

CHAPTER - I

1 Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government companies and Statutory corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Tamil Nadu, the PSUs occupy an important place in the State economy. The State PSUs registered a Turnover of ₹55,193.64 crore[∞] for 2010-11 as per their latest finalised accounts as of September 2011. This Turnover was equal to 10.09 *per cent* of the State Gross Domestic Product (GDP) of ₹5,47,267 crore for 2010-11. Major activities of the State PSUs are concentrated in power, service and other sectors. The State PSUs incurred an aggregate Loss of ₹11,352.19 crore as per the latest accounts finalised during 2010-11. They had employed 2.79 lakh^{*} employees as of 31 March 2011. The State PSUs do not include two^Ω Departmental Undertakings (DUs), which carry out commercial operations as they are a part of Government departments. Audit findings of these DUs are incorporated in the Audit Report (Civil) for the State.

1.2 As on 31 March 2011, there were 76 PSUs (75 companies and one Statutory Corporation) as per the details given below. Of these, three[§] companies were listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs ^ψ	Total
Government Companies [♦]	66 [‡]	9	75
Statutory Corporation	1	---	1
Total	67	9	76

[∞] 19 companies finalised their accounts for the years other than 2010-11.

[‡] As per the details provided by 67 PSUs.

^Ω The Institute of Veterinary and Preventive Medicine, Ranipet and King Institute, Guindy.

[§] Tamil Nadu Newsprint and Papers Limited, Tamil Nadu Telecommunications Limited and Tamil Nadu Industrial Explosives Limited.

^ψ Non-working PSUs are those which have ceased to carry on their operations. During 2010-11, two companies *viz.*, Tamil Nadu State Farms Corporation Limited and The Chit Corporation of Tamil Nadu Limited were dissolved by Registrar of companies.

[♦] Includes 619-B companies.

[‡] It includes three companies *viz.*, Tamil Nadu State Transport Corporation (Tirunelveli) Limited (due to bifurcation of Tamil Nadu State Transport Corporation (Madurai) Limited), TNEB Limited and Tamil Nadu Road Development Company Limited and exclude one Company *viz.*, Chennai Metro Rail Corporation Limited which had become a Central PSU.

1.3 The State Government accorded (October 2008) in-principle approval for unbundling of Tamil Nadu Electricity Board (TNEB) by the establishment of a holding Company, Tamil Nadu Electricity Board Limited (TNEB Limited) and two subsidiary companies viz., Tamil Nadu Transmission Corporation Limited (TANTRANSCO) and Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). TANTRANSCO was incorporated in June 2009 and TNEB Limited and TANGEDCO were incorporated in December 2009. Based on the orders of Government (October 2010), TNEB ceased functioning with effect from 1 November 2010 and all the activities hitherto carried out by it are now being carried out by the three companies.

Audit mandate

1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the Paid up Capital is held by Government(s). A Government company includes its subsidiary/(s). Further, a Company in which 51 *per cent* of the Paid up Capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act.

1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

1.6 Audit of the Statutory corporation is governed by its respective legislation. While CAG was the sole auditor of the TNEB till its re-organisation (October 2010), in respect of Tamil Nadu Warehousing Corporation, the Audit is conducted by Chartered Accountants and supplementary audit by CAG in pursuance of the State Warehousing Corporation Act, 1962.

Investment in State PSUs

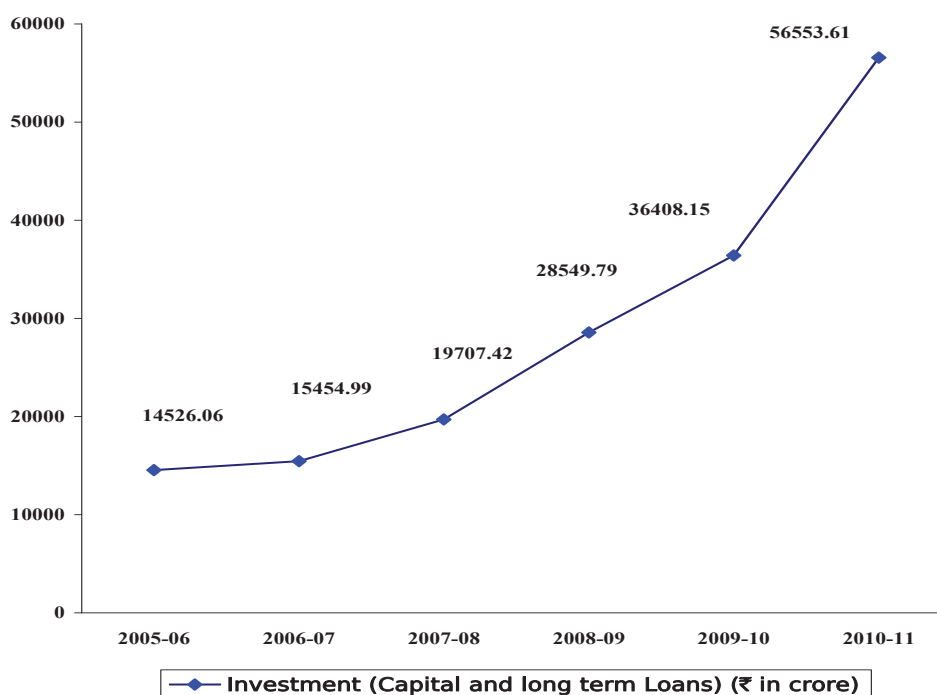
1.7 As on 31 March 2011, the Investment (Capital and long-term Loans) in 76 PSUs (including 619-B companies) was ₹56,553.61 crore as per details given below:

