CHAPTER-III

CHAPTER-III

Compliance Audit Observations

Important Audit findings, noticed as a result of test check of transactions of the State Government companies are included in this Chapter.

3.1 Chartering of vessels by Poompuhar Shipping Corporation Limited

Introduction

3.1.1 Poompuhar Shipping Corporation Limited (PSC) acts as an agent of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) for organising ocean movement of indigenous coal required by the thermal stations of TANGEDCO from the loading ports at Paradip, Haldia and Vishakhapatnam to the discharge ports at Chennai and Tuticorin. The ocean movement is carried out by PSC's three own vessels and by hiring 6 to 14 vessels on charter basis. Apart from TANGEDCO, PSC started to extend coal movement services for NTPC – Tamil Nadu Energy Company Limited (NTECL)[77] from March 2012.

The details of coal discharged during 2012-13 to 2016-17 by own and chartered vessels for TANGEDCO and NTECL and the revenue earned thereon are given below:

Table 3.1.1: Movement of coal by PSC

(In lakh MT)

Sl. No.	Year	Coal movement for TANGEDCO	Coal movement for NTECL	Total revenue earned on coal movement (₹ crore)
1.	2012-13	122.89	5.16	537.37
2.	2013-14	130.25	19.86	658.61
3.	2014-15	138.33	23.21	619.18
4.	2015-16	159.02	32.99	547.72
5.	2016-17	125.44	43.92	N.A

(Source : MIS data of PSC)

[77] NTECL is a joint venture company of NTPC and TANGEDCO.

3.1.2 The performance of PSC relating to chartering of vessels was included as a Draft Paragraph in the Report of the Comptroller and Auditor General of India (Commercial) – Government of Tamil Nadu for the year ended 31 March 2010. Based on the findings of the Draft Paragraph, Committee on Public Undertakings (COPU) had recommended (July 2014) to PSC to adhere to the Transparency in Tender Rules for allowing adequate time for submission of bids and impose penalty as per the terms and conditions of charter agreement.

To assess the efficiency and economy of chartering of vessels and to evaluate the remedial actions taken by PSC based on the COPU's recommendations, a compliance audit on Chartering of vessels by PSC was taken up (between April and July 2017) covering the period from 2012-13 to 2016-17. The audit findings are discussed below:

Tender for chartering of vessels

3.1.3 PSC selects chartered vessels through tender on spot/time[78] basis and hires only geared vessels (vessels having crane facilities for unloading of coal) for operation at Tuticorin port as this port does not have shore crane facility. Whereas in Ennore port, shore crane facility is available in all the three coal berths and hence, vessels with crane facility is not required in this sector. The short comings noticed in tendering of vessels are discussed below:

Avoidable extra expenditure due to non-floating of tender

3.1.4 Based on the tender floated (December 2014), PSC entered (February 2015) into an agreement for hiring of MV Chennai Jayam, a vessel having crane facility and cargo carrying capacity of 41,349 MT at a hire rate of ₹ 5.30 lakh per day. The charter period of three years for this vessel commenced from February 2015. But, the vessel was withdrawn by its owner for condemnation on 14 May 2016 after providing an alternate vessel (MV Chennai Selvam), with effect from 7 June 2016, which had cargo carrying capacity of 52,158 MT for remaining charter period of the previous vessel. The charter hire rate of ₹ 4.83 lakh per day for MV Chennai Selvam was fixed based on the negotiations with the vessel owner. In this connection, we observed that:

- As per serial number 3(a) of Section II of Bid Qualification Requirement (BQR), the vessels which are more than 30 years old as on the date of completion of the charter period would not qualify for tender evaluation. But, MV Chennai Jayam, which was built in August 1983, was 32 ½ years old at the time of bid and hence, acceptance of MV Chennai Jayam by the tender committee was *ab initio* faulty as per BQR.
- As per Clause 25 of Section 7 of the agreement, the owner of the vessel was permitted to substitute another vessel of similar capacity and specifications only during temporary withdrawal of the existing vessel on account of minor repair, dry docking,[79] *etc*. But, MV Chennai Jayam was

[78] Spot charter denotes hiring of vessels upto three months and time charter denotes chartering for more than three months.

[79] Dry docking is an activity carried out for maintenance and repair of the vessel.

permanently withdrawn by its owner and hence, substitution by another vessel of different capacity was not possible. Therefore, PSC should not have accepted the alternate vessel. But the tender negotiation committee of PSC accepted MV Chennai Selvam as an alternate vessel with the operational cost of ₹ 347.67 per MT, which was more than the prevailing market rate of ₹ 301.75 per MT obtained through tender in May 2016, for a similar vessel. Thus, acceptance of the high operational cost of ₹ 347.67 per MT for MV Chennai Selvam resulted in an avoidable extra expenditure of ₹5.48 crore[80] during the charter period upto September 2017.

The Government replied (October 2017) that MV Chennai Selvam was accepted considering its capacity more than MV Chennai Jayam. The reply was not convincing because the vessel with similar capacity was available in the market at lower rates compared to the rates obtained through negotiations from the vessel owner. Hence, PSC should have selected alternate vessel only through tender and not by negotiation.

Additional extra expenditure due to non-consideration of Lowest offer

3.1.5 PSC invited (February 2016) tenders for chartering of a vessel for a period of three months (+)/(-) 10 days. The evaluated price quoted by MV Vishva Jyoti (a vessel without crane) at ₹ 132.92 per MT was the lowest (L-1) against the second lowest (L-2) rate of ₹ 164.93 per MT quoted by a vessel with crane facility (MV Chennai Selvam). However, PSC did not consider the L-1 offer and awarded the contract to L-2, considering its crane facility.

From the performance record of the geared vessel during its charter period, we noticed that the crane of MV Chennai Selvam was utilised for unloading of 31,110 MT of coal against the total discharge quantity of 1,06,281 MT in first two voyages. The vessel's crane facility was not at all utilised from the third voyage onwards, which commenced from April 2016 and the unloading was handled by the shore crane facility. This indicated that the vessel with crane was not necessary for unloading operation at Ennore and hence, award of contract to L-2 on the pretext of availability of crane facility in the vessel was unjustified, which resulted in incurring of additional cost of ₹ 1.01 crore.[81]

3.1.6 In two more charter agreements (26 February 2016 and 5 March 2016) for a charter period of six months in respect of MV Vishva Prerna and MV Nandini, the cranes of these vessels were utilised only to the extent of a meagre two *per cent* of the total discharge of 13.47 lakh MT of coal. Consequent upon the readiness of the shore crane facility in Ennore port from April 2016 onwards, the balance quantity of 98 *per cent* of the coal was unloaded only by shore crane facility. Thus, engagement of vessel with crane facility in Ennore port was faulty. As PSC had incurred cost per MT of ₹ 166.54 for MV Vishva Prerna and ₹ 161.30 per MT for MV Nandini against the cheaper hire charge of ₹ 132.92 per MT paid for MV Vishva Jyoti, a gearless vessel during the same period, engagement of high cost geared

80 Being the difference between ₹ 347.67 – ₹ 301.75 = ₹ 45.92 X 11,92,347 MTs of coal handled during the period from June 2016 to September 2017.

81 ₹ 164.93 – ₹ 132.92 = ₹ 32.01 per MT X 3,16,109 MT being the quantity unloaded.

vessels for Ennore sector had resulted in avoidable extra expenditure of ₹ 4.18 crore.[82]

The Government replied (October 2017) that if it had engaged a vessel without crane, it could have incurred a total expenditure of ₹ 180.53 per MT, *i.e.*, ₹ 47.61 per MT payable for shore crane and hire charges of ₹ 132.92 per MT for vessel without crane. It added that the above cost was more than the total expenditure of ₹ 161 to ₹ 167 per MT actually paid to the vessel with the crane facility. This reply is not acceptable as the Company even after engaging the vessel with the crane facility had only utilised the shore crane, thereby incurred total expenditure of ₹ 209 to ₹ 215 per MT (*i.e.*, ₹ 161 to ₹ 167 per MT payable to the vessel and ₹ 47.61 per MT payable for shore crane).

Unwarranted award of new contract before expiry of the existing contract

3.1.7 PSC chartered MV APJ Mahakali at a hire rate of ₹ 4.21 lakh per day from 2 November 2015 to 17 March 2017 with a provision to extend contract period by one month. But, the vessel was released on 17 March 2017 without exercising the option for extension and was re-engaged with effect from 20 March 2017 for a charter period of six months at the charter hire charge of ₹ 6.38 lakh per day. Prior to calling for the second tender, PSC had finalised four charter agreements for Ennore-Paradip sector for the period from January to March 2017 and in all the tenders, the cost per MT was higher than the rates obtained in November 2015. In view of the increasing trend in the market rate of the charter hire charges, non-availing the option for extension of the existing contract, which had a lower charter hire charges and engaging the same vessel through a new tender at the hire rate of ₹ 6.38 lakh per day was an imprudent decision. This resulted in avoidable extra expenditure of ₹ 65.10 lakh[83].

The Government replied (October 2017) that while the contract that expired on 17 March 2017 was for TANGEDCO, the new contract commenced on 20 March 2017 with the same vessel was on behalf of NTECL and hence, the option for extension was not considered. The reply was not convincing because in both the cases the charter agreement was between the vessel owner and PSC. Being the agent, PSC could have extended the charter period irrespective of the fact that the benefit was accruing to NTECL.

Deficiencies in contract management

Unwarranted diversion of vessels

3.1.8 The cost of operation of unloading coal at Tuticorin port was higher[84] than at Chennai Ennore port, as the charter hire charges of the vessels involves longer distance and the vessels are required to have crane for unloading at Ennore, the vessels do not require crane, as it is available in Ennore port itself

82 Differential rate per MT ₹ 33.62 X quantity unloaded 6,80,365 MT = ₹ 2.29 crore and differential rate per MT ₹ 28.38 X quantity unloaded 6,66,671 MT = ₹ 1.89 crore.

83 ₹ 6.38 lakh – ₹ 4.21 lakh = ₹ 2.17 lakh X 30 days.

84 Ranging between ₹ 92 and ₹ 261 per MT of coal during the period from February 2015 to March 2017.

for unloading of coal. Therefore, it would be prudent for PSC to operate vessel with crane facility only in Tuticorin sector instead of both in Tuticorin and Chennai sector. During the present audit, we noticed that on 21 occasions the vessels with crane facility were diverted to Chennai Ennore port citing the urgent requirement for coal in Ennore in view of the dwindling coal stock position at thermal stations of Chennai. These diversions had resulted in incurring additional cost of ₹ 19.26 crore. In this connection, audit observed that:

- Though the above diversions were stated to be on account of urgency, the verification of the coal stock at North Chennai Thermal Stations during the periods of diversion revealed that there was no substantial increase in stock position due to arrival of the diverted vessels as detailed in the graph in **Annexure-13.** Therefore, both TANGEDCO and PSC could have planned for operation of the vessels with crane facility only in Tuticorin instead of operating both at Ennore and Tuticorin, thereby avoiding the additional expenditure of ₹19.26 crore.

The Government replied (October 2017) that since diversions in the route was decided by TANGEDCO, the issue would be discussed with them to avoid unwarranted diversion in future.

Additional expenditure due to engagement of high cost vessel

3.1.9 Audit noticed that PSC had engaged (September 2012) one craned hopper self unloader vessel (MV Gem of Ennore) exclusively for operation in Chennai Ennore port at a hire charge of ₹ 15.15 lakh per day for a period of three years and nine months. The vessel was utilised in Chennai sector between November 2012 and July 2016. The Company justified engagement of the above vessel for Chennai Ennore port in view of the following:

- The self unloading crane facility was essential till the shore crane was installed in Coal Berth (CB)-2 as the shore cranes in CB-1 were fully occupied.
- The discharge rate of the self unloader was 2,600 MT per hour compared to the shore crane capacity of 2,000 MT per hour.
- In an emergency situation, the vessel could be diverted to Tuticorin port.

A review of the operational performance of the vessel revealed that the vessel had performed 112 voyages during the charter period and the vessel had unloaded coal in CB-2 only on 35 occasions and the balance discharges were made in CB-1 in which there was no requirement for operation of the self unloader of the vessel. Further, the self unloader of the vessel had achieved guaranteed discharge of 2,600 MT per hour only on two occasions. In balance 110 voyages, the average discharge rate of the self unloader was as follows:

Table 3.1.2: Discharge performance of MV Gem of Ennore

Sl.No.	Discharge rate per hour (In MT)	Number of voyages
1	525 – 1,000	4
2.	1,001 – 1,500	18
3.	1,501 -2,000	49
4.	2,001 -2,500	36
5.	2,501 – 2,600	3
6.	More than 2,600	2
	TOTAL	**112**

(Source : MIS data of PSC)

From the above, it could be seen that in 71 out of 110 voyages (64.55 *per cent*), the average discharge rate was below 2,000 MT per hour. This was due to (i) mismatch between carrying capacity of TANGEDCO's owned conveyor belt of 1,500 MT per hour and the discharge capacity of 2,600 MT per hour for the self unloaders and (ii) overstay of the vessel for 53 days in Ennore port due to problems/repairs in internal and external coal handling systems of TANGEDCO. These factors led to incurring of an avoidable extra expenditure of ₹ 10.29 crore.

MV Gem of Ennore was also paid extra cost amounting to ₹ 7.08 crore for consumption of bunker[85] in excess of the declared quantity by the vessel during tender. The above additional cost was also avoidable as the same was attributable to poor infrastructure of TANGEDCO as mentioned above.

The Government replied (October 2017) that after installation of gantry crane in CB-II, the vessel MV Gem of Ennore was operated in both CB-I and II in an optimum manner. Notwithstanding the stated optimum utilisation of MV Gem of Ennore in Ennore port, its operation had actually resulted in extra expenditure of ₹ 17.37 crore as detailed in the above paragraph, which was on account of mismatch between unloading discharge capacity of the vessel and the carrying capacity of conveyor belt and hence was avoidable.

Irregular admission of escalation in the charter hire charges during dry dock period

3.1.10 The vessel MV Gem of Ennore was on charter with PSC from November 2012 to July 2016. The charter hire charges payable for the first year was ₹ 15.15 lakh per day with eight *per cent* cumulative escalation[86] for the next four years. During 2013-14, the vessel was kept out of service for 85 days on account of dry docking. Since the vessel was not in operation during the dry dock period and was not entitled for any payment towards charter hire charges, this period was also to be not reckoned for allowing escalation for the subsequent years. But, the Company had not excluded the dry dock period for

[85] Bunker refers to Furnace Oil and High Flash High Speed Diesel used for sailing of the vessel.

