OVERVIEW

1 Overview of Government Companies and Statutory Corporations

Audit of Government Companies is governed by Section 139 and 143 of the Companies Act, 2013. The accounts of Government Companies are audited by Statutory Auditors appointed by the CAG. These accounts are also subject to supplementary audit conducted by the CAG. Audit of Statutory Corporations is governed by their respective legislations. As on 31 March 2016, the State of Tamil Nadu had 68 working PSUs (67 Companies and one Statutory Corporation) and six non-working PSUs (all Companies), which employed 2.91 lakh employees. The State PSUs registered a turnover of ₹ 99,850.38 crore as per their latest finalised accounts. This turnover was equal to 8.23 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 ₹ 80,925.82 crore as per their latest finalised accounts.

Investment in PSUs

As on 31 March 2016, the investment (capital and long term loans) in 74 PSUs was ₹ 1,40,677.30 crore. Power sector accounted for 93.21 per cent of total investment and Service sector 2.76 per cent in 2015-16. The Government contributed ₹ 18,416.05 crore towards equity, loans and grants/subsidies during 2015-16.

Performance of PSUs

As per latest finalised accounts, out of 68 working PSUs, 41 PSUs earned profit of ₹ 811.27 crore and 21 PSUs incurred loss of ₹ 15,684.69 crore. The major contributors to profit were Tamil Nadu Newsprint and Papers Limited (₹ 253.93 crore), Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹ 108.42 crore), TIDEL Park Limited (₹ 42.14 crore), Tamil Nadu Industrial Investment Corporation Limited (₹ 34.98 crore) and Tamil Nadu Magnesite Limited (₹ 26.65 crore).

In respect of Tamil Nadu Civil Supplies Corporation, the loss is compensated by the State Government. Three Companies neither earned profit nor incurred loss. The newly formed two PSUs viz., Tamil Nadu Polymers Industries Park Limited and Madurai-Thoothukudi Industrial Corridor Development Corporation Limited did not finalise their accounts. Heavy losses were incurred by Tamil Nadu Generation and Distribution Corporation Limited (₹ 12,756.59 crore) and all the eight State Transport Corporations (₹ 2,600.25 crore).

Arrears in accounts

Thirty working PSUs had arrears of 33 accounts as on 30 September 2016, of which three accounts pertained to earlier years and the remaining were 2015-16 accounts.

Winding up of non-working PSUs

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

Quality of accounts

The quality of accounts of PSUs needs improvement. During the year, out of 63 accounts finalised, the Statutory Auditors of Government Companies had given unqualified certificates for 32 accounts and qualified certificates for 31 accounts. There were 44 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the Companies indicated several weak areas.

Response of the Government to Audit

The Government of Tamil Nadu had instructed their administrative department to submit replies to the paragraphs/reviews included in the Audit Report of CAG 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 four Performance Audit Reports and 25 paragraphs were not received from seven departments as of October 2016. Further, the Action Taken Notes to 364 paragraphs, pertaining to 63 Reports of Committee on Public Undertakings (COPU) presented to the Legislature between April 2002 and March 2016 were not received as of October 2016.

Performance Audit Relating to Government Company

2.1 Performance Audit on Industrial Development Activities of Tamil Nadu Industrial Investment Corporation Limited

Tamil Nadu Industrial Investment Corporation Limited (Company), is a deemed State Financial Corporation under the State Financial Corporation Act, 1951. Its share capital of ₹321 crore was contributed by Government of Tamil Nadu (GoTN) and Small Industries Development Bank of India (SIDBI) to the extent of 94.56 per cent and 5.30 per cent respectively. Audit took up the Performance Audit of this Company covering its activities from 2011-16 to evaluate the system for planning, mobilisation of funds, sanction and disbursement of loans, monitoring of the assisted units, recovery performance and effectiveness of internal control.

Planning

The Company did not prepare corporate plan setting up long term goals and strategy as directed (April 1989) by the GoTN. The annual plans also suffered due to fixation of adhoc targets, belated approval by the Board of Directors (BOD) etc.