(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	9,719.36	46,741.34	56,460.70	7.61	---	7.61	56,468.31
Non-working PSUs	34.54	50.76	85.30	---	---	---	85.30
Total	9,753.90	46,792.10	56,546.00	7.61	---	7.61	56,553.61

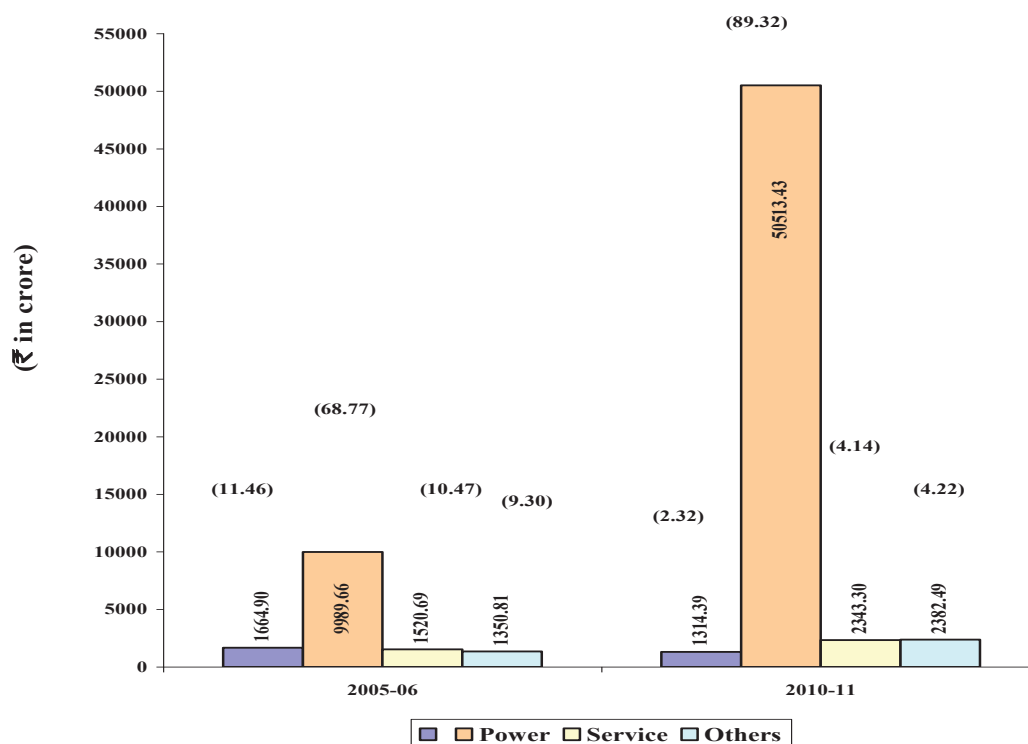
A summarised position of Government Investment in the State PSUs is detailed in **Annexure-1**.

1.8 As on 31 March 2011, of the total Investment in the State PSUs, 99.85 per cent was in working PSUs and the remaining 0.15 per cent was in non-working PSUs. This total Investment consisted of 17.26 per cent towards Capital and 82.74 per cent in long-term Loans. The Investment has grown by 289.33 per cent from ₹14,526.06 crore in 2005-06 to ₹56,553.61 crore in 2010-11 due to large Loans availed by State Transport Undertakings and electricity companies through other sources as shown in the graph below:



1.9 The Investment in various important sectors and percentage thereof at the end of 31 March 2006 and 31 March 2011 are indicated below in the bar chart.

The Investment in power sector was the highest which had increased by 405.66 per cent from ₹9,989.66 crore in 2005-06 to ₹50,513.43 crore in the year 2010-11 taking the percentage share in the total Investment to 89.32 per cent in 2010-11.



