CHAPTER-IV

4 TRANSACTION AUDIT OBSERVATIONS RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATION

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

Tamil Nadu Industrial Development Corporation Limited

4.1 Irrecoverable deposit

Failure to take effective action has put the recovery of Rs.57.70 crore of deposits with a joint venture in jeopardy.

The Company had been depositing its surplus funds in Southern Petrochemical Industries Corporation Limited (SPIC), a joint venture of the Company. Since the deposits with SPIC were not in conformity with the guidelines issued in April 1997 by the State Government, which prohibited deposits with joint/associate companies, the Company sought (August 1997) exemption from these guidelines and permission to invest the surplus funds in dividend paying joint ventures. The State Government permitted (February 1998) the Company to deposit its surplus funds in the dividend paying assisted/joint sector companies having a credit rating of FA+ or equivalent for a period of one year and review the position after a year.

Based on the above permission, the Company continued to deposit its surplus funds as call deposit with SPIC, as it was a dividend paying joint venture company with a credit rating of FA+.

SPIC defaulted in the payment of interest of Rs.2.20 crore due on 30 September 1999 and unilaterally converted total interest into short-term deposit (on call basis). SPIC again converted interest of Rs.2.36 crore due on 31 December 1999 into short-term deposits (on call basis) unilaterally. It also defaulted in payment of call deposit (principal) due in June 2000.

The Company failed to take note of the deteriorating financial position of SPIC even though it had a nominee director in the Board of SPIC from the beginning. The Company neither reviewed the position nor took action to recall the entire deposit of Rs.57.70 crore. In the meantime, the credit rating for Non-Convertible Debentures (NCDs) of SPIC was downgraded (28 October 2000) to 'BB' as it had defaulted in the payment of interest and principal. On the same day, the State Government directed the Company to take immediate steps to withdraw its deposits in SPIC so as to protect its interest. The Board of Directors of the Company also advised (November 2000) the Management to withdraw the deposits in SPIC over a period of four to five months. Despite the Government directive and advice of its Board, the Company did not take effective action to withdraw the deposits from SPIC. The Company simply wrote letters to SPIC from January 2001 onwards asking SPIC to repay the deposits.

It was noticed in audit that the chances of recovery of call deposits are remote as SPIC had informed (March 2006) the Government that its entire earnings/expenditure was monitored and controlled by the secured lenders under Corporate Debt Restructuring package (CDR) and therefore, repayment of call deposits of the Company was not possible.

The Government stated (May 2006) that the Company had conveyed its disagreement on CDR package as early as in April 2003 and had requested SPIC to consider its deposit as loan repayable on call basis.

The reply is not acceptable as SPIC in March 2006 had clearly informed the Government of its inability to repay call deposit as stated above.

Thus, the failure to take effective steps has put the recovery of deposits of Rs.57.70 crore in jeopardy.

4.2 Loss of revenue

Failure to renounce the rights issue in an assisted unit resulted in recurring annual interest loss of Rs.2.31 crore.

A reference is invited to Paragraph 2A.8 (e) of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Commercial) – Government of Tamil Nadu wherein the unfruitful investment of Rs.26.40 crore by the Company in Southern Iron and Steel Company (SISCOL) was commented upon.

The performance of SISCOL was poor from the beginning and the Company did not get any return on its investment. As SISCOL was not able to pay interest/principal, ICICI Bank Limited, the prime lender, initiated (September 2004) a Corporate Debt Restructuring (CDR) scheme. SISCOL made (January 2005) a rights issue of equity shares at par in the ratio of 23 equity shares for every 10 shares (face value – Rs.10 per share) held by the existing shareholders fixing 29 April 2005 as the closure date.

The Company appointed (8 April 2005) Ind Bank Merchant Banking Services Limited (Ind Bank) to study the rights issue of SISCOL and examine whether it would be advantageous for the Company to invest in the rights issue or to renounce its rights entitlement. Ind Bank recommended (April 2005) that the Company should subscribe to the rights issue as the rights issue was at par and post-rights value of the share was estimated at Rs.18 per share. It also recommended that if the Company was able to renounce its rights at a price of Rs.8 (the difference between value of share and issue price) or more per share, it might consider renouncing its rights entitlement. The Company decided (April 2005) to subscribe the rights issue and acquired 1,89,75,000 shares in SISCOL by paying (April 2005) Rs.18.98 crore.

Audit analysis revealed that the decision of the Company to subscribe to the rights issue was not justified as:

- the past investment made in SISCOL aggregating to Rs.26.40 crore had not fetched any return for the last 13 years;
- the shares of SISCOL were being traded at prices ranging from Rs.21 to Rs.30 per share during the period of offer which was more than Rs.18 per share as estimated by Ind Bank; and
- the Company would have earned minimum revenue of Rs.15.18 crore (computed with reference to the share value of Rs.18 per share worked out by Ind Bank) and further investment of Rs.18.98 crore could have been avoided, had it renounced its entitlement to rights issue. This would have enabled the Company to invest Rs.34.16 crore (Rs.15.18 crore *plus* Rs.18.98 crore) in interest fetching investments and earn recurring annual interest of Rs.2.31 crore (computed with reference to the interest rate of 6.75 *per cent* on its deposits with State Bank of India).

The Government stated (May 2006) that the share price of SISCOL is likely to increase in the years to come and the Company would be in a position to reap the benefits and make substantial profits. The reply is not tenable in view of the fact that the share price of SISCOL, which was quoted around Rs.30 in March 2005 had steeply fallen to Rs.17 in March 2006. Moreover, the Company has got no return on its investments since 1992.

Tamil Nadu Newsprint and Papers Limited

4.3 Short-recovery

Adoption of Free on Board price instead of Cost and Freight price while effecting pro rata adjustment for lower calorific value of imported coal resulted in short-recovery of Rs.3.24 crore.

The Company imports coal through competitive bidding. In order to ensure the quality of imported coal, the Company has stipulated specifications for gross calorific value (GCV), moisture, ash, sulphur and volatile material contents of the coal. In case the GCV of the coal supplied is lower or higher than the stipulated value, the price of coal supplied is to be reduced or increased proportionately. Similar procedure is followed in the case of moisture, sulphur, ash and volatile material contents in the coal.

When the Company started importing coal in 1998, it stipulated the GCV as 6,400 Kcal/Kg and adopted the 'Cost and Freight' (C&F) price for effecting the pro rata adjustments for lower/higher GCV of the coal supplied as compared to the stipulated GCV. The Company, for reasons not available on record, reduced the stipulated GCV to 6,000 Kcal/Kg. from January 2003 and changed (January 2004) the basis for effecting the pro rata adjustments from C&F price to Free on Board (FOB) price. It is interesting to note that when the basis of pro rata recovery was C&F basis, the Company was mostly receiving coal with GCV higher than the prescribed and when the basis was changed to FOB, it started receiving coal with GCV lower than the prescribed in the agreement.

It was also noticed that Tamil Nadu Electricity Board, which also imports coal for its Thermal Power Stations, adopts C&F price for recovery of penalty/payment of incentive for the lower/higher GCV of imported coal. Hence, any adjustment in the price of coal for lower/higher GCV than the stipulated value should have been effected after taking the freight charges (which accounts for 40 *per cent* of the total cost) *i.e.*, on C&F price (as was done by the Company till December 2003). Failure to do so resulted in short-recovery of Rs.3.24 crore during the period January 2004 to September 2005 on import of coal.

The Government stated (September 2006) that till December 2003, it was calculating the incentive/penalty based on the C&F price and the GCV in the coal supplied was higher than the GCV stipulated. Therefore, it switched over to the tender conditions of calculating the incentive/penalty on FOB basis.

The reply is not acceptable since immediately after change of basis from C&F to FOB, the Company started receiving coal with lower GCV with consequent short-recovery of penalty from the supplier. Further, the Company has again started pro-rata adjustment in the prices due to GCV on C&F basis with effect from December 2005.

4.4 Loss of revenue

Delay in shifting the metering arrangement for sale of surplus power resulted in revenue loss of Rs.76.10 lakh.

The Company was operating three turbo generators as captive power generation plants with a total capacity of 36.5 MW in parallel with the Tamil Nadu Electricity Board's (TNEB) grid. The Company, after meeting its power requirements, sold the surplus power to TNEB through dedicated feeders.

The Company installed (April 2001) one more captive generation plant having capacity of 24.62 MW and approached TNEB for the purchase of surplus power from this plant. TNEB agreed (May 2001) to purchase the surplus power from the plant.

