REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 2006

COMMERCIAL

GOVERNMENT OF TAMIL NADU

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PREFACE

Government commercial enterprises, the accounts of which are subject to audit by the Comptroller and Auditor General of India, fall under the following categories:

(i) Government companies,

(ii) Statutory corporations, and

(iii) Departmentally managed commercial undertakings.

2. This report deals with the results of audit of Government companies and Statutory corporations including Tamil Nadu Electricity Board and has been prepared for submission to the Government of Tamil Nadu under Section 19-A of the Comptroller and Auditor General's (CAG) (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time. The results of audit relating to departmentally managed commercial undertakings are included in the Report of the Comptroller and Auditor General of India (Civil) – Government of Tamil Nadu.

3. Audit of the accounts of Government companies is conducted by Comptroller and Auditor General of India under the provisions of Section 619 of the Companies Act, 1956.

4. In respect of Tamil Nadu Electricity Board, which is a Statutory corporation, the Comptroller and Auditor General of India is the sole auditor. In respect of Tamil Nadu Warehousing Corporation, he has the right to conduct the audit of their accounts in addition to the audit conducted by the Chartered Accountants appointed by the State Government in consultation with the CAG. In respect of Tamil Nadu Electricity Regulatory Commission, the CAG is the sole auditor. The Audit Reports on the annual accounts of these corporations/commission are forwarded separately to the State Government.

5. The cases mentioned in this Report are those, which came to notice in the course of audit during 2005-06 as well as those which came to notice in earlier years but were not dealt with in the previous reports. Matters relating to the period subsequent to 2005-06 have also been included, wherever necessary.

2-17—2

PREFACE

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OVERVIEW

1 Overview of Government companies and Statutory corporations

As on 31 March 2006, the State had 69 Public Sector Undertakings (PSUs) comprising 67 Government companies (including 14 non-working companies) and two Statutory corporations (both working), as against 66 Government companies (including 14 non-working companies) and two Statutory corporations as on 31 March 2005. In addition there were three deemed Government companies under Section 619-B of the Companies Act, 1956 as on 31 March 2006.

(Paragraphs 1.1 and 1.31)

The total investment in working PSUs increased from Rs.14,092.07 crore as on 31 March 2005 to Rs.14,303.13 crore as on 31 March 2006. The total investment in non-working PSUs increased from Rs.85.83 crore to Rs.86.89 crore during the same period.

(Paragraphs 1.2 and 1.16)

The budgetary support in the form of equity, loans, grants and subsidies disbursed to the working PSUs increased from Rs.2,564.35 crore in 2004-05 to Rs.2,971.66 crore in 2005-06. The State Government also provided Rs.68.30 lakh to one non-working company in the form of loan. The State Government guaranteed loans aggregating Rs.397.23 crore during 2005-06. The total amount of outstanding loans guaranteed by the State Government decreased from Rs.5,892.38 crore as on 31 March 2005 to Rs.4,505.52 crore as on 31 March 2006.

(Paragraphs 1.5 and 1.17)

Thirty seven working Government companies have finalised their accounts for 2005-06. The accounts of 16 working Government companies and both the Statutory corporations were in arrears from one to four years as on 30 September 2006. The accounts of 12 non-working companies were in arrears for periods ranging from 1 to 14 years as on 30 September 2006.

(Paragraphs 1.6 and 1.19)

According to the latest finalised accounts, 29 working PSUs (28 Government companies and one Statutory corporation) earned aggregate profit of Rs.139.91 crore. Out of 37 working Government companies, which finalised their accounts for 2005-06 by September 2006, only eight companies declared dividend aggregating to Rs.15.72 crore. Twenty two working Government companies and one Statutory corporation incurred an aggregate loss of Rs.1,627.58 crore as per their latest finalised accounts. Of the loss incurring working Government companies, 19 companies had accumulated losses aggregating to Rs.2,958.35 crore, which exceeded their aggregate paid-up capital of Rs.969.14 crore.

(Paragraphs 1.7, 1.8 and 1.9)

Even after completion of 21 to 29 years of their existence, the turnover of four working Government companies had been less than rupees five crore in each of the preceding six years as per their latest finalised accounts. Two companies had been incurring losses for five consecutive years leading to negative net worth. In view of the poor turnover and continuous losses, the Government may either improve the performance of these companies or consider their closure.

(Paragraph 1.29)

2 Performance review relating to Government company

Production and Sale of paper by Tamil Nadu Newsprint and Papers Limited

Tamil Nadu Newsprint and Papers Limited was formed in 1985 with the main objective of manufacture of newsprint and printing and writing paper using sugarcane bagasse as the raw material. Some of the important points noticed in audit are as under:

- The Company had tie-up arrangements with nine sugar mills in the State for procurement of bagasse on fuel exchange basis. Though the Company fulfilled all its contractual obligations, the sugar mills did not supply the entire quantities of bagasse generated. This resulted in usage of costlier imported pulp at an extra expenditure of Rs.57 crore.

- Failure to adhere to the budgeted norms of pulp consumption resulted in extra expenditure of Rs.60.20 crore.

- Excess finishing loss in paper production compared to the norm resulted in extra expenditure of Rs.33.67 crore.

- Modernisation of paper machines at a total cost of Rs.105.76 crore did not yield the desired results.

(Paragraph 2)

3 Performance review relating to Statutory corporation

Execution of Bhavani Kattalai Barrage-I Hydro Electric Project by Tamil Nadu Electricity Board

Bhavani Kattalai Barrage-I Hydro Electric Project was originally conceived in 1984 at an estimated cost of Rs.78.67 crore with an installed capacity of 90 mega watt (MW). In 1994, the project was split into three individual ones of 30 MW each and Bhavani Kattalai Barrage-I Hydro Electric Project was estimated to cost Rs.90.62 crore at 1995-96 price level. The project commenced in July 1997 with a scheduled completion time of 36 months. While one unit of the project was completed in August 2006 the second unit is yet to be commissioned even after six years. Some of the important points noticed in audit are as under:

- Delay in commissioning of the project led to potential generation loss of 394.91 million units of power and extra expenditure of Rs.8.91 crore on exchange rate variation.

- The project has already suffered a cost overrun of Rs.125.63 crore. Consequently, the cost of power generation has increased from the envisaged 203 to 439 paise per unit and the per MW cost increased from Rs.3.02 crore in 1995-96 to Rs.7.21 crore in 2005-06.

(Paragraph 3)

4 Transaction Audit Observations

Audit observations included in this Report highlight deficiencies in the management of Public Sector Undertakings with serious financial implications. The irregularities pointed out are broadly of the following nature:

- Unproductive/extra expenditure/excess payment of Rs.49.43 crore in 13 cases.

(Paragraphs 4.3, 4.5, 4.6, 4.7, 4.11, 4.15, 4.16, 4.18, 4.20, 4.21, 4.23, 4.24 and 4.25)

- Loss of revenue of Rs.1,183.89 crore in six cases.

(Paragraphs 4.2, 4.4, 4.8, 4.9, 4.13 and 4.19)

- Cases of undue benefit given to contractors (Rs.7.18 crore), non-recovery of call deposit (Rs.57.70 crore) and special guarantee (Rs.1.30 crore) and other financial irregularities (Rs.24.97 crore) in six cases.

(Paragraphs 4.1, 4.10, 4.12, 4.14, 4.17 and 4.22)

Gist of some of the important observations is given below:

Failure to take effective action by **Tamil Nadu Industrial Development Corporation Limited** has put the recovery of Rs.57.70 crore of deposits with a joint venture in jeopardy.

(Paragraph 4.1)

Adoption of free on board prices instead of cost and freight price by **Tamil Nadu Newsprint and Papers Limited** for pro rata adjustment for lower calorific value of imported coal resulted in short recovery of Rs.3.24 crore.

(Paragraph 4.3)

Delay in finalisation of the tenders by the **State Transport Undertakings** for procurement of lubricants and erroneous computation of paper cost while evaluating the tenders for printing of tickets resulted in avoidable extra expenditure of Rs.1.07 crore.

(Paragraph 4.5)

Failure to file tariff petition by **Tamil Nadu Electricity Board** denied the Board an opportunity to reduce its deficit.

(Paragraph 4.13)

Tamil Nadu Electricity Board suffered interest loss of Rs.23.27 crore on account of excess payment of interest on debt, depreciation and insurance charges due to adoption of higher capital cost while making payment for power purchased from an independent power producer.

(Paragraph 4.14)

Failure of the **Tamil Nadu Electricity Board** to place purchase order within the validity period resulted in extra expenditure of Rs.18.79 crore on import of coal.

(Paragraph 4.15)

Tamil Nadu Electricity Board extended undue benefit of Rs.7.18 crore to an Independent Power Producer by paying fixed charges in contravention of the agreement.

(Paragraph 4.17)

CHAPTER-I

Overview of Government companies and Statutory corporations

Introduction

1.1 As on 31 March 2006, there were 67 Government companies (53 working companies and 14[#] non-working companies) and two Statutory corporations (both working) as against 66 Government companies (52 working companies and 14 non-working companies) and two Statutory corporations as on 31 March 2005. During the year, two new companies[♣] were formed. One company[∝] ceased to exist during the year. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. The audit arrangements of Statutory corporations are as shown below:

Name of the corporation	Authority for audit by the CAG	Audit arrangement
Tamil Nadu Electricity Board	Under Rule 14 of the Electricity Supply (Annual Accounts) Rules, 1985 read with Sections 172 (a) and 185 (2) (d) of the Electricity Act, 2003[*].	Sole audit by CAG
Tamil Nadu Warehousing Corporation	Section 31 (8) of the State Warehousing Corporations Act, 1962	Audit by Chartered Accountants and Supplementary audit by CAG

\# Non-working companies are those, which are under the process of liquidation/closure, merger, etc.

♣ Tamil Nadu Road Infrastructure Development Corporation and Nilakottai Food Park Limited.

∝ Dharmapuri District Development Corporation Limited

* The earlier provision of Section 69(2) of the Electricity (Supply) Act, 1948 was repealed by the Electricity Act, 2003.

The State Government formed the Tamil Nadu Electricity Regulatory Commission and its audit is entrusted to the Comptroller and Auditor General of India under Section 104 (2)[Δ] of the Electricity Act, 2003.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

1.2 As on 31 March 2006, the total investment in 55 working PSUs (53 Government companies and two Statutory corporations) was Rs.14,303.13[ɔ] crore (equity: Rs.2,297.99 crore; long-term loans[♣]: Rs.12,005.14 crore) against a total investment of Rs.14,092.07 crore (equity: Rs.2,261.71 crore; long term loans: Rs.11,830.86 crore) in 54 working PSUs (52 Government companies and two Statutory corporations) as on 31 March 2005. The analysis of investment in working PSUs is given in the following paragraphs.

The investment (equity and long-term loans) in various sectors and percentage thereof at the end of 31 March 2006 and 31 March 2005 are indicated in the pie charts.

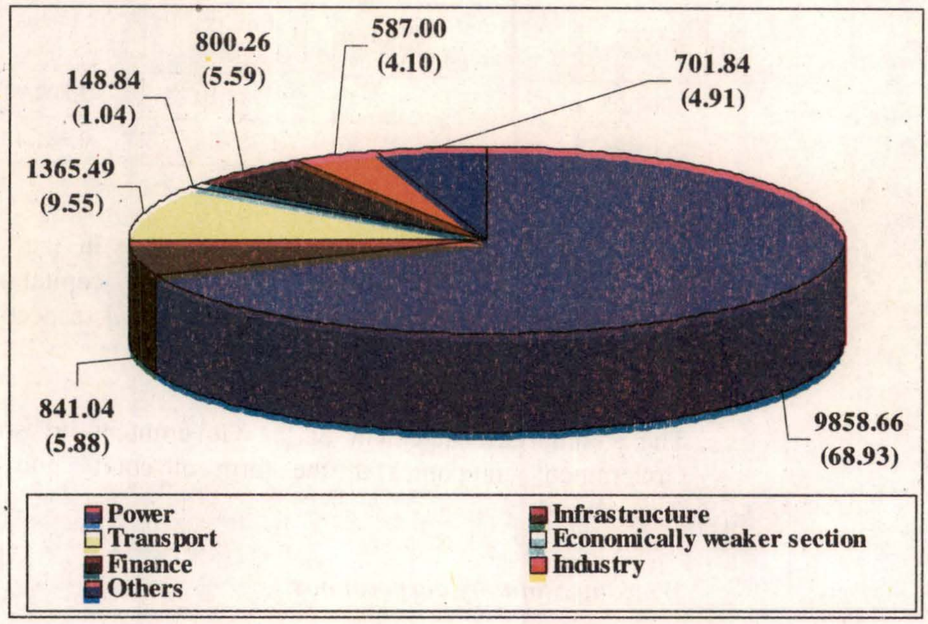
Δ Earlier provision of Section 34 (4) of the Electricity Regulatory Commissions Act, 1998 was repealed by the Electricity Act, 2003.

ɔ State Government's investment in the working PSUs was Rs.2,730.52 crore (others: Rs.11,572.62 crore). Figures as per Finance Accounts 2005-06 are Rs.2,302.15 crore. The difference is under reconciliation.

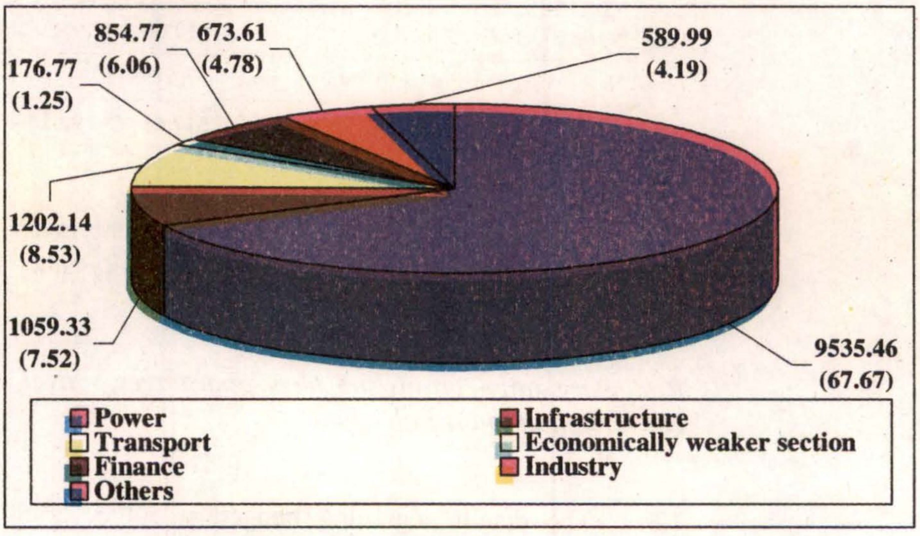
♣ Long term loans mentioned in Paragraphs 1.2, 1.3, 1.4, 1.16 and 1.17 are excluding interest accrued and due on such loans.

SECTOR-WISE INVESTMENT IN WORKING GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

(Figures in brackets indicate percentage)
As at 31 March 2006
Total investment: Rs.14,303.13 crore



As at 31 March 2005
Total investment: Rs.14,092.07 crore



Working Government companies

1.3 Total investment in working Government companies at the end of March 2005 and March 2006 was as follows:

(Rupees in crore)

Year	Number of companies	Equity	Loans	Total
2004-05	52	1,744.10	2,804.90	4,549.00
2005-06	53	1,755.38	2,681.48	4,436.86

As on 31 March 2006, the total investment in the working Government companies comprised 39.56 *per cent* of equity capital and 60.44 *per cent* of loans as compared to 38.34 and 61.66 *per cent* respectively as on 31 March 2005.

The summarised statement of the Government investment in the working Government companies in the form of equity and loans is detailed in **Annexure-1.**

Working Statutory corporations

1.4 The total investment in the two working Statutory corporations at the end of March 2005 and March 2006 was as follows:

(Rupees in crore)

Name of corporation	2004-05		2005-06	
	Capital	Loans	Capital	Loans
Tamil Nadu Electricity Board	510.00	9,025.46	535.00	9,323.66
Tamil Nadu Warehousing Corporation	7.61	---	7.61	---
Total	**517.61**	**9,025.46**	**542.61**	**9,323.66**

The summarised statement of the Government investment in the working Statutory corporations in the form of equity and loans is detailed in **Annexure-1**.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

1.5 The details regarding budgetary outgo, grant/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State

Government in respect of the working Government companies and Statutory corporations are given in **Annexures-1 and 3**.

The budgetary outgo in the form of equity, loans and subsidies from the State Government to the working Government companies and working Statutory corporations for the three years up to March 2006 are given below:

(Amount – Rupees in crore)

	2003-04				2004-05				2005-06			
	Companies		Corporations		Companies		Corporations		Companies		Corporations	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity outgo from budget	4	33.46	1	200.00	5	71.62	1	85.00	4	10.76	1	25.00
Loans given from budget	4	223.51	---	---	5	159.02	---	---	3	305.27	---	---
Grants	---	---	---	---	3	85.62	1	0.61	5	100.03	1	5.47
(i) Subsidy towards projects/ programmes/ schemes	10	894.86	---	---	4	1,015.98	1	0.05	7	1,249.85	---	---
(ii) Other subsidy	4	71.41	1	250.00	7	221.95	1	924.50	3	95.79	1	1,179.49
(iii) Total subsidy	14	966.27	1	250.00	11	1,237.93	1	924.55	10	1,345.64	1	1,179.49
Total outgo	**19***	**1,223.24**	**1**	**450.00**	**19***	**1,554.19**	**1**	**1,010.16**	**18***	**1,761.70**	**1**	**1,209.96**

During 2005-06, the Government had guaranteed loans aggregating to Rs.397.23 crore obtained by 11 working Government companies. At the end of the year, guarantees amounting to Rs.4,505.52 crore against 15 working Government companies (Rs.1,456.35 crore) and one working Statutory corporation (Rs.3,049.17 crore) were outstanding. The guarantee commission paid/payable to the Government by Government companies and Statutory corporations during 2005-06 was Rs.2.49 crore and Rs.5.27 crore respectively.

