CHAPTER-IV

SECTION 4A – GOVERNMENT COMPANIES

4A.1 TAMIL NADU CIVIL SUPPLIES CORPORATION LIMITED

4A.1.1 Avoidable expenditure on purchase of rice

The Company incurred extra expenditure of Rs.13.89 crore on purchase of Above Poverty Line (APL) category rice at the prices higher than market rate in spite of having comfortable stock of rice.

Government of India (GOI) allocates rice from central pool to the States on monthly basis for distribution under Public Distribution System (PDS). The allocation is made under two categories *viz.*, Below Poverty Line (BPL) and Above Poverty Line (APL) at Rs.3,500 per metric tonne (MT) and Rs.9,050 per MT respectively, which were increased to Rs.5,900 per MT and Rs.11,800 per MT respectively from 1 April 2000. The Company being the agency of the Government for the implementation of PDS, gets rice from two sources *viz.*, from central pool allotment and by procuring paddy during harvest season in the State and converting the same in to rice.

It was observed in Audit that there was comfortable stock position of rice during 2000-01 (excluding allotment under BPL category) as the Company had a stock of 10.57 lakh MT of rice or rice equivalent of paddy against an average monthly requirement of 1.15 lakh MT. It was also observed that the cost of rice to the Company by converting paddy in to rice was Rs.10,018 per MT, which was lower than the APL price.

In spite of very comfortable stock position of rice and high cost of APL rice, the Company lifted 77,972 MT of APL rice up to August 2000 (31,532 MT in May 2000, 3,000 MT in June 2000, 38,440 MT (full allotment) in July 2000 and 5,000 MT in August 2000), which resulted in avoidable extra expenditure of Rs.13.89 crore.

The Government replied (August 2002) that (i) for April 2000 allotment, release orders were obtained by certain Regional Managers before receipt of Head Office instructions not to lift APL rice; (ii) in July 2000, APL rice was lifted to maintain two months requirement of PDS (4.4 lakh MT) and (iii) in August 2000, APL rice was lifted only to the extent of 5,000 MT on need basis.

The reply is not tenable in view of the following reasons that (i) in April 2000, even if the amount for APL rice had been remitted, lifting could have been stopped by Regions on receipt of Head Office instructions and (ii) the statement that rice was lifted in July 2000 to maintain two months PDS requirement is not correct as it considered rice only in stock and did not take in to account rice equivalent of paddy (about 5 lakh MT). Further, the Company's reply is also silent about allotment of 91,580 MT of BPL rice for July 2000 (iii) The rice stock position of the Company in July end was sufficient to take care of four months' PDS requirements. Further, the reply of the Company is silent about not procuring of rice from open market at lower prices.

4A.1.2 Avoidable extra expenditure on purchase of free sale sugar

Purchase of free sale sugar at the rates higher than prevailing market rates resulted in avoidable expenditure of Rs.10.48 crore.

Government of India allots levy sugar for distribution under Public Distribution System (PDS) at 425 gram (gm) per capita, which was increased to 500 gm per capita by Government of Tamilnadu (State Government). In order to meet the shortfall in the distribution of sugar through PDS, State Government permitted (February 2000) the Company to purchase free sale sugar from Tamilnadu Co-operative Sugar Federation (Federation), a coordinating agency for the sale of sugar produced by the co-operative and public sector sugar mills at mutually agreed price based on the prevailing market rates.

The Company procured 1,77,235 MT of free sale sugar from the Federation at rates ranging from Rs. 13,300 to Rs. 14,700 per MT during the period from April 2000 to March 2002.

A scrutiny of the monthly rates at which the Company purchased free sale sugar from the Federation during this period, revealed that the Company paid Rs.10 to Rs.1,540 per MT higher than the prevailing market rates. This resulted in avoidable expenditure of Rs.10.48 crore. It is pertinent to mention that during the same period, Chennai Regional Office of the Company purchased free sale sugar for its Amudham Departmental Store from the same Federation at the rates lower than those paid for PDS distribution.

The Government admitted (May 2002) in their reply that the higher selling price for free sale sugar was fixed (by the Federation) by taking the highest price received in the tender as basic price and adding four *per cent* towards wholesale margin and fluctuation in price of sugar. The Government further stated that in future the sale price of market sugar would be fixed based on the average monthly sales of previous month plus two *per cent* wholesale margin

and that the selling price would be calculated mill-wise instead of fixing the uniform rate for all the mills. But the fact remains that the Company failed to ensure that only prevailing market rates, as directed by the State Government, were charged, resulting in avoidable expenditure of Rs.10.48 crore.

4A.2 TAMIL NADU SUGAR CORPORATION LIMITED AND PERAMBALUR SUGAR MILLS LIMITED

4A.2.1 Avoidable loss of interest due to lapse of monthly quota for free sale sugar

Failure to sell the allotted quantity of free sale sugar resulted in avoidable interest loss of Rs.1.98 crore.

The sale of sugar by the sugar mills is controlled/regulated by the Government of India (GOI), which fixes monthly quota for sale of free sale sugar and levy sugar. The allotted quantities against free sale quota in a month should be sold by the sugar mills before the end of that month. Any unsold quantity of free sale sugar could be subsequently sold only with specific prior approval of GOI.

A test check of sale of free sale sugar by the three sugar mills of these companies at Madurai (Madura Sugar Mills), Thanjavur (Arignar Anna Sugar Mills) and Perambalur (Perambalur Sugar Mills) revealed that these Companies could not sell 45,290 quintals of sugar against quota of free sale sugar for 1999-2000 season in the respective allotment months. Against this lapsed quantity, GOI released 20,292 quintals in February 2002 (7,919 quintals) and March 2002 (12,373 quintals) and the Companies sold these quantities in full in March and April 2002, respectively, leaving 24,998 quintals out of 1999-2000 allotment unsold till date (May 2002).

It was observed in Audit that the sugar mills fixed (June 1999) a floor price below which they refused to sell the sugar. The decision of the sugar mills not to sell the allotted quantity of sugar on this ground lacked justification as the mills in the State were facing financial crisis from 1998-99 onwards due to high sugar cane price and poor realisation from sale of sugar. Moreover, they were incurring inventory carrying cost of about Rs.19 per quintal per month

Thus, the failure of the companies to sell the entire allotted sugar in 1999-2000 resulted in non-realisation of Rs.3.07 crore, being the sale value of 24,998 quintals (at the minimum selling rate of Rs.1,230 per quintal in August 2000) for 28 months (February 2000 to May 2002). Moreover, there was delay of 25 months in sale of 20,292 quintals of sugar, resulting in interest loss of Rs.1.98 crore.

The Government in reply (September 2002), while admitting the loss stated that the loss was Rs.12 lakh only as the Company actually sold the lapsed quantity against the current valid release order during the period from April to September 2000 in terms of GOI, Ministry of Consumer Affairs and Public Distribution letter No.5.5 (FSE) G.80-SC-II dated 10 February 2000.

The reply is not tenable as the Company had to retain an equivalent quantity of free sale sugar from the subsequent season's production in the stock until the quota of lapsed quantity is revalidated and sold out. It is pertinent to mention that though Tamil Nadu Civil Supplies Corporation Limited, another Government company, was in need of free sale sugar for meeting the Public Distribution System requirement (as explained in Paragraph 4A.1.2 *supra*), the Company did not take up the revalidation of lapsed quantities effectively.

4A.3 PERAMBALUR SUGAR MILLS LIMITED

4A.3.1 Avoidable expenditure on water charges

Failure to assess water requirements properly and enter in to an agreement for drawal of water resulted in extra expenditure/commitment of Rs.13.20 lakh.