The Company entered (October 2001) into a Power Purchase Agreement (PPA) for the export of its surplus power to TNEB. The Company also executed (November 2001) an undertaking agreeing to follow the guidelines stipulated in the policy of the State Government (G.O.No.48 dated 22 April 1998) on captive power generation. The guidelines, *inter alia*, stipulated that if the surplus power was for sale to TNEB, the export meter (to measure the quantum of units transmitted to TNEB) would be at TNEB's receiving end. The guidelines also stated that if the export meter was at the captive power generation end, then two *per cent* of the energy exported would be deducted for the loss in the interfacing line.

In spite of this, the Company installed the export meter in between the captive power generation end and the TNEB's receiving point. The Company started exporting power to TNEB from this plant from December 2001 onwards. TNEB recovered (July 2003) Rs.79.03 lakh towards two *per cent* interfacing line losses from December 2001 to June 2003 from the bills submitted by the Company for the export of surplus power. While doing so, TNEB categorically stated that from July 2003 onwards, two *per cent* deduction for interfacing line losses would be regularly effected.

The Company, instead of taking immediate action to shift the export meter to the TNEB's receiving end as per the provisions of the guidelines, continued to request TNEB not to deduct interfacing line losses. On it being pointed out by Audit (July 2004) revenue loss was being suffered by the Company due to its failure to shift the export meter, the Company approached (February 2005) TNEB to shift the meter to the receiving end. TNEB did so (May 2005) after collecting the cost of shifting from the Company and did not deduct the interfacing line losses.

The Government stated (July 2006) that the meter was fixed at the captive power generation end as per the provisions of PPA entered into by the Company with TNEB and that because of the policy decision taken by TNEB in December 2003, the Company could not get the metering point shifted from captive power generation end to the TNEB end. The reply is not tenable in view of the fact that the policy of the Government in the matter clearly stipulated deduction of interfacing line losses in case the export meter was installed at the captive generation end. Further, even after being specifically informed by TNEB in July 2003, the Company took two years to approach the TNEB for shifting of the meter to the receiving end.

Thus, due to delay in taking timely action to shift the meter resulted in revenue loss of Rs.76.10 lakh from July 2003 to April 2005.

State Transport Undertakings

4.5 Extra expenditure

Delay in finalisation of the tenders for procurement of lubricants and erroneous computation of paper cost while evaluating the tenders for printing of tickets resulted in avoidable extra expenditure of Rs.1.07 crore.

4.5.1 The State Government directed (May 2004) the Institute of Road Transport (IRT) to procure lubricants required by all the State Transport Undertakings (STUs) in the State by 31 August 2004 in order to avail the bulk quantity discount offered by the oil companies.

After obtaining (May 2004) the requirement from all the STUs for a period of six months from September 2004 onwards, IRT floated open tenders for the purchase of lubricants in July 2004 only. IRT took one and half month for preparation of the tender documents and approval by the Tender Award Committee (TAC). Technical bids were opened in August 2004. TAC, instead of opening the commercial bids, proposed (August 2004) modifications in the tender conditions to the Government for approval, though it was vested with full powers in respect of purchases including approval of any modifications in the tender conditions. The Government returned (November 2004) the proposal to TAC reiterating the above provision for necessary action. There was further delay in opening (January 2005) of the commercial bids and finalisation (April 2005) of the tenders after negotiations. The STUs, thereafter, started placing orders from April 2005 onwards.

It was observed during audit that in spite of the directions of the Government (April 2004) to finalise the tenders latest by August 2004, IRT inordinately delayed the finalisation by more than seven months. This delay forced the STUs to continue to procure the lubricants individually at prices higher than the rates offered in the tender resulting in incurring of avoidable extra expenditure of Rs.85.75 lakh during the period of delay (September 2004 to March 2005).

The Government stated (July 2006) that IRT received the Government Order on 24 May 2004 only and as the subject matter was entrusted to IRT for the first time, the specifications and tender conditions were made in detail to satisfy the technical parameters of the lubricants. Further delay was caused due to inspection of factories of all the tenderers by a Committee. The reply is not tenable as the STUs were procuring lubricants from the same oil companies individually for a long time and, therefore, all the required specifications were readily available with the STUs and the inordinate delay of more than seven months lacked justification.

4.5.2 IRT floated open tenders (April 2003) for printing of ticket books of different sizes required by the STUs for the year 2003-04. The tender specifications required the tenderers to furnish break up of the cost of ticket books under the three major cost elements *viz*., paper, printing and packing and forwarding charges.

After opening (May 2003) of the commercial bids, TAC noticed that the rates quoted by the tenderers for the six varieties of ticket books with reduced sizes were very much on the higher side and also not commensurate with the reduction in size. TAC also observed that though all the tenderers quoted the same landed cost for each variety of ticket book, the individual cost components varied widely, indicating that the tenderers had formed a cartel. Therefore, TAC reworked (June 2003) the tendered rates for the six varieties. While reworking the rates, TAC reckoned the highest percentage of paper cost quoted in the tender. IRT communicated the reworked landed cost to the STUs with instructions to place orders at the reworked rates to the willing tenderers. All the tenderers who responded to the tender supplied the tickets to the STUs during the years 2003-04 and 2004-05 at the rates reworked by IRT.

The decision to adopt highest percentage of paper cost was not justified as IRT was aware of the cartel formed by the tenderers and therefore had quoted very high rates. It should have instead adopted the lowest cost for each of the element quoted in the tenders to rework the landed cost. Failure to do so resulted in excess expenditure of Rs.20.90 lakh on printing of tickets.

The matter was reported to the Management/Government in April 2006; their replies are awaited (September 2006).

Tamil Nadu Textile Corporation Limited

4.6 Unproductive expenditure

Payment of salaries to the employees of a closed unit without any work resulted in unproductive expenditure of Rs.63.38 lakh.

A reference is invited to paragraph 2B.12 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 - (Commercial), Government of Tamil Nadu, wherein the injudicious closure of Central Testing Laboratory (CTL) of the Company was commented upon. The CTL was functioning with a staff strength of 12 (two supervisors and 10 laboratory assistants) for facilitating scientific selection and procurement of quality cotton/yarn. The State Government ordered (February 1999) for closure of CTL and the equipments were transferred (November 2001) to the Tamil Nadu Co-operative Spinning Mills Federation Limited, Chennai. The representation (May 2000) of the employees for their redeployment in Coimbatore Municipal Corporation is still pending (September 2006) with the State Government.

In the meantime, 10 employees (excluding two laboratory assistants, who left the Company) continued to remain on the rolls of the Company without any work and were being paid salaries and other benefits. The Committee constituted (June 2002) by the Company to identify surplus staff on the directives (May 2002) of the State Government had identified (November 2002) 12 posts as surplus including the existing 10 employees of the CTL. The Company informed (May 2003) the Government that the identified surplus staff could be either redeployed in other organisations or be offered voluntary retirement or be retrenched under the provisions of the Industrial Disputes Act, 1947 and sought instructions from the Government. No further action has been taken either by the Company or by the Government in this regard so far (September 2006).

Failure to take effective action in respect of the surplus staff of closed laboratory resulted in unproductive expenditure of Rs.63.38 lakh on salaries paid to them during December 2001 to August 2006. Besides, the continued inaction would also result in an unproductive expenditure of Rs.12 lakh (approximately) *per annum*.

The matter was reported to the Management/Government in February 2006; their replies are awaited (September 2006).

Tamil Nadu Industrial Explosives Limited

4.7 Avoidable loss

Failure to undertake trial production of emulsion explosives resulted in avoidable loss of Rs.42.49 lakh.

The Company started (October 2003) production of small diameter emulsion explosives using Micro Crystalline Wax (MCW). The Company had been procuring MCW from Chowdary Udyog, Kolkata since then. As a measure of quality control, the Company carried out storage stability tests of the explosives produced at intervals of 50, 75 and 90 days and ensured that these explosives had a storage stability of 75 days.

In order to have an alternative source of supply for MCW, the Company procured (June and July 2004) five metric tonne (MT) of MCW from Waxoils Private Limited, Mumbai (Waxoils), a hitherto untried source, and started using the same in the production of explosives from 5 December 2004 onwards and produced 463 MT of emulsion explosives using MCW supplied by Waxoils. It was noticed that the bulk production was started without carrying out the storage stability test of the end product *viz*., explosives after the source of supply of MCW was changed.

The Company started receiving complaints (January 2005) from the end users about the drop in sensitivity of these emulsion explosives after 30 days of storage and identified (February 2005) the change in source of MCW as the major cause for drop in sensitivity. The Company immediately stopped using

MCW procured from Waxoils and reverted back to the use of MCW procured from Chowdary Udyog Limited, Kolkota from 1 February 2005 onwards. No major quality control problems were encountered thereafter. The Company also received back (February to July 2005) unused 114.675 MT of explosives from the end users.