[86] The escalated charter hire charges for the second year was ₹ 16.36 lakh, third year was ₹ 17.67 lakh, fourth year was ₹ 19.08 lakh and for fifth year ₹ 20.61 lakh per day.

reckoning the annual escalation of eight *per cent* on the charter hire charges applicable for the third year. This had a cumulative impact on the escalation in the subsequent years resulting in avoidable extra expenditure of ₹ 2.31 crore,[87] which ultimately resulted in undue benefit to the contractor.

The Government replied (October 2017) that as TANGEDCO had advised not to give any extension in charter period on account of dry docking, the dry dock period was not excluded for reckoning the annual escalation. The reply was not convincing because when the dry dock period was not considered for payment of hire charges, the same should also not be considered for allowing annual escalations in the charter hire charges.

Improper planning for berthing

3.1.11 PSC charters 12 to 13 vessels for TANGEDCO and three vessels for NTECL for carrying out continuous unloading operation at Chennai Ennore port. This causes congestion forcing the vessels to wait outside the port till such time the vessels already berthed have completed unloading of coal at CB-1 and CB-2. PSC has to pay charter hire charges and bunker charges during the vessel's waiting period before berthing, termed as pre-berthing charges. These pre-berthing charges could be minimised by prioritising the high cost vessel for berthing than that of the low cost vessel. Our scrutiny of the daily vessel position in Ennore port revealed that on eight occasions, PSC had given priority in berthing to low charter vessels compared to the high charter vessels, which resulted in avoidable pre-berthing charges to the extent of ₹ 60.33 lakh (**Annexure-14**).

The Government replied (October 2017) that since the berthing of vessels were decided by TANGEDCO/NTECL, the audit observations would be discussed with them to avoid such recurrences in future.

Avoidable payments/non-recovery

Excess payment for bunker

3.1.12 As per charter party agreement, PSC has to pay for the cost of fuel utilised for operating the vessel during the entire period of charter. When the vessels commences its first journey from the loading port, the reimbursement for the cost of fuel at the rates prevailing at the loading port for its journey from the loading port to unloading port and back is made based on the quantity specified in the tender. Audit scrutiny of reimbursement of the fuel charges by PSC between October 2014 and March 2017 in respect of 18 vessels revealed that the agreed quantity[88] of fuel was in excess of the actual quantity required (170 MT of FO and 14 MT of HFHSD oil for one round voyage) for the first journey to the extent of 1,618 MT of FO and 444.20 MT of HFHSD oil. Though the excess quantity was adjusted for subsequent voyages, still the excess payment as a result of higher rates of bunker at the loading ports

[87] Premature admission during third year: ₹ 1,30,900 X 85 days = ₹ 1,11,26,500. For fourth year: ₹ 1,41,300 X 85 days = ₹ 1,20,10,500. Total: ₹ 2,31,37,000.

[88] 250 to 300 MT of Furnace oil (FO) and 60 MT of High Flash High Speed Diesel (HFHSD) oil for Paradip to Ennore sector and 350 to 400 MT of FO and 100 MT of HFHSD oil for Paradip to Ennore/Tuticorin sector.

compared to the rates prevailing in Chennai Ennore port remained unadjusted permanently (excess cost ranged between ₹ 3,477 to ₹ 8,021 per MT of FO and ₹ 994 to ₹ 3,994 for HFHSD oil). The excess reimbursement of cost of fuel was worked out to ₹ 1.12 crore (being the differential rate between Paradip/Haldia port and Ennore/Tuticorin port for the excess quantity). This was continued in respect of three more chartered vessels, which performed their last journey and were redelivered at the loading ports. Consequently, PSC had made over payment to the extent of ₹ 0.28 crore in respect of these vessels.

The Government replied (October 2017) that the cost of bunker was to be reimbursed at the cost prevailing at the loading ports. Hence, the payments were in order. Since audit observation was about the excess quantity admitted over and above the quantity at the loading ports and not about the rates of reimbursement, the reply was not acceptable.

Loss due to non-payment of hire charges

3.1.13 PSC hired (4 September 2016) MV Sanvi for a charter period of nine months at a rate of ₹ 4.00 lakh per day (the cost worked out to ₹ 136.13 per MT). However, after completing 5 months and 25 days, the vessel was withdrawn (2 March 2017) by the owner citing non-payment of ₹ 2.02 crore of charter hire charges on the due dates. Consequently, PSC arranged for a substitute vessel MV APJ Mahakali at a charter hire charges of ₹ 6.37 lakh per day (which worked out to ₹ 181per MT) for six months commencing from 20 March 2017. In this connection, we observed that as per the charter agreement, the charter hire charges was required to be paid 30 days in advance. Moreover, the vessel owner of MV Sanvi had issued (9 February 2017) notice intimating the intention to withdraw the vessel in the event of non-payment of the overdue amount of hire charges. Thus, non-payment of charter hire charges even after receiving the withdrawal notice forced PSC to arrange for the substitute vessel at the cost of ₹ 181 per MT, which was higher by ₹ 44.87 per MT and resulted in avoidable additional expenditure of ₹ 2.51 crore. The verification by audit revealed that PSC was having a cash balance (during February 2017) of ₹ 3.00 crore received from NTECL for payment of hire charges to the vessel owner. Thus, non-payment of dues to MV Sanvi was not on account of cash constraint and was avoidable.

The Government replied (October 2017) that the vessel was withdrawn by its owner due to hire charges being high in the international market and not due to any payment issues. The reply was an afterthought because this was not mentioned as a reason for withdrawal of the vessel in the files examined by audit.

Short recovery of service charges from NTECL

3.1.14 As per the Memorandum of Understanding (MOU) executed (March 2012) between PSC and NTECL, the charges for transportation of coal was to be paid by NTECL at 5 *per cent* of the basic charter hire charges including all taxes thereon. A review of the collection of service charges revealed that NTECL paid service charges on net of the hire charges excluding the penalty recovered by PSC for delay in supply of vessels, consumption of excess fuel, *etc*., which was not in line with the terms of MOU mentioned above. The difference in service charges on this account worked out to ₹ 86.40 lakh during the period from April 2012 to December 2015. PSC was yet to work out the service charges for the years 2016 and 2017.

The Government replied (October 2017) that steps were being taken to recover the short fall amount from NTECL at the earliest.

Non-compliance with the COPU's recommendations

3.1.15 While discussing the Draft Paragraph on PSC relating to chartering of vessels (included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2010), COPU had recommended (July 2014) PSC to adhere to the stipulation made in Tamil Nadu Transparency in Tender Rules, 2000 (Tender Rules) for allowing adequate time for submission of bid and impose penalty for belated delivery of vessels. During the present audit, it was noticed that PSC did not comply with these recommendations resulting in continuation of the lapses already pointed out as detailed below:

- During 2012-13 to 2016-17, 33 out of 60 vessels were hired with short tender notice ranging from 4 to 22 days against the stipulated time limit of 30 days fixed as per Rule 20 (1) of Tender Rules, without any recorded reasons. We further noticed that in the above tenders, PSC invited bids also from global bidders by advertising through Lloyd List, London and spent ₹ 1.06 crore towards advertisement charges in the last three years upto March 2017. As these tenders were issued with short tender notices, it deprived the global bidders adequate time for participation, which resulted in wasteful expenditure of ₹ 1.06 crore.
- The constitution of the tender evaluation committee approved by the Board of Directors (BOD) from time to time stipulated that the said committee should include State Port Officer (SPO) as an independent member to offer advices for evaluation of technical and commercial bids. However, it was noticed that in 31 out of 33 tender committee meetings held between 2012 and 2017, the SPO was not present, which revealed that PSC failed to take corrective action as assured to COPU.
- As per Clause 37 (g) of the tender specification, the vessel owners shall deliver the chartered vessel within the mutually agreed lay day[89]. In case of non-delivery of the vessel within the lay day, the charterer has the right to claim damages at the charter hire rate stipulated in the agreement. The scrutiny of the records of delivery of vessels revealed that there were delays in delivery of vessels on 38 occasions during 2012-13 to 2016-17. PSC had recovered Liquidated Damages (LD) for delay in delivery of vessels amounting to ₹ 4.56 crore on nine occasions, but did not levy LD of ₹ 11.62 crore on the balance 29 occasions, which resulted in undue benefit to the vessel owners to that extent. The reasons for non-levy of LD were not found on record.

The Government replied (October 2017) that (i) the time frame for chartering

[89] The day stipulated in the charter agreement for delivery of the vessel.

of vessels was approved by its BOD, (ii) the SPO had been requested to participate in all future tender evaluation committee and (iii) the LD could be recovered only when the charter agreement had been terminated on account of delay in delivery of vessel. The reply was not convincing because notwithstanding the approval by the BOD, there were no recorded reasons for allowing short tender notices as prescribed in the tender rules. In case of delay in delivery of the vessels beyond lay days, PSC has two options either to levy LD or terminate the contract. But in respect of the cases mentioned above, PSC did not resort to either one of the options, thereby it allowed undue benefits to the vessel owners.

Conclusion

During our earlier and current audit, we noticed that there were repeated failures by PSC due to:

- Not allowing prescribed time for bidders to participate in the tender.
- Awarding contract to unqualified bidders.
- Instances of avoidable extra expenditure due to non-availing the option for extension of the contract, not considering L-1 offer, engagement/diversion of crane fitted vessels to Ennore sector without justification.
- Non-levy of LD for belated delivery of vessels.

The poor contract management by PSC led to an avoidable extra expenditure of ₹ 55.83 crore which was borne by TANGEDCO/NTECL, deprived a revenue of ₹ 12.48 crore due to non-levy of LD and non-collection of service charges from NTECL. The above instances revealed that PSC had not acted judiciously to safeguard the financial interest of TANGEDCO and NTECL. This was despite the cautions/recommendations by audit and COPU to streamline its systems. Thus, there is an urgent need to streamline the entire system of chartering of vessels.

3.2 Road projects implemented by Tamil Nadu Road Infrastructure Development Corporation

Introduction

3.2.1 Tamil Nadu Road Infrastructure Development Corporation (Company) was established in March 2005 to implement, upgrade and maintain the road infrastructure in the State of Tamil Nadu as per the directions of Government of Tamil Nadu (GoTN).

Between October 2006 and January 2016, the Company was entrusted with widening and improving the State Highway Roads as detailed below:

Table 3.2.1:Road projects of TNRIDC

Name of the Road	KMs	Type of conversion	Approved cost of Project (₹ in crore)
A. Oragadam Industrial Corridor Project			
(i) The project work includes four laning of 24 KMs in State Highway- (SH) 57 from Singaperumal Koil to Sriperumbudur and 33.40 KMs in SH-48 from Vandalur to Wallajabad	57.40	Four laning	300.00
(ii) The work includes six laning of 40.60 KMs out of 57.40 KMs in SH-57 and SH-48	40.60	Six laning	391.46
B. Madurai Ring Road (BOT)	27.20	Four laning	200.00
		Total	**891.46**

Formation of four lane in Oragadam Industrial Corridor Project (Oragadam project)[90], for a length of 57.40 KMs was approved by the Government in October 2006 at an estimated cost of ₹ 300 crore without mentioning the scheduled date of completion. The four lane work taken up under Phase-I was completed upto 95 *per cent* as on September 2017 at the revised cost of ₹ 612.82 crore. In addition, the Company obtained[91] Government's approval for conversion of 40.60 KMs of road (out of 57.40 KMs of four lane road) into six lane road at the estimated cost of ₹ 391.46 crore. The six lane work being executed under Phases-II to IV were under progress with financial progress of ₹ 293.96 crore. The physical progress of these works being 93 *per cent* for

[90] The widening of road between Singaperumalkoil – Sriperumpudur for a length of 24 KMs (State Highway (SH) -57) and between Vandalur – Walajabad Road for a length of 33.40 KMs (SH-48) would establish connection to Oragadam Industrial Park and would create access to National Highway (NH)-4 and 45.

[91] The Government approval for formation of six lane road was first obtained in March 2011 for a length of 12 KMs, the second approval for another 12 KMs was obtained in January 2015 and third approval for 16.6 KMs was obtained in January 2016.

Phase-II, 95 *per cent* for Phase-III and 58 *per cent* for Phase-IV, as on September 2017. The status of the contracts awarded for Phase-I to Phase-IV of Oragadam project are detailed in **Annexure-15**. The Madurai Ring Road project (Madurai project),[92] taken up for execution in February 2016 under Build, Operate and Transfer (BOT) is in the initial stages of implementation as only ₹ 1.41 crore has been incurred (September 2017) towards preliminary expenses.

As there were significant delays in execution of Oragadam project, the audit of contract management of the Oragadam project was taken up between May and August 2017 focusing on planning, award and execution of works. The audit was conducted based on the criteria contained in Government Orders, Rules and Regulations issued by the Highways Department, Indian Road Congress (IRC) standards, tender specifications and the contract agreement.

Audit findings

The audit findings are discussed below:

Planning

Project appraisal with incorrect projections

3.2.2 GoTN observed (September 2007) that there were huge cost escalations and inordinate delays in the road projects, which were attributed to non-availability of land. It therefore, directed the executing agencies to seek its administrative approval for the road projects only after ensuring the availability of the required land. The only exception to this direction was the road projects, which are considered urgent.

We noticed that the Detailed Project Reports (DPR) for Oragadam project was prepared (October 2007) by two consultants[93] in which the traffic was surveyed in February 2007 at (initial Average Daily Traffic/Peak Hour) 13,278/5,662 and 19,191/8,823 passenger car units (PCU) respectively in SH-57 and SH-48 which justified formation of six lane roads in the entire project stretch as per Indian Road Congress specification No. 106 of 1990. For execution of six lane roads, the DPR projected the requirement of additional land to the extent of 108.25 hectares over and above 31.78 hectares of land already available within the existing right of way as detailed below:

[92] This is a part of mega project for the development of expressway in the State and was proposed as a four lane road between Meenakshi Mission Hospital to Kappalur for a length of 27.20 KMs.

[93] For Singaperumal Koil – Sriperumpudur Road, the DPR was prepared by M/s Wilbursmith Associates (Private) Limited (Wilbursmith) and for Vandalur – Wallajabad Road, the DPR was prepared by M/s Sai Consulting Engineers (Private) Limited (Sai).

Table 3.2.2: Land requirement for road works

(In hectares)

Road work	Land available in the right of way	Land to be acquired			Grand Total
		Private land	Forest land	Total	
Four lane work for 57.40 KMs	31.78	34.97	20.81	55.78	87.56
Six lane work for 40.6 KMs	---	52.47	---	52.47	52.47
TOTAL	**31.78**	**87.44**	**20.81**	**108.25**	**140.03**

(Source : Data furnished by the Company)

Though there was additional requirement for land to the extent of 55.78 hectares for four lane formation, the Company proposed (November 2007) to the Government to carry out four lane works on the available (31.78 hectares) as a first phase due to urgency and fast development of industries in the vicinity of the project area.

