells located at the Head office of the Company and its Unit offices. A brief description of the functions performed by the wings/cells of the Head office and Unit offices is given in ***Appendix-4.***

Audit Objectives and Scope

2.1.3 The present study was conducted (January 2020 to July 2020) to evaluate whether the Company (a) had a clear action plan for bidding for projects; (b) had a transparent and adequate system for procurement of material and awarding of contracts; (c) executed the projects economically and efficiently as per terms and conditions stipulated in the contract; and (d) had an efficient and effective system to monitor construction activities.

The audit involved scrutiny of records relating to execution of construction projects/works maintained at the Head office as well as six selected Unit offices[10] (24 *per cent*) of the Company. For selection of works/projects, all the 99 deposit works (₹ 970.31 crore) awarded by the selected six Unit offices during 2016-19 were stratified into three categories *viz.* BOT/road works, ROB works and Building works. Of these, 26 works[11] were selected *in toto* considering the limited number of ROB and BOT/road works and higher monetary value of Building works. Further, 15 out of the remaining 73 Building works[12] were selected by adopting random sampling method and one work was

9 Levied as per Memorandum of Understanding executed (December 2010) with the GoR.

10 Jaipur-II, Ajmer-I, Ajmer-II, Alwar, Jhunjhunu and Jodhpur-I selected by adopting random sampling method.

11 All the 15 BOT and ROB works and 11 Building works having work order value of more than ₹ five crore.

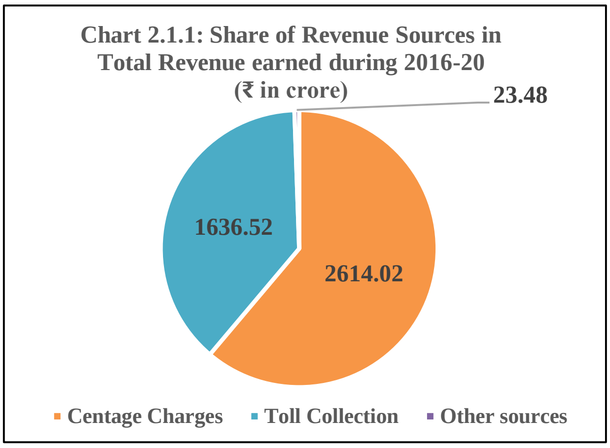
12 Building works having work order value of upto ₹ five crore.

selected for ensuring optimum representation. Thus, total 42 works (42 *per cent*) having work order value of ₹ 897.39 crore (92 *per cent*) were selected.

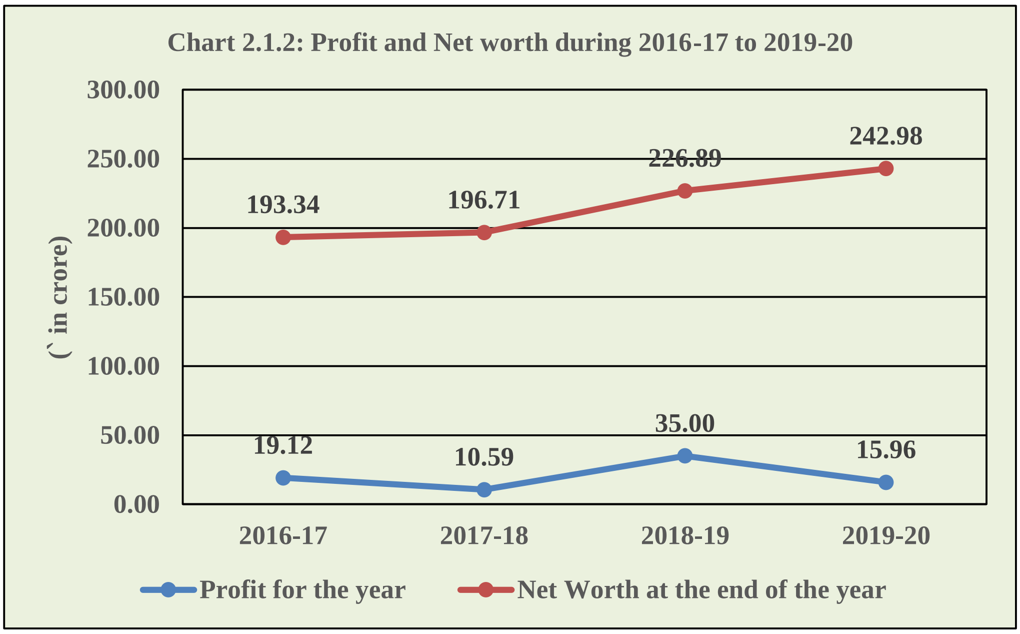
Revenue Sources, Profitability and dependence on Government funds

Revenue Sources

2.1.4 The sources of revenue include centage charges, toll collection and other sources *viz*. hiring of machines, interest income, profit on sale of assets, miscellaneous receipts *etc.* The Company earned total revenue of ₹ 4,274.02 crore during 2016-20 from these sources as depicted in **Chart 2.1.1.**



The Company had a paid up capital of ₹ 100 crore (invested by GoR) as on 31 March 2020. Year wise details of profit earned for the year and net worth at the end of the year during 2016-17 to 2019-20 is depicted in **Chart 2.1.2.**



The Company earned a total profit of ₹ 80.67 crore during this period due to which its net worth increased from ₹ 193.34 crore in 2016-17 to ₹ 242.98 crore in 2019-20. Audit observed that the Company was self-reliant and did not depend on financial assistance from the State Government for meeting its operational requirements. The main source of its profits was the overheads charged from the client departments/ organisation as all the works were obtained and executed on cost plus basis.

Audit Findings

2.1.5 The audit findings broadly cover issues relating to achievement of envisaged objectives *viz.* contribution in public construction projects, adoption of technological advancements, time overrun in handing over the projects; delay/deficiencies in award and execution of the construction contracts, poor performance of mechanical wing, deficiencies in financial management, quality control and monitoring of the construction projects.

The audit findings were communicated (December 2020) to the Government/ Company and then, discussed with the Company's Management during the Exit Conference (January 2021). The views expressed/replies furnished (January/ February 2021) by the Government/Company have been suitably incorporated.

Achievement of envisaged objectives

2.1.6 The Company was incorporated to work as a nodal agency of the GoR in public construction sector. As per the Memorandum of Association (MOA), the main objectives of the Company are to carry out construction activities *viz*. building works, bridge/ROB works, road works and institutionally financed infrastructure projects. The MOA further envisaged arrangement of funds by the Company for carrying out the construction activities as this would reduce the burden of the State Government. It further envisaged undertaking the construction activities pertaining to an organisation after entering into the agreement. Board Reports of the Company further elaborate that the purpose of creating the Company was to augment the number of specialised construction agencies and reduce the cost and time overrun in construction projects. In the Annual Progress Reports, the Company also highlighted adoption of modernised construction techniques in construction sector.

An analysis was done to assess the extent to which the Company achieved the objectives of its incorporation as discussed in subsequent paragraphs.

Contribution in public construction projects

2.1.7 The construction activities carried out by the Company are broadly classified under three categories *i.e.* road (BOT) works, ROB works and Building works. Details of contribution of the Company in public construction projects during 2016-17 to 2019-20 is shown below:

Table 2.1.1: Statement showing contribution of the Company in Public Construction Projects during 2016-17 to 2019-20

(₹ in crore)

Year	Road and bridge works executed by the Company			Arrangement of funds for the BOT works executed by the Company		Expenditure incurred on construction of roads and bridges by the GoR[13]	Total value of roads and bridges constructed in the State during the year	Share of Company in carrying out road and bridge projects (in %)	Road and bridge projects carried out through GoR funds (in %)
	Roads (BOT)	Bridges	Total	Funds provided by the GoR	Funds arranged by the Company				
1	**2**	**3**	**4=2+3**	**5**	**6=2-5**	**7**	**8=6+7**	**9=4/8* 100**	**11=7/8* 100**
2016-17	451.17	14.85	466.02	-	451.17	3018.63	3469.80	13.43	87.00
2017-18	365.21	29.75	394.96	153.23	211.98	5254.23	5464.21	7.23	97.16
2018-19	715.66	20.09	735.75	-	715.66	5364.78	6080.44	12.10	88.23
2019-20	650.00	14.10	664.10	-	650.00	4239.99*	4889.99	13.58	86.71
Total	**2182.04**	**78.79**	**2260.83**	**153.23**	**2028.81**	**17877.63**	**19904.44**	**11.36**	**89.82**

Source: Information provided by the Company and Finance Accounts of GoR.

*Provisional figure

It could be seen that contribution of the Company in construction of roads and bridges during 2016-20 remained quite low as only 11.36 *per cent* of the total roads and bridges constructed in the State were executed by it. Resultantly, major portion (89.82 *per cent*) of the construction works executed in the State during this period continued to be dependent on State Government's funds.

The Government/Management did not furnish reply on the observation.

Company's share in flagship schemes of GoI/GoR

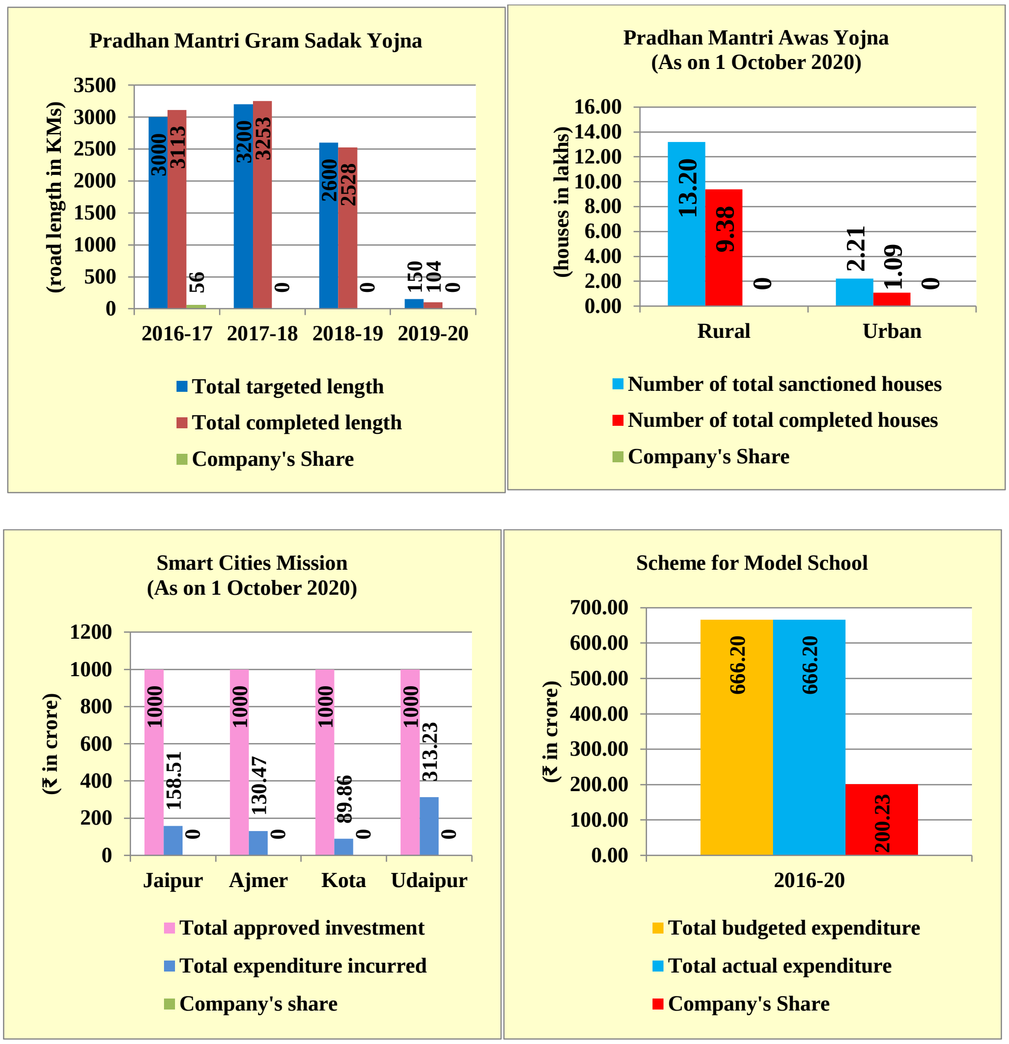
2.1.8 The Company, pursuant to the objectives of incorporation, constituted (April 2002) a Business Procurement Cell (BPC), to secure tenders by participating in the bidding process. The cell was responsible for examination of Notice Inviting Tenders (NITs), preparation of proposals for new tender works and technical bid and submission of its recommendations to the Managing Director.

Audit observed that BPC did not perform the assigned task as it did not participate in tenders invited by different nodal agencies for implementation of flagship schemes of GoI/GoR. Audit also observed that most of the departments/organisations follow the tendering system and award the projects by inviting open tenders and only limited number of works are entrusted on nomination basis. Only two works *i.e.* one under PMGSY[14] and one under Adarsh School Yojna were assigned to the Company on nomination basis. The share of the Company in four flagship schemes of the GoI/GoR is depicted in **Chart 2.1.3 to 2.1.6**:

13 Figure derived from Finance Accounts of the State Government for the concerned financial year.

14 Pradhan Mantri Gram Sadak Yojna

Chart 2.1.3 to 2.1.6: Implementation of Flagship Schemes of GoI/GoR



Thus, Company's contribution in the total construction activities as well as flagship schemes was restricted to the value of works entrusted by the clients on nomination basis (as depicted in **Table-2.1.1**). Audit also noticed that the Company had not tried to enhance its capabilities to obtain tender works as recommended (2015-16) by the COPU. Thus, the company lagged behind in achieving the very purpose of its incorporation.

The Government/Management did not furnish reply on the observation.

Adoption of technological advancements

2.1.9 New and emerging technologies reshape the dynamics of road construction with focus on sustainable development. They offer various benefits to all stakeholders, including road users, the authority/ government, concessionaires, and developers. These technologies also include use of improved materials for road construction. The Company being in the field of road construction is expected to keep a close watch on the technological innovations/ upgradations/ advancements in the road construction sector and take steps for adopting such technological innovations/ upgradations/ advancements. Review of records disclosed that the Company did not have any

Research and Development (R&D) cell to provide framework for development of research culture and to identify and adopt any new/modernised techniques in construction activities.

Use of plastic waste in construction of roads

The Indian Roads Congress (IRC) published (November 2013) 'Guidelines for the Use of Waste Plastic in Hot Bituminous Mixes (Dry Process) in Wearing Courses' (IRC: SP:98-2013). These guidelines provide for use of plastic waste up to eight *per cent* by weight of bitumen in the bituminous wearing course and as per mix design requirement. The Ministry of Road Transport and Highways (MORTH), GoI recommended (November 2015) use of plastic waste in the hot mix bituminous wearing coat and issued directions (including State Governments) for use of plastic waste in periodic renewal of all the National Highways. The MORTH, GoI again reiterated (December 2019) its former directions and stipulated use of plastic waste in construction of roads on pilot project basis. In December 2019, the Federation of Indian Chambers of Commerce and Industry (FICCI) and CRISIL prepared a white paper namely 'Paving future roads for India'. The white paper reflected construction of one lakh kilometres of roads in India by using plastic waste till 2018. Further, field performance studies had found the process to be advantageous as the roads constructed using the plastic waste in the bituminous mix had higher resistance to deformation, increased durability, improved fatigue life and better stability and strength. Besides, it is also a way to recycle plastic waste.

Audit observed that:

- **the Company did not take an initiative to use plastic waste in construction/maintenance of roads till March 2020 despite the fact that the new technique could help in reducing the construction costs of the undertaken projects as well as in disposal of waste plastic;**
- **the Company constructed total 531.48 kilometres roads under BOT schemes during 2016-19. Had the Company used plastic waste in construction of these roads, the Company could have replaced 425.18 tonnes of bitumen (8 *per cent* of total bitumen[15]) with the waste plastic and could have reduced the cost of bitumen used in these roads by ₹ 2.14 crore. Further, the new technique would have helped in disposal of waste plastic to the same extent; and**
- **As on 1 April 2016, 1785.50 kilometres roads had already been constructed and available with the Company for collection of toll. The Company could have used waste plastic in periodic repair and maintenance of these roads during 2016-19 which was also not done.**

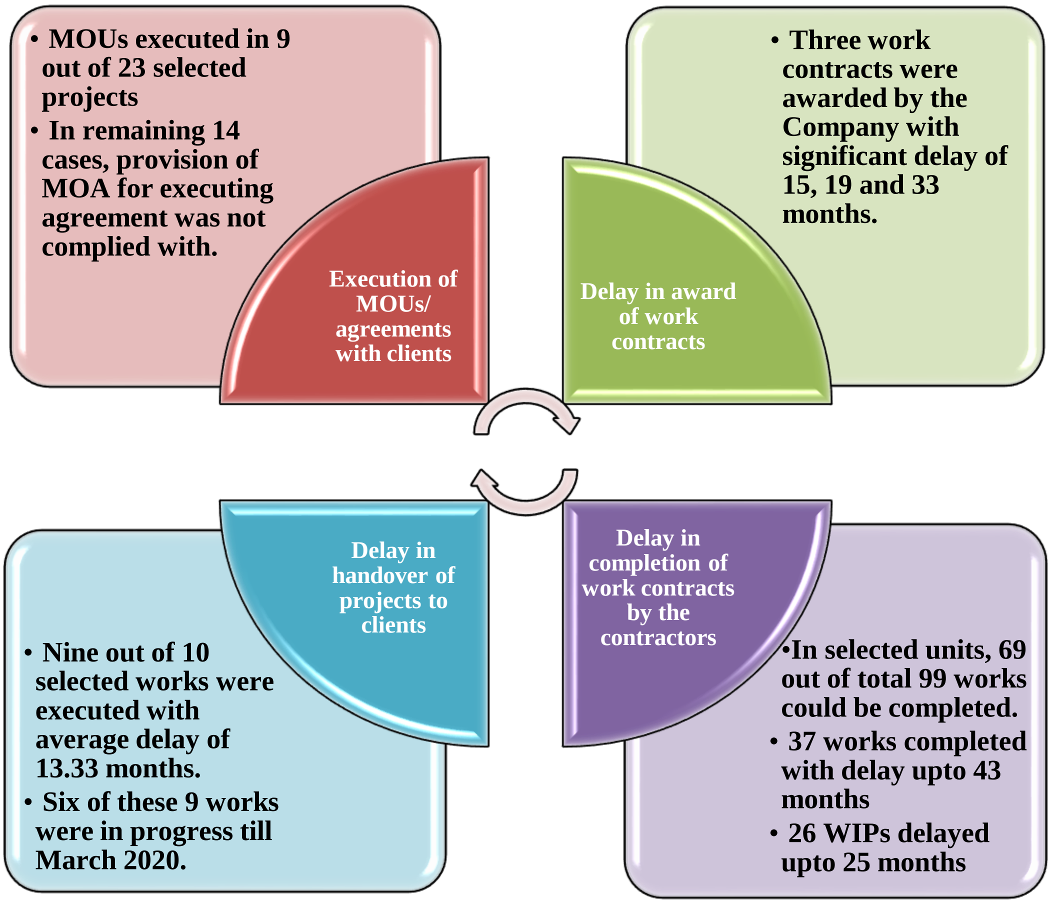
Thus, due to non-adoption of technologically advanced, eco-friendly and sustainable practices, the Company lost the opportunity of controlling the construction/repairing cost of the roads as well as disposal of tonnes of plastic waste during 2016-19.

