Chapter-IV

4 Transaction Audit Observations

Important audit findings noticed as a result of test check of transactions made by the State Government companies/Statutory corporations are included in this Chapter.

Government companies

Tamil Nadu Cements Corporation Limited

4.1 Avoidable loss due to non-closure of an unviable unit

Continued operation of an unviable unit despite Government direction to send proposal for closure, resulted in avoidable loss of Rs. 96.55 lakh.

The Company took over (October 1989) the Stoneware Pipe Factory located at Virudhachalam in Cuddalore district from a sister concern for production of stoneware pipes. The unit suffered from inadequate order position from the year 1991-92 onwards due to non-placement of orders by the Government departments and continued to incur losses.

The State Government directed (September 2002) the Company to send proposal for permanent closure of the unit by passing necessary resolution in the Board of Directors of the Company. The Company, however, did not propose to permanently close the unit and instead proposed (February 2003) to the State Government seeking issue of directions to the contractors of the Government works to purchase the pipes from the Company. Besides, permission for declaring lay-off of the unit and allocation of Rupees four crore for paying terminal benefits to the workers were also sought. The State Government directed (May 2003) the Company that proposal may be examined by its Board of Directors with reference to BIFR guidelines and submitted to the State Government.

Audit observed that the Company did not re-examine the proposal as directed by the Government and instead informed (December 2003) that the unit was expecting orders for 10,260 MT of stoneware pipes at the rate of 450 MT per month for two years from a private contractor of the sewerage projects in Tanjore and Madurai. The Company supplied 1,784 MT of pipes in 2003-04, 3,449 MT in 2004-05, 2,084 MT in 2005-06, 1,807 MT in 2006-07 and 1,062 MT in 2007-08 against the capacity of 7,200 MT per year. This worked out to capacity utilisation ranging from 14.75 to 47.90 *per cent* during 2003-04 to 2007-08. During the same period, the unit incurred cash losses aggregating to Rs. 1.88 crore (except a marginal profit of Rs. 10.98 lakh in 2004-05) for want

of enough order. It was observed that continuing the factory on the pretext of getting orders of 450 MT per month was not prudent since ordered quantity supplied never exceeded 3,500 MT of stoneware pipes and as per the Company's own assessment (February 2003), orders of 5,000 MT *per annum* were required to make it viable.

Had the Company closed down the unit as per the Government directives, it would have incurred an expenditure of Rs. 91.50 lakh only towards compensation to the employees. Thus, avoidable expenditure of Rs. 96.55 lakh was incurred.

The matter was reported to the Company/Government in June 2008; their replies were awaited (October 2008).

Tamil Nadu Newsprint and Papers Limited

4.2 Avoidable expenditure due to restricting the order

Restricting the purchase order for 1.60 lakh MT of coal instead of placing order for the entire tendered quantity of 2.00 lakh MT and subsequent purchase at higher price resulted in extra expenditure of Rs. 1.56 crore.

The Company uses imported coal of high calorific value as main fuel for generation of steam used in the manufacture of newsprint/printing and writing paper besides generation of electricity. Considering the volatility of international coal market, it had been tendering for 1.60 lakh Metric Tonnes (MT) of coal in four shipments of 40,000 MT each to meet its requirement.

The Company floated (May 2006) a global tender for procurement of two lakh MT of coal and placed (July 2006) order for 1.60 lakh MT on Emirates Trading Agency LLC, Dubai on 'firm price basis' at USD 47.40 per MT with shipment scheduled up to 15 November 2006. While approving the placement of purchase order for 1.60 lakh MT of coal, the CMD had desired (July 2006) that an option for purchasing additional quantity of 40,000 MT may be kept open with the supplier. However, no efforts were taken in this regard.

It was observed in audit that restricting the purchase quantity to 1.60 lakh MT against the tendered quantity of two lakh MT was not justifiable as the rate of USD 47.40 per MT was higher than the previous purchase (February 2006) price of USD 40.90 per MT and price increase in future was also expected.

Thus, failure on the part of the Company to place order for the entire tendered quantity of two lakh MT and restricting it to 1.60 lakh MT had resulted in procurement of 40,000 MT of coal at unit price of USD 55.95, incurring avoidable extra expenditure of Rs. 1.56 crore[∝] in the subsequent purchase.

The Government stated (May 2008) that the Company took the decision of placing order only for the regular order quantity of 1.60 lakh MT against the

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∝ {(40,000 MT) X (USD 55.95-USD 47.40) X Rs.45.70}.

tender quantity of two lakh MT as the tender rate was higher by 15.90 *per cent* over the previous purchase and in view of the comfortable stock position.

The fact remains that the rate approved for procurement of 1.60 lakh MT of coal was found justified by the Company considering the increase in ocean freight and export duty and that the Company itself was aware of the increasing trend in the ocean freight at the time of restricting the quantity.

4.3 Avoidable expenditure due to short purchase

Injudicious decision to limit the ordered quantity below the tendered quantity led to avoidable expenditure of Rs. 33.60 lakh in procurement of burnt lime.

The Company procures burnt lime for use in the paper manufacturing process and has been following a practice of obtaining burnt lime from more than one supplier to ensure uninterrupted supply. Against the tender (January 2006) for purchase of 12,000 Metric Tonnes (MT) of burnt lime required for a period of one year, the Company received (March 2006) the lowest offer of Rs. 3,840 per MT from Sri Sai Panduranga Lime Industries (SSPLI), with a committed quantity of 300 MT per month. The Company negotiated with the other four lowest tenderers to supply at the price of SSPLI. Three tenderers *viz.*, Veenus Chemicals (VC), Janakirama Chemicals (JC) and Shri Lakshmi Durga Chemicals (SLDC) accepted to supply at the lowest offer price of SSPLI and committed to a monthly supply of 450 MT, 300 MT and 150 MT respectively.

The Company, however, decided (April 2006) to place orders only for 50 *per cent* of the tendered quantity, *viz.*, for 6,000 MT on all the said four[♣] tenderers by containing the supply period to six months. Against the subsequent tender floated in August 2006 for supply of 14,400 MT of burnt lime, the Company placed (September 2006/October 2006) orders for the entire quantity on six tenderers at the rate of Rs. 4,400 per MT.

It was observed in audit that the Company's decision to restrict the ordered quantity to 6,000 MT in April 2006 was injudicious as the tender was floated for 12 months period considering the expected increase in prices during this period. By restricting the order for six months, the Company gave undue benefit to the tenderers. Further, the supply of burnt lime in the past had been erratic. Thus, by placing the order for 12 months, the Company would have assured the supply for 12 months. Failure to do so resulted in avoidable expenditure of Rs. 33.60 lakh on the subsequent procurement of 6,000 MT of burnt lime at higher cost.