The Company had been drawing water for its use from Vellar river since 1978 and for this purpose it entered in to an agreement with Public Works Department (PWD) of the State Government. The agreement provided for drawal of a maximum of 11.5 lakh kilo litre (KL) of water, estimated by the Company as its annual requirement (permitted quantity). The water charges were to be paid to PWD in advance every financial year for the permitted quantity at the rates fixed by the Government from time to time.

Audit pointed out (April 1999) that the actual drawal of water by the Company was far less compared to the permitted quantity of 11.5 lakh KL *per annum*, which ranged from 5.86 lakh KL to 8.38 lakh KL *per annum* during the four year period ended 31 March 1999. Despite the continuous lower drawal, the Company did not take any effective steps to get the permitted quantity reduced to suit its requirements. It was only in November 2000 that the Company wrote to PWD requesting for reduction of permitted quantity to 7.10 lakh KL *per annum* but PWD had not given its concurrence for such a reduction till date (March 2002). Meanwhile, the Company drew 5.91 lakh KL and 4.96 lakh KL in 1999-2000 and 2000-01, respectively.

Thus, the failure of the Company to get the permitted quantity of water drawal reduced from 11.5 lakh KL to 7.10 lakh KL per annum resulted in an avoidable extra expenditure/commitment on water charges to the extent of Rs.13.20 lakh during the last six years ended 31 March 2002.

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The Company replied (March 2002) that it initially assessed its consumption of water at 11.5 lakh KL *per annum* taking in to account the future expansion programmes. As the expansions could not be carried out because of the financial problems, it requested (November 2000) PWD to reduce permitted quantity of water to 7.10 lakh KL *per annum*. But the fact remains that the Company did not have any concrete programme for expansion and as such the inordinate delay in taking up the matter with the PWD for reduction in permitted quantity for drawal of water is not justified.

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

4A.4 TAMIL NADU SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED

4A.4.1 Idle investment on purchase of land

Purchase of land for development of plots without demand survey resulted in blocking of Rs.4.16 crore and consequent interest loss of Rs.1.46 crore.

The Company purchased (October 1998) 43.26 acre of land at Irungattukottai from State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT) for Rs. 4.16 crore for establishing an industrial complex for Small Scale Industrial (SSI) units, based on the assumption that there was no developed plot/worksheds available for SSI abutting the Chennai-Bangalore Highway and that the response from entrepreneurs to start industries in the outskirts of Chennai was overwhelming and encouraging. While taking possession (November 1998), the Company found that part of the land was full of excavated pits, though the allotted land was identified by the Company itself. After protracted correspondence, SIPCOT allotted (March 2000) an alternative equivalent area (20 acre). No development works were undertaken by the Company since purchase and in September 2000 only, the Company worked out the cost of developed plots at Rs. 21.32 lakh per acre after taking in to account cost of land, interest on investment, stamp duty and further development charges. It was noticed that the Company did not carry out cost-benefit analysis before fixing the price particularly when SIPCOT was offering developed plots at Rs.12 lakh per acre in the same complex. Even the assumption of overwhelming and encouraging response did not materialise. Consequently, the Company could not sell this land.

Thus, failure to conduct proper demand survey and cost-benefit analysis before purchase, resulted in idle investment of Rs. 4.16 crore on purchase of land from SIPCOT since October 1998 with consequential interest loss of Rs. 1.46 crore up to March 2002.

The Government admitted (August 2002) that the estimated selling cost of Rs.21.32 lakh per acre of developed plot was higher than the selling price of Rs.12 lakh per acre fixed by SIPCOT and the demand for developed plots from small and tiny sector units did not fructify as per expectation. It further stated that agreement has now been entered with SIPCOT to sell these plots through them at their selling price. The above reply confirms the fact that the investment was made without any cost-benefit analysis or demand survey.

4A.4.2 Idle investment on construction of Electronic Complex

Construction of 40 modules in Electronic Complex, Guindy without demand resulted in idle investment of Rs.2.51 crore.

As a part of construction programme for the year 1993-94, the Company decided (September 1993 and August 1994) to construct 40 modules in Block-III of Electronic Complex, Guindy at an estimated cost of Rs.1.80 crore. The construction was stated to be based on the demands received for multi-storied complexes but no such demand survey was found on records.

Accordingly, the construction of modules commenced in January 1995 and completed in December 1996, at a total cost of Rs.2.51 crore (including cost of common amenities but excluding cost of land). The Company could not sell these modules as the offers received were very low compared to the selling price fixed by the Company. It was observed in Audit that M/s. Commonwealth Holding Private Limited. Singapore offered (January 1999) to take the entire 40 modules on a quarterly rent of Rs.10 lakh for the first three years and Rs.11 lakh for the subsequent two years. They also offered to purchase these modules for Rs.7.60 crore excluding the rent paid, after the completion of five years. But, the Company did not pursue the matter effectively with the Government to let out the building to M/s Commonwealth Holding Private Limited. The Company could not sell even a single module till date (March 2002) though more than five years had elapsed since completion of the modules.

Thus, construction of Block-III of Electronics Complex, Guindy without properly assessing the demand prior to construction had resulted in an idle investment of Rs.2.51 crore for more than five years. Its subsequent failure to let it out to a Singapore firm on an annual rent of Rs.40 lakh also resulted in a revenue loss of Rs.1.20 crore (till March 2002).

The Company in its reply stated (May 2002) that taking in to account the demand for the first two blocks, the construction of third block was subsequently taken up. But when the construction of the third block was completed, the scenario in the industrial front was slowly changing not only in the field of electronics but also in the entire industrial sector resulting in decline in demand for the modules in the third block. It was further stated that steps had been taken to sell the modules to the needy industries/organisations, which were not successful.

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The reply is not tenable in view of the fact that the Company failed to conduct proper market survey/study before taking up the construction of third block of Electronic Complex. Further, the Company was able to allot/sell 70 out of 80 modules in the first and second blocks of the Electronic Complex only because of low price offered *i.e*. Rs.400 per sq.ft. at the time of provisional/regular allotment made during 1995-96 to 1997-98, whereas in Block-III, the price was fixed at Rs.1,051 per sq. ft.

The Company also stated that the Singapore firm had offered to take the entire complex on rental basis but backed out later. However, no documentary evidence was produced to Audit in support of this statement.

The matter was reported to the Government in June 2002; their reply has not been received (September 2002).

4A.4.3 Loss due to incorrect lay out

Negligence in preparing the correct lay out resulted in loss of Rs.13.98 lakh and idle investment of Rs.1.15 crore.

The Company allotted (between January 1997 and July 1998) various developed plots to M/s.Raj Creations (0.84 acre), M/s.Chennai Telephones (1.11 acre) and M/s.Devi Narayan Exports (P) Ltd. (0.193 acre) in the industrial estate developed at Thirumazhisai village. When these allottees started (January 1999) the development work, Tamil Nadu Small Industries Corporation Limited (TANSI) disputed the ownership of 1.803 acre that formed part of the five acre of land with a building measuring 859.917 square metre allotted to them by the State Government in July 1988. It was observed in Audit that the Company was fully aware (September 1988) that out of 9.64 acre of land in Survey Nos.128 (5.14 acre) and 129 (4.50 acre), only 4.64 acre belonged to it and the remaining five acre was allotted to TANSI. Still, the Company prepared an incorrect lay out by including TANSI land as its own. In order to settle this dispute with TANSI, the Company purchased (November 2000) the entire five acre land along with the building thereon at a total cost of Rs.1.66 crore (Rs.1.42 crore for land and Rs.24.57 lakh for building).

