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 2010, the State of Tamil Nadu had 66 working PSUs (64 companies and 2 Statutory corporations) and 11 non-working PSUs (all companies), which employed 2.79 lakh employees. The State PSUs registered a turnover of ₹47,578.39 crore as per their latest finalised accounts. This turnover was equal to 19.73 per cent of State's GDP indicating the important role played by State PSUs in the economy. The PSUs had accumulated loss of ₹21,297.39 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2010, the investment (Capital and long term loans) in 77 PSUs was ₹36,408.15 crore. Power Sector accounted for 80.57 per cent of total investment and Service Sector 9.72 per cent in 2009-10. The Government contributed ₹7,729.58 crore towards equity, loans and grants/subsidies during 2009-10.

Performance of PSUs

As per latest finalised accounts, out of 66 working PSUs, 40 PSUs earned a profit of ₹511.96 crore and 20 PSUs incurred a loss of ₹8,547.73 crore. The major contributors to profit were Tamil Nadu Newsprint and Papers Limited (₹126.06 crore), State Industries Promotion Corporation of Tamil Nadu Limited (₹62.32 crore), Tamil Nadu Industrial Investment Corporation Limited (₹44.84 crore), Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹41.30 crore) and TIDEL Park, Chennai (₹38.05 crore). Heavy losses were incurred by Tamil Nadu Electricity Board (₹7,771.39 crore), Tamil Nadu State Transport Corporation (Madurai) Limited (₹166.47 crore), Tamil Nadu State Transport Corporation (Coimbatore) Limited (₹141.42 crore) and State Express Transport Corporation Limited (₹100.82 crore).

Audit noticed various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of ₹4035.35 crore and infructuous investments of ₹632.60 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

19 working PSUs had arrears of 35 accounts as of 30 September 2010, of which 15 accounts pertained to earlier years and the remaining were 2009-10 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 61 (59 accounts of Government companies and two accounts of Statutory corporations) accounts finalised, the statutory auditors of Government companies had given unqualified certificates for 27 accounts, qualified certificates for 32 accounts. There were 26 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

2 Performance review relating to Government Company

Schemes implemented by Social Sector Companies of Tamil Nadu

Between the years 1974 and 1999, the State Government formed three social sector companies viz., Tamil Nadu Adi Dravidar Housing and Development Corporation Limited (TAHDCO), Tamil Nadu Backward Classes Economic Development Corporation Limited (TABCEDCO) and Tamil Nadu Minorities Economic Development Corporation Limited (TAMCO) with identical objectives of raising the economic status of the scheduled caste, most/other backward classes and minorities in the State. To assess the effectiveness of the schemes of these companies, a horizontal performance review across these companies was taken up between January and May 2010.

Financial management

All the three companies kept major portion of undisbursed funds in short term and interest earning deposits, which ranged between ₹92.72 crore and ₹249.20 crore in respect of TAHDCO, ₹10.89 crore and ₹87.37 crore in respect of TABCEDCO and ₹2.41 crore and ₹13.55 crore in respect of TAMCO. The interest earned on these deposits only resulted in overall profit for these companies.

Planning

The companies did not have village level, block level data base of targetable beneficiaries and did not have long term corporate plans. The shortfall in achievement of annual targets was due to absence of strategic plan and delays in processing the loan applications.

Implementation of the scheme

The land purchase scheme of TAHDCO suffered from the deficiencies such as assistance for purchase of fragmented and over exploited land. The coverage of land irrigation scheme by TABCEDCO was poor due to its inability to identify the beneficiaries. TAHDCO extended loans to manual scavengers for the trades other than in which they were trained. Both TAHDCO and TABCEDCO sanctioned lower amount of loan for the purchase of milch animals. TAHDCO did not ensure that the self help groups obtaining the initial loan come back for the main part of the loan. The self employment programmes of TAHDCO did not concentrate on high income generating activities prescribed by GOI. The beneficiaries were subjected to high interest rates and delays due to poor control and monitoring by TABCEDCO and TAMCO. TAHDCO imparted training through unrecognised institutes and did not compile the data of the employment status of the trained beneficiaries.

Monitoring and recovery performance

The post disbursement monitoring by these companies was poor and revealed non-verification of assets created, non-maintenance of data base of guarantors and security, poor recovery of loans and lack of adequate impact studies.

Impact assessment

The independent impact assessment of the schemes by Audit substantiated the audit findings mentioned in the performance review and indicated an urgent need for the companies to take remedial actions.

Conclusion and Recommendations

Audit concludes that these companies were required to improve their performance. Audit recommends to prepare the annual plans and the need based strategic plans in consonance with the goals of the Government, improve implementation of the schemes by correct identification of beneficiaries, avoid procedural delays and ensure that the assistance given would help to achieve the objectives and constantly monitor and assess the impact of the schemes to enable mid-term corrections wherever required.

(Chapter 2)

3 Performance review relating to Statutory Corporation

Power Generation Activities of Tamil Nadu Electricity Board

The availability of reliable and quality power is crucial for sustained growth of the economy. The National Electricity Policy envisaged providing at least 1,000 units per capita electricity by 2012. The Performance Audit of power generation stations of Tamil Nadu Electricity Board (Board) was taken up between January and May 2010 to assess the adequacy of power supply with reference to the State's demand and the National Mission. Our findings indicated the following.

