OVERVIEW

1 Overview of Government Companies and Statutory Corporations

Audit of Government Companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government Companies are audited by Statutory Auditors appointed by the CAG. These accounts are also subject to supplementary audit conducted by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2012, the State of Tamil Nadu had 64 working PSUs (63 companies and one Statutory Corporation) and 13 non-working PSUs (all companies), which employed 2.72 lakh employees. The State PSUs registered a turnover of ₹65,805 crore as per their latest finalised accounts. This turnover was equal to 10.30 per cent of State's GDP indicating the important role played by State PSUs in the economy. The PSUs had accumulated loss of ₹59,636.87 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2012, the investment (capital and long term loans) in 77 PSUs was ₹61,438.83 crore. Power sector accounted for 89.28 per cent of total investment and Service sector 4.29 per cent in 2011-12. The Government contributed ₹5,559.96 crore towards equity, loans and grants/subsidies during 2011-12.

Performance of PSUs

As per latest finalised accounts, out of 64 working PSUs, 37 PSUs earned a profit of ₹493.36 crore and 25 PSUs incurred a loss of ₹14,504.02 crore. The major contributors to profit were Tamil Nadu Newsprint and Papers Limited (₹108.94 crore), Tamil Nadu Industrial Investment Corporation Limited (₹48.40 crore), Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹53.97 crore) and TIDEL Park Limited, Chennai (₹35.75 crore). In respect of Tamil Nadu Civil Supplies Corporation Limited and Tamil Nadu Transmission Corporation Limited, the loss is compensated by the State Government and Tamil Nadu Generation and Distribution Corporation Limited, respectively. Heavy losses were incurred by Tamil Nadu Electricity Board (₹7,032.79 crore), Tamil Nadu Generation and Distribution Corporation Limited (₹5,633.46 crore) and all the eight State Transport Corporations (₹1,791.64 crore).

Audit noticed various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of the CAG shows that the State PSUs' losses of ₹5,826.49 crore and infructuous investments of ₹635.51 crore were controllable with better management. Thus, there is tremendous need and scope to improve the functioning and thereby enhance profits. The PSUs can discharge their role better if they are financially self-reliant. Greater professionalism and accountability in the functioning of PSUs is also called for.

Arrears in accounts and winding up

21 working PSUs had arrears of 25 accounts as of 30 September 2012, of which 4 accounts pertained to earlier years and the remaining were 2011-12 accounts. There were 13 non-working PSUs including two under liquidation. The Government may consider the feasibility of winding up these companies.

Quality of accounts

The quality of accounts of PSUs needs improvement. During the year, out of 67 (66 accounts of Government companies and one accounts of Statutory Corporation viz., Tamil Nadu Warehousing Corporation) accounts finalised, the Statutory Auditors of Government companies had given unqualified certificates for 35 accounts and qualified certificates for 32 accounts. There were 33 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

2 Performance Audit relating to Government Companies

2.1 Tamil Nadu Industrial Development Corporation Limited

Since 1965, TIDCO is engaged in promotion of large and medium scale industries in the State of Tamil Nadu. To assess the role of TIDCO for industrial development in tune with the recent industrial policies of the Government, we took up a Performance Audit of TIDCO between March and July 2012 covering the period 2007-12.

Financial Performance and Management

TIDCO's reserves and surplus increased by ₹162.73 crore during 2007-12 mainly due to earning of profit from business activities (₹93 crore) and receipt of capital grants (₹69.73 crore). Despite this, TIDCO was dependent on Government loans to the extent of ₹91.13 crore for long term commitments.

Financial Management by TIDCO was deficient as there were instances of unwarranted interest payments of ₹14.50 crore. TIDCO paid interest of ₹1.18 crore under Section 234 B and C of Income Tax Act due to short payment of advance tax in 2008-09 and 2009-10 besides interest loss of ₹4.72 crore due to overpayment of advance tax in 2007-08.

Planning

TIDCO neither prepared a long term Strategic Plan nor Annual Action Plans for its investment and other activities. TIDCO had also ventured into projects which were not aimed at industrial development in the State but had the primary objective of real estate development and non-industrial ventures.