The request (March 2005) of the Company for repacking the rejected small diameter explosives as large diameter column explosives was not agreed to by the Chief Controller of Explosives and the Company was advised (March 2005) to destroy the rejected explosives.

Thus, failure to conduct the storage stability test before starting the production resulted in an avoidable loss of Rs.42.49 lakh (computed with reference to production cost of Rs.33,190 and Excise duty of Rs.3,860 per MT on 114.675 MT).

The Management stated (June 2006) that in the initial trial production, Waxoils material was used and quality and stability of finished products were ascertained. The reply is an after thought since in February 2006 it had informed Audit that in future trial production would be undertaken before introduction of any new source of raw material and only after establishment of storage stability, mass production would be taken up.

The matter was reported to the Government in February 2006; their reply is awaited (September 2006).

State Express Transport Corporation Limited

4.8 Loss of revenue

Adoption of low fare for the newly introduced Air Suspension Ultra Deluxe coaches resulted in a revenue loss of Rs.23.85 lakh.

The Company operates inter-state and intra-state passenger transport services under the categories of semi deluxe, super deluxe, super deluxe with video, air suspension coach, *etc*.

The State Government, in exercise of the powers conferred by Section 67(1)(i) of the Motor Vehicles Act, 1988, periodically fixes the fares to be charged for various types of passenger transport services operated in the State. In the last such fixation effected in December 2001, the Government fixed fares of 32 Paise per Kilo meter (PPKM) for semi deluxe, 38 PPKM for super deluxe and not exceeding 1.35 times of the super deluxe fares for air suspension coaches *viz*., 52 PPKM. Based on the request of the Company, the Government revised the fare for air suspension coaches to 45 PPKM from 6 December 2001.

The State Transport Undertakings (STUs) in the neighbouring States, *viz*., Karnataka and Andhra were operating Volvo and ultra deluxe bus services and there was very good patronage for these services even though the fares for these services were high. Encouraged by this and to fulfill the needs of long distance passengers, the Company introduced (September 2005) ultra deluxe hi-tech luxury super deluxe video coaches with air suspension. These buses have 36 semi sleeper seats with fans, reading lights and Digital Video Disc (DVD). As this was a new type of passenger service, the Company should have taken the approval of the Government for fixing the fares to be charged for the service. The Company, however, simply adopted the fare originally fixed by the Government for air suspension coach *viz*., 52 PPKM and started collecting this fare from September 2005 onwards. The Company informed this fare fixation to its Board, which just recorded the matter. The Company had not obtained the approval of the Government for the fare structure in ultra deluxe air suspension coaches.

It was observed during audit that the decision of the Company to charge the fare of 52 PPKM applicable for the air suspension coaches for travel in ultra deluxe air suspension coaches lacked justification as:

- the newly introduced ultra deluxe air suspension coaches had additional facilities like fans, reading lights, DVD, *etc*., and were specially designed;
- the negihbouring State STUs, which were operating similar services, were charging 70 PPKM for travel in these services; and
- the Company had recorded that there was good patronage for these services even though the fares charged were high.

Taking these factors into consideration, the Company should have at least fixed the fares for travel in these services at 1.35 times of the existing Government approved fare for air suspension coach *viz*., 61 PPKM (45 PPKM X 1.35 times) and got the same approved by the Government. Failure to do so resulted in a revenue loss of Rs.23.85 lakh during September 2005 to March 2006.

The Government stated (July 2006) that the Company had introduced air suspension coaches with the same facilities that were originally provided but only changed the name of the service as ultra deluxe just to attract passengers and that collection of higher fare would not have received the tremendous response. The Government also stated that Karnataka State Road Transport Corporation (KSRTC) buses plying in Bangalore-Chennai-Bangalore route were also collecting 52 PPKM for coverage in Tamil Nadu and 70 PPKM for coverage in Karnataka. The Government further stated that for the DVD provision in the ultra deluxe services, the Company was charging Rs.5 extra per passenger over and above the fare as it was not a facility provided within the fare fixed.

The reply is not tenable in view of the fact that there was good patronage for such services even though the fares were high as asserted by the management itself. In such a situation, the Company should have fixed the fares for the ultra deluxe services at 61 PPKM which would have helped to improve its revenue earnings without affecting patronage. KSRTC introduced ultra deluxe services in Bangalore-Chennai-Bangalore route from June 2005 and was charging 70 PPKM in these services. It was only after the Company fixed the fare at 52 PPKM that KSRTC also started charging this rate for coverage in Tamil Nadu and maintained the fare at 70 PPKM for coverage in Karnataka.

Tamil Nadu Fisheries Development Corporation Limited

4.9 Loss of revenue

Inordinate delay in leasing out the fishing rights led to loss of revenue of Rs.20.73 lakh.

Bhavanisagar reservoir of the Company was leased out for fishing for five years from July 2000. The Company terminated the lease agreement and took possession (1 August 2003) of the reservoir as the lessee defaulted in payment of lease rent, royalty, *etc*. After termination of the lease, the Board of Directors of the Company decided (September 2003) to initiate action immediately to lease out the reservoir again.

After finalisation (August 2004) of the tender conditions by the Committee constituted (December 2003) for the purpose, the Company invited (August 2004) open tenders for leasing out the fishing rights in the reservoir. The Company recommended (October 2004) the highest offer of Rs.32.50 lakh *per annum* as lease rent, for approval of the Government. The Government accorded (February 2005) approval for leasing out the reservoir upto 30 June 2007.

It was observed during audit that there was inordinate delay at all levels right from the constitution of the tender committee (three months) to the finalisaton of the tender conditions (seven months) and in according approval by the Government (three months). As the Company was aware of the loss of revenue, it should have completed the processing and leasing of fishing rights expeditiously within a reasonable time, say, within six months of the directive by the Board. Failure to do so resulted in a revenue loss of Rs.20.73 lakh during the delayed period.

The matter was reported to the Management/Government in August 2006; their replies are awaited (September 2006).

Electronics Corporation of Tamil Nadu Limited

4.10 Loss due to delay in disinvestment

Delay in taking decision to disinvest the equity shares in an assisted unit led to diminution in value of investment of Rs.20.25 lakh.

The Company, in pursuance of an agreement, invested Rs.20.25 lakh in DSQ Software Limited (originally named as Square D software Limited) subscribing to its 2,02,500 equity shares.

As per guidelines of the State Government on the disinvestment of shares held in assisted units, a review of the possibility of disinvestment was to be made after three years of the agreement. Based on this, the Company considered the proposal for disinvestment of the shares in DSQ. The Company sought (January 1999) the approval of the Government for disinvestment citing that the shares of DSQ were being quoted in the share market at a very high price *viz*., around Rs.300 per share.

The Government decided (January 1999) that it was not the opportune time for disinvestment and asked the Company to wait till the market stabilised. The Government also directed (February 1999) the Company to obtain advice from a merchant banker on the disinvestment and submit a report to it. The Company after informally discussing the issue with a leading merchant banker informed (May 1999) the Government that the proposal for disinvestment might await better times.

There was a news item in the press (May 2001) indicating that funds of crore of rupees had been manipulated to “artificially increase or sustain share prices of DSQ and other companies”. The Company, without taking into consideration this news report, again informed the Government in June 2001 that it was watching the rates of the shares of DSQ.

There was another news item (3 December 2001) about the financial irregularities in DSQ. Audit observed that instead of taking prompt action, the Company decided only in September 2002 to disinvest the shares and wrote (October 2002) to the Government for disinvestment. At this juncture, the shares of DSQ were quoted around Rs.15 per share. The Government is yet to approve the proposal (August 2006). It was noticed during audit that shares of DSQ were not being quoted in the market for a long time and the Company has also recognised diminution in value of these shares and made provision for its investment of Rs.20.25 lakh in the accounts.

Delay in taking the decision to disinvest the shares thus resulted in loss of investment of Rs.20.25 lakh.

The matter was reported to the Management/Government in May 2006; their replies are awaited (September 2006).

Tamil Nadu State Marketing Corporation Limited

4.11 Avoidable loss

Failure to take annual insurance policy led to non-refund of premium and consequential loss of Rs.15.08 lakh.

The Company insures its stock of Indian Made Foreign Spirit (IMFS), beer and whisky kept at its godowns situated all over the State, on annual basis under ‘Fire Declaration Policy’, covering loss against fire, earthquake and terrorism.