Finalisation of accounts by working PSUs

1.6 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in the case of Statutory corporations their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

It could be seen from **Annexure-2** that out of 53 working Government companies and two Statutory corporations, only 37 working companies had

* These are actual number of companies/corporation, which have received budgetary support in the form of equity, loan, subsidies and grant from the State Government during the respective years.

finalised their accounts for 2005-06 within the stipulated period. During the period from October 2005 to September 2006, 13 working Government companies finalised 15 accounts (including one company which ceased to exit during the year) for the previous years. Similarly, during the same period, two Statutory corporations finalised their accounts for the previous year.

The accounts of 16 working Government companies and both the Statutory corporations were in arrears for the periods ranging from one to four years as on 30 September 2006 as detailed below:

Serial No.	Number of working companies/corporations		Year for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Sl.No. of Annexure 2	
	Government companies	Statutory corporations			Government companies	Statutory corporations
1.	1	---	2002-03 to 2005-06	4	A-22	----
2.	2	---	2004-05 and 2005-06	2	A-50 and 53	---
3.	13	2	2005-06	1	A-6, 12, 13, 17, 29, 31, 32, 34, 38, 40, 41, 49 and 51	B-1 and 2

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by Audit of the arrears in finalisation of accounts, no remedial measures had been taken, as a result of which the net worth of these PSUs could not be assessed in audit.

Financial position and working results of working PSUs

1.7 The summarised financial results of working PSUs (Government companies and Statutory corporations) as per their latest finalised accounts are given in **Annexure-2**. Besides, statements showing the financial position and the working results of individual working Statutory corporations for the latest three years for which accounts have been finalised are given in **Annexures-4** and **5** respectively.

According to the latest finalised accounts of 53 working Government companies and two working Statutory corporations, 22 companies and one Statutory corporation had incurred an aggregate loss of Rs.450.81 crore and Rs.1,176.77 crore and 28 companies and one Statutory corporation had earned an aggregate profit of Rs.137.45 crore and Rs.2.46 crore respectively. Two companies♦ have not finalised their first accounts. In case of Tamil Nadu Civil Supplies Corporation Limited entire loss is reimbursed by the State Government.

♦ Serial number 41 and 53 of Annexure-2.

Working Government companies

Profit earning working companies and dividend

1.8 Out of 37* working Government companies, which finalised their accounts for 2005-06 by 30 September 2006, 21 companies earned an aggregate profit of Rs.87.60 crore and only eight companies (serial numbers A-7, 8, 15, 19, 21, 23, 24 and 39 of **Annexure-2**) declared dividend aggregating Rs.15.72 crore. The dividend as a percentage of share capital in the above eight companies worked out to 8.66. The remaining 13 profit making companies did not declare any dividend. The total return by way of dividend of Rs.15.72 crore worked out to 0.95 *per cent* in 2005-06 on total equity investment of Rs.1,658.74 crore by the State Government in all the Government companies as against 0.37 *per cent* in the previous year. The State Government has not formulated any dividend policy for payment of minimum dividend.

Similarly, out of nine working Government companies, which finalised their accounts for the previous years during October 2005 to September 2006, four companies earned an aggregate profit of Rs.45.13 crore. These four companies earned profit for two or more successive years.

Loss incurring working Government companies

1.9 Of the 22 loss incurring working Government companies, 19 companies had accumulated losses aggregating to Rs.2,958.35 crore, which exceeded their aggregate paid-up capital of Rs.969.14 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to seven out of these 19 companies in the form of equity, loans, grants and subsidy amounting to Rs.191.19 crore during 2005-06.

Working Statutory corporations

Profit earning Statutory corporations and dividend

1.10 None of the Statutory corporations finalised their accounts for 2005-06. Out of two Statutory corporations, which finalised their accounts for previous year, only one corporation (Tamil Nadu Warehousing Corporation) earned a profit of Rs.2.46 crore and declared dividend of Rs.30.44 lakh. The dividend as percentage of its share capital worked out to four *per cent*. The total return to the Government by way of dividend of Rs.15.22 lakh worked out to 0.027 *per cent* in 2005-06 on its total equity investment of Rs.538.81 crore in both the Statutory corporations as against 0.03 *per cent* in the previous year.

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* These includes three companies, which finalised their previous years' accounts also.

Loss incurring Statutory corporation

1.11 Tamil Nadu Electricity Board, which finalised its accounts for 2004-05, incurred a loss of Rs.1,176.77 crore during that year. The accumulated losses of Tamil Nadu Electricity Board as on 31 March 2005 were Rs.3,582.53 crore, which exceeded its paid-up capital of Rs.510 crore as on that date.

Operational performance of working Statutory corporations

1.12 The operational performance of the working Statutory corporations is given in **Annexure-6**.

It could be seen from **Annexure-6** that though the power generation in Tamil Nadu Electricity Board increased from 26,451 MU in 2004-05 to 26,915 MU in 2005-06 and the Board was in receipt of Rs.1,179.49 crore as subsidy from the State Government in 2005-06, the deficit increased from Rs.1,176.77 crore in 2004-05 to Rs.1,355.21 crore in 2005-06 (Provisional).

As regards Tamil Nadu Warehousing Corporation, the percentage of capacity utilisation, which was 55 *per cent* in 2004-05 increased to 67 *per cent* in 2005-06 and the profit also increased from Rs.2.46 crore in 2004-05 to Rs.3.53 crore in 2005-06.

Return on capital employed

1.13 As per the latest annual accounts of PSUs finalised up to September 2006, the capital employed♦ worked out to Rs.6,926.60 crore in 53 working companies and total return♠ thereon amounted to Rs.240.14 crore, which is 3.47 *per cent* as compared to total return of Rs.671.99 crore (9.87 *per cent*) in the previous year (accounts finalised up to September 2005). Similarly, the capital employed and total return thereon in case of the working Statutory corporations as per the latest annual accounts finalised up to September 2006, worked out to Rs.10,802.27 crore and (-)Rs.347.75 crore respectively as against the total return of (-)Rs.344.16 crore in 2004-05. The details of capital employed and total return on capital employed in case of the working Government companies and Statutory corporations are given in **Annexure-2**.

♦ Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in finance companies and corporations, where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

♠ For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

Reforms in the power sector

Status of implementation of MOU between the State Government and the Central Government

1.14 In pursuance of the decisions taken at the Chief Ministers' conference on Power Sector Reforms, held in March 2001, a Memorandum of Understanding (MOU) was signed in January 2002 between the Ministry of Power, Government of India and the Department of Energy, Government of Tamil Nadu as a joint commitment for implementation of a reform programme in the power sector with identified milestones.

Status of implementation of the reform programme against each commitment made in the MOU as reported by the Tamil Nadu Electricity Board is detailed below:

	Commitment as per MOU	Targeted completion Schedule	Status (as on 31 March 2006)	Remarks
	Commitments made by the State Government			
1	Appointment of Chairperson in State Electricity Regulatory Commission (SERC)	January 2002	Appointed and assumed charge in July 2002	---
2	100 *per cent* electrification of all villages and hamlets	By 2007 (64,042 villages and hamlets)	63,938 villages and hamlets have been electrified	The remaining hamlets were electrified by non-conventional energy sources
3.	Reduction in transmission and distribution losses to 15 *per cent*	By December 2003	Transmission and distribution losses - 18 *per cent*	Transmission and distribution losses continue to be at 18 *per cent* in 2005-06 also.
4.	100 *per cent* metering of all distribution feeders	December 2001	Completed	---
5.	100 *per cent* metering of all consumers	December 2003	All services except agriculture and hut services metered	89,038 hut services and 1,65,220 agricultural services were provided with meters. The services provided with meters worked out to 9 *per cent* of the total existing services in each category. The Board had addressed TNERC for extension of time limit up to 31.3.2009 for fixing of meters in agricultural and hut services.

	Commitment as per MOU	Targeted completion Schedule	Status (as on 31 March 2006)	Remarks
6.	Current operations in distribution to reach at break-even	March 2003	There was a deficit of Rs.1,355.21 crore as per the preliminary accounts for the year 2005-06	---
7.	Energy audit at 11 KV sub-stations level	January 2002	Introduced in January 2002	---
8.	Computerisation of HT & LT billing	December 2002	HT billing fully computerised	LT billing in 615 Distribution sections computerised under phase I and the computerisation under progress in the balance 1805 sections under phase II.
9.	Securitised outstanding dues of central public sector undertakings	As per scheme approved by Government of India	State Cabinet approved securitisation in April 2002. Government order issued in June 2002.	---
10.	State Electricity Regulatory Commission (SERC)			
	(i) Establishment of TNERC		Established in March 1999	---
	(ii) Implementation of tariff orders issued by TNERC during the year	First Tariff petition to be filed by 30 September 2002	Since filed in September 2002 and first tariff revision effected from March 2003.	The Board had not filed Aggregate Revenue Requirement and tariff petition for the years 2004-05 to 2006-07.
	General			
11.	Monitoring of MOU	Quarterly	Being monitored on quarterly basis.	---

State Electricity Regulatory Commission

1.15 The Government of Tamil Nadu constituted (March 1999) the Tamil Nadu Electricity Regulatory Commission (TNERC), with three members including a Chairman, under Section 17(1) of the Electricity Regulatory Commissions Act, 1998*. The Commission started functioning with effect from 1 September 1999. The Commission issued its first tariff notification in March 2003. Accounts of TNERC have been finalised up to March 2006.

* Since replaced with Section 82(1) of the Electricity Act, 2003.

Non-working PSUs

Investment in non-working PSUs

1.16 As on 31 March 2006, the total investment in 14 non-working PSUs (all Government companies) was Rs.86.89 crore[+] (equity: Rs.38.53 crore; long-term loans: Rs.48.36 crore) as against the total investment of Rs.85.83 crore (equity: Rs.38.53 crore; long-term loans: Rs.47.30 crore) in 14 non-working companies as on 31 March 2005.

The classification of the non-working companies was as under:

(Amount – Rupees in crore)

Sl.No.	Status of non-working companies	Number of companies	Investment	
			Equity	Long-term loans
(i)	Under liquidation*	2[A]	3.95	NIL
(ii)	Under closure	8[B]	27.31	48.36
(iii)	Under merger	2[C]	5.20	NIL
(iv)	Others	2[D]	2.07	NIL
	Total	**14**	**38.53**	**48.36**

Of the above non-working PSUs, 10 Government companies with substantial Government investment of Rs.79.62 crore were under liquidation or closure under section 560 of the Companies Act, 1956 for three to 15 years. Effective steps need to be taken for their expeditious liquidation or closure.

Budgetary outgo, grant/subsidy, guarantees, waiver of dues and conversion of loans into equity

1.17 The details regarding budgetary outgo in the form of loan to the non-working Government companies are given in **Annexure-1**. The State Government had given loan of Rs.68.30 lakh to one non-working company (C-2 of **Annexure-1**) during 2005-06.

\+ State Government's investment in non-working PSUs was Rs.76.88 crore (others: Rs.10.01 crore). Figures as per Finance Accounts 2005-06 is Rs.28.71 crore. The difference is under reconciliation.

* One company, Tamil Nadu Goods Transport Corporation Limited, which was under liquidation, had been directed by the State Government to be merged with State Express Transport Corporation Limited. Approval of the Company Law Board was awaited.

A Serial numbers C-7 and 11 of Annexure-2

B Serial numbers C-1 to 5, 9, 10 and 13 of Annexure-2

C Serial numbers C-8 and 14 of Annexure-2

D Serial numbers C-6 and 12 of Annexure-2

Total establishment expenditure of non-working PSUs

1.18 The year-wise details of total establishment expenditure incurred by non-working PSUs and the sources of financing them during the last three years upto 2005-06 are given below:

(Amount – Rupees in crore)

Year	No of PSUs	Total establishment expenditure	Financed by		Others
			Disposal of investment/ assets	Government by way of loans	
2003-04	3*	2.16	---	1.68	0.48♣
2004-05	5*	0.69	---	---	0.69
2005-06	♦	♦	♦	♦	♦

Finalisation of accounts by non-working PSUs

1.19 The accounts of 12 non-working companies were in arrears for periods ranging from one to 14 years as on 30 September 2006 as could be seen from **Annexure-2.**

Financial position and working results of non-working PSUs

1.20 The summarised financial results of non-working Government companies as per their latest finalised accounts are given in **Annexure-2.**

The year-wise details of paid-up capital, net worth, cash loss and accumulated loss/profit of non-working PSUs as per their latest finalised accounts are given below:

(Rupees in lakh)

Year of latest finalised accounts	Number of companies	Paid-up capital	Net worth	Cash loss	Accumulated loss (-)/profit
1989-90	1	32.66	N.A	N.A	(-)132.55
1991-92	1	0.002	(-)127.86	6.22	127.86
1993-94	1	207.36	(-)0.12	166.67	(-)207.48
1999-2000	2	754.00	(-)7,928.08	1,308.36	(-)8,682.08
2000-01	1	27.50	9.88	0.16	(-)17.62
2002-03	1	600.98	(-)1,634.57	536.78	(-)4,290.72
2003-04	2	516.36	(-)54.80	0.53	(-)565.25
2004-05	3	1,549.18	(-)858.63	---	(-)2,466.94
2005-06	2	165.13	(-)1,788.55	0.06	(-)1,953.68

* Information in respect of other companies was not available.

♣ Interest and miscellaneous income.

♦ Details not available.

Status of placement of Separate Audit Reports of Statutory corporations in Legislature

1.21 Separate Audit Reports of Tamil Nadu Electricity Board (TNEB) up to 2000-01 have been placed in the State Legislature. Separate Audit Reports for subsequent years are not being placed in the State Legislature as the Electricity Act, 2003 has come into effect from 10 June 2003 and it does not contain any provision for placing the Annual Statement of Accounts of TNEB in the Legislature.

Disinvestment, privatisation and restructuring of Public Sector Undertakings

1.22 There was no disinvestment, privatisation or restructuring of PSUs during the year.

Results of audit of accounts of PSUs by the Comptroller and Auditor General of India

1.23 During the period from October 2005 to September 2006, the accounts of 44 working Government companies and of both the working Statutory corporations were selected for audit. As a result of the audit observations made by the CAG, 10 working companies and one Statutory corporation revised their accounts. As a result of revisions in the annual accounts, the profit/loss in respect of the following companies increased or decreased as indicated below:

Decrease of Profit

Name of the Company	Year of accounts	Rupees in crore
Tamil Nadu Minerals Limited	2005-06	1.75
Arasu Rubber Corporation Limited	2005-06	0.56
Total decrease		**2.31**

Increase of Profit

Name of the Company	Year of accounts	Rupees in crore
Tamil Nadu Medicinal Plant Farms and Herbal Medicine Corporation Limited	2005-06	0.10

Increase of Loss

Name of the Company	Year of accounts	Rupees in crore
Tamil Nadu Tea Plantation Corporation Limited	2005-06	2.01
Tamil Nadu Civil Supplies Corporation Limited	2004-05	15.25
Total increase		**17.26**

Decrease of Loss

Name of the Company	Year of accounts	Rupees in crore
Tamil Nadu Electricity Board	2004-05	8.66
Note: The accounts of Tamil Nadu Small industries Corporation Limited, Tamil Nadu Textile Corporation Limited, Tamil Nadu Zari Limited, Tamil Nadu Forest Plantation Corporation Limited and Tamil Nadu Industrial Investment Corporation Limited were also revised but there was no financial impact on the profit/loss disclosed in these accounts.		