(Figures in brackets show the sector percentage to total Investment)

Budgetary outgo, Grants / subsidies, Guarantees and loans

1.10 The details regarding budgetary outgo towards Equity, Loans, Grants/ Subsidies, Guarantees issued, Loans written off, Loans converted into Equity and Interest waived in respect of the State PSUs during the year are given in **Annexure-3**. The summarised details are given below for three years ended 2010-11.

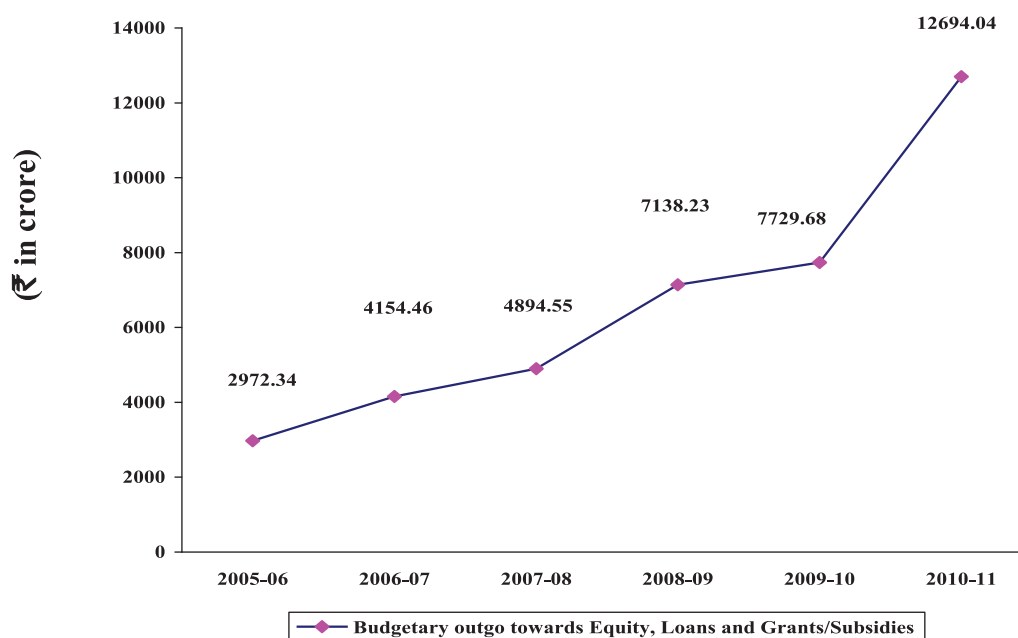
(₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity Capital outgo from budget	15	1,051.45	13	737.21	12	5,731.34
2	Loans given from budget	9	775.53	6	483.13	5	111.11
3	Grants/Subsidy received	13	5,311.25	16	6,509.34	15	6,851.59
4	Total Outgo (1+2+3)	26*	7,138.23	25*	7,729.68	24*	12,694.04
5	Loans converted into Equity	1	4.95	1	28.00	1	1,235.13

* These are the actual number of Companies/Corporation, which have received budgetary support in the form of Equity, Loan, Subsidies and Grants from the State Government during the respective years.

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
6	Loans written off	1	3.47	1	0.19	---	---
7	Interest/Penal interest written off	2	6.13	1	0.63	3	201.63
8	Total Waiver (6+7)	2	9.60	2	0.82	4	201.63
9	Guarantees issued	6	1,322.81	5	126.00	4	86.05
10	Guarantee Commitment	14	4,036.49	13	5,221.87	12	5,941.77

1.11 The details regarding budgetary outgo towards Equity, Loans and Grants/ Subsidies for past six years are given in a graph below.



The budgetary support in respect of Equity, Loans and Grants/ Subsidies showed an increasing trend from 2005-06 to 2010-11 mainly due to increase in Equity and Subsidy by the State Government over the years to electricity companies and Tamil Nadu Civil Supplies Corporation Limited.

1.12 The PSUs are liable to pay Guarantee Commission to the State Government upto 0.5 per cent of the amount of Guarantee utilised by them on raising Cash Credit from banks and Loans from other sources including operating Letters of Credit. During the year 2010-11, guarantee commission of ₹167.38 crore was payable by 11 PSUs. Out of this amount, ₹165.91 crore remained unpaid which included ₹165.50 crore in respect of TNEB Limited.

