OVERVIEW

1 Overview of Government companies and Statutory corporation

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 2011, the State of Tamil Nadu had 67 working PSUs (66 companies and one Statutory Corporation) and 9 non-working PSUs (all companies), which employed 2.79 lakh employees. The State PSUs registered a turnover of ₹55,194 crore as per their latest finalised accounts. This turnover was equal to 10.09 per cent of State's GDP indicating the important role played by State PSUs in the economy. The PSUs had Accumulated Loss of ₹33,621.12 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2011, the Investment (Capital and Long Term Loans) in 76 PSUs was ₹56,553.61 crore. Power sector accounted for 89.32 per cent of total investment and Service sector 4.14 per cent in 2010-11. The Government contributed ₹12,694.04 crore towards Equity, Loans and Grants/Subsidies during 2010-11.

Performance of PSUs

As per latest finalised accounts, out of 67 working PSUs, 40 PSUs earned a Profit of ₹592.09 crore and 23 PSUs incurred a Loss of ₹11,923.59 crore. The major contributors to Profit were Tamil Nadu Newsprint and Papers Limited (₹149.00 crore), State Industries Promotion Corporation of Tamil Nadu Limited (₹82.84 crore), Tamil Nadu Industrial Investment Corporation Limited (₹52.82 crore) and Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹64.43 crore). Heavy losses were incurred by Tamil Nadu Electricity Board (₹10,294.64 crore) and all the eight State Transport Corporations (₹1,575.26 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 ₹5128.37 crore and infructuous investments of ₹542.98 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

26 working PSUs had arrears of 39 accounts as of 30 September 2011, of which 13 accounts pertained to earlier years and the remaining were 2010-11 accounts. There were 9 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 63 (61 accounts of Government companies and two accounts of Statutory Corporations viz Tamil Nadu Warehousing Corporation and Tamil Nadu Electricity Board) accounts finalised, the Statutory Auditors of Government companies had given unqualified certificates for 32 accounts and qualified certificates for 29 accounts. There were 22 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

2 Performance audit relating to Government Companies

2.1 State Industries Promotion Corporation of Tamil Nadu Limited

Since 1971, the State Industries Promotion Corporation of Tamil Nadu Limited (Company) is engaged in creation/development and maintenance of Industrial Centres and Special Economic Zones (SEZ) in the State. To assess the role of the Company as a catalyst for the industrial development of the State, we took up a performance audit of the Company between February and August 2011 covering its activities for the last five years up to 2010-11.

Financial performance

The Company continuously earned Profit during the audit period 2006-07 to 2010-11 with a major contribution (33 to 74 per cent) from interest income on Term Deposits. In contrast to this, the share of income from the core activity viz., industrial development, continuously declined from 67 to 24 per cent during 2006-07 to 2010-11. This decline was attributable to the Company's failures in project management, fixation of plot cost, non-adoption of higher plot cost in respect of allotment to commercial users, etc.

Planning

The Company neither prepared long term/strategic plans nor short term plans for development of Industrial Centres. Further, it did not conduct feasibility studies and prepare Detailed Project Reports before embarking upon new Industrial Complexes. Consequently, the Company could market only 0 to 36 per cent of saleable plots in five out of eight SEZs formed during the period from 2006-07 to 2010-11.

Project management

The Company did not maintain an MIS indicating awarded and actual cost, scheduled/actual completion of works and the resultant time and cost overrun, thereby, it failed to have control over the project implementation. There were instances of avoidable/ unproductive expenditure of ₹7.89 crore due to defective planning, lack of coordination with State Highways Department, etc.

Allotment of industrial plot and fixation of cost

The Company did not have robust system of fixing/revising plot cost taking into account enhanced compensation/interest payable to the erstwhile land owners, latest trend in the market rates, extent of saleable area, etc. Further, the Company did not charge commercial rates for allotment to non-industrial entrepreneurs as per its policy. These factors led to loss of revenue of ₹251.76 crore in respect of test checked cases. The Company did not take back 2,124 acres of unutilised land from 195 entrepreneurs, thereby lost potential revenue of ₹421.56 crore even in respect of 65 per cent of 2,124 acres of land for which the data on originally allotted price and the current market price was available.

Change of management and sub-lease

There was no system to monitor change of management and subleasing by the original allottees. Consequently, the Company could not enforce recovery of ₹136.00 crore from seven allottees, who had subsequently handed over the management to the new promoters and sub-leased portion of the leasehold land.

Release of incentives under Structured Package of Assistance (SPA)

The Company acts as a nodal agency of State Government for release of SPA. However, its system to verify the committed investment and generation of employment before release of incentives was ineffective. Besides, there was no limitation of incentives to the investments in the eligible fixed assets qualifying for incentives. This led to release of incentives in excess of the eligibility amounting to ₹297.75 crore in two cases.

Internal control and monitoring

The internal control and monitoring mechanism was weak in the areas of reporting the performance of individual Industrial Centres, comprehensive data on allotment and vacancy of industrial plots, status report on various legal cases, etc.

Conclusion and recommendations

We conclude that the Company's performance was deficient in planning, in having a foolproof system to fix/revise plot cost in enforcing repossession of unutilised land and recovery of differential cost at the time of change of management and sublease. We recommend formulating strategic/long term plans, conducting feasibility studies before setting up new Industrial Centres, installing an effective costing mechanism for plot cost and strengthening internal control system and internal audit procedures.