In this connection, we observed that:

- The Company's proposal to form four lane road within the available land was incorrect as there was an additional requirement to acquire private land/use the forest land to the extent of 55.78 hectares for completion of Phase-I. Since DPR projected that the project could be completed in two years of its commencement (June 2008), the four lane works was expected to be completed in June 2010 as per DPR projection. But the acquisition of the private land and obtaining permission for usage of forest land became a main bottleneck for completion of the four lane roads, which resulted in overall delay of eight years in completion of the project. It is pertinent to mention that the four laning of Oragadam project was taken up citing urgency but the target date for completion was neither fixed by the Government nor indicated by the Company in its proposals, thereby vitiating the urgency.

- No annual targets were fixed for acquisition of private land/take over of the forest land to match with the milestones fixed for completion of road works by the contractors. This had resulted in rescinding of contract by two contractors of Phase-I citing non-availability of land for execution of work as detailed in Paragraph **3.2.6**.

The Government replied (October 2017) that Phase-I was taken up for execution in June 2008 with the expectation to provide land in a phased manner based on the progress of work. The reply confirmed the audit point that the project was commenced in June 2008 without availability of the required land and hence, was in violation of the stipulation of the Government's directions of September 2007.

Delay in acquisition of land

3.2.3 The related activities of land acquisition for formation of the road involved identification of the required land, issue of notification under Section

15 (1) of the Highways Act, 2001 by the Land Acquisition Officer, publication of Gazette notification under Section 15 (2) of the Highways Act and take possession of the land. As per the Standard Data Book of Public Works Department, a total of 325 days has been earmarked for completing the entire process of land acquisition. This standard duration of 325 days was also reiterated by the DPR consultant of Oragadam project.

Four/six lane of road project of Oragadam required acquisition of 87.44 hectares of private land. As the Company had initiated land acquisition work by preparing Land plan schedule in February 2008, the acquisition of land was required to be completed by January 2009 *i.e.*, within 325 days of identification of land for this work. Against this milestone, the progress made in acquisition of land is given in the following table:

Table 3.2.3: Progress of land acquisition

(In hectares)

Year	Total area required for		Total area acquired for		Balance to be acquired	
	Four lane	Six lane	Four lane	Six lane	Four lane	Six lane
2010-11	34.97	52.47	0.20	0.30	34.77	52.17
2011-12			14.97	22.45	19.80	29.72
2012-13			9.41	14.12	10.39	15.60
2013-14			0.14	0.22	10.24	15.38
2014-15			1.99	2.98	8.25	12.40
2015-16			3.06	4.60	5.19	7.80
2016-17			2.92	4.38	2.27	3.42
TOTAL			**32.69**	**49.05**		

(Source: Data furnished by the Company)

Even though contracts for four lane works were awarded simultaneously in June 2008, no progress was made in acquisition of the land upto the year 2010-11 and it was not 100 *per cent* even in the year 2016-17. The reasons for the delay in acquisition of the land and its impact on the cost of the project are discussed below:

- The Company prepared schedule for acquisition of land required for four/six lane work of the project involving 43 villages in February 2008. The land acquisition process was required to be completed by January 2009. Against this target, the Company approached the Government for formation of the land acquisition office only in January 2009. Further, 10 out of 13 post of Land Acquisition Officers sanctioned (June 2009) by the Government remained vacant till the year 2014-15, which resulted in slow progress in land acquisition as mentioned above.

The Government replied (October 2017) that the Revenue Department had taken appropriate action for acquisition of land for which the Company rendered all the necessary assistance. Notwithstanding the appropriate actions and the assistance by the Company, there was overall delay of eight years in acquisition of the land beyond the time limit of 325 days fixed by the

Government.

- The period of 325 days required for completion of the entire land acquisition process included 180 days for determination and payment of compensation to the private land owners after issue of notification for land acquisition. We noticed that in respect of 79.49 hectares of land (out of the total area of 87.44 hectares) for which award had been determined, there were delays ranging from 179 to 2,374 days in payment of compensation to the land owners. Consequently, the Company had to pay additional compensation of ₹ 41.22 crore (**Annexure-16**).
- In addition, the Highways Department of GOTN incurred expenditure of ₹ 91.56 lakh for maintenance of the roads and carrying out the repair works during the period from February 2012 to February 2016 in six stretches to the extent of 6.90 KM in four lane road works, which was not handed over to the contractor on account of delay in acquisition of the land. Had the land in these stretches been handed over to the contractor for execution of strengthening work, the expenditure incurred by the Highways Department could have been avoided.

The Government replied (October 2017) that the expenditure incurred by the Highways Department in the interest of public could not be treated as avoidable. The fact, however, remained that the expenditure was borne by the Highways Department only due to not handing over the land to the contractor, who had already been engaged in executing the road works in the same location.

Delay in takeover of forest land

3.2.4 The execution of four lane road involved takeover of 20.81 hectares of land from Forest Department. For takeover of this land, the Company had to hand over 41.62 hectares of land (two times of the land to be taken over) to the Forest Department to enable them to carry out afforestation in the alternate land. Audit noticed that the Company submitted (May 2008) proposal for takeover of the forest land and identified (November 2010) the alternate land to be handed over to the Forest Department. But the alternate land was actually handed over only in June 2014, *i.e.*, after a delay of four years from the date of identification, which was attributed to (i) submission of inadequate proposals by the Company for takeover of forest land resulting in return of the proposals by the Forest Department four times (August 2008, March 2009, October 2011 and September 2012) and (ii) delay in obtaining the Government's approval for handing over the alternate land to the Forest Department upto February 2014. Thus, the procedural delays mentioned above committed by the Company/Government led to the overall delay of six years in completion of the four lane works.

Tender evaluation

Award of contracts to ineligible contractors

3.2.5 The Phase-I of Oragadam project was split into four packages (excluding grade separator) and the tenders were called for in two parts for evaluation of the technical and financial capabilities of the bidders. The price bid would be opened for evaluation only when the bidders were qualified based on the technical eligibility criteria.

(i) Audit scrutiny of the evaluation of bids revealed that two tenderers *viz.*, M/s SDCEPL-PKM & Company – JV and M/s NAPC Limited, were not eligible to participate in the tender (March 2008) as detailed in the following table:

Table 3.2.4: Non-fulfillment of eligibility criteria for tender participation

Name of the Contractor	Estimated value (₹ in crore)	No. of bidders	Value of the contract (₹ in crore)	Pre-Qualification	
				Required	Fulfilled
SDCEPL-PKM & Co (JV) (Package-II/ Phase-I)	50.47	8	60.40	Each one of the JV partner should have fulfilled the conditions individually and executed similar work in the last five years for a value of ₹ 18.00 crore.	JV Partner had executed the works for a value of ₹ 12.40 crore
NAPC Limited, (Package-III/ Phase-I)	40.15	9	48.43	The contractor in the same name and style as prime contractor should have successfully completed atleast one contract within the last five years.	The bidder fulfilled the conditions only as sub-contractor and not as prime contractor.

Though these bidders did not fulfill the respective criteria of the tender, they were awarded works violating the tender conditions and the Tamil Nadu Transparency in Tender Act.

The Government replied (October 2017) that during execution of the work, the performance of the contractors was found satisfactory. The fact, however, remained that the contractors were *ab initio* ineligible for award of work as per the tender specifications. The subsequent satisfactory performance claimed by the Government would not absolve the irregular selection of the contractor.

Execution of contract

Failure to offer the prevailing market rate to existing contractor

3.2.6 The Company awarded (June 2008) contracts of Package-II and III of Phase-I work valued ₹ 61.00 crore and ₹ 54.83 crore to M/s SDCEPL-PKM & Co (JV) (SH-57) and M/s NAPC Limited (SH-48) respectively with scheduled completion by September 2009. As per the agreement, the entire stretches were to be handed over to the contractors within 15 days of signing the agreement. However, the Company could not hand over 2.05 KMs to M/s SDCEPL-PKM & Co (JV) and 1.38 KMs to M/s NAPC Limited, due to non-acquisition of the required land and their contracts were foreclosed (October 2013). After completing the land acquisition (May 2014) required for these stretches, these works were awarded to two new contractors at a higher rate as follows:

Table 3.2.5: Details of extra expenditure

(₹ in crore)

Sl. No	Description of the stretch of work	Package	Name of the new contractor	Estimated cost as per schedule of rates of 2013-14	Awarded value	Date of award	Difference
1	12/600-12/920 KMs and 13/865-15/600 KMs of SH-57	II (2.05 KMs)	Sunshine Infra Engineers India Private Limited	13.68	14.36	03.03.14	0.68
2	44/905-46/286 KMs of SH-48	III (1.38 KMs)	SPK & Co.,	12.40	13.02	16.07.14	0.62
Total							**1.30**

Audit observed that:

- Both contractors requested (June 2013) for foreclosure since they were not prepared to execute the pending works at the rates agreed in June 2008, as they were not getting the work front for carrying out the pending works. Therefore, it would have been a judicious decision to execute the work through the existing contractors at the current market price by recasting the value of the balance works based on the schedule of rates of 2013-14 instead of rescinding the contract and awarding the work to a new contractor at a cost higher than the current market price. The failure of the Company to exercise this option resulted in avoidable extra expenditure of ₹ 1.30 crore.

The Government replied (October 2017) that the Company could not execute the works through the same contractor, who had already refused to extend their contract period. The reply was not convincing because the contractors had refused to execute the balance work based on the schedule of rates of 2007-08 and not based on the current market rates.

Undue benefits to the contractor

3.2.7 As per rule 14 (3) (b) of Tamil Nadu Transparency in Tender Rules 2000, the Company has to obtain Performance Guarantee (PG) from the contractors only in the form of demand draft/bankers' cheque/specified small savings instruments. As per tender conditions, the quantum of PG to be obtained from the contractors was determined at 2.5 *per cent* of the contract value, which was to be retained for five years after completion of the road works. We noticed that in respect of eight contracts, the Company recovered PG of ₹ 5.60 crore from the running bills of the contractor and retained the same only for two years after completion of the work. For the remaining period of three years, it had returned back the retention money and obtained only an indemnity bond in lieu of the retention money. Thus, PG obtained from the contractors were retained only for two years, resulting in undue benefit to the contractors to the extent of ₹ 5.60 crore, besides failure to safeguard the financial interest of the Company.

The Government replied (October 2017) that as per the Government Order of November 1985, the indemnity bond was also an approved form of security. The reply was not convincing because this was not an approved form of security as per the Tender Act, 2000 and the Rules made there under issued in supersession of the earlier orders of the Government.

3.2.8 As per the terms of contract for Phase-I (four contracts) seigniorage fee[94] and cess was to be recovered from the running bills of the contractor and remitted to the Government. Our verification of these contracts revealed that a total of 12.15 lakh cum of earth material were used by these contractors from barrow pits for earth works for which an amount of ₹ 2.43 crore[95] of seigniorage fees was to be recovered from the contractors. However, no such recoveries were made from the bills of these contractors and remitted to the Government, which resulted in undue benefit to the contractor.

The Government replied (October 2017) that the Company was not responsible for recovering the seigniorage fees from the contractor. The reply was not acceptable as the Company was bound to recover the seigniorage fees from the contractor as per the clause of the agreement.

Avoidable extra expenditure due to excess provision for Dense Bituminous Macadam

3.2.9 As per IRC (81-1997/ para 7.4) specifications, the overlay thickness of 100 mm of Bituminous Macadam (BM) was equivalent to the thickness of 70 mm for usage of Dense Bituminous Macadam (DBM) or Asphaltic or Bituminous Concrete (BC), which was used as substitute of BM. Audit scrutiny of the estimates and payment particulars in respect of 23 stretches revealed the following:

- The Company provided excess DBM thickness during execution of the actual work due to incorrect estimation/wrong calculation of thickness of DBM. The total quantity of DBM to be provided including strengthening and widening for both the works as per estimate was worked out to 73,469.89 cum against the actual requirement of DBM in the work to the extent of 72,506.40 cum. This had resulted in excess usage of 963.49 cum of DBM material and avoidable additional expenditure of ₹ 50.32 lakh as detailed in **Annexure-17**.

The Government replied (October 2017) that the Company had adopted uniform thickness of binder course of 70 mm based on the technical consideration, but it did not attribute any reason for the errors in calculation pointed out by audit.

Wasteful expenditure

3.2.10 The four/six lane works in Oragadam project was executed in packages by a total of 15 contractors. Seven out of 15 contract agreements included a provision for supply of AC car[96] and drivers for ₹10.00 lakh for use by the Company. Accordingly, seven contractors had provided 10 AC cars along with drivers. The total value of the cars supplied by the contractors worked

94 The fees payable to the Government for removal of the earth material from the approved quarries of the Government.

95 Worked out at the rate of ₹ 20 per cum for usage of 12.15 lakh cum of earth material.

96 Each agreement provided for supply of AC car/cars for a value of ₹ 10 lakh during the agreement period.

out to ₹84.19 lakh, which formed part of the total project cost of each work.

In this connection, audit observed that the stipulation in the contract for supply of AC cars for each contract along with driver was contrary to the provisions of the contracts entered into by Highways Department of Government of Tamil Nadu, which did not provide for supply of cars and drivers by the contractors executing the road works. It is pertinent to note that the Company had engaged two supervision consultant for overseeing the road works of Oragadam project. As per the agreements with the supervision consultants, the transport facility for project site was to be arranged by the supervision consultant themselves. Moreover, the details of utilisation of the cars supplied by the contractor for project use was not kept on record. Thus, engagement of ten cars at a cost of ₹ 84.19 lakh was unwarranted and wasteful.

The Government replied (October 2017) that even if no provision for supply of car existed in the contract agreement, the cost of transportation would have been incurred by the Company separately and debited to the project account. The reply was not tenable in view of (i) the estimate prepared by the Company for the road works included provision for overhead charges at 8/10 *per cent* of the cost of the project, which includes provision for vehicle and (ii) the cost payable to the supervision consultant included element of transportation charges. Therefore, payment to the contractors for transport arrangement was unwarranted.

