Overview

1 Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2009, the State of Tamil Nadu had 64 working PSUs (62 companies and 2 Statutory corporations) and 11 non-working PSUs (all companies), which employed 2.75 lakh employees. The State PSUs registered a turnover of Rs.42,535.07 crore as per their latest finalised accounts. This turnover was equal to 18.62 per cent of State's GDP indicating the important role played by State PSUs in the economy. The PSUs had accumulated loss of Rs.13,207.60 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2009, the investment (Capital and long term loans) in 75 PSUs was Rs.28,549.79 crore. Power Sector accounted for 78.60 per cent of total investment and Service Sector 10.64 per cent in 2008-09. The Government contributed Rs.7,138.23 crore towards equity, loans and grants/subsidies during 2008-09.

Performance of PSUs

As per latest finalised accounts, out of 64 working PSUs, 38 PSUs earned a profit of Rs.565.96 crore and 20 PSUs incurred a loss of Rs.4,303.23 crore. The major contributors to profit were Tidel Park Limited, Chennai (Rs.163.82 crore), Tamil Nadu Newsprint and Papers Limited (Rs.107.39 crore), State Industries Promotion Corporation of Tamil Nadu Limited (Rs.64.54 crore) and Tamil Nadu Small Industries Corporation Limited (Rs.52.37 crore). The heavy losses were incurred by Tamil Nadu Electricity Board (Rs.3,512.08 crore), Tamil Nadu State Transport Corporation (Madurai) Limited (Rs.180.53 crore), Tamil Nadu State Transport Corporation (Coimbatore) Limited (Rs.124.73 crore) and Metropolitan Transport Corporation (Chennai) Limited (Rs.100.12 crore).

Audit n`oticed various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of Rs.1,045.94 crore and infructuous investments of Rs.215.91 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and enhance profits. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for greater professionalism and accountability in the functioning of PSUs.

Arrears in accounts and winding up

20 working PSUs had arrears of 31 accounts as of 30 September 2009, of which 11 accounts pertained to earlier years and the remaining were 2008-09 accounts. There were 11 non-working PSUs including two under liquidation. The Government may consider winding up these companies.

Quality of accounts

The quality of accounts of PSUs needs improvement. During the year, out of 54 accounts finalised, the statutory auditors had given unqualified certificates for 19 accounts, qualified certificates for 30 accounts, adverse certificates (which means that accounts do not reflect a true and fair position) for two accounts and disclaimer (which means that the auditors are unable to form an opinion on accounts) for three accounts. There were 33 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Discussion of Audit Reports by COPU

The Audit Reports (Commercial) for 1998-99 onwards are yet to be discussed fully by COPU. These ten audit reports contained 35 reviews and 236 paragraphs of which ten reviews and 199 paragraphs have been discussed till December 2009.

2 Performance reviews relating to Government companies

Performance reviews relating to 'Functioning of State Transport Undertakings', 'Tamil Nadu Civil Supplies Corporation Limited' and 'Information Technology Review on Computerisation of Tamil Nadu State Marketing Corporation Limited'.

Functioning of State Transport Undertakings.

In Tamil Nadu, the Public transport is provided by seven State Transport Undertakings (STUs) which had a fleet strength of 20,104 buses as on 31 March 2009. The STUs carried an average of 196.96 lakh passengers per day during 2008-09. The total turnover of STUs (Rs.5,050.63 crore) in 2008-09 was equal to 2.21 per cent of the State gross domestic product for the year. The performance audit of STUs for the period from 2004-05 to 2008-09 was conducted to assess the efficiency and economy of STUs' operations, ability to meet their financial commitments, possibility of realigning the business model to tap non-conventional sources of revenue, existence and adequacy of fare policy and effectiveness of the top management in monitoring the affairs of the STUs. Out of the seven STUs of the State, Audit selected four STUs, i.e., one having its service entirely within the Metro city (MTC), the second having only long distance services (SETC), the third-TNSTC (KBM) and the fourth-TNSTC (MDU) having a mix of both town and mofussil services.

