PRESS BRIEF

The Report of the Comptroller and Auditor General of India for the year ended 31 March 2016 – No.7 of 2016 - (Public Sector Undertakings) – Government of Tamil Nadu – Tabled in the Tamil Nadu State Legislature on 19 July 2017.

The Audit Report contains (i) an overview of Public Sector Undertakings (PSUs) in the State of Tamil Nadu, (ii) findings of a Performance Audit on Industrial Development Activities of Tamil Nadu Industrial Investment Corporation Limited, (iii) Follow-up IT Audit on the Computerisation of Tamil Nadu State Marketing Corporation Limited and (iv) 13 paragraphs based on the Compliance Audit of Government companies.

Overview of State Public Sector Undertakings

- As on 31 March 2016, the State of Tamil Nadu had 68 working PSUs (67 Companies and one Statutory Corporation) and six non-working companies, which employed 2.91 lakh employees. The State PSUs registered a turnover of ₹ 99,850.38 crore as per their latest finalised accounts, which was equal to 8.23 *per cent* of State's Gross Domestic Product.

Performance of PSUs

- As per latest finalised accounts, out of 68 working PSUs, 41 PSUs earned profit of ₹ 811.27 crore and 21 PSUs incurred loss of ₹ 15,684.69 crore.
- Heavy losses were incurred by Tamil Nadu Generation and Distribution Corporation Limited (₹ 12,756.59 crore) and all the eight State Transport Corporations (₹ 2,600.25 crore).
- The PSUs had accumulated losses of ₹ 80,925.82 crore as per their latest finalised accounts.

Quality of accounts

- Out of 63 accounts finalised during 2015-16, the Statutory Auditors of Government Companies had given unqualified certificates for 32 accounts and qualified certificates for 31 accounts. There were 44 instances of non-compliance with Accounting Standards.

2.1 Performance Audit on Industrial Development Activities of Tamil Nadu Industrial Investment Corporation Limited (TIIC)

Audit findings - Planning

Tamil Nadu Industrial Investment Corporation Limited (TIIC) did not prepare corporate plan setting up long term goals and strategy as directed (April 1989) by the Government of Tamil Nadu.

Its annual plans were found deficient due to fixation of adhoc targets, belated approval by the Board of Directors (BOD) *etc*.

Sanction and disbursement of loan

The market share of assistance by TIIC to micro, small and medium enterprises was only 7 *per cent* compared to the large scale assistance by banks and Small Industries Development Bank of India (SIDBI). The reasons for marginal role played by TIIC was its uncompetitive lending rates ranging from 10.5 to 11.5 *per cent* compared to the rates of commercial banks, which ranged from 8.5 to 11 *per cent* during 2011-16.

The procedural deficiencies found in the sanction of loan included (i) not obtaining project reports of the applicant units (256 cases), (ii) not insisting audited financial statements (226 cases), (iii) not verifying the assets of the assisted units (72 cases), *etc*., as prescribed in the Credit Manual of TIIC.

As per its Credit Manual, TIIC was required to disburse loan after ensuring that the assisted units had actually invested their portion of working capital. Further, TIIC was also required to ensure that the earlier installments of loan disbursed was actually utilised by the loanee unit before disbursement of the subsequent installments. The violation of these provisions resulted in non-recovery of ₹ 27.84 crore in respect of two assisted units.

Audit also found six cases of non-recovery of ₹ 11.81 crore due to sanction of loans to (i) unviable projects, (ii) without justification, (iii) against inadequate collateral security and (iv) based on unrealistic projections of business turnover.

Monitoring of assisted units

TIIC did not carry out mandatory inspection of the assisted units as prescribed and the shortfall ranged between 10 and 53 *per cent* during 2011-16. The deficiencies in monitoring such as allowing the loanee to sell the part of the business unit despite accumulation of overdue amount, non-monitoring of the missing machinery, *etc*., led to accumulation of overdues amounting to ₹ 35.53 crore in 15 cases test checked.

Recovery performance

The recovery of loans already sanctioned by TIIC ranged between 25 to 85 *per cent* of total dues during 2011-16, which were equivalent to or less than the current year's dues. Moreover, no separate targets for recovery of old and current dues were fixed. Audit found many deficiencies such as sanctioning second term loan without proposal for revival of the unit, not noticing change in management, missing machinery, *etc*. These deficiencies led to non-recovery of ₹ 56.37 crore in 13 cases test checked.