The Company could not pass the additional cost of Rs.13.98 lakh on 1.803 acre of allotted land resulting in loss of this amount. Further, funds of Rs.1.15 crore were also blocked with consequent interest loss of Rs.22.81 lakh (up to March 2002). No responsibility has been fixed for this lapse and loss.

The Company, while accepting the facts stated (July 2002) that it had decided to dispose of the balance 3.197 acre land. However, the fact remains that the layout prepared by the Company was incorrect resulting in this loss.

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

4A.4.4 Infructuous expenditure on development of housing plots

Failure to get prior approval of Government rendered the expenditure of Rs.0.52 crore incurred on development of housing plots unproductive.

The Company acquired (prior to 1978) 478.38 acre of land for setting up an Industrial Estate at Thuvakudi (near Trichy) and developed 464.143 acre as industrial plots. The Company decided (February 1998) to develop housing plots in the remaining area (14.237 acre) for allotment to the industrial workers of that industrial estate.

Even though approval of the Government of Tamil Nadu was required due to change in the purpose of utilisation of land, the Company went ahead with the development of housing plots over the remaining area of 14.237 acre without getting the approval of the Government. It is pertinent to mention that one of the Directors had given (February 1998) a dissenting note indicating that the change in purpose would be violative of the provision of Land Acquisition Act. The Company incurred an expenditure of Rs.0.52 crore between July 1998 and March 1999 on formation of roads, water supply arrangements, streetlights, *etc*. It was only after incurring this expenditure that the Company took up (May 1999) the matter with the Government for approval to allot the developed area as housing plots. The Government, however, had not accorded its approval till date (March 2002) and the expenditure incurred by the Company (Rs.0.52 crore) remains unproductive for the last three years.

It is also observed that in a similar case, the Government had turned down (February 1999) the proposal of the Company to develop housing plots in Kappalur Industrial Estate stating that allotting the land acquired for industrial purposes as housing plots was not correct.

Thus, failure to get the prior approval of the Government for developing housing plots in the land acquired for industrial purpose, has rendered the expenditure of Rs.0.52 crore unproductive.

The Company replied (June 2001) to the Audit enquiry that the proposal was approved after detailed discussions about the merits and demerits and that the proposal is under the examination of the Government. The fact remains that the Company sought approval of the Government only after incurring the expenditure and the Government had not accorded its approval till date (March 2002). Moreover, the Government had already refused to give permission for change of use of land in a similar case in the past.

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

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4A.5 POOMPUHAR SHIPPING CORPORATION LIMITED

4A.5.1 Excess payment of port charges

The Company paid Rs.3.78 crore as port dues to Paradip Port Trust contrary to the provisions.

The Company is engaged in the transportation of coal from the eastern ports of Haldia, Paradip and Vishakapatnam to Chennai and Tuticorin on behalf of Tamil Nadu Electricity Board (TNEB). For this purpose, the Company charters coastal vessels on hire basis in addition to deploying its three vessels. Whenever these vessels enter the ports, vessels related charges such as port dues, berth hire charges, pilotage, etc., are to be paid to the Port authorities.

In respect of Paradip Port, as per the tariff provisions, port dues are to be paid for coastal vessels once in 30 days. In other words, port dues paid for a particular coastal vessel when it enters Paradip Port would be valid for 30 days from the date of its first entry and no further port dues are to be paid for its subsequent entries within the next 30 days. Though the Committee on Public Undertakings (COPU) in their 65th Report (1997-98) had recommended (May 1998) that the Company should consider the payment of port dues direct to the port authorities instead of through the agents to avoid any possible malpractice, the Company continued (August 2002) to make payment of port dues through the agent and the payment vouchers in original have been retained by the agents themselves.

A review of the port dues paid by the Company through the handling agents in respect of coastal vessels (both owned and hired) for entry in to Paradip Port during the period from June 2000 to March 2002 (the period for which records were made available to Audit by the Company) revealed that the Company paid, port dues for the second and third entries also even though these entries were made within 30 days of the first entry. This resulted in excess payment of Rs.3.78 crore to the Paradip Port Trust authorities.

The Company in reply stated (July 2002) that the port dues for coastal vessels were paid for each entry as per corrigendum dated 3 June 2000 to Paradip Port Trust Office Order No.TD/TM/GEN-09(X) dated 29 May 2000. The reply is not tenable as the Tariff Authority for Major Ports (TAMP) only was authorised to fix port dues from time to time under the provisions of Section 49-B of the Major Port Trust Act, 1963 and the order issued in April 2000 by TAMP to revise the scale of rate of Paradip Port Trust did not revise the periodicity of payment of port dues.

The matter was reported to the Government in June 2002; their reply had not been received (September 2002).

4A.6 TAMIL NADU MINERALS LIMITED

4A.6.1 Extension of undue benefit to granite buyers

Post-tender introduction of third quality granite blocks resulted in undue benefit of Rs.1.48 crore to the buyers.

The Company has been categorising Kashmir white granite blocks in to two qualities *i.e.*, Ist and IInd and global tenders were being invited on this basis. Based on above categorisation, the Company invited (March 2000) 20th Global tender for the sale of coloured granite blocks (including Kashmir white) for one year from April 2000. However, one of the tenderers M/s Magti Marble and Granite Trading Inc. Switzerland (Magti) quoted rates for IIIrd quality too though this was not contemplated in the tender. Based on the offers received from the tenderers and negotiations held subsequently, the rates were finalised, inter alia, for the sale of Kashmir white granite blocks under three qualities and sale orders were issued (May 2000) by the Company to the four tenderers including Magti at rates ranging from US $ 350 to 652 per cubic metre, FOB, Tuticorin. The Company sold 8,665.545 cubic metre of Kashmir white granite blocks including 2,570.42 cubic metre of IIIrd quality against this tender, during the period from July 2000 to July 2001.

It was observed that the introduction of IIIrd quality of granite was for this tender only and for the subsequent 21st Global tender finalised in July 2001, only Ist and IInd qualities were indicated. Moreover, Divisional Manager, incharge of the quarries extracting the Kashmir white granite, had also observed (October 2000) that it was difficult to distinguish between IInd and IIIrd quality granites.

Thus, addition of another quality *viz.,* IIIrd quality that too at the instances of the buyer, was not justified. This resulted in undue benefit of Rs.1.48 crore to the buyers as the rates for IIIrd quality were lower than the rates for IInd quality.

The Company stated (July 2002) that there was no loss to the Company by disposal of blocks as IIIrd quality, as if not disposed of, this quality would be available at quarry site for years together losing export worthiness and market value. It was further stated that based on a Committee's Report about the confirmation of the classification of the granite, the Company sold the IIIrd quality granite and thereby earned foreign exchange.

The reply is not acceptable in view of the fact that the Company had been categorising the granite in to two qualities till 19th global tender and reverted back to the system of categorising granite in to two qualities from 21st global

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tender. If, as stated by the Company, the classification as IIIrd quality had benefited it, the same should have been continued in the next tender also.

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

4A.6.2 Loss due to allowing variations in measurements

The Company suffered revenue loss of Rs.1.52 crore due to accepting buyers' measurements for sale of granite blocks.

The Company produces granite blocks from the mines acquired on lease from the Government. After production of granite blocks, they are serially numbered and measured on volumetric basis (*i.e.*, length X width X height) for record. At the time of sale, the buyers personally inspect the quality and colour of granite blocks and take measurement of each block in the presence of the Officer in-charge of the concerned quarry. The buyers' measurements are finally adopted for raising invoices for sale of granite blocks.