As per the ‘Tariff’ provisions under the ‘Fire Declaration Policy’, the insurance premium would be collected based on the provisional value of stock declared by the insured. On expiry of the policy period, the provisional insurance premium originally paid would be revised based on the actual value of the stock held every month by the insured. The difference, if any, would be refunded to the insured subject to a maximum of 50 *per cent* of the provisional premium paid. Fire Declaration Policy is not available for short term (less than 12 months).

The Company invited (June 2004) quotations from the Public Sector insurance companies to insure the stock of IMFS, beer and whisky in its godowns from 16 July 2004 to 15 July 2005. The National Insurance Company (NIC) quoted (July 2004) the lowest annual premium of Rs.35.66 lakh. As there was delay in getting the approval of the Board for release of annual premium, NIC agreed to provide insurance cover for one month from 16 July 2004 on payment of 15 *per cent* of the quoted amount *i.e*., Rs.5.35 lakh subject to payment of balance premium before 15 August 2004 for providing insurance cover for full one year. The Company paid (July 2004) Rs.5.35 lakh for insurance for one month. Since there was further delay in getting the approval, the Company paid (August 2004) another Rs.5.35 lakh for the second month without confirming about adjustment of the premium paid for two short period policies against the premium for a full one year policy.

After obtaining (21 August 2004) the approval from the Board for annual insurance premium for the period from 16 July 2004 to 15 July 2005, the Company paid (September 2004) Rs.24.96 lakh i.e., balance 70 *per cent* of the quoted amount (30 *per cent* already paid for two months) to NIC with a request to cover the risk for 10 months from 16 September 2004 to 15 July 2005. NIC did not agree to this and informed (December 2004) the Company that it had issued two short period policies on the request of the Company by collecting 15 *per cent* of annual premium quoted for each month separately (16 July to 15 August 2004 and 16 August to 15 September 2004 respectively) and it was not possible to issue policy for 10 months, for which 100 *per cent* premium was required. NIC gave an alternative to take three months short term policy against payment of 40 *per cent* of quoted premium to be followed by annual policy after making full payment. In that case the Company was entitled for pro rata reduction in premium for short term policy. But the Company did not respond to this offer. NIC, therefore, issued insurance policy for six months from 16 September 2004 to 15 March 2005 (for which 70 *per cent* of annual premium was payable as per 'Tariff' provisions) and apportioned Rs.24.96 lakh against this.

After completion of one year, the Company claimed (July 2005) a refund of Rs.15.08 lakh from NIC, being the difference between the annual premium payable (Rs.20.58 lakh) based on the actual value of stock of Rs.69.24 crore held by the Company during the period from 16 July 2004 to 15 July 2005 and the provisional premium paid (Rs.35.66 lakh). But NIC refused to refund this amount on the ground that as per Tariff provisions such refunds could be made only on annual policies and not on short term policies.

Since the Company was aware of the expiry of annual insurance on its wholesale stock on 15 July 2004, it should have taken effective steps sufficiently in advance to pay the annual premium in July 2004 itself. Failure to do so resulted in an avoidable loss of Rs.15.08 lakh, being the differential premium not refunded by the insurer. More importantly, the wholesale stock worth Rs.100 crore had no insurance cover during the period 16 March 2005 to 15 July 2005.

The matter was reported to the Management/Government in May 2006; their replies are awaited (September 2006).

4.12 Loss of interest

Failure to invest surplus funds in long term deposits resulted in loss of interest of Rs.1.50 crore.

The Company is running more than 7,000 retail vending shops for Indian Made Foreign Spirit and beer and appoints bar/shop supervisors, shop salesman and bar tenders on contract basis. The Company collects non-interest bearing security deposit (SD) from the employees to be refunded on their leaving the service. The total amount of SD with the Company aggregated to Rs.74.64 crore as on 31 March 2006.

As the SD was to be refunded only at the time of leaving the service, the Company should have invested this amount in long term deposits i.e. in fixed deposits of one year duration, to earn higher interest. It was noticed that the Company kept this amount in its regular bank accounts and periodically invested the surplus funds in short-term deposits for periods ranging from seven to 46 days and earned interest of Rs.7.05 crore during the two years period ended 31 March 2006.

Failure to invest the surplus funds in long-term deposits resulted in a minimum interest loss of Rs.1.50 crore during the two years ended 31 March 2006 (computed with reference to the difference between the maximum interest earned on short term deposits and the maximum interest offered on deposits of one year duration).

The Company stated (October 2006) that it was in need of funds every month for payment of various dues viz. special privilege fee, sales tax, vend fee, salaries and rent, etc. and therefore, temporarily diverted the security deposits collected from the contract employees to meet these expenses. It was further stated that this was done as an alternative to the cash credit facility and with effect from April 2006, the security deposits collected from the contract employees are being kept in one year fixed deposit in banks.

The reply is not tenable as barring a few days in some of the months, the Company was maintaining bank balances in excess of the security deposits and, as such, it should have availed the cash credit facility from the banks for short periods and the security deposit amount should have been invested on long-term basis.

The matter was reported to the Government in May 2006; their reply is awaited (September 2006).

Statutory corporation

Tamil Nadu Electricity Board

4.13 Non-filing of Aggregate Revenue Requirement and tariff petition

Failure to file petition for revision of tariff denied the Board opportunity to reduce its deficit.

As per the Section 64(1) of the Electricity Act, 2003 (Act), the Board is required to file an application to the Tamil Nadu Electricity Regulatory Commission (TNERC) for determination of tariff under Section 62 of the Act. As per TNERC (Terms and Conditions for determination of Tariff) Regulations 2005, the Distribution/Transmission licensee like the Board has to file the Aggregate Revenue Requirement (ARR) on or before 30 November of each year giving the details of the expected revenue and estimated expenditure. ARR is to be filed every year even if no application for determination of tariff is to be made. On the basis of ARR, the Commission evaluates the financial performance of the Board, besides taking decision on tariff revision and enforcing performance standards on the Board. Thus, filing of ARR is a prerequisite for tariff determination. The Board filed its first ARR and tariff petition in September 2002. After scrutinising the ARR and the tariff petition, TNERC issued a tariff notification in March 2003 revising the then existing tariff. The revised tariff was to be in force till 31 March 2004 or till the Board approached the TNERC for the next tariff revision whichever was earlier.

TNERC directed (June 2003) the Board to submit the tariff revision proposal for the financial year 2004-05 by December 2003, in case revision in the tariff was required. The Board, however, neither filed tariff revision for the financial years 2004-05 to 2006-07 nor has it filed the ARR for these years. Consequently the tariff fixed by the TNERC for 2003-04 continues to be in force till date (August 2006). It is interesting to note that though TNERC informed the Board in March 2005 that submission of ARR was an independent activity and need not be combined with or wait for the tariff petition and that it was in the Board's interest to prepare and submit the ARR, the Board has not complied with this essential requirement.

The revenue account of the Board for the financial year 2004-05 showed a deficit of Rs.1,176.77 crore and the deficit for 2005-06 has increased to Rs.1,355.21 crore. As the Board did not file ARR and tariff petitions for 2004-05, 2005-06 and 2006-07, it has lost the opportunity to get the tariff reviewed/revised by the Commission to match the ARR of these years and thereby reduce the growing deficit. Regular and progressive reduction of revenue deficit would have enabled the Board to avail the incentive available from the Government of India for reduction of loss under the Accelerated Power Development and Reforms Programme.

The Board stated (May 2006) that even with the prevailing tariff rates, the high revenue yielding consumers *viz.*, HT industrial and commercial consumers were leaving its supply. The Board further stated that there was much resistance from domestic, agriculture and hut consumers for any tariff revision. Therefore, it had taken conscious steps to improve the financial performance without going in for tariff revision.

The reply is not acceptable for the following reasons:

- the percentage increase in the last tariff revision approved by TNERC for the domestic consumers ranged from 16 to 30 whereas it was 7 and 16 for the HT industries and HT commercial consumers respectively thus indicating that its concerns about loosing HT industrial and HT commercial consumers had been taken care of by TNERC while approving the tariff revision.
- as electricity is supplied free of cost to agriculture and hut services, the presumption of resistance from these categories of consumers had no reasonable basis. Moreover, the Board receives subsidy from the Government for supply of power free of cost to agriculture and hut services, and
- although the Board is a commercial concern it chose to ignore the direction of the Commission in spite of the huge revenue deficit incurred by it in recent years.

The matter was reported to the Government in March 2006; their reply is awaited (September 2006).

