CHAPTER-IV

4 TRANSACTION AUDIT OBSERVATIONS RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

Important audit findings noticed as a result of test check of transactions made by the State Government companies/Statutory corporations are included in this Chapter.

Government companies

State Transport Undertakings

4.1 Excess payment of Central Excise duty and Sales tax

Failure to negotiate concession with the oil companies resulted in an avoidable excess payment of Rs.27.17 crore towards Central Excise duty and Sales tax on the concession amount.

State Transport Undertakings[♦] (STUs) purchase High Speed Diesel (HSD) oil from Hindustan Petroleum Corporation Limited (HPCL), Indian Oil Corporation Limited (IOC) and Bharat Petroleum Corporation Limited (BPCL), all Central Public Sector Undertakings. All the oil companies extended a concession of Rs.700 per kilo litre from 1 October 2003 (which was increased to Rs.1,250 per kilo litre with effect from 1 April 2005) on the end price i.e., invoice value including the elements of Central Excise Duty and Sales Tax.

Section 4 (a) (i) of the Central Excise Act, 1944 (Act) on valuation of excisable goods for purposes of charging excise duty, however, stipulates that *"where, in accordance with the normal practice of the wholesale trade in such goods, such goods are sold by the assessee at different prices to different classes of buyers, each such price shall be deemed to be the normal price of such goods in relation to each class of buyers"*.

As the oil companies extended the concession in the normal course of whole sale trade, the deemed normal price for charging Central

♦ Metropolitan Transport Corporation Limited, Chennai, State Express Transport Corporation Limited, Chennai, Tamil Nadu State Transport Corporation (Coimbatore) Limited, Tamil Nadu State Transport Corporation (Madurai) Limited, Tamil Nadu State Transport Corporation (Salem) Limited, Tamil Nadu State Transport Corporation (Villupuram) Limited and Tamil Nadu State Transport Corporation (Kumbakonam) Limited.

Excise Duty and Sales Tax on HSD oil purchased by the STUs should have been arrived at after allowing concession in terms of Section 4 (a) (i) of the Act. The STUs, however, failed to negotiate with the oil companies to allow concession on the basic price before charging Central Excise Duty and Sales Tax in terms of the aforesaid provision. This resulted in an avoidable excess payment of Central Excise duty of Rs.9.66 crore on the concession and Sales tax of Rs.17.51 crore on the concession plus Central Excise duty on HSD oil purchased by the seven STUs between October 2003 and June 2005.

The matter was reported to the companies/Government in August 2005; their replies had not been received (September 2005).

Electronics Corporation of Tamil Nadu Limited

4.2 Undue benefit

The Company extended undue benefit of Rs.9.56 crore, while entering into an agreement for the lease of Government land to a joint venture project.

The Government approved (July 1990) establishment of a software centre in joint sector by the Company in association with a private promoter and allotted five acre of land to the Company. The Government permitted (January 1991) the joint venture company *viz*., Elcot New Era Technologies Limited (ELNET) to enter upon the land pending final orders on sale/lease of the said land. ELNET took possession of the land in February 1991.

ELNET constructed a software park and commenced commercial operation in 1996. After protracted correspondence, the Government alienated (14 January 1999) 3.34 acre of land out of five acre allotted earlier. The Government fixed (April 2000) the land value at Rs.19,60,820 per ground (Rs.3.56 crore per acre) for the land and asked the Company to remit the amount. The extent of land with ELNET was found (June 2004) to be 3.10 acre, as the remaining land was handed over to Chennai Corporation for widening of the road.

As per the terms of alienation order, the land could not be leased out by the Company without the prior approval of the Government. The Company, however, decided (February 2001) to lease out the land to ELNET for 90 years on a one time lease deposit of Rs.14.29 crore. ELNET paid Rs.5.19 crore in instalments (between May 2000 and July 2003) to the Company.

The Company entered (September 2004) into an agreement with ELNET for the lease of 3.10 acre (56.27 grounds) of land for 90 years from 14 January 1999 (the day on which land was alienated to the Company), without getting the approval from the Government. ELNET paid (September 2004) Rs.11.03 crore as one time lease deposit and Rs.35.85 lakh as lease rent (at the rate of seven *per cent*) for the period from 14 February 1991 to 14 January 1999.

Audit analysis revealed that as per the existing provisions, the Company should have collected the following amount from ELNET for leasing of the land:

- Annual lease rent of Rs.2.23 crore on five acre from 14 February 1991 to 14 January 1999 and on 3.34 acre from 15 January 1999 to 25 April 2000 at 14 *per cent* of market value of Rupees two lakh per ground fixed by the Collector, Chennai in June 1991;
- Additional surcharge of Rs.42.66 lakh on the lease rent;
- Interest of Rs.7.26 crore (at 12 *per cent* per annum) on lease rent, additional surcharge and one time lease deposit for the period from April 2000 to September 2004.

Failure of the Company to collect lease rent for the entire land used by ELNET, additional surcharge as cess, interest on belated payment of lease rent/lease deposit as per the existing rules/provisions resulted in undue benefit of Rs.9.56 crore to ELNET.

The Company stated (April 2005) that the State Government had alienated 3.34 acre of land to it and that it would be proper and justifiable that lease rent was collected for the land alienated. The decision to collect lease rent at seven *per cent* of the land value was taken after due deliberation and consideration and the rate was reasonable.

The reply is not acceptable in view of the fact that lease rent for Government land was to be collected at 14 *per cent* of market value of the land, if the same was used for commercial purposes, as per the existing rules. Since ELNET had used the land for commercial purpose, lease rent should have been collected at 14 *per cent* of market value. Further, the Company had assured (January 2004) that the Government could charge lease rent at 14 *per cent* of land value for five acre from 14 February 1991 to 14 January 1999 and for 3.34 acre from 15 January 1999 to 25 March 2000.

The matter was reported to the Government in April 2005; their reply had not been received (September 2005).

Poompuhar Shipping Corporation Limited

4.3 Avoidable extra expenditure

Inordinate delay in inviting tenders for dry-docking repairs and importing spares resulted in avoidable extra expenditure of Rs.5.12 crore.

The Company uses its three ships besides chartering private ships on need basis to transport coal on behalf of Tamil Nadu Electricity Board (TNEB) from the load ports in Eastern India to the discharge ports at Chennai and Tuticorin.

The ship 'Tamil Periyar' was due for dry docking and other major repairs in August 2002. The Company requested (July 2002) the Director General (DG) Shipping, Mumbai for extension of time up to December 2002, for carrying out dry docking repairs, citing the urgent need to supply coal to Tamil Nadu Electricity Board (TNEB) and non-availability of dry docking shipyard. Audit analysis revealed that the Company was aware of the facts that:

- extension of time for dry dock repairs beyond December 2002 would not be granted by DG (Shipping);
- the lead time for finalisation of global tenders for dry docking was two months; and for procurement of spares/paints, it was 45 days.

In view of the above facts, the Company should have taken immediate action to invite and finalise global tenders for dry docking immediately after writing to DG (Shipping) for extension of time. The Company, however, did not do so and invited (29 October 2002) global tenders for dry docking repairs only after receipt (18 October 2002) of extension of time by DG (Shipping).

The Company issued (30 December 2002) a work order on Western India Shipyard Limited, Goa (WISL) for dry docking and major repairs. The work order stipulated a period of 55 days from the date of dry docking (30 December 2002) i.e., up to 23 February 2003 for completion of dry docking.

The Company, thereafter placed orders (7 January 2003) for the import of spares and marine paints through WISL. The spares and paint could be received in the ship yard between 25 February 2003 and 10 May 2003 i.e., only after the scheduled period of completion of dry docking. WISL could not complete the dry-docking in time and the ship could be released on 28 May 2003, i.e., after 148 days of dry-docking as against the stipulated period of 55 days.

During the extended period of 93 days (March 2003 to May 2003), the Company had to charter private ships for transportation of coal, which otherwise would have been transported by this ship. This resulted in avoidable extra expenditure of Rs.5.12 crore being the minimum charter hire charges paid by the Company to the private ships.

The Government stated (July 2005) that the Company started the procurement process after the grant of extension by DG (Shipping) and after finalising the shipyard for dry docking. The ship got delayed due to the very poor infrastructure and non-availability of critical facilities at the yard for early completion of dry dock, delayed transportation of paints from Singapore due to outbreak of SARS and truckers strike from 1 March 2003.

The reply is not acceptable as the Company was aware of the lead time involved in the procurement of spares and paints and as such it should have started the procurement process immediately instead of waiting for the extension. As regards poor infrastructure of dry dock, the reply of the Government is not acceptable as WISL was selected only on the basis of infrastructure facilities available at dry dock.

State Industries Promotion Corporation of Tamil Nadu Limited

4.4 Non-recovery of differential land cost

Failure to take effective steps for the recovery of differential land cost resulted in the blocking of Rs.2.43 crore.