An analysis made in Audit in Krishnagiri Division revealed that there were wide variations between the measurements of granite blocks taken by the Company and by the buyers and the measurement of the buyers were mostly on lower side. The percentage of variation ranged between 10 and 35 during the period April 2000 to March 2001 (after allowing variation of 125 cubic centimetre per block normally allowed by the Company). The Company without analysing the reasons for variations, agreed to the measurement of the buyers. The revenue loss to the Company due to such variations in measurements worked out to Rs.1.52 crore on the cumulative difference of 859.48 cubic metre (computed with reference to the average selling price of colour granite blocks during 2000-01).

The Company in its reply stated (July 2002) that the private parties are allowing up to 30 *per cent* towards measurement difference to the buyers. It was further stated that as payments to contractors for granite blocks were made based on buyer's approved quantity, there was no loss to the Company. The difference in measurement in granite business could not be fully avoided due to formation of intrinsic defects in the block naturally. However, the fact remains that the Company failed to analyse the reasons for such wide variations between the two measurements to exercise proper control/check over the loss on account of measurement difference.

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

4A.6.3 Loss due to pilferage

Failure to ensure strict compliance with internal control system in mining operations resulted in loss of Rs.0.81 crore due to pilferage.

The Company is exploiting granite and other mineral resources in the land taken on lease from the State Government, either departmentally or by engaging Raising Agents (RAs). It had taken on lease 2.56 hectare in Thiruthangal village, Kamarajar district for mining granite blocks.

It was observed that the Company lost 1,423 cubic metre of possible production of granite blocks due to suspected pilferage by M/s Surya Exports (486 cubic metre) and M/s Standard Granites (937 cubic metre), both RAs, during the period from October 2000 to June 2001. The Committee appointed by the Chairman and Managing Director to investigate this matter, reported that the Project Officer failed to exercise necessary internal control checks, as detailed below, prescribed by Head Office for mining operations.

- The Company emblem had not been marked on extricated blocks immediately after extrication as required.
- Blocks shown in the Extrication Register were not available during physical verification.
- Blocks had not been numbered serially. Further, same serial numbers were assigned for blocks raised by different RAs.
- Some of the raised blocks, classified as unsaleable were stated to have been blasted off as per the Project Officer's instructions or by the RA on his own in violation of Head Office instructions that this should be done only with its approval.

It was also observed that as the Company had not formed approach roads to the quarry, it had to depend on landowners of the adjacent lands (where the RAs were mining on their own) for movement of men and materials. This coupled with failure to follow Head Office directives facilitated pilferage of 1,423 cubic metre of granite blocks, valued at Rs.0.81 crore by the RAs.

The Company neither did take any action against the RAs nor fixed responsibility on any official of the Company for the pilferage till date (March 2002).

The matter was reported to the Company and the Government in May 2002; their replies had not been received (September 2002).

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4A.6.4 Shortage of costly materials

Poor inventory control and lack of surprise physical verification resulted in shortage of diamond wire valued at Rs.20.58 lakh.

The Divisional Manager, Krishnagiri division of the Company reported (26 December 2001) that new and used diamond wires of 503.61 metre in length valued at Rs.20.58 lakh were found missing from the divisional stores at Krishnagiri. Based on the Chairman-cum-Managing Director's directives, a team of officials conducted (29 December 2001) an enquiry on the shortage of diamond wires at Krishnagiri. The preliminary report of the enquiry *inter alia* indicated that the Divisional Manager and the Stores Superintendent did not take any effective steps to check this high value item at regular intervals.

The Company lodged (December 2001) a complaint with the police authorities about the theft/shortage of materials and the outcome of police investigation is awaited (March 2002). The Divisional Manager and the Stores Superintendent of Krishnagiri division were placed under suspension (January 2002) and the outcome of departmental enquiry is awaited (March 2002).

In this connection, the following observations are made in Audit:

(1) The Commercial Manual of the Company stipulated that in addition to the physical verification of stores on 30 September and 31 March every year, a surprise check would be conducted by an officer nominated by Head Office. In respect of diamond wire, which is a high value item, the surprise check was not conducted even once.

(2) Purchase of diamond wire was not commensurate with usage. 400 metre of diamond wires were purchased in quick succession on 11 July 2001 (200 metre) and 7 August 2001 (200 metre) though the monthly requirement was 25 metre only. During the period July 2001 to December 2001, only 107.05 metre of wires were issued to the mines and on 26 December 2001, the physical stock was found to be 73.10 metre indicating a shortage of 219.85 metre of new wires.

(3) Though shortage of another high value item *viz*., drill rods valued at Rs.4.01 lakh was detected in the same division in October 1995, the division did not conduct surprise checks even thereafter to prevent recurrence of such shortages.

Thus, the Company's poor inventory control and lack of surprise physical verification resulted in avoidable loss of Rs.20.58 lakh.

The Management stated in April 2002 that the case has been handed over to Crime Branch of Criminal Investigation Department and that the quarterly physical verifications as per the purchase manuals were carried out in respect

of diamond wire. However, the fact remains that surprise physical verification was not carried out and the diamond wires were purchased far in excess of immediate requirement.

The matter was reported to the Government in August 2002; their reply had not been received (September 2002).

4A.7 TAMIL NADU CORPORATION FOR DEVELOPMENT OF WOMEN LIMITED

4A.7.1 Avoidable loss due to delay in closure of non-functioning units

Delay in closing down non-functioning units resulted in avoidable loss of Rs.1.20 crore.

The Company established (1984-87) four Training-cum-Production Centres *viz.*, Printing Press Units at Guindy and Sivakasi, Educational Aids Unit at Tambaram and an Electronics Unit at Guindy with financial assistance from Government of India with the main objective of imparting training to women and making them technically competent.

The performance of these units was last reviewed and included in the Report of the Comptroller and Auditor General of India (Commercial) for the year 1987-88 highlighting the losses suffered by these units (except the unit at Sivakasi). While furnishing reply to the Audit Report, the State Government (Government) stated (November 1990) that the reason for the losses incurred by these units was disproportionate number of workers on account of absorption of trainees. The Government further informed (July 1992) COPU that the Company had submitted a detailed proposal to it to run these four units for training 200 women in printing, 100 women in carpentry and 75 women in electronics every year on continuous basis after closing down these units in their present form and retrenching the existing workers. COPU recommended (1992-93) that as the above proposal of the Company had been accepted by the State Government in August 1992, the Company should make earnest efforts to train more number of women to fulfill the objective of finding more employment opportunities to them. Though nine years had elapsed after this recommendation, it is yet to be acted upon as the Company had neither closed these units till date (March 2002) nor had imparted training to fresh sets of women.

It was observed in Audit that there was no production at all in three out of these four units due to (i) lack of orders in Educational Aids Units, Tambaram since January 1997 (ii) collapse of a portion of the building in Printing Press Unit, Guindy in April 1998 (iii) closure of Electronics Unit in 1993 and redeployment of its workers in Printing Press, Guindy. The employees

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attached to these units, however, are being paid salary/wages. The total loss incurred by all three units during the last five years period ended with 1999-2000 worked out to Rs.1.20 crore.

The Company proposed (March 1997) to implement Voluntary Retirement Scheme (VRS) in these units but the State Government did not approve the proposal. The efforts to dispose of the Printing Press Unit (December 1997) to Tamil Nadu Traders Welfare Board also did not succeed. The Company once again sent (June 1999/November 2000) proposals to the Government seeking permission for closure of Educational Aids Unit, Tambaram and Printing Press Unit, Guindy, approval for which is still awaited (March 2002).