Finances and Performance

The STUs suffered continuous losses during the four years ending 2008-09 and had an accumulated loss of Rs.3,884.99 crore as on 31 March 2009. Six STUs operating in mofussil/town and express services earned Rs.15.99 per kilometre (KM) but expended Rs.18.32 per KM in 2008-09. The Metropolitan Transport Corporation (Chennai) Limited (MTC), earned Rs.24.59 per KM but expended Rs.27.90 per KM in 2008-09.

Share in Public Transport

While the State allows exclusive operation of transport services by STUs within Chennai city and Madurai Town, it allows both private operators and STUs to operate services in other towns and mofussil areas. The six STUs and private operators increased their fleet strength from 20,359 buses as on 31 March 2005 to 24,027 buses as on 31 March 2009. MTC increased its fleet from 2,773 to 3,260 during the above period. The vehicle density per one lakh population had increased from 36 in 2004-05 to 42 in 2008-09 in the State. In Chennai, the same increased from 36 to 38 during the above period.

Vehicle profile and utilisation

Two mofussil STUs test checked increased their fleet strength by 4,526 buses during 2004-09 and thereby, reduced the percentage of overaged vehicles from 69.27 to 37.67 during the review period. Similarly SETC and MTC added 730 and 2,407 buses during the review period and reduced the percentage of overaged express and city buses from 99.54 to 34.91 and 77.17 to 25.34 during the review period respectively. As the replacement of buses by these STUs was without internal generation of funds and at the direction of the Government, the replacement through borrowed funds had increased the interest burden of four STUs by Rs.85.72 crore during the review period.

The fleet utilisation of three STUs remained at 95 per cent during review period and in respect of MTC varied from 78.84 per cent in 2004-05 to 87.57 per cent in 2008-09. The vehicle productivity of two mofussil STUs and SETC was more than All India Average of 313 KMs per day and ranged between 441 - 459 KMs and 614 - 627 KMs respectively during the review period. In case of MTC, it ranged between 261 and 298 KMs per day during the review period. The passenger load factor of mofussil and express buses improved from 78.98 per cent in 2004-05 to 85.46 per cent in 2008-09. But in MTC, the same increased from 80.81 in 2004-05 to 85.92 in 2006-07, but declined to 75.25 per cent in 2008-09 due to operation of deluxe and other special services for which the public patronage was less.

Economy in operations

Manpower and fuel constitute 78.49 per cent of the total cost. Interest, depreciation and taxes account for 13.32 per cent and are not controllable in the short term. Thus, the major cost saving has to come from manpower and fuel. All the four STUs test checked had excess

manpower over and above the norm and thereby incurred idle wages of Rs.542.38 crore during the period under review. The STUs did not achieve their own targets for fuel consumption resulting in extra expenditure of Rs.33.76 crore during the same period.

As a result of cancellations due to controllable factors like want of crew and vehicles, the four STUs were deprived of contribution to an extent of Rs.169.17 crore.

Four STUs outsourced bus body construction despite availability of cheaper in-house capacity and incurred an avoidable extra expenditure of Rs.6.86 crore. Besides, the delay in construction of bus bodies in-house resulted in loss of potential revenue of Rs.1.49 crore.

Revenue Maximisation

The STUs do not have any policy for tapping non-traffic revenue sources by taking up large scale public-private partnership projects on their vacant land.

Need for a regulator

The Government does not have a policy to revise the fare based on normative cost. Within the ambit of existing fare structure, STUs test checked did not revise the fare for "Travel as you please" and lost a revenue of Rs.48.94 crore

Fulfilment of social obligations

The STUs collectively failed to liquidate the dues in respect of terminal benefits (Rs.969.99 crore) to the retired employees and admitted liability towards the victims of accidents (Rs.158.15 crore) as they diverted the funds earmarked for these obligations towards their working capital needs.

