PRESS BRIEF

The Report of the Comptroller and Auditor General of India for the year ended 31 March 2015 – No.4 of 2016 - (Public Sector Undertakings) – Government of Tamil Nadu – Tabled in the Tamil Nadu State Legislature on 2 September 2016.

This Report contains (i) an overview of 72 Public Sector Undertakings in the State of Tamil Nadu, Three Performance Audits on (i) Tamil Nadu Sugar Corporation Limited and Perambalur Sugars Limited, (ii) Procurement of wind energy by Tamil Nadu Generation and Distribution Corporation Limited and (iii) Construction, operation and maintenance of storage facilities by Tamil Nadu Warehousing Corporation and 11 individual paragraphs based on the Compliance Audit of Government companies.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples have been drawn based on statistical sampling as well as risk-based judgmental sampling. The audit conclusions have been arrived at and recommendations have been made, taking into consideration the views of the Government where received. A summary of the key audit findings are presented below:

Overview of State Public Sector Undertakings

- As on 31 March 2015, the State of Tamil Nadu had 65 working PSUs (64 companies and one Statutory Corporation) and seven non-working PSUs (all companies), which employed 2.88 lakh employees. The State PSUs registered a turnover of ₹ 87,083.36 crore as per their latest finalised accounts. This turnover was equal to 8.92 *per cent* of State's Gross Domestic Product, indicating the important role played by State PSUs in the economy.

- The PSUs had accumulated losses of ₹ 65,725.89 crore as per their latest finalised accounts.

(Paragraphs 1.1 and 1.16)

Investment in PSUs

- As on 31 March 2015, the investment (capital and long-term loans) in 72 PSUs was ₹ 1,21,743.21 crore. Power sector accounted for 92.65 *per cent* of total investment and Service sector 2.91 *per cent* in 2014-15. The Government contributed ₹ 23,368.13 crore towards equity, loans and grants/subsidies during 2014-15.

(Paragraphs 1.6 and 1.8)

Performance of PSUs

- As per latest finalised accounts, out of 65 working PSUs, 41 PSUs earned profit of ₹ 1,979.79 crore and 20 PSUs incurred loss of ₹ 16,833.24 crore. The major contributors to profit were Tamil Nadu Transmission Corporation Limited (₹ 1,308.03 crore), Tamil Nadu Newsprint and Papers Limited (₹ 166.73 crore), Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹ 105.78 crore), State Industries Promotion Corporation of Tamil Nadu Limited (₹ 87.21 crore), Tamil Nadu Industrial Development Corporation Limited (₹ 56.99

crore), Tamil Nadu Industrial Investment Corporation Limited (₹ 25.73 crore) and Arasu Cable TV Corporation Limited (₹ 18.46 crore).

- In respect of Tamil Nadu Civil Supplies Corporation Limited, the loss is compensated by the State Government. Three companies neither earned profit nor incurred loss. Heavy losses were incurred by Tamil Nadu Generation and Distribution Corporation Limited (₹ 13,985.03 crore) and all the eight State Transport Corporations (₹ 2,654 crore).

(Paragraph 1.15)

Arrears in accounts

- 25 working PSUs had arrears of 29 accounts as on 30 September 2015, of which four accounts pertained to earlier years and the remaining were 2014-15 accounts.

(Paragraph 1.10)

Winding up of non-working PSUs

- There were seven non-working PSUs including one under liquidation. The Government may take a decision regarding winding up of the remaining six PSUs.

(Paragraph 1.18)

Quality of accounts

- The quality of accounts of PSUs needs improvement. During the year, out of 57 accounts finalised, the Statutory Auditors of Government companies had given unqualified certificates for 29 accounts, qualified certificates for 27 accounts and adverse opinion in respect of one account. There were 52 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

(Paragraphs 1.20 and 1.21)

Response of the Government to Audit

- The Government of Tamil Nadu had instructed their administrative departments to submit replies to the paragraphs/reviews included in the Audit Report of C&AG of India within two months of their presentation to the Legislature. However, out of nine Performance Audit Reports and 83 paragraphs included in the Audit Reports from the year 2008-09 to 2013-14, the explanatory notes in respect of five Performance Audit Reports and 33 paragraphs were not received from eight departments as of December 2015. Further, the Action Taken Notes to 193 paragraphs, pertaining to 35 Reports of Committee on Public Undertakings (COPU) presented to the Legislature between April 2002 and March 2015 were not received as of December 2015.