As the Government had given (August 1992) its explicit approval to close down these existing units, delay in taking action on these lines and approaching the Government again with a request to permit it to close these units lacked justification.

Thus, the failure on the part of the Company to close down these three units not only resulted in avoidable loss of Rs.1.20 crore but also non-achievement of the objective of imparting training to more number of women in order to make them economically independent.

The matter was reported to the Company and the Government in May 2002; their replies had not been received (September 2002).

4A.8 STATE TRANSPORT UNDERTAKINGS

4A.8.1 Extra expenditure on purchase of retreading materials

Inordinate delay in finalisation of rate contracts for supply of retreading materials resulted in avoidable expenditure of Rs.0.89 crore.

Central Purchase Organisation of the Institute of Road Transport (IRT) is the nodal agency for the procurement of materials required in bulk by the State Transport Undertakings (STUs) in the State of Tamil Nadu.

IRT finalised (June 1997), *inter alia*, rate contracts with the suppliers for the supply of retreading materials, *viz.*, pre-cured tread rubber, bonding gum and vulcanising cement for the period from July 1997 to June 1998. Based on these rate contracts, the STUs were placing purchase orders on the suppliers for their requirements.

As the rate contracts for 1997-98 entered in to with the suppliers of retreading materials expired on 30 June 1998 and the subsequent rate contracts for

1998-99 were not finalised by the IRT by that time, the STUs continued to purchase under the existing rate contracts up to 10 March 1999. It was observed in Audit that though IRT/STUs were aware of fall in prices of retreading material as the tenders for 1998-99 were opened in July 1998, no action was taken to finalise the tender at the earliest possible time, which resulted in avoidable expenditure of Rs.0.89 crore during the period from July 1998 to March 1999 in 10 STUs test checked in Audit.

The matter was reported to the companies and the Government in August 2002; their replies had not been received (September 2002).

4A.9 TAMIL NADU GRAPHITES LIMITED

4A.9.1 Infructuous expenditure on floating a new company

Hasty decision on the formation and subsequent merger rendered the expenditure of Rs.23.19 lakh infructuous

Government of Tamil Nadu decided (October 1996) to float a separate Company *viz.*, Tamil Nadu Graphites Limited (TANGRAPH) immediately on the plea that the demand for graphite had been growing steadily and the potential for manufacturing graphite products was very large in the State and the existing Company, Tamil Nadu Minerals Limited (TAMIN) might not be able to concentrate on graphite in addition to its other activities. Accordingly TANGRAPH was incorporated on 19 March 1997 with a paid up share capital of Rs.10 lakh.

It is interesting to note that in June 1996, just three months before the decision to float TANGRAPH was taken, the Government felt the need to explore the possibilities of utilising graphite ore due to non-availability of reliable product profile of graphite based products. The Committee appointed for this purpose had not given any report so far (March 2002). Moreover, the existing graphite mines and graphite beneficiation plant of TAMIN were not transferred to TANGRAPH to facilitate promotion of graphite products, though the new Company was formed with the main objective of promoting graphite based industries in Tamil Nadu. Consequently, the Company could not succeed in achieving its main objective of promoting graphite based products and it finally recommended (February 1999) for its merger with TAMIN to the State Government. The Company incurred Rs.23.19 lakh on its day-to-day running since inception to March 2001. No final decision has been taken by the Government till date (March 2002).

The Company replied (February 2001) that as there was no significant locational advantage to set up graphite based products near the mines and market for graphite products were well dominated by already established domestic and foreign players, the merger of TANGRAPH with TAMIN was

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proposed. This confirms the fact that the Government acted in haste in floating new company without analysing its viability and without transferring graphite mines and graphite beneficiation plant. Consequently, the expenditure of Rs.23.19 lakh incurred by the Company from its inception till March 2001 has become infructuous.

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

4A.10 TAMIL NADU ADI DRAVIDAR HOUSING AND DEVELOPMENT CORPORATION LIMITED

4A.10.1 Revenue loss due to non-letting out of office building

The Company suffered revenue loss of Rs.15.88 lakh due to its failure to let out surplus area in office building.

The office building (space of 1,214.84 square metre) of the Company at Villupuram was fully occupied by the Collectorate of the newly formed Villupuram district on a monthly rent of Rs.24,000. The Collectorate vacated the premises on 31 July 1998. Thereafter, the Company worked out (August 1998) the monthly rent of Rs.58,500 (Rs.48.15 per square metre) on the basis of the norms of Public Works Department (PWD). Though offers were received from the Principal District Judge (August 1998) and Tamil Nadu Water Supply and Drainage Board (October 1998) to take the available space on rent, the Company did not let out the same for which no reason was found on record.

Divisional and District Managers office of the Company occupied 447.68 square metre from February 1999. The remaining area of 767.16 square metre has remained vacant till date (February 2002). This resulted in revenue loss of Rs.15.88 lakh (computed with reference to the rent of Rs.48.15 per square metre based on PWD norms) for 43 months from August 1998 to February 2002).

The matter was reported to the Company and the Government in June 2002; their replies had not been received (September 2002).

4A.11 TAMIL NADU CEMENTS CORPORATION LIMITED

4A.11.1 Infructuous expenditure on construction of immersion tanks in Mayanur Unit

Creating additional infrastructure in a unit, facing closure due to lack of orders resulted in idle investment of Rs.13.61 lakh.

The Company decided (May 1998) to construct 12 immersion curing tanks at a cost of Rs.50 lakh at Asbestos pipes unit at Mayanur (Unit) during 1998-99 to improve the quality and strength of AC Pressure Pipes manufactured in that unit.

Accordingly, four immersion curing tanks (Phase I) were constructed at a cost of Rs.13.77 lakh and commissioned in August 1998. In the mean time, a proposal was put up (June 1998) by the Unit to Registered Office for construction of five curing tanks (Phase II) at an estimated cost of Rs.16 lakh. On receipt of approval (February 1999), work order for the construction of five tanks (Phase II) was released (March 1999), though the average order book position during the last 12 months was poor. All the five tanks were commissioned in December 1999 at a total cost of Rs.13.61 lakh. These tanks could not be used as the production of pipes in the Unit was completely stopped from February 2000 due to lack of orders.

Thus, failure to ensure the necessity for the construction of tanks in Phase II in view of the dwindling orders, resulted in the expenditure of Rs.13.61 lakh, incurred on the construction of these tanks being rendered infructuous.

The Company replied (September 2002) that while initiating the proposal (June 1998) to construct these five tanks, it was having 2,500 MT of workable orders and was expecting an order for 1,600 MT from Kerala Water Authority. The Management reply is not correct, as there was no order in hand during June 1998. It was further stated that the Phase I and Phase II tanks were used for curing 1,100 MT in January and February 2000. The reply is untenable in view of the fact that the 1,100 MT order it secured in December 1999 could have been executed by curing the pipes in the existing four tanks (Phase I).

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

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SECTION 4B

4B.1 TAMIL NADU ELECTRICITY BOARD

4B.1.1 Excess payment of interest tax

Failure to revise interest rates consequent to reduction in/abolition of Interest Tax resulted in excess payment of Rs.7.62 crore to POWERFIN.

A reference is invited to Paragraph 4B.1.1 of the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2001, wherein payment of extra expenditure of Rs.26.96 crore up to March 2001 due to routing of Asian Development Bank (ADB) loan through Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (POWERFIN) was highlighted. This extra expenditure of Rs.26.96 crore consisted of Rs.10.42 crore towards 0.25 *per cent* margin to POWERFIN and Rs.16.54 crore towards Interest Tax.

