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 2013, the State of Tamil Nadu had 64 working PSUs (63 companies and one Statutory Corporation) and 13 non-working PSUs (all companies), which employed 2.80 lakh employees. The State PSUs registered a turnover of ₹ 70,673.64 crore as per their latest finalised accounts. This turnover was equal to 9.49 per cent of State's Gross Domestic Product indicating the important role played by State PSUs in the economy. The PSUs had accumulated losses of ₹ 38,233.61 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2013, the investment (capital and long term loans) in 77 PSUs was ₹ 83,235.55 crore. Power sector accounted for 92.23 per cent of total investment and Service sector 3.20 per cent in 2012-13. The Government contributed ₹ 13,917.89 crore towards equity, loans and grants/subsidies during 2012-13.

Performance of PSUs

As per latest finalised accounts, out of 64 working PSUs, 43 PSUs earned a profit of ₹ 615.29 crore and 19 PSUs incurred a loss of ₹ 14,232.03 crore. The major contributors to profit were State Industries Promotion Corporation of Tamil Nadu Limited (₹ 182.32 crore), Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹ 95.72 crore), Tamil Nadu Newsprint and Papers Limited (₹ 91.48 crore), Tamil Nadu Industrial Investment Corporation Limited (₹ 35.04 crore) and TIDEL Park Limited, Chennai (₹ 34.98 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 Generation and Distribution Corporation Limited (₹ 13,321.33 crore) and all the eight State Transport Corporations (₹ 856.52 crore).

Audit noticed various deficiencies in the functioning of PSUs. The Audit Reports of the CAG for the last three years (2010-2013) reflect losses to the extent of ₹ 3,282.85 crore and infructuous investments of ₹ 216.96 crore by State PSUs. This could have been controlled with better management. Thus, there is tremendous need and scope to improve the functioning and 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 2013, of which four accounts pertained to earlier years and the remaining were 2012-13 accounts. There were 13 non-working PSUs including two under liquidation. The Government may expedite closing down non-working companies for which closure/liquidation orders were already issued and for balance companies take appropriate action after exercising due diligence.

Quality of accounts

The quality of accounts of PSUs needs improvement. During the year, out of 64 accounts finalised, the Statutory Auditors of Government companies had given unqualified certificates for 34 accounts, qualified certificates for 29 accounts and disclaimer in respect of one account. There were 47 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

Performance Audit on the Augmentation of Thermal Generation Capacity of Tamil Nadu Generation and Distribution Corporation Limited

During XI Five Year Plan (2007-12), the State of Tamil Nadu planned capacity addition of 7,808 MW to meet the deficit of power. This included 3,270 MW of capacity addition by TANGEDCO of which 2,500 MW of power was proposed to be from four thermal projects. While the two thermal projects at North Chennai Thermal Power Station Stage-II (2 X 600 MW) (NCTPP) and Mettur Thermal Power Station Stage-III (1 X 600 MW) (MTPP) have already suffered time overrun of 24 to 31 months, the balance projects were either not taken up or abandoned midway. Consequently, the actual capacity addition of TANGEDCO by the end of March 2012 was only 112 MW which were from hydel and gas based power stations and increased to 712 MW due to completion of MTPP in October 2013. To assess the efficiency and effectiveness of implementation of thermal projects, a Performance Audit was taken up from April to August 2013.

Pre-implementation arrangements, planning and financial tie-ups

- *TANGEDCO did not formulate any pre-order criteria, for implementation of the projects by laying down activity-wise schedules for each pre-order activity and took 28 months for finalising investment approval after getting administrative approval for the projects.*
- *TANGEDCO obtained coal linkage for all the three units when their capacity was fixed as 500 MW each. After enhancement of capacity of the units to 600 MW each, it did not obtain the enhanced coal linkage from Ministry of Coal, Government of India implying that it would have to be dependent on imported coal for additional capacity of 100 MW each for these units.*

Cost estimation and project financing

- *TANGEDCO did not pass on the additional interest burden of ₹ 58.68 crore to BHEL as per the contractual terms.*
- *In respect of MTPP, arrangement of the project finance in two spells instead of in one spell led to avoidable interest burden of ₹33.16 crore.*
- *TANGEDCO could not avail interest rebate of ₹36.14 crore from Power Finance Corporation/Rural Electrification Corporation due to delay in completion of the projects.*

Award of contracts

- *Award of contract for Unit-I of NCTPP to BHEL under Engineering, Procurement, Construction -cum-Finance basis by TANGEDCO deviated from the guidelines of National Electricity Plan (NEP), 2007 which did not allow arrangement of financing packages from the manufacturers/suppliers as it could reduce competition among the bidders.*
- *TANGEDCO could not avail the benefits of Mega Power Projects due to award of NCTPP unit-II on nomination basis instead of under International Competitive Bidding (ICB) route as required.*

