PRESS BRIEF

The Report of the Comptroller and Auditor General of India for the year ended 31 March 2017 – No.5 of 2017 - (Public Sector Undertakings) – Government of Tamil Nadu – Tabled in the Tamil Nadu State Legislature on 9 JULY 2018.

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 Operational performance of gas turbine power stations of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO), (iii) Information Technology Audit of Drug Distribution Management System in Tamil Nadu Medical Services Corporation and (iv) 14 paragraphs based on the Compliance Audit of Government companies.

Overview of State Public Sector Undertakings

Mandate for Audit of PSUs

Audit of Government Companies by the Comptroller and Auditor General of India (CAG) is governed by Section 139 and 143 of the Companies Act, 2013. The accounts of Government Companies are audited by Statutory Auditors appointed by the CAG. In addition to the statutory audits, these accounts are subject to supplementary audit by the CAG. Audit of Statutory Corporations is governed by their respective legislations.

Contribution of PSUs to State economy

As on 31 March 2017, the State of Tamil Nadu had 68 working PSUs (67 Companies and one Statutory Corporation) and six non-working PSUs (all Companies), which employed 2.84 lakh employees. These PSUs registered a turnover of ₹ 1,10,850.43 crore as per their latest finalised accounts, which was equal to 8.54 *per cent* of State's Gross Domestic Product in 2016-17. The PSUs had accumulated losses of ₹ 78,854.25 crore as per their latest finalised accounts.

Performance of the State PSUs

As indicated in their latest finalised accounts, 39 out of 68 working PSUs earned profit of ₹ 931.08 crore and 25 PSUs incurred loss of ₹ 9,366.31 crore.

Finalisation of accounts by State PSUs

As stipulated in the Companies Act, the financial statements of the companies including Government companies are required to be finalised in every financial year by 30 September. But, 29 working PSUs had arrears of 32 accounts as on 30 September 2017, of which three accounts pertained to earlier years and the remaining were 2016-17 accounts. .

Quality of accounts

During the year 2016-17, out of 68 accounts finalised, the Statutory Auditors of Government Companies had given unqualified certificates for 40 accounts and qualified certificates for 28 accounts. There were 32 instances of non-compliance with Accounting Standards.

2.1 Performance Audit on Operational performance of gas turbine power stations of TANGEDCO

Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) owns four Gas Turbine Power Stations (GTPS) *viz*., Kuttalam Gas Turbine Power Station (KGTPS), Thirumakottai Gas Turbine Power Station (TGTPS) and Valuthur Gas Turbine Power Station-I and II (VGTPS-I and II) with the installed capacity of 516.08 MW.

Operational performance

Three out of four GTPS, viz., KGTPS, TGTPS and VGTPS-II achieved the average Plant Load Factor (PLF) ranging from 40.88 to 50.46 *per cent* against the norm of 80 *per cent*. The shortfall in generation with reference to norms resulted in loss of generation of 4,396.66 MU valued at ₹ 1,203.46 crore. Non-achievement of the normative PLF resulted in disallowance of fixed cost claims by Tamil Nadu Electricity Regulatory Commission (TNERC) amounting to ₹ 1,830.02 crore for the purpose of tariff fixation.

Utilisation of capacity

Only in VGTPS-I, the capacity utilisation was more than 85 *per cent* in all the years upto 2016-17. But, the capacity utilisation in TGTPS, KGTPS and VGTPS-II declined from 78.79 (2012-13) to 40.38 *per cent* (2016-17), 74.19 (2013-14) to 46.29 *per cent* (2016-17) and 83.86 (2013-14) to 73.08 *per cent* (2016-17) respectively. The low capacity utilisation was due to not carrying out periodical maintenance, forced outages, reduced generation due to operational problems and Station Heat Rate (SHR) being high, running the station with partial load due to inadequate supply of fuel, *etc*.

Non-achievement of maintenance schedules in GTPS

Non-adherence to the annual maintenance schedules by TGTPS, KGTPS and VGTPS led to forced outages and loss of generation of 2,491.59 MU valued at ₹ 749.56 crore.

Failure within the warranty period

VGTPS-II tripped in January 2015, within the warranty period. Though TANGEDCO found that the Original Equipment Manufacturer (OEM) was also responsible for the tripping of the unit, it bore the entire cost of rectification of ₹ 58.74 crore citing urgency and also suffered loss of generation of 1,354.73 MU valued at ₹ 407.02 crore.

Loss due to non-availability of Spare rotor

TANGEDCO did not have a spare rotor as a backup in any of the GTPS. Consequently, KGTPS was kept under forced shut down for a period of one year from 22 February 2012 to 21 February 2013 resulting in generation loss of 708 MU valued at ₹ 191.16 crore.