The Company has been allotting land at its various industrial complexes on lease basis. As per the provisions of lease agreement, the lessee had to obtain prior approval from the Company in case of change in management and also to pay differential land cost, *viz*., the difference between the land cost based on the rate prevailing on the date of change in management and the land cost already paid. The Company would issue a 'No Objection Certificate' (NOC) to the lessee for the change in management, only after the payment of differential land cost.

Square D Biotech Limited (Square D)[*] took over (November 1994) the management of Ushta-Te-Biotech Limited, an allottee of 40.02 acre of land in an industrial complex, Cuddalore without informing and obtaining a 'NOC' from the Company. The Company came to know this fact only in March 1996, when Square D requested the Company to issue a 'NOC' for obtaining loan. The Company asked (May 1996) Square D to pay the differential land cost of Rs.1.20 crore. The Company, however, issued (September 1997) the 'NOC' without the receipt of differential cost. It was only in April 1998 that Rs.20.01 lakh only towards differential land cost was paid by Square D.

The Company cancelled (December 1999) the allotment due to non-payment of differential land cost and the interest thereon. The allotment was restored (April 2000) after receipt of Rs.47 lakh, with a condition that Square D should remit the balance differential land cost of Rupees one crore together with interest.

Audit noticed that the Company did not take effective steps to recover the amount except writing letters demanding the balance amount and interest and received (January 2004) only Rs.20 lakh. This resulted in non-recovery of Rs.2.43 crore (including interest of Rs.1.43 crore as on 31 January 2005).

The Company stated (July 2005) that the unit was lying closed with gross fixed assets valued at Rs.35.14 crore, besides capital work in progress of Rs.121.80 crore; hence, the balance differential cost could be collected with interest as and when the unit is revived.

---

* The Company Square D Biotech Limited changed (8 August 1997) its name to DSQ Biotech Limited and again changed (25 September 2001) its name as Origin Agrostar Limited.

The reply is not acceptable as there is no certainty about the revival of the unit. Further, the Company is neither a creditor nor a shareholder in it and as such, it does not have any control on the disposal of its assets.

The matter was reported to the Government in June 2005; their reply had not been received (September 2005).

Tamil Nadu Newsprint and Papers Limited

4.5 Idle investment

Failure to assess the suitability of imported cartoniser resulted in idle investment of Rs.2.36 crore.

The Company imported (May 2000) a sheet cutter and ream wrapping machine of 50 Tonnes Per Day (TPD) capacity along with a cartoniser to meet the growing demand for copier paper. The cartoniser, having packing capacity of 150 TPD, was an optional component but the Company purchased it at Rs.2.36 crore to dispense with manual packing. The cartoniser unit was installed in November 2001.

Audit analysis revealed that the cartoniser unit remained largely under-utilised as:

- in India, universal type packing was more popular than 'Lid and Tray type' packing and this cartoniser could not be used for universal type packing;
- the 'Lid and Tray type' packing was a new concept to the Indian conditions, and blank cartons had to be developed. These newly developed blank cartons were found to be weak and did not withstand the multiple handling of the cartons during transportation, warranting frequent changes in vendors and in the specification of cartons;
- the demand for the cut 'Folio' size paper was in 10 reams/pack but the cartoniser unit was capable of packing the same in 5 reams/pack only.

Due to failure of the cartonising machine, the Company had to resort for manual packing to meet the full requirement and incurred Rs.36.08 lakh during November 2001 to March 2005.

Failure of the Company to analyse suitability of the cartoniser unit prior to its procurement, resulted in under-utilisation of investment of Rs.2.36 crore as well as avoidable expenditure of Rs.36.08 lakh.

The Government stated (July 2005) that the high quality cartons were not readily available and the Company had gradually improved the quality of cartons. The cartoniser with strapping machine for packing five reams in a carton was procured based on the then prevailing market condition; which later on changed to ten reams packing to minimise labour handling expenses.

It was further stated that the Company made use of the cartoniser for packing 2,237 MT, 3,618 MT, 1,550 MT and 1,577 MT of copier paper during the four years ended 31 March 2005.

The reply is not acceptable, as the Company did not analyse the suitability of the unit considering 'Lid and Tray' type packing and the quality of cartons required for this unit. The Company was aware of cutomers' requirement of 10 reams/pack even before placing order for this unit. Further, the quantity packed through cartoniser declined from 20.32 *per cent* of the total quantity of the copier papers packed in 2001-02 to 6.21 *per cent* in 2004-05.

4.6 Avoidable payment of customs duty

Payment of customs duty on free replacement resulted in avoidable extra expenditure of Rs.1.07 crore

The Company entered (February and June 2001) into a contract with Voith Paper GMBH & Company, Germany (Voith) for rebuilding of Paper Machine-1 (PM-1) and speeding up the project of Paper Machine 2 (PM-2) for contract price of Euro 87,00,000 and Euro 61,00,000 respectively. The scope of contract included design, engineering, manufacturing, supply of equipment and spares and technical and supervisory charges for erection and commissioning. Clause 5.01.03 of the contract, *inter alia*, stipulated that Voith shall be entirely responsible for all taxes, stamp duties, licence fees and other such levies imposed outside India. The Warranty Clause (8.02) of the contract stipulated that during the period of warranty, Voith shall, at their own cost and expenses, make good or replace any equipment/part thereof:

- which may not comply with the specifications therefor; or
- which may be of defective or of incorrect design; or
- which under normal and proper use and maintenance proves defective in workmanship or materials.

Voith supplied the equipment and commissioned the speeded up PM 2 on 14 September 2002 and the rebuilt PM 1 on 15 December 2002. For the equipment supplied by Voith, the Company paid the customs duty as per Clause 5.01.03.

Audit noticed that Nipco-P rolls supplied by Voith failed (February and May 2003) in both PM-1 and PM-2, prematurely. Voith replaced (June 2003) the two failed Nipco-P rolls under warranty clause as these premature failures were due to defective design and manufacturing. The Company paid (June 2003) Rs.1.07 crore as customs duty for the free replacement of defective Nipco rolls also on the plea that as per Clause 5.01.03, it had to pay the customs duty.

Audit noticed that the clause relating to payment of duties, *viz*., 5.01.03 would apply only to the original supplies. As the replacement of rolls was necessitated due to the defective design/manufacture by Voith and which was to be replaced by it at its cost and expense, the Company should have recovered the customs duty paid on free replacements from Voith. Failure to do so resulted in avoidable extra expenditure of Rs.1.07 crore.

The matter was reported to the Company/Government in May 2005; their reply had not been received (September 2005).

Tamil Nadu Industrial Investment Corporation Limited

4.7 Non recovery of short term loan

Disbursement of short term loan without safeguarding its financial interest resulted in non-recovery of Rs.1.84 crore.

Tamil Nadu Telecommunications Limited (TTL), a joint venture of Telecommunications Consultants India Limited and Tamil Nadu Industrial Development Corporation Limited, approached (February 2003) the Company for a short term working capital loan of Rs.10 crore. As per appraisal done by the Company, TTL

- was depending mainly on Bharat Sanchar Nigam Limited for orders, which had not finalised its orders for 2002-03 by that time;
- incurred a cash loss of Rs.12.19 crore and registered a negative growth rate (-)64.95 *per cent* as per the provisional results for the nine months period ended 31 December 2002;
- did not offer any primary/collateral security for the loan and also expressed its inability to furnish a 'No Objection Certificate' from the banks from which it was availing working capital loans/advances. Audit noticed that normally insistence is on collateral security of fixed assets to cover 100 to 150 *per cent* of the loan sanctioned for working capital purposes.

The Company, in spite of the above, sanctioned (April 2003) short-term loan of Rs.10 crore to TTL and the amount was disbursed in May 2003.

As per the terms and conditions of the sanction, the principal amount was to be repaid at the end of 10th month (Rs.3 crore), 11th month (Rs.3 crore) and the 12th month (Rs.4 crore) from date of disbursement. Interest was payable every month at 16 *per cent* per annum from the last day of the month in which loan was disbursed. TTL furnished 13 postdated cheques (PDCs) towards payment of interest and 3 PDCs for repayment of principal.

The interest cheques for the first 10 months up to March 2004, were honoured by the banks. TTL, thereafter requested (April 2004) the Company not to present the five PDCs it had given for repayment of principal (Rs.10 crore) and the interest for 11th and 12th months (Rs.14.64 lakh). The Company agreed and did not present the PDCs till September 2004, when these were dishonoured on presentation.

TTL paid (November 2004 and May 2005) Rs.2.40 crore towards the dishonoured PDCs, after a criminal complaint under Section 138 of the Negotiable Instruments Act was filed (November 2004) in a Chennai Court. The Company adjusted this amount against principal (Rs.58.78 lakh) and overdue interest (Rs.1.81 crore). TTL owed the Company Rs.9.41 crore towards principal and Rs.17.47 lakh towards interest as on May 2005.