In addition, the net impact of the important audit observations issued as a result of the audit of the remaining PSUs was as follows:

Sl.No	Details	Number of accounts			Rupees in lakh		
		Government companies		Statutory corporations	Government companies		Statutory corporations
		Working	Non-working		Working	Non-working	
(i)	Decrease in profit	4	---	---	1,818.00	---	---
(ii)	Decrease in loss	---	---	1	---	---	866.00
(iii)	Increase in profit	2	---	---	140.00	---	---
(iv)	Increase in loss	1	---	---	35.00	---	---

Errors and omissions noticed in case of Government companies

1.24 Some major errors/omissions in case of Government companies noticed during audit of accounts are given below:

Sl. No	Name of the Company	Year of accounts	Errors/omissions	Amount (Rupees in crore)
1.	Tamil Nadu Adi Dravidar Housing and Development Coporation Limited	2003-04	Overstatement of Reserves and Surplus and understatement of profit due to non writing back of reserve for construction of Training cum Office complex as the proposal was rejected by the Government.	1.20
		2004-05	Overstatement of profit as well as sundry debtors due to non-provision for doubtful debts.	1.27
2.	Electronics Corporation of Tamil Nadu Limited	2004-05	Overstatement of profit as well as investments due to non provision for diminution in value of investments in assisted companies	9.44
			Overstatement of profit as well as current assets due to non valuation of inventories *viz.*, VHF equipments	1.59
3.	Southern Structurals Limited.	2004-05	Incorrect disclosure of Sales Tax demand as Rs.23.28 crore instead of Rs.27.11 crore.	3.83
4.	Tamil Nadu State Transport Coporation (Salem) Limited	2005-06	Non provision for liability towards compensation award	0.35

Sl. No	Name of the Company	Year of accounts	Errors/omissions	Amount (Rupees in crore)
5.	Tamil Nadu Backward Classes Economic Development Coporation Limited	2005-06	Overstatement of profit due to non-provision for bad and doubtful debts	2.88
6.	Tamil Nadu Power Finance and Infrastructure Development Corporation Limited.	2005-06	Understatement of Profit and Reserves & Surplus by Rs.20 lakh and Rs.70 lakh respectively and overstatement of current liabilities by Rs.90 lakh due to non adjustment of payment received from a loanee against which provision of NPA had already been created	0.90
7.	Tamil Nadu Medical Services Coporation Limited	2005-06	Overstatement of profit and understatement of current liabilities due to incorrect accounting of liquidated damages, transport, fines *etc.*, and forfeiture of EMD/SD as Company's income instead of treating them as payable to the Government.	3.00

Errors and omissions noticed in case of Statutory corporations

1.25 Some major errors noticed during audit of accounts for 2004-05 of the Tamil Nadu Electricity Board are given below:

Sl.No.	Errors/omissions	Amount (Rupees in crore)
1.	Overstatement of deficit due to non accountal of credit note received from Eastern Collieries Limited	30.47
2.	Understatement of deficit due to incorrect accountal of receipt of current consumption charges arrears and erroneous accounting of transmission/wheeling charges	23.84
3.	Understatement of deficit due to computation of interest during construction by adopting incorrect basis	21.51
4.	Overstatement of fuel consumption due to non adoption of correct rate	12.23
5.	Non-provision/short provision of depreciation	11.03

Audit assessment of the working results of the Tamil Nadu Electricity Board

1.26 Based on the audit assessment of the working results of the Tamil Nadu Electricity Board for the three years up to 2005-06 and taking into consideration the major irregularities and omissions pointed out in the Separate Audit Reports on the annual accounts and not taking into account the subsidy/subventions received/receivable from the State Government, the net surplus/deficit, percentage of return on capital employed, capital invested will be as under:

(Rupees in crore)

Sl. No	Particulars	2003-04	2004-05	2005-06 (Provisional)
1.	Net surplus/(-) deficit as per books of accounts	(-)1,110.13	(-)1,176.77	(-)1,335.21
2.	Subsidy from the State Government	250.00	924.50	1,179.49

Sl. No	Particulars	2003-04	2004-05	2005-06 (Provisional)
3.	Net surplus/(-) deficit before subsidy from the State Government (1-2)	(-)1,360.13	(-)2,101.27	(-)2,514.70
4.	Net increase/decrease in net surplus/(-) deficit on account of audit comments on the annual accounts	16.05	8.66	N.A.
5.	Net surplus/(-) deficit after taking into account the impact of audit comments but before subsidy from the State Government (3-4)	(-)1,344.08	(-)2,092.61	N.A.
6.	Total return on capital employed	(-)345.34	(-)350.20	(-)535.49
7.	Percentage of total return on capital employed	---	---	---

Recoveries at the instance of audit

1.27 Test check of records of the Tamil Nadu Electricity Board conducted during 2005-06 disclosed wrong fixation of tariff/non-levy/short-levy of tariff/short realisation of revenue and other observations aggregating to Rs.286 crore in 1,127 cases. The Board accepted the observations in 1,053 cases and recovered rupees eight crore at the instance of audit. Besides this, the Board recovered (February 2006) from GMR Power Corporation Private Limited a sum of Rs.9.95 crore being the excess payment of interest, which was pointed out by audit.

Internal audit/internal control

1.28 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including the Internal control/Internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. Directions/sub-directions under the Act, ibid, were issued to the Statutory Auditors in respect of 57 Government companies involving 66 accounts between October 2005 and September 2006. In pursuance of directions so issued, reports of Statutory Auditors involving 39 accounts of 31 Government companies were received (September 2006).

An illustrative resume of major recommendations/comments made by the Statutory Auditors on possible improvements in respect of State Government companies are indicated in the **Annexure-7**.

Recommendations for closure of PSUs

1.29 Even after completion of 21 to 29 years of their existence, the turnover of four Government companies (serial numbers A-4, 10, 11, and 52 of **Annexure-2**) has been less than rupees five crore in each of the preceding six years as per their latest finalised accounts. Two companies (serial number A-10 and 11 of **Annexure-2**) had been incurring losses for five consecutive years (as per latest finalised accounts) leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve the performance of these Government companies or consider their closure.

Position of discussion of Audit Reports (Commercial) by the Committee on Public Undertakings (COPU)

1.30 The following table indicates the details regarding number of reviews and paragraphs discussed by COPU by the end of 31 March 2006:

Period of Audit Report	Number of reviews and paragraphs appeared in the Audit Report		Number of reviews/paragraphs discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
1995-96	4	24	3	24
1996-97	5	24	4	24
1997-98	5	20	---	06
1998-99	6	23	---	04
1999-2000	4	24	---	03
2000-01	4	21	---	02
2001-02	3	29	---	06
2002-03	2	27	---	---
2003-04	4	20	---	---
2004-05	3	23	---	---
TOTAL	**40**	**235**	**7**	**69**

619-B companies

1.31 There were three companies coming within the purview of Section 619-B of the Companies Act, 1956. **Annexure-8** indicates the details of paid-up capital, investment by way of equity, loans and grants and summarised working results of these companies based on their latest finalised accounts.

[illegible]

[illegible]

[illegible]

1.10 [illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOTAL		407	155	

[illegible]

[illegible]

CHAPTER-II

PERFORMANCE REVIEW RELATING TO GOVERNMENT COMPANY

2 TAMIL NADU NEWSPRINT AND PAPERS LIMITED

PRODUCTION AND SALE OF PAPER

HIGHLIGHTS

The Company was promoted by the Government of Tamil Nadu for production of newsprint and printing and writing paper using bagasse as the main raw material.

(Paragraph 2.1)

The Company had tie-up agreements with nine sugar mills for supply of the entire quantity of bagasse generated by them, on barter system basis in exchange of steam/coal. Though the Company fulfilled all its contractual obligations, the sugar mills did not supply the entire quantities of bagasse generated. This resulted in use of costlier imported pulp at an extra expenditure of Rs.57 crore.

(Paragraph 2.8)

Failure to adhere to the budgeted norms of pulp consumption resulted in extra expenditure of Rs.60.20 crore.

(Paragraph 2.12)

Failure to limit the finishing loss in paper production to the budgeted ceilings resulted in extra expenditure of Rs.33.67 crore during the five years ended 31 March 2006.

(Paragraph 2.14)

Modernisation of the paper machines at a total cost of Rs.105.76 crore did not yield the desired results. The Company's failure to achieve the envisaged machine speed in Paper Machines 1 and 2 after modernisation resulted in contribution loss of Rs.112.75 crore.

(Paragraphs 2.18, 2.20 and 2.21)

Grant of discount applicable to sale of note book scheme on sales under some other scheme resulted in irregular payment of discount of Rs.1.09 crore.

(Paragraph 2.31)

Introduction

2.1 Tamil Nadu Newsprint and Papers Limited (Company) was set up by the Government of Tamil Nadu for the manufacture of newsprint (NP) and printing and writing paper (PWP) using sugarcane bagasse♣ as the raw material. The paper mill was commissioned (October 1985) at Pugalur in Karur district with an installed capacity of 90,000 tonnes *per annum* (TPA). The mill commenced production in 1986 and is the only unit in the State to manufacture paper from bagasse pulp. The capacity of the mill was doubled in 1992 by installing a second paper machine. During 2002-03, both the existing paper machines were upgraded increasing the installed capacity to 2,30,000 TPA.

The performance of the Company was last reviewed in the Report of the Comptroller and Auditor General of India (Commercial) – Government of Tamil Nadu for the year ended 31 March 1988. The review was discussed by the Committee on Public Undertakings (COPU) in 1993-94 and its recommendations are contained in the 158th and 269th report tabled in the Legislative Assembly of Tamil Nadu on 19 March 1994 and 9 November 1995 respectively.

Scope of audit

2.2 A Performance Audit of the activities of the Company on Production and sale of paper during the five years from 2001-02 to 2005-06 was conducted through test check of records maintained at the Head Office of the Company at Chennai, the paper mill of the Company in Pugalur and three out of nine marketing offices during December 2005 to April 2006.

Audit objectives

2.3 The performance audit was conducted with a view to ascertaining whether:

- the facilities established for manufacture of newspaper and printing and writing paper were utilised to the optimum level and wastages were within the budgeted norms fixed by the Company;
- the procurement of raw material for the manufacture of paper was made economically, efficiently and the consumption of raw material was as per the budgeted norms;
- modernisation and upgradation of paper machines helped in achieving the increased capacity;
- the utilisation of steam and power, *etc.*, for the manufacture of paper was within the budgeted norms; and
- the Company was able to market its products effectively and at reasonable prices to maximise its earnings.

♣ Bagasse is the residue left after extracting the juice from sugarcane.

Audit criteria

2.4 The audit criteria used for assessing the achievement of audit objectives were:

- targets laid down by the Company for capacity utilisation, budgeted norms for wastages, consumption of raw material, steam, power, *etc*.
- agreements entered into by the Company with various sugar mills for procurement of bagasse on barter basis (in exchange of coal/steam supplied by the Company);
- agreements for purchase of bagasse and hard wood pulp from the open market;
- marketing policy of the Company.

Audit methodology

2.5 The audit methodology adopted for attaining the audit objectives with reference to audit criteria were examination of:

- agenda and minutes of meetings of the Board of Directors;
- records relating to fixation of installed capacity and utilisation there against;
- records relating to actual production, wastage, usage of raw material with reference to targets/ budgeted norms;
- records relating to purchase of bagasse on barter system and purchase of bagasse and hard wood pulp from the open market;
- records relating to modernisation and upgradation of paper machines;
- records relating to sale of papers;
- issue of audit observations and
- interaction with the management.

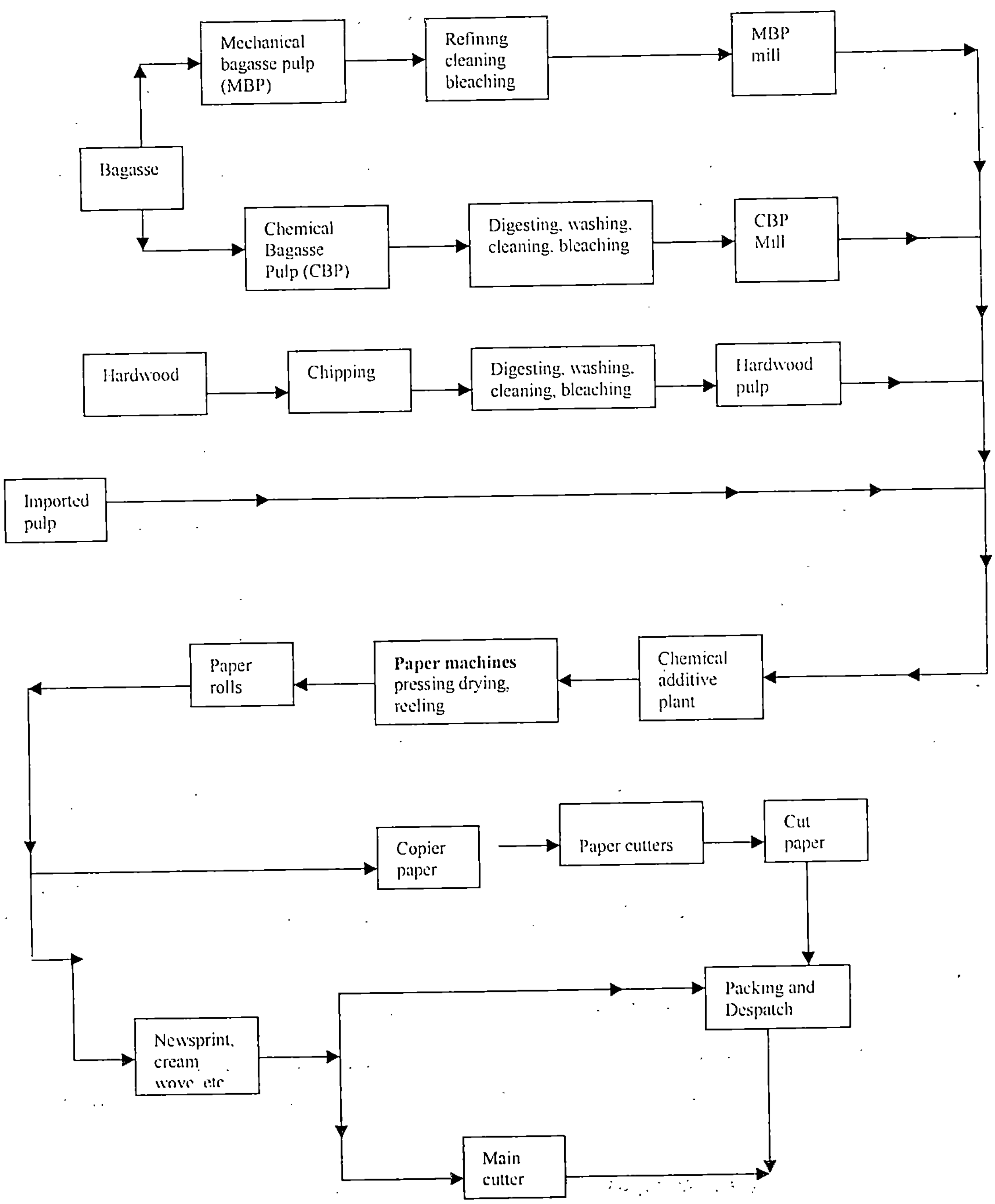
Audit findings

Audit findings, emerging as a result of test check were reported to the Government/Company in June 2006 and were also discussed in the meeting of the Audit Review Committee on Public Sector Enterprises held on 28 August 2006. The Secretary, Industries Department, Government of Tamil Nadu and the Managing Director of the Company attended the meeting. The views expressed by the management and the Government have been taken into consideration while finalising the report.

Paper making process

2.6 The flow chart on the processes involved in production of paper is given below:

Process flow chart in paper production



The process, in brief, involves production and mixing of bagasse pulp, hard wood pulp and imported pulp with chemicals before being rolled into paper by pressing and drying. The paper is then sorted out as copier paper, newsprint and other types and packed after cutting into desired sizes.

Audit findings arising from the performance review are discussed in the succeeding paragraphs:

Procurement of raw materials

Procurement of bagasse

2.7 Depithed bagasse is the main raw material used for production by the Company and sugar mills are the main sources of supply of this raw material. Every MT of sugarcane crushed yields approximately 26 percent of wet whole bagasse, which on depithing yields 70 *per cent* of depithed bagasse. In order to produce 2,30,000 MT of paper *per annum* (installed capacity), the Company requires 7 lakh MT of depithed bagasse equivalent to 10 lakh MT of wet whole bagasse. The Company entered into agreement with the sugar mills for the procurement of bagasse in exchange of coal/steam. Based on the crushing capacity of the sugar mill, the Company estimated the quantum of bagasse that could be procured from each mill. The estimate is necessary for deciding the investments in boilers and other assets to be set up by the Company in the sugar mills and for determining the extent of purchase of bagasse required to be made from the open market or through import, in case of shortage in procurement from the sugar mills. Shortage, if any, in procurement of bagasse from the sugar mills also affects the cost of procurement as the alternate sources of open market and import are costlier.

2.8 The Company had entered into agreements with 9 out of 32 sugar mills in the State for supply of bagasse (with four mills to procure bagasse on steam exchange basis and with five mills on fuel *viz*., coal, on exchange basis). The agreements with the sugar mills provided for supply of the entire quantity of bagasse generated by them to the Company. It was, however, observed during audit that five sugar mills with whom the Company had entered into tie up arrangements did not supply the entire bagasse generated by them as detailed below:

(In lakh MT)

Name of the mill	2001-02		2002-03		2003-04		2004-05		2005-06	
	Generated*	Supplied	Generated	Supplied	Generated	Supplied	Generated	Supplied	Generated	Supplied
Sakthi Sugar	2.36	2.03	---	---	---	---	---	---	---	---
EID Parry, Pugalur	1.62	0.69	0.96	0.34	0.25	0.02	0.43	0.19	1.33	0.32
EID Parry, Pettavaithalai	1.08	0.72	0.82	0.54	0.34	0.21	---	---	1.15	0.63

* Cane crushed X 26 per cent bagasse generation X 70 per cent depithed bagasse.

Name of the mill	2001-02		2002-03		2003-04		2004-05		2005-06	
	Generated*	Supplied	Generated	Supplied	Generated	Supplied	Generated	Supplied	Generated	Supplied
Thiru Arroran. Thirumandakudi	---	---	---	---	---	---	0.92	0.42	---	---
Auro Energy, Tuhili	---	----	----	----	0.51	0.47	0.57	0.52	---	---

(Figures provided only in case of short supply)

Non-supply of the entire quantity of bagasse generated by the sugar mills resulted in use of costlier imported pulp at an extra expenditure of Rs.57 crore.