4.14 Loss of interest

Excess payment of fixed charges due to adoption of higher capital cost while making payment for power purchased resulted in interest loss of Rs.23.27 crore.

The Central Electricity Authority (CEA) accorded (November 1995) Techno-economic clearance (TEC) for the establishment of 330.5 MW Combined Cycle Gas Turbine (CCGT) plant by Dyna Makowski Power Company (DMPC) at an estimated cost of Rs.1,121.70 crore.

The Board entered (January 1997) into a Power Purchase Agreement (PPA) with DMPC to purchase the power generated by CCGT plant. The PPA, *inter alia,* stipulated that the capital cost of the project shall not be greater than the lesser of

- the capital cost approved by the CEA, and

- the capital cost set forth in the reports delivered by DMPC to the Board.

The successor company *viz*., Pillaiperumalnallur Power Generation Company (PPNPGC) completed the project, commenced commercial operation on 26 April 2001 and started supplying power to the Board from that date. PPNPGC intimated (July 2001) to CEA the completed capital cost of the project as Rs.1,409.84 crore and sought its approval. CEA observed (October 2001) that certain items amounting to Rs.149.26 crore included in the completed capital cost needed to be deleted as these were, prima facie, inadmissible. Besides this, CEA also called for further information from PPNPGC, which revised (July 2002) the completed capital cost to Rs.1,379.24 crore and sought CEA's approval for this amount, which is awaited (September 2006).

The tariff for the power purchased by the Board comprises of variable and fixed charges. The approved capital cost is the basis for the payment of fixed charges like interest on debt, depreciation, insurance, *etc*. As the completed capital cost submitted by PPNPGC was yet to be approved by the CEA, the capital cost as approved by the CEA in the TEC *viz*., Rs.1,121.70 crore should have been adopted by the Board for the fixation of tariff.

It was noticed during audit that while making payments for the power purchased from PPNPGC, the Board adopted Rs.1,386.26 crore as the capital cost for the years 2002-03 to 2004-05 and Rs.1,379.24 crore for the year 2005-06 instead of Rs.1,121.70 crore approved by the CEA. This resulted in excess payment of Rs.162.59 crore as fixed charges to PPNPGC during 2002-03 to 2005-06. As the Board is depending on borrowed funds, this excess payment had resulted in loss of interest of Rs.23.27 crore during the period.

Audit also noticed that in the PPAs entered into by the Board with the other generating companies, there was a clause to recover/pay the overcharge/undercharge of capital cost upon finalisation of the same. There was no such clause in the PPA with PPNPGC and as such chances of recovery of excess payments effected towards fixed charges, such as interest on debt, depreciation and insurance charges aggregating to Rs.162.59 crore are remote.

The matter was reported to the Board/Government in May 2006; their replies are awaited (September 2006).

4.15 Avoidable extra expenditure

Failure to place purchase order within the validity period resulted in avoidable extra expenditure of Rs.18.79 crore on import of coal.

The Board operates four thermal power stations, which use coal as the fuel. The annual requirement of coal in these thermal power stations is around 145 lakh metric tonne (MT). The Board normally maintains a coal stock of 21 days' requirement (11 lakh MT approximately).

The Board estimated (October 2004) a shortfall of about 1.84 lakh MT of indigenous coal per month (equivalent to 1.38 lakh MT of imported coal) and accordingly the requirement of imported coal was estimated as 12.42 lakh MT for the period from October 2004 to June 2005. The Board authorised (16 October 2004) the Chairman to import coal through Minerals and Metals Trading Corporation Limited (MMTC) or through short tender on emergency basis, if the situation so warranted.

In view of the anticipated critical coal stock position from the end of December 2004 and the lead time involved in the open tender process, the Chairman of the Board put up (1 November 2004) a proposal to the Board Level Tender Committee (BLTC) to import 1.50 lakh MT of Type B Indonesian coal offered by MMTC at a cost of US $ 56 per MT, as it was found technically suitable. BLTC approved the proposal on 2 November 2004 and negotiations were held with MMTC on 3 November 2004 and the price of Type B was reduced to US $ 55.75 per MT for 1.50 lakh MT and US $ 55.50 per MT for 3.00 lakh MT to be supplied before 31 March 2005. MMTC kept the validity of the offer open up to 4 November 2004, which was subsequently extended to 16 November 2004. The Board authorised (4 November 2004) the Chairman to import coal through MMTC. However, no further action was taken and the offer lapsed on 16 November 2004.

After expiry of the earlier offer, MMTC made (7 December 2004) another offer of the Chinese coal having different specification at US $ 73.50 per MT. The Board placed (January 2005) purchase order on MMTC, for import of 5.00 lakh MT of the Chinese coal at the rate of US $ 73.50 per MT and as an extension of the contract, placed another purchase order (June 2005) for supply of 5.00 lakh MT of coal at US $ 73.00 per MT. Against these orders, MMTC supplied 5,12,436 MT (between March and June 2005) and 5,40,666 MT (between June and September 2005) of coal.

It was noticed during audit that the Chinese coal was costlier than the Indonesian Type B coal (after loading prices for variations in specifications). Thus, failure to place order for the purchase of Type B Indonesian coal within the validity period, even after finding it technically suitable, resulted in avoidable extra expenditure of Rs.18.79 crore on purchase of costlier Chinese coal.

The Board stated (January 2006) that the offer of MMTC to supply the Indonesian coal could not be finalised as the coal prices were declining and the coal stock was also not that much alarming. The Board further stated that on comparing the offers of MMTC for the Indonesian coal (US $ 59.00 per MT) and the Chinese coal (US $ 73.50 per MT) as on 7 December 2004, the Chinese coal was found cheaper by US $ 1.18 per MT.

The reply is not tenable as the statement about decline in price was based on the offers received from Glencore, National Co-operative Consumer Federation (NCCF) and State Trading Corporation (STC) of India. Out of these offers, the offer of STC was without any details and hence was invalid (as admitted by the Board). The price quoted by NCCF was higher than that of MMTC and the coal offered by Glencore, a private firm, was not suitable due to high moisture content. The contention of coal stock position not being alarming is also not correct as the Board had stock of 12.8 days requirement only as against normal requirement of stock for 21 days. The contention of the Chinese coal being cheaper than the Indonesian coal as on 7 December 2004 is not relevant since the Board had not acted upon MMTC's earlier offer at US $ 55.75 per MT for the Indonesian coal during the validity period.

The matter was reported to the Government in February 2006; their reply is still awaited (September 2006).

4.16 Avoidable extra expenditure

Failure to take advantage of decline in prices resulted in avoidable extra expenditure of Rs.12.48 crore on the purchase of meters.

The Board floated (October 1999) a tender for purchase of approximately 24 lakh single phase High Quality Energy Meters (HQMs) over a period of three years from 2000-01. The Board finalised (February 2000) an all inclusive firm price of Rs.733.84 per meter and purchased 34.73 lakh single phase HQMs during 2000-01 to 2002-03. The validity of the rate contract expired in March 2003.

The Chief Financial Controller (CFC) of the Board, while considering the repeat orders on the same firms directed (March 2003) the management to compare the prices paid by Southern Power Distribution Company of Andhra Pradesh Limited (SPDC), Karnataka Power Transmission Corporation Limited (KPTCL) and other State Electricity Boards also to ensure that the prices were not declining.

The Board placed further purchase orders for additional six lakh meters (April 2003) and 2.68 lakh meters (September 2003) at the same all inclusive price of Rs.733.84 per meter by extending the validity of the existing rate contract up to 31 March 2004. The Board received 8,68,477 single phase meters between May 2003 and March 2004 against the additional purchase orders.

It was noticed during audit that the Board had compared the prices paid by SPDC and KPTCL in May and February 2002, whereas another SEB (Eastern Power Distribution Company of Andhra Pradesh Limited) had placed orders in November 2002 at an all inclusive price of Rs.590.10 per meter, which was lower than the all inclusive price of Rs.733.84 per meter paid by the Board in April/September 2003.

Failure of the Board to compare the latest prices paid by other SEBs before placing the repeat orders resulted in an avoidable extra expenditure of Rs.12.48 crore on the purchase of 8,68,477 meters.

The matter was reported to the Board/Government in April 2006; their replies are awaited (September 2006).

4.17 Undue benefit

Payment of fixed charges to an Independent Power Producer in contravention of the agreement resulted in undue benefit of Rs.7.18 crore.

