# 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 2017, the State of Tamil Nadu had 68 working PSUs (67 Companies and one Statutory Corporation) and six non-working PSUs (all Companies), which employed 2.84 lakh employees. The State PSUs registered a turnover of ₹ 1,10,850.43 crore as per their latest finalised accounts. This turnover was equal to 8.54 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 ₹ 78,854.25 crore as per their latest finalised accounts.*

### *Investment in PSUs*

*As on 31 March 2017, the investment (capital and long-term loans) in 74 PSUs was ₹ 1,53,870.74 crore. Power sector accounted for 92.95 per cent of total investment and Service sector 3.20 per cent in 2016-17. The State Government contributed ₹ 46,127.14 crore towards equity, loans and grants/subsidies during 2016-17.*

### *Performance of PSUs*

*As per latest finalised accounts, out of 68 working PSUs, 39 PSUs earned profit of ₹ 931.08 crore and 25 PSUs incurred loss of ₹ 9,366.31 crore. The major contributors to profit were Tamil Nadu Newsprint and Papers Limited (₹ 257.53 crore), Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹ 129.74 crore), TIDEL Park Limited (₹ 49.28 crore), IT Expressway Limited (₹ 33.39 crore), Tamil Nadu Industrial Investment Corporation Limited (₹ 30.97 crore) and Tamil Nadu Magnesite Limited (₹ 21.74 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. Heavy losses were incurred by Tamil Nadu Generation and Distribution Corporation Limited (₹ 5,786.82 crore) and all the eight State Transport Corporations (₹ 3,049.39 crore).*

### *Arrears in accounts*

*Twenty nine working PSUs had arrears of 32 accounts as on 30 September 2017, of which three accounts pertained to earlier years and the remaining were 2016-17 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 68 accounts finalised, the Statutory Auditors of Government Companies had given unqualified certificates for 40 accounts and qualified certificates for 28 accounts. There were 32 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 departments 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 14 Performance Audit Reports and 107 paragraphs included in the Audit Reports from the year 2008-09 to 2015-16, the explanatory notes in respect of nine Performance Audit Reports and 37 paragraphs were not received from eight departments as of October 2017. Further, the Action Taken Notes to 227 paragraphs, pertaining to 40 Reports of Committee on Public Undertakings (COPU) presented to the Legislature between April 2002 and March 2016 were not received as of October 2017.***

## Performance Audit Relating to Government Company

## 2.1 Performance Audit on Operational performance of gas turbine power stations of Tamil Nadu Generation and Distribution Corporation Limited

***Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) had installed its own power generation plants of 7,144 MW capacity, which included the capacity of 516.08 MW (7.22 per cent) of Gas Turbine Power Stations (GTPS) as on 31 March 2017.***

***The operational performance of GTPS was earlier reviewed by Audit in 2007-08 and 2009-10 (as a part of the performance audit of the entire generation activities of TANGEDCO). To assess the efforts taken by TANGEDCO since then for improving the performance of GTPS, a Performance Audit on the operational performance of GTPS was taken up covering the period 2012-17.***

### *Operational performance*

***Three out of four GTPS, viz., Kuttalam Gas Turbine Power Station (KGTPS), Thirumakottai Gas Turbine Power Station (TGTPS) and Valuthur Gas Turbine Power Station-II (VGTPS-II) achieved the average Plant Load Factor (PLF) ranging from 40.88 to 50.46 per cent against the norm of 80 per cent resulting in loss of generation of 4,396.66 MU valued at ₹ 1,203.46 crore. Due to non-achievement of the normative PLF, Tamil Nadu Electricity Regulatory Commission (TNERC) disallowed fixed cost claims amounting to ₹1,830.02 crore for the purpose of tariff fixation.***

***Only in VGTPS-I, the capacity utilisation was more than 85 per cent in all the years upto 2016-17. But, in TGTPS, KGTPS and VGTPS-II, the capacity utilisation declined from 78.79 per cent (2012-13) to 40.38 per cent (2016-17), 74.19 per cent (2013-14) to 46.29 per cent (2016-17) and 83.86 per cent (2013-14) to 73.08 per cent (2016-17) respectively. The low capacity utilisation was due to not carrying out periodical maintenance, forced outages, reduced generation due to operational problems and Station Heat Rate (SHR) being high, running the station with partial load due to inadequate supply of fuel, etc.***