TTL paid (24 May 2005) Rs.7.75 crore, being the balance amount due to the Company against the dishonoured PDCs (Rs.10 crore + Rs.14.64 lakh – Rs.2.40 crore), indicating it as full and final settlement of all the overdues. The Company adjusted Rs.7.57 crore against principal and the balance Rs.17.47 lakh against interest, thus, leaving a balance of Rs.1.84 crore against principal, which is still due from TTL.

The chances of recovering of this amount are remote as the Company had not obtained any security for the loan, and TTL had stated that it had settled the amounts due in full.

The Company stated (July 2005) that it sanctioned and paid the short term loan to TTL in April 2003 as the earlier working capital loan of Rs.7.50 crore availed by TTL without collateral security was settled promptly, and postdated cheques were obtained for repayment of both the principal and interest. The Company further stated that it was taking steps to recover the balance amount also.

The reply is not acceptable as at the time of availing earlier short term loan, TTL's financial position was sound and obtaining the postdated cheques was not a substitute for collateral security. Moreover, TTL had already stated that the payment made by it in May 2005 was in full and final settlement of the dues.

The matter was reported to the Government in May 2005; their reply had not been received (September 2005).

Tamil Nadu Civil Supplies Corporation Limited

4.8 Extra expenditure on hulling of paddy

Payment of hulling charges for conversion of paddy procured on behalf of Government of India into rice at rates higher than those fixed resulted in extra expenditure of Rs.82.86 lakh.

The Company (as an agent of the State Government) procures paddy on behalf of Government of India (GOI) under the Decentralised Procurement System (DPS) and converts it into rice for distribution under PDS.

The State Government for this had entered into a Memorandum of Understanding (MOU) with the GOI which, *inter alia*, stipulated that the economic cost of rice {elements like cost of paddy, storage charges, milling charges (hulling charges), etc.,} would be determined by the GOI and paid to the State Government as subsidy for the quantum of paddy procured and converted into rice on its behalf.

For the Kharif Marketing Season (KMS) 2003-04, the GOI fixed (December 2003) the hulling charges at Rs.15 per quintal of paddy equivalent to Rs.22.39 per quintal of raw rice and Rs.22.06 per quintal of parboiled rice. The Company procured 3.09 lakh MT of paddy for KMS 2003-04.

The Company got 1.46 lakh MT of paddy hulled through private hulling agents. Audit scrutiny revealed that the Company paid Rs.29 per quintal for hulling of raw rice and Rs.33.50 per quintal for parboiled rice to the private hulling agents against the rates of Rs.22.39 per quintal for raw rice and Rs.22.06 per quintal for parboiled rice fixed by the GOI. This resulted in extra expenditure of Rs.82.86 lakh[♦].

The Company stated (May 2005) that, in the high level meeting held on 9 March 2004, under the chairmanship of Chief Secretary, it was decided to hull paddy through hulling agents also to build up rice stock. The hulling agents were asked to hull paddy at hulling charges already in force as per the State Government Order dated 19 September 2001.

The reply is not acceptable in view of the fact that the GOI intimated the hulling charges in December 2003 and, therefore, the decision to pay higher hulling charges on the basis of the State Government Order of September 2001 lacked justification. Further, for KMS 2004-05, the hulling charges have been paid at the rates fixed by the GOI.

The matter was reported to the Government in April 2005, their reply had not been received (September 2005).

♦ Rs.82.86 lakh = {620699.38 quintal X (29.00 – 22.39)} + {365690.01 quintal X (33.50 – 22.06)}

Tamil Nadu Minerals Limited

4.9 Revenue loss

The Company suffered a revenue loss of Rs.33.39 lakh due to fixation of the second highest offer as the indicative sales price instead of the highest offer for sale of granite blocks.

The Company invited (June 2002) limited tender enquiry from six foreign and 14 local buyers for the sale of dimensional granite blocks. Against the limited tender enquiry, one foreign and four local buyers quoted. S.V Granites, Chennai quoted the highest rates for five of the six varieties of Yellow Zubrana and all the six varieties of Colombo Zubrana. The offer of Magti Marble Granite Trading, SA, Portugal was the highest only for one variety of Yellow Zubrana.

The Company, while finalising the tender, noted (18 July 2002) that out of the five tenderers, Magti Marble Granite Trading SA, Portugal was the only established foreign buyer having good market presence in the international market for many varieties of granite blocks, whereas the other tenderers were local buyers having very limited area of operation. It was, therefore, decided that the rates offered by the foreign buyer be taken as the rates representing international market rates and other eligible tenderers were asked to match these rates. During October 2002 to March 2004, 5,693.751 cubic meters of granite blocks were sold to the five buyers at the above rates.

The Government stated (August 2005) that the offer of Magti Marble Granite, a direct importer with good standing in Italy and other European countries was considered to be reasonable sales price for export as well as for local sales; hence, this rate was extended to other local buyers also.

The reply is not acceptable in view of the fact that the rates offered by S.V.Granites were also well within the prevailing international market rate for the material. Further, the market share of Magti Marble Granite was poor for this quality of granite, as they lifted only 93 cubic metre against 600 cubic metre committed by them in the tender, while S.V Granite lifted 535 cubic metre against 500 cubic metre committed by them.

The decision to adopt the second highest rate as the international indicative price and asking all the other buyers to match the same was contrary to the principle of accepting the highest rates and asking the other tenderers to match these rates. This resulted in a revenue loss of Rs.33.39 lakh on the sale of granite blocks.

Tamil Nadu Sugar Corporation Limited

4.10 Avoidable extra expenditure

Failure to convert the High Tension power connection to Low Tension connection in a closed unit resulted in avoidable extra expenditure of Rs.10.88 lakh on current consumption and demand charges.

Madura sugar, a unit of the Company was availing High Tension (HT) power from the Tamil Nadu Electricity Board (TNEB) with a contracted demand of 400 Kilo Volt Ampere (KVA).

As this sugar mill faced acute shortage of sugarcane for crushing, the State Government ordered (September 2002) the Company to suspend cane crushing during the season 2002-03, transfer cane areas allotted to the Company to National Co-operative Sugar Mill, and lay-off the employees.

After stoppage of cane crushing activity, the Company applied (November 2002) to the TNEB for reduction of the contracted demand from 400 KVA to 90 KVA. The TNEB, however, informed the Company that the reduction could be effected only after replacing the existing 11 KV metering arrangement by the Low Tension (LT) metering arrangement and this would involve an expenditure of Rs.5.68 lakh. The TNEB further suggested that the existing metering arrangement could continue if the reduction in demand was restricted to 125 KVA. The Company accepted this and the contracted demand was reduced (June 2003) to 125 KVA.

Audit noticed that as per the terms and conditions of electricity supply by the TNEB, if the contracted load is between 66 and 132 KVA, the consumer has the option to avail either LT or HT supply. Had the Company opted for LT supply, it would have been able to save Rs.10.88 lakh (Rs.16.56 lakh – Rs.5.68 lakh) during January 2003 to April 2005 on account of demand charges and higher current consumption charges payable by HT consumers.

The Government stated (August 2005) that in case of conversion to LT, the mill would have to incur a capital expenditure of Rs.6.86 lakh and that there was uncertainty over the continuance or closure of the operation of the mill. The Government also stated that had the mill gone for reduction of demand to 90 KVA, there would have been a saving of Rs.6.96 lakh and not Rs.10.88 lakh.

The reply is not acceptable, in view of the fact that the transfer of cane areas of the Company to another co-operative mill by the Government pointed to the closure of the mill only. While calculating the saving due to conversion to LT, the Government had presumed that demand charges would be payable for LT services also, which was not factually correct.

Statutory corporation

Tamil Nadu Electricity Board

4.11 Contribution loss

Delay in replacement/non-replacement of reheater coils in Tuticorin Thermal Power Station resulted in generation loss of 110.96 million units and consequent contribution loss of Rs.13.72 crore.

The boilers of units 1, 2 and 3 of Tuticorin Thermal Power Station (TTPS) were commissioned between 1979 and 1982. There were frequent failures in the reheater coils (one of the components in the boiler) leading to huge generation loss. After inspecting the boiler of unit 2, on the request of the Board, Bharat Heavy Electrical Limited (BHEL) suggested (December 1999) replacement of reheater rear pendent coil assembly in the boilers of all these three units at the next available opportunity.

Chief Engineer, TTPS suggested (April 2000) that the replacement could be carried out in September 2000, November 2000 and in 2001 in units 2, 3 and 1 respectively during proposed annual overhaul of these units. The administrative approval for replacement of reheater coils in the three units at an approximate cost of Rs.7.38 crore was accorded in December 2000.