Execution of six lane project

3.2.11 As per projections made in the Detailed Project Report in December 2007, the Oragadam project had qualified for construction of six lane even at the first stage based on the traffic projections subject to acquisition of 87.44 hectares of private land and 20.81 hectares of Forest land. But, the Company obtained (February 2008) Government's approval for formation of four lane in the project area due to non-availability of the required land. In this connection, we observed the following:

The six lane work had been contemplated without completion of four laning work and prior to acquisition of requisite land in the respective stretches as follows:

Table 3.2.6: Status of four lane works

Phase	Length of the road taken up for six lane work (In KMs)	Month of submission of proposal for six lane work	Corresponding status of four lane work in the same stretch	Percentage of land acquisition completed at the time of proposal
II	12 (Package II)	January 2011	Four lane was completed in 7 KMs and the balance work was pending in 5 KMs for want of land.	NIL[97]
III	12 (Package I)	September 2014	Four lane was completed in 5.4 KMs and the balance work was pending in 6.6 KMs due to non-availability of land.	59
IV	16.6 (Package III)	October 2015	The work was completed for a length of 15.10 KMs and the balance work was pending.	71

Non-completion of four lane work in the balance stretches mentioned above was mainly due to problems faced in acquisition of land. However, at the time of proposing (January 2011) for conversion of these four lane roads into six lane for a length of 12 KMs, the Company stated that the land acquisition process would be completed in a month's time. In other two stretches, it did not discuss about the problems faced in acquisition of the land. Thus, the proposal to the Government for six lane work was also made, disregarding the Government directions to take up the project only after ensuring the availability of the land. This failure resulted in time overrun ranging from 9 to 26 months in completion of 27.50 out of 40.60 KMs of six lane works. However, the cost overrun of the six lane work was not quantifiable as on date (October 2017) as the works were still ongoing.

(i) Audit further noticed that the design life of four lane work was 10/15 years as per the projections of DPR. Due to taking up of six lane work before the expiry of designed life of four lane, some portions of the four lane work were overlaid/corrected resulting in avoidable extra expenditure as detailed below:

The estimates prepared for widening of four laning to six laning work provided for 16,693 cum of Dense Bituminous Macadam (DBM), 18,577.68 cum of Bituminous Coarse (BC) and 4,64,442 sq. mts of Tack coat for the stretches, which were already laid by the earlier contractors under Phase-I as part of strengthening/providing overlay of the existing four lane. In this connection, audit observed that the execution of DBM and BC works for full width of existing four lane roads for the second time with the preceding tack coat was unwarranted as these roads were newly constructed with the design life period of 10/15 years. As per the clauses of contract agreement entered into with the contractors, who executed the four lane roads in the same stretches, any defects/corrections on these four lane roads within the defect liability period were to be carried out only by the erstwhile contractors. Thus,

[97] NIL denotes no land was acquired for six lane work in January 2011.

the relaying of DBM/BC/tack coat on these stretches was neither warranted nor to be carried out by the new contractors executing the six lane work in these stretches. This resulted in avoidable expenditure of ₹ 28.30 crore as detailed in **Annexure-18**.

The Government replied (October 2017) that whenever road widening work was taken up, it was mandatory to lay BC in the existing roads to ensure uniform riding comfort. The reply was not tenable because it was not mandatory to relay the BC as per Indian Road Congress specifications.

(ii) The Company constructed (June 2013) depressed median[98] at a cost of ₹ 1.32 crore in Package-III of Phase-I during four laning. When the six lane of the same stretch was taken up, the depressed median was demolished and an elevated median at a cost of ₹ 7.50 crore was being constructed. In this connection, we observed that IRC had not specified about the type of median to be constructed and insisted (para 6.2.7 of IRC 86-1983) only for construction of median in roads of four lane and above category, irrespective of the classification of roads. Further, we noticed that the DPR consultant had suggested (October 2007) construction of "elevated median" for four laning itself. Therefore, the decision to construct depressed median during execution of four lane work and its demolition during six laning of work within three years of its construction was unwarranted resulting in wasteful expenditure of ₹ 1.31 crore.

The Government replied (October 2017) that the replacement of median was based on the safety consideration. If only the Company had constructed an elevated median considering the safety of public at the first instance itself, the necessity for the demolition of the existing median would not have arisen at the second stage.

Non-adoption of uniform rates for same work

3.2.12 The work of six laning for 12 KMs of Phase-III was divided into two packages of six KMs each and awarded (June 2015) to two contractors *viz.*, M/s Sunshine Infra Engineers India Private Limited (Sunshine) and M/s SPK & Co. The work awarded to Sunshine for a total value of ₹ 88.43 crore included six lane work for a value of ₹ 65.79 crore and execution of balance of four laning in the same stretch for a total length of 2.6 KMs. Our scrutiny of the awarded rates for four lane and six lane works revealed that two different rates were awarded for same items of works resulting in extra expenditure of ₹ 46.75 lakh **(Annexure-19)**. Had the Company properly negotiated with the contractor and insisted for adoption of uniform rates for same item of works, the dichotomy in rates could have been avoided.

The Government replied (October 2017) that adoption of different rates was on account of variation in the percentage of overhead charges for these two works. The fact, however, remained that though the estimates for these works were prepared separately, the works were combined together and awarded as a single work to the same contractor. Therefore, adoption of two different rates for the same item of work within the same contract was not justified on any grounds.

98 Depressed Median means median with low height.

Conclusion

The widening of the Oragadam Project Road into four lane for a length of 57.40 KMs was approved by the Government at a cost of ₹ 300 crore as early as in October 2006 and commenced in June 2008 was not completed till date (October 2017). In the meantime, the cost was revised thrice, the latest one to ₹ 612.82 crore. The undue delay in execution of the project was mainly due to deficiencies in planning:

- Execution of project without ensuring availability of land as directed by the Government.
- Frequent foreclosure/termination of contract by not providing work fronts to the contractors and poor performance of the contractors.

Besides planning deficiencies, poor contract management in the form of award of contract to ineligible contractors, avoidable extra expenditure, undue favour were noticed.

While the Company was unable to complete the Phase-I of the project, it hurriedly took up execution of six lane work under the same project area. This deficiency/lapse resulted in avoidable extra expenditure in the four/six lane works of the project to the extent of ₹82.89 crore.

3.3 Implementation of Tamil Nadu State Rural Livelihood Mission by Tamil Nadu Corporation for Development of Women Limited

Introduction

3.3.1 The Tamil Nadu Corporation for Development of Women Limited (TNCDW), established in 1983 under Rural Development and Panchayat Raj Department of Government of Tamil Nadu (GoTN), was responsible for implementing various schemes meant for women Self Help Groups[99] (SHGs) in the State. Government of India (GoI) restructured (October 2010) Swarnajayanti Gram Swarozgar Yojana (SGSY) as National Rural Livelihood Mission (NRLM) to be implemented by States over a period of five to seven years. In Tamil Nadu, GoTN implemented NRLM in the name of Tamil Nadu State Rural Livelihood Mission (TNSRLM) and for this, nominated (December 2010) TNCDW as the implementing agency. Implementation of the scheme commenced in April 2012. The Mission envisaged reaching out to all rural poor families and linking them to sustainable livelihood opportunities and nurture them till they come out of poverty by enabling the poor households access institutional credit. TNSRLM activities were funded by GoI and GoTN in the ratio of 75:25 upto 2014-15 and 60:40 from 2015-16 onwards. TNSRLM was implemented in 265 Blocks in 31 districts of the State except Chennai (which is an urban district); this includes 16 Blocks in

[99] Self Help Group is a voluntary association of poor women formed into a group of 10 to 12 women.

four[100] districts where TNSRLM was implemented as World Bank assisted National Rural Livelihood Project.

The Principal Secretary to GoTN, Rural Development and Panchayat Raj Department is the overall head at Government level. TNCDW is the State Mission Management Unit (SMMU) at the State level, supported by District Mission Management Unit (DMMU) at the district level and Block Mission Management Units (BMMU) at Block level. Implementation structures were created in the form of Village Poverty Reduction Committee (VPRC), headed by Village Panchayat President with representation from beneficiaries and Panchayat Level Federation, formed in each village comprising of membership from SHGs.

The audit of implementation of TNSRLM was conducted during May - August 2017 covering the period from 2014-15 to 2016-17 with a view to assess whether funds were released in time, expenditure conformed to norms and benefits were given as envisaged.

Audit test checked the records of TNCDW, DMMUs in five districts[101] selected on random sampling basis, covering 25 out of 40 Blocks in the five districts and two Blocks (Thanjavur and Udhagamandalam) out of eight National Rural Livelihood Project Blocks in Thanjavur and The Nilgiris Districts.

Financial performance

3.3.2 The details of allocation, receipt of funds and expenditure for TNSRLM during the period 2014-17 is given in **Table 3.3.1.**

Table 3.3.1: Allocation, release and expenditure under TNSRLM

(₹ in crore)

Year	Opening Balance	Allocation as per Annual Action Plan			Receipt			Expenditure	Closing Balance
		GoI share	GoTN share	Total	GoI share	GoTN share	Total		
2014-15	249.27	112.77	37.59	150.36	33.61	11.20	44.81	216.04	78.04
2015-16	78.04	48.19	32.13	80.32	39.74	89.78*	129.52	99.82	107.74
2016-17#	107.74	69.48	46.32	115.80	43.98	35.77	79.75	118.48	69.01
Total		230.44	116.04	346.48	117.33	136.75	254.08	434.34	

* Includes unspent SGSY fund balance of ₹ 69.74 crore utilised for TNSRLM activities; hence, the actual release by GoTN for the three years was ₹ 67.01 crore.

unaudited figures

(Source: For Opening Balance: Worked out by Audit; for other figures: Government Orders and details furnished by TNCDW)

100 Erode, Thanjavur, The Nilgiris and Tiruchirappalli.

101 Ariyalur, Thanjavur, The Nilgiris, Thoothukudi and Villupuram.

Audit findings

Audit findings are given in succeeding paragraphs.

Planning

Non-completion of baseline study

3.3.3 On the basis of advice (November 2014) of GoI and in order to assess the livelihood of the rural poor in both Mission and non-Mission areas at the baseline, TNCDW entrusted (7 September 2015) the baseline study work to a consultant at a cost of ₹ 35.90 lakh and to submit the report within six months' time. However, the consultant submitted the report on 5 December 2016, which was forwarded to National Mission Management Unit (NMMU), Ministry of Rural Development of GoI. NMMU stated (March 2017) that the report did not contain verifiable data, analysis and discussion on methodology and declined to accept it in the present form. TNCDW paid (July 2016 and November 2016) ₹ 14.45 lakh to the consultant. Due to non-follow up by TNCDW since the entrustment of work, there was delay of nine months in receipt of the report and also there were deficiencies in quality aspects pointed out (March 2017) by NMMU. NMMU requested TNCDW to advise the consultant to re-examine the data collected, to a meaningful analysis and present the report using the template therefor. TNCDW forwarded (August 2017) the consultant's revised and final baseline study report to NMMU, the reply of which was awaited (September 2017).

Thus, the TNCDW had not completed the baseline study, which should have been done at the beginning of the Mission period, due to which the livelihood of the rural poor could not be assessed.

Financial management

Non-payment of interest for delayed release of funds

3.3.4 GoI stipulated in its fund release orders that the State Government must transfer the funds along with State share to SMMU within three days of receipt and delay, if any, would attract interest at the rate of 12 *per cent per annum*. However, GoTN released the GoI funds during 2014-17 to TNCDW with delays ranging from five to 82 days for which it did not pay interest to the tune of ₹ 1.15 crore **(Annexure-20)**.

Unspent SGSY Funds

3.3.5 TNSRLM was implemented with effect from April 2012 in place of SGSY. Hence, TNCDW directed (July 2012) the DMMUs to return unspent SGSY funds available with them. GoI instructed (June 2013) that the balance funds available under SGSY should be recouped to TNSRLM for adjustment against releases under NRLM. Taking into account the funds received (₹ 5.94 crore) from DMMUs, TNCDW submitted (March 2014) a closure report for SGSY stating that the amount of ₹ 5.94 crore had been transferred to TNSRLM account and the same was adjusted against NRLM while releasing funds for 2012-13. However, after sending the closure report to GoI, TNCDW identified (June/September 2015) availability of ₹ 69.74 crore as unspent SGSY funds. GoTN ordered (February 2016) for utilising the amount of ₹ 69.74 crore for TNSRLM. In addition to the above funds, TNCDW had (March 2017) unspent SGSY funds of ₹ 25.42 crore in another bank account. However, TNCDW did not intimate GoTN about availability of this amount. Further, TNCDW did not send to GoI a revised closure report for SGSY stating the actual amount as ₹ 101.10 crore.[102]

Expenditure in excess of ceiling

3.3.6 GoI guidelines (August 2013) for NRLM prescribed ceiling for expenditure on various NRLM activities, which *inter alia*, included ₹ 6 lakh *per annum* for salary to the Heads of DMMUs and ₹ 2 lakh per Block Mission Management Unit for purchase of furniture and equipment. However, during 2014-17, sampled DMMUs exceeded the limit by ₹ 25.38 lakh on salary component and by ₹ 7.40 crore in purchase of furniture and equipment as detailed in **Table 3.3.2.**

Table 3.3.2: Expenditure in excess of ceiling

(₹ in lakh)

District	Permissible amount		Actual expenditure		Excess expenditure	
	Salary for Head of DMMU (A)	Furniture and equipment (B)	(A)	(B)	(A)	(B)
Ariyalur	18.00	4.00	26.65	43.92	8.65	39.92
Thanjavur	18.00	28.00	22.92	242.90	4.92	214.90
The Nilgiris	18.00	8.00	22.01	49.60	4.01	41.60
Thoothukudi	18.00	14.00	22.70	67.78	4.70	53.78
Villupuram	18.00	34.00	21.10	424.28	3.10	390.28
Total					**25.38**	**740.48 or 7.40 crore**

Due to expenditure on the above heads exceeding the limit prescribed, extending of benefits to the scheme beneficiaries was correspondingly reduced.

Implementation

3.3.7 TNSRLM provides financial assistance to SHGs in the form of Revolving Fund and Community Investment Fund to strengthen their financial management capacity and attract mainstream banks to finance the SHGs.

102 ₹ 5.94 crore + ₹ 69.74 crore + ₹ 25.42 crore = ₹ 101.10 crore.

Non-release of assistance from Revolving Fund

3.3.8 To strengthen the institutional and financial management capacity of the SHGs and build a good credit history within the group, the concept of Revolving Fund was envisaged. TNSRLM would provide Revolving Fund ranging from ₹ 10,000 to ₹ 15,000 to each SHG which was in existence for a minimum period of three/six months. During 2014-17, DMMUs released Revolving Fund amounting to ₹ 29.58 crore to 19,783 SHGs; DMMUs of the five sample districts released ₹ 12.96 crore (at ₹ 15,000 per SHG) to 8,643 SHGs out of 8,914 SHGs.

Further, in the entire State, despite availability of funds, TNCDW did not release Revolving Fund amounting to ₹ 5.10 crore (at ₹ 15,000 per SHG) for 3,403 SHGs covered under Phase-III of TNSRLM which was started in 2014-15. Reasons for non-release of funds were neither available in records nor furnished to Audit. As a result, the envisaged objective of building the financial management capacity of members of SHGs and their joining the mainstream financial inclusion was lost.