Reconciliation with Finance Accounts

1.13 The figures in respect of Equity and Guarantees outstanding as per records of the State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should reconcile the differences. The position in this regard as at 31 March 2011 is stated below:

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	6,385.79	9,323.88	2,938.09
Guarantees	9,978.58	5,941.77	4,036.81

1.14 We observed that the differences occurred in 11 PSUs and 10 PSUs in respect of Equity and Guarantees, respectively. Some of the differences were pending reconciliation since April 2004*. The Principal Accountant General had addressed the Companies where the difference had occurred in November 2010 to reconcile the position. The Chief Secretary to Government of Tamil Nadu was also addressed (August 2011) and attention drawn to the need for reconciliation of figures as appearing in Finance accounts and the figures furnished by the companies in their respective accounts. The Government and PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

1.15 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Annexures 2, 5 and 6** respectively. A ratio of PSUs' Turnover to State GDP shows the significant extent of PSU activities in the State economy. The table below provides the details of working PSUs' Turnover *vis-a-vis* State GDP for the period from 2005-06 to 2010-11.

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover [∞]	25,665.47	26,206.99	38,040.09	42,534.33	47,578.39	55,193.64
State GDP	2,23,528	2,46,266	2,79,287	2,28,479	2,41,122	5,47,267
Percentage of Turnover to State GDP	11.48	10.64	13.62	18.62	19.73	10.09

(Figures of State GDP for 2010-11 are advance estimates reset with base year as 2004-05).

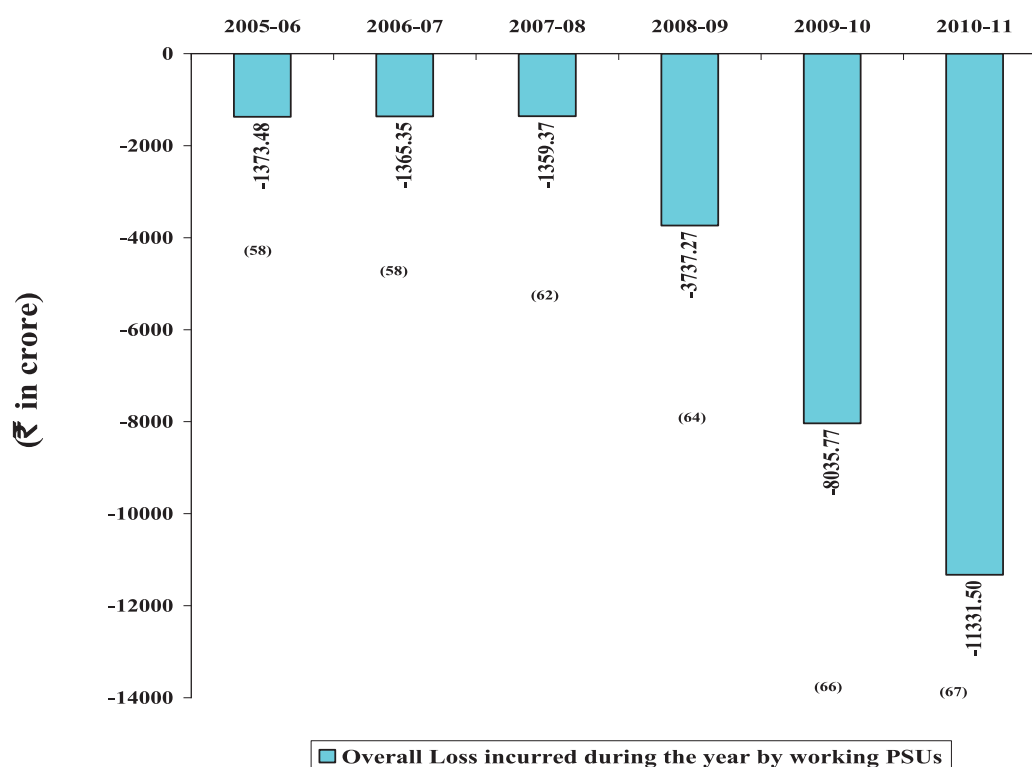
The Turnover of PSUs has increased continuously from 2005-06 to 2010-11. The Turnover had increased by 115.05 *per cent* in 2010-11 as compared to the Turnover in 2005-06. The percentage of PSUs' Turnover to State GDP

* Tamil Nadu Adi-draavidar Housing and Development Corporation Limited and Tamil Nadu Sugar Corporation Limited.

∞ Turnover as per the latest finalised accounts as of 30 September.

marginally declined between 2005-06 and 2006-07 and steadily improved from 2007-08 to 2009-10 but declined drastically in 2010-11.

1.16 Losses incurred by the State working PSUs during the period from 2005-06 to 2010-11 are given below in the bar chart.



(Figures in brackets show the number of working PSUs in respective years)

The State working PSUs collectively incurred continuous Losses from 2005-06 to 2010-11 which increased from ₹1,373.48 crore to ₹11,331.50 crore during the same period.