The Government stated (May 2008) that the Company chose to place orders only for six months requirement so as to avoid repeated short closing of purchase orders in the past.

[♣] SSPLI: 1,800 MT SLDC: 900 MT VC: 1,650 MT JC: 1,650 MT.

However, if the Company wanted to restrict the orders for only six months requirement considering the past experience of short closure of orders, it should have floated the tender only for six months requirement so that the suppliers would not have added the impact of expected future increase in prices beyond six months period. Either way, the Company's action lacked prudence.

4.4 Avoidable extra expenditure

Imprudent decision to reduce the ordered quantity in the purchase of imported wood pulp led to procurement of the balance quantity at extra cost of Rs. 27.60 lakh.

The Company floated (1 April 2006) global tender for purchase of 6,000 Air Dried Metric Tonne (ADMT) of Bleached Hardwood Sulphate Pulp (BHWSP). Four parties responded to the tender and only one tenderer, Elof Hansson, participated committing to supply the entire quantity of 6,000 ADMT of BHWSP at USD 568 per ADMT. The Company, however, decided (April 2006) to restrict the order quantity to 4,000 ADMT on the grounds of higher price and availability of stock. The supplies were effected by Elof Hansson in July 2006.

Meanwhile, the Company floated (June 2006) another global tender for procurement of 4,000 ADMT of BHWSP and placed orders at USD 598 per ADMT for the entire tendered quantity on two tenderers.

It was observed in audit that the Company's decision of April 2006 to limit the procurement to 4,000 ADMT against the tendered quantity of 6,000 ADMT was not prudent as the prices during the period from December 2005 to May 2006 were showing an increasing trend and chances of reduction in prices in the subsequent period were uncertain. Therefore, the Company should have placed orders for the entire tendered quantity. Failure to do so resulted in procurement of the balance quantity of 2,000 MT at a higher rate by incurring additional expenditure of Rs. 27.60 lakh.

The Government stated (June 2008) that the price was fluctuating and it was very difficult to predict the price in future. Further, the Company had sufficient stock to take care of its requirement up to mid August 2006.

The fact remained that prices were on the increase and that no major change in the price was expected in a short period of three weeks between the placement of purchase order and the date of starting the subsequent tender process.

Tamil Nadu Sugar Corporation Limited

4.5 Avoidable loss due to non-diversion of sugarcane

Absence of a penal clause in the agreement with a private mill to honour lifting of the contracted quantity of sugarcane led to avoidable loss of Rs. 1.19 crore to the Company.

Arignar Anna Sugar Mills of the Company is having a crushing capacity of 4.30 lakh Metric Tonnes (MT) of sugarcane *per annum*. In order to ensure continuous supply of sugarcane to the mills, the Company used to register areas for cultivation of sugarcane by the farmers.

For the crushing season 2006-07, Thiru Arooran Sugars Limited (TAS), a private sugar mill, requested (January 2006) the Director of Sugar (DOS) to instruct the Company for registration of additional areas and was willing to give an undertaking to draw any surplus cane. TAS, further, offered to enter into a formal agreement with firm commitment.

Accordingly, the DOS directed (March 2006) the Company to register additional area and to enter into a Memorandum of Understanding (MOU) for diversion of one lakh MT of sugarcane each to TAS and Sakthi Sugars, Sivaganga. The Company, however, entered into a MOU (July 2006) with TAS only for one lakh MT of sugarcane and registered an additional area of 2,000 acre.

It was observed in audit that TAS did not honour its commitment and failed to lift 53,394 MT of sugarcane and the Company was forced to crush this quantity in its own mill incurring loss of Rs. 1.19 crore as the selling price of sugar was less than the cost of production. The Company could not recover the loss from TAS for want of an enabling clause in the MOU.

Thus, due to absence of a penal clause in the MOU to honour the commitment, the Company suffered loss of Rs. 1.19 crore.

The matter was reported to the Company/Government in April 2008; their replies were awaited (October 2008).

Perambalur Sugar Mills Limited

4.6 Avoidable loss due to non-enforcement of orders

Failure to divert sugarcane to other mills as ordered by the Commissioner of Sugar resulted in avoidable expenditure of Rs. 71.35 lakh on transportation of sugarcane.

The Company has a sugar mill with an installed crushing capacity of 5.16 lakh Metric Tonne (MT) of sugarcane *per annum*. To ensure continuous supply of sugarcane every year, the Company registers area for cultivation of sugarcane by the farmers.

Based on the request of Shree Ambika Sugars, Pennadam (SAS), the Director of Sugar (DOS) permitted (March 2006) the Company to enter into a Memorandum of Understanding (MOU) for diversion of one lakh MT of sugarcane to SAS. Accordingly, the Company registered 17,293 acres of land for an expected procurement of 6.11 lakh MT of sugarcane in the 2006-07 crushing season and entered into MOU with SAS in May 2006. As per the terms of MOU, the cost of transportation of the sugarcane from the farmers field to SAS had to be met by the farmers up to 10 Kms and by SAS beyond 10 Kms.

In a meeting held in August 2006, the Commissioner of Sugar (COS) cancelled the diversion of one lakh MT of sugarcane to SAS earlier ordered by DOS. Instead, he directed diversion of 40,000 MT of sugarcane to National Co-operative Sugar Mills Limited (NCSM), Madurai.

However, the Company diverted 12,922 MT to NCSM, Madurai. The left over quantity of 27,078 MT was diverted (April 2007) to Salem Co-operative Sugar mills by incurring transportation cost of Rs. 71.35 lakh as deviation was made at the request of the Company. Had the Company diverted the stipulated quantity to NCSM, Madurai, transportation cost could have been avoided.

The Company stated (May 2008) that the transport cost in the subsequent allocation was to be borne by it as the cane diversion was primarily at their instance. Incidence of transportation cost was avoidable in case the stipulated quantity was diverted to NCSM, Madurai as directed by COS in August 2006.

The matter was reported to the Government in June 2008; their reply was awaited (October 2008).

Tamil Nadu Industrial Explosives Limited

4.7 Locking up of funds due to extra contractual payments

Release of payments despite non fulfillment of contractual conditions resulted in locking up of funds of Rs. 96.20 lakh.