The Board received (between 1991-92 to 1996-97) Rs.805 crore through POWERFIN as loan at interest rates of 11.33, 12.36, 14.2 and 15.2 *per cent per annum* after adding 0.25 *per cent* as POWERFIN's margin and 3 *per cent* Interest Tax to the rates of 10.75, 11.75, 13.5 and 14.5 *per cent per annum,* respectively, charged by Government of Tamil Nadu from POWERFIN. The loans are being repaid by the Board to POWERFIN regularly at the above interest rates. It was explicitly agreed *inter alia* by POWERFIN that Interest Tax as may be levied by Government of India (GOI), would be collected and remitted to GOI on actual basis.

Though GOI reduced the rate of Interest Tax payable from 3 *per cent* to 2 *per cent* with effect from the financial year 1997-98 and later on abolished the Interest Tax totally from the financial year 2000-01, the Board continued to pay interest to POWERFIN at the rates including the element of Interest Tax. This resulted in excess payment of Interest Tax to the extent of Rs.7.62 crore to POWERFIN during the period 1997-98 to 2001-02.

On being pointed out by Audit, the Board stated (May 2002) that POWERFIN had been addressed to refund the excess Interest Tax collected.

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

4B.1.2 Undue benefit to an Independent Power Producer (IPP) on purchase of power

The Board extended undue benefit of Rs.5.21 crore to an IPP, by not restricting the element of Sales Tax in the fuel cost for power supplied to the rate actually paid.

The Board entered (September 1996) in to a Power Purchase Agreement (PPA) with M/s.GMR Vasavi Power Corporation Private Limited (GMRV), an Independent Power Producer (IPP), for purchase of the entire power being generated by GMRV in its Basin Bridge Diesel Engine Power Project (BBDEPP). The PPA, *inter alia,* provided that the cost of fuel and lubricating oil would be calculated on a weighted average basis and include all payments made pursuant to any Fuel Supply Agreement (FSA) entered in to by GMRV and any taxes, duties, royalties, cess, *etc*.

GMRV in turn, entered (December 1996) in to a FSA with M/s.Hindustan Petroleum Corporation Limited (HPCL) for supply of Low Sulphur Heavy Stock (LSHS), the fuel to be used for generation of electricity in BBDEPP. As per clause 6.2 (e) of the FSA, GMRV was liable to pay Sale Tax only to the extent that would have been levied for such purchases in Chennai. In other words, GMRV was liable to pay Sales Tax at three *per cent* only, for the purchase of LSHS from HPCL, being the prevailing Tamil Nadu General Sales Tax (TNGST) rate for concessional Sales Tax against Form-XVII.

It was observed in Audit that, though HPCL supplied LSHS to GMRV from its Visakapatnam Refinery by charging four *per cent* Central Sales Tax initially, it subsequently gave credit for one *per cent* differential Sales Tax to GMRV.

A scrutiny of the bills raised by GMRV on the Board for supply of power during the period from April 1999 to July 2001 revealed that GMRV continued to charge the Board towards fuel cost by including the element of Sales Tax on LSHS at four *per cent* instead of three *per cent,* which was paid to HPCL. The Board also was making payments as claimed by GMRV instead of restricting the Sales Tax element on LSHS to three *per cent.* This resulted in extension of undue benefit to GMRV to the extent of Rs.5.21 crore.

On being pointed out by Audit, the Board stated (June 2002) that a sum of Rs.8.62 crore (Rs.6.89 crore towards excess paid one *per cent* Sales Tax and Rs.1.73 crore towards interest thereon) has been recovered from the IPP in March 2002.

As a result of this Audit observation, there would be a future saving of Rs.22.84 crore to the Board during the remaining period of PPA *viz*., ten years and four months (computed with reference to the average annual saving of Rs.2.21 crore in 1999-2000 and 2000-01).

The Board has to streamline the procedure for scrutiny of agreements enclosed to PPA so as to restrict the payments as agreed and safeguard its financial interest.

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The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

4B.1.3 Avoidable purchase of transmission towers

Transmission towers purchased for General Construction Circle, Chennai at a cost of Rs.3.22 crore, were lying idle for more than four years.

The Board issued a purchase order (June 1997) for the supply of 334 numbers 230 KV Double Circuit G (R) type full towers and 146 numbers 230 KV Single Circuit A type full towers at a cost of Rs.5.42 crore intended for use in the construction of transmission lines of General Construction Circle (GCC), Chennai with a delivery period of four months.

After the issue of purchase order, the Superintending Engineer, GCC, Chennai intimated (July 1997) Chief Engineer (Transmission) {CE (T)} of Board that allotted towers were not required in that circle as it was having enough stock to meet Transmission and Distribution (T&D) programme requirement in 1997-98 and requested CE (T) to reallot the towers to other needy GCCs of the Board. Despite this, the entire ordered towers were received in GCC, Chennai during the period July 1997 to November 1997, which were taken to stock in February 1998.

It was observed in Audit that 172 numbers and 26 numbers 230 KV Double Circuit G(R) type towers were sent to GCC, Salem in May 2000 and October 2001 respectively. One 230 KV Single Circuit A type tower was used by GCC, Chennai in May 2001. The remaining 136 numbers 230 KV Double Circuit G(R) type towers and 145 numbers 230 KV Single Circuit A type towers valued Rs.3.22 crore were remained idle till date (May 2002).

The Board replied (July 2002) that the Superintending Engineer, GCC, Chennai, who originally indented the towers, reported that these towers were not required in view of the modifications or dropping of the following schemes:

(1) Bay extension could not be established at Neyveli Thermal Power Station-II and hence, Neyveli – Cuddalore 230 KV DC line and the transmission line to a length of 120 kilo metre (Km) from Neyveli to Singaperumal Koil could not be taken up.

(2) Power evacuation line from Kalpakkam to Tharamani could not be taken up due to non-materialisation of Prototype Fast Breeder Reactor at Kalpakkam.

The reply is not tenable in view of the fact that:

(i) Work of Neyveli – Cuddalore line was taken up and commissioned in February 1998.

(ii) The dropping of Neyveli – Singaperumal Koil line (route length 120 Km) was known to the Board in May 1997 itself and this work was excluded from the T&D programme of 1997-98 finalised in May 1997. Hence, quantity required for this work could have been excluded from the purchase order placed in June 1997.

(iii) Kalpakkam – Tharamani line work was not included in the T&D programme of 1996-97 and 1997-98 and even in subsequent years.

The matter was reported to the Government in June 2002; their reply had not been received (September 2002).

4B.1.4 Revenue loss due to delay in withdrawal of concession on demand charges

Delay in taking up the matter for withdrawal of concession on demand charges with the Government resulted in revenue loss of Rs.2.09 crore.

Electricity charges payable by High Tension (HT) consumers of the Board comprises two portions *viz.,* current consumption charges and demand charges. As per G.O.No.M.S.17 dated 14 February 1997, the maximum demand charges for any month shall be based on the MVA demand recorded in that month or 100 *per cent* of the sanctioned demand whichever is higher. A concession was extended to the HT consumers having captive power plants of capacity 4 MVA and above by issuing an amendment to the above Government Order (vide G.O.No.M.S.43 dated 7 April 1998) which, *inter alia,* stated that for HT industries having captive generating capacity of at least 4 MVA, the maximum demand charges shall be levied on the basis of actual kVA demand recorded. It was clearly stipulated in the Government Order that the amendment would be in force till 30 June 1998 only.

