

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

Tamil Nadu Civil Supplies Corporation Limited

4.1 Excess purchase of gunnies

Purchase of gunnies in excess of requirement resulted in blocking up of Rs.6.11 crore and consequent interest loss of Rs.91.65 lakh.

The Company expected (July 2002) to procure 12 lakh MT of paddy during the Kuruvai 2002 (October to December 2002) and Samba 2003 (January to May 2003) seasons. After taking into account the stock of gunnies available, the Company decided (July 2002) to invite tenders for supply of 180 lakh - 50 kg new bale gunnies. In view of low crop, the Company decided (16 October 2002) to restrict purchase of new gunnies to 140 lakh. The Company, accordingly, issued (October 2002) purchase orders and 139.74 lakh gunnies were received from October to December 2002.

Audit observed that while working out the requirement of gunnies, procurement of paddy during Samba 2003 season was estimated at 10.90 lakh MT instead of 10 lakh MT. Further, gunnies of 100 kg capacity (56.69 lakh) were wrongly considered as 50 kg gunnies. This resulted in purchase of 40.99 lakh gunnies in excess of the anticipated requirement.

The excess purchase of 40.99 lakh gunnies by the Company resulted in blocking up of Rs.6.11 crore (computed with reference to the average unit cost of Rs.14.90 per gunny) and consequent interest loss of Rs.91.65 lakh.

The Government stated (July 2004) that 140 lakh gunnies were ordered based on the assessment report on the anticipated marketable surplus, received from the Agriculture Department of the State Government, in which the Commissioner had indicated the anticipated marketable surplus as 10.90 lakh MT of paddy for Samba 2003 season.

The reply is not correct as the letter received from the Commissioner, Agriculture Department was of December 2002, whereas the Company took the decision and placed the order for purchase of 140 lakh gunnies in October 2002.

4.2 Avoidable transportation charges

Avoidable expenditure of Rs.60.26 lakh on transportation of rice in Tiruvannamalai region

The Company gets periodical allotment of rice from Government of India under Targeted Public Distribution System (TPDS). The Company is then required to give dispatch instructions to Food Corporation of India (FCI) indicating the depot from which the rice would be lifted. FCI, based on these dispatch instructions, allots the quantity to various Divisional Offices. The Company has to lift the allotted rice from the nearest depots of FCI so as to minimise transportation cost.

Audit observed that for Tiruvannamalai region (having six godowns) lifting of rice from FCI depot, Sevoor was beneficial as the maximum distance to be traversed from any of these godowns in the region to Sevoor was 96 km, whereas the distance from any of these godowns to Avadi was higher ranging from 114 to 206 km. A review of the quantum of rice lifted (2,55,272 MT) in the above region during 2000-04 indicated that the region, in addition to lifting of rice from FCI depots within the region, lifted 65,209 MT rice from FCI depot, Avadi (Chennai region). This resulted in avoidable expenditure of Rs.60.26 lakh on transportation of 65,209 MT of rice during the said period.

The Company stated (December 2003) that as the allotted quantity of rice had to be lifted within the specified period, it was necessary to lift the allotted quantity from more than one FCI depot to avoid lapse of allotment. The reply is not tenable in view of the fact that the sub-allocation of depots was being done by the Company and care should have been taken to lift the quantity of rice from the nearest FCI depots to avoid higher expenditure on transportation.

The matter was reported to the Government in June 2004. The reply is, however, awaited (September 2004).

4.3 Avoidable expenditure

Avoidable expenditure of Rs.28.42 lakh in relocating of a Modern Rice Mill

The Company owned two Modern Rice Mills (MRMs) at Kallakurichy in Villupuram District. It was decided (January 2001) to shift the parboiling unit, boiler and the connected main mill machinery of one of the two MRMs to

godown complex at Tirukoilur due to public complaints of air pollution and insistence of Tamil Nadu Pollution Control Board. As the processing of parboiled rice was water intensive, it was felt that the water from 35 deep feet open well with 15 feet water level in the godown complex would be sufficient to meet the requirement.

The MRM was re-established (December 2001) at a cost of Rs.28.42 lakh at the godown complex at Tirukoilur. The processing of parboiled rice could not commence in the new location as the required water was not available from the open well in the complex. The Company deepened the open well, but it did not improve the availability of water. Audit observed that the Company ignored the recommendation of the geological survey (conducted in August 2001) to sink a separate borewell to a depth of 16 metres to improve the availability of the water. As a result, the Company was not able to commence hulling of parboiled rice but commenced (December 2001) operation of hulling raw rice only, which could have been carried out in the old location itself.

The failure of the Company to properly assess the availability of water in the new site at Tirukoilur resulted in avoidable expenditure of Rs.28.42 lakh in shifting and re-erection of the MRM.

The Government stated (August 2004) that at the time of proposal, there was availability of water. The reply is not tenable as the report of the geological survey (August 2001) recommended sinking of an open bore-well up to a depth of 16 metres indicating that availability of water from existing well was doubtful.

State Industries Promotion Corporation of Tamil Nadu Limited

4.4 Undue benefit to private parties

The Company revised its policy to accommodate two private parties resulting in an undue benefit of Rs.6.65 crore.

The Company allots land/industrial plots to entrepreneurs for development of industries and enters into long term lease agreement with the allottees for this purpose. The Company has laid down its policy as contained in its order dated 22 August 1999, which was approved by the Board. As regard change in management of allottee units, it *inter alia*, mentioned:

- In the case of functioning units, which had completed five years of production, if the allottees transferred more than 50 *per cent* of the assets/shares to the new promoters, the same would be permitted on collection of 50 *per cent* of differential premium (difference between the rate at which the allotment was made and the rate prevailing on the date of change of management).

- In the case of units, which have not commenced production or the units, which have not completed five years of production, permission to transfer the plot may be given only on payment of entire differential premium.

The Company revised (February 2002) the above policy in respect of Public Limited Company to provide for recovery of 10 *per cent* of the prevailing plot cost and minimum of Rs.2,000, when there has been a change in management to a third party and where more than 51 *per cent* of the shares were transferred.

Audit observed that in respect of two private parties where the change in management took place in March 2000 and October 2001, the Company applied the revised policy with retrospective effect, thus extending undue benefit of Rs.6.65 crore as discussed below:

4.4.1 The Company, on the basis of orders of the State Government, allotted (July 1995) 137.70 acre of land to Thapar Dupont Limited (TDL) at a concessional rate of Rs.4.50 lakh per acre as against prevailing rate of Rs.6.40 lakh per acre. TDL commenced commercial production in December 1997.