The Company has been manufacturing explosives for use in the mines and other related activities. Consequent to the ban (April 2004) by the Government of India on the manufacture of Nitro Glycerine explosives, the Company started manufacturing substitute product like telmix explosives. In order to further harness the facilities left unutilised, the Company decided (November 2005) conversion of the Nitro Glycerine facility into 2 Ethyl Hexyl Nitrate (EHN) unit and placed an order on 3A Chemie Private Ltd (CPL), Nagpur for establishing a facility for manufacture of 4000 MT of 2EHN *per annum*. The order was placed (December 2005) on CPL at Rs. 94 lakh for design, drawings, fabrication, supply, erection and commissioning of the plant and machinery. The work was to be completed within 20 weeks.

As per the terms and conditions of the order, the Company was to make payments of 20 *per cent* along with the order; 40 *per cent* on submission of

drawings; 30 *per cent* against despatch of the equipment and the balance 10 *per cent* after commissioning of the plant. Accordingly, the Company released (January 2006) 20 *per cent* payment of Rs. 18.80 lakh along with the issue of order.

Simultaneously, the Board of Directors gave approval (January 2006) for scaling up the plant capacity to 15,000 MT *per annum* after successful commissioning of the EHN plant. Accordingly, the Company decided (May 2006) to enhance the capacity of the plant to 15,000 MT at an additional cost of Rs. 22.50 lakh. Audit observed that the Company did not place any formal order but released payment against this enhancement work too.

In the meantime, the Company released (March 2006) the next instalment of Rs. 37.40 lakh (40 *per cent* of purchase order). Subsequently, CPL demanded (July 2006) further payment of Rs. 48.45 lakh for despatch of equipment under the initial order (Rs. 28.20 lakh) and 90 *per cent* payment (Rs. 20.25 lakh) for detailed design, drawings and equipment *etc*., under the enhanced work. Against this demand, the Company released adhoc payment of Rs. 20 lakh in August 2006 and another payment of Rs. 20 lakh in October 2006, without receiving any equipment at its site. No major equipment had been received at the site so far (September 2008).

Thus, an aggregate sum of Rs. 96.20 lakh was released without any security, partly in violation of the terms of payment (Rs. 57.40 lakh) and partly without any formal work order (Rs. 20.00 lakh). On the other hand, the Company could not diversify its products in the absence of envisaged conversion of its manufacturing facilities.

The Company stated (March 2008) that payments were made as per the request of the supplier since the specific equipment which constituted major portion of the project was to be imported. The fact remains that the payments were made contrary to the terms and conditions of the order placed on the supplier and without obtaining any security to enforce timely implementation of the project by the supplier.

The matter was reported to the Company/Government in April 2008; their replies were awaited (October 2008).

State Industries Promotion Corporation of Tamil Nadu Limited

4.8 Undue favour to an allottee

The allotment order of 20.34 acres made in 1992 was not cancelled for over 10 years, despite violation of the terms and conditions governing the allotment.

The Company acquires, develops and allots land to the entrepreneurs to set up industries in the State. The Company allotted 20.34 acres of land to India Pistons Limited (IPL) in Phase-II of its Industrial Complex at Hosur for setting up a factory to manufacture piston. Lease agreements for 99 years were executed (July 1993 and December 1994) with IPL on receipt of deposit of Rs. 34.63 lakh at the rate of Rs. 1.70 lakh per acre.

In terms of the allotment order, construction of the factory building was to be completed within four years from the date of the allotment order (1 October 1992). Failure to comply with this condition would entail cancellation of the order and forfeiture of the deposit received from IPL. Besides, the Company had the right to resume the land, if the land was not put to use for the intended purpose or the allottee did not comply with any of the conditions of the allotment.

Despite grant of extension of time for about nine times till September 2006, IPL did not commence any work on the plea of severe recession in the auto industry. The Company issued (January 2006) a letter to IPL cancelling the allotment order for breach of terms and conditions of the order but kept the same in abeyance. The company granted (February 2006) further extension of time up to September 2006 based on the request of IPL. During this extension period, IPL constructed a factory building in an area of just 570.96 square metre and did not install any machinery in the factory building. Thus, due to continuous undue favour extended to IPL for a period of 10 years, the land could not be allotted to other prospective entrepreneurs for establishing industries in the area.

The Company stated (June 2008) that the land offered to IPL was in consideration of the freehold land possessed by them which was acquired for the development of Company's industrial complex, Phase-II at Hosur for the allotment of land to Ashok Leyland Limited to set up a mega project. As such, the conditions normally applicable to the land allotted to other industries would not be applicable to IPL and it deserved consideration.

The contention of the Company is not acceptable as sufficient time was given to IPL to set up the factory and hence no further relaxation was warranted. Further, by keeping the land idle, other prospective entrepreneurs may have been deprived of the opportunity to set up their industries.

The matter was reported to the Government in May 2008; their reply was awaited (October 2008).

Tamil Nadu Tourism Development Corporation Limited

4.9 Avoidable payment of penal interest

The Company's decision to defer payment of advance tax on income and fringe benefits led to avoidable interest payment of Rs. 17.03 lakh.

The Company is engaged in promotion of tourism in the State by creating infrastructural facilities and operating the same on commercial principles.

As per the provision of the Income Tax Act, 1961 (Act), every assessee whose expected income during the year is more than Rs. 1.50 lakh is required to pay advance income tax on such income in each quarter under section 210 of the Act. Any failure to comply with the above mentioned provision of the Act attracts payment of interest under Section 234 B and C of the Act.

Further, consequent to introduction of the Fringe Benefit Tax (FBT) from the accounting year 2005-06, any Company extending fringe benefits to its employees, is required to make advance payment of tax in respect of the fringe benefits similar to the payment of advance income tax. Any default/deferment of advance payment of FBT also attracts penal interest.

It was observed in audit that the Company did not make the quarterly payment of advance taxes, though liable to pay for the accounting years 2005-06, 2006-07 and 2007-08 on the plea that it had filed (January 2006) an application with the Director of Income Tax (Exemptions) for registering it as a charitable institution under section 12AA of the Act so as to avail exemption from levy of income tax. The Director of Income Tax (Exemptions) rejected (September 2007) the application of the Company for registration as charitable institution against which the Company had filed (November 2007) an appeal.

In the meantime, the Company remitted the income tax and FBT for the financial years 2005-06 and 2006-07 alongwith penal interest of Rs. 17.03 lakh at the time of filing the tax returns for the respective years. Thus, decision of the Company not to make payment of advance income tax and FBT resulted in payment of penal interest of Rs. 17.03 lakh, which could have been avoided.