The Government stated that considering the suggestions of Audit, the Company had created a R&D cell for coordinating with the agencies/vendors involved in evolving new technology in construction sector. It also assured that use of plastic waste would be incorporated in upcoming BOT projects to the possible extent.

Acquisition and implementation of projects

2.1.10 Deficiencies noticed in acquisition of projects from client departments/ organisations and their implementation are highlighted as under:

15 As an estimate 10 tonnes of bitumen is required for construction of one kilometre of road and thus, total 5314.8 tonnes of bitumen would have been used in construction of these roads.



These deficiencies are discussed in detail in subsequent paragraphs.

Projects undertaken from Clients

2.1.11 The Company obtains construction projects from the client departments/organisation and executes them by awarding work contracts as well as departmentally. As on 1 April 2016, 199 projects having sanctioned cost of ₹ 2439.02 crore were in the process of execution. Details of projects obtained and projects completed during 2016-17 to 2019-20 are given in **Table 2.1.2.**

Table 2.1.2: Projects obtained and projects completed during 2016-17 to 2019-20

(₹ in crore)

Year	Projects obtained during the year		Projects completed during the year		Projects pending at the end of the year	
	No.	Value	No.	Value	No.	Value
2016-17	52	1292.69	77	782.14	174	2949.57
2017-18	88	3036.50	52	1017.81	210	4968.26
2018-19	33	170.45	114	1872.83	129	3265.88
2019-20	280	664.39	45	1028.04	364	2902.23
Total	**453**	**5164.03**	**288**	**4700.82**		

Source: Information provided by the Company.

Audit observed that the Company did not have control on the quantum of the works undertaken/executed for a year as there was wide fluctuation in the value of works obtained (declined by 94 *per cent* in 2018-19) and projects completed (increased by 84 *per cent* in 2018-19) and it merely depended on its client departments for receipt of projects. However, resources available with the Company to execute these works were constant. Resultantly, the Company was not in a position to monitor implementation of undertaken projects in a proper manner and control time overruns in handing over the projects in those years in which the quantum of works had significantly increased. The time overrun in completing/handing over the selected projects to the respective clients is discussed in subsequent paragraph **2.1.12.**

Delay/deficiencies in handing over the projects

2.1.12 The MOA of the Company provided undertaking of construction activities after entering into agreement with the client. Audit noticed that out of the 42 selected work contracts (23 projects[16]), the Company executed agreement/ Memorandum of Understanding (MOU) in nine projects (11 work contracts) as depicted in ***Appendix-5*** whereas in remaining 14 projects (31 work contracts), agreement/ MOU was not executed. Thus, the Company violated the provision of its own MOA.

It could be seen from the appendix that out of the 10 works[17] scheduled for completion by March 2020, one work was completed within the stipulated timeframe, three works were completed with a delay ranging between six months and 21 months and remaining six works[18] remained incomplete even after a period ranging between three months and 27 months beyond the timeframe stipulated in the respective agreements/MOUs. Thus, the concerned Unit office could not ensure completion/handing over of the projects within the committed timeframe. Audit analysis disclosed that the delay in handing over the projects was mainly due to delay/deficiencies in awarding the work contracts, executing the awarded works, arranging requisite funds from the clients *etc.* as discussed in succeeding paragraphs. Audit observed that the Company did not devise a mechanism to analyse the reasons for delay and to take effective steps to control the time overrun in these works. Resultantly, benefits intended from creation of these infrastructural projects also remained unachieved during the period of delay. Besides, delay in handing over all the projects executed on the basis of financial sanction (except one work[19] which was delayed by three months) could not be ascertained in the absence of period agreed for executing such projects.

The Government stated that the works got delayed due to bonafide reasons *viz.* non-finalisation of layout due to demarcation dispute, encroachment on site, non-receipt of funds from clients, change in scope of work, delay in finalisation of drawings and designs by consultant, delay in handing over of site, delay in shifting high tension line and police chowki from site, shortage of cement.

The fact remained that while executing the agreements/MOUs, the Company did not envisage the vital factors *viz.* finalisation of layout, design and drawing and scope of work, clear, undisputed and complete possession of site and timely

16 The Company awarded one or more work contracts for executing each project.
17 Except one work scheduled to be completed in 2020-21.
18 S. No. 2, 3, 5, 7, 10 and 11.
19 Development works at Bhrama Temple, Pushkar, Ajmer where period of executing the work (12 months) was defined in the financial sanction issued by the client.

receipt of funds which affected progress and handing over of the project in time. Besides, the reply was silent on the issue of non-execution of requisite agreement/MOU in violation of provisions of MOA in most cases.

Award and execution of construction contracts

2.1.13 The Company executes projects by awarding the projects to contractors *in toto* or by splitting a project into multiple parts/packages as per provisions given in Schedule of Power of the Company. Audit noticed that the six selected Unit offices awarded 99 work contracts during 2016-17 to 2019-20. The completion schedule envisaged for these works had already expired by 31 March 2020. Status of implementation of these work; contracts as on 31 March 2020 is given in **Table 2.1.3.**

Table 2.1.3: Status of implementation of these work contracts as on 31 March 2020

(₹ in crore)

Type of works	Works awarded		Works completed		Overall Works in Progress (WIP)		
	No.	Value	No.	Value	No.	Awarded value	Executed value
Building works	84	258.91	57	101.23	27	145.43	74.93
ROB works	3	278.76	0	0.00	3	278.76	0.00
Road (BOT) works	12	432.64	12	432.03	0	0.00	0.00
Total	**99**	**970.31**	**69**	**533.26**	**30**	**424.19**	**74.93**

Source: Information provided by the Company.

Audit observed that 37 of the 69 completed works were delayed (upto 43 months) mainly due to non-obtaining/obtaining in piecemeal requisite drawings from the clients; delay in providing layout/drawings to the contractors; paucity of funds; delay in obtaining mandatory permission; appointment of third party audit by client due to deficient/unsatisfactory quality of executed works; availing services of third party for proof checking of cement concrete crust design after awarding the work; non-ensuring shifting of utilities *etc*.

Audit further observed that 27 of the 30 WIPs, where schedule stipulated for completion of the works had already expired, could not be completed by March 2020 (delayed upto 25 months). Further, there was no progress in case of six WIPs (*i.e.* three ROBs awarded between May 2018 and March 2019 and three building works awarded between April 2019 and July 2019). Audit also observed that the delay in execution of works were mainly due to encroachment on the site/land; non-availability/delay in availability of funds from the client department/organisation; non-removal/shifting of sewerage, water and other facilities from site; non-initiation of works by the contractor; subsequent changes in the scope of works *etc*.

Poor progress and inordinate delays in execution of works depicted that the Company did not devise a mechanism for effective monitoring and proper control on execution of the works to avoid time overrun. Thus, the very purpose of incorporating the Company as a specialised agency for carrying out construction contracts was defeated. Besides, the client departments/ organisations were deprived of the benefits envisaged from the respective projects during the period of delay.

The Government stated that the Company always takes necessary care while executing the work. It further stated that the ROBs were delayed due to change in scope of tendered work, encroachment on site, non-receipt of funds, non-sanction of estimates, non-availability of land *etc*.

The reply is partial and did not address the issues/lapses highlighted in observation. Besides, during the exit conference, the Management assured to improve its procedures *viz.* use of digitisation in identification and removal of hindrances, identification of pre-activities like shifting of utilities, finalising layouts, drawings and designs *etc.* and inclusion of activity wise execution timeframe in the agreement/MOU, improvement in inter-department coordination, promptness in attending the complaints lodged by the clients *etc.* so as to avoid similar situations in future. The Government however did not mention the efforts initiated by the Company for improving its functioning/ procedures.

Further, delay/deficiencies in award and execution of the projects/works for the period 2016-19 are discussed in subsequent paragraphs **2.1.14** to **2.1.18** and **2.1.24**.

Delay/deficiencies in awarding Work Contracts

2.1.14 Scrutiny of selected cases disclosed that the Company took inordinate time in awarding work contracts for implementing three of the selected projects *i.e.* Construction of Sewerage Treatment Plant at Rajasthan Ayurvedic University, Karwar, Jodhpur (15 months), ROB at Level Crossing Number 265, Jhunjhunu (19 months) and Construction of connecting corridor between two buildings (33 months). Audit observed that the Company was not prompt in awarding the work contracts as the time taken for awarding these work contracts after execution of the MOU/agreement was significantly high. This was mainly due to inordinate time taken in finalising design/drawings/ specification, floating of tenders with incorrect specifications, non-cancellation of work order of defaulting contractors despite non-initiation of work *etc.* The deficiencies noticed in these three cases are discussed in detail in ***Appendix-6*****.**

During the exit conference, the Management promised to improve its procedures to avoid similar situations in future. The Government however did not mention the efforts initiated by the Company for improving its functioning/procedures.

Award of work to an invalid Joint Venture

2.1.15 The Unit office, Ajmer invited (December 2017) tenders for construction of elevated road scheduled to be completed by December 2019. As per qualification stipulated under Clause 4 (Instruction to Bidders) of the bid document, the bidders were required to have achieved a minimum financial turnover of ₹ 243 crore (*i.e.* equivalent to estimated cost of the work) in any one of the last five years and satisfactorily completed one work or two works or three works where value of each work shall be 80 *per cent*, 50 *per cent* or 40 *per cent* respectively of the estimated cost of work in the last five years. Further, in case of submission of bid by a Joint Venture (JV), a copy of JV agreement or letter of intent (LOI) along with proposed JV agreement was also to be furnished along with the bid. The JV agreement was to be registered so as to be legally valid and binding on the partners. Besides, the bidders were required to provide information regarding litigation, current or during the last five years, in which the bidder is involved.

Technical bid evaluation of the single eligible bidder (a JV consisting two partners *i.e.* lead partner and second partner) reflected that the lead partner in individual capacity did not have the requisite minimum annual turnover and work experience. However, the JV had the stipulated qualification criteria as the second partner fulfilled both these criteria. The Company, after approval of its Board of Directors (March 2018), awarded (April 2018) the work for ₹ 220 crore in favour of the JV with schedule commencement and completion dates as 9 May 2018 and 8 May 2020 respectively where progress of the work was to be ensured as per stipulated milestones[20]. There was no progress in the work and requisite plans *viz.* construction program, utility shifting plan, quality assurance plan *etc.* were not submitted. Hence, the Unit office issued (November 2018 and February 2019) two notices to both the partners of JV. Responding to the second notice, second partner informed (March 2019) that it was not part of the concerned project/work as it was not given any work order by the Company/the lead partner. It requested action to be taken against the lead partner for misusing its name for getting the work order. Subsequently, it also informed (May 2019) that it had lodged (April 2019) a First Information Report[21] against the lead partner.

The Unit office initiated (July 2019) a proposal to award the work to the lead partner on single entity basis in view of the dispute between JV partners. However, the Company decided (July 2019) to continue the existing contract on the recommendation of the Finance Wing as the police had filed the final report in the case. Thereafter, the Company received (6 August 2019) a notice from Delhi Police[22], issued on the complaint lodged by the second partner against the lead partner for forgery of documents and it provided the documents/ records sought by the Delhi Police.

Audit observed that the work was awarded without obtaining mandatory registered JV agreement and thus, the work contract was void as documents submitted by the lead partner for intended JV (LOI and draft JV agreement) did not have legal sanctity. The Company also overlooked compliance of another mandatory clause as information regarding involvement of JV partners in litigations was not obtained which was later revealed (9 July 2019) in the Final Report filed by the Police[23]. Further, while taking decision for continuing the work through the JV, the Company did not apply due diligence as it ignored the vital facts *viz.* non-execution and registration of JV agreement, second partner's denial of existence of JV as well as serious allegations levelled and criminal

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20 Schedule J of the agreement stipulated to achieve four milestones *i.e.* 10 *per cent*, 30 *per cent*, 60 *per cent* and 100 *per cent* of the awarded work and provided a period of 180 days for each milestone.

21 FIR lodged with Police Station, Malviya Nagar, Jaipur.

22 Police Station, Fatehpur Beri, New Delhi

23 Final Report filed by the Police Station, Malviya Nagar, Jaipur.

complaints filed by him, ongoing legal disputes[24] between both the partners, unattended deficiencies, no progress of work despite lapse of second milestone (May 2019) *etc.* The Company did not examine authenticity of the documents furnished by the lead partner. Further, decision to continue the contract was not justified as in absence of a valid agreement and refusal of the second partner, the work was being executed by the lead partner individually for which it lacked requisite competence. This is also evident from the fact that the lead partner could complete only 10.57 *per cent* work (₹ 23.25 crore) till February 2020. However, the Company allowed advantage of extending the work execution period accepting significant delay on its own part.

Thus, the decision of the Company to award and continue the work with the existing contractor was not prudent due to which it could not handover the work to the client despite lapse of MOU period. Further, even after receipt of another police complaint, the Company neither examined the serious allegation of forgery at its own nor pursued the matter with the respective police station. Thus, possibility of submission of forged documents by the lead partner for obtaining the contract cannot be ruled out.

The Government stated that since the matter was unprecedented/complicated and hence, based on the legal opinion, the Company allowed the lead partner to execute the work on single entity basis. It further stated that the registered JV agreement (executed on 31 March 2018) was furnished to Unit office on 18 June 2019. Since the former police complaint (April 2019) was found false and baseless, pursuance of another similar complaint was not needed. Further, delay in execution was not attributable to contractor as the work was delayed mainly due to delay in shifting of utilities *viz.* water and sewer pipelines, electric and BSNL cables *etc.* and 30 *per cent* of the work had been completed till February 2021.

The reply was not convincing as the Company did not furnish copy of registered JV agreement relating to the work and certificate confirming non-involvement of JV partners in legal dispute. Further, Company's decision to continue the contract through JV which in actual was got executed through an incompetent partner vitiated the entire tendering process. During exit conference, all these aspects were discussed in detail and the Management assured to furnish a supplementary reply after reviewing the case, which was still awaited **(August 2021).**

Recovery of Overhead Charges and Liquidated Damages

Unauthorised rates of overhead charges

2.1.16 The PWD, while communicating the sanction of the Governor of the State regarding award of contracts for civil engineering works directly to the Company at actual cost plus overheads basis, stated (June 2013) that for the

24 Complaint lodged by the second partner in April 2019 mentioned ongoing legal disputes pending with the National Company Law Tribunal.

works costing above ₹ 100 crore, the overheads are to be decided on case to case basis with the prior concurrence of the Finance Department, through it.

Scrutiny of records disclosed four instances wherein the Company decided the rate of overhead without obtaining prior concurrence of the Finance Department during 2016-20 as depicted in **Table 2.1.4.**

Table 2.1.4: Status of projects executed and rates of overhead charges during 2016-20

(₹ in crore)

S. No.	Description of work (present status of work)	Month in which the MOU was executed	Estimated cost of project as per MOU	Rate of overhead charges accepted by the Company (in %)	Actual cost of work
1	Construction of Medical College Campus, Sikar (WIP)	June 2017	189.00	5.00	57.30
2	Construction of ROB (elevated road), Ajmer (WIP)	December 2017	252.00	5.00	23.25
3	Construction of Medical College Campus, Bharatpur (WIP)	July 2015	139.00	6.40	139.75
4	Construction of Medical College Campus, Bhilwara (WIP)	September 2015	189.00	6.40	134.42

Source: Records of the Company.

Audit observed that the Company overrode the provisions contained in the sanction/orders issued by the PWD as it did not obtain prior concurrence of the Finance Department and irregularly recovered/booked overhead charges worth ₹ 21.58 crore against the work executed on these four projects. Thus, the Company unauthorisedly decided the rates of overhead charges in these cases.

The Government stated that the rate of overhead charges in three cases (S. No. 1, 3 and 4) was based on the *pro-rata* charges[25] allowed by the Medical Council of India.

The fact remained that the Company did not comply with the laid down process as it was not competent to decide the rates of overhead charges in these cases on its own. During the exit conference, the Management, while accepting the flaws in the process, assured to obtain *post-facto* approval of the Finance Department. However, further details were not furnished.