Under-performance of steam turbine generator

The Steam Turbine Generators (STG) of GTPS worked for 1,30,263 hours against the available 1,75,296 hours. Further, the STG did not generate the possible output during the actual hours worked resulting in loss of generation of 1,494.09 MU valued at ₹ 465.26 crore.

Excess Station Heat Rate and auxiliary consumption

Due to excess station heat rate, the GTPS consumed excess gas valued at ₹ 249.08 crore in the five years ending 2016-17 and became liable to purchase 19,763 numbers of Energy Saving certificates valued at ₹ 20.07 crore as penalty.

Except VGTPS-I, all the other GTPS failed to achieve auxiliary consumption norm of six per cent during 2012-17, resulting in non-availability of 118.13 MU of power valued at ₹ 36.60 crore for sale.

Short supply/drawal of gas

Due to short supply of committed quantity of gas by Gas Authority of India Limited (GAIL), there was loss of generation of 1,993.84 MU with contribution loss of ₹ 599.60 crore.

KGTPS and VGTPS-II paid ₹ 38.83 crore of minimum guaranteed off-take charges to GAIL for short drawal of gas on account of forced outages.

Issues concerning environment

The levels of effluent were more than the permissible limit in TGTPS, VGTPS-I and VGTPS-II. In TGTPS, the accumulation of the chemical sludge was neither measured nor disposed-off since October 2013.

Due to non-registration of the GTPS for Clean Development Mechanism (CDM) benefits, TANGEDCO had lost a potential revenue of ₹ 39.12 crore.

2.2. Information Technology Audit of Drug Distribution Management System in Tamil Nadu Medical Services Corporation

Tamil Nadu Medical Services Corporation (TNMSC) Limited is engaged in procurement and supply of drugs, medicines, surgical sutures. TNMSC procures the above through tenders, stores the stocks in warehouses and supplies to Government medical institutions.

TNMSC had computerised all its major activities through two application software viz., Drug Distribution Management System (DDMS) and Warehouse Information System (WIS).

Audit of DDMS brought out the following significant findings:

Deficiencies in tender processing

- In the system generated pre-order statements for purchase of 1,591 out of 4,259 drugs (37.36 *per cent*), the quantity to be purchased from suppliers were manually altered at the time of issue of purchase orders.
- It was the policy of the Company to purchase 60 *per cent* of the quantity required from L-1 and balance 40 *per cent* from bidders, who matched their price with L-1. But the quantity to be purchased from L-1 and bidders matching the price with L-1 initially determined through the system was manually altered, thereby extending undue favours to the suppliers from whom such excess quantity was purchased.

- Due to deficiencies in the application software, 1,115 purchase orders were placed between July 2013 and March 2017 on firms black listed by purchase department.
- From 43,039 records, audit noticed that the intending institutions were not supplied drugs/medicines despite availability of the stock in the godown. This was due to not capturing the laboratory test results for these medicines by the system.
- 590 drugs valuing ₹ 16.13 crore expired during 2012-17 which included 306 drugs valuing ₹ 5.93 crore supplied beyond stipulated 30 days.
- The system did not calculate penalty for non/short supply of drugs which led to non-collection of penalty of ₹ 40.90 crore during 2012-17.

Compliance Audit Observations

(i) Chartering of vessels by Poompuhar Shipping Corporation Limited

Poompuhar Shipping Corporation Limited (PSC) organises ocean movement of indigenous coal required by the thermal stations of TANGEDCO from the loading ports to the discharge ports. The ocean movement is carried out by PSC's three own vessels and by hiring 6 to 14 vessels on charter basis. The compliance audit on chartering arrangement of PSC revealed the following:

- A vessel (MV Chennai Selvam) was engaged without tender at charter charges higher than the market rate resulting in extra expenditure of ₹ 5.48 crore.
- There was extra expenditure of ₹ 5.19 crore due to non-consideration of L-1 offer on three occasions.
- Unwarranted diversion of vessels earmarked for Tuticorin sector to Chennai sector resulted in extra expenditure of ₹ 19.26 crore on 21 occasions.
- Operation of high cost vessels, *viz*., MV Gem of Ennore in Chennai without the corresponding discharge facilities for coal at the port led to avoidable extra expenditure of ₹ 10.29 crore, besides payment of ₹ 7.08 crore for consumption of bunker in excess of the declared quantity by the vessel during tender.
- Payment of annual escalation for dry dock period of 85 days in 2013-14, during the period in which the vessel was kept out of operation, led to avoidable payment of ₹ 2.31 crore.
- PSC did not levy liquidated damage of ₹ 11.62 crore on 29 occasions of belated delivery of vessels to the charter as per agreement.