Interest subvention scheme

3.3.9 As a part of strategy for financial inclusion of rural poor, a scheme of interest subvention was evolved to ensure that desired amount of credit was available at affordable price and at convenient repayment terms. At the same time to encourage timely repayments, the benefit of interest subvention was available for the SHGs, which were prompt in repayment of loan. Under the scheme, interest in excess of seven *per cent per annum* was reimbursed to the eligible NRLM-compliant[103] SHGs.

National Resource Organisation would obtain details of loans and repayments of SHGs which were prompt in repayment as dump data directly from the Core Banking Solution platform and calculate the amount of interest subvention. SMMUs were to download the dump data, mark therein the NRLM-compliant SHGs through DMMUs who will return the eligibility report for marked SHGs to SMMUs for release of interest subvention amount. SMMU would disburse the interest subvention directly to the SHGs' bank accounts through an identified nodal bank by National Electronic Funds Transfer.

Omission to ascertain compliance status of SHGs

(i) On a scrutiny of the data uploaded in NRLM portal on implementation of the interest subvention scheme, Audit noticed (April 2017) that out of 5.56 lakh SHGs which availed loans from banks, the NRLM compliant status of 3.19 lakh SHGs (57.37 *per cent*) was not ascertained. In the five sample districts, out of 51,089 SHGs, which availed loans from banks, NRLM compliant status of 34,067 SHGs (66.68 *per cent*) was not ascertained by the respective DMMUs.

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103 Women SHGs having 70 *per cent* or more members from BPL households or poor households identified through participatory process and ratified by Grama Sabha.

Due to non-ascertaining of the NRLM compliant status of the SHGs, those eligible SHGs amongst them were denied the benefit of interest subvention.

Non-release of interest subvention benefit

(ii) During 2014-17, TNCDW transferred ₹ 15.94 crore to a nodal bank for release of interest subvention benefit to 79,543 SHGs. Out of this, the nodal bank did not release ₹ 73.14 lakh to 5,543 SHGs due to reasons such as closure of loan account, invalid account number/IFSC code and name mismatch. TNCDW did not make efforts to ensure that the amount reached 5,543 SHGs. In four sample districts *viz.*, Ariyalur, Thanjavur, The Nilgiris and Thoothukudi, out of ₹ 62.41 lakh transferred to nodal bank for 3,222 SHGs, the nodal bank could not release ₹ 4.23 lakh to 458 SHGs.

Lack of action for insurance of life, health and assets

3.3.10 As vulnerability reduction is an important element of the Mission, NRLM envisaged insulation of the beneficiaries from loss of life, health and assets. To achieve this, the Framework required TNCDW to (i) work with insurance companies to ensure coverage of micro insurance services, particularly to cover life, health and asset risks of the poor and vulnerable households, (ii) create a special fund out of the capital subsidy fund of VPRCs to provide small grants to the poorest like destitute, old, infirm and disabled for meeting emergency expenditure including health insurance and (iii) arrange convergence with GoI's insurance programmes like Aam Admi Bima Yojana and Rashtriya Swasthya Bima Yojana.

Under TNSRLM, 32,963 SHGs had been formed till March 2017 covering 4.34 lakh persons. However, TNCDW did not initiate any action on the subjects mentioned above. Thus, the intended benefit was not extended to the targeted members of SHGs.

Monitoring

3.3.11 To monitor and guide the implementation of NRLM in Tamil Nadu, GoTN constituted (December 2010) a High Level Empowered Committee at State-level headed by Minister for Rural Development (substituted in January 2013 with Minister for Municipal Administration and Rural Development). With GoTN not having fixed periodicity for the Committee's meetings, only three meetings were held since its constitution, *viz.*, February 2013, August 2013 and January 2015. Therefore, there was no high level guidance on the implementation as well as monitoring of the scheme.

Conclusion

Audit of implementation of Tamil Nadu State Rural Livelihood Mission by Tamil Nadu Corporation for Development of Women Limited during 2014-17 revealed (i) non-completion of baseline study even after spending ₹ 434.34 crore on the Mission-related activities till March 2017, (ii) Government of Tamil Nadu (GoTN) not paying ₹ 1.15 crore as interest for belated release of Government of India (GoI) funds, (iii) TNCDW not informing about availability of Swarnajayanti Gram Swarozgar Yojana funds to the extent of ₹ 69.74 crore to GoI and ₹ 25.42 crore (which should have been taken as

Mission funds) to both GoI and GoTN and (iv) sample districts spending ₹7.65 crore in excess of ceiling for salaries and furniture/equipment.

Audit further revealed (i) non-release of ₹ 5.10 crore to SHGs under Revolving Fund and (ii) non-ascertaining of NRLM compliant status of 3.19 lakh SHGs (57.37 *per cent* of total) in the State under Interest Subvention scheme resulting in denial of scheme benefits to those eligible amongst them. There was no action by TNCDW regarding coverage of insurance of health, life and assets. The High Level Empowered Committee at State-level met only thrice since its constitution in 2010.

The matter was referred to Government in October 2017; reply has not been received (November 2017).

Electronics Corporation of Tamil Nadu Limited

3.4 Avoidable expenditure

Delay of ten years in execution of flood management works led to hardship to the public and avoidable cost escalation of ₹28.15 crore to the Company

The Government of Tamil Nadu (GoTN) alienated (July 2005) 377 acres of land at Shollinganallur, at outskirts of Chennai to the Electronics Corporation of Tamil Nadu Limited (Company) for establishment of a Special Economic Zone (SEZ) under the name "Knowledge Industry Township". The said land was contiguous to the marsh land at Pallikaranai and served as flood plain to drain water into the Buckingham canal during monsoon periods as per the records of the State Revenue Department. Therefore, the Company requested (February 2007) Chennai Metropolitan Development Authority (CMDA) for reclassification of the land into "light industrial area" to enable it to use the land for establishment of SEZ. The State Public Works Department (PWD), which was consulted (May 2007) by CMDA for such reclassification recommended (November 2007) for reclassification subject to the Company taking up the following flood management works under its direct supervision.

(i) Construction of 74 metre long and 40 metre width bridge across the Shollinganallur-Medvakkam Road and storm water drainage for a width of 10 metres on both sides of the above road.

(ii) Construction of drainage channels on the eastern and western sides of the road abutting the SEZ area.

The Water Resource Department of PWD prepared an estimate for an amount of ₹ 13.18 crore for the above works and requested (April 2008) the Company to deposit the amount to enable it to take up these works. Pending deposit of the amount by the Company, CMDA approved (December 2008) the layout for construction of SEZ. However, the Company did not deposit the above amount to enable construction of drainage works. As the comprehensive flood management works were being delayed due to non-deposit of funds by the Company, the Highways Department submitted (May 2009) an estimate of ₹ 1.00 crore to construct three culverts as an immediate relief for easing out the flow of water. The Company deposited (August 2009) ₹ 1.00 crore to Highways Department for construction of three culverts and also executed (March 2010) a storm water drainage channel for a length of 1,530 metres at a cost of ₹ 1.28 crore through its own contractor without PWD's involvement.

The High Court of Madras, based on a Public Interest Litigation in 2008, passed an interim order (October 2009) as well as a final order (September 2015) directing the Company to carry out the entire flood management works in a comprehensive manner by August 2016. Accordingly, PWD proposed construction of bridge/culverts in Medavakkam – Shollinganallur road at the revised estimated cost of ₹ 19.10 crore. Besides these works, PWD identified (November 2015) flood mitigation plan at a cost of ₹ 22.13 crore to be executed in two phases. For execution of these works, the Company had deposited (November 2016) ₹ 9.90 crore.

In this connection, Audit observed that:

- PWD adequately cautioned about the possibility of flood due to reclassification of the area and therefore suggested the necessity to execute flood management works in a comprehensive manner. However, the Company failed to comply with the conditions of approval and executed the flood management works only in piecemeal. This was despite the interventions of the High Court in 2008 and 2015. Though these works were to be completed before August 2016 as per directions of High Court, the Company continued to be slow in executing these works as it was neither aware of the present status of Phase-I works nor urged PWD to take up the Phase-II works expeditiously. Thus, the mandate to execute the flood control measures was not given the due importance by the Company.

- Due to non-execution of these works in initial stages upto 2009 at a cost of ₹ 13.18 crore (₹ 9.18 crore for construction of channel works and ₹ 4.00 crore for construction of bridge), the Company is facing the liability to spend ₹ 41.23 crore on these works, resulting in avoidable cost escalation of ₹ 28.15 crore.

The Government replied (October 2017) that there were changes in the technical and financial proposals submitted by PWD for flood management works at the first stage and the present ongoing works. Therefore, the differential cost on account of change in scope could not be considered as additional expenditure to it. The reply was not convincing because the increase in scope of the work as well as the expenditure was due to abnormal delay of 10 years in executing the flood mitigation work in a comprehensive manner as prescribed by PWD for conversion of the marsh land into an "Industrial area" and hence, the same was avoidable.

State Transport Corporations

3.5 Delay in putting the vehicles on road

Delay in utilising the new buses on road resulted in avoidable interest loss of ₹ 10.29 crore and excess fuel cost of ₹ 3.94 crore

In Tamil Nadu, there are eight State Transport Undertakings (STUs) providing inter-State and intra-State bus services through the collective fleet strength of 20,839 buses (March 2016). During the period from 2012-16, the STUs procured 4,606 chassis at a total cost of ₹ 891.41 crore[104] from M/s Ashok Leyland and M/s Tata Motors Limited (suppliers). The bus body building on these chassis were carried out either in-house or by outsourcing and the buses were put on road between June 2012 and March 2017. For purchase of chassis, the suppliers allow a credit period of 90 days and the STUs avail an average lead time of 50 days for construction of bus body on the chassis.

As interest on loan for procurement of chassis as well as body building cost could be recovered only by operation of these buses on road, it is imperative for the STUs to put all the new buses on road as early as possible. Moreover, the new buses are fuel efficient and therefore operation of new buses immediately after completion of bus body work, as the replacement of overaged buses would result in savings in cost of diesel consumption. A test check of records pertaining to purchase of chassis and time taken by all STUs for putting the buses on road during the five years period ending March 2017 revealed that out of 4,357 buses, 2,020 buses (46.36 *per cent*) were actually put on road after a delay of more than 90 days from the date of their purchases as detailed below:

Table 3.5 Delay in putting the new buses on road

Sl.No.	Delay more than 90 days	Number of buses involved
1.	91 to 100 days	280
2.	101 to 200 days	1,184
3.	201 to 300 days	334
4.	301 to 400 days	74
5.	401 to 500 days	92
6.	More than 500 days	56
	TOTAL	**2,020**

A further analysis of the delay by all STUs revealed that:

- The construction of bus body on 2,020 chassis were completed and were ready for registration with Regional Transport Office. But, these buses were kept idle without any commercial use.

104 This cost represents the cost of purchase of 4,357 buses put on road and for the remaining 249 buses, the total cost details are awaited from STUs.

- The financial assistance given by Tamil Nadu Transport Development and Finance Corporation Limited (TDFC)[105] and the Government (which is routed through TDFC) is converted into loan by TDFC on the 91st day after the end of the supplier's credit period and interest is recovered from STUs. Therefore, the delay in putting the 2,020 buses on road beyond 90 days led to avoidable interest loss of ₹ 10.29 crore[106] during the idle period (**Annexure-21**).
- The avoidable delay in putting the above vehicles on road had also resulted in loss of savings in fuel cost amounting to ₹ 3.94 crore[107] in respect of 1,095 buses (**Annexure-21**) in which there was noticeable savings in fuel cost.

The Government replied (September 2017) that it was the prevailing practice of the former Chief Minister to flag off all the new buses on a particular day in a grand manner and obtaining the convenient date for flagging ceremony was beyond its administrative control. The fact, however, remained that these administrative delays had resulted in avoidable interest loss of ₹ 10.29 crore and loss due to excess fuel consumption amounting to ₹ 3.94 crore without justification.

Tamil Nadu Civil Supplies Corporation

3.6 Diversion of PDS wheat

Diversion of wheat, procured under Public Distribution System for sale to the Corporation of Chennai by the Company for Amma Unavagam, a State Level Scheme resulted in violation of the Public Distribution System (Control) Order, 2001 besides earning of unjustified profit of ₹ 5.97 crore

As per Para No. 3(2) of Annexure to the Public Distribution System (Control) Order, 2001 issued by the Government of India on 31 August 2001, the State Governments shall not divert the allocations made by the Central Government for distribution under the Public Distribution System (PDS). The orders issued by Food Corporation of India (FCI) for monthly district wise sub-allocation of food grains under PDS also reiterate that the food grains allocated under Targeted Public Distribution System (TPDS) should be utilised only for the purpose for which it has been allotted and not for any other purpose/scheme.

The Government of Tamil Nadu (GoTN) vide G.O. Ms (D) No.386 dated 12 July 2013 of Municipal Administration and Water Supply (MC-I) Department issued orders for preparation and supply of chapatthi to the poor people

105 Another State PSU, which is engaged in mobilising funds from the public and funding the activities of STUs.

106 Worked out on the basis of minimum interest rate of 10.5 *per cent* per *annum* charged by TDFC during 2011-16 for the number of days of delay for each bus.

107 Being the difference in KM per litre achieved by new bus and the old bus X average number of KM run by the old bus X number of days of delay X average diesel cost incurred by STUs.

through Amma Unavagam (Tiffin centres), a State level scheme run by the Chennai Corporation. It was stated in Para 5 of the Government Order (GO) that Tamil Nadu Civil Supplies Corporation (Company) should issue wheat stock from their savings to Chennai Corporation as per their requirement. In the event of no savings of wheat, the Chennai Corporation should have to bear the full expenses from their funds by buying wheat from the open market.

The Company decided (24 July 2013) to utilise 500 MT of wheat allotted by the Government of India under Open Market Sale Scheme (Domestic) {OMSS (D)} at ₹ 17.25 per Kg through FCI, for issue to Amma Unavagam for preparation of Chapatthi. The GoTN, Co-operation, Food and Consumer Protection Department, vide letter dated 5 September 2013, directed the Company to allot whatever the quantity of wheat requested by the Corporation of Chennai for Amma Unavagam, which was in contradiction to the G.O dated 12 July 2013 wherein it was instructed that the Company should issue wheat stock only from their savings. Audit noticed that the Company had supplied 5,096.883 MT of wheat to Amma Unavagam during the period from September 2013 to June 2017 at a total sale value of ₹ 8.85 crore at ₹ 17.25/ ₹ 18.10 per Kg (Open Market Rate).

Audit observed that out of 5,096.883 MT of wheat supplied for Amma Unavagam, 500 MT of wheat was supplied out of procurement made from FCI at open market rate of ₹ 17.25 per Kg under OMSS (D), the balance supplied quantity of 4,596.883 MT was out of procurement made by the Company from FCI under PDS. This included 3,108 MT meant for Below the Poverty Line (BPL) families procured at Central Issue Price (CIP) of ₹ 4.15 per Kg, 451 MT of Priority wheat[108] at CIP of ₹ 2.00 per kg, 328.483 MT of Above the Poverty Line wheat at CIP of ₹ 6.10 per kg and 709.400 MT of Tide Over wheat[108] at CIP of ₹ 6.10 per kg.