Short levy of Liquidated Damages (LD)

2.1.17 Clause 49 of the Standard Bidding Document (SBD) read with Section 4 (Contract Data) of SBD provides for levy of LD for delay in completion of work at the rate of 0.05 *per cent* per day of the initial contract price for whole work and the price specified in the milestone for non-achievement of specified milestone respectively subject to maximum LD of 10 *per cent* of the initial contract price. Further, considering the fact that LD was not being levied/ deducted as per contract agreements, the Company directed (18 August 2017) the heads of all the Unit offices to ensure deduction of LD from the running payments of the contractors as per provisions of the contract.

25 6.40 *per cent* (including consultancy charges at 1.40 *per cent*).

During review of records relating to one selected Unit office (Jodhpur-I), Audit observed that the Unit office did not evolve a mechanism to work out delay attributable to the contractor in timely manner by maintaining/updating the hindrance register from time to time and to deduct applicable LD as per the directions issued by the higher management. Audit noticed that seven of the nine selected contracts relating to the Unit office could not be completed within the stipulated time and the same were under progress despite lapse of overall completion period. Audit noticed that delay in execution of these seven contracts ranged from 258 days to 825 days. As each of these cases had delay beyond 200 days, therefore the Unit office was expected to deduct maximum LD (*i.e.* 10 *per cent* of the contract price) in each of these cases. Audit noticed that gross value of these seven contracts worked out to ₹ 31.98 crore and the Unit office released ₹ 19.33 crore against the running bills submitted by the contractors for these seven works. Accordingly, the maximum LD deductible for these contracts worked out to ₹ 3.20 crore. However, in five cases, the Unit office did not deduct any LD whereas in remaining two cases, the amount recovered on account of LD (₹ 0.32 crore) was lesser than the LD deductible as per relevant norms. Therefore, these seven work contracts involved short recovery of LD worth ₹ 2.88 crore. Thus, in none of these seven cases, the Unit office ensured compliance of the Management's directions which led to short/ non-recovery of LD from the contractors.

One of these seven cases where despite non-achievement of the milestones and delay in completing the work, the Unit office deducted lesser LD worth ₹ 1.94 crore is discussed in ***Appendix-7***.

The Government did not furnish reply to the observation.

Procurement of cement for construction activity

2.1.18 Section 36 (Rate contract) of the Rajasthan Transparency in Public Procurement (RTPP) Act 2012 provides that a procuring entity may choose to engage in a rate contract procedure where it determines that the need for the subject matter of procurement is expected to arise on an indefinite or repeated basis during a given period of time. Besides, procedure of rate contract under Rule 29 (2) of the RTPP Rules 2013 *inter alia* provided that a procuring entity may award a rate contract through open competitive bidding or through other procurement method with recorded reasons. The period of rate contract shall be generally one year, preferably a financial year. Further, reasons for selecting other period for rate contract shall also be recorded. The prices under a rate contract shall be subject to price fall clause[26]. The new rate contract shall become operative right after the expiry of the existing rate contract without any gap and in case it cannot be concluded in time due to unavoidable reasons, the existing rate contract may be extended on same price, terms and conditions for

26 It is a price safety mechanism in rate contracts and it provides that if the rate contract holder quotes/reduces its price to render similar goods/works/services at a price lower than the rate contract price to anyone in the State at any time during the currency of the rate contract, the rate contract price shall be automatically reduced with effect from the date of reducing or quoting lower price, for all delivery of the subject matter of procurement under that rate contract and the rate contract shall be amended accordingly.

a period not exceeding three months. However, in such cases, it shall be ensured that market prices of the subject matter of procurement have not fallen down during the period.

Cement is one of the key materials used in construction activity. As per practice *in vogue*, the Company places all the construction contracts exclusive of cement supply and the cement required for executing a project is provided to the contractor by the Company itself. To meet the requirement of cement, the Enquiry wing (previously done by the Business Promotion and Monitoring wing upto September 2019) obtains bi-annual requirement of cement from all the Unit offices and places rate contracts on cement manufacturers/suppliers for procurement of cement. As per provisions contained in the rate contracts executed with the cement manufacturers/suppliers, supply of cement was to be arranged on the basis of requirement submitted by its Unit offices through confirmed supply orders from time to time which were to be placed directly on the supplier under intimation to the Enquiry Wing. Further, the supplier was required to furnish information of the supplied quantity to the Enquiry Wing every week.

Scrutiny of records relating to procurement of cement disclosed following shortcomings/deficiencies in the procurement system adopted by the Company:

Non-compliance of provisions of RTPP Act/Rules

2.1.19 The provisions relating to contract period and price fall contained in the RTPP Act/Rules in respect of rate contracts, safeguard a procuring entity from the possible losses that arise due to fluctuations in the rates of the procured item. The period prescribed for rate contract provides consistency in rates for a specific duration and avoids the losses due to increase in the rates on shorter intervals whereas the price fall clause helps in averting the losses due to reduction in rates during the currency of a rate contract.

During 2016-17 to 2019-20, the Company awarded 10 rate contracts for procurement of Portland Pozzolana Cement (PPC) and Ordinary Portland Cement (OPC) as given in ***Appendix-8.*** Audit observed that the period adopted for these rate contracts ranged between three and six months. Further, despite having continuous requirement of cement for construction activity throughout 2016-20, the Company, instead of procuring cement for a period prescribed in the RTPP Rules 2013, adopted shorter periods for executing the rate contracts. However, no reasons for adopting shorter periods for the rate contracts were found in the records of the Company.

Audit also observed that the Company could not safeguard itself from the fluctuations as it did not include price fall clause and other provisions to monitor the fluctuating rates of cement. Further, there were continuous fluctuations in the contracted rates in short intervals. Audit also observed that on most occasions, the Company extended period of the rate contracts (including one occasion when the rate contract was extended beyond the maximum extension limit of three months) after expiry of the original contract period as it failed either in timely finalisation of the new rate contract or in availing the ordered quantity within the original contract period. The Company also did not monitor the market rate of cement before extending the rate contracts.

Further, the Enquiry Wing did not ensure collection and compilation of information relating to supply orders placed by the Unit offices from time to time. The suppliers also did not furnish information relating to cement supplied to the Unit offices on weekly basis. Resultantly, the Company could not provide information relating to demands raised and supply accepted against these rate contracts to Audit. Scrutiny of records disclosed that none of selected Unit offices (except Unit office, Alwar) maintained the requisite cement procurement register and therefore, did not provide month wise information relating to demands raised and supply received during 2016-20. Therefore, in the absence of requisite information, impact of not adopting contract period as per provisions of the RTPP Act/Rules and resultant regular fluctuations in the contracted rates could not be quantified in Audit. However, impact assessment of two test checked cases (*i.e.* rate contracts executed for PPC and OPC in February 2019) disclosed that the Company incurred avoidable expenditure of ₹ 2.20 crore due to procurement of cement at higher rates as detailed in ***Appendix-9***.

Thus, the Company failed not only in complying with the provisions of the RTPP Act/Rules relating to rate contract but also in controlling the regular fluctuations in the contracted rates of cement to safeguard its financial interest.

The Government stated that looking at market fluctuations, the tenders were floated for short period *i.e.* three to six months. It further stated that on expiry of each tender, the Company carried out market surveys and extended the supply periods as per Rule 73 (3) of RTPP Rules 2013. It also stated that project wise cement procurement registers were maintained by the Unit offices at respective project sites.

The reply was not convincing as compliance of the statutory provisions relating to award of rate contracts was mandatory. Further, Rule 73 (3), quoted in the reply, was not pertinent as it describes provisions for placing orders for additional quantity only. Moreover, the reply given as regards maintenance of cement procurement register was factually incorrect as only one of the six selected Unit offices provided the cement procurement register. Further, the reply was silent on the issues of non-inclusion of price fall clause in rate contracts and non-maintaining of cement supply data by the Enquiry wing.

Performance of Mechanical Unit

Under-utilisation of newly purchased machines

2.1.20 As per norms[27] adopted by the Company, economic life of Batch Mix plants, diesel generator (DG) sets, dumpers/tippers and vibrator rollers is to be 12 years whereas economic life of sensor pavers is to be 15 years. Further, utilisation periods/distance prescribed for construction machinery were 9,000

27 Revised norms of economic life of road/bridge construction machines issued (December 1993) by the Roads Wing, Ministry of Surface Transport, GoI.

hours (Batch Mix plants and sensor pavers), 10,000 hours (DG sets and vibrator roller) and 2,40,000 kilometres (dumpers/tippers).

The Company made budget provisions of ₹ six crore and ₹ 2.31 crore for purchase of new construction machines during the year 2016-17 and 2017-18 respectively. In order to utilise the budgets, the Mechanical Unit of the Company proposed to procure certain machines (including one batch mix plant, DG sets, sensor pavers, dumpers/ tippers *etc*.) during the respective financial years. It also proposed to utilise these machines in the construction activities performed by the Company. Accordingly, the machines were procured with approval of the competent authority.

During review of records, it was noticed that the Mechanical Unit could not ensure full utilisation of construction machines purchased during 2016-20 as per the adopted norms as shown in **Table 2.1.5**:

Table 2.1.5: Utilisation of construction machines purchased during 2016-20

Machine	Quantity (Nos.)	Month in which machine was procured	Cost of machine (₹ in lakh)	Standard utilisation (in hours or KMs)	Actual utilisation (in hours or KMs)	Utilisation (in %)
Batch Mix Plant	1	March 2017	207.55	2252	675	30
DG Set 320 KV	2	February 2017	46.68	5132	923	18
DG Set 30KV	1	March 2017	5.08	2502	1302	52
DG Set 15/25 KV	2	March 2019	0.35	1671	0	0
Sensor Paver	1	March 2017	64.62	1802	1674	93
Dumpers/Tippers	6	March 2017	139.74	360329	146778	41
Dumpers/Tippers	6	July 2018	187.90	200219	1052	1
Vibrator roller	1	April 2016	22.34	3265	1963	60
Total			**674.26**			

Source: Information provided by the Company.

It could be seen that the Mechanical Unit did not utilise six dumpers/ tippers (except operating for registration and fitness purpose only) and two DG sets worth ₹ 1.88 crore till March 2020 despite lapse of 21 months and 12 months respectively from purchase of these machines/equipment. Further, utilisation of other machines (except sensor paver) having acquisition cost of ₹ 4.21 crore ranged between 18 *per cent* and 60 *per cent* during the same period.

Audit observed that the Company procured the construction machines without having a proper plan for executing the works on departmental basis. This is evident from the fact that after procurement of these machines, the Company executed only one departmental work[28] with the help of these machines. Besides, in absence of proper assessment of requirement, six dumpers/tippers procured (2018-19), in addition to the dumpers/tippers procured in 2016-17, remained idle. Thus, faulty planning of departmental works led to non-utilisation/under-utilisation of the machines and the Company could not achieve the very purpose of procuring these machines despite incurring significant expenditure on their acquisition. Audit further observed that despite directions of the higher management (July 2019), the Company could not ensure alternate use/renting out of these machines till August 2020.

28 Construction of Dudu-Malpura-Todaraisingh (Upto Chann) Road.

The Government stated that considering volume of road renewal works proposed for 2017-22, the machines were procured but the same could not be utilised as all the projects got hampered due to adverse financial condition of the Company. Besides, despite several efforts, no contractor showed interest in using/hiring the machines. The BoD had recently issued directions to utilise the machine for atleast one renewal work every year.

The fact remained that inadequate planning by the Company resulted in non-utilisation of machines till March 2021.

Financial Management, Quality Control and Monitoring

Financial Management in Construction Contracts

Execution of works in excess of available funds

2.1.21 For carrying out construction activities smoothly, collection of funds in advance from the client departments/organisation is a primary requirement to avoid possibility of occurring hindrance due to paucity of funds. Further, it also provides financial security by avoiding possibility of financial loss in case of disputes with the clients at a subsequent stage.

The COPU recommended (2015-16) a mechanism to be evolved to issue the final bill to the client department immediately after completion of the concerned project. Accordingly, the Company issued (December 2015 and April 2016) directions to all the Unit offices to ensure deposit of entire amount by the client departments/organisations before issue of final bill as in certain incidents delay in issue of final bill caused non-receipt of payment from the client departments/organisations. It also directed that in no case expenditure should exceed the amount deposited by the client department. The Company reiterated (May 2016) its earlier instructions and directed that recovery of outstanding dues in time, through regular pursuance with the client departments, was to be ensured and the efforts made for recovery were to be reported to the Head office.

Scrutiny of records of the selected cases disclosed seven instances where expenditure was incurred in excess of the funds provided by the client department/organisations as detailed in ***Appendix-10***. It could be seen from the appendix that in these seven cases, the Company released (upto August 2020) ₹ 137.82 crore on account of construction works carried out by the respective contractors against funds of ₹ 114.35 crore received from the client departments/organisations. Thus, the Company incurred ₹ 23.47 crore in excess of the available funds which was in contravention to the directions laid down by the Company as well as recommendations made by the COPU.

Audit observed that four of these seven projects had already been completed and handed over to the respective client department/organisation. However, the concerned Unit office could not recover the outstanding dues relating to these projects despite lapse of period ranging between seven months and 19 months from handing over of these projects. Besides, after exceeding the expenditure significantly, the concerned Unit office belatedly withheld execution of two projects whereas remaining one project was still under progress. This indicates that despite clear directions, the Unit offices did not evolve a mechanism to control the expenditure within the limit of available funds. Resultantly, the expenditure incurred in excess of the available funds hampered the financial interest of the Company. The Unit offices also failed in effecting recovery of the dues relating to these projects.

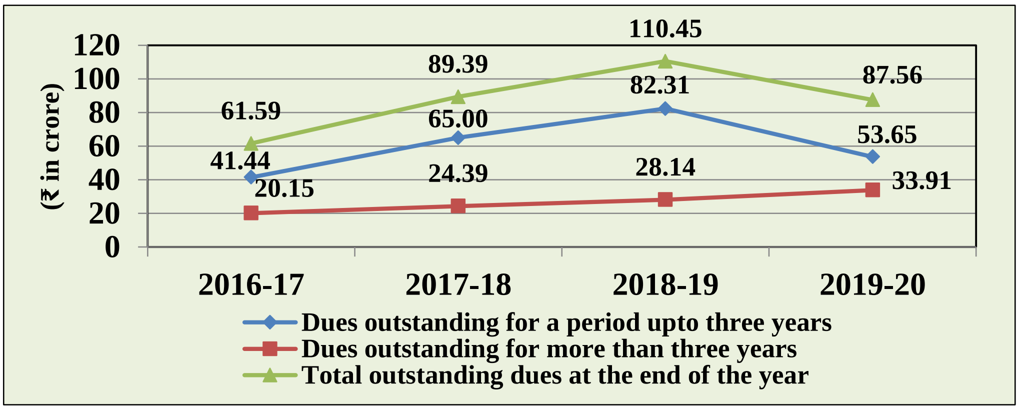
Audit also observed that the Company could not enforce the COPU's recommendations in true spirit as it did not monitor compliance of the directions/circulars by the Unit offices. Thus, the directions/circulars remained ineffective.

The Government in reply furnished status of two cases which did not pertain to the observation and therefore the reply was not relevant. The fact remained that the Company executed works in excess of funds in violation of COPU's recommendations.

Outstanding dues of the Company as a whole

2.1.22 Review of financial statements of the Company disclosed that as on 1 April 2016, the Company had recoverable dues worth ₹ 60.97 crore of which dues of ₹ 43.16 crore pertained to a period ranged upto three years whereas remaining amount of ₹ 17.81 crore was pending for recovery for more than three years. Further, position of dues recoverable at the end of the year disclosed in financial statements for the period 2016-17 to 2019-20 is given in **Chart 2.1.9.**

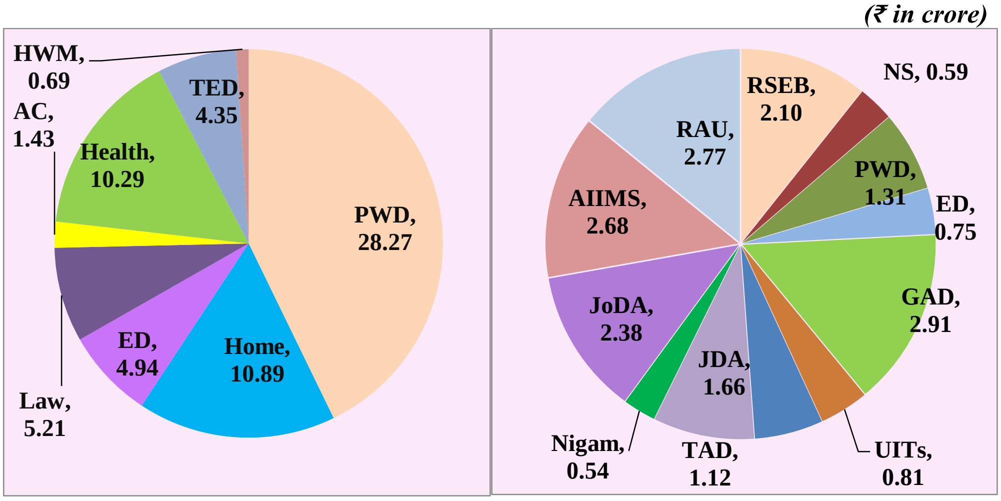
Chart 2.1.9: Position of dues recoverable from clients during 2016-17 to 2019-20



The outstanding dues at the end of the year 2019-20 declined slightly as compared to previous year, but there was steep increase in outstanding dues during 2016-19. This indicated that the Company executed works during the period without ensuring receipt of corresponding funds from the respective client department/organisation. Further, 38 *per cent* of the total outstanding dues as on 31 March 2020 were pending for more than three years which reflected that execution of works without ensuring approval of the client and availability of funds in advance hampered recovery of considerable dues of the Company. The client departments/organisations against which dues worth ₹ 0.50 crore or more were outstanding as on 31 March 2019[29] are given in **Chart 2.1.10** (dues outstanding for a period upto three years) and **Chart 2.1.11** (dues outstanding for more than three years).