Based on the above amendment, HT industrial consumers having captive power plants (of at least 4 MVA) were billed for demand charges for actual kVA recorded from the electricity bills from April 1998.

Even though the original intention of the Government was to extend this concession up to 30 June 1998 only, the above proviso was incorporated in the subsequent tariff notification G.O.No.M.S.115 dated 19 July 1998 also. The matter of withdrawal of the concession was taken up by the Board with the Government in February 1999 only, *i.e.* after an inordinate delay of more than seven months. The Government finally withdrew the concession prospectively from 28 June 1999 (vide G.O.No.M.S.136 dated 28 June 1999).

The request of the Board to withdraw the concession retrospectively was turned down (July 2001) by the Government.

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Thus, the delay of more than seven months, in taking up the matter of withdrawal of concession with the Government resulted in revenue loss of Rs.2.09 crore during the period November 1998 to June 1999 (the revenue loss has been worked out on the basis that the Board should have taken up the matter of withdrawal of concession with the Government in July 1998 itself and got it withdrawn within three months, say by October 1998).

The Board in reply stated (August 2002) that the amendments sought for by it with retrospective effect could not be obtained as the State Government informed that in the absence of specific provisions in the Tamil Nadu Revision of Tariff Rates on supply of Electrical Energy Act, 1978, withdrawal of concession with retrospective effect was not possible. This confirms the Audit observation that the Board delayed the action for withdrawal without any valid reasons.

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

4B.1.5 Undue benefit to commercial category consumers

Adjustment of windmill energy against commercial consumption instead of industrial consumption resulted in undue benefit of Rs.1.44 crore to consumers.

In order to encourage power generation through non-conventional energy sources like wind energy, the Board permitted (March 1986) installation of private windmills in a windy location and tie up with the Board's grid. The private windmill operators were permitted to use the power generated by windmills to their establishments located anywhere in Tamil Nadu after deducting two *per cent* of the energy generated towards Board's commission. It was further stated that the transactions between the Board and the party would be billed on a monthly basis and the party would be billed only at appropriate tariff for the net excess energy drawn by it from the Board's grid. The Board also stated (May 1994) that the private windmill developers were permitted to use the power generated by them to their industries located anywhere in the State.

This was again confirmed by the Board in April 2000, when it clarified that energy drawn in excess of energy generated by the windmill had to be charged at the Board's High Tension (HT) industrial tariff rate during that month.

It was observed that 12 consumers, who had set up their windmills between June 1994 and December 1997, were allowed to adjust the windmill generation against consumption in their commercial service connection. They were charged commercial tariff instead of industrial tariff.

The Board decided (May 2001) to dispense with the adjustment of wind energy in commercial services. Commercial consumers, who were hitherto permitted to adjust their windmill generation against power consumption in

commercial tariff represented against the above order. The Board allowed (10 July 2001) commercial consumers, who had set up their windmills prior to April 2000 and were getting their wind energy adjusted against HT commercial services, to continue with such adjustment subject to the condition that they should pay to the Board the difference in the tariff rates applicable to the HT industrial services and HT commercial services prospectively.

From the above, it could be seen that the adjustment of windmill generation against consumption in commercial service allowed by the Board till July 2001 was against the original intention of the Board to allow adjustment against industrial consumption as stated in April 1986 and reiterated in May 1994. Thus, the decision of the Board to allow adjustment against commercial tariff during the period June 1994 to March 2001 lacked justification and resulted in undue benefit of Rs.1.44 crore to commercial consumers.

The Board replied (July 2002) that in view of installation of large number of wind mills in private sector, it considered that no further incentives need to be continued and hence it decided to curtail the facilities given for adjustment of wind energy in commercial services and accordingly orders were issued in April 2000. The reply is not tenable in view of the fact that even before the issue of orders in July 2001, it was the intention of the Board to recover industrial tariff only, as was evident from the Boards orders of May 1994, *ibid*.

The matter was reported to the Government in June 2002; their reply had not been received (September 2002).

4B.1.6 Excess payment of Central Excise Duty and Sales Tax

The Board incurred extra expenditure of Rs.1.34 crore towards excise duty and sales tax due to inclusion of discount in the assessable value.

The Board is procuring Furnace Oil (FO) and Naptha from the two Central Public Sector oil companies *viz*., Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL) for use as fuel in its thermal power stations and Gas Turbine Power Project (Naptha). IOCL and BPCL being the major suppliers of fuel to the Board, offered (June 1999) a discount of Rs.585 per kilolitre (KL) of FO and Rs.525 per metric tonne (MT) of Naptha.

On a scrutiny of invoices for the supply of these fuels to the Board by the oil Companies, it was observed that the discount allowed was availed after charging Excise Duty on the basic price. In other words, assessable value for Excise Duty included the discount. This was not in accordance with the proviso (i) to Section 4(a) Central Excise Act, 1944, which deals with the valuation of excisable goods for the purpose of charging excise duty. This proviso, *inter alia*, stipulates, that where in normal practice in wholesale trade, such goods are sold at different prices to different classes of buyers, then such prices would be deemed to be the normal price of such goods in relation to each of such class of buyers.

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From the above provisions of the Act and the fact that oil companies had agreed to extend discount, the assessable value for Excise Duty should have been computed after deducting the discount. In effect, Board did not ask the oil companies to treat the Board as a separate class of customer and the discounted value as assessable value. Failure to do so resulted in excess payment of Central Excise Duty (Rs.1.24 crore) and Sales Tax (Rs.10 lakh) on excess portion of Central Excise Duty on purchase of 79,512 MT of Naptha and 61,420 KL of FO from these companies during the period June 1999 to September 2001. It is pertinent to point out that from October 2001 onwards, BPCL is supplying furnace oil to the Board by excluding the discount offered from the assessable value for Excise Duty, thereby levying the same as per the provisions of Central Excise Act, 1944.

The matter was reported to the Board and the Government in May 2002; their replies had not been received (September 2002).

4B.1.7 Avoidable payment for fuel not utilised in Power Station

Delay on the part of the Board to reduce the contracted quantity of natural gas resulted in avoidable payment of Rs.0.97 crore.

In order to meet the fuel requirement of the Gas Turbine Power Station at Narimanam (NGTPS), which uses natural gas for generation of electricity, the Board entered (June 1991) in to an agreement with Oil and Natural Gas Commission Limited (ONGC), {subsequently supply of natural gas was taken over by Gas Authority of India Limited (GAIL)} for supply of 57,000 Standard Cubic Metre Per Day (SCMD) of natural gas for a period of 10 years from June 1991.

The agreement, *inter alia,* provided that if the purchaser (Board) failed to draw Minimum Guaranteed Off-take (MGO) of 45,600 SCMD i.e., 80 *per cent* of 57,000 SCMD, the Board would pay to the seller (ONGC/GAIL) for MGO.

It was observed that one of the units in NGTPS tripped (June 1999) and was scrapped by the Board, resulting in lower off-take of gas. However, the Board did not take any action till March 2000 to get the quantity of natural gas reduced to match the requirement for one turbine only. When the Board took up (7 March 2000) the matter of reduction in the contracted quantity from 57,000 SCMD to 30,000 SCMD, GAIL responded immediately by reducing the contracted quantity to 30,000 SCMD (with a corresponding MGO quantity of 24,000 SCMD) effective from 7 March 2000.

Thus, the failure of the Board to get the contracted quantity of natural gas reduced from 57,000 SCMD immediately after scrapping of one unit, resulted in avoidable payment of Rs.0.97 crore during the period from July 1999 to February 2000 (being the difference in cost between MGO quantity and quantity actually utilised).