Project management

- *There were delays up to 718 days in approving the drawings furnished by the contractor of MTPP and delays of 12 and 22 months in furnishing the Project Authority Certificate and Essentiality Certificate respectively, in respect of NCTPP which was essential for importing the equipment required for the project.*
- *Ambiguity in tender specification regarding Railway siding led to stoppage of work from April 2010 to June 2012 and avoidable cost escalation of ₹3.71 crore.*
- *The guidelines of Ministry of Environment and Forests (MOEF) with regard to zero discharge outside the plant boundary were not adhered to.*
- *Incorrect choice of installation of semi-wet bottom ash handling system instead of dry system would result in loss of revenue of ₹14.15 crore per annum.*
- *Due to non-readiness of the ash handling system, the excessive usage of oil to generate steam led to additional expenditure of ₹63.71 crore.*

Supporting services

- *Construction of the third dedicated coal berth at Ennore Port was delayed and expected to be completed only in 2015-16. The present contingency plan to operate coal berth of a private firm would result in additional expenditure of ₹6.55 crore per annum.*

Non-adherence to pollution control requirement

- *Construction of intake sea water channel for NCTPP was completed without obtaining the required permission from Coastal Regulatory Zone (CRZ)/Pollution Control Authorities.*
- *Installation of Effluent Treatment Plant required for segregation of oil waste was not completed as prescribed by the Tamil Nadu Pollution Control Board (TNPCB).*

Conclusion

- ***Delay of more than two years in completion of these projects was due to (i) planning deficiencies such as not firming up the size of the projects and mode of execution, non-synchronisation of water facility, etc., and (ii) delays in implementation on account of delay in approval of drawings, issue of Project Authority Certificate/Essentiality Certificate and stoppage of work for more than two years due to incorrect tender specifications for railway siding etc. Delays in coal handling and ash handling systems were also noticed.***
- ***The project monitoring was deficient as dedicated project monitoring team was not constituted as envisaged and the project monitoring information system included in the scope of work of EPC contractors was not implemented till date (December 2013).***
- ***Despite delays in project execution, TANGEDCO did not fix the responsibility for the delays either at its end or on the EPC contractors.***
- ***Due to delay in completion of thermal projects with a capacity of 1,800 MW, the State was deprived of TANGEDCO's own generation to the extent of 22,557 Million Units. This resulted in purchase of power from other costlier sources.***

Recommendations

TANGEDCO should:

- ***have a plan for pre-order activities.***
- ***prepare accurate and realistic tender specifications.***
- ***comply with environmental norms for disposal of effluents.***
- ***expedite implementation of ash handling, coal handling and other supporting facilities for thermal projects and***
- ***continuously monitor the progress of projects to ensure timely completion.***

3 Compliance Audit Observations

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

Extension of undue benefit of ₹53.85 crore to three Information Technology (IT) companies, a private firm and contractors.

(Paragraphs 3.2 to 3.5)

Loss of ₹283.84 crore due to purchase of power by TANGEDCO at higher rates in contravention of the Government/Tamil Nadu Electricity Regulatory Commission's directives, incorrect interpretation of statutory provisions for effecting HT power supplies *etc*.

(Paragraphs 3.7 to 3.14)

Three State Transport Undertakings purchased On Board Units for tracking of buses without financial arrangement for their operation resulting in blocking up of investment of ₹1.95 crore.

(Paragraph 3.6)

Some of the important Audit observations are given below:

IT Specific Special Economic Zone ventures taken up by **Electronics Corporation of Tamil Nadu Limited** had deficiencies such as absence of feasibility studies and Detailed Project Reports, establishment of two SEZs in unsuitable location of mining and rocky areas. Further, two SEZs were formed in the same area without ascertaining market potential. Consequently, the Company could market only 37 *per cent* of the developed lands and 13 *per cent* of IT space to allottees after completion of six SEZs between March 2010 and May 2011.

(Paragraph 3.1)

State Industries Promotion Corporation of Tamil Nadu Limited extended unintended benefit of ₹43.27 crore by not adopting current market rates in the allotments made to three IT companies.

(Paragraph 3.2)

TIDEL Park Coimbatore Limited and TICEL Bio-Park Limited paid interest free mobilisation advance of ₹47.13 crore to private contractors in violation of Tamil Nadu Transparency in Tenders Act, 1998 and suffered interest loss of ₹4.35 crore.

(Paragraph 3.3)

Tamil Nadu Generation and Distribution Corporation Limited

Purchased power from a private trader at higher rates in contravention of the directives of the State Government and Tamil Nadu Electricity Regulatory Commission (TNERC) resulting in avoidable extra expenditure of ₹254.05 crore.

(Paragraph 3.7)

Failed to explore the coal mine allotted for two of its upcoming thermal projects resulting in de-allocation of the coal blocks and loss of ₹12.19 crore.

(Paragraph 3.8)

Failed to avail the entitled benefits of Clean Development Mechanism from the private power producers resulting in loss of revenue of ₹11.72 crore.

(Paragraph 3.9)