In paper production, bagasse pulp, indigenous wood pulp and imported wood pulp are used in fixed proportions. As the shortfall in supply of bagasse had to be made good by the use of costlier imported pulp, non-supply of the entire bagasse generated by the sugar mills resulted in avoidable extra expenditure of Rs.57 crore on account of procurement of costlier imported pulp during the five years ended 31 March 2006. The Company could not take any remedial action, as the agreements did not contain penal provisions for non-supply of the envisaged quantum of bagasse.

Audit analysis of the agreements made by the Company with the sugar mills for procurement of bagasse on barter system basis revealed the following:

Sakthi Sugars Limited (SSL), Appakkudal

2.8.1 The Company had installed boilers at SSL, Appakkudal and supplied coal for use in these boilers. As per the agreement, the Company had to procure coal and supply the same to SSL. However, during 2003-04 and 2004-05, at the request of SSL to make its own arrangements for importing coal, the Company agreed and paid the cost of coal along with the cost of transportation as if the coal was received at its Pugalur plant and then reloaded and transported to SSL. In addition, the Company also paid administrative charges, driage of coal, *etc.* This resulted in extending undue benefit of Rs.1.53 crore to SSL. Further, by allowing SSL to make its own arrangements for coal, the Company also paid Rs.22.64 lakh for the empty return trips of the vehicles transporting bagasse.

The Government stated (July 2006) that the payment to SSL was restricted to the cost of imported coal plus the other incidental expenses and the cost per MT paid to SSL was less than the expenditure incurred by SSL. The reply is not tenable as the Company should have reimbursed only the cost of coal and transportation charges from Tuticorin Port to SSL, Appakudal, instead of reimbursing the cost of coal as if the same was received at its Pugalur Plant and was then transported to Sugar Mill at Appakudal.

Non-review of coal prices and ocean freight as envisaged in the agreement resulted in undue benefit of Rs.0.25 crore to the sugar mill.

2.8.2 As per the agreement, coal cost to be reimbursed to the mills in lieu of bagasse was to be reviewed every three months. Such a review was due during March 2005. But no such review was conducted even though the coal prices and ocean freight were showing a declining trend. Non-review of the cost by the Company resulted in undue benefit of Rs.24.53* lakh to the SSL during April to July 2005.

The Government stated (July 2006) that the Company had reviewed the coal cost periodically. The reply is not acceptable as it was noticed that though the coal prices started declining from March 2005 onwards, the Company failed to take note of this declining trend and revise the cost to be reimbursed and continued to reimburse at the rates fixed for the earlier three months, *viz.*, January to March 2005.

Payment of transportation charges not covered by the agreement resulted in undue benefit of Rs.1.31 crore to the sugar mill.

2.8.3 Whenever SSL, Appakudal did not have sufficient quantity of sugarcane, it made arrangements for diversion of sugarcane from its sister unit at Sivaganga and claimed the transportation cost for such diversions. The Company paid Rs.1.31 crore during 2003-04 and 2004-05 on this account. SSL, Appakkudal was bound to supply bagasse to the Company and as such payment of transportation charges not covered by the agreement lacked justification.

The Government stated (July 2006) that the Sivaganga unit of SSL diverted the sugarcane to Appakudal at the request of the Company for supplying bagasse. Hence, the transportation charges involved in the diversion of sugarcane from Sivaganga to Appakudal were borne by the Company. The reply is not acceptable, as the payment of transportation charges for sugarcane from one unit to another unit of SSL was not covered by the terms of agreement.

Retrospective revision of steam bagasse exchange ratio resulted in undue benefit of Rs.3.35 crore to the sugar mill.

2.8.4 The Company had installed boilers and other accessories in the sugar mill to supply the required quantum of steam in exchange of bagasse. Though the Company supplied steam/coal as per the tie-up arrangement, SSL did not supply the full quantum of bagasse and there was a net shortfall to the extent of 1,00,757 MT valued at Rs.7.45 crore during the period 1987-88 to 2002-03. The Board of the Company waived (March 2006) 45 *per cent* of this amount retrospectively by revising the steam bagasse exchange ratio from 2.10:1 in 1987-88 to 2.18:1 in 2002-03. This resulted in undue benefit of Rs.3.35 crore to SSL. Even after such a waiver, the balance amount of Rs.4.10 crore was still to be recovered (March 2006) from SSL.

The Government stated (July 2006) that SSL demanded retrospective revision of power charges payable by the Company to SSL at par with the Tamil Nadu Electricity Board (TNEB) rates and premium for supplying bagasse from its enhanced sugarcane crushing capacity. It was further stated that as acceptance of such demands would have led to similar demands from other sugar mills, which supply bagasse to the Company, the above waiver was made.

The reply is not acceptable as the Company was to pay power charges as stipulated in the agreement for their installations located in the mill based on the actual cost of power. Though the actual cost of power calculated as per the

* Quantity of coal supplied during April to July 2005 – 28,127.22 MT. Reimbursed rate at US $ 53 per MT. Prevailing rate – US $ 51 per MT. Exchange rate Rs.43.60 per US $.

cost accounting rules was less than 55 paise per unit, the Company had been reimbursing the sugar mill at 55 paise per unit due to a provision in the agreement. The demand for premium payment for the enhanced supply of bagasse is also not tenable as the quantum of 3.30 lakh MT of wet whole bagasse envisaged in the agreement was never supplied by SSL even after the increase in capacity. Further, since the contract did not contain any penal provision for short supply of bagasse, the waiver given by the company in lieu of the claim for premium for the anticipated supply of excess quantity of bagasse was not justified.

EID Parry, Pettavaithalai

2.8.5 The Company entered into an agreement with EID Parry (India) Limited, Pettavaithalai for the supply of bagasse in exchange of steam supply by the Company. During 2002-03 to 2004-05, as compared to the quantum of steam supplied by the Company, there was shortfall in supply of 55,246.641 MT bagasse by EID Parry Pettavaithalai. In order to make good the shortfall, EID agreed to adjust the surplus bagasse of 22.977 MT lifted from its other units at Pudukottai, Nellikuppam and Pugalur. Even after adjustment of this quantity, there was balance quantity of 32,269.64 MT of bagasse still to be adjusted. Despite this, the Company procured quantity of 9,046 MT and 4,183 MT from Nellikuppam and Pudukottai respectively during 2004-05, at open market prices, instead of adjusting the same against the balance quantity of bagasse due from Pettavaithalai unit. As the open market prices were higher than the tie up rate applicable for Pettavaithalai unit, the procurement resulted in an avoidable expenditure of Rs.1.27 crore.

The Government stated (August 2006) that had the bagasse not been procured at open market prices, the Company would have been forced to use imported pulp. The reply is not acceptable as EID had agreed to meet the shortfall and the Company should have adjusted the supply against shortfall instead of paying at the market rates.

EID Parry Limited, Pugalur

Acceptance of higher steam bagasse ratio for EID, Pugalur resulted in less procurement of bagasse valuing Rs.1.14 crore.

2.8.6 In the agreement entered into by the Company with this sugar mill, the steam bagasse ratio was indicated as 2.18:1 against the ratio of 2.1:1 applicable for other sugar mills having similar boiler capacity. Acceptance of a higher steam bagasse ratio for this mill had deprived the Company of 5.225 MT of bagasse valued at Rs.1.14 crore during the five years ended 31 March 2006.

2.8.7 Considering that the proximity of Pugalur sugar mill would bring reduction in procurement cost, the Company agreed to bear 85 *per cent* of the boiler cost instead of the normal 50 *per cent*. Audit analysis, however, revealed that the envisaged benefit of lower procurement cost of bagasse was not achieved as the cost of procurement from Pugalur was the highest at Rs.4,735 per MT in 2003-04 and Rs.1,818 per MT in 2004-05. Thus, the decision of the Company to bear 85 *per cent* of the boiler cost did not yield the desired result leading to an undue benefit of Rs.10.50 crore to EID, Pugalur. It is pertinent to mention in this connection that the Company did not get the entire bagasse generated by this unit as envisaged in the agreement. Further, the Company is yet (March 2006) to recover Rs.60.70 lakh from EID, Pugalur towards the excess cost of steam supplied to them.

Supreme Renewable Energy Limited, Pennadam

2.8.8 The Company entered (September 2003) into an agreement with Supreme Renewable Energy Limited, Pennadam for procurement of bagasse in exchange of steam. The agreement was valid for 17 years but the agreement was prematurely closed in January 2006 at the request of the sugar mill. The Company had to recover Rs.1.75 crore from the sugar mill after adjusting their various dues. This amount is yet to be recovered by the Company. Further, an amount of Rs.68.65 lakh towards interest on advance paid to the mill is also recoverable from them but the same has not been recovered (August 2006).

Open market purchases

Extra expenditure on purchase of bagasse

2.9 The Company resorted to open market procurement of bagasse whenever there was shortfall in the receipt of bagasse from the tied up sources. The Company procured 13,703 MT of bagasse in 2003-04 from Bannari Amman Sugar Mills Limited (BAS) on open market purchase basis. In addition to the payment for bagasse, the Company paid Rs.1.47 crore as compensation to this mill on the ground of use of coal as fuel instead of bagasse. Such compensation was unwarranted in the case of open market purchases.

The Government stated (July 2006) that in order to tide over the shortage of bagasse, the Company had planned procurement from BAS on fuel substitution basis and got the entire bagasse from that unit. The reply is not acceptable as the boiler in BAS was a coal fired one and the payment of Rs.1.47 crore as compensation for use of coal to BAS lacked justification, as the mill was otherwise using only coal as fuel. It is interesting to note that during the 2004-05 sugar season, the Company procured 33,757 MT of bagasse from the same source on open market basis without giving compensation for fuel substitution.

Production performance

2.10 The production performance of the Company during the five years ended 31 March 2006 is given below:

	2001-02	2002-03	2003-04	2004-05	2005-06
Installed capacity (MT)	1,80,000	1,80,000	2,30,000	2,30,000	2,30,000
Production (MT)	1,84,267	1,67,878	1,82,215	1,96,241	2,30,079
Capacity utilisation (in *per cent*)	102.37	93.26	79.22	85.32	100

2.11 As part of the budgetary exercise and control, the Company prepares an annual budget for the production and consumption of various consumables like pulp and chemicals and utilities like steam and power. The performance of the Company vis-a-vis norms fixed by the Company is discussed in the following paragraphs:

Pulp consumption

Variance in consumption of pulp mix compared to the budgeted norms resulted in extra expenditure of Rs.60.20 crore.

2.12 The Company had fixed norms for consumption of pulp mix *viz.*, mechanical bagasse pulp (MBP), chemical bagasse pulp (CBP), hard wood pulp and imported wood pulp in the production of news print and printing and writing paper. The Company, however, did not adhere to the budgeted norms of pulp mix in the last five years and the percentage of excess over the budgeted norms ranged from 12 to 218 *per cent*. The Company used hard wood pulp and imported pulp, which are costlier than the bagasse pulp, far in excess of the budgeted norms. This resulted in an extra expenditure of Rs.60.20 crore during the five years ended 31 March 2006 as detailed in **Annexure-9**. It is pertinent to mention that in spite of increased and substantial availability of bagasse during 2005-06 as compared to earlier years, the Company increased the content of costlier imported pulp from 8 *per cent* in 2004-05 to 17 *per cent* in 2005-06. The Company actually consumed 16 *per cent* of imported pulp in paper production in that year.

The Government stated (July 2006) that the actual pulp production vis-a-vis targeted pulp production should be reckoned and not the pulp mix. Pulp mix depends on the condition of the paper machine, actual operating speed, products and other factors. The reply is not acceptable, as the target of pulp mix would have been arrived at only after considering all these aspects. Further, any adverse variance in the pulp mix results in increase in cost of production.

Consumption of chemicals

2.13 Consumption of chemicals in the three pulp mills *viz.*, MBP mill, CBP mill and hard wood pulp mill and in the paper making process were in excess of the budgeted norms as detailed in **Annexure-10**.

Excess consumption of chemicals in pulp and paper production led to extra expenditure of Rs.16.94 crore.

From the annexure, it can be seen that the Company kept on changing the budgeted norms for consumption of various chemicals from year to year. In spite of this, the consumption of chemicals was in excess of the norms in maximum number of chemicals. Based on the cost of chemicals and the paper production in the respective years, the excess consumption of chemicals resulted in additional expenditure of Rs.9.48 crore in the pulp mills and Rs.7.46 crore in paper production during the five years ended 2005-06.

The Government stated (July 2006) that the poor quality of water resulting from use of recycled water as a measure of water conservation and poor quality of bagasse resulted in excessive usage of chemicals. The reply is not acceptable as the Company itself had stated (August 2005) that poor quality of chemicals used in the pulp and paper making process resulted in higher consumption of chemicals.

Excess finishing loss

2.14 Finishing loss may occur due to various factors like loss at winder, loss due to roll and winder breaks, left over paper on jumbo, crease and corrugation problems, loss at rewinder, loss at cutter and finishing, core end and reel top, cutter breaks, *etc*. The rejected paper is sent to the pulp mill for re-pulping.

There were no industry norms available with the Company for the finishing loss. Every year, the Company fixes the budgeted ceiling for finishing loss. There were wide variations in the ceilings fixed for newsprint from year to year. The actual finishing loss in terms of percentage of production had been very high vis-a-vis budgeted ceilings as detailed below:

(Percentage of production)

Year	Budgeted ceilings			Actuals		
	Newsprint	PWP-PM-1	PWP-PM-II	Newsprint	PWP-PM-I	PWP-PM-2
2001-02	4.80	11.00	9.50	7.03	12.16	11.13
2002-03	6.50	9.99	10.09	8.45	12.62	11.55
2003-04	9.00	10.81	10.00	5.34	15.42	11.39
2004-05	5.50	11.00	9.00	4.45	11.67	10.24
2005-06	4.00	10.65	9.40	6.83	11.27	9.69

Excess finishing loss over the norms resulted in extra expenditure of Rs.33.67 crore.

Audit analysis revealed that the main reasons for the higher finishing loss were crease and corrugation, excess trim loss and excess left over quantity due to usage of non-uniform diameter reels. Computed with reference to the production in the respective years, the excess finishing loss had resulted in incurring of extra expenditure of Rs.33.67 crore on repulping during the five years ended 31 March 2006.

The Government stated (July 2006) that the finishing loss is machine specific and depends on the machine condition, quality of input materials, pulp furnish, quality of water, quality requirement of end paper, small width reels and ratio of reels to sheets. The reply is not tenable as these factors would have been taken into account while fixing the ceilings. The Government also stated that the Company would keep the finishing loss within the budgeted levels in future.

Excess retree generation

2.15 Retree is the material rejected by the Quality Control Department during the production of paper. This is sold in the market at lower rates, by giving discount. The percentage of retree varies from machine to machine because of the machine conditions, furnish change, grade change, operational parameters, *etc*. The Chairman-cum-Managing Director of the Company fixed

(September 2001) the ceiling for retree generation as five percent in the case of PM-1 and three *per cent* for newsprint and three and half *per cent* for PWP in the case of PM-2. As against these ceilings, actual retree generation ranged between 6.50 and 19.60 *per cent* during the five years ended 31 March 2006.

Audit analysis revealed that poor quality of bagasse fibre and poor dimensional stability were the main reasons for higher retree generation. Poor reels condition, crease and corrugation in paper also contributed to the higher retree generation as discussed in Paragraph 2.19 *supra*. The Company has not been able to reduce these deficiencies so far. Failure to maintain the retree generation within the ceilings resulted in revenue loss of Rs.3.53 crore during the five years due to selling of paper at discount as detailed below:

Year	Equivalent Finished Production	Retree generation in percentage			Excess retree generation in MT (2X5)	Average discount (Rupees per MT)	Revenue loss (Rupees in lakh) (6X7)
		Ceilings	Actuals	Excess			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PM-1							
2001-02	84,293	5	14.94	9.94	8,379	500	41.89
2002-03	75,870	5	17.07	12.07	9,158	500	45.79
2003-04	81,711	5	19.60	14.60	11,930	500	59.65
2004-05	95,125	5	7.76	2.76	2.625	1000	26.25
2005-06	1,07,805	5	8.60	3.60	3.881	1.000	38.81
PM-2							
2001-02	66.380	3.5	9.95	6.45	4.282	500	21.41
2002-03	70,290	3.5	11.57	8.07	5,672	500	28.36
2003-04	92,107	3.5	9.06	5.56	5.121	500	25.60
2004-05	93.773	3.5	6.84	3.34	3,132	1.000	31.32
2005-06	1.15.264	3.5	6.50	3.00	3.458	1.000	34.58
Total loss due to Excess Retree generation							**353.67**

The Government stated (July 2006) that water shortage, use of recycled water and problems faced in the paper machine after upgrade/speed up were the reasons for higher retree generation and assured that this would be brought down substantially in the years to come. The reply is not tenable as these factors would have been taken into account while fixing the budgeted ceilings.