TDL sold (October 1999) its entire share holdings to Shriram Fibres Limited (SRF). SRF changed the name of the new unit as Tyrecord Fabric Limited (TFL) and got the unit registered with the Registrar of Companies on 6 March 2000.

Audit observed that the Company did not collect the differential premium (based on prevailing land cost in March 2000 of Rs.12 lakh per acre) of Rs.10.32 crore due to change in management as per its existing policy of August 1999 after receipt (November 1999) of TDL request for issue of "No Objection Certificate". The Company, instead, decided (December 2002) to collect Rs.4.26 crore as differential premium as per its revised policy of February 2002.

This resulted in an undue benefit of Rs.6.06 crore to TFL (Rs.10.32 crore - Rs.4.26 crore).

4.4.2 The Company had allotted (January 1981) 15.09 acres of land in its industrial complex, Hosur to Hindustan Teleprinters Limited (HTL), a Government of India Undertaking on lease cum sale basis at Rs.16000 per acre for setting up a project for the manufacture of computer peripherals and electronic typewriters.

The management of HTL changed (October 2001) hands to Himachal Futuristics Communications Limited (HFCL) as Government of India disinvested 74 *per cent* of its equity shares in favour of HFCL. The differential premium as per existing policy of August 1999, worked out to Rs.74.24 lakh. The Company, however, while approving (May 2003) the change in the management decided to collect 10 *per cent* of the prevailing plot cost *i.e.*, Rs15.09 lakh from them as per the revised policy framed in February 2002. This resulted in undue benefit of Rs.59.15 lakh to HFCL.

The matter was reported to the Company/Government in June and August 2004. The reply is, however, awaited (September 2004).

Poompuhar Shipping Corporation Limited

4.5 Wasteful expenditure

Delay in payment of hire charges resulted in wasteful expenditure of Rs.34.52 lakh.

The Company chartered (20 April 2002) the ship M.V. 'Jin Li' for a period of three months from the date of delivery for transport of the coal for Tamil Nadu Electricity Board (Board) on a charter hire of US dollar 9,100 per day. As per Clause 5 of the charter party agreement, the hire charges were to be paid in advance for every 15 days. Failure to pay hire charge in time would allow the owner to withdraw the vessel from the service of the charterer.

The Company took delivery of the ship on 9 May 2002 at Tuticorin port. The Company paid the charter hire charges for the first 15 days (9 May 2002 to 23 May 2002) on 22 May 2002 and the second charter (for 24 May 2002 to 7 June 2002) hire payment, which was due on 24 May 2002, was paid on 10 June 2002. Due to delayed/non-payment of charter hire charges as per the agreement, the captain of the ship (under instructions from the owner) stopped loading of coal on 5 June 2002 at Paradip port. At the time of stoppage of loading, the vessel had loaded only 9,132 MT as against the quantity of 17,175 MT to be loaded. Paradip Port Authorities instructed the vessel either to recommence loading or to leave the port, as the vessel was idling in the berth without loading. The vessel moved to outer anchorage of Paradip Port on 6 June 2002 and remained there till 7 June 2002. After getting instructions from the Company, the vessel sailed from outer anchorage to Tuticorin on 7 June 2002, without loading the balance quantity of 8,043 MT of coal. The vessel was released on 4 August 2002 after completion of the charter.

Audit observed that stoppage of loading and moving of vessel without full loading resulted in idle expenditure of Rs.34.52 lakh (US dollar 75,065.53 at Rs.46 per US dollar) on vessel hire charges and short carrying of coal, which could have been avoided had the charter hire charges been paid in time.

The Government stated (May 2004) that the charter party did not specify anywhere that the Master or the owner had the right to stop work in the event of non-payment of hire charges. It only talked of "lien on cargo" or "giving three days notice of withdrawal from charter," if the Company failed to comply with their obligations contained in the charter party.

The reply is not tenable, as Clause 5 of the charter party clearly mentioned that the owners shall be at liberty to withdraw the vessel from service of the charterers due to non-receipt of payment in time. The Company was, thus, well aware of the effects of delayed payment of hire charges.

Tamil Nadu Minerals Limited

4.6 Avoidable expenditure

Avoidable expenditure of Rs.40.41 lakh on hiring of excavators due to delay in purchase of own excavators.

The Company uses excavators for production and development activities in its quarries situated in different districts of the State. As the Company did not have adequate number of own excavators, the Company hired on an average 15 excavators from private parties up to March 2002.

The Company observed (March 2002) that operating own excavator in place of a hired excavator was beneficial as it could result in annual saving of Rupees seven lakh per excavator in view of lesser operating cost of Rs.900 per hour for own excavator as against the hiring cost of Rs.1,250 per hour of an excavator. Audit observed that though the Company had fixed deposits of more than Rs.14 crore with banks as on 31 March 2002, the Company procured only five excavators in October 2002 at a cost of Rs.1.49 crore. Thereafter, the Company procured six more excavators (one in March 2003 and five in January 2004), at a total cost of Rs.1.96 crore. The Company continued to hire excavators from private parties to meet out the requirement.

The decision to buy only five excavators in October 2002 and remaining six excavators in March 2003 and January 2004 instead of buying all 11 excavators in October 2002 was not justified in view of availability of surplus funds with the Company. Had the Company purchased the total requirement (11 numbers) in October 2002, it could have saved Rs.40.41 lakh on hiring of excavators during 2003-04.

The Company stated (June 2004) that they had to procure two tippers for each excavator and purchase of both the items of machinery for all the quarries were to cost a huge expenditure of Rs.17.70 crore. It was also stated that to purchase more excavators, they would incur heavy interest loss due to premature closure of deposits and it would involve indirect cost like salary to drivers, operators, and cleaners, expenditure towards diesel and oil *etc.* The reply is not tenable as the Company had all the 11 excavators with out tippers. It is pertinent to state that the interest on investment in excavators and increase in indirect cost was already considered by the Company while working out the savings in using its own excavators.

The matter was reported to the Government in June 2004. The reply is, however, awaited (September 2004).

State Transport Undertakings

4.7 Avoidable extra expenditure

Failure to apply for eligible lower power tariff resulted in avoidable extra expenditure of Rs.47.49 lakh.

As per the tariff structure of Tamil Nadu Electricity Board (TNEB), service connections classified under Tariff-IA (High Tension (HT) service connections for registered factories) always attracted a lower tariff per unit of consumption compared to the service connections classified under Tariff-III (commercial establishment). Because of this difference in tariff, the State Transport Undertakings (STUs) represented to TNEB to charge the electricity consumption in HT service connections of STUs production units and body building units under Tariff-IA instead of under Tariff-III. TNEB issued instructions (June 2002) that all HT services of STUs may be charged under HT Tariff-IA prospectively provided they produce Registered Factory Licence or any Industrial Certificate to confirm that they were industrial establishments as per Tariff Notification in vogue.