After obtaining (March 2001) firm offer from BHEL, Chief Engineer, TTPS sought (July 2001) approval for the replacement of coils at a total cost of Rs.10.53 crore. The administrative approval, however, was given in January 2002 and that too for replacement of reheater coil assembly of unit 1 only at an approximate cost of Rs.3.51 crore. The work/purchase order on BHEL was placed in May/June 2002. The reheater coil assembly was replaced in January 2004, though it was planned in August 2002 during annual overhaul. The reheater coil assemblies in units 2 and 3 are yet to be replaced (March 2005).

Audit scrutiny revealed that these replacements could have been completed by November 2001 in all the three units during their respective annual overhaul periods. Failure to take timely action for replacement of reheater coil assemblies in all the three units, despite BHEL suggesting this as early as in December 1999, resulted in avoidable generation loss of 110.96 MU of power during January 2002 to March 2005 and consequent contribution loss of Rs.13.72 crore.

The matter was reported to the Board/Government in March 2005; their replies had not been received (September 2005).

4.12 Extra expenditure on interest

Failure to invite tenders for issue of bonds resulted in avoidable extra expenditure of Rs.13.15 crore as interest.

The Government permitted (10 June 2002) the Board to raise Rs.500 crore through private placement of bonds and extended its unconditional and irrevocable guarantee for the principal and interest for the bonds to be issued by the Board.

Audit scrutiny revealed that the Board did not invite tenders to raise the bonds and based on a suo motu offer, appointed (13 June 2003) Darashaw and Company to raise Rs.100 crore through private placement of bonds at an interest rate of 8.9 *per cent* per annum. The Board again appointed (July 2003) Darashaw and Company to further raise Rs.110 crore through private placement of bonds on the same terms and conditions as fixed for the earlier issue.

Audit noticed that the Board invited (July 2003) tender for the appointment of arranger for further mobilisation of funds. The Board was able to raise Rs.404.68 crore between 4 August and 4 September 2003 through private placement of bonds at an interest rate of eight *per cent* per annum at the same terms and conditions as were fixed for earlier issues.

Had the Board followed the tendering procedure for appointing arranger for earlier mobilisation also, it could have saved excess payment of interest of Rs.3.23 crore up to March 2005 in addition to excess committed liability of Rs.9.92 crore till the date of maturity of these bonds.

The Board stated (June 2005) that it accepted the offer of Darashaw and Company after studying the then prevailing market rate and its credit rating. All other merchant bankers informally reported that they could mobilise funds at above nine *per cent* and would charge arranger fee. The Board further stated that the coupon rate of 8.9 *per cent* was considered to be the lowest under the prevailing market conditions at that time.

The reply is not acceptable as there are no records to indicate that the Board approached/informed the other merchant bankers about its funds requirements. When the Board eventually invited tenders just after a month in July 2003, it got the lowest rate of eight *per cent*. It is pertinent to mention that, when tenders were invited by the Board in July 2003, Darashaw and Company, which raised Rs.210 crore at 8.9 *per cent* in June and July 2003, offered to raise funds at 8.1 *per cent*. Further, the State Government had mobilised Rs.335 crore in June 2003 and Rs.382.97 crore in July 2003 as loan bearing interest rates of 6.35 and 6.2 *per cent* respectively.

The matter was reported to the Government in May 2005; their reply had not been received (September 2005).

4.13 Loss of generation

Failure to undertake periodical desiltation of reservoir resulted in accumulation of silt and consequent generation loss of 28.04 million units and contribution loss of Rs.5.10 crore.

The Pillur reservoir is at the tail end of Kundah Hydro Electric Project (KHEP) in Nilgiris district. The storage capacity of the reservoir is 1,568 Million Cubic Feet (Mcft). With this storage capacity, the Board operates its KHEP Power House-IV of capacity 2X50 MW so as to run the machines at full load during monsoon inflows and for one hour daily during other periods as a peaking station.

The Full Reservoir Level (FRL) of the reservoir is 1,400 feet with the gross storage capacity of 1,568 Mcft. The Minimum Drawn Down Level (MDDL), (the level below which the hydro machinery cannot be operated for power generation) is 1,300 feet with a dead storage capacity of 335 Mcft; therefore, the net storage capacity of the reservoir is 1,233 Mcft.

Audit scrutiny revealed that a Technical Committee of the Board, formed in 1978 to get rid of the serious problems faced due to siltation, recommended that desiltation of reservoir should be carried out every year. The reservoir was last desilted in 1992. Audit noticed that the MDDL of the reservoir increased to 1,365 feet in March 2003 and then to 1,386 feet in July 2004 due to accumulation of silt. This resulted in reduction of the original gross storage capacity of 1,568 Mcft to 818 Mcft (July 2004). Though the Board formulated several plans on desiltation and obtained the State Government's approval (November 2003) for one of its plans, no desiltation has been carried out so far (September 2005). The Board had to let out surplus water through spillways during heavy rains without utilising it for power generation, as the same could not be stored in the reservoir due to reduction in storage capacity on account of large accumulation of silt.

Audit scrutiny revealed that the Board had to let out 7,289.173 Mcft of water from Pillur reservoir during August 1995 to October 2004 without power generation, which could have been stored and used beneficially, had the desiltation been carried out periodically. This resulted in generation loss of 28.04 million units and contribution loss of Rs.5.10 crore during the same period, of which Rs.2.21 crore was during the last five years.

The matter was reported to the Board/Government in May 2005; their replies had not been received (September 2005).

4.14 Excess payment to an Independent Power Producer

Failure to restrict interest payment as per the provisions of the Power Purchase Agreement resulted in excess payment of Rs.4.12 crore to an Independent Power Producer.

The Board entered (September 1996) into a Power Purchase Agreement (PPA) with GMR Vasavi Corporation Private Limited (GMRV) for purchase of power to be generated in its 196 MW Low Sulphur Heavy Stock based power project. As per the PPA, the tariff payable by the Board for purchase of power included cost of fuel and lubricant, depreciation, return on equity, operation and maintenance expenses, interest on debt and working capital, etc. Working capital included cost of fuel/ lubrication, operation and maintenance expenses, maintenance spares and receivables.

As per the terms of the PPA, working capital should be limited to the lower of the Plant Load Factor (PLF) of 85 *per cent* or average of actual PLF achieved during the preceding three tariff years (excluding Initial tariff year and Stub-tariff* year). It was further provided in the PPA that for the Initial tariff year, Stub-tariff year and succeeding two tariff years, PLF of 85 *per cent* would be applicable.

The commercial generation in the first unit started on 31 December 1998 and in the last unit on 15 February 1999. Initial tariff year and Stub-tariff year, therefore, would have been 1998-99 and the succeeding two tariff years would have been 1999-2000 and 2000-01. The working capital requirement from 2002-03 onwards would have to be computed based on the PLF of 85 *per cent* or average of actual PLF achieved during the three preceding tariff years, whichever was lower (for 2001-02, PLF would be taken as 85 *per cent* because for computing preceding three years' average PLF, third year would not be available).

Audit scrutiny revealed that the Board admitted payments towards interest on working capital based on PLF of 85 *per cent* instead of average PLF of preceding three years for the tariff years 2002-03 and 2003-04. This resulted in excess payment of Rs.4.12 crore to GMRV during these two years.

The matter was reported to the Board/Government in June 2005; their replies had not been received (September 2005).

---

* Stub-tariff year: Period from the Commercial Operation Date (COD) of the last Unit to be commissioned to March 31 first occurring after the COD of such unit.

4.15 Extra expenditure on purchase of transformers

The decision to cancel tenders and float fresh enquiries resulted in avoidable expenditure of Rs.96.36 lakh.

For high value purchases, the Board invites open tenders. The offers received are compared with the previous purchase order price of the same item. For this comparison, the previous purchase order price is updated based on the increase in the cost of major raw materials and the increase in cost of living index. The updated price is then compared with the present offer.

The Board invited (June 2003) open tenders for the supply of 2,000 Distribution Transformers (DTs) of 100 KVA/22 KV/433 KV capacity. The offer of Indo Tech Transformers was the lowest at Rs.73,999/- (all inclusive price excluding Sales Tax) out of 17 valid offers, all from Small Scale Industrial (SSI) units. The Board negotiated the price twice (July and August 2003) with the lowest tenderer, who agreed to reduce the rate to Rs.69,030/- (all inclusive price excluding ST) per DT. The Board, however, decided (August 2003) to cancel the tender as the lowest tenderer was not ready to reduce the quoted price closer to the updated price of Rs.59,251.46 (as on 1 April 2003) of the previous purchase order placed in July 2000.

Against the fresh tenders (November 2003) for the supply of 3,000 DTs of the same type and capacity, 15 valid offers, all from local SSI units, were received. The offer of Asian Electrical Equipment, Chennai was the lowest (L_1) at Rs.74,670/- per DT and the offer of IPL Products at Rs.74,770/- per DT was the second lowest (L_2). After negotiation (January 2004) both L_1 and L_2 tenderers reduced their rate to Rs.72,500 per DT. The Board asked (January 2004) all other parties also to reduce their rates to Rs.72,500 per DT, for which they agreed.