Chart 2.1.10 and 2.1.11: Clientwise[30] outstanding dues as on 31 March 2019

(₹ in crore)



Audit observed that the Company had written off its dues worth ₹ 3.60 crore[31] during 2019-21.

The Government accepted that the BoD of the Company decided to write off the long pending dues as the concerned projects had already been closed and it had made all efforts to realise the dues. However, the reply did not address the core issue of continuous increase in outstanding dues due to not confining the expenditure as per availability of funds.

Deficient system for recovery of long pending dues

2.1.23 During review of records relating to selected six Unit offices, Audit observed that four Unit offices[32] had outstanding dues worth ₹ 8.40 crore as on 31 March 2020 which were outstanding for more than three years. These dues were recoverable from three urban development authorities/trusts (₹ 3.18 crore) and four State PSUs/departments (₹ 0.63 crore). Besides, another major part of these dues pertained to three departments/organisations of the Central Government (₹ 2.99 crore), two urban development authorities/municipal corporations belonging to other State Governments (0.52 crore) and one

29 Consolidated figures of client wise outstanding dues for the period ended 31 March 2020 were not available with the Company.

30 Public Works Department (PWD), Home Department (Home), Medical, Health and Family Welfare Department (Health), Law and Judiciary Department (Law), Education Department (Education), Technical Education Department (TED), Hydrolic & Water Management Department (HWM), Agriculture College (AC), General Administration Department (GAD), Rajasthan Ayurved University (RAU), Jodhpur Development Authority (JoDA), Jaipur Development Authority (JDA), Tribal Area Development Department (TAD), Rajasthan State Electricity Board (RSEB), Urban Improvement Trusts (UITs), Navodaya School (NS) and Nagar Nigam (Nigam).

31 ₹ 1.87 crore in 2019-20 and ₹ 1.73 crore in 2020-21.

32 ₹ 2.14 crore of Unit office, Alwar, ₹ 2.60 crore of Unit office, Jaipur-II, ₹ 3.41 crore of Unit office, Jodhpur-I and ₹ 0.25 crore of Unit office, Ajmer-I.

nationalised bank (₹ 0.17 crore). The dues, which were pending for a period ranging from three years to 25 years, could not be recovered in the absence of relevant details/records or refusal of such claims by the concerned clients.

Audit further observed that the Head Office of the Company could not corroborate its claims as it did not have client/department wise consolidation of dues and did not pursue the issue with the client departments/organisations periodically. Inadequate recovery efforts forced the Company to write off its significant dues worth ₹ 1.32 crore[33] during 2020-21 which belonged to 13 clients of four selected Unit offices. Non-recovery of dues from the client departments/organisation controlled by the State Government indicates that the Company did not make adequate and concrete efforts by conducting periodical meetings to take up the matter at appropriate level of the State Government.

Audit further observed that while writing off the dues, the Company itself accepted the facts that the dues could not be recovered due to incurring expenditure in excess of the sanctioned amount, executing extra items and disputes on the rates of centage charges. Further, in certain cases, it could not execute recovery as either the concerned projects/schemes had already been closed or funds were not available under these scheme/projects. This indicated that the Company did not ensure necessary financial arrangements with the concerned client departments/organisations before extension/amendments in the work contracts at its level.

The Government while accepting the observation stated that vigorous efforts are being made to recover the old dues from clients.

During the exit conference, the Management stated that client/department wise consolidation of dues had been maintained and assured to provide the same to audit. Such details were awaited **(August 2021)**. Further, the Company did not address the core issue of ensuring recovery as per laid down norms in future.

Quality Control

2.1.24 Quality control (QC) is part of quality management that ensures products and services comply with the requirements. It facilitates measuring the quality characteristics of a work, comparing them with the established standards and in analysing and correcting the differences between the results obtained and the desired results. It is a vital tool as performance of an organisation involved in construction sector has direct correlation with quality of the executed works. Besides, Technical specifications define the type of controls that must be carried out to ensure proper execution of the work. Further, the Company follows the norms/guidelines prescribed by the Ministry of Road Transport and Highways (MORTH) for construction of roads and bridges.

33 It is part of the dues written off (₹ 1.73 crore) during 2020-21.

Norms for carrying out inspections

2.1.25 The Company determined (January 2012) norms[34] for inspections to be carried out on monthly basis to ensure quality of works to be executed.

Review of records disclosed that the Company did not maintain any database of actual inspections carried out by the designated officers {except Project Director (QC)} in a month. In the absence of requisite records, it could not be ensured that the norms for inspections were complied with by these designated officers.

The Government stated that inspection reports along with details of total number of inspections carried out and inspection days were maintained by the QC wing on monthly basis. The reply was, however, silent in respect of monthly inspections carried out by the other designated officers.

Non-monitoring/follow up of Inspection Reports on quality control

2.1.26 The QC wing carries out physical inspection of works/projects and issues Inspection Report (IR) mentioning the shortcomings found during inspection. Thereafter, the concerned Unit office is required to rectify the deficiencies pointed out in the IR and submit the Action Taken Report (ATR) to the QC wing. The number of IRs issued by the QC wing during 2016-20 and ATRs submitted by the Unit offices till 31 March 2020 is given in **Table 2.1.6.**

Table 2.1.6: Status of IRs issued vis-à-vis ATRs submitted during 2016-20

Year	IRs issued by the QC wing (Nos.)	ATRs submitted by the Unit offices till 31 March 2020 (Nos.)	Cases where ATRs had not been submitted by the Unit office till 31 March 2020 (Nos.)
2016-17	427	418	9
2017-18	205	180	25
2018-19	320	259	61
2019-20	207	108	99
Total	**1159**	**965**	**194**

Source: Information provided by the Company.

It could be seen that out of 1159 IRs issued by the QC wing during 2016-20, the Unit offices submitted ATRs in 965 cases (83 *per cent*) only whereas ATRs in 194 cases had not been submitted till 31 March 2020. A test check of IRs relating to five selected building works[35] reflected various deficiencies in construction activity *viz.* improper reinforcement of beams, incorrect installation of air vents and incorrect/absence of offset of PCC. Moreover, there were cases of hollow in stone masonry work, absence of specified combined gradation of coarse aggregates in job mixes, undersized paitam, poor quality of mortar and poor grading of cement concrete *etc*. Further, the IRs highlighted other deficiencies *viz.* lack of requisite testing, absence of footing plan, inoperative cube testing machine, absence of contractor's site engineer, non-maintenance of quality control/daily cement consumption registers, execution

34 General Manager/Chief Project Manager (9 days), Deputy General Manager (9 days), Project Director (9 days), Project Director QC (10 days).

35 ITI buildings at Shergarh and Lohawat, Residential (Police) quarters at Jodhpur and Alwar and Administrative and Examination Block at Matsya University, Alwar.

of works not covered in BOQ *etc*. Further, in one of these five works, the client department during joint inspection highlighted that the work had several deficiencies due to improper supervision and instituted a third-party inspection where several deficiencies in the work were highlighted.

Audit observed that ATRs for these 194 IRs remained pending for a period ranging upto four years. This indicates that the Company was not prompt in monitoring the deficiencies pointed out during the inspections carried out by its QC wing. Further, in absence of ATRs relating to these 194 IRs, Audit could not assess whether the deficiencies highlighted by the QC wing had been removed by the concerned Unit office. Thus, the quality aspects of these works could not be verified in Audit. Audit also observed that the QC wing neither monitored the corrective action reported in the ATRs submitted by the Unit offices nor ensured follow up action on the IRs issued by it. Besides, the Company did not evolve a mechanism to monitor the efficiency and effectiveness of the quality control inspections conducted by the QC wing. This indicates that the quality control mechanism adopted by the Company was not fully functional and effective.

The Government stated that there was only one pending ATR. It further stated that the IRs effectively pointed out the deficiencies/defects in execution which indicate the mechanism adopted was functioning effectively.

The figures of IRs and ATRs mentioned in the reply differed significantly from the figures provided to Audit during the course of audit. The issue was highlighted during the Exit Conference where the Management promised to recheck the figures and furnish revised reply. Revised reply from management was awaited **(August 2021)**. Further, the reply did not address the deficiency highlighted in the observation.

Lack of Quality Control in road works

2.1.27 The MORTH follows the Indian Road Congress (IRC) codes and other Indian Standards (IS) codes relating to construction of roads and bridges and also issues certain circulars/guidelines from time to time. Section 5 (technical specifications) of the agreements executed for the road works stipulates that all the items of work included in the scope of work will be executed as per MORTH specifications for road and bridge work (5th revision 2013), relevant IRC/IS codes and the circulars/guidelines issued by MORTH from time to time. The MORTH specifications[36] specified that in order to maintain the quality aspect, the minimum quantum of bitumen content in construction of Dense Bituminous Macadum (DBM) and Bituminous concrete (BC) roads are to be 4.50 *per cent* and 5.40 *per cent* respectively of the mass of the total mix.

The Unit office executing the construction works are primarily liable for testing the quality of works at site and Unit's laboratory. Besides, the QC wing prepares and communicates the detailed test results/reports to the Unit offices for ensuring overall quality of work at their level as per the laid down norms.

36 Table 500-10 and Table 500-17 relating to construction of Dense Bituminous Macadum (DBM) and Bituminous concrete (BC) respectively.

Analysis of test results/reports prepared by the QC wing during 2016-19 in respect of 19 road works (including three selected roads[37]) showed that the percentage prescribed for use of bitumen content in construction of respective roads ranged between 4.50 *per cent* and 4.72 *per cent* for DBM parts (except one work where percentage of bitumen content was 4.25 *per cent*) and between 5.40 *per cent* and 6.01 *per cent* for BC parts of the roads. Audit observed that the QC wing obtained samples of DBM from 155 chainages and BC from 137 chainages belonging to these roads and tested these samples at the central laboratory of the Company. The test results/reports prepared for these samples reflected that samples of DBM in 96 chainages and BC in 91 chainages showed use of lesser bitumen content in construction of these roads. The percentage of bitumen content used in these substandard chainages was lesser than the specified Bitumen content of respective roads and ranged between 2.45 *per cent* and 4.71 *per cent* in DBM parts and between 4.23 *per cent* and 5.98 *per cent* in BC parts. In one[38] of the three selected roads, thickness of BC core in all the eight sampled chainages was lesser than the thickness prescribed in the respective bills of quantity. Further, in case of 16 roads, the number of substandard chainages ranged upto 12 for DBM parts as well as BC parts. This indicates that the respective Unit offices failed to ensure quality control in construction of these roads during the course of construction as the laid down norms/MORTH specifications have been violated in all the 18 cases.

Audit further observed that despite communication of test reports relating to the two selected roads by the QC wing, the Unit office, Ajmer-I did not take any cognisance to the reports/results as records relating to corrective action taken by the Unit office had not been provided to Audit. Further, the Company did not evolve a mechanism to monitor the actions taken by the Unit offices on the basis of inputs provided by the QC wing. Thus, the objective of instituting the QC wing remained unachieved.

The Government accepted that the Unit offices did not submit any report as most of the test results were found satisfactory. It also accepted that the action taken reports were not properly monitored by the QC wing. In one of the highlighted cases (*i.e.* sample detecting bitumen content at 2.45 *per cent*), it claimed that the concerned stretch was reconstructed but did not furnish any supporting document for verification. Further, the reply was silent regarding corrective action taken in respect of other sub-standard cases highlighted in the observation. Government was also silent about action taken against departmental officers and contractors for sub-standard work.

Joint Physical Inspection of one selected road project

2.1.28 Audit conducted (July 2020) joint physical inspection of one of the selected roads[39] (completed in June 2019) with the Company's representatives[40] wherein following deficiencies in construction of the road were noticed:

37 (i) Dudu-Malpura-Todaraisingh-Chann road (ii) Todaraisingh-Bhaghera-Kekri road and (iii) Sikar-Jhunjunu-Luharu Road.

38 Sikar-Jhunjunu-Luharu Road.

39 First 50 KMs of Dudu-Malpura-Todaraisingh (Upto Chann) Road.

40 Heads of the concerned Unit office (Tonk) and QC wing.

- Detailed technical estimates proposed to construct interlocking blocks/ granular sub-base (GSB) shoulder of 2.5 metre on both sides of the road alongside the entire road and covered cement concrete drain on both sides of the road along with the interlocking blocks. During the inspection, it was observed that the contractors did not provide interlocking blocks/GSB shoulders/drains alongside the road as per the prescribed technical estimates as these were either found missing on certain places or lacked uniformity alongside the road. Further, on certain trenches, depth alongside the road was measured upto 30 centimetres/one foot as depicted in **Image 1 and Image 2.**

Image 1: Missing interlocking blocks/GSB shoulder/drain

Image 2: Depth alongside the road

- During the joint inspection, an unconstructed stretch (60 metres) was found which indicated that satisfactory completion of the work considered by the Company was not correct as shown in **Image 3 and Image 4**. Responsibility may be fixed for the deficiency.

Image 3: Unconstructed stretches of the road

Image 4: Unconstructed stretches of the road

- Maintenance and clear approach (including GSB/interlocking) was to be ensured by the concerned contractor during the currency of DLP[41].

41 From June 2019 to June 2022.

However, during the joint inspection, thick bushes covering the GSB were noticed from the starting point of the road (Dudu village) to Malpura curve. As it was a newly constructed road, construction work of the road was found almost in good condition however unattended pits were found on the road at certain locations. Since the road was under DLP, the contractor was to ensure proper maintenance and clear approach of the road which was not done as shown in **Image 5 and Image 6**.

Image 5: Bushes alongside the road

Image 6: Pits on the road

The Government stated that construction of GSB/interlocking, removal of bushes and repair of damaged shoulders have now been carried out by the concerned contractor.

The fact remained that the Company did not ensure satisfactory completion and proper maintenance of the road as per provisions of the work contract. The reply was also silent in respect of the stretch which was left unconstructed.

Maintenance and Monitoring of Key Records

Non-maintenance of Hindrance Register

2.1.29 During detailed scrutiny of the selected 42 cases, Audit noticed that the concerned Unit offices did not prepare Hindrance Register in respect of five works as discussed in ***Appendix-11.***

Non-obtaining mandatory program/updated program of construction

2.1.30 During review of records relating to selected 42 works, Audit observed that in case of 21 works the concerned Unit offices did not make efforts either to obtain the program/updated program or to withheld the stipulated amount from the payments released to these contractors. Further, in 20 cases, the Company did not incorporate the clause for submission of program/updated program in the concerned construction contracts. The deficiencies noticed in Audit are discussed in detail in ***Appendix-11.***

Non-obtaining insurance policy from contractors

2.1.31 As per clause 13 of the SBD, the contractor was required to provide, in the joint names of the Company and the contractor, insurance cover from the start date of a work contract to the end of defect liability period (DLP) for the events which are due to the contractor's risk *viz.* (i) loss of or damage to the works, plant and materials; (ii) loss of or damage to equipment; and (iii) loss of or damage of other properties; and (iv) personal injury or death. The policies and certificates for insurance were to be delivered by the contractor to the Engineer for approval before the start date. It further provided that if the contractor does not provide any of the policies and certificates required, the Company may affect the insurance to be provided by the contractor and recover the premiums paid from the payments due to the contractor. The shortcomings noticed in not obtaining insurance cover from the contractors are highlighted in ***Appendix-12.***

It could be seen from the appendix that in six cases, the contractors did not furnish insurance cover throughout the currency of the contracts/from inception of the contracts whereas in remaining cases, the contractors furnished insurance cover with significant delay. Further, the concerned Unit offices did not exercise the option to obtain/renew the insurance cover on their own as provided in the SBD/agreement.

Thus, non-enforcement of the stipulated provisions defeated the very purpose of their incorporation and financial security of properties carrying significant value was compromised.

Out of 20 cases highlighted in the observation, the Government provided status of receipt of insurance policies in six cases only including those two cases (S. No. 14 and 20 of the appendix) where the policies had been obtained recently. In other four cases (S. No. 16 to 19 of the appendix), the Company accepted that the policies were either obtained after commencement of work or from the actual date of commencement of work rather than the start date of a work contract. However, the reply did not give detailed status of insurance policies in remaining 14 cases and reasons for non-enforcement of the corrective measures by the Unit offices as per provisions of the concerned SBD/ agreement.

Management Information System (MIS)

2.1.32 For efficient and effective execution of the undertaken projects, there has to be a Management Information System (MIS) to report on the periodic progress of their implementation. Progress of the ongoing projects need to be reviewed to ensure timely completion and handing over of the project by taking corrective steps to remove the deficiencies and hindrances in execution. The Enquiry Wing of the Company collects monthly progress of the projects from all the Unit offices and puts all the information collected for a month together in shape of a monthly progress report.

Audit observed that the system was deficient and did not serve any purpose as the information so collected was neither compiled nor submitted to the higher management of the Company. In the absence of periodic compilation and submission of the progress reports, there existed no system to review and monitor the progress of the works in a periodic manner and to take steps to remove the hindrances in the projects. Besides, the Company did not have a mechanism to monitor the performance of its Unit offices in a periodic manner. Absence of necessary mechanism to monitor and control the performance led to inefficiencies and ineffectiveness in implementing the projects. This is evident from the fact that execution of most of the selected works got delayed beyond the period envisaged in the respective MOU, financial sanction and work contracts and several deficiencies in execution of these works were noticed as discussed under **paragraphs 2.1.14 to 2.1.18 and 2.1.24**. Further, the BoD was not informed about progress of the works under execution and resultantly, pace of the works was not reviewed at its level. Audit also observed that the Company did not make efforts to adopt a robust and effective MIS and monitoring mechanism to help the management in proper monitoring of the projects.

The Government stated that the Chairman and the Managing Director of the Company convene review meetings/periodic meetings from time to time wherein progress of works, position of dues *etc.* are reviewed. Further, the BoD is also apprised about the budgetary targets in March and the hindrances in achieving the targets at the time of finalisation of accounts every year.