Audit observed that though the production and body building units in two State Transport Undertakings[♦] were registered as factories and possessed valid factory licences issued by the competent authorities, they failed to approach TNEB to charge the electricity consumptions in these units at Tariff-IA as per the instructions issued in June 2002.

This resulted in payment of electricity consumption charges of Rs.47.49 lakh at the higher Tariff-III rates from July 2002 to March 2004.

The matter was reported to the Company/Government in May 2004. The reply is, however, awaited (September 2004).

♦ Tamil Nadu State Transport Corporation (Coimbatore – Division-I) Limited and Metropolitan Transport Corporation Limited.

Statutory corporations

Tamil Nadu Electricity Board

4.8 Deficiencies in Internal Control and Internal Audit System

Introduction

4.8.1 Internal control is an integral process that is effected by an entity's management and personnel and is designed to provide reasonable assurance that the general objectives are being achieved; fulfilling accountability obligations, complying with applicable laws and regulations, executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss. A good system of internal control should comprise *inter alia* proper allocation of functional responsibilities within the organisation, proper accounting data, efficiency in operations and safeguarding of assets, quality of personnel commensurate with their responsibilities and duties and review the work of one individual by another, whereby possibility of fraud or error in the absence of collusion is minimised.

The supreme decision making body in the Board consists of four full time Members including the Chairman and three part time Members. The three full time Members are in charge of Generation, Distribution and Accounts.

In order to exercise internal control upon its multiple activities and ensure effective management information system, the Board has different manuals and prescribed various returns for each functional area to ensure compliance with instructions, rules and procedures. With a view to checking the extent of internal control, Audit test checked records relating to material management, finance and accounts wings. The deficiencies noticed during test check are discussed in the succeeding paragraphs.

Material Management

Deficiencies in Internal control system

4.8.2 In material management the Board has prescribed the following controls to keep inventory at the minimum level:

- Adoption of 'Just in Time' Management (JIT) to reduce inventory cost,
- Periodical review of receipt of materials and their usage,
- Immediate disposal of scraps and empties,

- Acceptance of devolution/retrieved unused materials,
- Reduction of delay in check measurement,
- Disposal of obsolete/non-moving materials vis-à-vis review of materials lying in stores for more than three years, *etc.*

Audit observed that:

4.8.3 Inventory level in 30 circles exceeded the maximum limit prescribed by the management. The value of obsolete and non-moving stock as on 31 March 2004 (Rs.7.18 crore) increased by 21.04 *per cent* as compared to the previous quarter ended 31 December 2003. Forty two *per cent* of the value of obsolete and non-moving stock was contributed by only five circles*.

4.8.4 Failure of General Construction Circle, Chennai to post a suitable stores custodian in Sriperumbudur 'B' stores resulted in shortage of Rs.39.35 lakh in 374 items and an excess of Rs.85.15 lakh in 1,300 items.

4.8.5 When a successful bidder in an auction at Sriperumbudur for sale of scrap material came to lift the material, a quantity of 4,300 kgs against 9,046 kgs sold was not made available to the bidder. The Executive Engineer of the Sriperumbudur Division of the Board stated that 3,700 kgs of this scrap material were used for departmental works. For balance 600 kgs of scrap, no information was made available. This indicate absence of internal control over accountal and sale of scrap.

Finance and accounts

4.8.6 The Board raised funds amounting to Rs.38.48 crore through borrowings from various financial institutions during 2001-03. The purpose and their usage of borrowing were not subjected to audit by Internal Audit Wing of the Board. Audit observed that the Board paid commitment charge of Rs.2.34 crore (2001-03) for non-drawal of loan as per schedule indicating that the funds were drawn without proper assessment of its requirement.

4.8.7 An assessor in Nazereth Section office of Sriperumbudur Revenue Branch misappropriated Rs.5.12 lakh during the period 1996-2000. This happened due to non-following the instructions contained in the revenue manual like review of daily cash collection, reconciliation of current consumption charges entered in the green meter card with the actual payment, rotation of personnel, *etc.*

* Basin Bridge Gas Turbine Power Station (BBGTPS) (Rs.81.02 lakh), Kanyakumari Distribution Circle (Rs.67.67 lakh), General Construction Circle, Chennai (Rs.70.25 lakh), Tuticorin Distribution Circle (Rs.51 lakh) and Madurai Distribution Circle (Rs.32.37 lakh).

4.8.8 A Revenue Supervisor of Peelamedu Section in Coimbatore Revenue Branch misappropriated Rs.7.36 lakh during the period June 2000 to January 2003. Audit observed that this Revenue Supervisor was punished earlier for misappropriation in a smaller section office. Despite this, he was posted to a heavy collection center, viz., Peelamedu Section. Further, the collection details by Revenue Supervisors were not checked by Junior Engineer/Assistant Engineer of the Board on daily basis as prescribed in the Revenue Manual.

4.8.9 Though the value of gross fixed assets of the Board amounted to Rs.14,558.45 crore as on 31 March 2003, the Board did not have an effective internal control system over these assets as:

- In 18 Electricity Distribution Circles, fixed assets registers had not been maintained at all.
- Fixed assets verification was not monitored centrally by the Board.
- The Board had not taken effective steps to reconcile the fixed assets registers with the results of physical verification.

Internal Audit

4.8.10 Internal auditing is an appraisal activity established within an entity as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control systems.

Internal Audit of the Board is carried out by its internal audit wing viz., Board Office Audit Branch (BOAB). Internal Audit wing was formed (1977) as per Section 69 (1) of The Electricity Supply Act, 1948. It was renamed as Board Office Audit Branch with effect from 1 December 1997 with its Headquarters at Chennai. The Board Office Audit Branch is headed by the Chief Internal Audit Officer and is assisted by Deputy Chief Internal Audit Officers, Internal Audit Officers, Assistant Audit Officers and other supporting staff.

Audit work is conducted at the various units of the Board viz., Electricity Distribution Circles, Revenue Branches, General Construction Circles, Power Generating Stations (Hydel), etc. Besides this, appraisal audit, special audit, authorisation and verification of pension to the retired/retiring employees of the Board and concurrent audit of the four thermal power stations are also conducted by the BOAB. Audit parties conduct audit of both revenue and expenditure of the Board both at the unit level and at Headquarters office of the Board.