The Company stated (June 2008) that in view of the pending application with the Income Tax Department, it did not pay the advance tax for the years 2005-06 and 2006-07.

The reply of the Company is not acceptable as the pendency of application for registration as charitable institution cannot be a ground for non payment of the advance income tax and FBT. Further, the decision of the Company not to make advance payment of tax was in violation of provisions of the Act and amounted to avoidance of payment of tax.

The matter was reported to the Government in June 2008; their reply was awaited (October 2008).

Tamil Nadu Salt Corporation Limited

4.10 Loss due to non-revision of sales price

The Company suffered loss of Rs. 14.54 lakh in 2007-08 due to under estimation of the cost of production.

The Company produces three varieties of salt, namely, Industrial Grade Salt (IGS), Iodised Salt (IDS) and Double Fortified Salt (DFS). The IGS is crushed and mixed with potassium iodate solution to produce the IDS and is supplied to the Noon Meal Programme and Public Distribution System (PDS) in Tamil Nadu and Karnataka. Every year, the Company prepares cost statement of IDS taking into account the expenditure on production of IDS, freight charges, *etc.* The price of IDS for supply to PDS was fixed at Rs. 2,050 per MT in May 2002.

An analysis of the annual cost statements by Audit revealed that the Company did not consider the cost of IGS, the main raw material, for working out the cost of IDS in the subsequent years. Consequently, the cost of sale of IDS was under estimated to the extent of Rs. 228 per MT, Rs. 271 per MT and Rs. 286 per MT in 2005-06, 2006-07 and 2007-08 respectively. At the sale price of Rs. 2,050 per MT, the Company's profit which was at Rs. 223 per MT in 2005-06 started declining and turned into loss of Rs. 70.50 per MT in 2007-08. The total loss for the year 2007-08 worked out to Rs. 14.54 lakh.

After being pointed out in audit (June 2007), the Company proposed (March 2008) revised selling price of Rs. 2,500 per MT for supply to PDS of the Government of Tamil Nadu which was accepted (April 2008) by the Government. Thus, failure of the Company to work out the cost taking into account all the elements of cost resulted in a loss of Rs. 14.54 lakh during 2007-08.

The Company stated (June 2008) that as per its revised cost sheet, there was profit up to 2006-07. It, however, did not offer any comment on non inclusion of the cost of IGS while working out the cost of IDS. The fact remained that the decline in profit from 2005-06 and occurrence of loss in 2007-08 was not known to the Company until the same was pointed out in audit.

The matter was reported to the Government in June 2008, their reply was awaited (October 2008).

Tamil Nadu Civil Supplies Corporation Limited

4.11 Failure to claim refund of the Tax Deducted at Source

Failure to claim refund of Rs. 12.85 lakh as "tax deducted at source" led to locking up of funds besides loss of interest of Rs. 1.03 lakh *per annum*.

The Company procures paddy and other essential commodities for implementation of the Public Distribution System in the State. The Company is required to insure its stocks in trade and assets against damages and losses that may be caused by fire, theft, flood and other natural calamities. For this purpose, it has created an insurance reserve fund of Rupees two crore with an annual contribution of Rs. 10 lakh from the Company's earnings. The accumulations in the fund were invested in deposits with Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (TNPFC), Tamil Nadu Transport Development Finance Corporation Limited, *etc*. The Company is earning interest on this investment.

The Company received Rs. 61.47 lakh as interest during 2004-05 from TNPFC for the deposits made by the Company. TNPFC, while making payment of interest to the Company, deducted at source an amount of Rs. 12.85 lakh towards income tax and remitted (January 2005) the same to the Income Tax Department.

As the Company had incurred loss in 2004-05, it did not have any liability towards income tax and was entitled to claim refund of the TDS at the time of filing of the income tax return. In this connection, Audit observed that though the Company had filed (October 2005) the income tax return for the assessment year 2005-06, it did not claim for refund of Rs. 12.85 lakh from the Income Tax Department. On being pointed out (June 2007) by Audit, the Company preferred the claim with the Income Tax Department in January 2008.

Thus, failure on the part of the Company to claim refund of the TDS of Rs. 12.85 lakh would result in locking up of the amount and loss of interest of Rs. 1.03 lakh[♦] *per annum* till the Company gets the refund.

The matter was reported to the Company/Government in April 2008; their replies were awaited (October 2008).

♦ Worked at the rate of eight *per cent*.

Statutory Corporation

Tamil Nadu Electricity Board

4.12 Handling of Legal cases

4.12.1 Tamil Nadu Electricity Board (Board) has a legal cell headed by a Legal Advisor to handle the legal cases. The legal cell is having two sections functioning in the premises of the High Court, Chennai and High Court Bench at Madurai. The personnel posted in the legal sections coordinate with the Board's standing counsels by rendering ministerial assistance. While the legal cell renders legal advice, the cases are actually followed by the circle offices of the Board.

Sample data collected by Audit from 118 out of 147 circle offices of the Board revealed that as of March 2008, there were 7,528 court cases pending in various courts involving disputed amount of Rs. 2,355 crore in respect of 118 circle offices alone. 2,721 cases (36 *per cent*) were pending for disposal for more than five years. In the light of these facts, the system of handling of legal cases by the Board was examined by Audit by way of test check of records during April/May 2008 relating to 250 cases handled by the legal cell and 10 circle offices. During examination of the records, absence of centralised data base of legal cases, lack of follow-up of the cases, inordinate delay in seeking vacation of stay orders and non-recovery of the amount awarded by the courts were noticed. The Audit findings are discussed below:

Absence of a centralised data base of legal cases

4.12.2 The Board directed (January 1986) its circle offices to maintain a court-wise Register of Suits and furnish monthly report on the pending cases and on stay orders or injunctions granted by different courts to the Chairman of the Board. However, there were no instructions from the Board to review the monthly reports by the legal cell and to create a centralised data of legal cases. In the absence of any centralised data base of legal cases at the Board's Headquarters, an independent analysis of the data collected from 118 circle offices by Audit revealed that only 89 offices maintained the Register of suits and 66 offices were furnishing the monthly returns. Thus, the Board did not ensure compliance of its own instructions by its all offices. As a result, it did not know the total number of court cases and the amount disputed in the litigations.