Mobilisation of Funds

Short comings noticed in mobilisation of funds were (i) non receipt of equity from two State PSUs as committed by GoTN, (ii) lack of plan for disinvestment of shares from assisted units, which had market value of ₹173.87 crore and loss of ₹36.17 crore due to non availing of exit offers from three companies and (iii) not floating the public bonds at the market rate of interest, resulting in additional interest commitment of ₹ 9.56 crore.

Sanction and disbursement of loan

Deficiencies in the sanctions included assistance to incapable promoters, sanction of loans inspite of non fulfillment of conditions, sanction to unviable projects, sanction with inadequate collateral securities, sanction based on unrealistic projection etc. These failures led to accumulation of overdues amounting to ₹ 47.44 crore in respect of 22 cases test checked.

Monitoring of assisted units

There was shortfall ranging between 10 and 53 per cent during 2011-16 in carrying out mandatory inspection of the assisted units. The deficient inspections led to accumulation of overdues amounting to ₹ 35.53 crore in 15 cases test checked. The Company also failed to obtain the audited financial statements and monthly stock statements from the assisted units as required.

Recovery performance

The Company fixed the targets for recovery ranging from 25 to 85 per cent of total dues during 2011-16, which were equivalent to or less than the current dues. Due to deficiencies in recovery, the Company could not recover ₹ 56.37 crore in 13 cases test checked.

Though the Company agreed with SIDBI to maintain Non Performing Assets (NPA) within 10 per cent, its NPA increased from 10.27 in 2011-12 to 13.64 per cent in 2015-16, resulting in non-accrual of internal source of funds to the extent of ₹ 83.23 crore.

During 2011-16, the Company took possession of 111 units out of 169 defaulting units. The shortfall in take-over of defaulting units indicated that the Company had exercised selective approach in take-over of the assets without any recorded justification.

The Company sold assets of 135 units in auction and realised ₹ 11.88 crore, which constituted only two per cent of the total outstanding amount of ₹ 677.35 crore in respect of these units.

Internal Control and Internal Audit

Out of the total of 42 Board meetings during 2011-16, the Directors representing Micro, Small and Medium Enterprises and Finance departments were absent in 30/28 meetings. The contract for web centric solutions to be completed within two years of award (March 2011) remained incomplete even after five years. The Company had no internal audit manual and the audit committee did not review the internal audit functions.

Conclusion

The performance of the Company would have been better if it had drawn long term strategic plan, mobilised its resources economically and avoided deficiencies in sanctions, monitoring the assisted units and recovery of loans. These deficiencies found in the earlier Performance Audit continued despite COPU's recommendation to improve the system for sanction, disbursement and recovery of loan.

Recommendations

Drawing long-term corporate plan, evaluation of cost of borrowings from various sources to ensure economy, ensuring the viability of the project by independent assessment of the projections, ensuring strict adherence to the procedures for sanction and disbursement, continuously monitoring the assisted units, etc., are some of the Audit's recommendations.

2.2 Follow up IT audit on the Computerisation of Tamil Nadu State Marketing Corporation Limited

Tamil Nadu State Marketing Corporation Limited (Company) has the exclusive privilege of wholesale supply and retail vending of Indian Made Foreign Liquor (IMFL) in the State. IMFL is procured and distributed through its 43 depots and 6,200 Retail Vending Shops (RV shops) across Tamil Nadu. The Company had computerised its operations in 1998. The Company decided to upgrade the hardware and software to Oracle platform in three phases. The third phase commenced in 2009.

Previous Audit Coverage

An IT Review on the Computerisation of TASMAC was included in the Audit Report (Commercial) 2008-09 with seven recommendations which were accepted by the Company.

The present audit was taken up, as a follow-up, to assess whether the recommendations were implemented.

Recommendation 1- Uniform software in all depots

Uniform software has been implemented in 43 depots. However, due to poor management of contracts, the implementation of third phase of upgradation of software got delayed by 6 years.