After completion of audit, the Audit Report is issued to the Superintending Engineer, chief of the respective circles. Important Audit points are reported quarterly to the Chief Internal Audit Officer by Deputy Chief Internal Audit Officers, who in turn reports such important issues to the Chairman of the Board quarterly and annually.

Formation of Regional Audit Offices

4.8.11 In order to improve the functioning of the BOAB and to expedite the clearance of pending audit observations, Board decentralised BOAB by forming (April 1996) four Regional Audit Offices at Chennai, Villupuram, Madurai and Coimbatore each headed by a Deputy Chief Internal Audit Officer. Four more Regional Audit Offices were formed (January 1999) at Vellore, Trichy, Erode and Tirunelveli. Audit observed that the formation of Regional Audit Offices, however, did not make much headway in the clearance of pending audit observations.

As on 31 March 1999, 3,558 Inspection Reports (IRs) containing 15,578 paras (audit observations) with a money value of Rs.7.67 crore were pending for clearance against the IRs issued prior to 31 March 1994. Only 951 IRs (27 per cent) and 4,752 paras (31 per cent) with a monetary value of Rs.1.33 crore (17 per cent) were settled up to March 2003.

Audit plan and programme

4.8.12 Major audit work of BOAB is carried out at Circle level (Expenditure audit and High Tension Revenue audit), Revenue Branch Level (Low Tension Revenue Audit), General Construction Circles level (Expenditure audit) and Generation Stations level (thermal, hydel, etc). Deputy Chief Internal Audit Officers of the regions are delegated with powers to draw quarterly audit programmes of the audit parties attached to them. They also approve and issue inspection reports. Each region is having six audit parties except Chennai region, which has eight audit parties. The total number of units to be audited every year is 326.

Based on the adhoc allocation of party days viz., 40 party days for LT revenue and entitlement audit, 35 party days for expenditure audit, etc., the number of party days required for the audit of all the units in the Board in a year works out to 11,870 party days. A test check of the programme of regional audit parties revealed that as against the requirement of 11,870 party days for completion of audit of all the units, the number of party days available was 14,150 (283 working days in a year X 50 parties). Despite the availability of party days in excess of requirement, the regional audit parties failed to audit 121 units during 2002-03. This clearly indicate that the programmes drawn and party days utilised were not reviewed to fix standards on scientific basis and that party days were also utilised for other than audit work.

Performance of Internal Audit Wing

4.8.13 The performance of the Internal Audit Wing (BOAB) during the four years ended 31 March 2003 is given in **Annexure-20**.

From the Annexure, it could be seen that the clearance of pending audit paras was poor and also the number of paras issued was always more than the number of paras cleared/settled. Further, the number of outstanding paras more than doubled in Regional Audit parties and remained almost static in concurrent audit parties. This indicated that BOAB had not taken effective steps to settle/clear old IRs/Paras. Even the money value of pending audit observations had increased four fold in both the cases. The position in respect of concurrent audit party in Poompuhar Shipping Corporation Limited was alarming where the settlement/clearance of audit observations was almost NIL. Unless immediate and effective steps are taken to clear the pending audit observations and collect the amounts involved (Rs.118.35 crore), the prospect of recovery of these amounts would be bleak.

Authorisation and verification of pension

4.8.14 BOAB authorises pension for the retiring employees of the Board and also makes arrangements for the payment of pension to them through about 800 branches of Indian Overseas Bank (IOB) throughout the country. Monthly pension statements are prepared by BOAB and sent to the Chief Financial Controller of the Board for providing the required funds to the IOB branches.

During 1 April 1999 to 31 December 2003, one Deputy CIAO and 54 officials of BOAB were exclusively engaged for authorisation and verification of pension payments and out of 25,052 pension cases received during this period, 24,855 cases were cleared. Though authorisation of pension is not an audit function, the same was done by BOAB since its inception in 1977. BOAB also conducts audit of pension payments in Banks. The main audit checks carried out relate to verification of life and non-remarriage certificates, surrendering of funds back to the Board in respect of non-operative accounts, etc. Audit observed that in respect of pension payment to 2,022 pensioners, who were receiving their pension through IOB branches outside the State, no checks were carried out by BOAB.

Deficiencies in Audit coverage

4.8.15 One of the main functions of Internal Audit Wing of an organisation is to ensure that the systems and arrangements are effectively in place and that they are scrupulously followed. Internal Audit Wing has to examine all these aspects and report to the management any lapse/failure so as to enable the management to take corrective action.

A review of audit programmes of BOAB's Chennai Region and Headquarters office revealed the following:

1. Office of the Chief Financial Controller of the Board which is functioning in Chennai (Headquarters of the Board) handles the important areas like resource mobilisation, funds mobilisation, central payments (for

purchase of power, stores, fuel, *etc*) distribution of funds to the units of the Board, transfer of funds to Headquarters by the units, *etc*. Audit observed that these major areas were not subjected to audit by BOAB. During 1999-2003, the Board raised funds amounting to Rs.1,364.48 crore through market borrowings and this aspect was not covered by BOAB to check the regularity and propriety aspects. Similarly, the Board also borrowed funds from financial institutions, which were also not subjected to audit by BOAB.

2. In order to bridge the gap between demand and supply, the Board purchases power from windmill power generators, co-generation plants, independent power producers (IPPs) and Neyveli Lignite Corporation Limited (NLC). Payments for these purchases account for about Rs.250 crore per month. Audit observed that these payments were not audited by BOAB regularly or randomly. During examination of Power Purchase Agreements (PPAs) with IPPs, Audit noticed overpayment of Rs.45.78 crore (refer to paragraphs 4.9 and 4.12 *supra*).

Non compliance with recommendations of Committee on Public Undertakings

4.8.16 Committee on Public Undertakings (COPU) in its 28th Report recommended (April 1997) to take all possible steps to strengthen internal audit wing of the Board (BOAB) by

- Fixing norms for staff requirement in BOAB.
- Strengthening of BOAB by posting additional manpower and also inducting technical staff in the appraisal audit work.
- Relieving BOAB of all accounting functions so to enable it to concentrate on audit work.

The Committee also wanted to be apprised of the steps taken to increase the quantum of check in respect of Cash Book and connected records so as to ensure a coverage of 50 *per cent* of the Section Offices in the Revenue Branches of the Board in an audit period of two years.