***TANGEDCO did not adhere to the committed annual maintenance schedules, which led to forced outages in GTPS and loss of generation of 2,491.59 MU valued at ₹749.56 crore in three GTPS.***

### *Forced outages*

***VGTPS-II tripped in January 2015, within the warranty period. Though TANGEDCO found that the Original Equipment Manufacturer (OEM) was also responsible for the tripping of the unit, it bore the entire cost of rectification of ₹58.74 crore citing urgency and also suffered loss of generation of 1,354.73 MU valued at ₹407.02 crore.***

***TANGEDCO did not have a spare rotor as a backup in any of the GTPS. Consequently, KGTPS was kept under forced shut down for a period of one year from 22 February 2012 to 21 February 2013 resulting in generation loss of 708 MU valued at ₹191.16 crore.***

### *Under-performance*

***The Steam Turbine Generators (STG) of GTPS worked for 1,30,263 hours against the available 1,75,296 hours. Further, the STG did not generate the possible output during the actual hours worked resulting in loss of generation of 1,494.09 MU valued at ₹465.26 crore.***

### *Excess Station Heat Rate*

***Due to excess station heat rate, the GTPS consumed excess gas valued at ₹249.08 crore in the five years ending 2016-17 and became liable to purchase 19,763 numbers of Energy Saving certificates valued at ₹20.07 crore as penalty.***

### *Excess auxiliary consumption*

***Except VGTPS-I, all the other GTPS failed to achieve auxiliary consumption norm of six per cent during 2012-17, resulting in non-availability of 118.13 MU of power valued at ₹36.60 crore for sale.***

### *Fuel management*

***Due to shortfall in supply of committed quantity of gas by Gas Authority of India Limited (GAIL), there was loss of generation of 1,993.84 MU with contribution loss of ₹599.60 crore.***

***KGTPS and VGTPS-II paid ₹38.83 crore of minimum guaranteed off-take charges to GAIL for short drawal of gas on account of forced outages.***

### *Issues concerning environment*

***The emission levels of Nitrogen Oxides in GTPS were within the norms in all the five years covered by audit, but the levels of effluent were more than the permissible limit in TGTPS, VGTPS-I and VGTPS-II. In TGTPS, the accumulation of the chemical sludge was neither measured nor disposed-off since October 2013.***

***Due to non-registration of the GTPS for Clean Development Mechanism (CDM) benefits, TANGEDCO lost 15.28 lakh Carbon Emission Reduction Credits for the period 2012-17 resulting in loss of potential revenue of ₹39.12 crore.***

### *Conclusion*

***During the performance audit period of 2012-17, the PLF was achieved only in VGTPS-I and the remaining GTPS had achieved average PLF ranging from 40.88 to***

***50.46 per cent. The lower PLF led to loss of generation to the extent of 4,396.66 MU valued at ₹ 1,203.46 crore. Besides this, forced outages, operation of GTPS at partial loads, not carrying out mandatory maintenances, not maintaining the station heat rate and auxiliary consumption within the norms were noticed. The issues concerning the environment were in the areas of water pollution and non-registration of GTPS for CDM benefits.***

***Recommendations***

***In view of the findings, audit, inter alia, recommended to achieve normative PLF, carry out mandatory inspections, avoid forced outages and lower capacity utilisation, ensure availability of gas for running the plants at optimum level.***

## 2.2 Information Technology Audit of Drug Distribution Management System in Tamil Nadu Medical Services Corporation

***Tamil Nadu Medical Services Corporation (TNMSC) Limited is engaged in procurement and supply of drugs, medicines, surgical sutures. TNMSC makes procurements through tenders, stores the stocks in warehouses and supplies to Government medical institutions.***

***TNMSC had computerised all its major activities through two application software viz., Drug Distribution Management System (DDMS) and Warehouse Information System (WIS).***