The legal cell gives legal advice on the cases referred to it. The cases are thereafter followed up by the respective circle offices. Except the copies of the legal opinion given, no other records were maintained in the legal cell. Audit observed that the legal cell neither submitted its performance to the Board nor the latter reviewed its functioning till date (May 2008). Thus, the functioning of the legal cell and legal sections was left to the discretion of their heads without any monitoring by higher authorities. The legal cell did not maintain adequate records of the number of cases handled over a period of

time. It was noticed that 13,500 cases were stated to have been referred to the legal cell for its opinion during 2005-06 as mentioned in the Administrative Report of the Board. However, there was no document to support the data. Audit noticed that as of March 2008, the legal cell had only 2,953 cases in its register.

Ineffective follow-up of the cases

4.12.3 As stated in the previous paragraph, an amount of Rs. 2,355 crore had been at stake in legal processes and hence it was imperative for the Board to vigorously pursue the legal cases by necessary follow-up action. Audit observed that the Board did not take timely action and instances of avoidable delays were noticed. Particulars of such cases noticed by Audit are given in the **Annexure-24.**

Non-recovery of the amount against cases decided by the Courts

4.12.4 In respect of seven cases[a] involving dues of Rs. 16.13 crore, the High Court, Chennai and various District Courts had directed (1997 to 2006) the Board to redecide the amount after conducting fresh enquiry. In another three cases[b] involving dues of Rs. 1.98 crore, the courts had decided in favour of the Board in 1998, 2001 and 2003 respectively. However, the Board did not decide the amount for effecting the recovery. Few illustrative cases are mentioned below:

- Viswas Carbide Limited (VCL), a High Tension consumer filed writ petitions in High Court, Chennai (1992 and 1993) against levy of electricity tax amounting to Rs. 7.56 lakh. The status of the case was yet to be traced (May 2008). Meantime, theft of energy was detected twice (in 1994 and 1997) in VCL's service connection and assessment orders for Rs. 3.98 crore were issued to the consumer. The High Court dismissed (August 2001) the writ petition filed by VCL for the first theft and the legal cell opined (November 2001) to recover the dues by invoking the provisions of Tamil Nadu Electricity Board (Recovery of Dues) Act, 1978. However, no steps were taken so far (August 2008) on the ground of non-traceability of the writ petitions filed by VCL way back in 1992/1993.
- Audit observed that five cases[c] relating to the assessment orders of the Board against theft of energy and tariff conversion filed by the consumers were dismissed by the High Court, Chennai and Sub-Court, Erode during 2000 and 2006. However, the Board had not taken any action to recover the amount so far (August 2008) resulting in blocking up of dues of Rs. 29.22 lakh.
- In respect of 13 cases[d] involving Rs. 28.77 lakh, the consumers deposited the amount in the High Court and District courts after

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a Sl.No.1 to 7 in Annexure-24
b Sl.No.8 to 10 in Annexure-24
c Sl.No.29 to 33 in Annexure-24
d Sl.No.34 to 46 in Annexure-24

disposal of the cases. However, the Board failed to collect the amount from the courts.

Failure to vacate the stay orders

4.12.5 In respect of 12 cases[e] involving dues of Rs. 18.90 crore and six cases[f] involving policy decisions on change of tariff, the Board's attempts to recover the amount were challenged by the consumers in various courts. They obtained interim stay orders during 1998 to 2007 for effecting the recovery and implementing the policy decisions. However, the Board did not take effective steps to vacate the stay orders even after lapse of one to ten years. Two cases of inaction by the Board are detailed below:

- The C.M.C. Hospital, Vellore got an interim stay order when their tariff was changed to commercial category with effect from July 2002 involving dues of Rs. 2.88 crore. While giving the stay order (October 2002), the court issued notice to the Board to file the counter reply before 3 December 2002. Audit noticed that the counter reply was filed after a lapse of 10 months. Thereafter, the case had not been followed up vigorously so as to vacate the stay till date (August 2008).
- A theft of energy was detected (29 October 1997) in the premises of Sri Rama Machinery Corporation Limited and an assessment order levying penalty of Rs. 3.50 crore was issued (April 1998). Against this order, the consumer obtained an interim stay (August 1998) for two weeks. Audit observed that the Board filed a counter affidavit in April 1999 and did not pursue the case thereafter.

Non-collection of copy of judgements

4.12.6 The Board failed to collect copy of the judgements in eight cases[g] even after one to 15 years of award of judgements from the High Court, Chennai and District courts and deprived itself of opportunities to collect an amount of Rs. 85.18 lakh involved in the eight cases. By way of illustration, the two instances are given below:

- The Board filed (January 1987) appeals against two judgements of the High Court, Chennai which prohibited the Board from collecting the balance penalty of Rs. 17.89 lakh and encashing the Bank guarantee valued at Rs. 22.50 lakh submitted by Easun Engineering Company Limited. Though the appeals were dismissed in September 1993, the Board had not obtained the copy of judgments from the court so far (August 2008). This resulted in the Board losing an opportunity to examine the scope for further appeals.

The Board stated (May 2008) that it was cumbersome to get the copy of the judgements after a period of 15 years.

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e Sl.No.11 to 22 in Annexure-24
f Sl.No.23 to 28 in Annexure-24
g Sl.No.47 to 54 in Annexure-24

- The Board filed (1998) a suit in the High Court, Chennai against IISC Engineers (Private) Limited (IISC) for recovering Rs. 19.73 lakh with interest towards the value of materials remaining with IISC after abandonment of the work. Though the High Court delivered (December 2006) its verdict *ex-parte* in favour of the Board, the copy of the judgement was yet to be obtained (May 2008) resulting in delay in taking further action to recover Rs. 43.41 lakh.

The Board stated (July 2008) that efforts would be taken to get the copy of the judgement.

Failure to pursue the cases

4.12.7 In respect of the cases filed by the consumers against the Board, it has to follow up the cases to safeguard its financial interest. Audit observed that in eight cases[h] involving Rs. 1.25 crore, the Board did not pursue the cases effectively and properly as illustrated below in respect of three cases:

- The High Court, Chennai granted (March 2002) stay against the Board restraining it from recovering the dues of Rs. 60.68 lakh and directed it to furnish bank guarantee (BG) for the said amount. Since the BG furnished by the Board was not in proper form, the court rejected the same and directed (July 2002) the Board to remit the amount in the form of fixed deposit (FD). The FD deposited by the Board was not renewed from August 2004 onwards. Audit observed that the Board had erred in furnishing the BG resulting in opening of FD. Since the FD was not renewed from August 2004, interest amount of Rs. 38 lakh for the subsequent period did not accrue to the Board.

The Board stated (July 2008) that renewal of the FD was responsibility of the Registrar General of High Court. However, the fact remains that even the principle amount remained blocked.