During the year 2010-11, out of 67 working PSUs, 40 PSUs earned a Profit of ₹592.09 crore and 23 PSUs incurred a Loss of ₹11,923.59 crore. While one* PSU incorporated in October 2007 had not submitted even the first set of Accounts till date (October 2011) another Company* became Government Company in September 2010 and its Accounts for 2010-11 are yet to be finalised. One[€] PSU is in its preliminary stages of commercial operation. In respect of Tamil Nadu Civil Supplies Corporation Limited, the deficit of Income is entirely compensated by the State Government in the form of Subsidy.

As per the accounts finalised as of 30 September 2011, the major contributors to Profit are Tamil Nadu Newsprint and Papers Limited (₹149 crore), State Industries Promotion Corporation of Tamil Nadu Limited (₹82.84 crore),

* Arasu Cable TV Corporation Limited.

* Tamil Nadu Road Development Company Limited.

€ Tidel Park, Coimbatore a 619-B Company, incorporated in June 2007.

Tamil Nadu Industrial Investment Corporation Limited (₹52.82 crore), Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹64.43 crore) and Tamil Nadu Industrial Development Corporation Limited (₹34.07 crore). Heavy Losses were incurred by erstwhile Tamil Nadu Electricity Board (₹10,294.64 crore) and all the eight* State Transport Corporations (₹1,575.26 crore).

1.17 The Losses of working PSUs are mainly attributable to deficiencies in Financial Management, Planning, implementation of project, running their operations and monitoring. A review of last three years' Audit Reports of CAG shows that the State PSUs incurred Losses to the tune of ₹5,128.37 crore and made infructuous Investment of ₹542.98 crore which were controllable with better management. Year wise details from Audit Reports are stated below:

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	Total
Net Loss	3,737.27	8,035.77	11,331.50	23,104.54
Controllable Losses as per the CAG's Audit Report	634.42	3,160.08	1,322.42	5,128.37
Infructuous Investment	92.00	420.50	38.89	542.98

1.18 The above Losses pointed out by the Audit Reports of the CAG are based on test check of records of PSUs. The actual controllable Losses would be much more. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

1.19 Some other key parameters pertaining to State PSUs are given below:

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Return on Capital Employed (<i>per cent</i>)	NIL*	NIL*	0.17	NIL*	NIL*	NIL*
Debt	12,053.49	12,757.52	16,136.56	23,878.24	30,902.55	46,792.10
Turnover	25,665.47	26,206.99	38,040.09	42,534.33	47,578.39	55,193.64
Debt/Turnover ratio	0.47:1	0.49:1	0.42:1	0.56:1	0.64:1	0.85:1
Interest payments	1,424.13	1,479.80	1,582.58	2,059.37	3,397.17	4,436.43
Accumulated Losses	6,420.24	7,896.15	9,324.65	13,207.60	21,297.39	33,621.12

(Above figures pertain to all PSUs except Turnover which is for working PSUs).

1.20 The State Government has not formulated a Dividend Policy for payment of minimum Dividend. As per their latest finalised accounts as of 30 September 2011, 40 State PSUs earned an aggregate profit of ₹592.09 crore and 10 PSUs declared total Dividend of ₹65.80 crore. Of this, the major contributors of the Dividend were Tamil Nadu Newsprint and Papers Limited

* Serial Number 58 to 65 of Annexure-2.

* NIL indicates that Return on Capital Employed was negative during those years.

(₹34.61 crore) and State Industries Promotion Corporation of Tamil Nadu Limited (₹14.48 crore) aggregating to ₹49.09 crore, which worked out to 74.60 per cent of total Dividend paid (₹65.80 crore) during the year 2010-11.

Arrears in finalisation of Accounts

1.21 The Accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their Accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2011.

SL. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Number of Working PSUs	58	62	64	66	67
2	Number of accounts finalised during the year	59	63	54	61	63
3	Number of accounts in arrears	22	21	31	35	39 [#]
4	Average arrears per PSU (3/1)	0.38	0.34	0.48	0.51	0.58
5	Number of Working PSUs with arrears in accounts	16	13	20	19	26
6	Extent of arrears (years)	1 to 5	1 to 6	1 to 7	1 to 8	1 to 9

1.22 In addition to above, there were arrears in finalisation of accounts by non-working PSUs. Out of nine non-working PSUs, two[^] PSUs had gone into liquidation process. Tamil Nadu Goods Transport Corporation Limited and Tamil Nadu Institute of Information Technology Limited have submitted winding up proposals and hence their accounts have not been considered due. One^z Company had submitted its accounts. Four^o PSUs had arrears of accounts for one to eight years.