The Board decided (March 2004) to place the orders for 2,665 DTs at this rate of Rs.72,500/- per DT, on the ground that the updated price of Rs.73,135/- (as on 1 December 2003) of the previous purchase order placed in July 2000 after allowing 15 percent price preference for local SSI units, was higher than the negotiated price.

Audit scrutiny revealed that the decision of the Board to cancel the tenders in August 2003 on the ground that updated price was much lower than the negotiated price lacked justification as 15 *per cent* price preference to SSI units was not taken into account while working out the updated price. Had the 15 *per cent* price preference to SSI units been taken into account, the difference between the negotiated price and updated price would have been only Rs.891 per DT, and the Board could have avoided extra expenditure of Rs.96.36 lakh for the purchase of 2,665 DTs.

The matter was reported to the Board/Government in August 2005; their replies had not been received (September 2005).

4.16 Wasteful expenditure

Failure to put a control system to beneficial use rendered an investment of Rs.31.21 lakh wasteful.

Parsons Valley Hydro Electric Project was commissioned in March 2000 with an installed capacity of 30 Mega Watt (MW) to generate 57 Million Units (MUs) of power annually.

The order for supply of generating equipment for the above project included micro processor based control system *viz.*, Supervisory Control and Data Acquisition (SCADA). The entire data relating to the generating equipment could be stored in this system. This system, once installed in the generating equipment, helps in monitoring the generating equipment even from a remote area.

Punjab Power Generation Machines Limited (PPGML), the contractor for the supply of generating equipment supplied this system in April 1998 at a total cost of Rs.32.85 lakh. The Board paid Rs.31.21 lakh to the supplier in April 1998 after deducting five *per cent* of total cost as liquidated damages for the delayed supply.

Audit scrutiny revealed that this system has not been installed in the generating equipment till date (September 2005) and the power house operations were being carried by the conventional method. The failure of the Board to commission this remote control system and put the same to beneficial use had defeated the purpose for which it was purchased and rendered the expenditure of Rs.31.21 lakh wasteful.

The matter was reported to the Board/Government in August 2005; their replies had not been received (September 2005).

4.17 Loss of generation

Failure to procure adequate capacity dewatering pump resulted in generation loss and consequent revenue loss of Rs.24.64 lakh.

Periyar Power House is an irrigation based project and release of water from the Periyar dam for power generation is controlled by the Public Works Department (PWD) of Government of Tamil Nadu. This power house has four units with an installed capacity of 35 MW each.

Additional Chief Engineer (Hydro) of the Board recorded (February 2001) that the existing 22 KW (29.5 horse power) capacity dewatering pump was worn out as it was more than 40 years old and sought replacement for the same. He further recorded that the dewatering pump was a vital part of the power house having four units and had to be kept in good condition to remove leak water in the turbines (which was a regular phenomenon) and to pump out any flood water during emergency situations. The Board accorded administrative approval (March 2001) for the purchase of a new 35 HP dewatering pump at an estimated cost of Rs.2.68 lakh and budget provision was made for this amount in 2000-01. The new dewatering pump has, however, not been procured till date (September 2005).

Audit noticed that unit 4 of the power house was generating (June 2003) power from the 200 cusecs of water being released as per PWD directives; unit 3 was kept as standby and units 1 and 2 were under repair. When the defects in 1 and 2 were rectified (June 2003) and the repaired units were test run (4 June 2003), the water gushed into the rotary valve pit and flooded the turbine floors in all the four units. The dewatering pump in the power house was not sufficient to drain out such a huge quantity of flood water. Consequently, all the units had to be shut down and water was let out without power generation. Two dewatering pumps from Tamil Nadu Water Supply and Drainage (TWAD) Board were arranged and the entire water was pumped out. The pump house was put back into operation on 7 June 2003. Due to flooding of the power house, power generation was suspended for 64 hours and 10 minutes.

Had the Board made available sufficient capacity dewatering pump even after administrative approval and budget provision, loss of generation of 10,26,720 units and consequent revenue loss of Rs.24.64 lakh could have been avoided.

The Board stated (July 2005) that Periyar Power House dewatering system was designed to cater to maximum possible leakage under normal conditions and in the instant case, flooding was caused not by normal leakage but by sudden rupture of end pipes of drains and air valve pipes.

The reply is not acceptable in view of the fact that the existing dewatering pump was very old and required replacement and the Board failed to procure the 35 HP dewatering pump for which administrative approval was accorded in March 2001.

The matter was reported to the Government in May 2005; their reply had not been received (September 2005).

4.18 Excess payment of service tax

Payment of service tax at enhanced rate for the period prior to the effective date resulted in excess payment of Rs.17.88 lakh.

The Board avails hire purchase financial assistance from Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (POWERFIN), a Tamil Nadu Government Undertaking. Principal and interest on these assistances are being repaid in monthly instalments. As per the Finance Act 2001, financial services were brought under the service tax net. The service tax was enhanced from five *per cent* to eight *per cent* by the Finance Act, 2003. The amendment to Service Tax Rules, 1994 to that effect was published in the official gazette on 14 May 2003. As per the gazette notification, these amendments came into effect from the date of publication, i.e., 14 May 2003.

Audit scrutiny revealed that the Board paid service tax on hire purchase assistance at the enhanced rate of eight *per cent* on interest accrued from 1 April 2003 instead of from 14 May 2003, resulting in excess payment of Rs.17.88 lakh.

The matter was reported to the Board/Government in March 2005; their replies had not been received (September 2005).

General

4.19 CORPORATE GOVERNANCE IN STATE GOVERNMENT COMPANIES

Introduction

4.19.1 Corporate Governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors are responsible for the governance of their companies.

The Companies Act, 1956 was amended in December 2000 by providing, *inter alia*, Directors' Responsibility Statement (Section 217) to be attached to the Director's Report to the shareholders. According to Section 217 (2AA) of the Act, the Board of Directors has to report to the shareholders that they have taken proper and sufficient care for maintenance of accounting records, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

Further, according to section 292-A of the Companies Act, 1956, notified in December 2000, every public limited company having paid up capital of not less than rupees five crore shall constitute an Audit Committee, at the Board level. The Act also provides that the Statutory Auditors, Internal Auditors, if any, and the Director in charge of Finance should attend and participate in the meetings of the Audit Committee but without voting rights.

A similar concept has also been introduced through clause 49 of the 'listing agreement' for listed companies issued by the Securities and Exchange Board of India (SEBI), which envisages that the Board of Directors shall have an optimum combination of executive and non-executive Directors with not less than 50 *per cent* of the Board of Directors comprising non-executive Directors. It also provides that listed companies having paid-up capital of rupees three crore and above should have a qualified and independent Director in the Audit Committee.

In respect of Government companies, whose paid-up share capital was less than rupees five crore, the State Government had directed (17 April 2002) the Chief Executive Officers of such Government companies to constitute an Audit Committee with the approval of their Board. The Audit Committee had to take up the inspection work biennially based on the questionnaire attached with the above order. The questionnaire contained basic questions on Assets Management, Material Management, Financial Management, Accounts and Audit, Human Resources Management and Company Law matters. The Inspection Report submitted by the Audit Committee was required to be placed before the Board for necessary follow up action.

The main components of Corporate Governance are:

- matters relating to the Board of Directors;
- Directors' Report; and
- constitution of the Audit Committee.

4.19.2 Out of 55 working Government companies in the State, (three listed and 52 unlisted companies), Audit reviewed 46 companies (three listed and 43 unlisted) as detailed in **Annexure-12**.

Listed companies

Board of Directors

4.19.3 The responsibility for good governance rests on the Corporate Board, which has the primary duty of ensuring that principles of Corporate Governance both as imbibed in law and regulation and those expected by stakeholders are rigorously and voluntarily complied with and the stakeholders' interests are protected. For this purpose, every company should hold the meetings of the Board of Directors at regular intervals. Every Director should attend these Board meetings to share the expertise, knowledge and guide the affairs of the Company.

Attendance of Directors in the Board Meetings

4.19.4 In TEL, full Board of Directors was never present in any of the 18 meetings held during the last four years ended 31 March 2005. Four Government nominee Directors did not attend 25 meetings during 2001-02 and 2004-05. Two independent Directors failed to attend 21 meetings during this period; while two independent Directors attended only one meeting out of four meetings during 2001-02.

4.19.5 In TNPL, only one meeting out of 30 meetings was attended by all the Directors; twenty nine Directors did not attend 13 meetings.

4.19.6 Two Directors in TTL did not attend any Board meeting during 2004-05. Twenty five Directors failed to attend 54 meetings during 2001-02 and 2004-05.

This indicated that the Directors did not actively participate in the management of affairs of the companies and in the decision making process to safeguard the interests of the company.