The reply is not convincing as it was silent on the issue of absence of robust and effective MIS and monitoring mechanism and the deficiencies highlighted in the observation. During the Exit Conference, the Management, while accepting the audit observation, assured to modify its MIS so as to ensure proper monitoring at higher management level. However, the reply was silent on the initiatives taken by the Company in this regard.

Conclusion

Achievement of Objectives

- The objective behind instituting the Company was to act as a specialised agency for carrying out construction activities, and thus ease the financial burden on the Government. This remained unmet, as the Company had a very limited share *i.e.* only 11.36 *per cent* in roads and bridges constructed in the State.

Adoption of Advanced Techniques and Sustainable Practices

- The Company did not evolve a mechanism to explore/adopt technologically advanced, eco-friendly and sustainable practices and thus not only lost the opportunity of controlling the construction/ repairing cost of the roads but also failed in disposal of plastic waste which is hazardous to the environment.

Execution of Projects

- The Company was not prompt and effective in executing the undertaken projects as per the schedules envisaged in MOA/work orders as there were instances of delay in awarding (from 15 months to 33 months) and executing the projects (upto 43 months in 54 *per cent* of the completed projects). Further, it did not analyse the reasons of delay, to take effective steps for avoiding the time overrun in implementation of projects.

Compliance of provisions of RTPP Act/Rules

- The Company did not maintain the requisite documents to assess the procurement and supply of cement. Further, the Company failed in complying with the provisions of the RTPP Act/Rules relating to rate contract and also in controlling the regular fluctuations in the contracted rates of cement to safeguard its financial interest.

Utilisation of newly purchased machines

- Six dumpers/ tippers and two DG sets worth ₹ 1.88 crore were not utilised for 21 months and 12 months respectively from purchase.

Financial Management

- Financial management of the Company was not robust as directions of the State Government for charging overhead was not complied with. Directions of the COPU relating to restricting the execution of works to the level of funds received was also not ensured as the Company released ₹ 23.47 crore in excess of the available funds in selected seven cases. Further, levy of liquidated damages as per the terms and conditions of the work orders and recovery of outstanding dues from the clients (₹ 87.56 crore as on 31 March 2021) was also not ensured.

Management of Quality Control

- Audit analysis revealed that Unit offices failed to ensure quality control as the laid down MORTH/Company's specifications for bitumen content in construction of road have not been adhered to in respect of 18 road works.

- Further, efficacy and effectiveness of the quality control inspections carried out by the QC wing was not monitored.

Oversight and Monitoring

- System for monitoring the progress of the works in a periodic manner and taking corrective steps for removal of the hindrances was not ensured.

Recommendations

The Company may:

- *institute Research & Development cell to explore/adopt technological advancements in construction activities;*
- *Explore opportunities to enhance business beyond deposit works;*
- *Maintain IT database to keep close watch on construction activities;*
- *Ensure disciplinary action against the officers responsible for serious lapses in the tendering and award of work contracts;*
- *Ensure charging of overheads and restricting the expenditure as per the directions/recommendations of State Government /COPU;*
- *Ensure digitisation of the entire process of procurement, supply and issue of cement so that adequate control on the cost component could be exercised;*
- *Evolve a mechanism to ensure efficiency and effectiveness of quality control inspections; and*
- *Develop a mechanism for periodic review of the works.*

Rajasthan State Industrial Development and Investment Corporation Limited

2.2 Avoidable payment of interest of ₹ 6.24 crore

The Company delayed in initiating action to adhere to the provisions of the Income Tax Act which led to payment of avoidable penal interest of ₹ 6.24 crore.

Income Tax Act (IT Act) 1961 *inter alia* provided that:

Liability for payment of advance tax (Section 207)

Tax shall be payable in advance during any financial year (FY) in respect of the total income of the assessee which would be chargeable to tax for the assessment year (AY) immediately following that FY.

Instalments of advance tax and due dates and Interest for defaults/deferments

Advance tax shall be payable by the assessee in four instalments[42] during each FY (Section 211). Further, simple interest shall be charged for the period of default at the rate of one *per cent* for defaults in furnishing return on income (Section 234A[43]), defaults in payment of advance tax (Section 234B[44]) and deferment of advance tax (Section 234C[45]).

The extended due date for filing ITR (except for the purpose of interest for furnishing return under Section 234A[46]) under Section 139 of IT Act 1961 for the FY 2018-19 (AY 2019-20) was 31 October 2019. Besides, the Ministry of Corporate Affairs (MCA), GoI reintroduced[47] (28 March 2018) Ind AS-115

42 First Instalment (due on or before 15 June), Second Instalment (due on or before 15 September), Third Instalment (due on or before 15 December) and Fourth Instalment (due on or before 15 March) where the amount payable shall not be less than 15 *per cent*, 45 *per cent*, 75 *per cent* and 100 *per cent* respectively of such advance tax, as reduced by the amount/amounts, if any, paid in earlier instalment/instalments.

43 Where the return of income for any assessment year is furnished after the due date, the assessee shall be liable to pay simple interest at the rate of one *per cent* for every month or part thereof belonging to period of delay, on the amount of the tax on the total income as reduced by the amount of advance tax and tax deducted/collected at source.

44 Where, in any financial year, the advance tax paid by the assessee is less than ninety *per cent* of the assessed tax, the assessee shall be liable to pay simple interest at the rate of one *per cent* for every month or part thereof belonging to period of delay.

45 Where the advance tax paid by the assessee on or before the respective due date of payment of instalment is less than the prescribed percentage of the tax due on the returned income, then, the assessee shall be liable to pay simple interest at the rate of one *per cent* per month for a period of three months on the amount of the shortfall of the tax on the returned income.

46 The due date for filing ITR for this purpose was 30 September 2019.

47 MCA notified (15 February 2015) the Companies (Ind AS) Rules 2015 for introducing the Ind AS w.e.f. 1 April 2016 and omitted (30 March 2016) the Ind AS 115: Revenue from Contracts with Customers through the Companies (Ind AS) (Amendment) Rules, 2016. Then again notified the Companies (Ind AS) (Amendment) Rules, 2018 for reintroducing the Ind AS-115.

which was to be applied to all the contracts with customers {except Lease Contracts within the scope of Ind AS 17 (Leases) *etc.*} and was to be effective from the financial periods beginning on or after 1 April 2018.

The Finance Wing of Rajasthan State Industrial Development and Investment Corporation Limited (Company), for the purpose of assessment of advance tax payable for FY 2018-19, prepared (June 2018 to March 2019) quarterly budgetary estimates of its total profit/income, total taxable income and tax payable for the year as detailed in ***Appendix-13***. It accordingly deposited the four instalments of advance tax on the total taxable income so assessed as depicted in appendix.

Meanwhile, the Company appointed (December 2018) a Consultant[48] for providing consultancy services for implementing Ind AS and preparing Ind AS compliant financial statements for the FY 2018-19. As the Company could not finalise its Ind AS compliant financial statements, it assessed (25 October 2019) the Indian Generally Accepted Accounting Principles (IGAAP) results[49] for FY 2018-19 and filed the ITR for the year based on the IGAAP results by claiming refund of tax worth ₹ 24.46 crore[50]. To comply with the new Ind AS, the Company also assessed (25 October 2019) additional profit of ₹ 207.25 crore for the previous years ended upto 31 March 2018. Accordingly, the Company, after adjusting the expected refund, deposited (30 October 2019) ₹ 54.59 crore with the ITD, GoI towards its balance tax liability. Thereafter, the Company finalised its Ind AS compliant financial statements for FY 2018-19 in November 2019.

Later, the Company, based on its revised financial results[51], filed (June 2020) revised ITR with the ITD, GoI consisting of penal interest of ₹ 6.24 crore paid in accordance with Section 234A, 234B and 234C of the IT Act 1961.

Audit observed that:

1. The Company did not initiate efforts to avail in-house expertise/outsource consultancy services for incorporating the impact of Ind AS at the inception of FY 2018-19 itself for assessing correct original/revised budgetary estimates for the year which led to incorrect budgetary estimates for depositing the advance tax.

2. The Company, despite being aware of the delay in finalisation of Ind AS compliant financial statements by incorporating impact[52] of adopting Ind AS-115 and Ind AS-17, did not assess the IGAAP based financial results in time and filed the original ITR with delay of around one month. Resultantly, it incurred penal interest of ₹ 0.45 crore for default/delay in filing the ITR under Section 234 A of the IT Act 1961.

48 To whom the work of preparation of financial statements for the FY 2017-18 was assigned previously.
49 Total taxable income of ₹ 104.05 crore and total tax liability of ₹ 36.36 crore.
50 ₹ 57.73 crore paid towards advance tax - ₹ 36.36 crore.
51 Total taxable income of ₹ 303.14 crore and total tax liability of ₹ 112.17 crore as per Ind AS complied financial statements.
52 Profits to be occurred from valuation of land component on fair value.

3. In the absence of correct estimation, the Company kept on depositing advance tax instalments based on incorrect budgetary estimates. Resultantly, the Company deposited only ₹ 57.73 crore of advance tax against correct tax liability of ₹ 105.93 crore. Further, due to continuing defaults/deferments till October 2019, it incurred penal interest of ₹ 5.79 crore under Section 234 B and 234 C of the IT Act 1961 for the underpayments of instalments/total tax for the year.

Thus, the absence of a mechanism to correctly estimate the financial results considering the changes/modifications in the Companies (Indian Accounting Standards) Rules 2015 and delay in finalization of financial statements resulted in payment of avoidable penal interest of ₹ 6.24 crore.

The Government stated (July 2021) that due to applicability of Ind AS-115 and concurrent application of Ind AS-17, the Company had to rework the revenue from allotment of land with retrospective effect for past years. For this, fair value of land compensation paid on concessional/nil value had to be worked out for all the industrial areas which required substantial time and effort. It further stated that the Company theoretically agreed to the audit observation but due to certain bottlenecks *viz.* unique working, non-existence of any peer case/guidance note and impossibility of estimating fair value of land compensation and revenue since inception during 2018-19 itself, estimation of revised revenue as per new Ind AS at the beginning of 2018-19 was not feasible. Resultantly, estimation of correct profit and advance tax payable for the year was constrained. It further accepted that in the absence of in-house expertise, retrospective application of new Ind AS was carried out after end of 2018-19 by availing consultancy services which led to higher profits worth ₹ 207.25 crore for previous years and additional tax and interest during 2019-20.

The Government's response was not convincing as major part of the entire exercise as well as total impact on profits belonged to the prior periods (*i.e.* periods ended upto 2017-18) and the exercise relating to the prior period workings could have been initiated at the commencement of 2018-19 itself and finalized in the 2018-19 itself. Further, the Company, instead of initiating prompt action to comply with mandatory statutory requirements, commenced the requisite exercise after the end of concerned FY 2018-19. The Company could have avoided/minimized the expenditure of ₹ 6.24 crore incurred towards non-compliance of provisions of the IT Act 1961, if it had initiated prompt action for adhering to the laid down income tax provisions.

Rajasthan Rajya Vidyut Utpadan Nigam Limited

2.3 Lack of adequate checks and balances led to short receipt of idle freight worth ₹ 1.90 crore

Two Thermal Power Stations (STPS[53] and KTPS[54]) of the Company did not put in place adequate checks and balances and resultantly, failed in identifying non-adjustment of GST on the idle freight reimbursed by SECL for 2017-20. Due to lack of proper internal checks, Company suffered a minimum loss of ₹ 1.90 crore.

Rajasthan Rajya Vidyut Utpadan Nigam Limited (Company) owns two coal based thermal power plants[55] for generation of electricity. For meeting fuel requirement of these power plants, the Company executed (July 2020/ August 2009) Fuel Supply Agreements (FSAs) with South Eastern Collieries Limited (SECL) and Northern Coalfields Limited (NCL), subsidiaries of Coal India Limited (CIL), to procure coal for a period of 20 years (*i.e.* 2009-10 to 2028-29). As per FSAs, the contracted quantity of coal was to be supplied from the source mines of SECL/NCL to the concerned power plants during the currency of the FSA. The FSA also provided that for transportation of coal through Rail, the Company was to book wagons based on the payment arrangement made with the Railways. Accordingly, freight chargeable on the transportation of coal was to be paid by the Company to the Railways.

Clause 10 of the FSAs stipulated *inter alia* that for nine grades[56] of coal, any idle freight for under-loading below the stenciled carrying capacity[57] is to be borne by SECL/NCL. For all other grades of coal, any idle freight for under-loading below the stenciled carrying capacity plus two tonnes, is to be borne by SECL/NCL. Idle freight resulting from under-loading of wagon is to be adjusted in the respective bill. It further stipulated that idle freight is to be reckoned as:

- for the nine grades of coal specified in this clause, the difference between the freight charges applicable for the stenciled carrying capacity less the freight payable as per actual recorded weight of coal loaded in the wagon; and/or

- for all other grades of coal, the difference between the freight charges applicable for the stenciled carrying capacity plus two tonnes less the freight payable as per actual recorded weight of coal loaded in the wagon.

During Audit, records relating to procurement of coal from SECL for the two power plants (STPS, Suratgarh and KTPS, Kota) of the Company during

53 Suratgarh Thermal Power Station (STPS) at Suratgarh
54 Kota Thermal Power Station (KTPS) at Kota.
55 STPS and KTPS.
56 Grade A, Grade B, Steel Grade I and II, Washery Grade-I and II, Semi-coking Grade I and II and Washed Coal.
57 Stenciled Carrying Capacity is the carrying capacity shown on the wagon or the carrying capacity based on the actual tare weight, as the case may be.

2017-20 were reviewed. Status of procurement of coal and under-loading of coal involved in the procurement during the Service Tax regime[58] (April 2017 to June 2017) and Goods and Service Tax (GST) regime (July 2017 to March 2020) is indicated below:

Period	Procurement of Coal		Under-loading of Coal	
	Quantity (in tonnes)	Value (₹ in crore)	Quantity (in tonnes)	Value (₹ in crore)
Service Tax (Pre-GST) regime	392107.73	100.86	11851.92	1.55
GST Regime	5633600.13	1383.86	175157.51	36.51
Total	**6025707.86**	**1484.72**	**187009.43**	**38.06**

During the period 2017-20, SECL supplied total 60.26 lakh tonnes of coal worth ₹ 1484.72 crore to these two power plants of the Company. The entire procurement was done through the Rail mode. Against the coal supplies executed for the period, SECL raised rake-wise invoices on STPS and KTPS from time to time. SECL adjusted/deducted value of the idle freight in each invoice which was worked out by it towards under-loading of coal relating to the coal supply pertaining to the respective invoice. SECL, through its invoices, adjusted idle freight worth ₹ 1.55 crore and ₹ 36.51 crore towards under-loading of coal worked out against the supplies executed during the Pre-GST regime and GST regime respectively.

During test check of invoices raised by SECL during 2017-20, Audit observed that railway receipts clearly depicted that the freight charged by Indian Railways for transportation of coal from the source mine to the power plants consisted of Service Tax/GST[59] whereas value of the idle freight adjusted by SECL through invoices, was not exhaustive as it did not include the tax component. This indicates that the Company received reimbursement of idle freight from SECL at the rates lesser than the freight rates charged from it by the Indian Railways. Resultantly, the Company did not receive reimbursement of ₹ 1.90 crore[60] from SECL on account of the service tax/GST paid to the Indian Railways on the value of corresponding idle freight during 2017-20.

It could be concluded from the above that:

- The Company could not identify and ensure recovery/adjustment of the tax component worth ₹ 1.90 crore from SECL for 2017-20 due to lack of proper internal checks. Besides, the short recovery pointed out in Audit for Pre-GST regime has been computed for a test checked period. Further, the irregularity had recurring effect on the supplies to be received from 2020-21 onwards. Therefore, actual amount of short reimbursement of idle freight may be higher than the amount reported in this observation.

- During test check of invoices raised by both the coal suppliers (SECL and NCL), instances were noticed where the quantity of under-loading

58 This includes a period of three months selected for reviewing the records on test check basis.

59 Service Tax at the rate of 4.50 *per cent* during April 2017 to June 2017 and GST at the rate of 5.00 *per cent* during July 2017 to March 2020.

60 4.50 *per cent* of ₹ 1.55 crore + 5.00 *per cent* of ₹ 36.51 crore.

considered for computation and adjustment of idle freight varied from the difference of stenciled carrying capacity and actual recorded weight of coal loaded in the wagon. However, management could not clarify reasons of such variance during audit. Therefore, possibility of further short adjustment in such cases cannot be ruled out but the quantum of short adjustment, if any, cannot be quantified in audit in absence of requisite details.

The Government, in reply, accepted (March 2021) the facts and stated that SECL is being pursued for issue of credit notes for idle freight, however no response in this regard has been received from SECL till date. It further stated that both the plants have also been directed to work out the actual value of short reimbursement for obtaining requisite credit notes from SECL. The Government further assured to take up the matter with SECL and to intimate the further developments in the matter to the Audit.

The fact thus remained that the Company suffered a minimum loss of ₹ 1.90 crore due to short adjustment of idle freight on under-loading of coal.

Recommendations

The Company should quickly rework the actual value of short adjustment of idle freight and ensure recovery/adjustment of the amount so computed from SECL at the earliest. Besides, it should take corrective action to avoid recurrence of such irregularities in future.

Jaipur Vidyut Vitran Nigam Limited, Ajmer Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited

2.4 Mandatory pre-requirements of obtaining administrative approval and government guarantee were bypassed for availing loans worth ₹ 4,121 crore

Three DISCOMs availed loans worth ₹ 4,121 crore without adhering to the mandatory pre-requirements of obtaining administrative approval and arranging guarantee on loans from the State Government. Irregular financial behaviour of DISCOMs deprived them of discount in interest worth ₹ 9.36 crore. The DISCOMs also incurred ₹ 35.13 crore on guarantee commission paid for a period during which the guarantees extended by the State Government were not valid.