1.23 The State Government had invested ₹10,934.34 crore (Equity: ₹6,787.01 crore, Loans: ₹5.42 crore, Grants: ₹26.76 crore and subsidy: ₹4,115.15 crore) in 12 PSUs (including one non-working PSU) during the years for which accounts had not been finalised as on 30 September 2011 as detailed in **Annexure-4**. In the absence of accounts and their subsequent

Arasu Cable TV Corporation Limited incorporated in October 2007 and arrear of three years is considered.

^ Tamil Nadu Steels Limited and Tamil Nadu Magnesium and Marine Chemicals Limited.

z Tamil Nadu Graphites Limited.

o 1. Tamil Nadu Agro Industries Development Corporation Limited, 2. Tamil Nadu Poultry Development Corporation Limited, 3. Tamil Nadu Sugarcane Farms Corporation Limited and 4. Tamil Nadu Film Development Corporation Limited.

audit, it can not be ensured whether the Investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's Investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

1.24 The administrative Departments have the responsibility of overseeing the activities of these entities and ensuring that the Accounts are finalised and adopted by these PSUs within the prescribed period. The Principal Accountant General (PAG) brought the position of the arrears of accounts to the notice of the concerned administrative departments and officials of the Government every quarter. We noticed that the number of accounts in arrears of working PSUs increased from 35 in 2009-10 to 39 in 2010-11. As a result of this, the Net Worth of these PSUs could not be assessed in Audit. The PAG also brought the matter to the attention of the Chief Secretary/ Finance Secretary Government of Tamil Nadu in the Apex Committee meeting held in October 2010/ July 2011.

1.25 In view of above state of arrears, it is recommended that the Government should monitor and ensure timely finalisation of Accounts with special focus on arrears and comply with the provisions of the Companies Act, 1956.

Winding up of non-working PSUs

1.26 There were nine non-working PSUs (all Companies) as on 31 March 2011. Liquidation process had commenced in two[♥] PSUs. The number of non-working companies at the end of each year during the past five years is given below:

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Number of non-working companies	14	14	11	11	9

The Government may consider the closure of non-working PSUs.

1.27 The stages of closure in respect of non-working PSUs are given below:

Sl. No.	Particulars	Companies
1	Total number of non-working PSUs [∞]	9
2	Of (1) above, the number under	
(a)	Liquidation by Court (liquidator appointed)	2
(b)	Voluntary winding up	4
(c)	Closure, <i>i.e.</i> , closing orders/instructions issued but liquidation process has not yet started.	3

[♥] Tamil Nadu Magnesium and Marine Chemicals Limited and Tamil Nadu Steels Limited.

[∞] As of 30 September 2011.

1.28 During the year 2010-11, The Chit Corporation of Tamil Nadu Limited and Tamil Nadu State Farms Corporation Limited were struck off from the Register of Companies by Registrar of Companies, Government of India. The process of voluntary winding up of companies under the Companies Act is much faster and needs to be adopted/ pursued vigorously. The closure of these companies was delayed due to (i) non-settlement of disputed claims (Tamil Nadu Magnesium and Marine Chemicals Limited, Tamil Nadu Sugarcane Farms Corporation Limited and Tamil Nadu Steels Limited), (ii) non-closure of Accounts (Tamil Nadu Film Development Corporation Limited and Tamil Nadu Agro Industries Development Corporation Limited), (iii) decision pending from State Government on writing off proposals of the Government dues (Tamil Nadu Poultry Development Corporation Limited) and (iv) decision pending with Registrar of companies on merger of companies (Tamil Nadu Institute of Information Technology - TANITEC), with Ministry of Company Affairs (Tamil Nadu Graphites Limited). Tamil Nadu Goods Transport Corporation Limited which was under liquidation had been directed by the State Government to be merged with State Express Transport Corporation Limited. The approval of Company Law Board is awaited. The Government may consider to expedite closing down its non-working companies.

Accounts Comments and Internal Audit

1.29 Fifty seven working companies forwarded their 61 accounts to Principal Accountant General during 2010-11. Of these, 43 accounts of 41 companies were selected for supplementary audit. The audit reports of statutory auditors and the sole/supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and the CAG are given below:

(₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	15	241.93	5	6.00	8	134.03
2	Increase in profit	---	---	2	0.54	4	1.78
3	Increase in Loss	12	72.19	10	124.20	10	89.56
4.	Decrease in Loss	---	---	---	---	3	65.50
5	Non-disclosure of material facts	9	99.38	8	263.93	2	---
6	Errors of classification	4	7.80	4	24.45	1	13.07

1.30 During the year 2010-11, the Statutory Auditors had given unqualified certificates for 32 Accounts and qualified certificates for 29 Accounts. The compliance of Companies with the Accounting Standards (AS) remained poor.