- The High Court, Chennai disposed (November 2006) the writ petitions filed by the HT consumers against the levy of peak hour demand charges. Audit noticed that the Board failed to include three writ petitions relating to Vellore circle at the time of issue of the common judgement by the High Court. Consequently, the Board could not recover the arrears of Rs. 29.69 lakh till date (August 2008) from the consumers and did not pursue these cases further.
- A case against Tata Iron and Steel Company Limited was filed (1992) by the Board in the High Court, Chennai claiming refund of balance advance amount of Rs. 3.61 lakh along with interest. Though the case was transferred to the City Civil Court in 1998, the Board failed to get the case numbered till date (August 2008). This indicated the poor follow up of the case by the Board.

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h Sl.No.55 to 62 in Annexure-24

Recommendations

In view of the foregoing deficiencies noticed by Audit, the Board needs to:

- **create a centralised data base of legal cases, *inter alia,* showing the nature of cases, amount in dispute, the court in which pending and follow up actions required to be taken.**
- **evolve a mechanism to monitor the legal cases involving policy matters and Board's finances.**
- **establish a system of periodical submission of status of important cases to the Board of Directors.**

The matter was reported to the Board/Government in August 2008; their replies were awaited (October 2008).

4.13 Undue benefit to an Independent Power Producer

Payment of Rs. 53.18 crore to an Independent Power Producer in the form of fixed capacity charges and return on equity in violation of Power Purchase Agreement, resulted in undue benefit to the producer.

The Central Electricity Authority (CEA) accorded (November 1995) Techno-economic clearance for the establishment of 330.5 MW Combined Cycle Gas Turbine (CCGT) power plant by Dyna Makowski Power Company (DMPC), an Independent Power Producer (IPP) at an estimated cost of Rs. 1,121.70 crore. The Board entered (January 1997) into a Power Purchase Agreement (PPA) with DMPC for purchase of power generated in their power plant. The successor company *viz.*, Pillaiperumalnallur Power Generating Company Limited (PPNPGC) set up the plant and the commercial operation was commenced on 26 April 2001. The examination of PPA revealed the following:

4.13.1 Article 13.5 of the PPA stipulated the payment obligations of the Board under 'Force Majeure' events. On occurrence and during the continuance of any non-political event, fixed capacity charges (FCC)[•] were not payable to the IPP.

The power plant of the IPP located at the coastal part of the State was hit by 'Tsunami' and remained shut down from 26 December 2004 to 31 January 2005. The Board, on the recommendations (February 2005) of its Chief Engineer, IPP disallowed (December 2004 and January 2005) the proportionate FCC of Rs. 32.57 crore for the shut down period caused by the non-political 'force majeure' event (Tsunami) as per the terms of PPA. The Chief Engineer, IPP however, subsequently reversed (April 2005) his stand and recommended for allowing the FCC for the shut down period on the plea that the IPP was eligible for full FCC for 2004-05 as it achieved the Standard

[•] The FCC represented the cost of debt payment, depreciation, operation and maintenance expenses, return on equity and interest on working capital, *etc*.

Plant Load Factor (SPLF) for the year as a whole. Accordingly, the disallowed amount of FCC of Rs. 32.57 crore was released (April 2005) to the IPP.

Audit observed that the IPP was not eligible for any FCC during the plant shut down period caused by non-political force majeure event, as there was no condition in the agreement for releasing the FCC on achieving the SPLF during the year.

Thus, the release of FCC of Rs. 32.57 crore disallowed correctly initially was unwarranted and resulted in undue benefit of Rs. 32.57 crore to the IPP. As the huge loss was caused to the Board due to non-observance of conditions stipulated in the PPA, the responsibility for the lapse needs to be fixed.

4.13.2 As per the PPA, the tariff for the power purchased by the Board comprises variable and fixed charges. The latter, *inter alia,* includes elements like Return on Equity (ROE), which was payable at 16 *per cent per annum* of the equity capital invested in the project at the date of declaration of Commercial Operation (COD).

PPNPGC sought (July 2001) approval of the CEA for the completed capital cost of the project at Rs. 1,409.84 crore, which included equity capital of Rs. 422.95 crore comprising foreign currency component of US$ 67.816 million equivalent to Rs. 304.13 crore and Indian rupee component of Rs. 118.82 crore.

CEA stated that only US$ 57.024 million was received as equity contribution up to COD as against the claim of US$ 67.816 million by PPNPGC and hence the ROE on the actual equity received up to COD only should be allowed during the operation of the plant. While furnishing the financial package, PPNPGC adopted the weighted average exchange rate as Rs. 44.852 per US$. Final approval of the project cost was yet to be accorded by CEA. Thus, ROE was payable at 16 *per cent* of the equity of US$ 57.024 million at weighted average exchange rate of Rs. 44.852 per US$. Audit observed that the Board made payment by adopting higher foreign equity contribution ranging from US$ 66.4220 to 69.7524 million and at varied exchange rates of Rs. 44.8150 to 44.9718 per US$ resulting in excess payment of Rs. 20.61 crore during the period from 2001-02 to 2006-07.

The Government stated (May 2008) that the Board allowed ROE on the equity subscribed beyond the COD as ROE had to be computed on the paid up and subscribed capital relatable to the generating unit. It further stated that on receipt of the final approval of the completed capital cost of the project from CEA/Tamil Nadu Electricity Regulatory Commission, it would revise and adjust the ROE payable to the IPP from the COD with interest.

The reply is not convincing as the Board did not limit the ROE payment to the equity actually subscribed up to COD in terms of the PPA, and, therefore, failed to safeguard its financial interests.

The matter was reported to the Board/Government in June 2008; their replies were awaited (October 2008).

4.14 Undue favour to the windmill developers

Undue favour to the windmill developers by way of recovering charges at 7.5 *per cent* instead of 15 *per cent* resulted in loss of Rs 5.92 crore to the Board.

When installation of the windmills by private developers was increased enormously and the Board could not develop the infrastructure for evacuation of power simultaneously with the addition of windmills, the Board decided (July 2003) to permit erection of the evacuation facilities by the private developers themselves at their cost initially and thereafter adjust the cost in the infrastructure development charges payable by such windmill developers to the Board. The approved scheme, *inter alia*, envisaged recovery of establishment and supervision charges (E&S) at 15 *per cent* of the cost of the works portion of the scheme from the private developers in advance of commencement of the work.