An analysis of the action taken by the Board on the above recommendation revealed the following:

4.8.17 The Board informed (13 April 1998) COPU that fixing of norms for staff requirement was under detailed study and that orders would be issued in due course. The Board, however, had not issued any orders on the subject so far (August 2004). The Board also informed COPU that a proposal was under scrutiny for sanctioning additional manpower to BOAB based on audit plan and requirement. This also has not been done and on the other hand the staff strength of BOAB had been reduced from 437 in 1991-92 to 378 in 2003-04.

4.8.18 The Board informed COPU that its observations were taken note of for inducting technical staff for audit appraisal work as and when required. Audit observed that only seven technical staff had been inducted into the BOAB and

that too for looking after the work relating to flying squad. No technical staff was attached to BOAB for conducting appraisal audit.

4.8.19 The Board also stated that action would be taken to form a separate pension wing by separating it from BOAB and that staff deployed for audit work would not be diverted for pension work and other non-audit functions. Audit observed that pension work continued to be handled by BOAB (March 2004) and for this staff of 55 of BOAB were exclusively employed.

4.8.20 In respect of increase in quantum of check so as to cover atleast 50 *per cent* of Section Offices in the Revenue Branches, no action has been taken by the Board. This is evident from the fact that only four Section Offices were covered (March 2004) in an audit period of two years, which represent only 29 *per cent* coverage.

The matter was referred to Government/Board in July 2004. The reply is, however, awaited (September 2004).

4.9 Irregular payment of Income Tax

Irregular payment of Income Tax of Rs.40.19 crore against the terms of the agreement.

Tamil Nadu Electricity Board (Board) entered (November 1996) into a Power Purchase Agreement (PPA) with ST-CMS Electric Company Private Limited (Generating Company) for purchasing power from the latter's plant at Neyveli in Cuddalore district. The PPA provided for payment of taxes to the Generating Company as one of the fixed capacity charges.

As per clause 2 (a) (iv) of schedule 3 to PPA, the Generating Company has to reasonably estimate the tax liability due for payment during the relevant year and based on the above, claim monthly payment from the Board. PPA also stipulated that during any year, the total amount of taxes paid by the Board should not exceed the actual payment made by the Generating Company during such year.

The Board admitted the estimates of the Generating Company for Income Tax and paid a sum of Rs.7.43 crore (during January* to March 2003) through monthly bills. Audit observed that the Generating Company did not provide for liability for Income Tax in the accounts for 2002-03 due to losses. The Generating Company also disclosed in the accounts that they were availing the benefit of tax holiday available for ten years commencing from 1st April 2003, indicating no tax liability for the year 2003-04 also. Ignoring the above material information, the Board continued to admit the monthly claims

* The plant started generation in December 2002.

preferred by the Generating Company for Income Tax and paid a total sum of Rs.32.76 crore during 2003-04 also.

The payment of Rs.40.19 crore on account of Income Tax by the Board, without ensuring the correctness of the estimates made by the Generating Company and even after certification of accounts of Generating Company for 2002-03 in June 2003, was irregular particularly when the PPA stipulated for not making any payment in excess of taxes paid by the Generating Company.

The matter was reported to the Board/Government in June 2004. The reply is, however, awaited (September 2004).

4.10 Delay in procurement of rotor

Inordinate delay by the Board in placing order for procurement of rotor resulted in generation loss of 378 million units and loss of contribution of Rs.28.56 crore.

A reference is invited to Paragraph 3.11.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 – Government of Tamil Nadu (Commercial), wherein Audit observed that though a decision was taken by the Board to procure new rotors {Low Pressure (LP), Medium Pressure (MP) and High Pressure (HP)} for unit III of Ennore Thermal Power Station (ETPS) in June 2002 itself, no orders were placed till August 2003. Audit further observed that purchase order for procurement of LP, MP and HP rotors (one each) was placed (August 2003) on Bharat Heavy Electricals Limited (BHEL) at a total cost of Rs.10.87 crore, the delivery schedule being 18 months from the date of purchase order.

Unit-IV of ETPS was shut down on 27 September 2003 due to technical problems. On detailed inspection the LP rotor was found defective. As the rotors were to be received after 18 months, the Board purchased (December 2003) a second hand LP rotor from Andhra Pradesh Generation Corporation Limited at a total cost of Rs.1.50 crore and fitted the same in Unit-IV. The unit was synchronised on 11 December 2003. On the very same day, after working for about two hours, very high vibrations were noticed in the turbine and the unit tripped on 12 December 2003. Suspecting major damages, the turbine of the unit was dis-assembled. The special Committee constituted to offer opinion on the probable cause for failure and suggest measures to avoid recurrence, reported (January 2004) *inter alia*, that the LP rotor was damaged and needed to be replaced. The unit is yet to be put back in operation (September 2004).

Audit observed the following:

- Though BHEL advised the Board to procure LP rotor as early as in January 2001, it did not take any immediate action. It was only after LP rotor of Unit-III failed in April 2002 that the Board decided (June 2002) to procure LP, MP and HP rotors.

- The Board further delayed the placement of purchase order for the rotors and placed the same in August 2003 only, *i.e.*, after an inordinate delay of 14 months. The rotors were yet to be received (September 2004). Because of the shut down of Unit-IV (for want of LP rotor), there has been a generation loss of 47.25 million unit (MU) per month and loss of contribution of Rs.3.57 crore per month.
- Considering huge generation loss and loss of contribution that the Board suffered in April and May 2002 due to the shut down of Unit-III for want of rotor, the Board should have initiated timely action to place the purchase order at least immediately after having decided on the procurement, *viz.*, June 2002. Had it done so, the rotor could have been received by the end of December 2003 and the generation loss of 378 MU and loss of contribution of Rs.28.56 crore in Unit-IV from January 2004 to August 2004 could have been avoided.

The matter was reported to the Board/Government in June 2004. The reply is, however, awaited (September 2004).

4.11 Avoidable extra expenditure on interest

The Board incurred avoidable extra expenditure of Rs.4.25 crore due to its failure to accept reduction in interest rates.

The Board obtained five loans aggregating Rs.150 crore from Life Insurance Corporation of India (LIC) between April 1992 and March 1997 for non-plan schemes carrying interest rate of 17 *per cent* and 18 *per cent per annum* and repayable in 15 years

In order to increase its borrowing power under plan schemes by reducing its borrowings under non-plan schemes, the Board sought (December 1999) the permission of the LIC for foreclosing all the outstanding loans aggregating to Rs.98 crore as on that date under non-plan schemes. LIC did not agree to the proposal but however, offered (May 2000) to reduce the rate of interest to 14 *per cent* for the outstanding period of loan subject to upfront payment of Rs.3.62 crore. The Board did not accept (July 2000) the offer, but insisted on the concurrence of LIC for the prepayment of the entire outstanding loan under non-plan schemes.