The three[61] electricity distribution companies (DISCOMs) of the State avail term loans (secured/unsecured) from financial institutions (FIs)/banks for meeting their fund requirement from time to time. For security of the unsecured loans including working capital loans (WCLs), the DISCOMs arrange guarantee from the State Government in favour of the respective FI. In return, the State Government charges guarantee commission from DISCOMs as per the State

61 Jaipur Vidyut Vitran Nigam Limited (JVVNL), Ajmer Vidyut Vitran Nigam Limited (AVVNL) and Jodhpur Vidyut Vitran Nigam Limited (JdVVNL).

Grant of Guarantees Regulations 1970. While seeking government guarantee, the DISCOMs are required to furnish documents and to disclose vital information to the State Government to comply with the provisions/parameters prescribed under the Rajasthan Fiscal Responsibilities and Budget Management (RFRBM) Act, 2005. Besides, the DISCOMs are expected to comply with the pre-disbursement conditions *viz.* execution of Memorandum of Agreements (MoAs), security document (guarantee deed) *etc.* prescribed in the loan sanction letters issued by respective FIs. Accordingly, the DISCOMs are expected to comply with the following process in a systemic manner for raising the loans:

Sanction of Loan/Issue of Loan Sanction Letter

Administrative Approval of the Energy Department, GoR

Execution of MoA (Pre-disbursement condition)

Execution of Security Document/Government Guarantee (Pre-disbursement condition)

Disbursement of Loan

The three State DISCOMs availed six WCLs (₹ 5808 crore[62]) from the two FIs[63] during 2016-18. These loans were availed for meeting the operational requirements relating to outstanding power purchase liabilities.

As per the pre-disbursement conditions of the loan sanction letters, the DISCOMs were required to execute MoAs and thereafter, to create security documents *i.e.* guarantee deed carrying unconditional, continuing and irrevocable guarantee of the State Government for payment/repayment of dues in favour of FIs. The guarantee deeds so executed were to be submitted to the FIs before availing disbursement of the concerned loans. The loan sanction letters and MoAs of these loans provided for a discount of 25 basis points (BPS) over and above the effective interest rate (*i.e.* 0.25 *per cent* per annum) which was to be given for the government guarantee after its submission[64] and the same was to become effective from the effective date of such guarantee. One FI (PFC) was to charge additional interest on the outstanding amount at one *per cent* per annum for delay in the creation of the security/ guarantee deed.

The applications for these six WCLs were moved simultaneously on 20 December 2016. Details relating to four of these six WCLs which were availed without ensuring government guarantee are given as under:

62 Three loans worth ₹ 2,904 crore {*i.e.* JVVNL (₹ 1,217 crore), AVVNL (₹ 776 crore) and JdVVNL (₹ 911 crore)} from each FI.

63 Power Finance Corporation Limited (PFC) and Rural Electrification Corporation Limited (REC).

64 In case of REC loan, grace period of 45 days was allowed for furnishing guarantee deed.

(₹ in crore)

S. No.	Name of DISCOM	Date of Sanction	Date of MoA	Date on which loan was availed	Loan sanctioned and availed
A. Loan from Power Finance Corporation Limited (PFC)					
1	JVVNL	30 December 2016	1 February 2017	7 February 2017 and 2 March 2017	1,217
2	AVVNL	30 December 2016	1 February 2017	7 February 2017 and 2 March 2017	776
3	JdVVNL	30 December 2016	1 February 2017	7 February 2017 and 2 March 2017	911
				Total A	**2,904**
B. Loan from Rural Electrification Corporation Limited (REC)					
4	JVVNL	9 February 2017	15 March 2017	25 September 2017	1,217
				Total B	**1,217**
				Total (A+B)	**4,121**

Source: Records of the DISCOMs.

It was noticed that after sanction of these loans, the DISCOMs' Borrowing Committees granted (19 January 2017 and 6 March 2017) approvals (i) for obtaining the loans and (ii) for requesting the State Government to convey its concurrence and issuing government guarantee *etc.* which was also ratified (February-March 2017) by their Boards of Directors (BoDs). Instead of initiating proposals for obtaining administrative concurrence and government guarantee, the DISCOMs obtained (February 2017) permission of PFC for extending the period of furnishing guarantee deeds and allowing withdrawal of three loans belonging to it without charging additional interest leviable for delay in submission of guarantee deeds. Thereafter, the DISCOMs, after executing the MoAs, withdrew the entire loan amount of ₹ 2,904 crore[65] upto 2 March 2017. The fourth loan (S. No. 4) was availed from REC on 25 September 2017.

Meanwhile, the DISCOMs belatedly forwarded (23 March 2017 to 31 March 2017) individual proposals to the Department of Energy, GoR (DoE) and sought administrative concurrence of the State Government in respect of all the four loans. The DISCOMs also requested the DoE for arranging government guarantee on these loans through the Finance department (FD). The DoE, being administrative department of the DISCOMs, conveyed (19 April 2017) administrative concurrence for obtaining the loans and also forwarded (20 April 2017) the cases to the FD for issuing government guarantee on these loans. The FD returned (May 2017) all the proposals and sought updated information/documents[66] pertaining to current year (2017-18) as information/ documents furnished with the proposals had become obsolete. The FD also sought clarification on inordinate delay in forwarding the proposals. However, despite several correspondences (May 2017 to July 2017), the DISCOMs could not furnish complete information/ documents and satisfactory clarification on the queries raised by the FD. Further, the fact of withdrawing entire loan amount (₹ 2,904 crore) belonging to PFC was also belatedly disclosed to the FD in July

65 ₹ 2,240 crore on 7 February 2017 and ₹ 664 crore on 2 March 2017.

66 BoDs' resolutions containing amount of government guarantee required during 2017-18 and estimated balance of loans at the end of 2017-18, updated position of outstanding government guarantee in 2017-18, quarterly loan withdrawal schedules *etc.*

2017. Resultantly, the FD returned (27 July 2017) all the four loan files moved for obtaining government guarantee.

After several rounds of submissions, meetings and communications held (September 2017 to February 2018) among the DISCOMs, the DoE and the FD, the DISCOMs once again resubmitted (March 2018) the proposals by assuring the State Government that (i) the DISCOMs will deposit guarantee commission on the outstanding dues from the date of withdrawal of loans; and (ii) the limits prescribed under the RFRBM Act, 2005 would have not been affected due to withdrawal of the loans. The State Government executed (28 March 2018) guarantee deeds for all these loans in favour of the respective FIs. The FD, while forwarding these guarantee deeds, communicated to the FIs about effectiveness of their validity from the date of withdrawal of respective loans. Besides, the FD demanded guarantee commission on these guarantees from the DISCOMs. The DISCOMs also forwarded (31 March 2018) the guarantee deeds to the FIs by claiming refund of discount in interest rate, which was admissible for submission of guarantee deeds, from the date of withdrawing the loans and requested (upto September 2018) time and again for the refund but all the requests remained un-responded. Meanwhile, DISCOMs deposited (April 2018) ₹ 35.13 crore (*i.e.* ₹ 29.04 crore for PFC loans + ₹ 6.09 crore for REC loan) towards guarantee commission on the loans for the period ended upto March 2018. Later, after being pointed out (November 2018/January 2019) in Audit, DISCOMs again claimed (December 2018/June 2019) discount worth ₹ 8.13 crore from PFC for its three loans. PFC declined (January/June 2019) to extend the discount stating that its policy allows extending such discount from the date of execution of guarantee deeds only. Further, in case of fourth loan, REC demanded (June 2018) ₹ 1.23 crore on account of additional/penal interest as it also did not admit the discount in interest rate till execution of guarantee deed which was deposited in October 2019. The DISCOMs also requested the State Government for refund of guarantee commission paid for the period during which the loans were considered unsecured but the same was also denied (September 2019) by the GoR.

Audit observed that:

1. All the three DISCOMs bypassed the standard procedure prescribed in the sanction letters/MoAs as the loans were availed without complying with the mandatory pre-disbursement condition of creating security document/ guarantee deed in favour of the FIs. Negligence of DISCOMs is apparent from the fact that in case of three loans availed from PFC, none of the three DISCOMs even moved proposals for obtaining administrative approval and arranging government guarantee before availing these loans.

2. Inordinate delay in initiating (23-31 March 2017) the proposals for obtaining government concurrence and government guarantee and submission of these proposals at fag end of the financial year (2016-17), hampered timely receipt of guarantee on the loans.

3. Further, the DISCOMs while submitting initial proposals, did not disclose the vital fact that three of the four loans worth ₹ 2,904 crore, for which government guarantee were being sought, had already been availed from PFC.

4. There exists no legal provision which allows furnishing of guarantee on the loans from retrospective effect. Thus, the DISCOMs' claims for availing discount on the basis of retrospective effectiveness of the guarantee deeds were not valid. Resultantly, the claims were denied by both the FIs.
5. After receipt (15-16 March 2018) of government guarantee, the DISCOMs immediately availed (27 March 2018) the remaining two loans (fifth and sixth loan for ₹ 1,687 crore). This indicates that DISCOMs were having urgent requirement of funds for their financial commitments. The DISCOMs were however forced to defer withdrawal of these loans despite having financial commitments with higher interest obligations.

Audit observed that obtaining administrative approval and arranging government guarantee are vital parts of loan raising process as they not only involve statutory compliance but also have significant financial implication. Further, disclosure of correct and complete facts before the State Government in time also assumes significance as the State Government depends on these facts for maintaining its fiscal and budgetary parameters/obligations as per laid down laws. However, the three DISCOMs did not evolve proper controls to avoid non-compliance of such vital provisions/conditions.

The Government stated (March 2021) that due to severe liquidity crisis and urgency of funds for meeting power purchase liabilities, the DISCOMs availed the loans before moving the cases for obtaining government guarantee which helped them in meeting their commitments. Besides, the DISCOMs could not deviate from the drawal schedules as deviation would also have attracted equivalent penalty (0.25 *per cent*). It further stated that delay in issuing guarantees and condition of charging guarantee commission from retrospective effect were not in the control of the DISCOMs as the FD, due to its internal FRBM constraints, took almost one year in granting the guarantees and provided for charging guarantee commission from actual date of availing the loans. While accepting the observation, two DISCOMs (AVVNL and JdVVNL) assured to comply with the mandatory pre-requirements in future. It also stated that JVVNL had disclosed correct and complete facts before the FD, GoR.

The fact remained that the DISCOMs ignored the mandatory pre-requirements as they initiated proposals for obtaining administrative approval and arranging government guarantee after availing the loans. Resultantly, the DISCOMs were not only deprived of discount worth ₹ 9.36 crore but also had to incur guarantee commission of ₹ 35.13 crore for a period during which the concerned government guarantees were not valid.

Recommendations

The DISCOMs should:

- *plan their borrowings in such a manner so that they can raise funds in a timely manner;*
- *comply with the mandatory requirements/procedures scrupulously and introduce proper controls/checks to avoid violation thereof in future.*

Jodhpur Vidyut Vitran Nigam Limited

2.5 Non-mapping of business rules led to short levy of penalty/ charges

Non-mapping of business rules/formula in the billing system and computation of excess drawal of energy and penalty amount manually led to short levy of penalty/charges for excess capacity utilisation to the tune of ₹ 2.80 crore.

The Rajasthan Electricity Regulatory Commission (RERC) notified (May 2010 and January 2016) the RERC (Tariff for sale of power by Captive Power Plants to distribution licensees) Regulations, 2010 (Regulations 2010) and the RERC (Terms and Conditions for Open Access) Regulations, 2016 (Regulation 2016) respectively. These regulations provided that:

- **Standby and start up supply during a month shall be billed at temporary supply tariff on daily basis as per tariff for supply of electricity approved by RERC as applicable to HT large industrial supply service. {No. 7(4) of Regulations 2010};**

- **in case of over drawal, the open access[67] consumer shall be required to pay charges for the excess capacity utilized[68] for the entire month equal to the same percentage of the fixed and energy charges[69] by which percentage the excess demand has actually been availed during the month. {No. 21 (v) of Regulation 2016}; and**

- **the open access consumer shall restrict the sum of his total drawal from all sources (including open access and the Company) up to the total sanctioned contract demand with the Company. Further, if the actual drawal in a block is higher than the admissible drawal, then the percentage excess drawal shall be calculated on the admissible drawal and the highest percentage of such excess drawal of all blocks during a month shall be considered as excess capacity (demand) utilized during that month and shall be billed as per regulation 21(v). (No. 26 of Regulations 2016).**

In compliance with Regulation No. 9 of Regulations 2016, Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL), with the approval of RERC, issued (May 2016/May 2018) the 'Procedure for Grant of Open Access' to provide open access to the transmission/distribution system of the Company/RRVPNL. Clause 8 of Section 3 relating to Procedure for Short Term Open Access reiterated the provisions of Regulation No. 21 (v) and 26 and illustrated the formula for working out 'percentage excess drawal[70]' which is as under:

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67 As per the Electricity Act 2003, Open Access means the non-discriminatory provision for the use of transmission lines or distribution system or associated facilities with such lines or system by any licensee or consumer or a person engaged in generation in accordance with the regulations specified by the Appropriate Commission.

68 Computed in the manner specified in Regulation No. 26 of Regulations 2016.

69 Fixed and energy charges are to be computed on the rates specified in the tariff orders in force.

70 Refers to percentage of excess drawal when actual drawal is more than the total admissible drawal.

Percentage Excess Drawal	**Actual Drawal - Total Admissible Drawal[71] X 100** **Total Admissible Drawal or Contract Demand whichever is lesser**

Audit noticed that Jodhpur Vidyut Vitran Nigam Limited (Company) appointed (September 2009) an IT implementation agency (Developer) for implementation of Restructured Accelerated Power Development and Reforms Programme (R-APDRP). The scope of work included development of metering and billing collection (MBC) module wherein the Developer was required to provide business rules framework to enable the Company to design, build, compose and manage its business rules and policies. The Company framed rules in accordance with the tariff rules and regulations issued by RERC from time to time and issued necessary circulars/office orders to the Developer for mapping the business rules in the MBC module. Therefore, the business rules/formulae for computing the energy charges, fixed charges, various penalties *etc.* were to be mapped in the MBC module itself so that the chances of revenue loss/short recoveries resulting from incorrect computations involving human intervention may be avoided.

During scrutiny (November 2019) of records of HT consumers of the Company, Audit noticed that it entered (September 2007) into an agreement with a Large Industrial HT Consumer (Consumer) to supply electricity at the premises of the consumer upto Regular Maximum Demand of 1000 kVA (*i.e.* Contract Demand) and Standby Supply upto a maximum demand of 6250 kVA[72] (*i.e.* Standby Demand). Audit further noticed that due to forced outage (21 August 2019) in the Consumer's captive power plant, the Consumer exceeded the total admissible drawal (7250 kVA) as the actual drawal was recorded at 19763.20 kVA during a particular time block on the day. The Monthly Energy Bill raised on the Consumer for August 2019 depicted that the Company had charged ₹ 48.58 lakh on the Consumer towards charges/ penalty for excess capacity utilisation during the month and the same were deposited by the Consumer.

Audit observed that the Company did not map the business rules/formulae approved by RERC for computing the percentage excess drawal in the MBC module and thus, the Company depended on its Regulatory Affairs & Commercial (RA&C) Wing[73] for computing the charges/penalty leviable for excess capacity utilisation manually which always involved scope for human error/interference in computation of significant revenue, risking non-recovery/ short recovery of applicable charges/penalties.

Audit also observed that in the instant case, the formula applied by the RA&C wing for working out the percentage excess drawal in the monthly energy bill of the consumer for August 2019 was incorrect as:

71 Sum of Contract Demand and Scheduled Captive Use/Standby Contract Demand.
72 Earlier the standby demand was 4250 kVA which was extended on 20 September 2017.
73 It collects billing data, prepares energy bills of consumers (including HT consumers) through billing software and carry out adjustments in the bills.

i. the RA&C wing used incorrect denominator *i.e.* 7250 kVA instead of using correct denominator *i.e.* 1000 kVA {*i.e.* lesser of the Contract Demand (1000 kVA) and Total Admissible Drawal (7250 kVA)} while applying the formula. Resultantly, the percentage excess drawal (172.59 *per cent*) worked out in the bill was incorrect as the correct percentage excess drawal was to be 1251.32 *per cent.*

ii. the penalty/charges for excess capacity utilisation had been worked out by using sum of total energy charges and total fixed charges (including energy and fixed charges belonged to standby demand) at the prevailing tariff rates instead of using the sum of energy charges and fixed charges belonging to contract demand only.

iii. After adoption of correct percentage excess drawal and adoption of correct formula, the penalty/charges to be levied for excess capacity utilisation worked out at ₹ 3.29 crore instead of ₹ 0.49 crore. Thus, computation of incorrect percentage excess drawal and incorrect penalty amount led to short levy of the penalty/charges to the tune of ₹ 2.80 crore.

iv. After being pointed out (22 November 2019) in Audit, the Company debited (14 December 2019) the consumer's account with the short-recovered amount which was deposited by the Consumer on 18 December 2019.

v. The Consumer had previously exceeded (8435 kVA) the total admissible capacity during April 2014. At that time, the Company manually applied the formula and computed the penalty and the computations were correct. However, for avoiding the manual interference in future, the Company was expected to take corrective action to strengthen its billing system by mapping the formula in the billing software at occurrence of the first instance itself, which was not ensured. This indicates that the Company did not develop its monitoring mechanism/strengthen the billing system so as to avoid repetitions of similar problems/challenges.

Thus, non-mapping of the business rules/regulations/parameters/formulae prescribed by RERC in MBC module and continuing to deal with the cases manually even after identifying the system lapses/deficiencies, led to revenue loss which could be made good only after being pointed out by Audit. Since, Audit was not in a position to identify and comment other instances, if any, involving similar lapses/deficiencies. Hence, the Company is expected to conduct a comprehensive exercise and take corrective action in all such identified cases under intimation to Audit.