The Board entered (September 2003) into a Power Purchase Agreement (PPA) with ABAN Power Company Limited (ABAN), an Independent Power Producer (IPP), for purchase of power from 113.2 MW power project set up by ABAN. Section 5 of the PPA, *inter alia*, stipulated that the Board shall purchase and pay variable charges for all 'infirm power'[♣] produced by ABAN and delivered to the Board prior to the date of commercial operation.

ABAN synchronised its gas turbine unit in open cycle mode with the grid on 18 February 2005 for testing purposes. The project commenced commercial production from 11 August 2005.

In the meantime, ABAN requested (May 2005) the Board to buy electricity from their project and pay fixed and fuel charges as they were ready to generate around 55 MW of electricity continuously. The Board accepted (May 2005) this request as a special case and ABAN supplied 74.31 Million Units of power from its project to the Board during 14 May to 15 July 2005 for which the Board paid Rs.7.18 crore as fixed charges and Rs.6.56 crore as variable charges.

As the power supplied prior to commencement of commercial operation (11 August 2005) was 'infirm power', the Board was required to pay variable charges only. Payment of fixed charges to ABAN during the period resulted in undue benefit of Rs.7.18 crore to the IPP.

The Board stated (September 2006) that the IPP opted to generate and supply firm power with effect from 14 May 2005 on continuous basis and the Board accepted it in view of the fact that the cost of generation from the its own thermal plant was higher at Rs.2.18 per unit as compared to the payment made to the IPP *viz*., Rs.1.86 per unit and that the payment was made outside the purview of PPA. The reply is not tenable as the variable cost of power generation from the thermal plant of the Board at the relevant point of time was only Rs.1.50 per unit. Since the power supplied during the testing period was infirm power, for which only variable cost was payable, the payment of cost higher than the variable cost of its own generation lacked justification.

The matter was reported to the Government in May 2006; their reply is awaited (September 2006).

♣ Section 1 of the PPA defined 'infirm power' as electricity produced by the project and delivered to the Board prior to the date of the commercial operation.

4.18 Avoidable extra expenditure

Failure to switch over to cheaper concrete poles resulted in avoidable extra expenditure of Rs.7.10 crore on casting of RCC poles at higher cost.

The Board has been using two types of concrete poles, *viz*., Reinforced Cement Concrete (RCC) and Pre-stressed Cement Concrete (PSC) poles in the transmission and distribution lines. These poles are cast in the Pole Casting Yards of the Board spread throughout the State.

The Committee on Public Undertakings (COPU), while discussing the audit observations on the working of the Pole Casting Yards of the Board included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1994 (Commercial) – Government of Tamil Nadu, observed (May 1996) that the cost of the PSC poles was much cheaper than that of the RCC poles. It, therefore, recommended greater use of PSC poles to reduce the cost of electrification. It also recommended that even for road crossings and street lighting purposes, which require long poles, suitable design should be developed to cast PSC poles at cheaper cost.

In compliance to the recommendations of the COPU, the Board issued instructions (April 1999) to the Chief Engineers (CEs) in charge of distribution to cast 200 PSC poles of 9.14 metre length as per the approved drawings on a trial basis. After casting eight PSC poles from February 2001 onwards and carrying out the relevant tests, CE, Erode Region informed (March 2004) the Board Headquarters that these poles were found suitable for double pole structure, for road crossings in urban areas, for street lighting and for tangential location for 11 KV lines and that they had not failed or developed cracks after two years.

It was noticed by Audit that in spite of the above, the Board did not take effective steps to switch over to PSC poles. The Board produced 48,597 RCC poles of 9.14 metre only in 2005-06 at a cost of Rs.2,933 per pole while no PSC pole was cast (the cost of 9.14 metre PSC poles during the same period was estimated at Rs.1,471 per pole). Failure to switch over to PSC poles had resulted in an avoidable extra expenditure of Rs.7.10 crore in 2005-06.

The Board stated (March 2006) that the trial casting of 9.14 metre poles carried out by Mettur Electricity Distribution Circle did not conform to the requirements of the Board. Though the cost of production of PSC poles was apparently cheap, the difference in cost between RCC and PSC poles was small due to the prohibitive capital expenditure involved in the formation of PSC yards and the transportation cost involved as PSC yards were scattered throughout the State. The Board also stated that the failure rate of PSC poles had been very high.

The reply is not tenable as Chief Engineer, Erode Region after casting eight PSC poles of 9.14 metre length in the Mettur Pole Casting Yard and carrying out the required tests confirmed the suitability of poles for the purposes envisaged by the Board. The Board had not made any detailed study on the cost effectiveness of 9.14 metre PSC poles. Further, since the Board had not started using 9.14 metre PSC poles, the claim on their failure rate has no basis.

The matter was reported to the Government in May 2006; their reply is awaited (September 2006).

4.19 Loss of revenue

Failure to revise lease rent for the land leased out to GPCL resulted in revenue loss of Rs.3.60 crore.

The Board entered (March 1997) into a Land Lease Agreement (LLA) with GMR Power Company Limited (GPCL) for 29.03 acres of land at Perambur and Vepery villages for establishing a Diesel Engine Power Project at Basin Bridge Power House Complex. As per Article 3 of the LLA, the GPCL was to pay monthly lease rent at 14 *per cent* of market value of the land as assessed by the Revenue authorities. Further, the agreement provided for revision of the annual rate of lease rent once in three years in accordance with the applicable Government notification/guidelines and GPCL was required to pay without demur.

Accordingly, based on the market value of Rs.208.33 per Sq. ft. fixed (March 1997) by the Revenue authorities, the Board fixed the lease rent at Rs.30.74 lakh per month and this amount was being collected from the date of handing over the site to GPCL, *viz*., 19 December 1996. On expiry of three years, the lease rent was revised (November 2000) to Rs.41.35 lakh per month based on the market value of Rs.316 per Sq. ft. and Rs.275 per Sq. ft. in Vepery and Perambur village respectively. The Board collected this revised lease rent with retrospective effect from 19 December 1999.

Based on the market value of Rs.421 per Sq. ft. and Rs.386 per Sq. ft. fixed by the Revenue authorities for Vepery and Perambur villages respectively, the Board increased (April 2003) the lease rent to Rs.83.18 lakh per month and made it effective from 19 December 2002. GPCL contested (April 2003) the method of assessment of the value of the land and requested the Board to reassess the value of the land. GPCL also approached the Collector of Chennai on the subject. The Collector of Chennai reassessed and communicated (December 2003) to the Board the market value of the entire land as Rs.336 per sq.ft.

The Board, however, did not take any action to revise the lease rent to Rs.49.58 lakh per month on the basis of the reassessed value with effect from 19 December 2002. Instead, it continued to collect lease rent at the pre-revised rate of Rs.41.35 lakh per month. This resulted in revenue loss of Rs.3.60 crore for the period of 44 months from 19 December 2002 to 18 August 2006.

The matter was reported to the Board/Government in March 2006; their replies are still awaited (September 2006).

4.20 Avoidable extra expenditure

Failure to take timely action for availing lower domestic tariff for water being supplied to the staff quarters resulted in avoidable extra expenditure of Rs.2.20 crore.

The Government of Tamil Nadu (Government) notified (July 1997) a separate tariff for water supplied for domestic purposes by the Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) with effect from 1 July 1997. The water supplied for domestic purposes was to be charged at Rs.25 per Kilo litre (KL), while the water supplied to commercial establishments was to be charged at Rs.40 per KL, which was later on increased to Rs.60 per KL with effect from 1 January 2003.

Ennore Thermal Power Station (ETPS) of the Board has been purchasing water from CMWSSB to meet the requirements of its thermal plant and the staff quarters attached to the plant through a single sump. In spite of the introduction of a lower tariff for the water supplied for domestic purposes with effect from July 1997, ETPS did not initiate any action to construct a separate sump for receiving water for supply to its staff quarters to get the benefit of lower tariff.

On this being pointed out by Audit (June 2003), ETPS took up (January 2004) the matter with CMWSSB. However, the matter was not pursued with CMWSSB until February 2005, when CMWSSB suggested construction of a common collection tank for the water supplied to the staff quarters. No action has been taken so far to construct the collection tank and as a result the entire water supplied by CMWSSB is being billed at the commercial tariff. It is pertinent to note in this connection that North Chennai Thermal Power Station (NCTPS), another unit of the Board, which also purchases water from CMWSSB for its plant and staff quarters, initiated action to get the water supplied to its staff quarters billed at domestic tariff as early as in August 1999 and CMWSSB started billing the water supplied to the staff quarters of NCTPS at the lower domestic tariff from April 2002 onwards.

Thus, failure to take timely action for availing the benefit of lower domestic tariff for the water being supplied to the staff quarters during January 1998 to August 2006 resulted in an avoidable extra expenditure of Rs.2.20 crore.