Accordingly, the sanctioned cost estimates of the schemes approved by the Board between November 2003 and February 2006 for execution by the windmill developers included E&S charges of 15 *per cent* of the cost of the works. However, while authorising the windmill developers to execute the works, the Planning and the Non-Conventional Energy Sources (NCES) wings of the Board claimed the E&S charges by adopting different method. It charged E&S charges in one case on lumpsum basis, in three cases at 7.5 *per cent* and in five cases on per mega watt basis (various rates adopted) in contravention of the Board's approved rate of 15 *per cent* of the cost of works. This was resorted to on the plea that the Board's commitment made to the private developers at the time of authorising them to execute such works for collecting only 7.5 *per cent* towards E&S charges had to be honoured. It was also reasoned that compared to the works in an existing sub-station (SS), erection and execution of new SS required less vigil. Therefore, the Chairman of the Board ratified (January 2007) the action of NCES to collect E&S charges at the rate lower than 15 *per cent.*

It was observed in audit that in all cases of works awarded to the windmill developers prior to November 2003 and after February 2006, E&S charges were collected at 15 *per cent* without any distinction between the new and existing SS. Further, the Board's order issued in July 2003 did not distinguish between the new and existing SS for charging E&S charges.

Thus, the Board's decision to recover lower E&S charges in contravention of its own orders resulted in extension of undue favour of Rs. 5.92 crore to the windmill developers. Ratification of the deviations from the orders of the Board by the Chairman was *ultra vires*.

The matter was reported to the Board/Government in May 2008; their replies were awaited (October 2008).

4.15 Avoidable expenditure on customs duty

The Board extended undue benefit of Rs. 2.57 crore by paying avoidable customs duty to a supplier.

The Board placed (January 2005) an order on Easun Products of India (Private) Limited (supplier) for purchase of XLPE cable and other accessories required for its transmission projects. Since the required material was to be imported by the supplier and some of the materials were entitled for concessional customs duty under the scheme of project import, the Board mentioned the prices of the material distinctly under the normal duty of 20 *per cent* and under the concessional duty of 10 *per cent* in the purchase order. The purchase order specified that any increase or decrease in import duties would be to the supplier's account and the supplier was to get the concessional duty by providing the necessary documentary evidence to the Customs Authorities.

Audit observed that based on a subsequent request of the supplier, the Board owned the responsibility of availing the concessional customs duty. Accordingly, the supplier was required to provide necessary documents to the Board, who would approach the customs authorities for availing the concessional customs duty. It was observed that the efforts of the Board to get registered for the concessional customs duty under the scheme of project import failed as only the importer (*i.e*., supplier) was eligible for registration under the scheme. The Board finally decided (August 2005) to forego the concessional duty and received the goods by paying the normal rate of customs duty. Thus, the decision of the Board to shift the responsibility from the supplier to itself for claiming the concessional duty resulted in avoidable expenditure of Rs. 85.61 lakh being the difference between the normal duty payable and the concessional customs duty.

It was further observed in audit that the rate of customs duty was reduced from 20 *per cent* to 15 *per cent* in 2005-06 and further reduced to 12.5 *per cent* in 2006-07. However, the purchase order condition mentioned above provided for reimbursement of the customs duty at 20 *per cent*, which was not in accordance with the tender condition. As per the tender condition, the benefit of reduction in customs duty should have been passed on to the Board. But as per the terms of the purchase order, the Board paid the customs duty at 20 *per cent* despite reduction in the rate. This resulted in undue benefit to the supplier to the extent of Rs. 1.71 crore.

Thus, unwarranted modification to the terms of the purchase order and failure to adopt a clause in the purchase order similar to the tender condition resulted in extra expenditure of Rs. 2.57 crore to the Board.

The matter was reported to the Board/Government in June 2008; their replies were awaited (October 2008).

4.16 Avoidable payment of interest on throughput charges and fuel stock cost

Incorrect inclusion of 'Throughput Charges' and value of fuel stock for calculating the interest on working capital resulted in avoidable payment of interest of Rs. 1.29 crore.

The Board entered into (September 1996) a Power Purchase Agreement (PPA) with GMR Vasavi Power Corporation Limited (GMRV), an Independent Power Producer (IPP), for purchase of power from them. In pursuant to Article 5.3 of the PPA, GMRV entered (December 1996) into a Fuel Supply Agreement (FSA) with Hindustan Petroleum Corporation Limited (HPCL).

Under the FSA, HPCL was to design, construct and install the fuel facilities such as storage tank, pipeline for transportation of the fuel, pumping facilities, *etc*., at the plant. GMRV had to pay 'throughput charges' towards fuel transportation, storage facilities and annual operation and maintenance charges at Rs. 5 crore *per annum* for the first five year period and thereafter at Rs. 4.50 crore *per annum*, Rs. 4 crore *per annum* and Rs. 3.50 crore *per annum* for the next three-five years periods respectively. These charges were to be paid on a quarterly basis subsequent to the quarter ending.

On the other-hand, the PPA stipulated that the IPP would raise monthly invoice comprising variable and fixed charges for the power supply to the Board and the invoice amount was to be paid by the Board within 30 days of its receipt. The variable cost included the "throughput charges" along with the fuel cost and the fixed cost included amongst other items "interest on working capital". The working capital was reckoned by the IPP considering the "fuel stock" actually maintained but limited to 30 days consumption.

Audit observed that as the Board was making payment of throughput charges to the IPP on monthly basis and the IPP was required to pay this component to HPCL on quarterly basis, there was no need to include this component for working out the interest on working capital. As such, the Board should have excluded the throughput charges for the purpose of calculation of interest on working capital. Failure to do so resulted in incurring an avoidable interest payment of Rs. 82.14 lakh on the working capital during 2002-03 to 2007-08.

Further, on review of the fuel stock particulars furnished in the monthly invoices for two years from April 2006 to March 2008, it was observed in audit that on five occasions the IPP had held fuel stock lower than 30 days average consumption. However, the IPP claimed the interest on working capital for the value of fuel stock equivalent to 30 days consumption instead of the value of fuel stock actually held, which was lower. The Board admitted the claims without limiting the same as envisaged in the PPA. This resulted in the Board reckoning the working capital higher by Rs. 57.64 crore and consequent excess payment of Rs. 46.40 lakh towards interest on the working capital for the fuel stock.

The matter was reported to the Board/Government in June 2008; their replies were awaited (October 2008).

4.17 Loss of revenue due to short levy of demand charges

Short levy of demand charges for the additional power availed by a High Tension consumer resulted in loss of Rs. 1.18 crore to the Board.