The Government stated (June 2021) that keeping in view the audit observation, directions have been issued for mapping the business rules prescribed by the RERC for standby supply provision in the billing system/software to avoid manual calculation. It further stated that the Company is developing its monitoring mechanism so as to avoid repetition of similar problems/challenges.

The work of strengthening the billing system and carrying out comprehensive exercise to identify similar cases is under process.

The fact remained that due to non-mapping of business rules/formula in the billing system and relying upon manual computation of significant penalties, the Company's financial interest was put at risk.

Jaipur Vidyut Vitran Nigam Limited

2.6 Distribution Franchisee Arrangements

Introduction

2.6.1 The Government of India (GoI) constituted (November 2010) a task force[74] for exploring scope and nature of private participation in power distribution with the objective of harnessing private sector investment and associated efficiencies. The task force, in its report, proposed (July 2012) two models for allowing private participation in power distribution sector which are as under:

Public Private Partnership (PPP) model	• In the PPP model, the concessionaire, selected through competitive bid, is to be responsible for all distribution-related functions from purchase of power from suppliers of its own choice and supply to end users, to billing and collection along with other functions like maintenance, operation and upgradation of the distribution network and supply of electricity to the regulated consumers. Its objectives are to ensure zero power cuts and affordable distribution tariff and to reduce T&D losses. This model is to be consisitent with the Electricity Act (licensed business) and to allow full regulatory oversight.
Franchisee Model	• The distribution franchisee (DF) model allows state-owned DISCOMs to use private parties to perfrom specific functions mainly billing and revenue collection. An area is tendered out to the highest bidder (any private company) by the state distribution company (DISCOM) which manages billing and collection on behalf of the DISCOM. The franchise has to ensure a targeted collection on electricity dues for the period of the contract it signs with the DISCOM for the particular area.

74 The task force was constituted under the chairmanship of Member, Planning Commission, GoI.

The GoI launched (October 2012) Scheme for Turnaround of State DISCOMs[75] having mandatory condition of preparation of roadmap for involving private sector in power distribution sector of State through franchisee or any other private participation mode. The State Government constituted (February 2015) a State Task Force (STF) for advising/ assisting on power sector reforms. The STF, considering constraints in implementing PPP model in the State, suggested (March/June 2015) the State Government to adopt/ implement distribution franchisee (DF) model in a phased manner. The STF, on the basis of information furnished by Jaipur Vidyut Vitran Nigam Limited (Company) and the other two State DISCOMs, suggested to take up three DF areas each in first phase and second phase (including two DF areas *i.e.* Kota City and Bharatpur City and one DF area *i.e.* Alwar Circle of the Company in Phase-I and Phase-II respectively). The Company also opted for 'Input *plus* Investment based Franchisee Model' for implementing the DF arrangements in selected DF areas.

Input *plus* Investment based Franchisee Model

Under this franchisee model, the franchisee buys electricity from the utility at defined input points, which may be at any voltage level and pays electricity charges at Bulk Supply Tariff. The electricity supplied/purchased is metered regularly at weekly or monthly intervals. The franchisee operates in the assigned area as an agent of distribution licensee; and it has to perform all obligation of licensee envisaged in the Electricity Act, 2003 and other regulations. The benefits of this model are revenue protection, assured efficiency improvement, relief from having to make capital investment in the assigned area and guaranteed network condition/consumer service *etc.* Therefore, this model is considered as the most robust franchisee model among all.

The Company awarded (September 2014) the work of preparing the Request for Proposal (RFP) document to PDCOR Limited, pursuant to the decision taken in the meeting of STF as well as decision on DF model. After approval of RFP by the Corporate Level Purchase Committee (CLPC), the tenders were invited (October 2015) for appointing the DFs in Kota city and Bharatpur city. Subsequently, the Board of Directors (BoD) of the Company approved (December 2015) the RFP by modifying some conditions. Based on the technical and financial evaluation of the bids, Kota Electricity Distribution Limited (KEDL) and Bharatpur Electricity Supply Limited (BESL), joint venture of CESC Limited, were appointed (May 2016) as DF for Kota and Bharatpur city respectively and accordingly DF agreements were executed (17 June 2016) with KEDL and BESL for a period of 20 years from the effective date *i.e.* 1 September 2016 and 1 December 2016 respectively.

75 The Scheme was attached with the Final Restructuring Plan 2012 of the GoI.

Audit objectives

2.6.2 The present study was conducted (October 2020 to December 2020) to assess implementation of distribution franchisee arrangements in the Company. The audit objectives were as under:

- **to evaluate the efficacy of the DF model adopted and DF area selected;**
- **to evaluate whether the provisions/clause of the agreements executed with DFs were well defined and applied adequately to safeguard the financial interest of the Company;**
- **to assess performance of the Company in selection of DFs, execution of the DF agreements and achievements of the envisaged benefits; and**
- **to evaluate performance of DFs with reference to implementation of DF agreement.**

Audit findings

2.6.3 The audit findings relating to selection of Distribution Franchisee area/circle, execution of DF agreements, implementation of DF agreements, recovery of dues from DFs, *etc.* are discussed in **paragraphs 2.6.4 to 2.6.9.**

The audit findings were communicated (June 2021) to the Government/ Company. The reply furnished (August 2021) by the Government has been suitably incorporated.

Selection of Distribution Franchisee area/circle

2.6.4 The Company distributes electricity in 13 circles[76] of 12 districts of Rajasthan. In order to create a visible impact of private sector participation in power distribution and a credible mass, the STF recommended (29 April 2015) to take up approximately 25 *per cent* of the total volume of energy consumption for the private sector participation through PPP mode/Distribution Franchisee. Further, it also recommended to draw appropriate clusters considering high and moderate loss areas. The Energy Department, Government of Rajasthan sought (30 April 2015) information of clusters/sub-divisions having high/moderate losses from the three DISCOMs.

The Company while providing the clusters/ sub-divisions/ circle-wise information of category wise consumers, energy sold, revenue realization, T&D losses for the year 2014-15, also proposed (June 2015) three cluster/sub-division *viz;* Kota city, Bharatpur city and Alwar circle having high/moderate losses. Based on the information provided by the Company, the STF decided (June 2015) to take up Kota city and Bharatpur city in the first phase and Alwar circle in second phase, to be rolled out by October 2015 and January 2016

76 Alwar, Baran, Bharatpur, Bundi, Dausa, Dholpur, Jaipur (City) Jaipur (District), Jhalawar, Karauli, Kota, Sawaimadhopur and Tonk.

respectively. The clusters identified and approved in Phase-I were awarded (May 2016) on DF model.

The Circle-wise position of the AT&C losses for the year ending on 31 March 2015 was as under:

Table 2.6.1: Details of circle-wise AT&C losses during FY 2014-15

Sl. No.	Name of circle	AT&C losses for the year 2014-15	Rank for the year
1.	Alwar	28.79	10
2.	Baran	48.58	5
3.	Bharatpur	55.31	3
4.	Bundi	35.71	8
5.	Dausa	39.34	6
6.	Dholpur	58.27	1
7.	Jaipur City	9.64	13
8.	Jaipur District	34.29	9
9.	Jhalawar	49.53	4
10.	Karauli	57.86	2
11.	Kota	28.44	11
12.	Sawaimadhopur	37.81	7
13.	Tonk	27.81	12

Source: Information provided by the Company on the basis of its MIS.

Audit noticed that AT&C losses of the proposed three clusters/circle ranged between 23.79 *per cent* and 28.79 *per cent* whereas AT&C losses of the top five circles[77] were very high and ranged between 48.58 *per cent* and 58.27 *per cent*. Audit observed that the Company did not carry out detailed analysis, as criteria for selection of these three clusters/circles for private sector participation was not found on records. It was also observed that in terms of energy, the total volume of energy consumption of clusters identified in Phase-I was 5.39 *per cent* only as against 25 *per cent* envisaged by the STF. Further, the action to award Alwar circle on DF model was not initiated till March 2021, which defeated the very purpose of initiative taken by the State Government for distribution sector improvement.

The Government stated that Kota city and Bharatpur city were selected for DF on the basis of technical parameters such as energy input, revenue and losses in each city as per the decision taken in the review meeting of Financial Restructuring Plan (FRP) held in July 2014 and subsequent directions of the STF to consider high loss and moderate loss areas in contiguity. It further stated that all the seven areas (including areas of other two DISCOMs and areas identified for Phase-II) put together would account for approximately over 25 *per cent* of total energy drawal. Further, process of appointing DF for Phase-II was put on hold by the STF. In subsequent reply (August 2021), it further stated that AT&C losses are not always the sole criterion for selection of DF area as other factors like revenue potential, political interference, workers agitation, interest of private players, public attitude of the area *etc*. also played important role. Being the first instance of pilot project, it was much more important to

77 Dholpur, Karauli, Bharatpur Circle, Jhalawar Circle and Baran.

select an area where DF model can be implemented successfully to open avenues for other DF areas.

The reply was not found convincing as the management did not carry out fresh exercise to identify the high and moderate loss areas and proposed to the STF for selecting the areas (Kota city and Bharatpur city) which had already been selected in the review meeting (July 2014) of the Financial Restructuring Plan. This indicated that the criteria prescribed by the STF (April 2015) were not adhered to by the Company. Further, the STF considered the energy drawal data of all seven areas including Phase-II of the three DISCOMs (Ajmer-22.58 *per cent*, Jaipur-29.03 *per cent* and Jodhpur-25.94 *per cent*) which collectively represents over 25 *per cent* of the total energy drawal. However, the Company could appoint DF for two cities only which were having energy drawal of only 5.39 *per cent* of the total energy drawal of the Company. Moreover, the STF recommended (March 2016) to offer DF arrangement for all the towns and municipalities with 25 *per cent* or more AT&C losses by creating two or three packages and to complete the exercise immediately. However, no such exercise was found on records of the Company. It is also pertinent to mention that despite lapse of considerable time, DF model could not be implemented in any other area till **August 2021**.

Execution of Distribution Franchisee Agreements

2.6.5 During review of records, Audit observed that certain clauses of the DFAs were defective/deficient. The clauses found defective/deficient are as discussed under:

Clause of the DFAs	Deficiency noticed in the concerned clause
(i) Installation of check meters and main meters	
Article 7 of the DFA provides for metering and measurement. According to proviso of the article, the DFs were required to install and operate the check metering system whereas the Company/ RRVPNL were responsible for installation and timely replacement of main meters required for direct measurement of energy input in the DF Area. Further, joint inspection of metering system was to be carried out by the Company/RRVPNL and DF on a regular basis at least once every three months and if necessary, the Metering System was to be recalibrated. In case,	Scrutiny of records disclosed that in a joint meeting with the DFs, the Company decided (December 2016) that for ensuring consistency in technical parameters and for avoiding conflicts in future, main meters are also to be procured and installed by the DFs and cost of the main meters so procured would be reimbursed by the Company to the DFs. The Company directed (January 2017) the DFs to procure and install both kind of meters (main meters and check meters) of same make, type and class at all input and crossover points of Kota City and Bharatpur City. Audit noticed that both the DF areas (Bharatpur City and Kota City) were handed over to the DFs from 1 December 2016 and 1 September 2016 respectively. However,

Clause of the DFAs	**Deficiency noticed in the concerned clause**
the difference between the monthly readings of main meter and check meter is within 0.5 *per cent*, the readings of the main meter were to be taken as final whereas if the variation exceeds ± 0.5 *per cent*, the final value was to be worked out as per the laid down procedure. Further, till installation of 0.2s class meters as main meter, the reading of check meters was to be used for billing provided the check meters are of 0.2s accuracy class.	in these DF areas, the Check Meters were installed between 30 August 2017 to 1 December 2017 and 5 June 2017 to 13 November 2017 respectively. Further, the Main Meters were installed between July 2018 to November 2018 and August 2018 to October 2018 respectively. Audit observed that while deciding on the installation of the two types of meters by the DFs, the Company neither prescribed a timeline for installation of check meters nor incorporated a provision for charging penalty on account of delay in installation of check meters. Resultantly, the DFs took inordinate time in installing the check meters ranging from nine months to 12 months in Bharatpur City and nine months to 14 months in Kota City. Further, the Company, at the time of award of DFs, did not foresee the requirement of installing main meters having the make, type and class similar to the check meters. Even at the time of entrusting the liability of installing main meters on the respective DFs, the Company did not chalk out a plan/timeline for installation of main meters. Resultantly, installation of main meters was further delayed for almost one year beyond installation of check meters. Thus, due to inordinate delay in installation of meters, the Company could not ensure proper and consistent metering of input energy supplied to the DFs from inception of the DFAs till installation of these meters. In the absence of installation of both types of meters since inception, the inconsistency/ inaccuracy in metering the energy transmitted during the period cannot be ruled out. The Government while accepting the facts stated that delay in installation of check and main meters was due to certain technical difficulties *viz*. ABT meters to be installed at input and cross over points were not the regular purchase of the Company and there

Clause of the DFAs	**Deficiency noticed in the concerned clause**
	were procedural delays in approval of ABT meter specification, temper events and ultrasonic welding *etc*. It further stated that there was no penal provision in SBD for delay in installation of check meters. The fact remained that the Company could not ensure metering consistency by installation of meters in time.
(ii) Ambiguous formula for computing Average Billing Rate (ABR)	
Clause 8.1.1 of the DFA prescribed that the Average Billing Rate (ABR) for each month shall be provisionally computed by the DF on the bills generated for each category of consumers by fifth working day of the next month. This ABR shall be treated as provisional and the Company shall raise the invoice based on this. Further, an independent auditor will be appointed jointly by the Company and DF to carry out a quarterly audit of provisional ABR of each month of the quarter and intimate the audited ABRs to the DF within 15 days of next quarter.	During review of records, Audit noticed that while computing the ABR, the DFs deducted (January 2018 onwards) the amount of provisional billing from the assessment amount without deducting the corresponding units of billed energy. Further, the DFs did not intimate the Company about the adjustments carried out by them. The fact came to the notice of the Company in July 2019. During discussion on the issue in the meeting (August 2019) of Permanent Dispute Resolution Body (PDRB), the DFs contested that the provisional units of billed energy were not deducted while computing the ABR for the base year. Based on the computations carried out (December 2019) by the independent auditor, the Company belatedly raised (May 2020) demand of ₹ 24.48 crore on KEDL and ₹ 3.77 crore on BESL for the period ended upto June 2019. However, the DFs did not deposit the demand amount till date. The matter was placed time and again (between July 2020 and April 2021) before the PDRB, however, the dispute could not be resolved till April 2021. Audit observed that the Company did not clearly specify the components to be used in computation of ABR in DFA clause. This created a dispute between the Company and the DFs which remained unresolved till date. Resultantly, the Company could not ensure recovery of dues worth ₹ 28.25 crore. The actual amount to be recovered would be even higher as the amount deducted by the

Clause of the DFAs	Deficiency noticed in the concerned clause
	DFs on this behalf from July 2019 onwards had not been provided to audit. The Government stated (March 2021) that the dispute pertained to the method adopted by the DFs for adjusting the provisional assessment of previous months as they adjusted provisional amount from the numerator of the ABR formula but did not adjust corresponding provisional units from the denominator of the formula which was against the fundamental definition of the ABR given under Clause 8.1.1 of DFA. In subsequent reply (August 2021), it stated that the Company had issued (July 2021) a notice for Critical Event of Default to the DFs in this regard and recovery as per the provisions of the DF agreement is expected soon. Audit acknowledges the action taken by Government. Audit is of the view that in the absence of specific mention of all the components, the ABR formula prescribed by the Company was ambiguous. Resultantly, the Company could not recover its significant dues by resolving the dispute with the DFs till August 2021.
(iii) Non-inclusion of timeframe for submission of information/data to independent auditor	
As per **clause 8.1.1 of the DFA**, an Independent Auditor appointed jointly by the Company and Distribution Franchisee, shall carry out quarterly audit of provisional ABRs of each month of the quarter and intimate the audited ABRs to Distribution Franchisee within 15 days of next quarter.	The Company appointed (May 2018) an independent auditor for conducting audit of operations of DFs as per Clause 8.1.1 of DFA from the effective date of operation of DFs. The independent auditor submitted its draft reports containing the audited ABRs in time, however, the audited ABR did not contain certain components of ABR *viz.* sundry amount and units adjustment, provisional amount adjustment, Fuel surcharges, VCR amount and units, differences of CD surcharges, revenue pertaining to energy billed against DF's offices, Customer Care Service Centers and Sub-division Offices and provisional units reversal *etc.* as the DFs did not provide the

Clause of the DFAs	Deficiency noticed in the concerned clause
	corresponding data to it. Resultantly, the audited ABRs could not be finalised. Audit observed that the Company neither prescribed a timeframe for submission of requisite information/data to the independent auditor by the DFs nor incorporated penal provision for non-submission or delay in submission of requisite information/data by them. Resultantly, the timeframe prescribed for the independent auditor for intimating the audited ABRs could not be exercised as the independent auditor could not finalise the audited ABRs in absence of requisite information/ data. This is evident from the fact that the independent auditor could only finalise its audit reports upto first quarter of 2018-19 till date. As audited ABRs impact the recovery of various dues from the DFs, inordinate delay in its finalisation could result in non-recovery/short recovery of significant dues from the DFs. The Government while accepting the facts stated that the assignment was the first of its kind. The Company as well as DFs were responsible for providing the data to the jointly appointed auditor. Further, the DF was not expected to provide the data with delay. It further stated that keeping in view the audit observation, the Company included the timeframe for submission of data in the new tender (August 2021) relating to appointment of independent auditor.