Monitoring

The fixation of targets for various operational parameters and an effective Management Information System (MIS) for obtaining feed back on achievement thereof are essential for monitoring by the top management. But the MIS system of the STUs was not effective as it did not have an integrated data base on the operations of individual depots and routes.

Conclusion and Recommendations

Though STUs are suffering losses due to their high cost of operations and very meagre increase in revenue, they may control the loss by tapping non-conventional sources of revenue and keeping the manpower and KMPL within the norm. The loss may also be reduced by controlling the loss of scheduled KMs. The review contains five recommendations to improve the performance of STUs. Creating a regulator to regulate fares and services and tapping non-conventional sources of revenue by undertaking PPP projects are stressed in these recommendations.

(Chapter 2.1)

Tamil Nadu Civil Supplies Corporation Limited

The Tamil Nadu Civil Supplies Corporation Limited is engaged in procurement of essential commodities from the farmers, central agencies etc., hulling of paddy, transportation and storage of essential commodities for distribution under Public Distribution System (PDS). The performance review of the activities of the Company for the period from 2004-05 to 2008-09 was conducted to ascertain the economy, efficiency and effectiveness of the Company in carrying out all its business activities and its ability to deliver according to its mandate.

Financial position and working results

All deficit in PDS sales are made good by the Government by way of subsidy. The Company incurred an excess of expenditure over income of Rs.6,358.06 crore for the four years ending 31 March 2008. The Company was found late in preferring/pursuing claims for receipt/ reimbursement of various expenses and dues. A sum of Rs.96.57 crore was pending receipt from the Government of India on account of Custom Milled Rice subsidy.

Procurement

The Company was not geared to meet expectations set out for it to act as a market intervention agency. The procurement target for paddy were set below the minimum requirement for distribution under PDS throughout the review period even though sufficient quantity of paddy was available in the market. The infrastructure at Direct Procurement Centres were inadequate.

Deficiencies in procurement

The Company failed to lift rice from Government of India allocated under Sampoorna Grameen Rozgar Yojana scheme during 2006-07 depriving continuous employment to 37,874 persons for 100 days in four districts. The Company did not prefer revised claim of wholesale/retail margin for sale of sugar since 2001 even after knowing the willingness of GOI for such revision subject to production of supporting documents. Excess purchase of wheat than requirements, extension of undue benefits to roller flour mills, incorrect assessment of requirement of sugar and non-availing competitive rates for purchase of pulses etc., were also observed.

Hulling

Utilisation of Company's own Modern Rice Mills (MRMs) capacity was dismal and it heavily depended on private hulling agents. Hours lost due to controllable factors in its own mills resulted in avoidable expenditure of Rs.13.35 crore due to hulling of paddy through private hullers. This was despite COPU recommendations in 1989 to optimise in-house capacity and minimise dependence on private hullers.

Storage and transportation

The Company faced abnormal storage losses, which are controllable factor, of beyond 1 percent to 4 percent. In violation of the norms prescribed, the Company regularised excess storage loss of 41,624 MT of Paddy valued at Rs.24.99 crore pertaining to the KMS 2004-2007. The Company had hired godown space beyond its needs and incurred wasteful storage charges of Rs.7.08 crore during 2004-08.

Implementation of non-Public Distribution System Schemes

The Company has been incurring losses in implementation of non-PDS schemes such as supply of commodities to noon meal schemes which had increased the food subsidy to the extent of Rs.37.59 crore.

Conclusion and Recommendation

The performance of the Company was tardy in preferring/pursuing its claims and recovery of dues. The Company neither fixed targets realistically nor procured paddy as per their targets. It incurred controllable and avoidable expenditure in procurement of pulses, wheat and sugar. The Company could not utilise hulling capacity of its own MRMs. It used godown space inefficiently and hired space beyond its needs. These contributed to increase in subsidy and overburdened the State exchequer. The Company must ensure that all admissible elements of cost are claimed without delay, must exercise effective control over procurement & hulling operations and reduce storage & transportation costs by streamlining activities.