(Paragraphs 1.23 and 1.25)

Performance Audit relating to Government companies

2.1 Performance Audit on Tamil Nadu Sugar Corporation Limited and Perambalur Sugar Mills Limited

As of March 2015, there were 43 sugar mills in Tamil Nadu. Of these, two sugar mills were owned by two State Public Sector Undertakings (PSUs) *viz*., Tamil Nadu

Sugar Corporation Limited (TASCO) and its subsidiary Perambalur Sugar Mills Limited (PSM). These two sugar mills contributed about four *per cent* of State sugar production during 2014-15. These two PSUs are financially sick since 1998 and 1999.

(Paragraphs 2.1.1 and 2.1.7)

Planning for availability of sugarcane

- Both the companies did not achieve the target for area registration for sugarcane cultivation during 2010-15 (except during 2010-12 in TASCO).The shortfall in area registration, which ranged between 6 and 29 *per cent* in TASCO and 4 and 35 *per cent* in PSM, led to reduction in availability of sugarcane to the extent of 2.55 lakh MT in TASCO and 5.08 lakh MT in PSM.

(Paragraph 2.1.9)

- Failure of the companies to promote drip irrigation impacted the availability of sugarcane.

(Paragraph 2.1.11)

- Due to not ensuring staggered plantation, there was bunching of sugarcane plantation and receipt of over-aged sugarcane upto 96 *per cent* during the five years of 2010-15.

(Paragraph 2.1.12)

Sugarcane procurement

- During 2010-15, TASCO, which fixed the target for procurement of sugarcane more than 93 *per cent* of its installed capacity, had procured sugarcane ranging between 68 and 102 *per cent* of the target. However, though PSM had fixed its target between 46 and 83 *per cent* of its installed capacity, this lower target could be achieved only in 2010-11 and 2012-13 and in the balance three years, the achievement ranged between 66 and 82 *per cent*.

(Paragraph 2.1.13)

- Both the companies diverted sugarcane to other mills on unjustified grounds, resulting in loss of contribution of ₹ 9.92 crore.

(Paragraph 2.1.14)

- Procurement of sugarcane by both the companies with extraneous material, much in excess of the norm of one *per cent*, resulted in wasteful expenditure of ₹ 24.94 crore.

(Paragraph 2.1.15)

Production performance

- Due to the inability of both the companies to maintain the corporate norm for recovery of sugar from the sugarcane crushed, the companies lost 36,472 MTs of sugar valued at ₹ 110.53 crore.

(Paragraph 2.1.19)

- Against the permitted loss of production hours of 8 *per cent*, the time loss suffered by TASCO ranged from 15.05 to 33.01 *per cent* and PSM from 18.57 to 39.71 *per cent*.

(Paragraph 2.1.21)

- The excess consumption of utilities *viz*., steam, bagasse and power beyond the permissible levels, led to avoidable extra expenditure of ₹ 17.59 crore.

(Paragraphs 2.1.23, 2.1.24 and 2.1.25)

- The programme for modernisation and establishment of co-generation plant at a cost of ₹ 254.58 crore (taken up as part of rehabilitation of the companies) in February 2008, with scheduled completion by September 2011 remained incomplete (December 2015) due to inadequate deployment of labour force by the contractor. This led to continued inefficiencies in operation of the sugar mills.

(Paragraph 2.1.29)

Monitoring and internal control

- There were frequent changes in the post of Chief Executives of the mills, with the average tenure during 2010-15 being only six months, resulting in lack of continuity in leadership. Absence of age-wise data of sugarcane procured beyond 12 months and sugarcane crushed beyond 24 hours are some of the deficiencies in internal control noticed in Audit.