Cutting loss

2.16 The Company installed (April 2000) Bilomatic cutter machine and ECH WILL cutter (February 2003) to increase the production of cut size packs of copier paper. It was noticed in audit that these cutting machines did not work to their full capacity since inception. Further, the cutting loss was also very high and it ranged from 5.05 to 11.69 *per cent* in Bilomatic cutter and from 5.11 to 11.39 *per cent* in ECH WILL cutter as against the ceiling of 4.0 *per cent*. The excess cutting loss over and above the ceiling resulted in extra expenditure of Rs.8.18 crore for repulping the cutting loss as detailed below:

Year	Paper input (In MT)	Cutter loss in percentage			Excess cutting loss (In MT) (2X5)	Cost of repulping (Rupees per MT)	Extra expenditure (Rupees in lakh) (6X7)
		Ceilings	Actuals	Excess			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Bilomatic cutter							
2001-02	12,398	4	9.18	5.18	642	17,197	110.41
2002-03	11,911	4	9.45	5.45	649	17,403	112.95
2003-04	6,033	4	11.69	7.69	464	19,234	89.25
2004-05	8,923	4	9.99	5.99	535	18,362	98.24
2005-06	10,803	4	5.05	1.05	113	17,446	19.71
ECH WILL cutter							
2003-04	12,974	4	11.39	7.39	959	19,234	184.46
2004-05	19,814	4	8.22	4.22	836	18,362	153.51
2005-06	25,792	4	5.11	1.11	286	17,446	49.90
TOTAL							818.43

The Government stated (July 2006) that poor quality of paper was the major reason for higher cutting loss. Audit analysis, however, revealed that apart from the poor quality of paper, longer downtime due to frequent change of production from A4 to A3 size and A3 to Folio size, frequent equipment failures and rough cutting, which were all controllable, were the main reasons for higher cutting loss.

Modernisation of paper machines(PM)

2.17 In the year 2002, the Company undertook modernisation of PM-1 and PM-2 with a view to eliminate operational bottlenecks and to increase the installed capacity of the mill from 1,80,000 MT to 2,30,000 MT. The modernisation programme, *inter alia*, included rebuild of PM-1 and speed up of PM-2.

Rebuild of Paper Machine-1

2.18 With a view to improving the efficiency of the paper machine and to operate the paper machine at high speed during the manufacture of surface size grade paper, the Company took up rebuild of PM-1. The Company completed the rebuild of PM-1 during September to December 2002 at a total cost of Rs.52.21 crore.

The Company failed to achieve the guaranteed machine speed after rebuild resulting in loss of contribution of Rs.22.24 crore.

It was observed in audit that the envisaged speed of 660 meter per minute (mpm) for 60 GSM surface size paper was not achieved even after modernisation and the actual speed achieved ranged from 612 to 624 mpm. Computed with reference to the actual production per hour achieved each year, failure to achieve the envisaged speed resulted in production shortfall to the extent of 6,241 MT and 6,245 MT respectively during 2003-04 and 2004-05. In December 2005, the Company fixed benchmark speed for other than copier paper production for above and below 60 GSM at 650 and 700 mpm respectively. The Company even failed to achieve this benchmark speed resulting in production shortfall of 5,345 MT during 2005-06. The shortfall in production during the three years ending 2005-06 resulted in contribution loss of Rs.22.24 crore.

Audit analysis further revealed that the machine speed of PM-1 was low due to the weak frame of the machine, which vibrated at higher speeds. Further, during higher usage of CBP, rigidity drops when the machine is operated at high speed affecting the runability of the machine.

The Board of Directors were informed in December 2005 *i.e.*, after three years of rebuild, about the various problems in the machine like the head box problems, size press and quality related issues which continued to remain. A technical audit conducted (April 2006) by METSO Paper, Thailand, suggested (July 2006) remedial measures that were required to be taken at various sections of PM-1 on priority basis.

Failure to replace head box

2.19 The Company appointed (August 2000) Omni Continental (Omni) to conduct technical audit of PM-1. Omni, *inter alia*, suggested (August 2000) replacement of head box with a modern one. The Company sought the opinion of Sandusky, the original supplier of PM-1, who stated (July 2001) that the head box had been badly damaged and recommended its replacement with a new electro polished unit. In spite of these clear recommendations, the Company instead of replacing the head box, decided to opt for short term measure of reconditioning. The reconditioning was completed at a cost of Rs.1.95 crore (November 2002). As the problem of crease and corrugation in the final product continued even after reconditioning, the Board of Directors were informed (December 2005) that there was an urgent need for replacing the head box with state-of-art dilution type one. The consultants (METSO) among other things recommended (July 2006) to replace the existing head box with a new one equipped with dilution control system.

The Government stated (July 2006) that replacement of head box involved huge capital, change of machine layout and long machine shut down to carryout the changes and hence the Company opted for repair of head box. The reply is not acceptable as even after repair of head box, quality problems like crease and corrugation continued resulting in excess retree generation and increase in finishing loss. Thus, the reconditioning of the head box at a cost of Rs.1.95 crore had not yielded the desired results.

Rebuild of size press of PM-1

2.20 In order to improve the machine running for sized grades of paper and to improve the sizing quality, the Company carried out (July 2003) rebuild of the existing size press in PM-1 at a cost of Rs.24.02 crore. Though rebuild of the size press was to help in reducing the two sidedness of the paper, this quality complaint, however, continued to persist as is evident from the technical Audit report of METSO, Thailand (April 2006).

The Government stated (July 2006) that the installation of size press had helped the Company to produce surface sized paper in large quantities which in turn increased the market share of the Company and that two-sidedness had never been a quality complaint warranting price reduction or compensation. The reply is not acceptable as the installation of size press was to reduce the two sidedness of the paper but this quality complaint still persisted as is evident from the agenda note submitted (December 2005) to the Board of Directors.

Speed up of PM-2

2.21 The main objective of speed up of PM-2 was to increase the machine operating speed from the existing level of 750 mpm to 900 mpm. The Company completed the speed up programme during 2002-03 at a total cost of Rs.29.53 crore.

The Company failed to achieve guaranteed machine speed after speed up resulting in loss of contribution of Rs.90.51 crore.

PM-2 achieved the machine operating speed of 693 and 713 mpm during 2003-04 and 2004-05 respectively against the envisaged speed of 900 mpm. During 2005-06, the Company fixed benchmark speed at 800 mpm for PWP above 60 GSM and at 860 mpm for PWP less than or equal to 60 GSM. It was, however, observed during audit that even this reduced speed was not achieved in 2005-06. Failure to achieve the envisaged speed and benchmark speed after rebuild resulted in production loss of 31,035 MT, 21,409 MT and 14,216 MT of PWP during 2003-04, 2004-05 and 2005-06 respectively with corresponding contribution loss of Rs.90.51 crore. It was noticed in audit that poor fan pump capacity in PM-2 is the major constraint in improving the speed.

2.22 During the speed up of PM-2, two shells failed prematurely due to poor design and quality. As these failures occurred during the warranty period, the supplier should have replaced the shells free of cost. The supplier, however, charged Rs.3.79 crore for these two shells. The Company also agreed and adjusted this amount against liquidated damages recoverable from the supplier for shortfall in guaranteed performance. The payment for prematurely failed shells during the warranty period resulted in extension of undue benefit to the supplier.

Quality control system

2.23 The Company upgraded the Quality control system (October 2002) in PM-2 by adding a colour control system as the existing system was found inadequate after speed up of PM-2. The colour control system (valuing Rs.40

lakh) was installed with a view to facilitate on line control of colour/shade of paper without human intervention. This system, however, could not be satisfactorily commissioned so far, thus, rendering the investment unfruitful.

The Government stated (July 2006) that the supplier is being asked regularly to rectify the defects. The reply does not explain why the defects in the system persist even after four years of supply and what action the Company proposes to take against the supplier in this regard.

Utilities

The main utilities in the production of paper are steam and power. A review of these utilities revealed the following:

Performance of the steam boiler

2.24 The pulp mill, soda recovery plant and paper machine need Low Pressure (LP) steam and or Medium Pressure (MP) steam for process. The required steam is generated using solid fuels like coal, pith, lignite and agro fuels in varying proportion.

The Company has five boilers for production of steam out of which four have a capacity to produce 60 MT of steam per hour each, while the fifth boiler can produce 90 MT of steam per hour. The Company had fixed efficiency levels for these boilers. It was noticed that none of the boilers achieved the budgeted throughput (quantity of steam generated per hour) in any of the five years ended 31 March 2006 (details in **Annexure-11**).

Failure to achieve the budgeted efficiency in boilers led to extra expenditure of Rs.33.16 crore.

It was noticed in audit from the minutes of the Board meeting held in April 2006 that high cold water temperature due to break down of cooling towers and low condensation power generation from turbo generators resulted in low throughput from boilers. The efficiency of boilers also got affected due to feeding of wet fuel. Failure to achieve the budgeted levels of efficiency led to short fall in generation of steam aggregating to 10,52,417 MT and consequent loss of power generation to the extent of 327 million units valued at Rs.33.16 crore, which could have been earned by the Company by selling the surplus power to Tamil Nadu Electricity Board.

Steam

2.25 The pulp mill, soda recovery plant and paper machines need steam for process. The Company has fixed budgeted norms for the steam in each such process. Audit analysis revealed that the actual consumption of steam was in excess of such budgeted norms by 0.29 MT to 0.34 MT of steam per tonne of paper/pulp production in PM-1, by 0.01 to 0.05 MT in PM-2 and by 0.01 to 0.34 MT in pulp mills during the period of five years ending 2005-06 (details in **Annexure-12**). Computed with reference to the cost of steam generation in the respective years and after allowing a variance up to 10 *per cent*, such excess consumption resulted in an additional expenditure of Rs.10.94 crore during this period. The Government stated (July 2006) that the specific consumption norms in the budget were fixed at a level better than the best achieved in the past so as to exert pressure and reduce consumption further. The reply is not factually correct as the budgeted levels of consumption were more than even the worst performance in PM-1 for production of PWP, low and medium pressure steam in soda recovery plant. To cite a specific example, for production of PWP in PM-1, the lowest consumption of steam was 1.69 MT and the highest was 1.80 MT. The Company, however, fixed the benchmark consumption as 2.20 MT, which was 20 *per cent* more than the worst performance.

Excess consumption of steam and power over the norms resulted in extra expenditure of Rs.15.36 crore.

Power

2.26 For in-house requirement of operation of various machines, the Company needs power. Audit analysis revealed that the actual consumption of power exceeded the budgeted norms and the excess consumption in PM-1 ranged between 8 and 33 KWH per MT of paper/pulp production, in PM-2 between 10 and 55 KWH and in the pulp mills it ranged between 7 and 53 KWH (details in **Annexure-13**). The excess consumption of power computed with reference to the cost of power generation of the respective years and after allowing a variance up to 10 *per cent* resulted in an extra expenditure of Rs.4.42 crore during the five years ended 2005-06.

The Government stated (July 2006) that the frequent sheet breaks and threading problems resulted in frequent start and stop of the machine. Due to idle running of the machine during paper breaks, the specific consumption of steam and power was higher. The reply is not acceptable since all these were controllable by the management.

Sale of paper

Sales performance

2.27 The major products sold by the Company are NP and PWP. The major channels of sales are direct sales, sales through dealers and exports. The details of sales effected through the three channels during the five years ended 31 March 2006 are given below:

(Quantity in MT)

Year	Direct sale	Percentage	Sales through indentors	Percentage	Export	Percentage	Total
2001-02	28,051	18.67	95,121	63.30	27,087	18.03	1,50,259
2002-03	37,584	25.50	83,927	56.95	25,871	17.55	1,47,382
2003-04	45,973	37.76	89,525	54.06	30,098	18.18	1,65,596
2004-05	55,795	28.82	96,524	49.86	41,264	21.32	1,93,583
2005-06	61,031	27.17	1,24,935	55.62	38,645	17.21	2,24,611

From the above details, it can be seen that the percentage of sale through all the three channels had remained more or less at the same level during the period 2001-02 to 2005-06.

Variety-wise sale of papers

2.28 The details of item-wise sales achieved by the Company during the five years ended 31 March 2006 are given in **Annexure-14**.

It will be seen from the Annexure that:

- The realisation from the sale of newsprint was much lower than the cost of production in 2002-03 and 2003-04 resulting in loss of Rs.9.98 crore. Availability of imported newsprint at cheaper rates affected the sales of domestic newsprint.
- The margin derived from the sale of cream wove paper, which is the predominant variety, was declining. This was due to static sales realisation compared to the increased cost of production.
- Even though the margin earned by selling copier paper produced in PM-2 was higher than that produced in PM-1, the Company discontinued copier production in PM-2 due to non-availability of size press in PM-2.

Sale to Navneet Publication India Limited

2.29 The Company entered into a contract for the supply of paper during 1 October 2004 to 30 September 2005 to Navneet Publication India Limited (NPIL). As per this agreement, NPIL committed to lift 12,000 MT of paper within this period. Based on this commitment, the Company agreed to extend a special discount of Rs.3,100 per MT (*i.e.*, the discount admissible for lifting 12,000 MT and above *per annum*). In spite of the fact that NPIL placed orders only for 9,809 MT within the contract period and the Company supplied only 6,949 MT of paper during this period, the above mentioned discount meant for the committed quantity of 12,000 MT was extended to NPIL. This resulted in undue benefit of Rs.1.10 crore to NPIL. The Company also allowed a credit period of 75 days instead of 30 days allowable as per its credit policy.

The Government stated (July 2006) that due to imposition of anti dumping duty by US for Indian paper, NPIL could not lift the agreed quantity within the contract period. The Company, therefore, extended the contract period upto 31 December 2005 to complete the quantity. The reply is not acceptable as the contract neither contained any conditions for extension of period of supply in case of inability of the buyer to lift the agreed quantity nor the purchase by the buyer for export to US was recognised as a condition in the contract. As such the applicable discount of Rs.2200 per MT only should have been given instead of Rs.3,100 per MT.

Credit policy

2.30 The declared credit policy of the Company stipulated a maximum credit period of 30 days. For payments of dues beyond this period, interest at the rate of 20 *per cent* of outstanding dues was to be charged from the date of despatch of goods till the date of payment. Audit analysis, however, revealed that the Company as a matter of routine had been allowing credit facility for periods beyond the stipulated 30 days, *viz.*, up to 75 days. In addition to this, the Company had also been extending cash discounts, which were allowable for payments within the credit period of 30 days, even for the extended credit periods. For instance, Navneet Publications (75 days credit with cash discount at 1.5 *per cent)*, Manipal Group of companies, Rational Business Corporation (60 days credit with cash discount at 1.5 *per cent*) and Papyrus Printing and Packing, Nagpur (60 days credit with cash discount at 1.5 *per cent*) were extended such concessions. Further, the Company also allowed as a matter of routine incentives/discounts admissible for a particular variety of paper on fulfilling conditions (relating to lifting of committed quantity and payment of dues within the credit period) to all other varieties of paper sold and even without fulfilling the stipulated conditions.

The Government stated (July 2006) that depending on the market conditions and specific requirements of the customer, additional credit had been allowed. It was, however, observed in audit that major customers were not only given higher discounts but were also given extended credit periods beyond the normal period as stated above.

Irregular payment of discount

2.31 The Company sold paper under various schemes offering discounts. One such scheme was the note book scheme. Under this scheme, the buyer was eligible for special discount for purchase of cream wove paper of 50-64 GSM without any size restrictions. For the supply of other varieties of paper and papers of other GSM, the buyer can claim discount under the publication scheme. The Company sold 2,231 MT of paper during 1 January 2004 to 31 March 2005 and 1,787 MT of paper during 1 April 2005 to 28 February 2006 to Manipal Group of Companies which did not qualify for the grant of discount under the note book scheme and was eligible for discount only under the publication scheme. Grant of discount under the notebook scheme resulted in irregular payment of discount of Rs.1.09 crore.

The Government stated (July 2006) that eligible discount was granted considering market conditions. The reply is not acceptable as the party lifted paper which did not qualify for discount under the notebook scheme.

Acknowledgement

2.32 Audit acknowledges the co-operation and assistance extended by the staff and management of the Company and the concerned officers of the State Government at various stages of conducting the performance review.

Conclusion

The company failed to get the supply of the entire quantity of its main raw material *viz.*, bagasse, from the sugar mills with whom it had entered into required agreements, in spite of it fulfilling all its contractual obligations. This led to increase in substitution of bagasse with costlier imported pulp, which in turn, increased the cost of production of paper.

Undue benefits were extended to sugar mills through payments not covered by the terms and conditions of the contracts. The Company has not been able to reap the benefits of the modernisation of Paper Machines in full. The Company failed to achieve the budgeted pulp mix resulting in excess consumption of imported pulp. The Company also failed to achieve the budgeted norms fixed for finishing loss, retree generation, consumption of steam, chemicals and power.

Recommendations

- The Company should incorporate suitable clauses in the barter agreements with sugar mills for supply of bagasse to safeguard its interest, particularly in the event of non/short receipt of bagasse.
- The Company should take adequate steps to improve the operational efficiency of paper machines so as to derive the benefit of modernisation in full.
- The Company should try to achieve the budgeted norms fixed by it to reduce the cost of production and to earn more revenue.

CHAPTER-III

PERFORMANCE REVIEW RELATING TO STATUTORY CORPORATION

3 TAMIL NADU ELECTRICITY BOARD

EXECUTION OF BHAVANI KATTALAI BARRAGE-I HYDRO ELECTRIC PROJECT

HIGHLIGHTS

The Board accorded adminisrative approval for commissioning the Bhavani Kattalai Barrage-I Hydro Electric Project with an installed capacity of 30 MW at a total cost of Rs.90.62 crore within 36 months from July 1997. There was time overrun of six years in completion of the project.

(Paragraph 3.1)

Delay in commissioning of the project led to potential generation loss of 394.41 MUs of power and extra expenditure of Rs.8.91 crore on exchange rate variation.

(Paragraphs 3.7 and 3.11.1)

The project suffered a cost overrun of Rs.125.63 crore resulting in increase in cost of power generation from the envisaged 203 to 439 paise per unit, and in the per MW cost from Rs.3.02 crore in 1995-96 to Rs.7.21 crore in 2005-06.