Vacancy position of Directors

4.19.7 The post of Chairman has been vacant from 29 September 2004 in TTL.

4.19.8 In TNPL, post of one Director was vacant from 5 October 2003 and that of another from 19 June 2004.

Audit Committee

Role and functions

4.19.9 The main functions of the Audit Committee are to assess and review the financial reporting system, to ensure that the financial statements are correct, sufficient and credible. It follows up on all issues and interacts with the Statutory Auditors before finalisation of annual accounts. The Committee also reviews the adequacy of the Internal Control System and holds discussion with Internal Auditors on any significant finding and follow up action thereon. It also reviews financial and risk management and evaluates the findings of internal investigation where there is any suspected fraud or irregularity or failure of the Internal Control System of material nature and reports to the Board.

Meetings

4.19.10 Clause 49 of the 'listing agreement' with SEBI requires that atleast three meetings of the Audit Committee should be held in a year. TTL, however, held only two meetings in 2004-05.

Unlisted companies

Board of Directors

Attendance of Directors in the Board Meetings

4.19.11 The attendance of Directors in the Board Meetings was not regular. All the Directors were not present in all the Board meetings held by18[♣] companies during the last four years ended 31 March 2005.

During the period from April 2001 to March 2005, one Director of MTC did not attend any of the 18 meetings held during his tenure. One Director of Tamil Nadu State Transport Corporation (Madurai) Limited also did not attend any meeting held during 2003-04. Nine Directors attended one to four meetings out of 5 to 23 meetings held during their tenure (details in **Annexure-13**).

This indicated that the Directors did not actively participate in the management of affairs of the companies and in the decision making process to safeguard the interest of the Company.

Attendance in Annual General Meeting

4.19.12 The attendance of Directors in the Annual General Meeting of six companies was poor. Sixty four Directors did not attend the Annual General Meeting held during the period from 2001-02 to 2004-05 (details in **Annexure-14**).

Vacancy position of Directors

4.19.13 Vacancy position of Directors in respect of 12 companies as detailed in **Annexure-15** indicates that the vacancies persisted from December 2002 onwards.

Audit Committees

Out of 52 unlisted PSUs, the paid up capital of 30 Government companies was more than rupees five crore and that of 22 Government companies was less than rupees five crore.

4.19.14 A review of the compliance with the provisions of section 292-A of the Companies' Act in respect of 30 Government companies, whose paid-up capital was more than rupees five crore revealed that:

- Audit Committees of 11[*] Government companies did not hold discussion with the external auditors before commencement of external audit and after completion in all the four years ended 31 March 2005. In three Government companies (Serial Numbers 6, 14 and 30 of **Annexure-12**),

---

♣ Serial Numbers 5, 7, 9 to 12, 14, 18, 21, 24, 25, 27, 30, 31, 35, 38, 41 and 45 of Annexure-1

* Serial Numbers 6, 10, 17, 23, 32, 38 to 41, 43 and 44 of Annexure-1.

the Audit Committee did not review the Annual Financial Statements before submission to the Board of Directors.

- in eight[♠] Government companies, the Statutory and Internal Auditors did not attend the Audit Committee Meetings and in one Government company (Serial Number 16 of **Annexure-12**), the Internal Auditors did not attend the Audit Committee Meetings during the four years ended 31 March 2005.
- in three Government companies (Serial Numbers 14, 30 and 40 of **Annexure-12**) the Chairman of the Audit Committee did not attend the Annual General Meeting to answer the shareholders' queries.

Compliance with Government directives

4.19.15 A review of the compliance with Government directives in respect of those companies, where the constitution of Audit Committee was not mandatory as per the provisions of the Companies Act, revealed that:

- seven[#] companies had not constituted Audit Committee till date (March 2005) and hence, did not conduct biennial inspection on such important matters as mentioned in the Government directive;
- though Tamil Nadu Fisheries Development Corporation Limited had formed the Audit Committee, it had not conducted biennial inspection as directed by the State Government.

To sum up

- **Attendance of Directors in the Board meetings as well as Annual General Meetings was not regular in many of the companies.**
- **Audit Committees of 11 unlisted Government companies did not hold discussion with the External Auditors. Statutory and Internal Auditors did not attend the Audit Committee Meetings of eight unlisted Government companies.**
- **Seven unlisted Government companies, where formation of Audit Committee was not mandatory, did not conduct biennial inspection as directed by the State Government.**

The matter was referred to the companies/Government in July 2005; their replies had not been received (September 2005).

♠ Serial Numbers 6, 10, 14, 32, 39 to 41 and 43 of Annexure-1.

Serial Numbers 26 to 28, 31, 33, 36 and 37 of Annexure-1.

4.20 COMPLIANCE WITH ENVIRONMENTAL REGULATIONS BY STATE PUBLIC SECTOR UNDERTAKINGS

4.20.1 The Government of India has enacted various Acts to enforce effective environmental protection and establishment of regulating bodies to monitor and enforce the provisions of the Act and rules, *viz.*,

- The Water (Prevention and Control of Pollution) Act, 1974;
- The Air (Prevention and Control of Pollution) Act, 1981;
- The Environment (Protection) Act, 1986;
- The Hazardous Waste (Management and Handling) Rules, 1989;
- The Noise Pollution (Regulation and Control) Rules, 2000.

Tamil Nadu Pollution Control Board (TNPCB) formed under the provisions of said Act, prescribed norms for control of various kinds of pollution in thermal power stations (TPS) and other industries. The disposal of natural wastes/effluent into the atmosphere/water from the cement plant, sugar industries and TPS is identified as a major source of pollution.

4.20.2 The following units were reviewed for the compliance with the provision of these Acts and Rules by the Public Sector Undertakings (PSUs) in the State of Tamil Nadu;

- Four[*] units of two State PSUs;
- Two Thermal Power Stations (TPS)[♦] out of four TPS of Tamil Nadu Electricity Board (TNEB); and
- Two[#] State Transport Undertakings (STUs) out of seven STUs were scrutinised.

The Audit findings are discussed in the succeeding paragraphs.

---

[*] Alangulam and Ariyalur cement plants of Tamil Nadu Cements Corporation Limited (TANCEM) and Arignar Anna Sugar Mills (AASM) and Perambalur Sugar Mills Limited (PSM) of Tamil Nadu Sugar Corporation Limited.

[♦] Toothukudi Thermal Power Station (TTPS) and Mettur Thermal Power Station (MTPS) of Tamil Nadu Electricity Board.

[#] Metropolitan Transport Corporation Limited, Chennai and Tamil Nadu State Transport Corporation (Madurai) Limited.

Air pollution

Air Pollution at stack

Thermal Power stations

4.20.3 Air pollution is caused by emission of gases like Sulphur Dioxide (SO_2) and Nitrogen Oxide (NO_2), and Suspended Particulate Matter (SPM). Audit noticed that the maximum emission of SPM in stack was 455.83 mg/m^3 € to 617 mg/m^3 in TTPS and 347 mg/m^3 to 1,144 mg/m^3 in MTPS during the last five years ended 31 March 2005 as against the prescribed standard of 150 mg/m^3 (maximum). The high emission of SPM was due to usage of coal having high ash content of 46 *per cent*. The Ministry of Environment and Forest (MOEF), GOI prescribed (June 2002) not to use coal containing more than 34 *per cent* ash but the TPS were using coal containing more than the prescribed ash content.

The excess emission levels of pollutants due to usage of high ash content coal in TPS could have been brought down by ensuring that the flue gases pass through the Electro Static Precipitator (ESP)♣ and suitably regulating the strength of current supplied to the ESP. As this was not ensured the pollution levels could not be kept within the norms.

Cement Plants

4.20.4 The normal pollutants in the cement industry are SPM, SO_2, NO_2 and fugitive emission (emission of cement and fly ash particles). The cement plants of TANCEM never recorded emission level though as per the requirement of Environment (Protection) Rules, 1986, emission level was required to be recorded twice a week. Audit analysis of emission levels recorded by TNPCB once a year revealed that the SPM level was mostly higher in ambient air than in the stack.

Audit further noticed that:

- Alangulam plant frequently tripped. As periodical emission levels had not been recorded by TANCEM, the effect of the ESP tripping on pollution could not be assessed.
- TANCEM had not created facilities to contain fugitive emission like provision of stacker cum reclaimer, dust collector and covered storage of coal, limestone and clinker, which was contrary to the stipulations of the Corporate Responsibility for Environmental Protection (CREP), which required the fugitive emission to be brought under control by December 2003.
- Alangulam and Ariyalur plants adopt 'wet' and 'dry' process respectively for cement production. A comparative study of emission levels in these two plants revealed that the same were lower in Ariyalur (which adopts

---

€ mg/m^3 = milligram per cubic metre

♣ ESP – a pollution control device with optimum velocity and prescribed temperature.

dry process). TANCEM had not switched over to dry process due to financial constraints, though this was proposed in August 1996.