There were 22 instances of non-compliance of AS in 12 Accounts during the year.

1.31 Some of the important comments in respect of Accounts of Companies are stated below:

Finance and Infrastructure Development Undertakings (2010-11)

- Three* PSUs did not provide for Deferred Tax Liability on Special Reserves appropriated out of their Profits under Section 36 (i) (viii) of Income Tax Act as required under AS-22 resulting in overstatement of Profit for the current year and General Reserves and understatement of Deferred Tax Liability.

Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited (2010-11)

- The Company did not provide for Income Tax of ₹35.61 crore for the years 1999-2002 resulting in Understatement of Current Liabilities and Overstatement of Accumulated Profit.

Tamil Nadu Minerals Limited (2010-11)

- The Company did not provide for Liability towards Gratuity, Leave Encashment and pay fixation arrears amounting to ₹17.06 crore resulting in Overstatement of Profit and Understatement of Current Liabilities.

State Express Transport Corporation Limited (2010-11)

- The Company did not provide for ₹8.26 crore being the liability towards employees' contribution to Provident Fund Trust resulting in Understatement of Loss and Current Liabilities and Provisions by the same amount.

Tamil Nadu Tea Plantation Corporation Limited (2010-11)

- The Company did not provide for ₹23.79 crore being the additional contribution for gratuity resulting in Understatement of Prior Period Expenditure and Accumulated Loss to that extent.

Tamil Nadu Industrial Development Corporation Limited (2010-11)

- The Company did not provide for diminution in the value of quoted (₹3.11 crore) and unquoted (₹4.94 crore) shares resulting in Overstatement of Profit as well as Investments.
- The Company adjusted Short Term Loans of ₹13.06 crore without approval of Government resulting in Understatement of Assets and Liabilities to same extent.

1.32 Similarly, two♦ Statutory corporations forwarded their Accounts for 2009-10 to the PAG during the year 2010-11. The Audit Reports of Statutory

* Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited (₹17.80 crore), Tamil Nadu Industrial Development Corporation Limited (₹2.74 crore) and Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹43.09 crore).

♦ Tamil Nadu Warehousing Corporation Limited and erstwhile Tamil Nadu Electricity Board.

Auditors and the sole/supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and the CAG are given below:

(₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Increase in profit	1	0.52	---	---	---	---
2.	Decrease in profit	--	---	---	---	1	2.64
3.	Increase in Loss	1	284.13	1	263.30	1	394.86
4.	Non-disclosure of material facts	1	1,388.79	1	60.46	---	---
5.	Errors of classification	1	140.10	1	85.25	1	11.78
6.	Correctness of balance exhibited in accounts not susceptible of verification	---	---	1	283.55	1	20,242.42

Some of the important comments in respect of accounts of Statutory Corporations are stated below:

Tamil Nadu Electricity Board (2009-10)

- Non-accountal of ₹239.48 crore being charges collectable from windmill generator towards infrastructure development charges resulted in Understatement of Receivable with corresponding Understatement of Contributions, Grants and Subsidy towards cost of Capital Assets.
- Non-adjustment of Tariff Subsidy of ₹8.95 crore relating to 2008-09 for which final charges were issued by Tamil Nadu Electricity Regulatory Commission (TNERC) before finalisation of Accounts resulted in Understatement of Revenue deficit.
- Non-provision of ₹15 crore being demand charges to be refunded to a High Tension consumer as per Court orders resulted in Overstatement of Net Prior Period Credit.
- Non-accounting of advance Subsidy of ₹35.99 crore relating to 2010-11 released by the Government as on 31 March 2010 resulted in understatement of Advance subsidy and Bank balances by like amount.
- Due to incorrect accounting treatment, Miscellaneous Receipts were understated by ₹6.15 crore at General Construction Circle, Madurai and Deposits and Retention amount from the Contractors was overstated.
- Non-provision for legal expenses amounting to ₹3.11 crore approved for payment by the Board resulted in Understatement of Liability for expenses and Overstatement of Other Claims and receivables.