The Madras Alumnium Company Limited, Mettur, a High Tension consumer was availing power with a permitted demand of 10,000 KVA. The consumer requested (September 2004) for an additional demand of 20,000 KVA on account of shut down of their Captive Power Plant for a period of one month in January 2005. As the Tamil Nadu Electricity Supply Code (effective from 1 September 2004) issued by the Tamil Nadu Electricity Regulatory Commission did not have any provision for allocation of additional demand for temporary periods, the Chairman of the Board decided (December 2004) to collect twice the normal demand charges of Rs. 300 per KVA for a period of 30 days and part thereof irrespective of the billing period and the energy charges for the period of availing the additional demand as per the applicable tariff. Accordingly, the consumer was allowed to avail additional demand of 20,000 KVA during the period from 1 January to 31 January 2005 and 21,000 KVA on two subsequent occasions from 1 August to 31 August 2006 and from 17 January to 19 January 2007 at the rate of charges decided by the Board.

Audit observed that the consumer was allowed to avail an additional demand of 21,000 KVA for a temporary period of two days from 1 September 2006 (23.00 hrs) to 3 September 2006 (22.00 hrs). On this occasion, the Board collected the demand charges of Rs. 8.40 lakh on prorate basis for two days, contrary to the Board's earlier decision to collect the charges for a period of 30 days irrespective of the billing period. This resulted in a loss of Rs. 1.18 crore and undue favour to the consumer.

The matter was reported to the Board/Government in June 2008, their replies were awaited (October 2008).

4.18 Avoidable expenditure due to non-inclusion of a clause in the purchase order

The Board incurred an avoidable expenditure of Rs. 51.88 lakh due to its failure to incorporate a clause in the purchase order for placement of orders for additional quantity.

The Board Level Tender Committee (BLTC) of the Board, while approving (October 2004) the proposal to place purchase order for 150 numbers of 500 KVA/22 KV distribution transformers on three eligible tenderers, also accorded approval to place orders for additional quantity to the extent of 25 *per cent* of the tendered quantity on need basis.

The Board issued (October 2004) purchase order for supply of 50 numbers of transformers each on the three tenderers at an ex-factory price of Rs. 2.16 lakh per transformer with a ceiling of price variation up to 15 *per cent* either way and with delivery period of six quarters ending May 2006. The Board,

however, did not include the condition of placement of orders for additional quantity up to 25 *per cent* of the tendered quantity. While two suppliers supplied the entire quantity of transformers, the third supplier supplied only two transformers (out of 50 transformers) within the due date.

It was observed in audit that at the end of April 2006, the stock position was depleting and prices of the transformers were showing increasing trend. However, the Board could not place orders for additional quantity up to 25 *per cent* of the tendered quantity in the absence of an enabling clause in the purchase order. This resulted in avoidable expenditure of Rs. 51.88 lakh by way of procurement of 24[♣] transformers in the subsequent purchase order at higher cost.

The Board stated (May 2008) that placing orders for an additional quantity of 25 *per cent* could not be resorted to without actual requirement for transformers in the field.

The reply is not to the point. The Board did not give any reason for the non-inclusion of an enabling clause in the purchase order. The Board needed to incorporate an enabling clause in the purchase order. Thus, failure of the Board to include a suitable clause in the purchase order resulted in avoidable expenditure of Rs. 51.88 lakh.

The matter was reported to the Board/Government in June 2008; their replies were awaited (October 2008).

♣ Since only two suppliers supplied the full ordered quantity i.e., 50 transformers each, placement of additional order only on two suppliers has been considered.

General

4.19 Follow-up action on Audit Reports

Explanatory notes outstanding

4.19.1 The Comptroller and Auditor General of India's Audit Reports represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in the various offices of Public Sector Undertakings (PSUs) and Departments of Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive. Finance Department, Government of Tamil Nadu had issued instructions (January 1991) to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on the paragraphs and reviews included in the Audit Reports within six weeks of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

The Audit Reports for the years 1997-98, 1998-99, 1999-2000, 2000-01, 2001-02, 2002-03, 2003-04, 2004-05, 2005-06 and 2006-07 were presented to the State Legislature in April 1999, May 2000, September 2001, May 2002, May 2003, July 2004, September 2005, August 2006, May 2007 and May 2008 respectively. Twelve out of 18 departments, which were commented upon, had not submitted explanatory notes on 109, out of 274 paragraphs/reviews, as of 30 September 2008, as indicated below:

Year of Audit Report (Commercial)	Total number of paragraphs/review in the Audit Report	Number of paragraphs/reviews for which explanatory notes were not received
1997-98	25	1
1998-99	29	1
1999-2000	28	10
2000-01	25	9
2001-02	32	12
2002-03	29	5
2003-04	24	7
2004-05	25	15
2005-06	30	25
2006-07	27	24
TOTAL	**274**	**109**

Department-wise analysis is given in the **Annexure-25.** The departments largely responsible for non-submission of explanatory notes were Industries (38), Energy (24) and Micro, Small and Medium Enterprises (17).

Compliance with the Reports of Committee on Public Undertakings (COPU)

4.19.2 The replies to the paragraphs are required to be furnished within six weeks from the date of presentation of the Report by the Committee on Public Undertakings (COPU) to the State Legislature. Replies to 24 paragraphs pertaining to 17 Reports of COPU presented to the State Legislature between January 2003 and May 2007 had not been received as of September 2008 as indicated below:

Year of COPU Report	Total number of Reports involved	Number of paragraphs in respect of which replies were not received
2002-03	2	2
2003-04	7	9
2004-05	5	6
2007-08	3	7
TOTAL	**17**	**24**

Response to inspection reports, draft paragraphs and reviews

4.20 Audit observations noticed during audit and not settled on the spot are communicated to the heads of the Public Sector Undertakings (PSUs) and departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of departments within a period of six weeks. Inspection reports issued up to March 2008 pertaining to 53 PSUs disclosed that 2,955 paragraphs relating to 708 inspection reports remained outstanding at the end of September 2008; of these, 361 inspection reports containing 1,198 paragraphs had not been replied to for more than two years. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2008 are given in **Annexure-26.**

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that 14 draft paragraphs and four reviews forwarded to the various departments during the period from April to August 2008, as detailed in **Annexure-27**, had not been replied so far (October 2008).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/reviews/ATNs on the recommendations of COPU as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayments is taken within prescribed time and (c) the system of responding to audit observations is revamped.

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The **Comptroller and Auditor General of India**