The matter was reported to the Board/Government in February 2006; their replies are awaited (September 2006).

4.21 Avoidable extra expenditure

Failure to take note of the lower prices paid by the field offices resulted in avoidable expenditure of Rs.1.43 crore on the procurement of AB switches.

The Board (Central Office) invited open tenders (March 2004) for the procurement of 11 KV and 22 KV outdoor type air break (AB) switches with post type (PT) insulators (six insulators per switch) during 2004-05. After negotiations, the Board placed (July 2004) purchase orders for procurement of 2,000, 22 KV switches and 6,600, 11 KV switches at the rate of Rs.10,732.60 and Rs.8,867.42 per switch with insulator respectively on 12 firms.

During the same period (March 2004 to July 2004), the Chief Engineers of the Board at Villupuram and Trichy (field offices) were able to purchase the same AB switches and PT insulators separately at prices lower than the above mentioned prices finalised by the Central Office as detailed below:

Item	Purchase Order and date	Quantity (in numbers)	Basic price (Rupees)
Regional Chief Engineer, Trichy			
22 KV AB switches (without insulators)	5/21.04.04	43	6,580
11 KV AB switches (without insulators)	1/06.04.04	53	5,349
11 KV AB switches (without insulators)	10/13.05.04	52	5,475
22 KV PT insulators	80/17.03.04	750	275
11 KV PT insulators	2/06.07.04	1,200	182.27
Regional Chief Engineer, Villupuram			
11 KV PT insulators	9/27.04.04	1,300	214
11 KV AB switches (without insulators)	37,78/14.07.04	74	5,780
11 KV AB switches (without insulators)	52,53/21.08.04	98	5,780
22 KV switches (without insulators)	47/10.08.04	30	6,400

Failure of the Board to take note of the lower prices at which its field office purchased the AB switches and PT insulators separately resulted in an avoidable extra expenditure of Rs.1.43 crore.

The matter was reported to the Board/Government in April 2006; their replies are awaited (September 2006).

4.22 Non-recovery of special guarantee amount

Failure to safeguard its interest and extension of new service connection to a litigant consumer against its own policy resulted in non-recovery of Rs.1.30 crore on premature surrender of connection.

The Board notified (February 2000) a policy according to which no request for a new connection from a consumer or its sister concern who is in litigation with the Board for theft of power, should be entertained. Further, as per Clause 13.08 of the Standrad terms and conditions of supply of electricity, where the capital cost to be incurred by the Board for providing electricity supply is Rs.10 lakh or more, the agreement for supply of electricity will be for a period of five years with a condition for payment of a special guarantee amount, if the agreement is terminated by the consumer due to any reason within the period of five years.

The Board granted (April 2002) a new service connection (HT SC No.53) with a connected load of 6,000 KVA to Grasim Industries Limited (GIL) by incurring a capital cost of Rs.2.94 crore. It was noticed during audit that the sister concern of GIL, Dharani Cements Limited was found (December 1998) unauthorisedly supplying power to GIL and a Court case was pending for the recovery of compensation of Rs.1.66 crore from it.

GIL requested (December 2003) the Board for the surrender and permanent disconnection of the service connection provided to them in April 2002 with effect from 31 December 2003. The Board disconnected (March 2004) the service connection. GIL neither paid the current consumption charges (Rs.32.45 lakh) for February and March 2004 nor the special guarantee amount of Rs.1.43 crore required to be paid for the surrender of service connection within five years of availing the connection. The Board has not taken effective steps (except corresponding with GIL) to recover this amount.

It was noticed during audit that the Board has not pursued for recovery of the special guarantee amount payable by the consumer for surrender of the service connections before the expiry of five years. Further, the decision to sanction new service connection to a consumer, whose sister concern was in litigation with the Board was against its notified policy.

Thus, there was non-recovery of Rs.1.30 crore (special guarantee amount Rs.1.43 crore plus current consumption charges of Rs.32.45 lakh less deposits available with the Board Rs.45 lakh) due to irregular sanction of service connection and failure to realise the compensation for premature surrender of connection.

The matter was reported to the Board and Government in August 2006; their replies are awaited (September 2006).

4.23 Avoidable extra expenditure

Faulty decision to 'lodge' the first tender resulted in avoidable extra expenditure of Rs.1.04 crore on procurement of power transformers.

The Board decided (April 2003) to purchase 20 power transformers (PTs) in the first phase as against the requirement of 40 PTs of 16 MVA, 33/11 KV capacity for the transmission and distribution works during 2003-04 and also for implementation of the Accelerated Power Development and Reforms Programmes (APDRP).

The Board received (May 2003) two valid offers against the tenders floated by it for purchase of 20 PTs. The offer of Indotech Transformers Limited (ITL) was lower with the price of Rs.47.29 lakh (excluding sales tax) per PT. After negotiations (July 2003), ITL reduced the price to Rs.46.66 lakh per PT (excluding sales tax and surcharge on sales tax). As the negotiated rate was still found to be higher by Rs.9.28 lakh (25 *per cent*) than that of the updated price of the previous purchase order placed in September 2000, the Board decided (September 2003) to 'lodge' the tender and call for fresh tenders.

The Board floated (October 2003) fresh tenders for purchase of 40 PTs of 16 MVA, 33/11 KV capacity and received offers from four firms against the tender. Out of these, two firms, which quoted the same lowest price, offered to supply only two transformers each. ITL, who had quoted the next lower price, offered to supply 27 PTs. After two negotiations in January 2004, the lowest tenderers reduced the price to Rs.51.75 lakh per transformer and ITL reduced the price to Rs.52.12 lakh per transformer.

Though the above prices were higher by 31 *per cent* than the updated price of the earlier order placed in September 2000 and also higher than the prices quoted by the tenderers in May 2003, the Board decided (March 2004) to place the order for 30 PTs on these prices (three with the lowest tenderers and 27 with ITL).

The decision to 'lodge' the tender floated in May 2003 for the 20 PTs lacked justification as the reasons given for accepting the higher prices in January 2004 *viz*., increase in price of raw materials, supply on rate contract basis, stock of PTs and likelihood of losing APDRP grant were also valid even when the Board decided to 'lodge' the earlier tender in September 2003. This resulted in avoidable extra expenditure of Rs.1.04 crore on the procurement of 20 PTs.

The matter was reported to the Board/Government in April 2006; their replies are awaited (September 2006).

4.24 Extra expenditure on interest

Delay in substitution of high cost loan with a lower interest loan resulted in avoidable extra expenditure of Rs.44.03 lakh on interest.

The Board had entered into Power Purchase Agreements with various Independent Power Producers (IPPs) for purchase of power generated by them. The payment for the power so purchased included, *inter alia*, the reimbursement of interest paid on the loans raised by the IPPs for the project.

Samalpatti Power Company (SPC), one of the IPPs had taken loan for the project at interest rates ranging from 13.50 *per cent* to 16.4617 *per cent per annum* (fixed). In order to bring down the cost of power generated and to take advantage of the falling interest rates, SPC obtained (February 2003) sanction for a term loan of Rs.40 crore at 12 per cent *per annum* (floating) from the State Bank of Hyderabad (SBH). SPC sought (April 2003) approval of the Board for prepayment of the outstanding loan of Rs.33.53 crore to Infrastructure Development Finance Corporation (IDFC) (at the interest rate of 16.4617 *per cent*) along with the prepayment premium of Rs.84.30 lakh for availing term loan from SBH to that extent. SPC also sought approval of the Board to include the prepayment premium as a component of fixed cost of the power and indicated that prepayment would result in total interest saving of Rs.4.34 crore to the Board.

The Board permitted (19 May 2003) SPC to substitute the IDFC loan with SBH loan but stated that the treatment of prepayment premium would be decided at the time of finalisation of completed cost of the project. SPC pressed for the approval of its proposal and the Board finally gave approval (10 July 2003) to the proposal of SPC. The Board, however, did not pursue/follow-up the matter vigorously with the IPP to ensure that the substitution of high cost loan was effected immediately. SPC transferred the outstanding loan of IDFC (Rs.31.28 crore) to SBH only on 14 October 2003. The substituted loan carried an interest rate of 11.75 *per cent per annum*.

Considering the fact that the substitution of loan would have resulted in a saving of Rs.4.34 crore to the Board, it should have accepted and pursued the proposal promptly to avail the benefit of lower interest rate say from July 2003 instead of 15 October 2003. Delay in accepting the swapping proposal resulted in avoidable extra expenditure of Rs.44.03 lakh on interest for the period from 1 July to 14 October 2003.