(ii) Road projects implemented by Tamil Nadu Road Infrastructure Development Corporation

Tamil Nadu Road Infrastructure Development Corporation is engaged in formation and maintenance of road infrastructure within the State. The compliance audit on formation of four/six lane in the Oragadam Industrial Corridor Project connecting Singaperumalkoil – Sriperumpudur for a length of 24 KMs and between Vandalur – Walajabad Road for a length of 33.40 KMs revealed the following:

- The Oragadam Road project involving formation of four/six lanes for a length of 57.40 KMs at the cost of ₹ 300 crore commenced in June 2008 remained incomplete till date (October 2017).

- The slow progress, which was mainly attributed to not ensuring availability of land as directed by the Government led to revision of the project cost thrice.
- Besides non-availability of land, other deficiencies noticed in the contract management were (i) frequent foreclosure/termination of contract and (ii) poor performance of the contractors executing the road works.
- While the Company was unable to complete the Phase-I project, it hurriedly took up six lane work under the same project area.

The above deficiencies resulted in avoidable cost escalation of ₹ 82.89 crore.

(iii) The Government of Tamil Nadu gave 377 acres of land for construction of Special Economic Zone (SEZ) to **Electronics Corporation of Tamil Nadu Limited (ELCOT)** with a condition to carry out flood management works like construction of 74 meter long bridge and drainage at Pallikaranai marsh land. Due to non-execution of the flood management works as committed, there were hardships to public during flood/rainy seasons, besides avoidable cost escalation of ₹ 28.15 crore to ELCOT.

(iv) Non-revision of lease rent for 13 years by **Tamil Nadu Tourism Development Corporation Limited** for lease of its hotel at Trichy to SRM Group of companies resulted in undue benefit of ₹ 10.17 crore.

(v) Diversion of PDS wheat by **Tamil Nadu Civil Supplies Corporation** to Amma Unavagam was violative of PDS (Control) Order, 2001 and resulted in earning of unjustified profit by it to the extent of ₹ 5.97 crore.

(vi) Government of Tamil Nadu launched (December 2014) "Amma Cement Supply Scheme" to sell cement to low and middle income group of people at low price of ₹ 190 per bag against the prevailing market price of ₹ 320 per bag. However, **Tamil Nadu Cements Corporation Limited (TANCEM)**, the implementing agency failed to ensure supply of committed quantity of 33.07 lakh MTs of cement. This resulted in deprival of 88,187 low/middle income beneficiaries from getting cement at lower cost and revenue loss of ₹ 5.75 crore to TANCEM.

(vii) Between July 2012 and February 2016, **Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO)** procured 24.4 million MTs of imported coal valued at ₹ 12,247 crore by floating seven global tenders. The Audit scrutiny of import revealed that TANGEDCO:

- Had foreclosed sale of tender documents before 30 days in four out of five tenders test checked as stipulated in the tender rules prescribed by the Government of Tamil Nadu, thereby limiting the competition amongst the tenderers.
- Did not follow the practice of e-submission and reverse auction method of tenders as ordered by the Government of Tamil Nadu and followed by other PSUs, which import coal.
- Fixed the criteria that tenderer to become eligible for tender participation should have annual average turnover of ₹ 1,000 crore. This was in excess of the turnover criteria of 25 *per cent* of the tender value in all other tenders of TANGEDCO. Due to fixation of higher turnover criteria, only three/four bidders repeatedly participated and three of them (Adani, KISPL/ KISSPL and MSTC) shared 96 *per cent* of the total import value of ₹ 8,884.44 core in all five tenders.

- Did not adopt variable price method for coal import as was done by other PSUs (including TNPL), which resulted in incurring of additional expenditure of ₹ 746.13 crore.
- Did not insist submission of Certificate of Country of Origin (COO) by the suppliers though the tender conditions stipulated that payment would be made only upon furnishing of COO by the suppliers. The test check revealed that 176 out of 297 consignments were originated from Indonesia. But the Certificate of Country of Origin (COO) was not produced by suppliers in all 176 consignments for a value of ₹ 5,767.31 crore.
- Accepted lower grade coal as revealed by Customs test report but it made payment for coal having Gross Calorific Value (GCV) as submitted by the suppliers testing laboratory. This lapse led to excess payment of ₹ 813.68 crore.

(viii) The Compliance audit on TANGEDCO's other transaction revealed that:

- TANGEDCO failed to recover the cost of transmission lines laid within the premises of Tuticorin Coal Terminal Private Limited (TCTL), which resulted in undue benefit to the consumer amounting to ₹ 12.75 crore.
- TANGEDCO purchased 66.06 MUs of power from EID Parry India Limited at the rates higher than TNERC notified rates and incurred avoidable extra expenditure of ₹ 10.90 crore.