Recommendation 2-Computerisation of SRM, DM offices and RV shops

The SRM and DM offices were linked with neither Godown Monitoring System (GMS) nor Integrated Information Management System (IMS) leading to duplication of works. Though 2,204 RV shops were installed with Electronic Billing Machines (EBMs), the data generated could not be used for decision making due to lack of reliability as invoices were not captured during the course of actual sales.

Recommendation 3- Input and validation checks

The deficiencies pointed out in the earlier Report such as non-availability of provision to capture multiple batch numbers, missing continuity in system generated numbers, sales to customers without verifying licenses, deficiencies in issue of transport permit, flaws in mapping tax laws and manual intervention in system generated numbers continue to remain till date (November 2016).

Recommendation 4- Development of in-house expertise for maintenance of the system

The Company did not have an IT wing supported by qualified personnel. The Company continued to employ outsourced programmers to maintain the systems.

Recommendation 5 –Protect validity and confidentiality of transfer of data

The Company continued to transfer data from depots to Corporate Office (CO) through private e-mail servers and over telephone, reducing the reliability and confidentiality of the data.

Recommendation 6 - Lay down Business Continuity and Disaster Recovery Planning

There was no access control policy to regulate access to the system. A documented backup policy involving storage both at on-site and off-site and regular restoration of backup data did not exist even now at the Company.

Compliance Audit Observations

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

Four PSUs incurred wasteful expenditure ₹ 119.29 crore due to diversion of PDS rice, not availing Government loan, avoidable cancellation of valid tender, delay in rectification of defective spares, delay in processing of tender and non-maintenance of air pollution within the norms.

(Paragraphs 3.2, 3.4, 3.8, 3.10, 3.12, 3.13.6 and 3.13.8)

Four PSUs suffered loss of revenue of ₹ 58.65 crore, due to not enforcing contractual terms, not finalising valid tender, not adopting correct selling price and not maintaining the property in rentable condition.

(Paragraphs 3.1, 3.3, 3.6 and 3.7)

Two PSUs incurred infructuous expenditure of ₹ 8.57 crore due to venturing into a new quarry without ensuring marketability of the granite and belated decision on realignment of transmission lines.

(Paragraphs 3.5 and 3.9)

One PSU made irregular payment of ₹ 11.45 crore in violation of the contractual terms.

(Paragraph 3.11)

Some of the important Audit observations are given below:

Tamil Nadu Industrial Development Corporation Limited suffered a loss of ₹ 46.65 crore due to non-collection of service charges as per Joint Venture agreement.

(Paragraph 3.1)

Diversion of paddy procured under Public Distribution System by **Tamil Nadu Civil Supplies Corporation,** resulted in wrongful availing of subsidy of ₹ 14.55 crore from the Government of India, besides incurring extra expenditure of ₹ 3.19 crore.

(Paragraph 3.2)

Tamil Nadu State Transport Corporation (Coimbatore) Limited suffered a potential revenue loss of ₹ 9.58 crore due to incorrect rejection of the valid tender.

(Paragraph 3.3)

Tamil Nadu Generation and Distribution Corporation Limited

Unwarranted delays in rectification of the rotor fault in hydro power station led to additional extra expenditure of ₹ 44.74 crore.

(Paragraph 3.10)

The thermal plants of TANGEDCO continued to function without adhering to the norms for air, water and noise pollutions as the SPM levels and carbon emission remained high due to non usage of clean beneficiated coal, keeping the station heat rate higher than the prescribed level, *etc*. A quantum of 69.58 million tonnes of ash remained in the ash dyke in the three power plants, which was against the MoEFCC's guidelines for phasing out accumulation of ash in the land. The plants polluted the sea and river water due to absence of ETP and STP. The envisaged equipments and the green belt areas for controlling the noise pollution were not being maintained. The management of hazardous waste was also not as per the requirement of TNPCB. Against the revenue of ₹ 625.93 crore earned by disposal of fly ash, TANGEDCO spent only ₹ 61.91 crore on environment management, which was against the MoEFCC guidelines for spending the revenue only for infrastructure creation for disposal of fly ash.

(Paragraph 3.13)