(Paragraph 3.8.1)

Introduction

3.1 The composite project of Bhavani Kattalai Barrages Hydro Electric Project Stage-I (BKBHEP Stage-I) comprising three barrages with a total installed capacity of 90 mega watt (MW) was initially conceived in 1984 at an estimated cost of Rs.78.67 crore (at 1982-83 price level). The project envisaged power generation along the course of Cauvery river as a run of the river scheme utilising the irrigation releases from the Mettur dam and contributory flow from the Bhavani river by making use of the nine meter bed fall available at three places below the confluence of Bhavani river. The project, however, could not be formalised as it involved inter State issues that could not be resolved. In the meantime, the Government of India (GOI) notified (October 1994) that projects costing less than Rs.100 crore need not be forwarded to the Central Electricity Authority (CEA) for its clearance. After this, the Board split the composite project (1995) into three distinct projects each with a capacity of 30 MW and decided to implement one of the three projects.

The project *viz.*, Bhavani Kattalai Barrage-I Hydro Electric Project (one out of the three projects) with an installed capacity of 30 MW (two units of 15 MW each) was estimated to cost Rs.90.62 crore at 1995-96 price level. The State Government approved the project in January 1997 and the Board gave administrative approval in July 1997. The project work commenced in July 1997 and was expected to be completed within 36 months *i.e.*, by June 2000. One unit of 15 MW was commissioned on 1 August 2006; the second unit is yet to be commissioned (August 2006). Total expenditure of Rs.216.25 crore had been incurred on the project till March 2006.

Scope of audit

3.2 The performance audit of the project was conducted during December 2005 to April 2006 covering aspects such as execution of the project, funding of the project and contractual matters. The Audit reviewed the records maintained in the following offices of the Board connected with the execution of the project.

- The Chief Engineer (Civil Designs);
- The Chief Engineer (Project – Electrical and Machinery);
- The Chief Engineer (Investigation);
- The Chief Engineer (Hydro Projects – Execution);
- The Superintending Engineer (Civil Hydro Projects – Execution);
- The Superintending Engineer (General Construction Circle); and
- The Superintending Engineer (Generation).

In addition, records at the Headquarters of the Board were also scrutinised.

Audit objectives

3.3 The audit was conducted with a view to ascertain whether:

- the project was implemented efficiently;
- an adequate and effective monitoring mechanism was in existence;
- funds were arranged economically and were utilised economically; and
- the execution of work was as per the terms of the contracts and agreement entered into.

Audit criteria

3.4 The audit criteria considered for assessing the achievement of audit objectives were:

- The estimated cost of the project envisaged in the Detailed Project Report (DPR);
- Scheduled date of commencement and commissioning of the project;
- PERT charts/CPM* prescribed for monitoring of the project;
- The terms and conditions of grant of loans by the lenders; and
- The terms and conditions of various contracts/agreements entered into by the Board for execution of the works.

Audit methodology

3.5 Audit reviewed the records relating to the projects in the seven offices as mentioned in Paragraph 3.2. The methodology adopted for attaining the audit objectives were:

- examination of DPR and PERT charts/CPM prepared for monitoring the progress of the project;
- examination of loan agreements entered into with the lenders;
- examination of records relating to tendering, evaluation and award of contracts;
- examination of documents relating to execution of the contracts; and
- issue of audit observations and interaction with the management.

Audit findings

Audit findings emerging from the performance review were reported to the Board/Government in June 2006 and discussed in the meeting of the Audit Review Committee on Public Sector Enterprises held on 8 August 2006. The

*PERT-Programme Evaluation and Review Technique
CPM-Critical Path Method

Under Secretary, Energy Department, Government of Tamil Nadu and the Member (Generation) and Member (Accounts) of the Board attended the meeting. The views expressed by the management and Government during the said meeting have been taken into consideration while finalising the review.

Audit findings are discussed in the succeeding paragraphs.

Project monitoring

3.6 Inspection of the field offices by the higher officers of the Board and monitoring of the project using the Programme Evaluation and Review Technique (PERT), Critical Path Method (CPM), etc are some of the controls commonly used to monitor progress of work. In this particular project, the Chiefs of the executing wings connected with the project carried out inspection of the project work relating to their respective areas of work only without coordinating with the others. For instance, the Chief Engineer (Civil Designs) monitored the civil works only and the Chief Engineer (Projects) monitored the electrical and machinery works. The Chief Engineer (Hydro Projects) confined himself to monitoring the execution part of the project work. An overall coordinating mechanism was absent throughout the full period of implementation of the project, resulting in abnormal delays in completion of the works.

The DPR prepared by the Board in 1995 included a "Bar Chart" indicating the various milestones commencing from "preliminary works and land acquisition" to "testing and commissioning of the generating equipment", besides setting up of the facilities for transmission and distribution of the power generated. The entire project which consisted of seven major packages, *viz.*, Barrage civil works, Barrage gate works, IT-DT gates, Power House sub-structure, Power House super structure, Generating machinery and Electrically operated Overhead Travelling (EOT) crane, was to be completed within 36 months. However, due to ineffective supervision of the work, the Board had to convert (May 1999) the Bar chart into PERT chart and revised the completion time to 54 months. Subsequently, the PERT chart was revised three times in October 2004, December 2005 and March 2006 correspondingly increasing the completion schedule to 76, 90 and 96 months respectively. The Board could not adhere to these revised schedules indicating lack of effective control over the execution of work and at no stage were the reasons for the delays analysed at the Board level. Absence of effective project management and monitoring was also evident from the fact that none of the seven major packages was completed within the time schedule envisaged in the DPR as discussed in the subsequent paragraphs.

The Government stated (August 2006) that during actual execution, the co-ordination among the various functionaries of the Board as contemplated could not be achieved cent *per cent*. The Board stated that the improbabilities occurred during tendering, legal problems cropped up during finalisation of tenders and site problems encountered during actual execution of work led to extension of time for each package, which occurred inadvertently.

Time overrun

3.7 The DPR for the composite project of 90 MW was sent to CEA in March 1984 for clearance, suggesting location of the power house on the right flank of the Cauvery River considering the aspect that the major District Road ran on the right flank and also due to the logistical reasons for the transport of heavy duty machines during the execution of the project. The Board, after sending the DPR of the composite project to CEA, obtained a soil survey report from the Geological Survey of India (GSI) in 1985. The soil survey report indicated the left flank of the river as the preferred location of the power house. In spite of this report, the Board retained the location of the power house at the right flank while preparing the DPR in 1995-96 for the split project of 30 MW and commenced the execution of the project as such.

Despite the recommendation of the Geological Survey of India to locate the power house at the left flank of the river, the Board continued with preliminary works to locate the power house at the right flank, which was ultimately changed to the left flank.

During the execution stage, the Board again obtained a report from GSI in September 2000, which reiterated their earlier recommendation to locate the power house at the left flank. Consequently, the Board decided (September 2000) to change the location of power house to the left flank. This decision to change the location of the power house rendered the efforts made till then redundant. All the preliminary works of geo-technical investigations, survey, *etc.*, were to be done afresh resulting in a time overrun of more than three years.

The following table indicates the scheduled and actual dates of completion of the seven major packages in the execution of the project and the time overrun.

(In months)

Sl. No	Package		Time scheduled as per DPR	Actual time taken	Time overrun
1.	Barrage civil works	Award	6	28	22
		Execution	15	47	32
2.	Barrage gate works	Award	6	36	30
		Execution	9	22	13
3.	Intake and draft tube gates	Award	9	58	49
		Execution	15	24	9
4.	Power House sub-structure	Award	6	32	26
		Execution	12	46	34
5.	Power House super structure	Award	6	41	35
		Execution	6	25	19
6.	Generating machinery	Award	9	36	27
		Execution	18	60	42
7.	EOT crane	Award	9	9	---
		Execution	12	16	4

As could be seen from the above table, there were abnormal delays in execution of the works some of which are discussed in the succeeding paragraphs.

Barrage civil works

- The commencement of work relating to framing of the Draft Tender Specification (DTS) and award of the contract was delayed by 22 months as against the target of six months.
- The execution of the work was completed in 47 months as against the target of 15 months. The delay was due to non-release of drawings by the CE (Civil Designs) for two piers, non-release of drawings for hold-on-top for all the piers, non-release of work front by the other agencies *viz.*, Barrage Gate works and IT-DT gate works contractors and delay in approval of the design drawings of Road Bridge Girder.

Barrage gate works

- As against six months prescribed 13 months were taken to initiate the work on the preparation of DTS and a further 23 months were taken to award the contract.
- The execution of the work was delayed by five months due to non-release of work fronts by other executing agencies and eight months due to the excess time schedule allowed in the agreement for which no justification was available.

Intake and Draft Tube gates package (IT/DT package)

- There was a delay of 29 months in the initiation of preparatory works. After initiation, further 29 months as against nine months were taken to award the contract.
- There was delay of nine months in the execution of the work due to non-release of the work front by the barrage civil works contractor.

Power House sub-structure

- The time overrun in this package was 26 months due to delays in decision to split the work (16 months), finalisation of drawings (seven months) and in awarding of contract (three months) as against the target of six months. As the Board had adequate experience in constructing four similar hydro electric projects in the same river course, the delay of 26 months in taking decision on awarding the work either on a composite basis for the three packages (*viz.*, sub-structure, super structure and EOT crane works) or on split up basis cannot be justified.

Power House super structure

- There was a time overrun of 35 months in the award of contract due to delay in taking a decision to split the work (26 months) as discussed in the previous paragraph, preparation of DTS (nine months) and evaluation and award (six months) of the contract by various authorities of the Board.

- There was delay in release of work fronts for 16 months due to delay in the execution of power house sub-structure.

Supply of generating machinery

- 11 months were taken to approve the DTS and a further 25 months were taken for finalising the technical aspects and hydraulic details as against the target of nine months for awarding the contract by the Board.
- During the execution, 14 months were taken by the Board to approve the civil drawings and 20 months for opening of the Letter of Credit (LC) for import of machinery and witnessing the model test. The contractor delayed the supply of stay rings, a vital component, by 10 months and took 16 months to erect the generating equipment as against the target of 18 months.

These delays occurred despite the fact that the executing agencies of the Board [CE(Civil Designs) and CE (Project-Electrical and Machinery)] were in an advantageous position after having executed four such similar up-stream projects, *viz.*, LMHEP[#]-I to IV and were also familiar with the terrain details/conditions. Delay in the commissioning of the project, deprived the State of 394.41 MU of potential generation during the period 2000-01 to 2005-06 (computed with reference to the actual quantum of water discharged from LMHEP-I to IV during this period).

In spite of inordinate delays in the initiation of work, award of contracts and execution of works, the Board did not, at any stage, evaluate the status of work with reference to the time schedule prescribed in the DPR and initiate corrective action for speeding up the work. This was evident from the fact that the revisions of PERT chart, warranted by the delays in completing the project work, were neither approved by the Member (Generation) nor brought to the notice of the Board.

The Government stated (August 2006) that the major reasons for time overrun were shifting of power house from right to left flank, bottlenecks in land acquisition, problems faced in tendering, problems posed by steel suppliers and problems in supply of generating machinery.

The reply is not acceptable as the Board did not conduct the soil survey before the preparation of DPR. Instead, the Board followed the past practice of having the power house located at the right flank as in the other four similar projects (LMHEP I to IV) in the same river course. On receipt of subsequent soil survey report from the GSI, it had to shift the location of the power house from right flank to left flank. The other reasons adduced by the Board were

[#] Lower Mettur Hydro Electric Project

controllable in nature, and could have been avoided with proper planning and monitoring.

3.8 Thus, there was an overall time overrun of six years in the execution of this project. This time overrun led to cost overrun, non-availability of interest subsidy, extra expenditure on account of exchange rate variations, escalation, etc. as discussed in the succeeding paragraphs.

Cost overrun

The project suffered a cost overrun of Rs.125.63 crore resulting in increase in cost of power generation from the envisaged 203 to 439 paise per unit, and in the per MW cost from Rs.3.02 crore in 1995-96 to Rs.7.21 crore in 2005-06.

3.8.1 As per the initial estimates, the project was estimated to cost Rs.90.62 crore at 1995-96 price level. The Board revised the project cost three times to Rs.143.53 crore (1998-99 price level), Rs.194.53 crore (2002-03 price level) and Rs.203.47 crore (2004-05 price level). As against these estimates, an expenditure of Rs.216.25 crore had been incurred up to March 2006 (including interest during construction) on the execution of the project. The inordinate time overrun in the execution of the project increased the envisaged cost of generation from 203 paise in 1995-96 to 439 paise in 2005-06. The per MW cost had also increased from Rs.3.02 crore in 1995-96 to Rs.7.21 crore in 2005-06, which is very expensive for a hydro electric project. Also the benefit cost ratio of this project, which was 0.74 at DPR stage (1995) decreased to 0.67 in 1998 and to 0.66 in 2006 against the preferred level of unity.

The estimated cost of the various packages of the contract, the cost escalation and the percentage increase in the cost are tabulated below:

(Rupees in crore)

Sl. No	Components	Estimated cost as per DPR	Actual expenditure as on 31 March 2006	Expenditure over and above estimate (4)=(3-2)	Percentage increase as compared to DPR (5)=(4)/(2)
	(1)	(2)	(3)	(4)	(5)
1.	Land	2.61	5.55	2.94	113
2.	Barrage civil works	10.00	12.86	2.86	29
3.	Barrage gate works	5.54	11.11	5.57	101
4.	Power House sub-structure	6.75	21.82	15.07	223
5.	Super structure	2.50	2.57	0.07	3
6.	Generating Machinery	46.35	96.40	50.05	108
7.	Electrically operated Overhead Travelling crane	0.74	1.50	0.76	103
8.	In Take and Draft Tube gates	1.52	4.33	2.81	185
9.	Buildings/Roads	2.03	4.75	2.72	134
10.	Cost of Power House transformer/ transmission and distribution	3.09	1.81	---	---

Sl. No	Components	Estimated cost as per DPR	Actual expenditure as on 31 March 2006	Expenditure over and above estimate (4)=(3-2)	Percentage increase as compared to DPR (5)=(4)/(2)
11.	Tools and plants	0.85	0.06	---	---
12.	Establishment and miscellaneous	8.64	19.29	10.65	123
13.	Interest During Construction	---	34.20	--	---
	TOTAL	**90.62**	**216.25**	**125.63**	**139**

The major reasons for increase in cost were:

- Delay of two to six years (from the date of commencement) in awarding the major works *viz.*, Barrage civil works, Power house sub-structure, Power house super structure and supply of generating machinery.
- Lack of effective control over the completion of various packages (as discussed in Paragraph.3.6).
- Payment on account of exchange rate variation (Rs.8.91 crore) due to delay in opening of Letter of Credit by the Board (refer Paragraph.3.11.1).
- Extra expenditure (Rs.2.18 crore) due to excess use of steel (discussed in Paragraph.3.15)
- Additional item of work "River course training work" not envisaged in the DPR was executed at a cost of Rs.2.53 crore.
- Interest during construction to the tune of Rs.34.20 crore was not estimated in the DPR.

Project funding

3.9 The Board decided (July 1997) to avail loan assistance from Power Finance Corporation Limited (PFC). PFC sanctioned (August 1999) Rs.77.60 crore, being 50 *per cent* of the then estimated cost of Rs.155.34 crore (1999-2000 price level). The Board decided to meet the remaining project cost from its own funds.

Extra expenditure due to non-availability of subsidy

3.10 The Board availed (August 1999) financial assistance of Rs.77.60 crore from PFC for the execution of this project at an interest rate of 15 *per cent per annum*. As per the loan agreement entered into by the Board with PFC, the project was to be completed in all respects by 31 December 2002. PFC informed (July 2000) the Board that the project would be eligible for interest subsidy of four *per cent per annum* under the Government of India's (GOI) Accelerated Generation and Supply Programme (AG&SP),

provided the same was completed within the committed time schedule *viz.*, by December 2002. GOI reduced (April 2002) the interest subsidy under this scheme to three *per cent* with effect from 1 April 2002 and also imposed pro-rata reduction in subsidy for delays in commissioning. As per the GOI notification, the projects that were delayed beyond 85 *per cent* would not be eligible for interest subsidy under AG&SP and the reduction/withdrawal of interest subsidy would be effective from the actual date of commissioning or the date of 85 *per cent* of delay, whichever event occurred earlier.

PFC was extending the interest subsidy of four *per cent* (up to 31 March 2002) and three *per cent* (from 1 April 2002) to the Board on the financial assistance availed by it. It was noticed during audit that the delay in the execution of this project had exceeded 85 *per cent* in November 2005 and as such the Board would not be eligible for any further interest subsidy under the AG&SP scheme on the loan amount outstanding as on 1 January 2006.

The Government stated (August 2006) that the effective rate of interest for the loan amount was 6.25 *per cent* after availing the subsidy at 3 *per cent* and that the interest had been paid at this rate only till March 2006. The reply is not relevant as the Government has not commented about the non-availability of subsidy (of Rs.6.33 crore) from 1 January 2006 till the completion of the project due to delay in commissioning of the project.