Implementation of Special Economic Zone Projects

During the audit period, TIDCO had participated in 12 SEZ projects but had completed only four projects. Two of the completed projects did not have even the basic infrastructure like power and water.

In respect of the incomplete projects, TIDCO remained a mere spectator and did not enforce implementation of the projects. JV Agreements with private partners were not entered into and resultant inability to enforce any contractual obligations. In one SEZ project viz., Mahindra World City Developers Limited, land asset valuing ₹67.57 crore was transferred by the JV partner to its associate company without the knowledge of TIDCO. Part of the land was irregularly developed as a Real Estate Project and sold in contravention of SEZ Rules. In another SEZ viz., AMRL, Nanguneri, TIDCO extended undue favour of ₹106.61 crore to private partner as it failed to collect the market price of 2008 for the land handed over to the JV company in 2008.

Investments in assisted units

TIDCO did not evolve any benchmarks/parameters for evaluation of the projects proposed to be assisted. Consequently, TIDCO purchased shares of a joint venture company at an extra cost of ₹10 crore. TIDCO also invested ₹11.09 crore in two floriculture projects known to be unviable and in a joint venture company which had already completed the project when TIDCO released its assistance.

Disinvestments

Though in existence since 1965, TIDCO had not evolved a policy for systematic regular and timely disinvestment from the assisted companies. Consequently, TIDCO's investment of ₹175.25 crore (47 per cent) was blocked for more than 10 years.

During the years 2007-08 to 2011-12, TIDCO decided to disinvest its investment of ₹9.75 crore in respect of five joint venture companies but did not implement the same due to its own inaction or want of Government approval. In respect of two joint venture companies, TIDCO extended undue favour of ₹13.38 crore by agreeing to lower rates of escalation for disinvestment than the prevailing rates of escalation.

Internal control and monitoring

Internal control and monitoring of assisted units was weak as evidenced in the non-availability of comprehensive data base of sick units and non-review of performance of the assisted units and ongoing projects by BOD of TIDCO.

Conclusion and Recommendations

TIDCO's performance was deficient in financial management, planning, implementing SEZ projects, investment in joint venture companies and in taking timely action for disinvestment. We recommend that TIDCO formulate a long term Strategic Plan in line with the State Industrial Policy. There needs to be a focus on Joint Venture agreements so as to ensure enforcement of contractual obligations, besides timely disinvestment decisions.

2.2 Power Transmission Activities of Tamil Nadu Transmission Corporation Limited

Government of India enunciated the National Electricity Policy (NEP) in February 2005 which envisaged that the Transmission System required adequate and timely investment besides efficient and coordinated action to develop a robust and integrated power system for the country. Transmission of electricity and grid operations in Tamil Nadu were managed by the Tamil Nadu Electricity Board (Board) until 31 October 2010. As part of power sector reforms, Tamil Nadu Transmission Corporation Limited (Company) and Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) were formed and started functioning from November and March 2010 respectively. The Company is mandated to provide an efficient, adequate and properly coordinated Grid management and transmission of energy. We took up the Performance Audit on the working of the Company and the erstwhile Board for the years 2007 to 2012 to ascertain whether they were able to adhere to the objectives stated in the NEP.

Transmission network and its growth

The Company planned addition of 249 Sub-stations (SSs), 14,052 MVA of transformer capacity and 10,966 Circuit Kilometre (CKM) of transmission lines during 2007-08 to 2011-12 but achieved addition of 160 SSs, 13,395 MVA of transformer capacity and 4,986 CKM of transmission lines. The shortfall in achievement was mainly due to lack of proper planning, delay in land acquisition, right of way issues and delay in procurement of material.

Mismatch between generation capacity and transmission facilities

As on 31 March 2012, against the installed generation capacity of 6,943 MW of wind energy, the Company had the transmission facility for 4,997 MW only, indicating inadequacy in transmission facility to the extent of 1,946 MW. Consequently, the Company had to back down 559.03 Million Units (MUs) of wind energy power during the period 2007-08 to 2011-12.

Transmission capacity

As against the peak demand of 12,878 MVA as on 31 March 2012, available transformer capacity was 10,455 MVA only leaving a shortfall of 2,423 MVA. The Company failed to comply with the Tamil Nadu Electricity Regulatory Commission (TNERC) norm that the transformers should not be loaded with more than 70 per cent of their capacity.