The LIC did not agree to this proposal and finally, the Board requested (June 2003) LIC to restructure the high cost loans (Rs.60 crore) carrying higher interest rates by substituting them with new loans at current rate of interest. LIC agreed (September 2003) to reduce the interest to 11 *per cent* subject to payment of Rs.4.70 crore as upfront fee, being 50 *per cent* of the net present value of interest loss to LIC.

Audit observed that the cash outflow by way of upfront fee and interest for the period from July 2000 to maturity of loan would have been Rs.64.19 crore

only, had the Board accepted offer of LIC in May 2000 as against cash outflow of Rs.68.44 crore consequent to the acceptance of LIC decision in September 2003. This resulted in an additional cash outflow of Rs.4.25 crore.

Failure of the Board to accept the reduction in interest rates originally offered by LIC in May 2000, thus, resulted in avoidable extra expenditure of Rs.4.25 crore.

The matter was reported to the Board/Government in April 2004. The reply is, however, awaited (September 2004).

4.12 Undue benefit to an independent power producer

Board extended an undue benefit of Rs.5.59 crore to an independent power producer towards interest on working capital and return on equity.

Tamil Nadu Electricity Board (Board) entered (May 1998) into a Power Purchase Agreement (PPA) with Balaji Power Corporation Private Limited (Generating Company) for purchase of power from the latter's power plant at Samayanallur in Madurai district.

Audit observed that Board extended undue benefit of Rs.5.59 crore to this Generating Company towards interest on working capital and return on foreign equity contribution as discussed below:

Undue benefit of Rs.4.70 crore as interest on working capital

4.12.1 The Board prior to entering into this PPA, informed (January 1997) the Generating Company that if the fuel cost was to be paid in advance, working capital for fuel consumption for one month could be allowed.

Fuel Supply Agreement (FSA) entered (December 1997) into by the Generating Company with Indian Oil Corporation Limited (IOC) stipulated that for fuel supplies made during a month, payment was to be made on 15th of the month. This meant that the Generating Company enjoyed credit for the first half of a month and made advance payment for the second half of the month and as such, the Generating Company would not incur expenditure towards interest on working capital on fuel consumption. Despite this, Board included (May 1998), a provision for payment of interest on working capital for one month's fuel consumption in the PPA.

This resulted in undue benefit of Rs.4.70 crore to the Generating Company during September 2001 (when the Generating Company started selling power to the Board) to March 2004. The Board is still continuing to make payment on account of interest on working capital.

Undue benefit of Rs.88.90 lakh as Return on Foreign Equity

4.12.2 The above PPA also provided for payment of Return on Equity (ROE) at 16 *per cent* on the equity capital including foreign equity and the payment thereto had to be made on the exchange rate prevailing at the year end (exchange rate variation protection).

As against the foreign equity contribution of US dollar 17.08 million for the project approved by Government of Tamil Nadu (March 2000), the Generating Company requested (January 2001) the Board to increase the foreign equity contribution to US dollar 22.11 million due to insistence by the lenders and conversion of a part of dollar debt to rupee debt. The Board agreed (January 2001) to this proposal but restricted the foreign exchange rate protection to US dollar 17.08 million only. This was agreed (March 2001) to by the Generating Company also.

Audit observed that the Board, however, did not restrict the exchange rate protection to US dollar 17.08 million as agreed to and instead extended the protection to the US dollar 22.11 million. This resulted in undue benefit of Rs.88.90 lakh to the Generating Company during 2002-2004.

The matter was reported to the Board/Government in June 2004. The reply is, however, awaited (September 2004).

4.13 Loss of revenue

Loss of revenue of Rs.3.20 crore due to non-collection of peak hour charges from HT consumers.

As per terms and conditions of supply of electricity, for the energy consumed during peak hours, High Tension consumers (Tariff-I) were required to pay 20 *per cent* extra on the energy charges. The HT consumers filed (between 2002 and 2003) Writ Petitions in the High Court, Chennai against the said levy of peak hour charges and obtained interim injunction against levy of charges. Based on the interim injunction, the peak hour charges already levied were either refunded or adjusted against subsequent consumption by the consumers.

The Writ Petitions were rejected (November 2003) by the High Court of Chennai. One of the HT consumers (Sivakasi Electro Chemicals Limited, Virudhunagar), however, filed a Writ Appeal Petition in the High Court of Chennai against recovery action initiated by the Board. The High Court while granting (April 2004) the stay against recovery action initiated by the Board, stopped the collection of peak hour charges up to 15 March 2003 only. The Court did not grant stay on collection of peak hour charges beyond 15 March 2003.

Audit observed that the Board did not collect peak hour charges from 15 March 2003 even though the interim injunction permitted collection of peak

hour charges for the period beyond 15 March 2003. A scrutiny of records in nine* Electricity Distribution Circles, indicated that peak hour charges of Rs.3.20 crore in respect of 55 HT consumers from April 2003 to April 2004 were not collected.

The matter was reported to the Board/Government in June 2004. The reply is, however, awaited (September 2004).

4.14 Avoidable expenditure

Board incurred an avoidable expenditure of Rs.2.68 crore on establishment of a sub-station at Ammayanayakanur.

Based on a request (July 1992) from Tamil Nadu Corporation for Industrial Infrastructure Development Limited (TACID), a Government of Tamil Nadu Undertaking, the Board accorded (August 1994) administrative approval for commissioning a 110/22 KV sub-station (SS) at Ammayanayakanur near Nilakottai with a transformer capacity of 10 Million Volt Ampere (MVA) exclusively to meet the requirements of TACID's industrial units to be set up at Nilakottai.

Though no application had been received for power connection from TACID's industrial units, the Board commenced construction of the SS in December 1997 and completed the same in February 1999 at a total cost of Rs.2.68 crore. As no application for power connection was forthcoming from TACID's industrial units even after commencement of construction of the Ammayanayakanur SS, Board decided (July 1998) to transfer loads from the nearby Ramarajapuram sub-station.

As no application for power supply was received from TACID industrial complex, 5,107 KVA load from Ramarajapuram SS (July 1999) and 1,376 KVA load from Sembatty SS (March 2000) were transferred to Ammayanayakanur SS. A load of 1,352 KVA of fresh load was also connected during 2000-04.

Even after these transfers, the utilisation of this SS was less than 50 per cent as revealed by the fact that the peak load reached was less than 5 MVA till 2002-03, which marginally increased to 5.25 MVA in 2003-04. It is also pertinent to point out that after transfer of loads from Ramarajapuram SS to Ammayanayakanur SS, the utilisation of Ramarajapuram SS dwindled to less than 50 per cent in 2000-01 and hence one out of the two 10 MVA transformers available in Ramarajapuram SS was transferred to Watrap SS.