(Paragraph 2.1.31)

- The Internal Audit in TASCO was confined only to financial matters.

(Paragraph 2.1.33)

2.2 Performance Audit on Procurement of Wind Energy by Tamil Nadu Generation and Distribution Corporation Limited

The State of Tamil Nadu, which had the wind power potential of 14,152 MW ranked third in the country, next to Gujarat and Andhra Pradesh. In respect of the installed capacity, the State ranked first in the country as of March 2015, with an installed capacity of 7,439 MW.

(Paragraph 2.2.2)

Planning

- Despite huge potential for wind energy, the State Government had not so far (December 2015) issued a comprehensive wind energy policy. This led to the State utilities *viz*, Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and Tamil Nadu Transmission Corporation Limited (TANTRANSCO) lacking directions from the Government for planning and procurement of wind energy.

(Paragraph 2.2.7)

- Though Central Electricity Regulatory Commission mandated (April 2010) that the existing wind energy projects should schedule their energy generation by entering into agreement with transmission utilities, the relevant clauses were not included in any of the agreements with the 11,543 existing Wind Energy Generators (WEGs).

(Paragraph 2.2.9)

- The connected load of 80 sub-stations out of the existing 115 sub-stations, had exceeded their available transmission capacity, which indicated absence of proper planning for optimum utilisation of the available capacity.

(Paragraph 2.2.10)

Procurement of wind energy

- Though temporary connection to the wind mills was to be given only for testing purpose, wind mills with connected load of 1,223 MW in two circles were found to be under temporary connection for periods ranging from one month to five years.

(Paragraph 2.2.12)

- TANGEDCO had not collected Infrastructure Development Charges of ₹ 87.59 crore payable for the period from August 2005 to November 2010. Invoices for operation and maintenance charges, amounting to ₹ 44.18 crore, had also not been raised and ₹ 3.98 crore was collected after the omission was pointed out by Audit.

(Paragraph 2.2.13)

- Despite continuous increase in wind energy generated during 2010-11 to 2014-15, purchase by TANGEDCO declined from 60.30 to 39.08 *per cent*, due to continued backlog in making payments and constraints in transmission facilities. The resultant shifting of WEGs from sale of energy to wheeling arrangements, caused a loss of ₹ 60.59 crore to TANGEDCO in respect of 173 test checked WEGs.

(Paragraph 2.2.15)

- Avoidable backing down (stoppage of generation based on the request of TANGEDCO) of wind energy, led to extra expenditure of ₹ 159.20 crore.

(Paragraph 2.2.16)

Execution of transmission schemes

- Though TANTRANSCO planned execution of five transmission works at a cost of ₹ 1,440.91 crore by 2013-14, these works were not completed as of December 2015, resulting in non-realisation of intended benefit of maximum evacuation of wind energy.

(Paragraph 2.2.19)

Wheeling of wind energy

- TANGEDCO did not collect transmission charges amounting to ₹ 124.19 crore from open access consumers and collected only ₹ 1.54 crore, after the omission was pointed out by Audit.

(Paragraph 2.2.21)

- Verification of system for payments for the banked wind energy revealed overpayment of ₹ 31.86 crore, carrying forward of banked energy valuing₹ 7.29 crore to subsequent months in violation of the orders and short billing of ₹ 3.78 crore as well as non-levy of penalty of ₹ 14.31 crore, due to irregular adjustment of banked wind energy during power holiday periods.

(Paragraphs 2.2.24, 2.2.25 and 2.2.26)

- In 11 circles test checked, the benefits of group captive mechanism amounting to ₹ 122.20 crore was allowed to ineligible consumers.

(Paragraph 2.2.27)

Monitoring and internal control

- The monitoring and internal control mechanism was deficient, as TANGEDCO did not (i) carry out regular inspection of WEGs, (ii) levy penalty for continued low performance of WEGs and (iii) install the mandatory availability based tariff meters in 6,031 out of 11,543 wind mills.