The Board (February 2002) replied that as it proposed to install one 5 MW Gas Diesel Engine to have an alternate source of power generation in case of any break down, no decision to reduce the allotted gas quantity was taken. The Board further stated that only in December 1999, it was decided not to order the above Diesel Engine based on the recommendations of a Committee.

The reply is not tenable, as the Board had taken a policy decision as early as in October 1998, not to go in for power plants of 15 MW and below.

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

4B.1.8 Avoidable extra expenditure

Purchase of furnace oil at higher price and without discount resulted in avoidable extra expenditure of Rs.22.53 lakh.

Tuticorin Thermal Power Station (TTPS) is purchasing furnace oil from Indian Oil Corporation Limited (IOC). IOC, which was allowing a discount of Rs.585 per Kilolitre (KL), withdrew the discount with effect from 31 May 2000 on the ground of the directives of the Ministry of Petroleum and Natural Gas.

It was observed in Audit that other thermal power stations of the Board were purchasing even after May 2000 furnace oil from Bharat Petroleum Corporation Limited (BPCL) with a discount of Rs.585 per KL. It was also observed that the basic price charged by IOC was higher compared to the basic price charged by BPCL, at the time of withdrawal of discount in June 2000 and this basic price difference continued to exist till September 2001. This being so, TTPS should have ascertained from other thermal power stations about the discount and basic price offered by BPCL and other oil companies. In as much as, both these oil companies are Government of India Undertakings, the Board should have taken up the matter with IOC to continue the discount or should have shifted the source of supply from IOC to BPCL. Failure to do so had resulted in an avoidable extra expenditure of Rs.22.53 lakh on purchase of 5,890.003 KL of furnace oil. It is pertinent to mention that TTPS switched over to BPCL for purchase of furnace oil from October 2001 onwards.

It was replied by the Board (August 2001) that though IOC and BPCL were Government of India Undertakings, they were adopting different marketing strategies and that no reference was made to other thermal power stations as the withdrawal of discount was enforced by IOC citing Government of India directives. The reply is not tenable as the fact remained that the decision to procure furnace oil from IOC was not revised/reviewed after withdrawal of discount by IOC.

The matter was reported to the Government in May 2002; their reply had not been received (September 2002).

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4B.1.9 Revenue loss due to non-withdrawal of concession

Failure to withdraw concession, extended to an ineligible consumer, resulted in revenue loss of Rs.21.19 lakh.

Concessional tariff was applicable to new High Tension (HT) industries for period of three years *vide* G.O. No.29 dated 31 October 1995. The term "new industry" was defined in the above G.O. as a new investment by any entrepreneur including by an existing industry provided that assets other than cash of the existing industry are not transferred and shown as assets of the new industry.

M/s. S & S Minerals Limited, Neervalur, Kanchipuram District was given (October 1996) High Tension (HT) service connection (SC No.148) with a sanctioned demand of 325 kVA. The consumer commenced commercial production in October 1996 and applied (January 1997) for tariff concession under "New Industry" category. The tariff concession was sanctioned by the Board in February 1998 for three years from October 1996 to October 1999 (at 40, 30, and 20 *per cent* of current consumption and demand charges for the 1st, 2nd and 3rd year respectively).

On inspection of the industrial premises of the consumer (October 1999), it was observed by Superintending Engineer, Kancheepuram Electricity Distribution Circle that the consumer was using old machinery taken on lease from M/s. W. S. Industries (India) Limited, Chennai and the consumer also accepted this. It was also observed that the certificate issued by the chartered accountant (at the time of application for tariff concession) that the industry was a new one and assets other than cash had not been transferred from any of the existing industry, was not correct. Additional Chief Engineer, Industrial Energy Management Cell (IEMC), however, stated (December 1999) that since the consumer had taken only some machinery on lease basis, the same could be taken as only cash flow and not transfer of assets and that as such the chartered accountant's certificate might not be considered as incorrect. The argument of the Additional Chief Engineer, IEMC is untenable in view of the fact that major portion of machinery (of capacity 345 HP out of total 410 HP) was taken on lease from M/s. W. S. Industries (India) Limited and as such there was no significant new investment on machinery.

As the consumer did not fulfill the condition laid down in GO dated 31 January 1995, the new industry concession extended to him should have been withdrawn and amount recovered forthwith but the Board did not do so.

Thus, non-withdrawal of tariff concession extended to an ineligible consumer resulted in a revenue loss of Rs.21.19 lakh to the Board.

The Government in reply stated (September 2002) that necessary instruction had been issued to withdraw the new industries tariff concession and recover the amount from the consumer.

4B.1.10 Undue benefit to consumer

Incorrect application of tariff resulted in undue benefit of Rs.15.49 lakh to consumers.

Consumers of the Board availing High Tension (HT) electricity supply have been classified in to five categories for the purpose of billing *viz*., Tariff I to V. Tariff III covers commercial and all other categories of consumers not covered under the other four tariff structures. Accordingly, software industries and hardware units, which were not covered by other four tariff structures were billed under Category III up to February 1999. The State Government, thereafter, issued amendment to Tamil Nadu Revision of Tariff rates on supply of Electrical Energy Act, stipulating that all Information Technology/Software Industries including maintenance, service and training institutions availing High Tension supply may be categorised under Tariff I with effect from 1 March 1999.

It was observed in Audit that though the categorisation of Software Industries under Tariff I was effective from 1 March 1999 only, M/s.Pentafour Software Exports Limited and M/s Computer Graphics Limited coming under III category were billed under Tariff I even prior to March 1999 instead of under Tariff III. This resulted in undue benefit of Rs.15.49 lakh to the consumers.

The matter was reported to the Board and the Government in August 2002; their replies had not been received (September 2002).

4B.1.11 Revenue loss due to non-levy of penalty for low Power Factor

The Board suffered revenue loss of Rs.11.80 lakh due to its failure to levy penalty for low Power Factor.

In order to improve Power Factor (PF) and to reduce line losses, the Board decided (March 1998) to instal electronic meters in all the Low Tension (LT) consumers having metering arrangement through Current Transformer (CT) system (LT CT consumers). It was also decided to levy a penalty on those LT CT consumers who failed to maintain a stipulated PF.

Accordingly, in the Tariff Revision effected by the Government in 19 July 1998, it was stipulated that the LT CT category consumers, after provision of electronic meters, should maintain a PF of not less than 0.85. Non-maintenance of required PF would entail penalty of one *per cent* of the current consumption charges for every reduction of 0.01 in PF from 0.85 up to 0.75 and one and half *per cent* of current consumption charges for every reduction of 0.01 in PF for PF below 0.75. This condition was included in the subsequent Tariff Revision of January 2000 also.

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It was, however, observed in Audit that in Dharapuram and Guindy Revenue Branches of the Board, penalty for low power factor was not levied on LT CT consumers having installed electronic meters in these services resulting in revenue loss of Rs.14.08 lakh. On being pointed out by Audit, the Board recovered Rs.2.28 lakh in Guindy Revenue Branch. The remaining amount of Rs.11.80 lakh is yet to be recovered (Dharapuram Rs.5.30 lakh and Guindy Rs.6.50 lakh).

The matter was reported to the Board and the Government in August 2002; their replies had not been received (September 2002).

(T.THEETHAN)

Chennai **Accountant General (Audit)II**

The **Tamil Nadu**

Countersigned

(VIJAYENDRA N. KAUL)

New Delhi **Comptroller and Auditor General**

The **of India**