Extra expenditure on exchange rate variation

3.11.1 The Board awarded (July 2001) the work of design, manufacture, supply, erection, testing and commissioning of 2X15 MW generating units to the consortium of Litostroj and Koncar at a lump sum price of Euro 1,49,94,528 plus Rs.20.25 crore equivalent to Rs.85.86 crore in all, at an exchange rate of one Euro=Rs.43.75. The supply and erection of the equipment were to be completed by 29 January 2003 and 29 July 2003 respectively. As per provisions in the purchase order, the Board would bear exchange rate variation (ERV) up to a maximum of five *per cent* of cost, insurance, freight (CIF) value of the imported components.

Delay in commissioning of the project led to extra expenditure of Rs.8.91 crore on account of exchange rate variation.

Due to delay in opening of operative LC because of ignorance of the procedural formalities in obtaining clearance from the Ministry of Surface Transport and delay in witnessing of model test by the representatives of the Board, the consortium could not start manufacture of the machinery and supply the same by the due date. As the delay was on its part, the Board extended the delivery schedule for supply to 29 October 2003 and the consortium supplied the entire machinery, except stay rings, within this extended delivery schedule. Because of the steep increase in the exchange rate of Euro currency during this period, the Board paid an ERV of Rs.11.48 crore as against Rs.2.57 crore provided in the purchase order (being five *per cent* of CIF value of imports). This resulted in avoidable extra expenditure of Rs.8.91 crore.

3.11.2 The machinery supply contract included model test of the machinery in the presence of the Board officials and this was a pre-requisite to manufacture the machinery. The contractor intimated (September 2001) the Board of its readiness to perform the model test and requested the Board to witness the model test in the last week of October 2001. The Board witnessed the model test on 13 December 2001 only because of the delay in the completion of the formalities like obtaining of 'No Objection Certificate' from Government of Tamil Nadu, Passport, Visa of the officers of the Board, etc. for trip to Slovenia. The contractor submitted (February 2002) the invoice for Euro 10.23 lakh, equivalent to Rs.4.47 crore for the model test. Due to delay in opening of the operative LC for the above payment and its protracted correspondence with the machinery supplier over the admissibility of ERV, the Board paid (July 2002/June 2005) Rs.4.99 crore (based on exchange rate prevalent on the date of payment).

The Government stated (August 2006) that the extra expenditure on exchange rate variation was due to its regulation as per the contract and due to steep increase in exchange rate of EURO, which were beyond the control of the Board. The reply is not tenable as the delays were mainly procedural in nature and, therefore, the Board could have avoided the extra payment of Rs.52 lakh.

Payment of escalation

3.12 The Board awarded the execution of contracts of Power House Sub-structure (July 2002), Power House Super structure (April 2003) and IT-DT gates (May 2003) on a firm price basis. Because of the delay on the part of the Board like belated issue of excavation drawings, delay in issue of steel and non-release of work fronts, the execution of these works got delayed and could not be completed within the scheduled date of completion. The Board had to pay escalation aggregating to Rs.45.11 lakh (including undue benefit of Rs.34.06 lakh to a contractor as discussed in para 3.13) despite the fact that these contracts were awarded on firm price basis.

3.13 In contracts that are awarded on firm price basis, if any escalation is to be paid for the delayed period, the same should be paid based on the price index difference between the date of scheduled completion and the actual date of completion. The Board, however, paid escalation in respect of the above three works based on the price index difference between the tender date and the actual date of completion. This resulted in an undue benefit of Rs.34.06 lakh to the contactors.

The Government accepted (August 2006) that the Board paid escalation taking the tender date as the base date and stated that it would be advantageous to the Board cost-wise and time-wise instead of going in for termination and re-tendering. The reply is not acceptable as the payment of escalation with reference to tender date resulted in undue benefit to the contractor since the contractor would have taken into account the possible escalation during the scheduled period of execution of work, while quoting for the work.

Execution of works

Extra expenditure on River Training Works.

3.14 In order to counter the site specific problems and to achieve the installed capacity of 30 MW, the Board decided to conduct a complete physical model study of the project and entrusted (September 2000) this study to the Centre for Water Resources (CWR) of Anna University, Chennai. This item of work was not envisaged in the DPR. CWR submitted its final report in November 2003 and recommended execution of tail race channel for an additional stretch of 1,140 meters. The project office prepared an estimate of Rs.2.81 crore (2003-04 price level) for this work and the Board accorded administrative approval and technical sanction in March 2004.

Based on the above approval and sanction, the Board called for open tenders (July 2004) for the above work. The Board received three offers but the Board Level Tender Committee (BLTC) rejected the offers and advised re-tendering on the ground that the estimation of tender value was not done properly by the civil wing.

Based on this directive, the project office prepared (February 2005) a new estimate for Rs.1.85 crore (based on the 2004-05 price level) and sent it to the Headquarters of the Board for approval. The Headquarters revised this estimate to Rs.1.94 crore and returned it to the project office for sanction, though the power of the project office for sanctioning of estimates was rupee one crore only. The project office awarded (June 2005) the work to Rajagopalan and Company at Rs.2.53 crore on face value enhancement basis, instead of awarding this work for Rs.1.94 crore, the estimated cost approved by the Headquarters.

In this connection, the following are observed:

- The Board justified the award of work at Rs.2.53 crore on the ground that the same was less than Rs.2.81 crore, which was the estimated cost based on 2003-04 schedule of rates. This cost of Rs.2.81 crore had been earlier (January 2005) rejected by BLTC as not having been estimated properly.
- As this item of work was not envisaged in the DPR, it should have been treated as a new item of work and awarded based on the current schedule of rates (2004-05) *viz.*, Rs.1.94 crore instead of the escalated rate of Rs.2.53 crore.

Thus, improper award of work resulted in an undue benefit of Rs.59 lakh to the contractor.

The Government stated (August 2006) that due to time constraints and to avoid loss to the Board for the tender processing period of at least three months, it entrusted the work to the power house contractors by enhancing the face value of the agreement. However, it is not clear from the reply as to why the work was not awarded as a new item based on the current schedule of rates.

Additional expenditure due to use of excess steel

3.15 The Board awarded the work of power house sub-structure with a provision that the steel and cement required for the execution would be supplied by the Board to the contractor. The Board estimated the requirement of steel for this work as 2,240 MTs. It was, however, noticed during audit that a total quantity of 3,249 MTs of steel was used in the execution of the work. The use of steel in excess of the requirement estimated resulted in an additional expenditure of Rs.2.18 crore. The Board has not investigated the reasons for increase in the quantity of steel used.

Extra expenditure on defective drawings

3.16.1 The major package "Power House Sub-structure" included the construction of left flank abutment wall-cum-pier. The Board, in the approved drawings, indicated (April 2002) the width of the abutment wall as 2.81 meters. Subsequently, when the generating machinery supplier furnished the civil drawings (February 2003), the width of the wall was reduced to 0.50 meter. By this time, the Power House sub-structure contractor had completed the excavation and the extra gap of 2.31 meters had to be filled up. The excavation and refilling had cost the Board Rs.13 lakh. Thus, due to the defective design of drawings, the Board suffered an avoidable extra expenditure of Rs.13 lakh.

The Government stated (August 2006) that the excavation estimate sent to the field was only tentative and any gap between excavated rock and concrete structure should be filled up and as such there was no extra expenditure. The reply is not tenable as the expenditure was necessitated due to excavation before the receipt of final drawings.

3.16.2 Similarly, in the excavation drawings for Power House sub structure, the Board indicated (December 2002) the slope (slope is provided to protect the excavated earth from slipping) as one-in-eight and revised the slope as one-in-15 in January 2003. As the contractor had already carried out excavation work based on one-in-eight slope, this revision necessitated filling up of the extra gap with concrete at a cost of Rs.8 lakh. Thus, due to the defective design drawings, the Board suffered an avoidable extra expenditure of Rs.8 lakh.

The Government stated (August 2006) that the excavation at the bank side had already been completed adopting the side slope of one-in-eight. Subsequently, to minimise the cost of excavation and filling up, the Board revised the side slope as one-in-fifteen. The reply is not tenable as the side slope should have been finalised before excavation.

Acknowledgement

3.17 Audit acknowledges the co-operation and assistance extended by the staff and management of the Board and the concerned officers of the State Government at various stages of conducting the performance review.

Conclusion

Inspite of adequate experience in the execution of the similar Lower Mettur Hydro Electric Project I to IV and its familiarity with the terrain , the Board could not commission the Bhavani Kattalai Barrage-I Hydro Electric Project within the time schedule envisaged in the Detailed Project Report viz., June 2000. The time overrun in this project had already exceeded six years. The project was delayed due to lack of a centralised effective monitoring system, absence of coordination among the various executing agencies of the Board associated with the execution of the project, non-conducting of survey of the soil before embarking on the project formulation, avoidable delays in finalising the tender specifications, approving the drawings, awarding of contract and delay in release of work fronts to the contractors. The time overrun has already led to cost overrun of Rs.125.63 crore resulting in increased cost of power generation.

Recommendations

The Board, while executing hydro electric projects in future, needs to take effective steps to:

- **put in place an effective system of monitoring ensuring coordination of all the agencies associated with the project.**
- **conduct all necessary surveys such as soil survey before embarking on project and preparation of the Project Report.**
- **prepare the DPR and PERT chart on a realistic basis after taking into account all relevant factors and utilise the same as effective tools for project monitoring.**
- **eliminate/minimise delays due to avoidable reasons like delays in the finalisation of Draft Tender Specifications, evaluation and finalisation of tenders, making available drawings and work fronts.**

CHAPTER-IV

4 TRANSACTION AUDIT OBSERVATIONS RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATION

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

Government companies

Tamil Nadu Industrial Development Corporation Limited

4.1 Irrecoverable deposit

Failure to take effective action has put the recovery of Rs.57.70 crore of deposits with a joint venture in jeopardy.

The Company had been depositing its surplus funds in Southern Petrochemical Industries Corporation Limited (SPIC), a joint venture of the Company. Since the deposits with SPIC were not in conformity with the guidelines issued in April 1997 by the State Government, which prohibited deposits with joint/associate companies, the Company sought (August 1997) exemption from these guidelines and permission to invest the surplus funds in dividend paying joint ventures. The State Government permitted (February 1998) the Company to deposit its surplus funds in the dividend paying assisted/joint sector companies having a credit rating of FA+ or equivalent for a period of one year and review the position after a year.

Based on the above permission, the Company continued to deposit its surplus funds as call deposit with SPIC, as it was a dividend paying joint venture company with a credit rating of FA+.

SPIC defaulted in the payment of interest of Rs.2.20 crore due on 30 September 1999 and unilaterally converted total interest into short-term deposit (on call basis). SPIC again converted interest of Rs.2.36 crore due on 31 December 1999 into short-term deposits (on call basis) unilaterally. It also defaulted in payment of call deposit (principal) due in June 2000.

The Company failed to take note of the deteriorating financial position of SPIC even though it had a nominee director in the Board of SPIC from the beginning. The Company neither reviewed the position nor took action to recall the entire deposit of Rs.57.70 crore. In the meantime, the credit rating for Non-Convertible Debentures (NCDs) of SPIC was downgraded (28 October 2000) to 'BB' as it had defaulted in the payment of interest and principal. On the same day, the State Government directed the Company to take immediate steps to withdraw its deposits in SPIC so as to protect its interest. The Board of Directors of the Company also advised (November 2000) the Management to withdraw the deposits in SPIC over a period of four to five months. Despite the Government directive and advice of its Board, the Company did not take effective action to withdraw the deposits from SPIC. The Company simply wrote letters to SPIC from January 2001 onwards asking SPIC to repay the deposits.

It was noticed in audit that the chances of recovery of call deposits are remote as SPIC had informed (March 2006) the Government that its entire earnings/expenditure was monitored and controlled by the secured lenders under Corporate Debt Restructuring package (CDR) and therefore, repayment of call deposits of the Company was not possible.

The Government stated (May 2006) that the Company had conveyed its disagreement on CDR package as early as in April 2003 and had requested SPIC to consider its deposit as loan repayable on call basis.

The reply is not acceptable as SPIC in March 2006 had clearly informed the Government of its inability to repay call deposit as stated above.

Thus, the failure to take effective steps has put the recovery of deposits of Rs.57.70 crore in jeopardy.

4.2 Loss of revenue

Failure to renounce the rights issue in an assisted unit resulted in recurring annual interest loss of Rs.2.31 crore.

A reference is invited to Paragraph 2A.8 (e) of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Commercial) – Government of Tamil Nadu wherein the unfruitful investment of Rs.26.40 crore by the Company in Southern Iron and Steel Company (SISCOL) was commented upon.

The performance of SISCOL was poor from the beginning and the Company did not get any return on its investment. As SISCOL was not able to pay interest/principal, ICICI Bank Limited, the prime lender, initiated (September 2004) a Corporate Debt Restructuring (CDR) scheme. SISCOL made (January 2005) a rights issue of equity shares at par in the ratio of 23 equity shares for every 10 shares (face value – Rs.10 per share) held by the existing shareholders fixing 29 April 2005 as the closure date.

The Company appointed (8 April 2005) Ind Bank Merchant Banking Services Limited (Ind Bank) to study the rights issue of SISCOL and examine whether it would be advantageous for the Company to invest in the rights issue or to renounce its rights entitlement. Ind Bank recommended (April 2005) that the Company should subscribe to the rights issue as the rights issue was at par and post-rights value of the share was estimated at Rs.18 per share. It also recommended that if the Company was able to renounce its rights at a price of Rs.8 (the difference between value of share and issue price) or more per share, it might consider renouncing its rights entitlement. The Company decided (April 2005) to subscribe the rights issue and acquired 1,89,75,000 shares in SISCOL by paying (April 2005) Rs.18.98 crore.

Audit analysis revealed that the decision of the Company to subscribe to the rights issue was not justified as:

- the past investment made in SISCOL aggregating to Rs.26.40 crore had not fetched any return for the last 13 years;
- the shares of SISCOL were being traded at prices ranging from Rs.21 to Rs.30 per share during the period of offer which was more than Rs.18 per share as estimated by Ind Bank; and
- the Company would have earned minimum revenue of Rs.15.18 crore (computed with reference to the share value of Rs.18 per share worked out by Ind Bank) and further investment of Rs.18.98 crore could have been avoided, had it renounced its entitlement to rights issue. This would have enabled the Company to invest Rs.34.16 crore (Rs.15.18 crore *plus* Rs.18.98 crore) in interest fetching investments and earn recurring annual interest of Rs.2.31 crore (computed with reference to the interest rate of 6.75 *per cent* on its deposits with State Bank of India).

The Government stated (May 2006) that the share price of SISCOL is likely to increase in the years to come and the Company would be in a position to reap the benefits and make substantial profits. The reply is not tenable in view of the fact that the share price of SISCOL, which was quoted around Rs.30 in March 2005 had steeply fallen to Rs.17 in March 2006. Moreover, the Company has got no return on its investments since 1992.

Tamil Nadu Newsprint and Papers Limited

4.3 Short-recovery

Adoption of Free on Board price instead of Cost and Freight price while effecting pro rata adjustment for lower calorific value of imported coal resulted in short-recovery of Rs.3.24 crore.

The Company imports coal through competitive bidding. In order to ensure the quality of imported coal, the Company has stipulated specifications for gross calorific value (GCV), moisture, ash, sulphur and volatile material contents of the coal. In case the GCV of the coal supplied is lower or higher than the stipulated value, the price of coal supplied is to be reduced or increased proportionately. Similar procedure is followed in the case of moisture, sulphur, ash and volatile material contents in the coal.

When the Company started importing coal in 1998, it stipulated the GCV as 6,400 Kcal/Kg and adopted the 'Cost and Freight' (C&F) price for effecting the pro rata adjustments for lower/higher GCV of the coal supplied as compared to the stipulated GCV. The Company, for reasons not available on record, reduced the stipulated GCV to 6,000 Kcal/Kg. from January 2003 and changed (January 2004) the basis for effecting the pro rata adjustments from C&F price to Free on Board (FOB) price. It is interesting to note that when the basis of pro rata recovery was C&F basis, the Company was mostly receiving coal with GCV higher than the prescribed and when the basis was changed to FOB, it started receiving coal with GCV lower than the prescribed in the agreement.

It was also noticed that Tamil Nadu Electricity Board, which also imports coal for its Thermal Power Stations, adopts C&F price for recovery of penalty/payment of incentive for the lower/higher GCV of imported coal. Hence, any adjustment in the price of coal for lower/higher GCV than the stipulated value should have been effected after taking the freight charges (which accounts for 40 *per cent* of the total cost) *i.e.*, on C&F price (as was done by the Company till December 2003). Failure to do so resulted in short-recovery of Rs.3.24 crore during the period January 2004 to September 2005 on import of coal.

The Government stated (September 2006) that till December 2003, it was calculating the incentive/penalty based on the C&F price and the GCV in the coal supplied was higher than the GCV stipulated. Therefore, it switched over to the tender conditions of calculating the incentive/penalty on FOB basis.

The reply is not acceptable since immediately after change of basis from C&F to FOB, the Company started receiving coal with lower GCV with consequent short-recovery of penalty from the supplier. Further, the Company has again started pro-rata adjustment in the prices due to GCV on C&F basis with effect from December 2005.

4.4 Loss of revenue

Delay in shifting the metering arrangement for sale of surplus power resulted in revenue loss of Rs.76.10 lakh.

The Company was operating three turbo generators as captive power generation plants with a total capacity of 36.5 MW in parallel with the Tamil Nadu Electricity Board's (TNEB) grid. The Company, after meeting its power requirements, sold the surplus power to TNEB through dedicated feeders.