Planning and Project Management

To meet the generation requirement of the State, a capacity addition of 3,977 MW was required against which the Board added only 290 MW during 2005-10. The low capacity addition was attributable to non-completion of planned projects in time and non taking-up of identified hydro projects. All the five projects completed during the review period missed their time schedules due to improper project management resulting in avoidable time overrun with consequent cost overrun of ₹392.37 crore. Further, the Board took up life extension programme only in two out of 16 hydro stations which had completed their normative life of 35 years.

Contract Management

The Board became ineligible for duty exemption of ₹133.26 crore due to award of work valuing ₹2,175 crore on nomination basis.

Input efficiency

The supply of coal suffered from deficiencies such as short receipt of coal against linkage, which resulted in loss of generation of 812.77 MUs during 2008-10 valued at ₹266.41 crore. Deficiencies were also noticed in the system of coal handling at NCTPS and TTPS resulting in extra expenditure of ₹20.58 crore. A comparison of the rates finalised by the Board for the purchase of imported coal with that of the rates of similar grade coal imported by another State PSU indicated that the Board had incurred extra expenditure of ₹337.76 crore. Excess consumption of 45.25 lakh MT of coal at TTPS with reference to TNERC norms resulted in additional expenditure of ₹1,103.30 crore. The manpower in excess of the norms in thermal and gas stations resulted in extra expenditure of ₹279.65 crore.

Output efficiency

The Board continued to operate unviable Ennore Thermal Power Station and Basin Bridge Gas Station. Low plant load factor at Ennore Thermal Power Station was due to low capacity utilisation, major shutdowns and delays in repairs and maintenance. The gas station at Basin Bridge was not able to break even due to usage of high cost naptha and non-conversion of the station from single cycle mode to combined cycle mode. The hydel stations could only be partially operated due to not carrying out desilting, river training courses, repair to turbo generator, non-availability of dedicated feeders etc. Excess auxiliary consumption as compared to TNERC norms resulted in lesser availability of 859.34 MUs of generated power valued at ₹281.63 crore.

Financial Management

The Board incurred continuous losses during the review period. Consequently, the dependence on borrowings increased over the review period from ₹9,583.68 crore in 2005-06 to ₹32,039.26 crore in 2009-10. The Board was dependent on costlier power from other sources. The Board did not file with TNERC the application for tariff revision every year. Instead, they filed the application only in February 2010 after a gap of seven years despite increased cost of operation and consequent poor financial position.

Environmental issues

Two thermal stations of the Board (TTPS and NCTPS) were operating without the consent of TNPCB. The air pollution levels at TTPS were much more than the norms prescribed. The Board relied on manual data for evaluating SPM levels even after installation of the online

monitoring system. The ash disposal by the thermal stations was lower than the quantity generated.

Conclusion and Recommendations

The Board's inability to meet the power demand of the State was mainly due to insignificant capacity additions and not optimising the existing power generating capacity coupled with stoppage of generation though controllable. These problems could be managed by better planning and proper monitoring of the existing facilities. This review contains seven recommendations. Taking up capacity additions to the levels of demand, avoiding pre-construction and execution delays, avoiding shortage of coal, improving coal handling system and minimising forced outages are some of these.

(Chapter 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 ₹120.63 crore in eight cases due to not safeguarding of financial interests of the organisation.

(Paragraphs 4.1, 4.5, 4.9, 4.10, 4.11, 4.12, 4.15 and 4.16)

Loss of ₹36.03 crore in five cases due to non compliance with rules, directives, procedures and terms and conditions of contracts.

(Paragraphs 4.2, 4.6, 4.7, 4.8 and 4.14)

Loss of ₹30.41 crore in three cases due to defective/ deficient planning

(Paragraphs 4.3, 4.4 and 4.13)

Gist of some of the important observations is given below:

Poompuhar Shipping Corporation Limited incurred avoidable expenditure of ₹56.37 crore due to delay in purchase of spares, incorrect selection of shipping yard, non-rectification of the problems in cranes and turbo engines and delay in finalising the dry docking yard. Besides, while inviting/evaluating tenders for spot chartering of the vessels, it also deviated from the Tender Rules, terms and conditions resulting in avoidable extra expenditure of ₹26.76 crore.

(Paragraphs 4.1 and 4.2)

Arasu Cable TV Corporation Limited created unfruitful infrastructure worth ₹28.28 crore and incurred cash loss of ₹8.11 crore during its three years of commercial operations up to October 2010.

(Paragraph 4.3)

Without conducting any feasibility and ascertaining the marketability of the land, **Electronics Corporation of Tamil Nadu Limited** purchased land in two phases in quick succession which resulted in idle investment of ₹20.00 crore.

(Paragraph 4.4)

Computation of Electricity Tax after deducting night hour rebate and Power Factor incentive by wrongly interpreting Tamil Nadu Tax on Consumption or Sale of Electricity Act, 2003 by **Tamil Nadu Electricity Board**, resulted in short collection of tax of ₹38.85 crore.

(Paragraph 4.9)

Tamil Nadu Electricity Board failed to analyse the capabilities of the lowest tenderer resulting in avoidable extra expenditure of ₹7.07 crore.

(Paragraph 4.10)