* 1.Chennai Electricity Distribution Circle (EDC), West, 2.Chennai EDC, South, 3.Trichy EDC, North, 4.Madurai EDC, 5.Tuticorin EDC, 6.Coimbatore EDC, South, 7.Nagercoil EDC, 8.Vellore EDC and 9.Pudukottai EDC.

Thus, the decision of the Board to establish Ammayanayakanur SS resulted in an avoidable extra expenditure of Rs.2.68 crore besides recurring revenue expenditure of about Rupees one lakh per month towards establishment expenditure.

The Board stated (August 2004) that the establishment of the 110/11 KV Ammayanayakanur SS was inevitable as it had reduced voltage fluctuation problems in Ramarajapuram-Kullalagundu and Ramarajapuram mill feeder and that it had resulted in savings in line loss to the tune of 1.14 lakh units in 1999.

The reply is not tenable in view of the fact that the problem of voltage fluctuation could also be minimised/eliminated by installing additional distribution transformers instead of setting up a sub-station at such a huge cost.

The matter was reported to the Government in June 2004. The reply is, however, awaited (September 2004).

4.15 Blocking up of funds

Decision of the Board to procure pipes for augmentation of Upper Ash Dyke Area in Mettur Thermal power Station resulted in blocking up of Rs.1.63 crore and resultant interest loss of Rs.50.53 lakh.

Ash generated during generation of power in Mettur Thermal Power Station (MTPS) of the Board is disposed of in the form of ash slurry through pipelines into the ash dykes specially constructed for this purpose. For this purpose, the Board constructed two ash dykes, Lower Ash Dyke (LAD) and Upper Ash Dyke (UAD). The Board approved (March 1999) augmentation of UAD by acquiring 84.54 acre of patta land and 2,229.85 acre of poromboke land and laying of MS-ERW* permanent pipelines on pedestals.

Audit observed that the work of construction of pedestal laying and road formation was stopped in July 2000, after spending Rs.67.55 lakh because of agitation of villagers, whose land fell in patta area demanding suitable compensation and resettlement in good location. The Board did not acquire the land and was aware that the pedestal laying and road formation works could not be resumed in the near future. Audit observed that the Board, however, placed orders (May 2001) on Steel Authority of India Limited (SAIL) for the supply of 13,000 metres of MS-ERW pipes required for laying permanent pipeline at a cost of Rs.2.49 crore. SAIL supplied entire quantity by August 2001. As the augmentation of UAD could not be carried out, the Board utilised 4,489.71 metre pipes in carrying out repair in temporary pipeline system. Balance 8,510.29 metre pipes could not be utilised so far (September 2004).

* MS-ERW: Mild Steel – Electric Resistance Weld.

Thus, the decision to procure MS-ERW pipes even after knowing that the work of laying permanent pipes can not be carried out resulted in blocking up of Rs.1.63 crore and consequent interest loss of Rs.50.53 lakh (at 12 per cent per annum up to March 2004).

The matter was reported to the Board/Government in April 2004. The reply is, however, awaited (September 2004).

4.16 Undue benefit to two consumers

Failure to implement its own orders by the Board resulted in undue benefit of Rs.93.06 lakh to two consumers.

Government of Tamil Nadu (State Government) issued orders (July 1998) for replacement of the existing electromechanical meters in the Low Tension Current Transformer (LTCT) services with electronic meters, which had provision to record the maximum demand reached in a service connection during a particular billing period. Based on this Government order, the Board issued order (September 1998) stipulating that whenever the maximum recorded demand by the consumer exceeded the maximum sanctioned demand for LTCT services of 112 Kilowatt (KW), penalty shall be levied.

It was further stipulated that implementation of this order would be after fixing of electronic meters in the respective LTCT services.

Audit observed that these orders were not implemented in respect of the following two consumers:

Music Academy, Chennai

4.16.1 The consumer was given LTCT service connection (March 1966) as a special case for a sanctioned load of 350 Kilovolt Ampere (KVA) corresponding to 297.5 KW. An electronic meter was fitted in this service connection in October 2000. However, no action was taken by the Board till September 2002 to withdraw its exemption given in March 1966 and to limit the sanctioned demand in this service connection to 112 KW in line with its order of September 1998. During October 2000 to August 2002, no penalty was levied though the actual demand recorded by the consumer was far in excess of 112 KW, the maximum permitted for LTCT service connection. Even after restricting the sanctioned demand to 112 KW from September 2002 there was short billing resulting in undue benefit of Rs.81.99 lakh to this consumer during October 2000 to March 2004.

Narada Gana Sabha, Chennai

4.16.2 The consumer was given a LTCT service connection for a sanctioned load of 97 KW in February 1988. The consumer approached (April 1993) the Board for additional load of 60 KW. The consumer was sanctioned (April

1993) the additional load and was also allowed to continue as LTCT consumer. Thus, the total sanctioned load of the consumer was 157 KW.

An electronic meter was fixed in this service connection in December 2000. Though the recorded demand was far in excess of 112 KW after the installation of electronic meter also, no penalty was levied for exceeding this limit resulting in undue benefit of Rs.11.07 lakh to the consumer during the period January 2001 to March 2004.

Thus, failure of the Board to implement its own order resulted in undue benefit of Rs.93.06 lakh to these consumers.

The matter was reported to the Board/Government in April 2004. The reply is, however, awaited (September 2004).

4.17 Avoidable loss

Extension of undue concession to a consumer resulted in avoidable loss of Rs.40.53 lakh.

The Vijayakumar Mills Limited, Palani, a High Tension (HT) consumer of the Board (SC No.4) failed to pay the current consumption (CC) charges from December 1998 and the power to the consumer was disconnected on 1 February 1999. The Board issued the termination notice in May 1999 and the consumer did not come forward to avail of the supply by paying the dues to the Board. As on August 1999, the dues payable to the Board by the consumer aggregated to Rs.69.58 lakh after adjusting the current consumption deposit and interest thereon.

The Board permitted (November 1999) the consumer, on his request, to pay the arrears of CC charges in six equal monthly instalments. The Board also categorically stated that power supply could be effected as a new service connection only on clearing the entire arrears and on payment of all charges that were applicable to a new applicant. The consumer did not pay any amount till February 2000. The Board on the request of the consumer agreed (February 2000) to recover arrears in 10 instalments as against six instalments agreed in November 1999. The Board also reversed its earlier stand and agreed to effect a new HT service connection on payment of all charges that were applicable to a new service connection besides payment of first instalment of CC charges arrears.