(Chapter 2.1)

2.2 Power Distribution Activities of Tamil Nadu Generation and Distribution Corporation Limited

National Electricity Policy (NEP) aims to bring out reforms in the Power Distribution sector with focus on system up-gradation, controlling and reduction of T&D losses and power thefts and making the sector commercially viable. It further aimed to bring out conservation strategy to optimise utilisation of electricity with focus on demand and load management. In view of the above, a performance audit on the working of the Tamil Nadu Generation and Distribution Corporation Limited (Company) and the erstwhile Tamil Nadu Electricity Board for the years 2006-11 was taken up to ascertain whether they were able to adhere to the aims and objectives stated in the NEP.

Distribution network planning

The available transformer capacity was only 26,592 MVA against the requirement of 66,450 MVA in March 2011. The Company planned addition of 335 Sub Stations (SS) during 2006-07 to 2010-11 but had actually added 235 SS. The shortfall was attributable to lack of proper planning, co-ordination between the executing agencies within the Company, besides delays in executing the work by its field offices, etc.

Implementation of Centrally Sponsored Schemes

Restructured Accelerated Power Development and Reform Programme had been showing very slow progress due to diversion of Central funds towards working capital and delay in identification of project areas.

Sub-transmission and distribution losses

The failure percentage of distribution transformers was up to 8.23 against the norm of 6 resulting in extra expenditure of ₹38.20 crore for repairs of these transformers. The predominant causes of excess failure were overloading and inadequate maintenance by the Company.

Billing and collection efficiency

There were instances of under assessment of revenue of ₹601.58 crore due to incorrect billing during 2006-07 to 2010-11 of which ₹112.53 crore was collected by the Company.

Subsidy support and cross subsidisation

While the Company was selling nearly 20 per cent of energy free of cost as per the Government's policy, the subsidy realised from the Government for such free supply was only up to 10 per cent. The shortfall of ₹11,020.42 crore was due to claiming subsidy based on the connected load of service connections instead of actual consumption of energy by these consumers. Against the National tariff policy to have the tariff of all categories of consumers within the range of ±20 per cent of average cost of supply by 2010-11, the recovery from agricultural and domestic consumers was low at 4.31 and 40.48 per cent of cost of supply of power.

Consumer satisfaction

The Company's MIS showed that 10.73 lakh complaints received in the selected circles were rectified without back-up records. There were 291 instances of delays in effecting HT services due to avoidable reasons like repeated changes in estimates and delays in preparation of feasibility report, want of line materials, etc.

Conclusion and recommendations

The Company's revenue gap of ₹1,218.94 crore in 2006-07 had increased to ₹12,950.56 crore in 2010-11. This was mainly due to not filing the Annual Aggregate Revenue Requirement from 2002-03 to 2009-10, absence of control over T&D losses, purchase of costlier power predominantly from independent power producers, high debt servicing burden, not claiming accurate subsidy in respect of agricultural service connection, etc. If only Company reduces the T&D losses by improving the transformation capacity, complete the construction of sub-stations within the time schedule, expeditiously implement Centrally sponsored programme, maintain the failure of distribution transformers within the norms and accurately work out the consumption charges to avoid short collections, etc., the revenue gap could be reduced. This report contains six recommendations. Create adequate transformer capacity to avoid overloading of transformers, complete construction of sub-station as per plan to achieve savings in line loss, control the failure of the distribution transformers within the norms, accurately work out the subsidy on agricultural service connection are some of these recommendations.

(Chapter 2.2)

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 ₹46.46 crore in four cases due to extension of undue benefits.

(Paragraphs 3.1, 3.3, 3.16 and 3.17)

Loss of ₹123.38 crore in ten cases due to non compliance with rules, directives, procedures and terms and conditions.

(Paragraphs 3.6, 3.7, 3.8, 3.9, 3.10, 3.11, 3.12, 3.13, 3.14 and 3.15)

Blockage of funds of ₹53.69 crore in three cases due to defective planning and laxity in claiming the compensation.

(Paragraphs 3.2, 3.4 and 3.5)

Gist of some of the important observations is given below:

Electronics Corporation of Tamil Nadu Limited while allotting the land on lease basis to two IT companies in October 2007 extended undue benefit of ₹37.80 crore by not considering the revised guideline value for August 2007.

(Paragraph 3.1)

Tamil Nadu Industrial Development Corporation Limited extended a loan of ₹45 crore to an ineligible Joint Sector Company and its Special Purpose Vehicle (SPV) Company without ensuring source of repayment. Consequently, the loan and the interest of ₹14.02 crore remained unrecovered for the last two years.

(Paragraph 3.5)

Tamil Nadu Medical Services Corporation Limited suffered loss of ₹1.83 crore due to non-issue of valuable life saving drugs before expiry.

(Paragraph 3.7)

Tamil Nadu Generation and Distribution Corporation Limited allowed reimbursement of Fixed Capacity Charges for power generation plant for a capacity of 347.712 MW but allowed operation of the plant for 330.50 MW, thereby it allowed excess fixed capacity charges of ₹95.99 crore.

(Paragraph 3.11)

Tamil Nadu Transmission Corporation Limited extended undue benefit of ₹7.25 crore to a supplier due to its failure to incorporate clauses to safeguard its financial interest in the placement of orders for imported cables and accessories.

(Paragraph 3.17)