(Chapter 2.2)

Information Technology Review on Computerisation in Tamil Nadu State Marketing Corporation Limited.

Tamil Nadu State Marketing Corporation Limited (Company) has the exclusive privilege of wholesale supply and retail vending of Indian Made Foreign Liquor (IMFL) in the State. IMFL is procured and distributed through its 41 depots across Tamil Nadu. The turnover of the Company was over Rs.10,000 crore and the Company was paying various duties, taxes, fee etc. To have better inventory control, disseminate timely information to the management, supply chain management and to ensure safety of the data at depots, the Company had computerised operations of all the 41 depots in FoxPro based application and the suppliers bill processing at Corporate office in Oracle based application in 1998. The Company decided to upgrade the hardware and software to Oracle platform in three phases (September 2001).

Planning

The Company did not plan the up-gradation to Oracle platform in a synchronised manner and there were delays in finalisation of tender and the selection of vendor in first two phases. The Company is yet to start Phase III of implementation at 16 depots which are still working with old software application.

Status of computerisation

Despite that there was no connectivity established between the depots & SRM offices and Company & Prohibition and Excise Department, the contractor was paid the full amount of contract. SRM offices perforce prepared their reports and sent it to the corporate office in Excel sheets. The Company did not have trained personnel to man the system and was dependent on the software developers.

System design

Audit noticed deficiencies in software design leading to necessity of manual interventions bypassing the system. The deficiencies were noticed in mapping of accounting policies, tax laws and linking of master stock registers with physical stock.

Other deficiencies

The software was found deficient in the areas of input, process and output controls, ensuring date and time logic in the invoices, standardisation of the coding, validation and integration of data. The Company did not have long term IT plan or policy.

Conclusion

The Company failed to evolve a long term IT Plan with duly documented performance indicators. There was no in-house expertise to rectify the deficiencies in the software. The Company agreed to strengthen the system.

(Chapter 2.3)

3 Transaction Audit Observations

Audit observations included in this Report highlight deficiencies in the management of Public Sector Undertakings with huge financial implications. The irregularities pointed out are broadly of the following nature:

Loss of Rs.270.71 crore in twelve cases due to non safeguarding of financial interests of the organisation.

(Paragraphs 3.1, 3.4, 3.5, 3.6, 3.9, 3.10, 3.12, 3.13, 3.15, 3.16, 3.17 and 3.18)

Loss of Rs.28.61 crore in four cases due to non compliance with rules, directives, procedures and terms and conditions of contracts.

(Paragraphs 3.2, 3.8, 3.14 and 3.19)

Loss of Rs.8.87 crore in two cases due to defective/ deficient planning

(Paragraphs 3.3 and 3.7)

Gist of some of the important observations is given below:

Deviation by **Tamil Nadu Industrial Development Corporation Limited** from the Government policy and adoption of the guideline value applicable for a residential area and adoption of lower rate of escalation for fixing the land cost while allotting industrial land to the joint venture promoter resulted in loss of revenue of Rs.158.63 crore to the Government.

(Paragraphs 3.1 and 3.2)

Electronics Corporation of Tamil Nadu Limited spent Rs.8.56 crore to set up a business data centre without a business plan and approval of the State Government rendering the investment idle and unproductive. The Company is contract bound to incur a future wasteful maintenance expenditure of Rs.3.47 crore up to the year 2012.

(Paragraph 3.3)

Electronics Corporation of Tamil Nadu Limited ventured into software development without determining the scope and did not monitor the project during execution leading to unproductive expenditure of Rs.2.56 crore.

(Paragraph 3.4)

Tamil Nadu Electricity Board is incurring avoidable interest of Rs.31.54 crore as it chose an incorrect option for payment for purchase of power from Neyveli Lignite Corporation Limited.

(Paragraph 3.13)

Tamil Nadu Electricity Board made overpayment of Rs.17.15 crore to a captive power producer as it adopted higher purchase rate applicable for “firm power” even though it purchased “infirm power” from them.

(Paragraph 3.14)