Accordingly, a new service connection was extended (October 2000) to the consumer (SC No.223) on payment of first instalment of arrears (Rs.6.96 lakh) and the charges for a new HT service connection (Rs.17.6 lakh). After paying three more instalments of Rs.6.96 lakh each in November 2000, December

2000 and January 2001, the consumer defaulted in payment of arrears and consumption charges for the new service connection from February 2001 onwards. The new service connection also was disconnected on 16 March 2001 for non-payment of consumption charges. The total amount recoverable from the consumer as on March 2001 was Rs.64.02 lakh* (after giving credit for current consumption deposit of Rs.12 lakh paid in October 2000). This amount has not been recovered so far (September 2004).

The action of the Board in reversing its original stand and giving this consumer a new service connection even when he had not paid the arrears against the old service connection in full resulted in avoidable loss of Rs.29.80 lakh (being the arrears in new service connection) besides interest loss of Rs.10.73 lakh (computed at 12 per cent per annum from April 2001 to March 2004).

The matter was reported to the Board/Government in May 2004. The reply is, however, awaited (September 2004).

Tamil Nadu Warehousing Corporation

4.18 Wasteful expenditure

Non-utilisation of stacking machines resulted in wasteful expenditure of Rs.26.52 lakh

The Company, as a labour saving measure, decided (October 2000) to go in for automation of stacking and conveying of commodities in its warehouses. The Company placed orders (April 2002) on Taurus Conveyors, Hosur (Taurus) for the supply of two sets of stacking equipment at Rs.6.63 lakh per set, to be installed at the two warehouses (Vellore and Vridhachalam). The erection of the first set was completed and the trial run conducted in Vellore warehouse on 4 June 2002. Taurus, immediately after the erection of the first set in Vellore warehouse, informed the Company to increase the existing load of the power supply in the warehouse, since the same was found to be insufficient to operate the equipment. The second set was installed at Villupuram warehouse (instead of Vridhachalam) on 5 July 2002.

Audit observed that the Corporation did not take any action to increase the existing power load in these two warehouses. The Corporation, instead, purchased additional two sets of equipments for Dindugal and Mettupalayam warehouses without increasing the power load of these warehouses also to the

* includes current consumption charges of Rs.29.80 lakh and arrears of Rs.34.22 lakh.

required level for beneficial utilisation of the equipment. In absence of required power supply, all the four stacking equipment installed at a cost of Rs.26.52 lakh remained unutilised.

The matter was reported to the Corporation/Government in April 2004. The reply is, however, awaited (September 2004).

General

4.19 Follow-up action on Audit Reports

Outstanding Action Taken Notes

4.19.1 The Comptroller and Auditor General of India's Audit Reports represent 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 executives. 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.

Though the Audit Reports for the years 1997-98, 1998-99, 1999-2000 2000-01 and 2001-02 were presented to the State Legislature in April 1999, May 2000, September 2001, May 2002 and May 2003 respectively, nine out of 19 Departments, which were commented upon, did not submit explanatory notes on 43 out of 139 paragraphs/reviews as on August 2004, 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	5
1999-2000	28	13
2000-01	25	10
2001-02	32	14
TOTAL	139	43

Department-wise analysis is given in **Annexure-21**. Departments largely responsible for non-submission of explanatory notes were Industries and Small Industries. The Government did not respond to even reviews highlighting important issues like system failures, mismanagement and non-adherence of extant provisions.

Outstanding compliance to Reports of Committee on Public Undertakings

4.19.2 The replies to paragraphs were required to be furnished within six weeks from the presentation of the Report by Committee on Public Undertakings (COPU) to the State Legislature. Replies to 31 paragraphs pertaining to 22 Reports of COPU presented to the State Legislature between April 1999 and March 2004 had not been received as on August 2004 as indicated below:

Year of COPU Report	Total number of Reports involved	Number of paragraphs, where replies not received
1999-2000	3	4
2000-01	1	1
2001-02	3	4
2002-03	14	19
2003-04	1	3
TOTAL	22	31

Action taken on persistent irregularities in Audit Reports

4.19.3 With a view to assist and facilitate discussion of the paras of persistent nature by the State COPU, an exercise has been carried out to verify the extent of corrective action taken by the concerned organisation and results thereof are indicated in **Annexures 22 and 23**.

Government companies

Disbursement of loans amounting to Rs.2.49 crore without due verification of adequacy, validity, real worth and genuineness of collateral securities offered; sanction of loans in violation of guidelines amounting to Rs.9.69 crore by Tamil Nadu Industrial Investment Corporation Limited and investment of

funds of Rs.3.56 crore on unproductive projects by Tamil Nadu Small Industries Development Corporation Limited were included in the Reports (Commercial) of the Comptroller and Auditor General of India for the years 1997-98 to 2001-02, Government of Tamil Nadu. Action taken by the Companies/State Government on the irregularities as seen by Audit (September 2004) revealed that the action was belated and inadequate as per details in **Annexure-22** and that the irregularities were still persisting.

Statutory corporations

Irregularities by way extension of tariff concession in contravention of Government Orders (Rs.2.97 crore) and procurement of materials without planning and assessment of requirement (Rs.4.52 crore) in Tamil Nadu Electricity Board were included in Audit Reports (Commercial) of the Comptroller and Auditor General of India for the years 1998-99 to 2001-02, Government of Tamil Nadu. Action taken by the Board/State Government on the irregularities as seen by Audit (September 2004) revealed that the action were belated and inadequate as per details in **Annexure-23** and that the irregularities were still persisting.

The matter was referred to the Government in September 2004. The reply is, however, awaited (October 2004).

4.20 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 PSUs and concerned departments of State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective head of departments within a period of six weeks. Inspection reports issued up to March 2004 pertaining to 57 PSUs disclosed that 3,304 paragraphs relating to 759 inspection reports remained outstanding at the end of September 2004; of these, 241 inspection reports containing 857 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 2004 is given in **Annexure-24**.

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 16 draft paragraphs forwarded to the various departments during March to September 2004, as detailed in **Annexure-25** had not been replied to so far (September 2004).

It is recommended that (a) the Government should ensure that procedure exists for action against the officials, who failed to send replies to inspection reports/draft paragraphs/reviews 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.

Chennai
The

(T.THEETHAN)
Accountant General
(Commercial and Receipt Audit)
Tamil Nadu

Countersigned

New Delhi
The

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General
of India