This resulted in diversion of 4,596.883 MT of wheat procured under PDS for a State scheme, which was a violation of condition specified in Para No. 3(2) of Annexure to the Public Distribution System (Control) Order, 2001 issued by the Government of India and the targeted beneficiaries were deprived of PDS wheat in Fair Price Shops to that extent. Further, by procuring 4,596.883 MT of wheat at the rates ranging from ₹ 2.00 per kg to ₹ 6.10 per kg under PDS and selling the same at a higher rate of ₹ 17.25/ ₹ 18.10 per Kg to the Chennai Corporation, the Company made an unjustified profit of ₹ 5.97 crore (*i.e.*, sale value of ₹ 7.98 crore – procurement value of ₹ 2.01 crore), which was to be refunded to the Government of India.

In reply, the Company stated (September 2017) that the cost of wheat had to be worked out by following the due procedures of costing, which included transport, handling, storage charges and interest factor also. While reiterating the reply of the Company, the Government added (September 2017) that after completion of costing, necessary orders would be issued in this regard for compliance of audit observation. The reply was not tenable, since the

[108] Consequent to implementation of National Food Security Act, 2013 by Tamil Nadu Government with effect from 1 November 2016, the allocation of food grains for PDS by Government of India under BPL and APL categories had been restructured as Priority and Tide Over.

diversion of PDS wheat for a State scheme itself was a violation of the Government of India's PDS (Control) order, 2001, the incidental cost incurred in connection with the distribution of such wheat to Amma Unavagam was to be borne by the Company only and could not be set-off against the refund amount of ₹ 5.97 crore due to the Government of India.

Tamil Nadu Tourism Development Corporation Limited

3.7 Undue benefit

Inordinate delay of 13 years in revision of lease rent as per lease agreement resulted in undue benefit to a private tenant to the extent of ₹ 10.17 crore

Tamil Nadu Tourism Development Corporation Limited (Company) leased out (June 1994) its hotel premises situated in 4.70 acres of land in a prime locality of Trichy to M/s SRM[109] Group of companies to develop a hotel in the premises. After handing over the land to the lessee in June 1994, the Company entered (March 1996) into an agreement, which stipulated that the lease period of 30 years would commence from June 1994. The agreement also stipulated that the initial lease rent of ₹ 3.85 lakh per *annum* (being 7 *per cent* of the market value of the land) was to be revised by the District Collector once in three years with effect from June 1997.

Audit noticed that though the annual lease rent for next three years upto June 2000/2003 was duly revised to ₹ 5.76 lakh/₹ 7.01 lakh *per annum*, the same was not revised at all thereafter, resulting in adoption of the lease rent of ₹ 7.01 lakh *per annum* from June 2003 to till date (October 2017). This lease rent was far below the market value of the rent during the block years from June 2003 to June 2018, as reported (April 2016) by the District Revenue Officer (DRO), Trichy to the Commissioner of Land Administration, Chennai as detailed below:

Table 3.7: Differential lease rent to be recovered

(Amount - ₹ in lakh)

Period	Market value as reported by DRO (₹ per sq.ft.)	Market value for 4.70 acres of land (equivalent to 2,04,732 sq.ft.)	Lease rent to be fixed at 7 *per cent*	Lease rent collected	Differential lease rent	Differential amount for three years
13.06.03 to 12.06.06	414	847.59	59.33	7.01	52.32	156.96
13.06.06 to 12.06.09	464	949.95	66.50	7.01	59.49	178.47
13.06.09 to 12.06.12	491	1,005.23	70.37	7.01	63.36	190.08

109 The group of companies engaged in hotel, education and hospital services in Tamil Nadu.

Period	**Market value as reported by DRO (₹ per sq.ft.)**	**Market value for 4.70 acres of land (equivalent to 2,04,732 sq.ft.)**	**Lease rent to be fixed at 7 *per cent***	**Lease rent collected**	**Differential lease rent**	**Differential amount for three years**
13.06.12 to 12.06.15	701	1,435.17	100.46	7.01	93.45	280.35
13.06.15 to 12.06.17	785	1,607.15	112.50	7.01	105.49	210.98 (for two years)
TOTAL						**1,016.84**

* Calculated by notionally increasing ₹ 701 per sq.ft. + 12 *per cent per annum* as per the Government G.O.Ms.324 (Revenue Department) dated 10 September 2001, which provided for notionally increasing the market value in respect of the Government lands.

Thus, non-revision of lease rent as per lease agreement led to undue benefit to private occupant to the extent of ₹ 10.17 crore. The audit analysis of the reasons for non-revision of the lease rent revealed the following:

- Between June 2003 and February 2015, the Company had been randomly corresponding with the District Collector and Special Commissioner and Commissioner of Land Administration for revision of lease rent on 23 occasions, which included nine correspondences at the Managing Director level. Though these requests did not yield the required results, the Company did not discuss the issue with the District Collector/Commissioner of Land Administration to safeguard its financial interest.

- On the earlier occasion also, the lease rent for the period from 2000-2003 was fixed by the Company based on the proposals submitted by District Revenue Officer (DRO), Trichy to the Commissioner, Land Administration, Chennai without waiting for the formal orders from the Land Administration Department. However, after it became aware of the similar proposals in April 2016, it neither attempted to revise the lease rent based on these proposals as done in the previous occasions nor approached the Commissioner, Land Administration for expediting the formal orders.

- When Audit pointed out (February 2016) about the lapse, Company replied (April 2016) that efforts were being taken to revise the lease rent. But, the continuous failure to revise the lease rent in last 13 years indicated Company's lack of seriousness to protect its financial interest.

The Government replied (October 2017) that a notice was issued to SRM Hotels Private Limited instructing them to remit the tentative outstanding lease amount of ₹ 12.50 crore to the Company. The fact, however, remained that the notice was served at the instance of audit.

Tamil Nadu Cements Corporation Limited

3.8 Tardy implementation of a scheme

Failure to ensure supply of committed quantity of 33.07 lakh MTs of cement to "Amma Cement Scheme" by private cement manufacturers resulted in deprival of 88,187 low and middle income group beneficiaries from obtaining cement at lower cost and revenue loss of ₹ 5.75 crore to Tamil Nadu Cements Corporation Limited

In Tamil Nadu, the market price of cement increased from ₹ 250 per bag of 50 Kgs. in 2010-11 to ₹ 320 per bag in 2013-14. In order to mitigate the hardship faced by the public due to price rise in the retail market, Tamil Nadu Cements Corporation Limited (TANCEM) proposed (February 2014) to sell Pozzolana Portland Cement (PPC) at a rate of ₹ 190 per bag[110] to the people belonging to low and middle income group by purchasing the same at ₹ 185 per bag from private cement manufacturers. In a meeting arranged (February 2014) by the Government, six cement manufacturers confirmed in writing to supply 40,000 MTs of cement each month at the agreed purchase price. Based on this confirmation, the Government of Tamil Nadu (GOTN) launched (December 2014) "Amma Cement Supply Scheme" (scheme) to sell cement through retail outlets of Tamil Nadu Civil Supplies Corporation (TNCSC).

The scheme, *inter alia*, envisaged that TANCEM would:

- Issue Purchase Order (PO) on fortnightly basis to cement suppliers and pay for the supplies through an exclusive bank account[111] to be opened in this regard.
- Create a scheme monitoring cell at Corporate Office and deploy required manpower at the districts to ensure holding of 400 bags of cement at each retail outlet.

After issuing the first batch of PO in January 2015, TANCEM ordered for a total quantity of 57.45 lakh MTs of cement upto May 2017, against which the cement suppliers supplied 24.38 lakh MTs of cement and the same was sold to 7.40 lakh beneficiaries for a total value of ₹ 926.35 crore. Audit scrutiny of records pertaining to the scheme at TANCEM revealed the following:

(i) The suppliers had supplied 24.38 lakh MTs of cement representing 42.44 *per cent* of the ordered quantity. Although there was short supply of cement by four suppliers ranging from 53 to 58 *per cent*, which persisted from the beginning, TANCEM did not effectively pursue the short supply and issued subsequent POs and routine reminders without a critical review by its

110 The differential amount of ₹ 5 per bag would be apportioned as Value Added Tax (₹ 0.63), TANCEM's margin (₹ 0.87) and ₹ 3.50 to TNCSC and Panchayat Raj and Rural Development for providing their godown to stock this cement at field level.

111 This account was to be utilised for collection of sale proceeds of cement and making payments to cement suppliers.

Board of Directors (BOD). The Government also failed to enforce its GO, which was issued based on the consent letters given by the cement manufacturers. Thus, there was no mechanism either at TANCEM or Government to enforce the PO.

(ii) An initial investment of ₹ 74 crore was required for purchase of two lakh MTs of cement per month, but neither TANCEM made any arrangement to mobilise the funds required for the scheme nor the Government arranged financial assistance. Consequently, TANCEM had to wait for the sales realisation to make payment to the suppliers. This led to delays in payment and total outstanding was ₹ 12.61 crore in June 2017. Besides this amount, TANCEM was also to pay ₹ 8.10 crore to the agencies involved in godown arrangements. This indicated that TANCEM did not make prompt payment to the suppliers to ensure uninterrupted supply of cement.

(iii) The scheme envisaged creation of monitoring cell at the headquarters of TANCEM and deployment of adequate manpower in the district to co-ordinate purchase and sale of cement. It was noticed that the monitoring cell at TANCEM's headquarters was manned by a single officer on deputation. At the field level, TANCEM did not depute any manpower at all till date (May 2017) resulting in lack of co-ordination for supply and sale of cement by TANCEM.

From the above, it is evident that TANCEM failed to draw an effective action plan to ensure supply and sale of the envisaged quantity of 2 lakh MTs of cement per month to the people belonging to low and middle income group. Based on the information made available to audit, it was noticed that though there was adequate demand from the public, 316/230 out of the total 502 godowns reported[112] (July 2015/January 2016) "Nil stock" defeating the basic objective of the scheme to supply cement to needy public at concessional price. As the ordered quantity constituted only seven *per cent* of the production capacity of six cement manufacturers from whom the consent was obtained by the Government, the short supply to the extent of 33.07 lakh MTs of cement during the period from January 2015 to May 2017 deprived 88,187 low and middle income beneficiaries from obtaining cement at lower cost and a revenue loss of ₹ 5.75 crore to TANCEM.

The Government replied (October 2017) that the short supply was due to restricting the supply to the actual requirement at godowns. It added that for effective monitoring of the scheme, a new software *viz*., "supply chain management system" was under launch. The reply was not tenable as audit could not find any directions by TANCEM to the cement suppliers to reduce the supplies based on the actual demand. Moreover, around 50 *per cent* of the godowns reporting "NIL" stock proved short supply and the resultant non-availability of stock was not on account of lack of demand.

[112] These reports were not generated during the rest of the period by TANCEM as verified by audit.

3.9 Non-recovery of liquidated damages

TANCEM issued purchase order to a supplier without signing the agreement and collecting the bank guarantee in violation of tender conditions. Subsequently, when the supplier failed to supply the ordered quantity of cement, it could not levy liquidated damages of ₹ 2.77 crore for breach of contract

TANCEM acts as a nodal agency (since June 2007) for procurement of cement from the cement manufacturers on rate contract basis for supply to Rural Development and Panchayat Raj Department. As part of this agency function, the Company invited (July 2012) tender for supply of 9.85 lakh MTs of cement and issued (November 2012) Letter of Intent (LOI) to six[113] successful bidders.

As stipulated in the tender conditions, TANCEM requested (28 November 2012) ACC Limited (ACC), one of the six suppliers, to provide security deposit of ₹ 1.20 crore (being two *per cent* of the order value of ₹ 60.10 crore) in the form of Bank Guarantee (BG) and also execute an agreement for supply of cement. However, TANCEM issued Purchase Order (PO) to ACC for supply of 49,380 MTs of cement on the same day, *i.e.*, on 28 November 2012 without waiting for submission of BG and execution of agreement by it. TANCEM again released (January to June 2013) four more POs for a total quantity of 14,005 MTs of cement, pending execution of agreement and furnishing of BG by ACC. Out of the total ordered quantity of 63,385 MTs of cement, ACC supplied only 15,722 MTs of cement (24.80 *per cent*) upto August 2013. Against the supply value of ₹ 6.92 crore, TANCEM paid ₹ 4.95 crore upto May 2013 and withheld ₹ 1.97 crore for the shortfall in supply of cement. Citing the non-supply of cement as breach of contract, TANCEM proposed (July 2013) to levy Liquidated damages (LD) of ₹ 2.77 crore on ACC as per Clause 22 of the tender conditions, but kept the decision on the issue pending till December 2015. The Board of Directors (BOD) finally decided (January 2016) not to levy the LD and release the withheld amount on the grounds that (i) there was no formal agreement with ACC and (ii) ACC had assured to supply 4,500 MTs of cement per month to another welfare scheme[114] of the Government. Accordingly, it released the withheld amount of ₹ 1.22 crore (between May and November 2016). The balance of ₹ 75 lakh was yet (July 2017) to be released.

In this connection, Audit observed that:

- As per Clause 30(5) of the Tamil Nadu Transparency in Tender Rules, 2000, (applicable to the Public Sector Undertakings), the successful bidder was required to sign the agreement within the time specified in the tender. Moreover, as per the conditions of tender floated by TANCEM, the PO

113 Dalmia Cements Limited, Madras Cements Limited, India Cements Limited, Chettinad Cements, ACC Limited and Ultratech Cements Limited.

114 This is a welfare scheme titled "Amma Cement Supply Scheme" in which the poor people would get cement at the concessional rate of ₹ 185 per bag.

was to be issued only after the successful bidder furnishing the BG and signing the agreement. However, TANCEM issued PO in haste without signing the agreement and submission of BG by ACC, which was devoid of merits especially when it got the agreement signed by all other suppliers of this contract. Though this failure contributed to release of withheld amount, no internal responsibility was fixed for this serious lapse.

- Acceptance of LOI is must before initiating any action for enforcement of the contract in the Court of law. Therefore, issue of PO without getting the agreement signed and collecting BG was an undue favour, which resulted in non-levy of LD of ₹ 2.77 crore for breach of contract by ACC.

The Government replied (June 2017) that the Board of Directors (BOD) of TANCEM decided to waive the penalty as there was genuine difficulty faced by ACC in supplying the ordered quantity of cement and the support assured by ACC to Amma Cement Supply Scheme. The reply is not tenable as the waiver of LD by BOD was mainly on account of not having the valid agreement with ACC as discussed in the BOD's meeting, which revealed its improper contract management.