Transmission losses

Transmission losses of the Company during the five years ended 2011-12 was much higher than the CEA norm of four per cent and ranged between 6.2 and 9.82 per cent. Transmission loss over and above the CEA norm during the period 2007-12 was 13,007 MUs. This loss is 44 per cent of the power shortage of the State during 2007-08 to 2011-12. TNERC observed that the Company had not furnished the accurate figures of T&D losses and was "fudging" the figures to keep the transmission loss constant.

Grid Management

The Company's track record in maintaining grid discipline by frequency management was poor as it resorted to overdrawal at low frequencies during the period 2007-12. This overdrawal led to avoidable extra expenditure of ₹515.49 crore and also put the grid safety at risk.

Financial Management

The erstwhile Board/Company did not file tariff petition and Aggregate Revenue Requirement (ARR) with TNERC for the years 2007-08 to 2009-10 and filed the same belatedly for 2010-11 and 2011-12. Due to this, the Company had to forego ₹815.59 crore towards revised transmission charges during 2010-11 and 2011-12.

Conclusion and recommendations

There were inordinate delays in establishment of sub stations resulting in the Company foregoing the benefit of reduction in line loss. Non-availability of transmission facility for evacuation of wind energy power led to backing down of 559.03 MUs of power during the period 2007-12.

The Company loaded its transformers to the extent of 85 to 90 per cent of their capacity against the TNERC norm that a transformer should not be loaded more than 70 per cent. Transmission losses were much higher than the norm of four per cent fixed by CEA in all the five years ended 31 March 2012. The quantum of transmission losses over and above the CEA norm was 13,007 MUs.

The Company's track record of grid discipline through frequency management was poor. The Company did not file Aggregate Revenue Requirement with TNERC for the three years 2007 -08 to 2009-10 and filed the same belatedly for 2010-11 and 2011-12 leading to revenue loss. We recommend to eliminate delays in commissioning of SS and transmission lines, create transmission facilities commensurate with the generation capacity, restrict transmission losses within CEA norms, maintain grid discipline and file ARR as prescribed by TNERC.

3 Transaction Audit Observations

Audit observations included in the Report highlight deficiencies in the management of Public Sector Undertakings with sizeable financial implications. Irregularities pointed out are the following:

Loss of ₹352.48 crore due to extension of undue benefits to a private handling agent, independent power producer and a power trader.

(Paragraphs 3.1, 3.8 and 3.10)

Loss of ₹27.42 crore due to non compliance with rules, directives, procedures and terms and conditions.

(Paragraphs 3.4, 3.6, 3.7, 3.9, 3.11, 3.12, and 3.13)

Blockage of funds of ₹4.29 crore due to defective planning and laxity in claiming the compensation.

(Paragraphs 3.2, 3.3 and 3.5)

Some of the important Audit observations are given below:

Tamil Nadu Newsprint and Papers Limited extended an undue benefit of ₹6.08 crore to handling agents in the import of coal in the payment of differential railway freight.

(Paragraph 3.1)

Tamil Nadu State Transport Corporations suffered interest loss of ₹2.53 crore on the investment of provident fund contributions in a known loss making company.

(Paragraph 3.2)

Tamil Nadu Minerals Limited, while quoting for supply of raw granite colour cut slabs to a private construction firm, failed to include the cost of raw granite blocks as approved by its Board resulting in revenue loss of ₹1.12 crore.

(Paragraph 3.4)

Tamil Nadu Generation and Distribution Corporation Limited

- Extended undue benefit of ₹331.54 crore to a private Independent Power Producer by making payment for cost of naptha used as a fuel in power generation on derived basis instead of restricting the same to actual consumption as per the Power Purchase Agreement.

(Paragraph 3.8)

- Extended an undue benefit of ₹14.86 crore to a power trader by its injudicious decision to delete retrospectively the compensation clause for failure to supply the contracted quantum of power.

  (Paragraph 3.10)

- Failed to restrict the payment of performance incentive for supply of coal as per the provisions of fuel supply agreement resulting in an excess payment of ₹2.17 crore.

  (Paragraph 3.11)