***Audit of DDMS brought out the following significant findings:***

- ***The tender processing module of DDMS was not comprehensive rendering the data held in the system incomplete and unreliable.***
- ***Incorrect mapping of business rules in the system resulted in excess projection of requirement in the pre-order statements due to non-consideration of excess stock available in some warehouses.***
- ***The software failed to prevent placing of orders on blacklisted suppliers due to non-integration of the blacklist module with the purchase order module.***
- ***The system failed to detect/prevent data entry errors in the dates of manufacturing and expiry, making it ineffective in handling outward transfer of drugs and reports on short expiry drugs, pre-order level and stock-out level.***
- ***Despite availability of stock, delay in capturing laboratory test reports resulted in non-supply of drugs in 43,039 instances during 2012-17.***
- ***590 drugs valuing ₹ 16.13 crore expired during 2012-17 included 306 drugs valuing ₹ 5.93 crore, which were supplied beyond the stipulated 30 days after manufacturing.***
- ***Due to delay in communication of "stop issue" order and batch number mismatch, in 982 instances, drugs, which failed in quality test were issued to medical institutions after "stop issue" order date.***
- ***The system did not calculate penalty for non-supply or short supply of drugs, leading to non-collection of penalty to the tune of ₹ 40.90 crore during 2012-17.***

***TNMSC did not implement Disaster Recovery Plan and Business Continuity plan, as envisaged in the e-Security policy of Government of Tamil Nadu.***

## 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:

Twelve PSUs incurred avoidable expenditure of ₹ 1,766.49 crore due to poor contract management of chartering of vessels, taking up road projects for execution without ensuring availability of land, delay in taking up flood management works, delay in utilising new buses by STUs, not inviting and non-evaluation of bids for import of coal on variable price method, *etc*.

***(Paragraphs 3.1, 3.2, 3.4, 3.5, 3.10, 3.12 and 3.14)***

Two PSUs extended undue benefit of ₹ 22.92 crore, due to delay in revision of lease rent and non-recovery of cost of transmission lines from the consumer.

***(Paragraphs 3.7 and 3.11)***

Three PSUs suffered revenue loss of ₹ 25.03 crore due to not enforcing liquidated damages as per the contractual terms, not insisting supply as per the purchase order and not classifying the service connection under industrial category.

***(Paragraphs 3.1, 3.8, 3.9 and 3.13)***

**Some of the important Audit observations are given below:**

Poor contract management of chartering of vessels by **Poompuhar Shipping Corporation Limited** led to avoidable extra expenditure to the extent of ₹ 55.83 crore, besides foregoing revenue of ₹ 12.48 crore due to non-levy of liquidated damages and non-collection of service charges.

***(Paragraph 3.1)***

**Tamil Nadu Road Infrastructure Development Corporation**, which commenced widening of road for the length of 57.40 KMs into four lane did not complete the same till date (October 2017). Besides planning deficiencies, there was poor contract management of these works, which resulted in avoidable cost escalation of ₹ 82.89 crore.

***(Paragraph 3.2)***

The implementation of Tamil Nadu State Rural Livelihood Mission by **Tamil Nadu Corporation for Development of Women Limited** revealed the non-completion of base line study even after spending ₹ 434.34 crore on the mission related activities and non-ascertaining the status of 3.19 lakh Self Help Groups (57.37 *per cent* of the total), which were covered under the scheme. Further, there was no coverage of insurance of health, life and assets under the scheme.

***(Paragraph 3.3)***

Delay of ten years in execution of flood management works by Electronics Corporation of Tamil Nadu Limited led to hardship to the public and avoidable cost escalation of ₹ 28.15 crore.

***(Paragraph 3.4)***

Inordinate delay of 13 years in revision of lease rent as per lease agreement by **Tamil Nadu Tourism Development Corporation Limited** resulted in undue benefit to a private tenant to the extent of ₹ 10.17 crore.

***(Paragraph 3.7)***

Not inviting and evaluating bids on variable price method for import of coal by **Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO)** led to avoidable expenditure of ₹ 746.13 crore. Further, its failure to independently verify the correctness of gross calorific value furnished by the supplier resulted in undue benefit to the extent of ₹ 813.68 crore.

***(Paragraph 3.10)***

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

***(Paragraph 3.11)***