The matter was reported to the Board/Government in February 2006; their replies are awaited (September 2006).

4.25 Avoidable extra expenditure

Injudicious arrangement with HDFC bank for picking up of cash from the section offices resulted in an avoidable extra expenditure of Rs.44.15 lakh.

The electricity charges (both cash and cheque) collected from the consumers against power consumption are deposited by the staff in the collection accounts of the section offices held in various commercial banks.

HDFC Bank (Bank) offered (August/September 2002) its services for the pick up of cash and cheques pertaining to the collections from 100 section offices of the Board in Chennai city for a service charge of Rs.5 per Kilometre (Km). The total distance was estimated at 215 Kms.

The Board approved (January 2003) the proposal to utilise the services of the Bank for the pick up of cash and cheques from 100 section offices in eight revenue branches of the Board located in Chennai city at an estimated expenditure of Rs.26,875 per month. This estimated expenditure was considered less than the conveyance charges of Rs.30,000 (approximately) being paid to the employees of the Board for depositing the collections in the banks.

Immediately after commencing (17 February 2003) the collection of cash and cheques, the Bank increased the collection distance unilaterally to 406 Kms from 215 Kms thereby doubling the expenditure involved. The Bank also increased the service charges to Rs.30 per Km and started (November 2004) debiting the enhanced service charges to the Board's account. The Board approved (June 2005) the payment of enhanced service charges with effect from July 2005 only.

It was, however, noticed in audit that though the Board approved the increase in service charges with effect from 1 July 2005, the bank refused to refund Rs.20.30 lakh deducted during November 2004 to June 2005 towards increased service charges. The bank also short credited the Board by Rs.3.43 lakh (between February 2004 and June 2005), being the value of fake/soiled/mutilated notes. The Bank, however, did not return these notes to the Board (March 2006).

The Board should have terminated the arrangement with the HDFC bank, when the bank unilaterally increased the collection distance and the service charges, which increased the collection charges ten fold to almost Rs.3 lakh a month and should have utilised its staff for remittance purposes. Failure to do so resulted in an avoidable extra expenditure of Rs.44.15 lakh during the period from November 2004 to March 2006.

The matter was reported to the Board/Government in May 2006; their replies are awaited (September 2006).

GENERAL

4.26 Persistent non-compliance with Accounting Standards in preparation of Financial Statements

Accounting Standards (AS) are the accepted standards of accounting recommended by the Institute of Chartered Accountants of India and prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards under section 210A of the Companies Act, 1956. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the annual accounts prepared exhibit a true and fair view of the transactions and also to facilitate the comparability of the information contained in published financial statements of companies. Under Section 211(3A) of the Companies Act, it is obligatory for every company to prepare the financial statements (profit & loss account and balance sheet) in accordance with the AS.

The Auditors are also required to report under Section 227(3) (d) of the Act, *ibid* as to whether the accounts have been prepared in compliance with AS. The extent of compliance with AS in the State Government companies was examined by audit with a view to highlight cases of persistent non-compliance of Accounting Standards in preparation of annual accounts by these companies.

A review of the financial statements and the Statutory Auditors' Report thereon for three years in respect of 48 companies selected out of 53 working companies revealed non-compliance with five Accounting Standards by seven companies continuously as detailed in **Annexure-15.**

It would be seen from the **Annexure** that:

- One Company, Tamil Nadu Small Industries Corporation Limited (TANSI) did not comply with the provisions of **AS 2**, which stipulate that the inventory should be valued at the lower of cost and net realisable value. It valued the finished goods (including non-moving, obsolete and damaged goods) and semi finished goods at selling price, which included the element of profit.

- One Company, Metropolitan Transport Corporation Limited (MTC) did not comply with the provisions of **AS 9**, which stipulates that revenue from service transactions should be recognised in the financial statements only when there is certainty about the realisation of that amount. The Company included Rs.59.51 crore as student concession subsidy receivable from the Government of Tamil Nadu for the period up to 2002-03, though the Government categorically informed MTC that claims for the arrears under that head up to 2002-03 would not be paid to MTC.

- **AS-13** requires that provision for permanent diminution in the value of long term investments shall be made. Three companies (Tamil Nadu Industrial Development Corporation Limited, Electronics Corporation of Tamil Nadu Limited and Tamil Nadu Sugar Corporation Limited) did not provide for permanent diminution in the value of investments.
- Four companies (TANSI, Tamil Nadu Medical Services Corporation Limited, Tamil Nadu Ex-servicemen's Corporation Limited and MTC) did not comply with **AS 15,** which deals with accounting for retirement benefits to the employees (*viz*., provident fund, pension, gratuity, leave encashment *etc*.,) and which provides that the contribution payable by the employer towards retirement benefits be charged to the profit and loss for the year on accrual basis and the accruing liability be calculated according to actuarial valuation.
- Two companies (TANSI and MTC) had violated the provisions of **AS 22**, which provide that the tax expenses for the period comprising current tax and deferred tax should be included in the determination of the net profit or loss for the period. These companies did not include deferred tax liabilities while preparing the financial statements.

Addendum to the Directors Report

As per section 217 (3) of the Companies Act, 1956 the Board is to give the fullest information and explanations in an addendum to the Director's Report on every reservation, qualification or adverse remarks contained in the Auditor's Report. Audit scrutiny revealed that the Board of Directors of six Companies (TASCO, Perambalur Sugar Mills Limited, TANSI, SIDCO, Tamil Nadu Handicrafts Development Corporation Limited and Tamil Nadu Medical Services Corporation Limited) failed to comply with this statutory requirement.

The matter was reported to the Companies/Government in July 2006; their replies are awaited (September 2006).

4.27 Follow-up action on Audit Reports

Explanatory notes outstanding

4.27.1 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 of Public Sector Undertakings and Departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Tamil Nadu had 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, 2002-03, 2003-04 and 2004-05 were presented to the State Legislature in April 1999, May 2000, September 2001, May 2002, May 2003, July 2004, September 2005 and August 2006 respectively. Ten out of 18 departments, which were commented upon, had not submitted explanatory notes on 71, out of 192 paragraphs/reviews, as on August 2006, as indicated below:

Year of Audit Report (Commercial)	Total paragraphs/review in the 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
2003-04	24	24
TOTAL	**192**	**71**

Department-wise analysis is given in **Annexure-16.** The departments largely responsible for non-submission of explanatory notes were Industries, Small Industries and Energy.

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

4.27.2 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 28 paragraphs pertaining to 20 Reports of COPU presented to the State Legislature between March 2000 and March 2006 had not been received as on August 2006 as indicated below:

Year of COPU Report	Total number of Reports involved	Number of paragraphs in respect of which replies were not received
1999-2000	1	2
2002-03	3	4
2003-04	9	14
2004-05	7	8
TOTAL	**20**	**28**

Action taken on persistent irregularities pointed out in Audit Reports

4.27.3 Government company

Sanction of loans in violation of guidelines by Tamil Nadu Industrial Investment Corporation Limited was included in the Reports of the Comptroller and Auditor General of India for the years 1997-98, 1999-2000 and 2004-05 (Commercial) – Government of Tamil Nadu. Audit scrutiny revealed that the irregularities (as detailed in **Annexure-17)** continued to persist for more than seven years as the action taken by the Company/the Government was inadequate.

Statutory corporation

Extension of undue benefit to Independent Power Producers, noticed in Tamil Nadu Electricity Board was included in Audit Reports of the Comptroller and Auditor General of India for the years 2001-02, 2003-04 and 2004-05, (Commercial) - Government of Tamil Nadu. Audit scrutiny revealed that these irregularities (as detailed in **Annexure-18**) continued to persist as the action taken by the Board/State Government was inadequate.

The matter was referred to the Government in August 2006; their reply is awaited (September 2006).

4.28 Response to inspection reports, draft paragraphs and reviews

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 2006 pertaining to 59 PSUs disclosed that 3,650 paragraphs relating to 860 inspection reports remained outstanding at the end of September 2006; of these, 382 inspection reports containing 1,293 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 2006 is given in **Annexure-19.**

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 23 draft paragraphs forwarded to the various departments during the period from March to August 2006, as detailed in **Annexure-20**, had not been replied to so far (September 2006).

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/overpayments is taken within prescribed time and (c) the system of responding to audit observations is revamped.

The matter was referred to the Government in September 2006; their reply is awaited (September 2006).

Chennai	**(S.MURUGIAH)**
The	**Accountant General**
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Countersigned

New Delhi `	**(VIJAYENDRA N. KAUL)**
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