Tamil Nadu Generation and Distribution Corporation Limited

3.10. Import of coal by TANGEDCO

Introduction

3.10.1 The total installed capacity of thermal power stations[115] owned by TANGEDCO as on 31 March 2017 was 4,320 MW for which 21.5 Million Metric Tonnes (MMT) of coal was required annually. As there was short supply of domestic coal[116], TANGEDCO started (2005) to procure imported coal as per the advice (2004) of GOI through STC,[117] MSTC Limited, MMTC[118] and TNPL[119] at negotiated prices. From July 2012 onwards, TANGEDCO switched over to global tender system to obtain competitive prices. Accordingly, TANGEDCO floated seven tenders between July 2012 and February 2016 and procured 24.4 MMT of coal valued at ₹ 12,247 crore as detailed in **Annexure-22.** To assess the economy and effectiveness of the procurement of imported coal through tender, we analysed five tenders floated between October 2013 and February 2016 for a total quantity of 21.6 MMT of coal valued at ₹ 11,233 crore. The results of audit are discussed below:

[115] North Chennai, Tuticorin and Mettur.

[116] Mahanadi Coalfields Limited, Eastern Coalfields Limited, Singareni Collieries Company Limited and Central Coalfields Limited.

[117] State Trading Corporation.

[118] MMTC Limited (A Government of India enterprise).

[119] Tamil Nadu Newsprint and Papers Limited (TNPL) (A Government of Tamil Nadu Enterprise).

Tender for import of coal

Absence of Policy framework for import of coal

3.10.2 We noticed that though TANGEDCO had started floating global tenders for import of coal since 2012, it had not evolved any specific policy for importing coal. In the absence of a comprehensive policy, there was no direction for key decisions for import, which led to excessive Bid Qualification Requirement (BQR), non-adoption of e-tendering and variable pricing method for payment of imported coal, *etc.*, as detailed in the subsequent paragraphs.

Inadequate time for submission of bids

3.10.3 As per Rule 20(1) of the Tamil Nadu Transparency in Tenders Rules, 2000 (Tender Rules), the procuring entities are required to allow a minimum period of 30 days for submission of tenders valuing more than ₹ two crore from the date of publication of Notice Inviting Tender (NIT). The Rule 16(1) of the Tender Rules provided that the procuring entities should make available the tender documents for sale from the date of publication of tender. We noticed that after publication of NIT, TANGEDCO closed the sale of tender documents much earlier to 30 days for submission of bids contrary to the Rule 20 of the Tender Rules as detailed below:

Table 3.10.1: Time allowed for submission of bids

Tender No.	Date of publishing in News-papers	Date of publishing in website and commencement of sale of tender document	Closing date of sale of tender document	Due date for submission of bids	Time gap 4 - 3	Number of bids received
(1)	(2)	(3)	(4)	(5)	(6)	(7)
48	05-11-2013	07-11-2013	06-12-2013	16-12-2013	30	3
49	29-05-2014	29-05-2014	26-06-2014	04-07-2014	29	3
50	08-02-2015	09-02-2015	03-03-2015	12-03-2015	23	3
51	06-12-2015	07-12-2015	28-12-2015	06-01-2016	22	1
52	07-02-2016	08-02-2016	17-02-2016	22-02-2016	10[120]	4

Since the time allowed for purchase of tender documents and submission by the prospective bidders from the date of publishing of the tender was gradually reduced from 30 to 10 days without any reasons on record, the number of bids received remained at three/four throughout the audit period thereby limiting competition.

[120] Minimum time specified by the competent authority was 15 days as per Rule 20(2).

The Government stated (October 2017) that it had allowed window time in accordance with Tender Rules. But audit analysis revealed that 30 days of time was not available between commencement and closing date of sale of tender document, hence the provision of tender rules was not followed in its spirit.

Injudicious fixation of Bid Qualification Requirement (BQR)

3.10.4 The criteria fixed (July 2012) in the BQR for import of coal stipulated that the bidder should have supplied one MMT of imported coal during any one of the preceding four financial years and have an annual average turnover of ₹ 1,000 crore during the preceding three financial years. We noticed that the turnover criteria of ₹ 1,000 crore was more than the Purchase Order value ranging from ₹ 68 crore to ₹ 330 crore for Tuticorin Port and ₹ 170 crore to ₹ 1,295 crore for Ennore Port. It is pertinent to note that the criteria fixed (July 2010) by TANGEDCO for all tenders was 25 *per cent* of the estimated value of the tender. Moreover, TNPL and NTECL fixed turnover criteria of NIL and ₹ 281 crore (26 *per cent*) against their value of import of ₹ 167 crore and ₹ 1,092 crore, respectively.

The Government replied that (October 2017) same BQR was fixed for supply to both the ports so as to finalise the tender in time and to ensure coal supplies continuously.

The fact, however, remained that after obtaining separate price bids for Ennore and Tuticorin discharge ports, the purchase orders were issued in the ratio of 60:40 between L-1 and L-2 (matching price with L-1). Therefore, the turnover criteria fixed at ₹ 1,000 crore for each tender against the purchase order value ranging from ₹ 68 crore to ₹ 330 crore for Tuticorin port and ₹ 170 crore to ₹ 1,295 crore for Ennore port was not justified. Due to fixation of higher turnover criteria, only three/four bidders repeatedly participated and three[121] of them shared 96 *per cent* of the total import value of ₹ 8,884.44 crore in all the five tenders covered by audit.

Selection of inappropriate price discovery mechanism

3.10.5 The importers of coal generally finalise the competitive prices based on (i) e-submission[122] method, (ii) reverse auction[123] method and (iii) variable price[124] method. However, TANGEDCO did not adopt any of the above methods but followed the conventional method of obtaining bids in sealed covers. We noticed that the Government of Tamil Nadu (GoTN) ordered (May 2007) that e-submission of tenders should be followed for procurement exceeding a value of ₹ 10 lakh by major infrastructure agencies like PWD,

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121 Adani, KISPL/KISSPL and MSTC.

122 E-submission of tender means submission of bids on-line in the website.

123 Reverse auction is a method by which the sellers compete with each other by decreasing their quote starting from the price declared by the procuring entity on the date/time of opening of on-line bids.

124 For example, the contracted price was USD 66.88 per MT and the Indonesian Coal Index was 47.50 for the tender opened on 12 March 2015. If the Index moved down to 45.80 on the date of import (20 April 2015), then the price payable would be USD 64.49 per MT and not at the contracted price of USD 66.88 per MT.

Highways Department, Tamil Nadu Electricity Board, *etc.*

We further noticed that sister PSUs *viz.*, TNPL, NTECL[125] and NTPL[126] had adopted online reverse auction method and obtained lower quote compared to the initial quotations received by them through off-line. But, TANGEDCO did not practice the reverse auction method thereby lost an opportunity of getting lower price for their imported coal as detailed in the following table.

Table 3.10.2: Comparative rates obtained by TANGEDCO and other PSUs

TANGEDCO							Other PSUs			
Name of the bidder	Tender Number	Tender Date	Date of price negotiation	Rate quoted off-line (USD per MT)	Rate as per price negotiation (USD per MT)	Percentage of price reduction in negotiation	PSUs name	Quoted price in the bid (off-line) (USD per MT)	Quoted price in reverse auction (on-line) (USD per MT)	Percentage of price reduction in reverse auction
Adani	48	31.10.13	18.01.14	99.76	91.05	8.68	TNPL	81.60	72.75	10.85
KISPL	48	31.10.13	18.01.14	102.90	92.72	9.89	TNPL	96.50	70.50	26.94
MSTC	49	28.05.14	06.08.14	104.76	87.00	16.95	TNPL	90.00	73.00	18.89
KISPL	49	28.05.14	06.08.14	106.28	88.60	16.63	TNPL	77.85	72.80	6.49
Adani	50	05.01.15	14.05.15	94.40	77.00	18.43	NTECL	69.54	56.20	19.18
KISSPL	50	05.01.15	14.05.15	97.55	78.50	19.53	NTECL	74.56	57.40	23.02
Adani	52	05.02.16	25.02.16	61.85	61.00	1.37	TNPL	54.05	45.20	16.37

The reduction in the quoted prices obtained by TANGEDCO through negotiation from the bidders was ranging from 1.37 to 19.53 *per cent* against the reduction of 6.49 to 26.94 *per cent* obtained by other PSUs through reverse auction during the same period from the same bidders who participated in the bids of TANGEDCO.

It is pertinent to mention that the bidders have confirmed the fact, as early as in July 2013, that they were forced to quote higher prices for TANGEDCO by loading additional cost for possible increase in the international price during long delivery period of six to eight months. TANGEDCO, however, never switched over to the variable price method especially when the price of imported coal continuously declined from USD 92.06 per MT (October 2012) to USD 61.00 per MT (February 2016). It is pertinent to note that Central Electricity Regulatory Commission had recommended (2005) to adopt variable price method for bid evaluation and payment for import of coal.

Our independent analysis of 131 out of 297 consignments of imported coal received under five tenders during the review period revealed that the pricing under variable price method would have resulted in overall reduction in payments to the extent of ₹ 746.13 crore as detailed in the **Annexure-23.**

125 NTPC Tamil Nadu Energy Company Limited, a joint venture company between NTPC Limited and TANGEDCO.

126 NLC Tamil Nadu Power Limited, a joint venture company between NLC Limited and TANGEDCO.

Thus, TANGEDCO's failure to switch over to the industrial practice of variable price method even after knowing all the major PSUs importing coal are adopting this method led to avoidable expenditure to ₹ 746.13 crore.

The Government replied (October 2017) that the firm price was found to be beneficial to TANGEDCO based on the long term analysis.

The reply is not tenable because:

- Adoption of FIRM price method of inviting tender and evaluation followed by TANGEDCO was contrary to the practice of inviting bids on variable price basis by other PSUs *viz.*, NTECL, NTPL, NTPC, and various SEBs.[127]
- In all the tenders covered in Audit, the variable price method of contract was beneficial both at the time of fixation of price as well as at the time of payment to suppliers.
- Examination by audit revealed that TANGEDCO did not carry out any long term analysis of the benefits under FIRM pricing *vis-a-vis* variable pricing method in the preceding five years.

Contract Management for import of coal

Non-adherence to the directives of Ministry of Shipping

3.10.6 The GOI policy (November 2001) stipulate that import contracts by all Government departments/PSUs are required to be finalised on Free on Board (FOB) basis to retain control on shipments and to extend maximum cargo support to the Indian shipping industry. The policy further stipulated that No Objection Certificate (NOC) should be obtained from the Ministry of Shipping, GOI for deviation from FOB basis on each and every case.

We noticed that TANGEDCO finalised all coal import contracts on CIF basis but it did not obtain NOC from the Ministry of Shipping, GOI as required.

The Government replied (October 2017) that NOC would be obtained for coal import from Ministry of Shipping, Government of India.

Non-furnishing of the Certificate of Origin

3.10.7 As per tender conditions, production of Certificate of Country of Origin (COO) by the suppliers for all consignments was mandatory for getting concessional customs duty and ensuring the genuineness of the import. The tender condition also stipulated that payments shall be made by TANGEDCO only upon furnishing of COO by the suppliers.

The test check by Audit revealed that 176 out of total 297 consignments were originated from Indonesia as per Bill of Lading. But the COO was not produced by the suppliers in respect of all the 176 consignments. Therefore, the genuineness of the source of import was not established in respect of 176

[127] Gujarat State Electricity Corporation Limited, Rajasthan Rajya Vidyut Uthpadan Limited, Haryana Power Generation Corporation Limited, Maha Generation Company Limited.

consignments till date (October 2017). However, the payment of ₹ 5,767.31crore was made to the supplier without obtaining mandatory COO.

The Government replied (October 2017) that the source of supply was established through documents such as Bill of Lading, insurance, certificate of origin furnished by the testing agency. The fact, however, remained that the COO from Government of the exporting country was not obtained in all the 176 consignments which was mandatory as per the TANGEDCO's tender conditions.

Acceptance of lower grade of coal

3.10.8 As per the tender conditions, the Gross Calorific Value (GCV) of the imported coal was required to be at 6,000 Kcal/Kg with an acceptable range between 5,800 and 6,700 Kcal/Kg. While there is no premium for GCV exceeding 6,000 Kcal/Kg, for GCV lower than 6,000 Kcal/Kg, the price was to be adjusted as per the formula[128] specified in the tender.

To ensure GCV of the coal supplied as per tender conditions, supplier was required to engage independent testing agency with the approval of TANGEDCO. The quality of coal is decided based on the reports of these testing agencies. Against this practice, our verification of the system for quality testing in place in other PSUs revealed that:

- TNPL select the testing agency for each consignment of coal from its empanelled testing agencies through a lot system and coal samples were collected from the automatic coal sampler installed in the conveyor at the TNPL plant.
- NTECL also select the testing agency from its empanelled testing agencies.
- The quality of coal will be finally decided by both TNPL and NTECL based on the test conducted at their own laboratories in their plants.

On the contrary, TANGEDCO did not collect coal samples on its own but was solely dependent on the third party testing agency for collection of samples as well as for testing both at the laboratories of TANGEDCO and the testing agencies. This deficiency led to variation of only ± one *per cent* in the GCV reported by the third party testing agencies as well as TANGEDCO's own laboratory.

Our independent verification of the coal quality test reports from the laboratory of the Customs Department[129] in respect of 121 consignments of TANGEDCO revealed that GCV was lesser than that of the discharge port laboratory test reports submitted by the suppliers as detailed below:

128 Penalty for GCV less than 6,000 Kcal/Kg (i) If reported GCV is from 5,800 to 5,999 Kcal/Kg, adjustment in price = Contracted C&F price – (Contracted C&F price x GCV/6,000), (ii) If reported GCV is less than 5,800 Kcal/Kg, adjustment in price = (200 x Contracted C&F price/6,000) + [(5,800 – GCV) x 2 x contracted C&F price/6,000].

129 Deputy Commissioner, Group-I/ Commissioner-II, Chennai Customs.

Table 3.10.3: Penalty leviable for differential GCV

Difference in GCV between customs report and suppliers test reports (Kcal/Kg)	Number of consignments	Total Quantity (MMT)	Penalty leviable as per GCV reported by Customs (₹ in crore)
0-200	30	2.09	19.62
201-500	29	1.92	82.92
501-1,000	33	2.29	250.29
1,001-1,500	20	1.38	274.27
1,501-2,000	8	0.56	165.81
Above 2,001	1	0.05	20.77
Total	**121**	**8.29**	**813.68**

Thus, TANGEDCO had accepted lower grade of coal as revealed in the customs test reports but it made payment for coal having GCV as per the test results submitted by the suppliers' testing laboratory and made excess payment of ₹ 813.68 crore.[130]

The Government replied (October 2017) that in view of the questionable samples as per the non-standard procedure adopted by the Customs Department and due to non-communication of the test results, it was not in a position to comment on the test results of Customs Department. The fact, however, remained that the test results of the Customs' laboratory, which could be taken as legal evidence, indicated wide variations in respect of 121 consignments and hence, the same should not be ignored altogether and required detailed investigation by TANGEDCO.