Implementation of Distribution Franchisee Agreements

2.6.6 During review of records, Audit observed that the Company did not ensure compliance of certain provisions of the DFAs by the DFs. The instances of non-compliance noticed in Audit are as discussed under:

Provisions of the DFAs	Non-compliance of the provisions
(i) Unauthorised capital expenditure incurred in DF areas	

Provisions of the DFAs	Non-compliance of the provisions
As per Clause 5.2.1 of DFA, the DFs were to plan and implement capital expenditure for improving efficiencies, upgrading infrastructure *etc.* as deemed necessary by them. The DFs were to submit a work plan every year for 90 *per cent* of the total amount proposed for such capital investment for which no formal approval was required from the Company. However, for remaining 10 *per cent* of the capital expenditure, the DFs were required to take prior approval of the Company every year.	The DFs submitted (August 2016 and November 2016) work plan for capital expenditure to be incurred during first five years for Kota and Bharatpur cities respectively. These plans were placed (April 2017) before the CLPC. After reviewing the plans, the CLPC directed to (i) obtain a detailed capital expenditure plan with PERT chart from DFs as amount allocated for AMI work seemed disproportionate; (ii) allocate expenditure on construction/replacement of overhead lines with underground cables for ensuring capital investment on public safety and city beautification; and (iii) allocate 10 *per cent* of the capital expenditure for the first year against the amount to be paid by the Company for implementing IPDS. However, no action for ensuring compliance of the recommendations of the CLPC was found in the records. Thus, the Company failed to ensure compliance with the contractual provisions as 10 *per cent* of the capital expenditure for the period ended March 2021 remained unapproved. The Government while accepting the facts stated that the capital expenditure had been incurred by the DF in diversified fields and hence, there was no requirement to address the issues raised earlier. Further, approval of 10 *per cent* amount was deemed to be covered in the investment made by the DF. It further stated that the DF had been asked to furnish the requisite information and to submit the plan for formal approval of 10 *per cent* expenditure. The fact remained that compliance of CLPC observations as well as contractual provisions was not ensured.
(ii) Allowing unwarranted adjustments of ₹ 1.23 crore in favour of DFs	
Clause 5.7 of the DFA provided for replacement of defective meters with new meters by the DFs. **Clause 34(2) of the Terms and Condition for Supply of Electricity (TCOS) 2004**,	Audit noticed that after handing over the business (August 2016 and November 2016), KEDL and BESL allowed rebate (five *per cent* of total bill value) of ₹ 56.13 lakh and ₹ 66.86 lakh respectively to those consumers whose defective meters could not be replaced within stipulated period till

Provisions of the DFAs	**Non-compliance of the provisions**
which was equally applicable on the DFs[78], provided that if stopped/ defective metering system is not replaced within a period of two months of its detection, a rebate of five *per cent* on the total bill[79] of the consumer, be allowed from the subsequent bill[80] after such detection till the meter is replaced.	June 2020 and while making payments to the Company, adjusted the rebate amount from its bills without disclosing the fact. The Company belatedly discovered (August 2020) the adjustment and raised the issue in meeting of PDRB (October 2020). Both the DFs agreed to bear the penalty/rebate for those meters which became defective after the handing over date however, sought relaxation of one year for replacement of those meters which were defective at the time of handover. On this, PDRB was in favour of extending the relaxation desired by the DFs however, no decision on the matter has been taken by the Company's management till April 2021. Audit observed that the Company was not vigilant about the adjustments being claimed by the DFs in the bills and resultantly, allowed unwarranted adjustment of ₹ 1.23 crore in favour of the DFs. Further, the Company's management was not prompt in resolving the disputes with the DFs. Resultantly, the Company could not ensure recovery of the excess adjusted amount of ₹ 1.23 crore till April 2021. The Government stated that a committee had been constituted (June 2021) to review the issue. Details of recovery of excess adjusted amount was awaited in Audit **(August 2021)**.
(iii) Delay in appointment of independent auditor	
As per Clause 8.1.1 of the DFAs, the Company and the respective DF was required to jointly engage an independent auditor (IA) for conducting audit of various parameters	The DFAs executed (June 2016) with the CESC and respective DFs (KEDL and BESL) became effective from 1 September 2016 and 1 December 2016 respectively whereas the IA for both the DFs were appointed in May 2018 for auditing all the

78 As per Clause 5.5 of the DFA, the DFs, being franchisee of the Company, were to accept all the liabilities and to perform all the obligations of the Company in the DF areas in compliance with the laws, regulations and directives issued by RERC from time to time as if they were to apply to the Company and directives issued by the Company for compliance of such laws, regulations, orders *etc.*

79 As computed in the bills prepared under clause 32 of the TCOS 2004.

80 From third monthly bill in case of monthly/fortnightly billing and from second bill in case of bi-monthly billing.

Provisions of the DFAs	Non-compliance of the provisions
envisaged under the DFAs. The IA so appointed was also required to conduct quarterly audit of provisional Average Billing Rates (ABRs) of each month and intimate the audited ABRs to the respective DF for deciding the Tariff Indexation Ratio[81] (TIR).	aspects envisaged in the DFAs from inception. Audit observed that the Company took inordinate time in finalising the methodology and the terms and conditions for appointment of IA and thereafter, in finalising the tendering process for its appointment. Resultantly, the IA could be appointed after lapse of almost two years from the execution of DFAs and simultaneous audit of the aspects envisaged in the DFAs could not be ensured. The delay in appointment of the IA hampered/delayed the identification of non-recovery/short recovery as well as in resolving the disputes between the Company and the DFs on account of non-deduction of corresponding provisionally billed units while computing ABR as the dispute could be identified only at a later stage. Thus, inordinate delay in appointment of independent auditor adversely affected the financial interest of the Company. The Government while accepting the facts stated that delay was attributed to various factors *viz.* adoption of selection procedure, time spent on preparation and finalisation of common specifications *etc.* It further assured that delay in appointment would not adversely affect the Company as the DF agreement contained sufficient provision to recover any damage.
(iv) Non-issue of notices of critical default	
Clause 12.8 (Collateral arrangement) of the DFA stipulates that as an additional measure to ensure obligations of the DFs, the DFs shall execute a separate Default Escrow Agreement for the establishment and operation of the Default Escrow Account in favour of the Company,	The Default Escrow Agreements were executed with both the DFs on 17 June 2016. Audit noticed that the DFs did not maintain the requisite balance in their Default Escrow Accounts during 2017-18 to 2020-21 as the balances were far less than the prescribed limit *i.e.* equivalent to value of LC. Audit observed that the Company did not serve the notice for Critical Event of Default

81 It stands for ratio of prevailing ABR for that calendar month as applicable to all consumers in the DF Area (ABR_n) and ABR as applicable to all consumers in the DF Area in the base year *i.e.* FY 2014-15 ($ABR_{base\ year}$).

Provisions of the DFAs	**Non-compliance of the provisions**
through which the revenue of DF shall be routed and used as per terms of the Default Escrow Agreement. It further stipulates that the minimum balance at any time in the Default Escrow Account shall be at least equal to the amount required for the Letter of Credit (LC) as per clause 12.1 and 12.4. As per clause 12.1 and 12.4 of the DFAs, the DFs shall submit and maintain a security deposit in the form of an irrevocable and unconditional LC from any nationalized/scheduled bank for an amount equivalent to two months' estimated amount payable to the Company based on two months' energy input (including electricity duty and other charges). Further, the LC was required to be upgraded within one week of each quarter based on average energy input in previous quarter and applicable input energy rates for the year. Clause 17.1 deals with 'Event of default of DFs' wherein failure of DFs to maintain LC, Escrow Account and performance Guarantee as per DFAs are to be construed as 'DF's Critical Event of Default'. Clause 17.3.2 (a) to (e) of DFA provides that on the occurrence of DF's Critical Event of Default, the Company shall issue a notice in this regard and DF shall remedy/mitigate the Critical Event of Default within a period of 15 days failing which the DF shall pay damage at prescribed rate.	on the DFs for not maintaining the minimum balance in Default Escrow Accounts. Further, in absence of the requisite notices, the Company could neither bound the DFs for maintaining the minimum balance in Default Escrow Accounts nor could impose penalty on the DFs for the defaults. The Company accepted the facts and stated that the DFs had raised a dispute on the methodology of upgraded LC calculation. As per the DFAs, the matter was initially referred to the PDRB (July 2020) and then to the next higher-level committee (October 2020), however, no amicable decision could be arrived at till March 2021. The fact remained that had the Company served the notice for Critical Event of Default on DFs and upgraded the LC limit in time, it could have forced both the DFs to maintain the requisite balance in the Default Escrow Accounts. The Government while accepting the facts assured that considering the audit observation and the fact that the outstanding amount had come close to the available security, the Company would soon serve a notice for Critical Event of Default upon both the DFs as per provisions of the DFAs.

Recovery of dues from the DFs

Non-recovery of arrears worth ₹ 46.23 crore

2.6.7 As per Clause 9 of the DFAs, arrears were classified into two categories *i.e.* (i) Arrear from Connected Live Consumers (CLCs) and (ii) Arrears from Permanently Disconnected Consumers (PDCs). The CLCs are those, which are currently legally connected to the distribution network of the DF area whereas PDCs are no longer connected with the distribution network. The DFs were required to maintain separate accounts for collection from arrears and collection from consumers for electricity supplied from the respective effective date[82]. The Company was to transfer the right to collect the arrears to DFs on the respective effective date. Further, the DFs as well as the Company were to follow the prescribed procedure for recovery of arrears *viz*. constitution of a committee for determination of arrears, determination and validation of quantum of arrears in DF areas by the Committee so constituted, recovery of arrears as per applicable laws *etc.* and to recover the arrears in following manner:

1. Recovery of the arrears from CLCs those accrued in the last one month

Clause 9 read with clause 8.2.6 of the DFAs further provided that the DFs are liable to collect the arrears from CLCs accrued in last one month prior to respective effective date on account of charges for usage of electricity and to remit the amount so collected to the Company within three months of the respective effective date. The DFs were required to collect and remit amount, at least equivalent to the prevailing collection efficiency considering the collection efficiency in the corresponding month of last year including the amount already recovered.

Further, as per the DFAs, the DFs were also entitled to disconnect supply of electricity to the defaulting consumers as per clause 41 (1) of TCOS 2004.

2. Recovery of arrears other than those accrued in the last one month

The DFs were to make best efforts for recovering the arrears other than those accrued against the CLCs in the last one month prior to the respective effective date. The collection from CLCs were first to be appropriated towards current bill and then towards the arrears.

The arrears finalised by the concerned Committee and realisation their against upto September 2020 were as under:

82 Effective dates of DFAs were 1 September 2016 for Kota city and 1 December 2016 for Bharatpur city.

Table 2.6.2: Finalised arrears and realisation their against upto September 2020

(₹ in crore)

Particulars	KEDL		BESL	
	Arrear finalised	Amount recovered	Arrear finalised	Amount recovered
CLCs (last one month's arrears)	17.22	41.46	3.50	7.64
CLCs (other arrears)	50.63		11.17	
Total	**67.85**	**41.46**	**14.67**	**7.64**
PDCs	11.19	0.99	1.31	0.08
LPS	1.88	0.56	0.37	0.31
Grand total	**80.92**	**43.01**	**16.35**	**8.03**

Source: Information provided by the Company.

Audit observed that none of the DFs ensured recovery of the arrears accrued towards the CLCs during the last one month prior to effective date within the stipulated period of three months. In case of non-recovery, the DFs were empowered to disconnect the power connections of such defaulters which was also not ensured. Audit further observed that the Company neither incorporated any penal clause for non-effecting the recovery in the stipulated period nor monitored the performance as well as collection efficiency of the DFs as regards recovery of arrears from CLCs for the last one month. Further, the Company did not have details of the monthly recovery effected against the arrears of CLCs for the last one month. Besides, the performance of DFs as regards recovery of other arrears from CLCs as well as recovery from PDCs was very poor. This was evident from the fact that despite lapse of a period of four years, huge amount worth ₹ 46.23 crore remained unrealised from the consumers of DF areas.

The Government stated that directions had been issued to both the DFs during various PDRB meetings for recovery of outstanding dues and onward remittance to the Company. However, recovery process was affected during the last one and half year due to COVID-19 pandemic.

Non-recovery of dues from Government Instrumentalities

2.6.8 Clause 9.15 of the DFAs provided that the distribution licensee shall assist the DFs in collection of consumer bills due from Government Instrumentalities[83]. In case of delay of payment by them beyond three months, the distribution licensee shall directly collect such outstanding dues and the DFs shall be free to appropriate such amount from the Input Energy dues for the respective month.

Audit noticed that outstanding dues towards the Government Instrumentalities increased from ₹ 21.83 crore in March 2018 to ₹ 124.37 crore[84] in June 2020. In compliance with Clause 9.15 of the DFA, the Company adjusted the input energy dues by extending credit of ₹ 15.48 crore to the DFs for the dues accrued up to March 2019.

83 An organization created by or pursuant to state statute and operated for public purposes *viz.* government departments, hospitals, municipal corporations, local bodies *etc.*

84 KEDL ₹ 97.94 crore and BESL ₹ 26.43 crore.

Audit observed that since the DFs were assured of recovery from Government Instrumentalities through adjusting the Input Energy dues, they did not make stringent efforts to recover their dues. Audit also observed that the DFs did not initiate action for disconnecting the power connections of Government Instrumentalities despite clear directions (December 2017) of the PDRB. Resultantly, despite appointment of DFs for the respective DF areas, the burden of recovery from Government Instrumentalities remained with the Company only. The Company did not give any further credit to the DFs on this account after March 2019, however, it could not ensure recovery of its dues adjusted against the input energy dues till date.

The Government stated (March 2021) that the credit provided in respect of outstanding dues of Government Instrumentalities would be adjusted against collection of urban cess. In subsequent reply (August 2021), the Government stated that clause 9.15 was incorporated with the apprehension that the DF may overweigh the commercial aspect and public safety and common law and order situation. It also stated that efforts were made and directions were issued to DF from time to time for recovery of such dues.

The fact remained that due to insertion of clause 9.15, the Company failed to force the DFs to recover the dues from Government Instrumentalities. Further, the Company did not take effective and timely steps for recovery of such dues from the concerned Government Instrumentalities. Resultantly, recovery/ adjustment of significant dues was pending **(August 2021)**.

General issues

Indecisiveness on favourable revision in DFAs/DEAs

2.6.9 In compliance with Clause 12.8 of the DFAs of Kota city and Bharatpur city, the Company executed (June 2016) Default Escrow Agreements(DEAs) with the KEDL and BESL for establishing and operating the Default Escrow Accounts in its favour. The revenue of the DFs was to be routed and used as per terms of these Default Escrow Agreements. As per the Default Escrow Agreements, all interest and other amounts in the Default Escrow Accounts were to be the income of the respective DF (Clause 2.5.1) and the secured amount was not to include the interest income earned on and paid at the time of liquidation of fixed deposits receipts (FDRs) made by the DF from the excess amount lying in these accounts (Clause 1.1.2). However, the agreements were silent on creation of FDRs from the minimum requisite balance for the default escrow accounts and earning of interest on the FDRs so created.

Later, both the DFs sought (December 2016, September 2017 and October 2017) permission of the Company for parking the balance of their default escrow accounts in shape of FDRs. The Company constituted (October 2017) a committee to review the proposal of the DFs. The Committee (February 2018) negotiated with the DFs to share the benefits accruing on account of interest because of allowing them to park the escrow amount in the shape of FDRs but the DFs did not agreed to it. However, the DFs consented to not claiming the prompt payment rebate (0.15 *per cent* of the prompt payment amount) prescribed under the DFAs. Accordingly, the Committee recommended that the DFs may be allowed to park the corpus of default escrow accounts in FDRs and to earn interest thereon.

The BoD of the Company reviewed (July 2018 and March 2019) the issue and granted conditional approval as per which the DFs were allowed to park the corpus in the FDRs subject to the condition that the DFs would equally share (50:50) the interest earned by them on such FDRs with the Company and would sacrifice the prompt payment rebate. The DFs declined (April 2019) to accept the conditional approval. Subsequently, in response to pursuance (January 2020) for arbitration by one of the DFs (KEDL), the Company obtained (February 2020) opinion from the Advocate General of Rajasthan (AGR) wherein the AGR, considering the recommendations (February 2018) as beneficial for the Company, opined that the Company may accept the recommendations. However, the Company did not reconsider its decision till date.

Thus, the indecisiveness on the issue of allowing favourable revisions in the DFAs/Default Escrow Agreements, resulted in extra burden of ₹ 2.35 crore in shape of prompt payment rebate allowed till February 2020.

The Government stated that during the committee meeting held on 30 June 2021, the audit observation was discussed and it was principally agreed to put up the matter before BOD for review.

The fact remained that the Company had to allow prompt payment rebate due to delay in deciding the issue.

Conclusion

Several shortcomings were noticed in the implementation of Distribution Franchisee Arrangement by the Company both at the planning and execution stage. Firstly, no fresh exercise was conducted to identify areas of High and moderate losses before sending the proposal to the STF. DFs could be appointed only for two out of three cities/areas identified covering only 5.39 *per cent* of total energy drawn. The clauses of the DFAs related to installation of check meters and main meters, formula for computing ABR, submission of information/data to independent auditor were defective/deficient. Further, non-adherence to several provisions of the DFAs was noticed. The Company also allowed unwarranted adjustments on account of rebate on non-replacement of defective meters. The Company could not ensure recovery of huge arrears that existed at the time of handing over as well as current dues belonging to Government instrumentalities. Audit is of the view that the Company needs to streamline its processes to address the various shortcomings highlighted by Audit.

Recommendations

The Company may:

- *Suitably modify the DF agreements by resolving the disputes with DFs;*
- *Ensure that the provisions of the DF agreements are followed in true spirit; and*
- *Take suitable measures to recover the outstanding dues.*

JAIPUR
The 27th January 2022

(ATOORVA SINHA)
Accountant General
(Audit-II), Rajasthan

Countersigned

NEW DELHI
The 31st January 2022

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India