1.33 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative list of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of 28 companies for the year 2009-10 and 30 companies for the year 2010-11 is given below:

Sl. No.	Particulars	Number of companies where recommendations were made		Reference to serial number of the companies as per Annexure-2	
		2009-10	2010-11	2009-10	2010-11
1	The internal audit system needs to be strengthened to make it commensurate with the size and nature of the business	4	3	8, 15, 45 and 50	38, 49 and 54
2	There was no internal audit standards/manual/ guidelines prescribed by the companies for the conduct of internal audit	7	3	2, 9, 13, 26, 41, 50 and 55	2, 9, and 42
3	Proper records showing full particulars including quantitative details and situation of fixed assets were not maintained	1	---	55	---
4	The existing system of monitoring the recovery of dues needs to be strengthened by preparing age-wise analysis of debtors and periodical monitoring	---	---	---	---
5	Internal control system needs to be strengthened	1	---	2	---
6	The Companies did not have any defined fraud policy	16	19	2, 5, 9, 14, 15, 26, 29, 30, 35, 37, 42, 43, 45, 50, 52 and 55	2, 5, 9, 14, 20, 24, 26, 29, 30, 31, 32, 34, 36, 37, 38, 44, 49, 54, and 56
7	Documentation of software programs not available with the companies	1	1	55	9
8	The companies have no IT strategy/plan	17	21	2, 7, 9, 12, 26, 27, 29, 30, 35, 37, 50, 54, 55, 56, 57, 59 and 60	2, 3, 6, 7, 9, 12, 24, 28, 29, 30, 31, 32, 34, 36, 38, 54, 59, 60, 61, 64 and 65

Sl. No.	Particulars	Number of companies where recommendations were made		Reference to serial number of the companies as per Annexure-2	
		2009-10	2010-11	2009-10	2010-11
9	The companies have not fixed minimum and maximum limits for maintenance of stores and spares	3	5	26, 29 and 41	3, 30, 32, 42 and 49
10	The companies did not make ABC analysis for effective inventory control.	4	6	26, 29, 36 and 41	2, 28, 30, 37, 42, and 49
11	The companies did not evolve proper security policy for software/hardware	8	7	2, 26, 29, 30, 37, 45, 55 and 59	2, 24, 30, 31, 49, 54 and 65

Recoveries at the instance of audit

1.34 During the course of propriety audit in 2010-11, recoveries of ₹24.80 crore were pointed out to erstwhile Tamil Nadu Electricity Board. Out of this, ₹16.72 crore (including ₹5.15 crore pertaining to earlier years) was recovered during the year 2010-11.

Status of placement of Separate Audit Reports

1.35 The following table shows the status of placement of Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

Sl. No	Name of the Statutory Corporation	Year upto which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	TNERC	2009-10	2010-11	14 September 2011	Yet to be placed in the legislature

Disinvestment, Privatisation and Restructuring of PSUs

1.36 Tamil Nadu Electricity Board had been unbundled into three companies – one holding Company and two subsidiaries (as mentioned in Paragraph 1.3). Further, Government of Tamil Nadu issued (November 2010) orders for amalgamation of State Engineering and Servicing Company of Tamil Nadu Limited (SESCOT) with Tamil Nadu Small Industries Corporation Limited under Section 396 of the Companies Act, 1956.

Reforms in Power Sector

Status of implementation of MOU between the State Government and the Central Government

1.37 The State Government formed TNERC in March 1999 under the Electricity Regulatory Commissions Act, 1998, with the objective of rationalisation of electricity tariff for advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2010-11, TNERC issued 13 Tariff orders including one on determination of Tariff for Generation, Intra State Transmission and rate.

In pursuance of the decisions taken at the Chief Ministers' conference on Power Sector Reforms held in March 2001, a Memorandum of Understanding (MOU) was signed in January 2002 between the Ministry of Power, Government of India and the Department of Energy, Government of Tamil Nadu as a joint commitment for implementation of the reform programme in the power sector with identified milestones.

Commitments made in the MOU, except the following have been achieved as reported by Tamil Nadu Electricity Board:

	Commitment as per MOU	Targeted completion Schedule	Status (as on 31 March 2011)
1.	Reduction of Transmission and Distribution Losses to 15 <i>per cent</i>	December 2003	Transmission and Distribution Losses - 18 <i>per cent</i>
2.	100 <i>per cent</i> metering of all consumers	September 2012	All services except the agricultural and hut services have been metered. The Government requested (September 2009) TNERC for extension of time for three years from 1 October 2009 for installation of meters in the agricultural and hut services. TNERC accepted Government's request and approved for extension of time for three years upto 1.10.2012.
3.	Current operations in distribution to reach break-even	March 2003	As per the accounts finalised for 2009-10, the Board had a deficit of ₹10,294.64 crore.
4.	Energy audit at 11 KV sub-stations level	January 2002	Energy audit was conducted in all the 11/22 KV feeders. 1,587 feeders were identified to have line Losses of more than 10 <i>per cent</i> . By carrying out improvement works the line Losses have been brought below 10 <i>per cent</i> in 1,032 feeders so far.