Conclusion

Before embarking on import of coal on regular basis, TANGEDCO did not consider the prevailing best practices in the industry to frame an import policy as directed by its BOD. This resulted in fixation of higher levels of turnover criteria, which led to elimination of small bidders from the competition. Further, TANGEDCO did not adopt the best practices such as e-tendering, reverse auction and inviting and evaluation of bids on variable price methods. Non-adherence to variable price method led to avoidable expenditure to the extent of ₹ 746.13 crore.

TANGEDCO had made payments to the supplier without obtaining the mandatory COO in respect of 176 out of 297 consignments test checked in audit.

The price of imported coal mainly depends on its GCV. Despite very significant difference in GCV between the test reports submitted by the suppliers and the one revealed in the test reports of Customs authorities, TANGEDCO did not independently verify the correctness of GCV reported by

130 Calculated on the differential GCV for the quantity supplied as per the penalty clause for lower grade coal.

the suppliers. This resulted in excess payment to the suppliers to the extent of ₹ 813.68 crore.

3.11 Undue benefit

Failure of TANGEDCO to recover the cost of transmission lines from the client as per the provisions of Distribution Code led to undue benefit of ₹ 12.75 crore

Tuticorin Port Trust (TPT) formed (August 2010) a Special Purpose Vehicle Company *viz.*, Tuticorin Coal Terminal Private Limited (TCTL) and also entered (September 2010) a concession agreement with TCTL for development of Cargo Berth-II[131] for handling bulk cargo in Tuticorin Port. As per the agreement, TPT would arrange for obtaining power supply from TANGEDCO to TCTL. TCTL requested (October 2012) TANGEDCO to provide supply of 12,000 KVA of power at 110 KV level and subsequently reduced (October 2013) its demand for 7,000 KVA of power through the overhead lines for a distance of 8.6 KMs from a 230 KV Sub-station (SS) located outside the port trust area.

TANGEDCO initially proposed (February 2014) to recover the entire cost of laying of 110 KV lines from the Sub-station to the port trust area from TCTL. But, subsequently decided (July 2014) to bear the cost of laying of transmission lines by itself, as the proposed line predominantly passed through port trust area belonging to TPT, which was not owned by TCTL. The work was completed in April 2017 at a total cost of ₹ 14.75 crore. Out of this amount, TANGEDCO had borne ₹ 12.75 crore and the balance of ₹ 2.00 crore was recovered from TCTL for execution of infrastructure work within its premises.

In this connection, Audit observed the following:

- TPT and TCTL were revenue sharing partners of the project with onus of providing electricity supply for the project resting with TPT. Moreover, at the end of the concession period of 30 years, TPT would be the owner of all the infrastructure created in the project site including the 110 KV transmission lines. Therefore, the cost of ₹ 12.75 crore borne by TANGEDCO towards construction of 110 KV line was to be recovered from TCTL.

- The recovery of the cost of transmission line from TCTL was also justified by the Regulation 29 (16) of the Tamil Nadu Electricity Distribution Code, which stipulated that the power distribution licencee (TANGEDCO) should take up execution of transmission lines within the premises of the consumer only after the consumer paying 100 *per cent* of the estimated amount. Thus, the expenditure of ₹12.75 crore borne by TANGEDCO for laying of the transmission lines was unwarranted.

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[131] A designated location in the port used for stationing the vessels during loading and unloading of cargo.

The Government replied (October 2017) that as per the provisions of the Distribution Code, the cost could be recovered only when the property was owned by TCTL and not from the deemed consumer, *viz.*, TPT. The reply was not convincing because TCTL is the owner of the property till the end of the concession period of 30 years and hence, the cost of transmission line was to be borne only by TCTL.

3.12 Avoidable payment

Failure of TANGEDCO to exclude funds mobilisation expenditure, which was to be borne by Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (Powerfin) led to an avoidable expenditure of ₹14.68 crore

TANGEDCO proposed (September 2011) to borrow funds to the extent of ₹ 18,010 crore to meet its capital expenditure and liquidate its liabilities. Out of this amount, TANGEDCO preferred (September 2011) to raise public bonds of ₹6,000 crore through Tamil Nadu Power Finance Corporation Limited[132] (Powerfin) based on the permission obtained (August 2011) from the Government of Tamil Nadu. Accordingly, Powerfin mobilised (between August 2012 and May 2013) ₹ 1,964.20 crore through public bonds in four trenches, which were issued as separate loan repayable after 10 years at the interest rates varying from 10.5 to 11.0 *per cent per annum*.[133] In addition to the interest, TANGEDCO would also reimburse all the bond related expenses, *viz.*, arranger fee, rating agencies fee, *etc*.

In line with the above conditions, TANGEDCO was paying interest on loans on half-yearly basis and also reimbursed (between November 2012 and November 2015) ₹ 14.68 crore being the expenditure relating to the issue of bonds by Powerfin. In this connection, Audit observed that despite charging the interest, Powerfin also passed on the bonds issue expenditure of ₹ 14.68 crore[134] to TANGEDCO, which was to be borne only by Powerfin as the funds mobilised were treated as loans by it.

Thus, transfer of bonds issue expenditure of ₹14.68 crore to TANGEDCO was unjustified.

The Government replied (October 2017) that TANGEDCO had to accept the loan along with the incidental expenditure from Powerfin, as it could not have mobilised funds on its own from any other alternate source. The fact, however, remained that the inability of TANGEDCO to mobilise funds on its own would not justify Powerfin passing on the incidental expenditure on bonds issue to TANGEDCO, a sister PSU, which was already a loss making Company.

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132 Powerfin is a non-banking financial company, which is accepting public deposits and extending term loans to TANGEDCO.

133 The rate of interest of public bonds varying from 9.17 *per cent* to 9.67 *per cent per annum plus* guarantee fee payable to the Government 0.5 *per cent plus* margin of 0.83 *per cent* payable to Powerfin.

134 This represents the expenses incurred by Powerfin towards arranger fee, rating fee, advertisement expenditure, *etc*., for issue of bonds.

3.13 Loss of revenue

TANGEDCO suffered a potential revenue loss of ₹ 4.03 crore due to its failure to correctly classify service connections under industrial category. This resulted in undue benefit to the consumer to that extent

As per the Tariff Schedule applicable for High Tension (HT) service connections, the HT consumers are classified into the following categories:

Table 3.13: Categorisation of consumers

Sl.No.	Type of tariff	Applicability	
1.	HT Tariff-I A	(a)	All manufacturing and industrial establishments.
		(b)	Common Effluent Treatment plants, water treatment plants in industrial estates and water plants for supply of water.
The consumers under this category shall be billed 20 *per cent* extra on energy charges for the consumption during peak hours from 6 a.m to 9 a.m and 6 p.m to 9 p.m.			
2.	HT Tariff-II A	Services under the control of Central/State Government, local bodies, Tamil Nadu Water Supply and Drainage Board (TWAD Board), *etc*.	
3.	HT Tariff-II B	The consumers like educational institutions, hospitals, *etc*.	
4.	HT Tariff-III	Commercial	
No peak hour energy charges shall be levied for the consumers under HT Tariff-II A, II-B and III.			

The New Tirupur Area Development Corporation Limited (NTADC) was a Special Purpose Vehicle company formed (1995) by private promoters for providing water supply to the industries and domestic consumers apart from treatment of sewage in and around Tirupur.

Audit noticed (January/April 2017) that TANGEDCO had provided (between February 2005 and May 2005) ten HT service connections and 23 Low Tension (LT) service connections to NTADC. The HT service connections were initially billed under commercial tariff but were classified (October 2005) as industrial category (HT Tariff-I A) and reiterated (at the time of fixation of tariff for the year 2012-13) by TNERC. However, the classification of HT service connections were once again changed (June 2013) to HT Tariff-II A by TNERC based on the request of NTADC to treat it on par with local bodies and Tamil Nadu Water Supply and Drainage Board (TWAD). The tariff change was effected with the condition that NTADC would use the service connection for supply of drinking water predominantly to local bodies/public. Thereafter, all the HT service connections of NTADC had been charged under HT Tariff-II A till date (October 2017). In this connection, Audit observed that:

- TANGEDCO itself had objected (October 2008) to the downward revision from Commercial Tariff to Tariff-I A by TNERC citing that reduction in electricity charges on account of change in tariff extended was not passed on to the consumers. However, its appeal was dismissed (February 2009) by TNERC as time barred.[135] Therefore, TANGEDCO should have preferred appeal for the second time when TNERC further lowered the tariff from I-A to II-A in June 2013. As TANGEDCO did not prefer an appeal, it lost an opportunity to get the tariff revised to the industrial category as originally contemplated.
- Audit's verification from the records of Water Resources Organisation (WRO), Salem division revealed that WRO entered (January 2002) into an agreement with NTADC to release a maximum of 185 Million litre per day (MLD), which included 85 MLD for domestic and non-domestic purposes and balance 100 MLD for supply to industrial units. Against agreed quantity, the supply of water to the domestic beneficiaries was only to the extent of 38 MLD in 2006 and was to increase to 57 MLD in the year 2031. Thus, the condition of supply of drinking water predominantly to local bodies and public was not fulfilled by NTADC since 2006 and hence the application of Tariff-II A was incorrect and resulted in undue benefit to NTADC.
- The ten HT service connections include two[136] service connections exclusively for water treatment plant and sewage treatment plant, which were to be classified under industrial tariff as per the classification of TNERC. Failure of TANGEDCO to classify a minimum of two service connections under industrial category led to potential revenue loss of ₹ 4.03 crore from July 2013 to March 2017, which resulted in undue benefit to NTADC to that extent. It is pertinent to mention that TANGEDCO would continue to suffer a recurring loss of ₹ 3.27 lakh per month on these two service connections alone, till such time the service connections are billed under correct category of tariff in future.

The Government replied (October 2017) that NTADC was predominantly supplying water for domestic purposes, which was evident from the fact that drinking water constituted 81 *per cent* of the total supply of 1,87,768 million litre during the period from 2013-14 to 2016-17. The reply was not convincing because the data on supply of water for domestic purpose furnished by the Government was only in respect of Erode Distribution Circle and it did not include the supply position for Tirupur. Moreover, this data was also based on the self certificate given by NTADC without any independent verification of the same by TANGEDCO/Government.

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[135] The appeal was not preferred within the stipulated time of 30 days of revision and hence treated as time barred.

[136] HT No.190 – Sewage pumping station (385 KVA) and HT No.194 – Pumping equipments for sewage treatment plant (530 KVA).

3.14 Avoidable extra expenditure

TANGEDCO had purchased 66.06 MU of power from a co-generation power producer at the rates higher than the TNERC notified rates and incurred avoidable extra expenditure of ₹ 10.90 crore

TANGEDCO has been purchasing power from bagasse based co-generation plants within Tamil Nadu. The price fixed by TANGEDCO for purchase of power effective from 2000-2001 was ₹ 2.73 per unit[137] during the crushing season (December to June) and at ₹ 2.48 per unit during non-crushing season (July to November). These rates were subject to cumulative increase of five *per cent* every year. Accordingly, TANGEDCO entered (February 2003) into a Power Purchase Agreement (PPA) for purchase of power from EID Parry India Limited (EID Parry) from its bagasse based co-generation plant of 24.5 MW capacity for a period of 15 years. The price for purchase of power from EID Parry as per the tariff fixed during 2015-16 and 2016-17 was as detailed below:

Table 3.14.1: Price for purchase of power

(Rate per unit – in ₹)

Sl. No.	Year	Rate of Power tariff during crushing season	Rate of Power tariff during non-crushing season
1.	2015-16	3.52	5.15
2.	2016-17	3.99	5.40

In the absence of TNERC's approval for the tariff in respect of bagasse based co-generating plants established prior to May 2006, TANGEDCO filed (November 2011) tariff petition with TNERC for fixing the purchase price in respect of these co-generation plants. As per the tariff, approved by TNERC in March 2016 with retrospective effect from November 2011, the price payable for purchase of power from co-generation plants was as detailed below:

137 The purchase rate during crushing season for every year was to be limited to 90 *per cent* of the HT industrial tariff rates prevailing during that year.

Table 3.14.2: Price for purchase of power

(In ₹)

Year	Price per unit
2015-16	3.52
2016-17	3.99
2017-18	4.12

Prior to the approval of purchase price in respect of co-generation plants, TANGEDCO terminated (15 March 2015) the PPA with EID Parry based on its request (March 2015) and entered (17 March 2015) into a new agreement for supply of surplus power through Short Term Open Access (STOA) route with effect from 22 November 2015 to 31 May 2016. The price admitted through STOA[138] arrangement was ₹ 5.05 to ₹ 5.50 per unit from March to October 2015 and ₹ 5.05 per unit from November 2015 to May 2016. For purchase of 88.04 MU of power under STOA route (this included 66.06 MU of power purchased during crushing season), TANGEDCO had paid an amount of ₹ 46.84 crore to EID Parry. Subsequently, based on TNERC's order dated 31 March 2016 fixing tariff in respect of bagasse based co-generation plants, EID Parry once again entered into a new PPA for selling surplus power for the period of 20 years from December 2016, at the rates fixed by TNERC.

In this connection, Audit observed that:

- TANGEDCO's termination of PPA in respect of EID Parry was faulty as it was aware that the power generated by EID Parry was made available for sale under STOA routes at the prices ranging from ₹ 5.05 to ₹ 5.50 per unit, which was more than the prevailing rates fixed by TNERC for crushing season ranging from ₹ 3.52 to ₹ 3.99 per unit. This mistake led to purchase of 66.06 MU of power produced by EID Parry during crushing season at the rates higher than the prevailing rates, which worked out to ₹ 10.90 crore (as detailed in **Annexure-24**).

[138] Under this system, power can be sold by power generators to the traders, who are free to sell power either to TANGEDCO or to others.

The Government replied (October 2017) that after termination of the PPA with EID Parry, TANGEDCO purchased power during the period from November 2015 to May 2016 on need basis through STOA route and hence, the payment made on this purchase was in order. The reply was not convincing because (i) the purchase of power through STOA route was made at the price more than the price fixed by TNERC for crushing season and (ii) TANGEDCO intended to purchase surplus power through STOA route only during non-crushing season, but it purchased power at higher rates both during crushing and non-crushing seasons.

Chennai
Dated 11 February 2018

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Accountant General
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Countersigned

New Delhi
Dated 13 February 2018

(RAJIV MEHRISHI)
Comptroller and Auditor General of India