Sugar industries

4.20.5 In case of sugar units, neither the conventional method of taking periodical readings of emission (as specified in the consent order by the TNPCB) was adopted nor online monitoring facilities provided for the purpose. As per the annual stack monitoring report of TNPCB, non-installation of the ESP in Perambalur Sugar Mills Limited (PSM) led to SPM emission level ranging from 248 mg/m^3 to 315 mg/m^3, which was far in excess of the prescribed norm of 150 mg/m^3. Stack emission level readings had not been taken in Arignar Anna Sugar Mills (AASM) during the last five years.

Pollution in ambient air

Thermal Power Stations

4.20.6 Central Pollution Control Board (CPCB) prescribed National Ambient Air Quality (NAAQ) Standards for SO_2, NO_2, SPM, Respirable Particulate Matter (RPM), Lead (Pb), and Carbon Monoxide (CO) to protect public health, vegetation and property.

A comparison of the annual average of ambient air quality in TTPS and MTPS for 2004-05 vis-a-vis standards prescribed by the CPCB revealed that the concentration of SPM ranged from 197 to 492 and from 210 to 232 mg/m^3 respectively against the norm of 150 mg/m^3.

Scrutiny of emission details taken by TTPS and by TNPCB within a gap of two or three days revealed that there were huge variations between these two sets of readings giving room for doubt on reliability of these data.

Cement plants

4.20.7 As per the CREP for cement industries, cement plants located in critically polluted or urban areas should meet 100 mg/m^3 limit of SPM by December 2004 and continue working to reduce the emission further to 50 mg/m^3. Audit, however, noticed that SPM emission in ambient air ranged from 136 mg/m^3 to 184 mg/m^3 for the four years ended 2004-05 in Alangulam and from 172 mg/m^3 to 256 mg/m^3 for the four years ended 2003-04 in Ariyalur, thus, violating the CREP norms/stipulations.

Sugar Industries

4.20.8 In respect of PSM, the maximum SPM level recorded during 2001-02, 2003-04 and 2004-05 were 295 mg/m^3, 268 mg/m^3 and 236 mg/m^3 respectively against the norm of 150 mg/m^3. For 2000-01 and 2002-03, neither PSM nor TNPCB conducted any test to measure the pollution level in ambient air. In AASM, though SPM level came down from 427 mg/m^3in 2000-01 to 191 in 2002-03, it was still high compared to the norm of 150 mg/m^3. After 2002-03, emission level readings had not been taken by AASM.

Transport

4.20.9 Pollution caused by vehicular emission is a serious form of environmental pollution. The Green Bench of The Supreme Court, which monitors the pollution caused by vehicles, observed that the State Transport Undertakings (STU)s were the main offenders on two counts i.e., levels of emission and sound. Audit noticed that:

- Bharat Stage-II (BS-II) norms, comparable to Euro-II, for all vehicles were implemented in a phased manner starting with New Delhi and extended to other cities like Mumbai, Kolkatta and Chennai in 2001. Metropolitan Transport Corporation Limited (MTC), Chennai introduced 411 vehicles up to February 2005, out of which only 246 vehicles conformed to BS-II standards.
- The Ministry of Surface Transport, Government of India requested (December 1998) the Government of Tamil Nadu to replace the existing old vehicles held by the STUs within a period of three years. MTC, Chennai and Tamil Nadu State Transport Corporation (Madurai) Limited (TNSTC), operated 2,773 and 3,617 vehicles respectively as on March 2005; out of which, 1,195 vehicles (43 *per cent*) and 1,243 vehicles (34 *per cent*) were more than eight years old indicating that the State Government did not take effective steps to replace the old vehicles.
- As per the provisions of the Motor Vehicles Act, it is mandatory for the vehicles to get Pollution Under Control (PUC) certificate and to produce the same to the concerned authorities every time vehicles are sent for Fitness Certificate (FC). MTC, Chennai sent 32,074 vehicles during the period from 2000-01 to 2004-05 for FC and out of which, 2,476 vehicles failed due to excess emission of pollutants during the emission checks conducted by the Motor Vehicles Authority. This points to the fact that PUCs were issued without conducting emission test properly.

Water pollution

Thermal power stations

4.20.10 Discharge of inadequately treated industrial effluent into the water bodies causes water pollution. In TTPS, 75 *per cent* of the waste water generated was recycled and utilized in the plant and the balance 25 *per cent* was let out into the sea. In MTPS, 10.8 lakh kilolitre (KL) waste water per month (32 *per cent* of waste water generated) was let out into the river Cauvery. The extent of pollution in the discharged water is measured in terms of Total Suspended Solids (TSS), Bio Chemical Oxygen Demand (BOD) and Chemical Oxygen Demand (COD). Audit noticed that these parameters in the discharged water of TTPS were in the range of 150 to 2,027 mg/litre (TSS) and 164 to 1,010 mg/litre (COD); whereas in MTPS it was 94 to 318 mg/litre (TSS) and 21 and 29 mg/litre (BOD) during the last five years period ended 31 March 2005. In respect of other parameters, TTPS and MTPS did not take any reading during the above period.

Further, there were wide variations between the above readings taken by TPS and TNPCB during the same period.

As per the Water (Prevention and Control of Pollution) Cess Act, 1977, water cess at higher rates than those prescribed is payable to the TNPCB on the basis of water consumed, if the conditions/norms prescribed by TNPCB are not followed.

Audit noticed that TTPS and MTPS paid Rs.16.98 lakh and Rs.57.33 lakh respectively as water cess at higher rates, as they failed to comply with pollution control standards prescribed by TNPCB during the five-year period ended 31 March 2005.

Cement plants

4.20.11 Effluent Treatment Plant (ETP) has not been installed in the Ariyalur cement plant of TANCEM, Pollutants in the discharged water, therefore, exceeded the prescribed norms and the percentage of variation was between 47 and 76.64, in 2002-03 when compared with the norms.

Sugar industries

4.20.12 TSS, BOD and COD in discharged water were in the range of 198 to 418 mg/litre, 328 to 843 mg/litre and 1,120 to 4,065 mg/litre respectively during the five years ended 2004-05, in PSM, which were far in excess of the prescribed norms of less than 100, 30 and 250 mg/litre respectively. This was due to non-installation of the ETP by PSM.

Hazardous waste

4.20.13 A hazardous substance is one that endangers the life of human beings and other living creatures. Under the Hazardous Waste (Management and Handling) Rules, 1989, the person generating hazardous waste shall take all practical steps to ensure that such waste was properly handled and disposed of without any adverse effect. The transportation of hazardous waste should be in accordance with the provisions of the rules framed by the Central Government under the Motor Vehicles Act, 1988 and other guidelines issued from time to time.

Thermal Power Stations

4.20.14 As per the consent order issued by TNPCB under the above rules, a maximum quantity of 25 MT of such waste should alone be generated/handled per annum and a maximum quantity of 10,000 Kgs or a truck load, whichever was less, should alone be stored on site for a maximum period of 90 days. Audit, however, noticed that 2,02,890 Kgs of oil sludge (sediments at the bottom of the furnace oil tank), a hazardous and inflammable substance, was stored by TTPS for more than two years and the same was yet to be disposed off (September 2005). Similarly, 40,000 litres of used oil drained annually by the thermal stations, was stored for longer periods (three to 10 months) than the stipulated 90 days before they were disposed off. Audit also noticed that

provisions relating to disposing off of such hazardous waste to the authorised re-processor possessing a valid consent order from TNPCB was not ensured by the TPS.

Sugar Industries

4.20.15 Molasses is a by-product generated during extraction of sugar from sugarcane and the same is mostly sold to distilleries, where it is used in the manufacture of liquor. As per pollution control norms, molasses has to be stored in covered steel tanks. Audit noticed that 8,218.048 MT of molasses remains stored in open pits against pollution control norms by PSM since 1992 causing environmental pollution.

Noise pollution

Thermal Power Stations

4.20.16 GOI notified (February 2000) the Noise Pollution (Regulation and Control) Rules 2000 with a view to maintaining the ambient air quality standards in respect of noise by regulating and controlling noise producing/generating sources, such as generator sets, vehicular movement, etc. A maximum level of 75 decibels has been fixed for industrial areas.

Noise pollution inside the plant area in MTPS and TTPS was beyond the prescribed limits, and ranged from 92 to 117 decibels in 2003-04 and 2004-05 in TTPS whereas in MTPS it ranged from 96 to 99 decibels during the last five years.

Cement plants

4.20.17 Noise pollution inside the plant area in cement plants in Alangulam and Ariyalur was 98 decibels to 99 and 66 decibels to 80 respectively.

Sugar Industries

4.20.18 Noise level inside the plant area in PSM was up to 73 decibels whereas in AASM, it was measured only once in 2000-01 and the same was 87 decibels.

Other deficiencies

Non-monitoring of other pollutants in ambient air

4.20.19 Though the NAAQ monitoring programme required the readings of RPM, lead and carbon monoxide to be taken and such emissions monitored and controlled, the State PSUs and thermal power stations had not taken any action to measure, monitor and control these emissions.