Though the Company agreed (December 2010) with SIDBI to maintain Non Performing Assets (NPA) within 10 *per cent*, its NPA increased from 10.27 *per cent* in 2011-12 to 13.64 *per cent* in 2015-16, resulting in non-accrual of internal source of funds to the extent of ₹ 83.23 crore.

The Company sold assets of 135 repossessed units in auction and realised ₹ 11.88 crore, which constituted only two *per cent* of the total outstanding amount of ₹ 677.35 crore in respect of these units.

Internal Control and Internal Audit

Out of the total of 42 Board meetings during 2011-16, the Directors representing Micro, Small and Medium Enterprises and Finance departments were absent in 30 and 28 meetings, respectively.

2.2. *Follow-up IT audit on the Computerisation of Tamil Nadu State Marketing Corporation Limited (TASMAC)*

TASMAC had computerised its operations in 1998 and decided to upgrade the hardware and software to Oracle platform in three phases. The third phase commenced in 2009. An IT Review on the Computerisation of TASMAC was included in the Audit Report (Commercial) 2008-09 with seven recommendations which were accepted by the Company. The present audit taken up, as a follow-up, to assess whether the recommendations were implemented revealed that:

- Due to poor management of contracts, the implementation of third phase of upgradation of software got delayed by 6 years.
- The Senior Regional Manager and District Manager offices were not linked through computer software leading to duplication of works.
- Though 2,204 Retail Vending shops were installed with Electronic Billing Machines (EBMs), the sales data generated could not be used as invoices were not captured during the course of actual sales, but entries were made in EBM after the working hours.
- The deficiencies pointed out in the earlier Report such as non-availability of provision to capture multiple batch numbers, missing continuity in system generated numbers, sales to customers without verifying licenses, deficiencies in issue of transport permit, flaws in mapping tax laws and manual intervention in system generated numbers continue to remain till date (November 2016).
- TASMAC continued to transfer data from depots to Corporate Office through private e-mail servers and over telephone, reducing the reliability and confidentiality of the data.

Compliance Audit Observations

The compliance audit on PSUs revealed that:

Tamil Nadu Industrial Development Corporation Limited suffered a loss of ₹ 46.65 crore due to non-collection of service charges as per Joint Venture agreement.

Diversion of paddy procured under Public Distribution System by **Tamil Nadu Civil Supplies Corporation,** resulted in wrongful availing of subsidy of ₹ 14.55 crore from the Government of India, besides incurring extra expenditure of ₹ 3.19 crore for conversion of paddy into rice.

Tamil Nadu State Transport Corporation (Coimbatore) Limited suffered a potential revenue loss of ₹ 9.58 crore due to incorrect rejection of the valid tender.

Delay of two years in drawal of loan sanctioned by the Government at the lower rate of interest resulted in additional interest cost of ₹ 5.89 crore to **IT Expressway Limited**.

Tamil Nadu Transmission Corporation Limited (TANTRANSCO)

- TANTRANSCO cancelled a valid tender due to inclusion of a faulty tender condition, which resulted in its becoming liable for avoidable extra expenditure of ₹ 10.29 crore; and

- It abandoned the civil works worth ₹ 7.35 crore carried out at the original alignment and realigned the transmission lines, which resulted in the expenditure becoming infructuous.

Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO)

Unwarranted delays in rectification of the rotor fault in hydro power station by Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) led to additional extra expenditure of ₹ 44.74 crore.

The Suspended Particulate Matter levels and carbon emission by thermal plants of TANGEDCO remained high due to non usage of clean beneficiated coal, keeping the station heat rate higher than the prescribed level, *etc*. A quantum of 69.58 million tonnes of ash remained in the ash dyke in the three power plants, which was against the guidelines of Ministry of Environment, Forest and Climate Change (MoEFCC) for phasing out accumulation of ash in the land. The thermal plants polluted the sea and river water due to absence of Effluent Treatment Plant and Sewage Treatment Plant. The management of hazardous waste was also not as per the requirement of Tamil Nadu Pollution Control Board. Against the revenue of ₹ 625.93 crore earned by disposal of fly ash, TANGEDCO spent only ₹ 61.91 crore on environment management, which was against the MoEFCC guidelines for spending the revenue only for infrastructure creation for disposal of fly ash.