(Paragraph 2.2.30)

Performance Audit relating to Statutory Corporation

3 Performance Audit on Construction, operation and maintenance of storage facilities by Tamil Nadu Warehousing Corporation (TNWC)

The main objectives of TNWC are to provide scientific storage facilities for agricultural and notified commodities and to help depositors in obtaining credit against stored commodities.

(Paragraph 3.1)

- TNWC did not undertake any assessment of the future storage requirements of the State and have a systematic plan for construction of godowns.

(Paragraph 3.6.1)

- There was no co-ordination among various Government and co-operative agencies involved in warehousing activity in the State.

(Paragraph 3.6.2)

- There were delays in construction of godowns resulting in loss of guaranteed business and TNWC had not invoked penal provisions in agreements for slow progress of work.

(Paragraph 3.7.2)

- Utilisation of warehousing facility by farmers was less than one *per cent* indicating the need for creation of awareness among farmers. Further, utilisation of its own storage capacity by depositors was below the norm of 90 *per cent* fixed by Government of Tamil Nadu. It came down from 86 *per cent* in 2012-13 to 74 *per cent* in 2014-15.

(Paragraph 3.8.1)

- There were substantial arrears of storage charges (₹ 15.86 crore).

(Paragraph 3.10.3)

- Only 36 out of 56 warehouses were registered under the Warehousing (Development and Regulation) Act, 2007 for part capacity and insurance coverage was provided only for the quantity of stock held in those partly registered warehouses.

(Paragraph 3.11.1)

- There were deficiencies in provision of scientific storage, safety measures and adequate infrastructure in warehouses.

(Paragraphs 3.9 and 3.12)

- Adequate funds were not provided for maintenance of warehouse buildings. Warehouses were operated with 47 to 63 *per cent* vacancies in various categories of staff.

(Paragraphs 3.13 and 3.14)

4 Compliance Audit Observations

Some of the important Audit observations are given below:

Delay in settlement of accident compensation by State Transport Undertakings

The system of settlement of accident compensation by State Transport Undertakings (STUs) revealed that there was inordinate delay due to (i) inadequate contribution to the insurance Fund, (ii) non-provision of own funds by the STUs for accident claims as per the directions of the Government and (iii) not honouring the Court judgments and Execution Petitions for settling the accident claims.

Thus, the accepted accident claims amounting to ₹ 207.72 crore remained unsettled for years together. Impounding of buses due to not honouring the Courts' judgement had adversely affected the image of the STUs. This not only led to loss of revenue to the STUs, but also put the victims and their families to hardship.

(Paragraph 4.1)

Pallavan Transport Consultancy Services Limited selected an ineligible contractor for operating the on-line e-ticketing system and extended undue benefit of ₹ 4.06 crore by providing interest free mobilisation advance.

(Paragraph 4.2)

Failure of **Electronics Corporation of Tamil Nadu Limited** to adopt the procedures for collection of upfront lease rent and land development charges as per the directives of the State Government led to non-collection of development charges of ₹ 10.82 crore and loss of interest of ₹ 7.50 crore.

(Paragraph 4.3)

Tamil Nadu Tourism Development Corporation Limited allowed its contractor to adopt a new technology for towing of submarine without adequate precaution, which led to infructuous expenditure of ₹ 4.41 crore, apart from non-achievement of objective of establishing a Maritime Heritage Museum.

(Paragraph 4.5)

Tamil Nadu Generation and Distribution Corporation Limited

The Company installed a Gas Booster Compressor in gas based power station without verifying the operational risk and failed to document the authorisation for operation by the supplier as per the terms of the contract, which led to an avoidable expenditure of ₹ 36.27 crore.

(Paragraph 4.9)

The Company could not reduce the operational expenditure to the extent of ₹ 7.35 crore, due to delay of over five years in installation of by-pass system in a thermal unit.

(Paragraph 4.10)