Non-provision of Inter-locking system to control Industrial Pollution

4.20.20 CPCB instructed (November 1995) the State PCBs to ensure that arrangement for interlocking the production system with pollution control devices had been made in the industries which had installed those devices. Such a facility would ensure that during the period pollution control devices did not function, production would be automatically stopped. Absence of such a facility would enable production to continue even if the pollution control devices were not functioning, thus, leading to higher pollution. Audit noticed that the State PSUs had not provided such interlocking facility in their units.

Green Belt for Pollution Control

4.20.21 Plantation is one of the effective means of controlling air pollution. TNPCB stipulated that TTPS and TANCEM should plant 1,00,000 and 3,60,000 plants respectively in and around their plant area so as to minimise the effect of pollution. TNEB and TANCEM, however, planted only 20,644 and 19,000 plants, thus not fully complying with the directions (September 2005).

Environmental Management System

4.20.22 Environmental Management System (EMS) is required to meet the environmental obligations by the industries and reduce the impact of their operations on the environment. Audit noticed that none of the State PSUs have formulated EMS. This deprived them of a valuable tool to improve their environmental performance, increase the use of pollution prevention methods and ensure compliance with statutory requirements.

Environmental Audit Reports

4.20.23 Environmental auditing, now renamed as Environmental Statement, is a tool comprising systematic documentation and periodical evaluation of performance of a unit with reference to waste management and assessment of compliance with other environmental regulatory requirements. Though preparation and submission of EAR was mandatory under Environment Protection Rules 1986, (second amendment) since March 1992, the State PSUs submitted EAR to TNPCB, which were not even scrutinised by an environmental auditor. Instead, they submitted only routine reports, in Form-V, which defeated the objective of Environmental Audit.

To sum up

Environment Management System did not exist in any Public Sector Undertaking (PSU). PSUs failed to comply with many of the statutory provisions on air, water and noise pollution, solid waste management and handling of hazardous waste. Environment Audit Reports were being submitted without any scrutiny by the environmental auditor, thereby defeating the objective of Environment Audit.

The matter was reported to the companies/Board/Government in July 2005; their replies had not been received (September 2005).

4.21 Additional administrative cost

Incorporation of too many companies with similar objectives resulted in additional administrative cost of Rs.27.93 crore.

As on 31 March 2005, the State had 66 Government companies out of which 52 companies were working. An analysis of the objectives and activities of these companies, as laid down in their respective memorandum of associations, revealed that two or more companies were functioning in the same sector with similar objectives. Particulars of 10 such companies functioning in four different sectors are detailed in the **Annexure-16**.

Details in the Annexure revealed the following:

- In the industry sector, three companies were established for promotion and setting up of industries. Though Tamil Nadu Industrial Development Corporation Limited was established in 1965 for the stated purpose, two more companies were established subsequently for similar objectives.
- In the forest sector, Tamil Nadu Forest Plantation Corporation Limited was incorporated for raising plantations for the purpose of development of industries based on their produce. Tamil Nadu Tea Plantation Corporation Limited and Arasu Rubber Corporation Limited were incorporated mainly for raising tea and rubber plantation respectively.
- While Tamil Nadu Construction Corporation Limited existed to take care of the construction activities entrusted to it by the State Government, another company, Tamil Nadu Police Housing Corporation Limited was established in 1981 to undertake construction activities mainly for the Police Department.
- In the Infrastructural Development Sector, while Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited was established in March 1990 for providing financial assistance to the local bodies for development schemes, Tamil Nadu Power Finance and Infrastructure Development Corporation Limited was incorporated in the succeeding year for financing infrastructure development schemes of Tamil Nadu Electricity Board.

Audit noticed that functioning of multiple companies with similar objectives involved substantial administrative expenditure on Directors, Chairman and staff, besides expenditure on infrastructure for separate office buildings, etc. Excluding the administrative expenditure of the major companies in the respective sector (Serial Numbers 1, 4, 7 and 9), functioning of multiple companies with similar objectives resulted in additional administrative cost of Rs.27.93 crore during the latest year for which accounts have been finalised as detailed in the **Annexure-16**.

It is recommended that Government may examine the nature of activities of all the companies with similar objectives and explore the possibility of merging

these companies so that administrative expenditure could be reduced and better co-ordination could be ensured in the implementation of various schemes.

The matter was reported to the companies/Government in June 2005; their replies had not been received (September 2005).

4.22 Follow-up action on Audit Reports

Explanatory notes outstanding

4.22.1 The Comptroller and Auditor General of India's Audit Reports represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices and Departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Tamil Nadu issued instructions (January 1991) to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on the paragraphs and reviews included in the Audit Reports within six weeks of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

The Audit Reports for the years 1997-98, 1998-99, 1999-2000, 2000-01, 2001-02 and 2002-03 were presented to the State Legislature in April 1999, May 2000, September 2001, May 2002, May 2003 and July 2004 respectively. Eight out of 18 Departments, which were commented upon, did not submit explanatory notes on 47, out of 168 paragraphs/reviews as on September 2005, as indicated below:

Year of Audit Report (Commercial)	Total paragraphs/review in Audit Report	Number of paragraphs/reviews for which explanatory notes were not received
1997-98	25	1
1998-99	29	1
1999-2000	28	13
2000-01	25	10
2001-02	32	13
2002-03	29	9
TOTAL	**168**	**47**

Department-wise analysis is given in **Annexure-17.** The departments largely responsible for non-submission of explanatory notes were Industries and Small Industries.

Compliance to Reports of Committee on Public Undertakings (COPU) outstanding

4.22.2 The replies to paragraphs are required to be furnished within six weeks from the date of presentation of the Report by the Committee on Public Undertakings (COPU) to the State Legislature. Replies to 37 paragraphs pertaining to 27 Reports of COPU presented to the State Legislature between

March 2000 and March 2005 had not been received as on September 2005 as indicated below:

Year of COPU Report	Total number of Reports involved	Number of paragraphs, where replies were not received
1999-2000	1	2
2002-03	5	7
2003-04	10	16
2004-05	11	12
TOTAL	**27**	**37**

Action taken on persistent irregularities pointed out in Audit Reports

4.22.3 With a view to assist and facilitate discussion of the paras of persistent nature by the State COPU, an exercise was carried out to verify the extent of corrective action taken by the concerned organisation and results thereof are indicated in **Annexures 18 and 19.**

Government companies

Inadequate Internal Control/Internal Audit system noticed in Tamil Nadu Adi Dravidar Housing and Development Corporation Limited, non-recovery/delayed recovery of capital cost from the allottees and idling of investment due to failure to conduct demand survey by Tamil Nadu Small Industries Development Corporation Limited were included in the Audit Reports of the Comptroller and Auditor General of India for the years 1999-2000 to 2002-03, (Commercial) - Government of Tamil Nadu. Audit scrutiny revealed that the irregularities as detailed in **Annexure-18** continued to persist in respect of these companies for more than six years as the action taken by the companies/the Government were inadequate.

Statutory corporations

Extension of undue benefit to Independent Power Producers, extension of undue benefit to consumers and non-implementation of orders of the Board, noticed in Tamil Nadu Electricity Board were included in Audit Reports of the Comptroller and Auditor General of India for the years 2001-02 to 2003-04, (Commercial) - Government of Tamil Nadu. Audit scrutiny revealed that these irregularities as detailed in **Annexure-19** persisted for over a period of five years, as the action taken by the Board/State Government were inadequate.

The matter was referred to the Government in August 2005; their reply had not been received (September 2005).

4.23 Response to inspection reports, draft paragraphs and reviews

4.23.1 Audit observations noticed during audit and not settled on the spot are communicated to the heads of the Public Sector Undertakings (PSUs) and departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of departments within a period of six weeks. Inspection reports issued up to March 2005 pertaining to 58 PSUs disclosed that 3,503 paragraphs relating to 787 inspection reports remained outstanding at the end

of September 2005; of these, 776 inspection reports containing 3,401 paragraphs had not been replied to for more than two years. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2005 is given in **Annexure-20.**

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that 19 draft paragraphs forwarded to the various departments during the period from March to August 2005, as detailed in **Annexure-21**, had not been replied to so far (September 2005).

It is recommended that (a) the Government should ensure that procedure exists for action against the officials, who fail to send replies to inspection reports/draft paragraphs/ATNs on the recommendations of COPU, as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment is taken within prescribed time and (c) the system of responding to the audit observations is revamped.

The matter was referred to the Government in August 2005; their reply had not been received (September 2005).

Chennai **(S.RAJANI)**
The **Accountant General**
(Commercial and Receipt Audit),
Tamil Nadu

Countersigned

New Delhi ` **(VIJAYENDRA N. KAUL)**
The **Comptroller and Auditor General of India**