The Company installed (April 2001) one more captive generation plant having capacity of 24.62 MW and approached TNEB for the purchase of surplus power from this plant. TNEB agreed (May 2001) to purchase the surplus power from the plant.

The Company entered (October 2001) into a Power Purchase Agreement (PPA) for the export of its surplus power to TNEB. The Company also executed (November 2001) an undertaking agreeing to follow the guidelines stipulated in the policy of the State Government (G.O.No.48 dated 22 April 1998) on captive power generation. The guidelines, *inter alia*, stipulated that if the surplus power was for sale to TNEB, the export meter (to measure the quantum of units transmitted to TNEB) would be at TNEB's receiving end. The guidelines also stated that if the export meter was at the captive power generation end, then two *per cent* of the energy exported would be deducted for the loss in the interfacing line.

In spite of this, the Company installed the export meter in between the captive power generation end and the TNEB's receiving point. The Company started exporting power to TNEB from this plant from December 2001 onwards. TNEB recovered (July 2003) Rs.79.03 lakh towards two *per cent* interfacing line losses from December 2001 to June 2003 from the bills submitted by the Company for the export of surplus power. While doing so, TNEB categorically stated that from July 2003 onwards, two *per cent* deduction for interfacing line losses would be regularly effected.

The Company, instead of taking immediate action to shift the export meter to the TNEB's receiving end as per the provisions of the guidelines, continued to request TNEB not to deduct interfacing line losses. On it being pointed out by Audit (July 2004) revenue loss was being suffered by the Company due to its failure to shift the export meter, the Company approached (February 2005) TNEB to shift the meter to the receiving end. TNEB did so (May 2005) after collecting the cost of shifting from the Company and did not deduct the interfacing line losses.

The Government stated (July 2006) that the meter was fixed at the captive power generation end as per the provisions of PPA entered into by the Company with TNEB and that because of the policy decision taken by TNEB in December 2003, the Company could not get the metering point shifted from captive power generation end to the TNEB end. The reply is not tenable in view of the fact that the policy of the Government in the matter clearly stipulated deduction of interfacing line losses in case the export meter was installed at the captive generation end. Further, even after being specifically informed by TNEB in July 2003, the Company took two years to approach the TNEB for shifting of the meter to the receiving end.

Thus, due to delay in taking timely action to shift the meter resulted in revenue loss of Rs.76.10 lakh from July 2003 to April 2005.

State Transport Undertakings

4.5 Extra expenditure

Delay in finalisation of the tenders for procurement of lubricants and erroneous computation of paper cost while evaluating the tenders for printing of tickets resulted in avoidable extra expenditure of Rs.1.07 crore.

4.5.1 The State Government directed (May 2004) the Institute of Road Transport (IRT) to procure lubricants required by all the State Transport Undertakings (STUs) in the State by 31 August 2004 in order to avail the bulk quantity discount offered by the oil companies.

After obtaining (May 2004) the requirement from all the STUs for a period of six months from September 2004 onwards, IRT floated open tenders for the purchase of lubricants in July 2004 only. IRT took one and half month for preparation of the tender documents and approval by the Tender Award Committee (TAC). Technical bids were opened in August 2004. TAC, instead of opening the commercial bids, proposed (August 2004) modifications in the tender conditions to the Government for approval, though it was vested with full powers in respect of purchases including approval of any modifications in the tender conditions. The Government returned (November 2004) the proposal to TAC reiterating the above provision for necessary action. There was further delay in opening (January 2005) of the commercial bids and finalisation (April 2005) of the tenders after negotiations. The STUs, thereafter, started placing orders from April 2005 onwards.

It was observed during audit that in spite of the directions of the Government (April 2004) to finalise the tenders latest by August 2004, IRT inordinately delayed the finalisation by more than seven months. This delay forced the STUs to continue to procure the lubricants individually at prices higher than the rates offered in the tender resulting in incurring of avoidable extra expenditure of Rs.85.75 lakh during the period of delay (September 2004 to March 2005).

The Government stated (July 2006) that IRT received the Government Order on 24 May 2004 only and as the subject matter was entrusted to IRT for the first time, the specifications and tender conditions were made in detail to satisfy the technical parameters of the lubricants. Further delay was caused due to inspection of factories of all the tenderers by a Committee. The reply is not tenable as the STUs were procuring lubricants from the same oil companies individually for a long time and, therefore, all the required specifications were readily available with the STUs and the inordinate delay of more than seven months lacked justification.

4.5.2 IRT floated open tenders (April 2003) for printing of ticket books of different sizes required by the STUs for the year 2003-04. The tender specifications required the tenderers to furnish break up of the cost of ticket books under the three major cost elements *viz*., paper, printing and packing and forwarding charges.

After opening (May 2003) of the commercial bids, TAC noticed that the rates quoted by the tenderers for the six varieties of ticket books with reduced sizes were very much on the higher side and also not commensurate with the reduction in size. TAC also observed that though all the tenderers quoted the same landed cost for each variety of ticket book, the individual cost components varied widely, indicating that the tenderers had formed a cartel. Therefore, TAC reworked (June 2003) the tendered rates for the six varieties. While reworking the rates, TAC reckoned the highest percentage of paper cost quoted in the tender. IRT communicated the reworked landed cost to the STUs with instructions to place orders at the reworked rates to the willing tenderers. All the tenderers who responded to the tender supplied the tickets to the STUs during the years 2003-04 and 2004-05 at the rates reworked by IRT.

The decision to adopt highest percentage of paper cost was not justified as IRT was aware of the cartel formed by the tenderers and therefore had quoted very high rates. It should have instead adopted the lowest cost for each of the element quoted in the tenders to rework the landed cost. Failure to do so resulted in excess expenditure of Rs.20.90 lakh on printing of tickets.

The matter was reported to the Management/Government in April 2006; their replies are awaited (September 2006).

Tamil Nadu Textile Corporation Limited

4.6 Unproductive expenditure

Payment of salaries to the employees of a closed unit without any work resulted in unproductive expenditure of Rs.63.38 lakh.

A reference is invited to paragraph 2B.12 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 - (Commercial), Government of Tamil Nadu, wherein the injudicious closure of Central Testing Laboratory (CTL) of the Company was commented upon. The CTL was functioning with a staff strength of 12 (two supervisors and 10 laboratory assistants) for facilitating scientific selection and procurement of quality cotton/yarn. The State Government ordered (February 1999) for closure of CTL and the equipments were transferred (November 2001) to the Tamil Nadu Co-operative Spinning Mills Federation Limited, Chennai. The representation (May 2000) of the employees for their redeployment in Coimbatore Municipal Corporation is still pending (September 2006) with the State Government.

In the meantime, 10 employees (excluding two laboratory assistants, who left the Company) continued to remain on the rolls of the Company without any work and were being paid salaries and other benefits. The Committee constituted (June 2002) by the Company to identify surplus staff on the directives (May 2002) of the State Government had identified (November 2002) 12 posts as surplus including the existing 10 employees of the CTL. The Company informed (May 2003) the Government that the identified surplus staff could be either redeployed in other organisations or be offered voluntary retirement or be retrenched under the provisions of the Industrial Disputes Act, 1947 and sought instructions from the Government. No further action has been taken either by the Company or by the Government in this regard so far (September 2006).

Failure to take effective action in respect of the surplus staff of closed laboratory resulted in unproductive expenditure of Rs.63.38 lakh on salaries paid to them during December 2001 to August 2006. Besides, the continued inaction would also result in an unproductive expenditure of Rs.12 lakh (approximately) *per annum*.

The matter was reported to the Management/Government in February 2006; their replies are awaited (September 2006).

Tamil Nadu Industrial Explosives Limited

4.7 Avoidable loss

Failure to undertake trial production of emulsion explosives resulted in avoidable loss of Rs.42.49 lakh.

The Company started (October 2003) production of small diameter emulsion explosives using Micro Crystalline Wax (MCW). The Company had been procuring MCW from Chowdary Udyog, Kolkata since then. As a measure of quality control, the Company carried out storage stability tests of the explosives produced at intervals of 50, 75 and 90 days and ensured that these explosives had a storage stability of 75 days.

In order to have an alternative source of supply for MCW, the Company procured (June and July 2004) five metric tonne (MT) of MCW from Waxoils Private Limited, Mumbai (Waxoils), a hitherto untried source, and started using the same in the production of explosives from 5 December 2004 onwards and produced 463 MT of emulsion explosives using MCW supplied by Waxoils. It was noticed that the bulk production was started without carrying out the storage stability test of the end product *viz.*, explosives after the source of supply of MCW was changed.

The Company started receiving complaints (January 2005) from the end users about the drop in sensitivity of these emulsion explosives after 30 days of storage and identified (February 2005) the change in source of MCW as the major cause for drop in sensitivity. The Company immediately stopped using

MCW procured from Waxoils and reverted back to the use of MCW procured from Chowdary Udyog Limited, Kolkota from 1 February 2005 onwards. No major quality control problems were encountered thereafter. The Company also received back (February to July 2005) unused 114.675 MT of explosives from the end users.

The request (March 2005) of the Company for repacking the rejected small diameter explosives as large diameter column explosives was not agreed to by the Chief Controller of Explosives and the Company was advised (March 2005) to destroy the rejected explosives.

Thus, failure to conduct the storage stability test before starting the production resulted in an avoidable loss of Rs.42.49 lakh (computed with reference to production cost of Rs.33,190 and Excise duty of Rs.3,860 per MT on 114.675 MT).

The Management stated (June 2006) that in the initial trial production, Waxoils material was used and quality and stability of finished products were ascertained. The reply is an after thought since in February 2006 it had informed Audit that in future trial production would be undertaken before introduction of any new source of raw material and only after establishment of storage stability, mass production would be taken up.

The matter was reported to the Government in February 2006; their reply is awaited (September 2006).

State Express Transport Corporation Limited

4.8 Loss of revenue

Adoption of low fare for the newly introduced Air Suspension Ultra Deluxe coaches resulted in a revenue loss of Rs.23.85 lakh.

The Company operates inter-state and intra-state passenger transport services under the categories of semi deluxe, super deluxe, super deluxe with video, air suspension coach, *etc*.

The State Government, in exercise of the powers conferred by Section 67(1)(i) of the Motor Vehicles Act, 1988, periodically fixes the fares to be charged for various types of passenger transport services operated in the State. In the last such fixation effected in December 2001, the Government fixed fares of 32 Paise per Kilo meter (PPKM) for semi deluxe, 38 PPKM for super deluxe and not exceeding 1.35 times of the super deluxe fares for air suspension coaches *viz*., 52 PPKM. Based on the request of the Company, the Government revised the fare for air suspension coaches to 45 PPKM from 6 December 2001.

The State Transport Undertakings (STUs) in the neighbouring States, *viz*., Karnataka and Andhra were operating Volvo and ultra deluxe bus services and there was very good patronage for these services even though the fares for these services were high. Encouraged by this and to fulfill the needs of long distance passengers, the Company introduced (September 2005) ultra deluxe hi-tech luxury super deluxe video coaches with air suspension. These buses have 36 semi sleeper seats with fans, reading lights and Digital Video Disc (DVD). As this was a new type of passenger service, the Company should have taken the approval of the Government for fixing the fares to be charged for the service. The Company, however, simply adopted the fare originally fixed by the Government for air suspension coach *viz.*, 52 PPKM and started collecting this fare from September 2005 onwards. The Company informed this fare fixation to its Board, which just recorded the matter. The Company had not obtained the approval of the Government for the fare structure in ultra deluxe air suspension coaches.

It was observed during audit that the decision of the Company to charge the fare of 52 PPKM applicable for the air suspension coaches for travel in ultra deluxe air suspension coaches lacked justification as:

- the newly introduced ultra deluxe air suspension coaches had additional facilities like fans, reading lights, DVD, *etc.*, and were specially designed;
- the negihbouring State STUs, which were operating similar services, were charging 70 PPKM for travel in these services; and
- the Company had recorded that there was good patronage for these services even though the fares charged were high.

Taking these factors into consideration, the Company should have at least fixed the fares for travel in these services at 1.35 times of the existing Government approved fare for air suspension coach *viz.*, 61 PPKM (45 PPKM X 1.35 times) and got the same approved by the Government. Failure to do so resulted in a revenue loss of Rs.23.85 lakh during September 2005 to March 2006.

The Government stated (July 2006) that the Company had introduced air suspension coaches with the same facilities that were originally provided but only changed the name of the service as ultra deluxe just to attract passengers and that collection of higher fare would not have received the tremendous response. The Government also stated that Karnataka State Road Transport Corporation (KSRTC) buses plying in Bangalore-Chennai-Bangalore route were also collecting 52 PPKM for coverage in Tamil Nadu and 70 PPKM for coverage in Karnataka. The Government further stated that for the DVD provision in the ultra deluxe services, the Company was charging Rs.5 extra per passenger over and above the fare as it was not a facility provided within the fare fixed.

The reply is not tenable in view of the fact that there was good patronage for such services even though the fares were high as asserted by the management itself. In such a situation, the Company should have fixed the fares for the ultra deluxe services at 61 PPKM which would have helped to improve its revenue earnings without affecting patronage. KSRTC introduced ultra deluxe services in Bangalore-Chennai-Bangalore route from June 2005 and was charging 70 PPKM in these services. It was only after the Company fixed the fare at 52 PPKM that KSRTC also started charging this rate for coverage in Tamil Nadu and maintained the fare at 70 PPKM for coverage in Karnataka.

Tamil Nadu Fisheries Development Corporation Limited

4.9 Loss of revenue

Inordinate delay in leasing out the fishing rights led to loss of revenue of Rs.20.73 lakh.

Bhavanisagar reservoir of the Company was leased out for fishing for five years from July 2000. The Company terminated the lease agreement and took possession (1 August 2003) of the reservoir as the lessee defaulted in payment of lease rent, royalty, *etc.* After termination of the lease, the Board of Directors of the Company decided (September 2003) to initiate action immediately to lease out the reservoir again.

After finalisation (August 2004) of the tender conditions by the Committee constituted (December 2003) for the purpose, the Company invited (August 2004) open tenders for leasing out the fishing rights in the reservoir. The Company recommended (October 2004) the highest offer of Rs.32.50 lakh *per annum* as lease rent, for approval of the Government. The Government accorded (February 2005) approval for leasing out the reservoir upto 30 June 2007.

It was observed during audit that there was inordinate delay at all levels right from the constitution of the tender committee (three months) to the finalisaton of the tender conditions (seven months) and in according approval by the Government (three months). As the Company was aware of the loss of revenue, it should have completed the processing and leasing of fishing rights expeditiously within a reasonable time, say, within six months of the directive by the Board. Failure to do so resulted in a revenue loss of Rs.20.73 lakh during the delayed period.

The matter was reported to the Management/Government in August 2006; their replies are awaited (September 2006).

Electronics Corporation of Tamil Nadu Limited

4.10 Loss due to delay in disinvestment

Delay in taking decision to disinvest the equity shares in an assisted unit led to diminution in value of investment of Rs.20.25 lakh.

The Company, in pursuance of an agreement, invested Rs.20.25 lakh in DSQ Software Limited (originally named as Square D software Limited) subscribing to its 2,02,500 equity shares.

As per guidelines of the State Government on the disinvestment of shares held in assisted units, a review of the possibility of disinvestment was to be made after three years of the agreement. Based on this, the Company considered the proposal for disinvestment of the shares in DSQ. The Company sought (January 1999) the approval of the Government for disinvestment citing that the shares of DSQ were being quoted in the share market at a very high price *viz.*, around Rs.300 per share.

The Government decided (January 1999) that it was not the opportune time for disinvestment and asked the Company to wait till the market stabilised. The Government also directed (February 1999) the Company to obtain advice from a merchant banker on the disinvestment and submit a report to it. The Company after informally discussing the issue with a leading merchant banker informed (May 1999) the Government that the proposal for disinvestment might await better times.

There was a news item in the press (May 2001) indicating that funds of crore of rupees had been manipulated to "artificially increase or sustain share prices of DSQ and other companies". The Company, without taking into consideration this news report, again informed the Government in June 2001 that it was watching the rates of the shares of DSQ.

There was another news item (3 December 2001) about the financial irregularities in DSQ. Audit observed that instead of taking prompt action, the Company decided only in September 2002 to disinvest the shares and wrote (October 2002) to the Government for disinvestment. At this juncture, the shares of DSQ were quoted around Rs.15 per share. The Government is yet to approve the proposal (August 2006). It was noticed during audit that shares of DSQ were not being quoted in the market for a long time and the Company has also recognised diminution in value of these shares and made provision for its investment of Rs.20.25 lakh in the accounts.

Delay in taking the decision to disinvest the shares thus resulted in loss of investment of Rs.20.25 lakh.

The matter was reported to the Management/Government in May 2006; their replies are awaited (September 2006).

Tamil Nadu State Marketing Corporation Limited

4.11 Avoidable loss

Failure to take annual insurance policy led to non-refund of premium and consequential loss of Rs.15.08 lakh.

The Company insures its stock of Indian Made Foreign Spirit (IMFS), beer and whisky kept at its godowns situated all over the State, on annual basis under 'Fire Declaration Policy', covering loss against fire, earthquake and terrorism.

As per the 'Tariff' provisions under the 'Fire Declaration Policy', the insurance premium would be collected based on the provisional value of stock declared by the insured. On expiry of the policy period, the provisional insurance premium originally paid would be revised based on the actual value of the stock held every month by the insured. The difference, if any, would be refunded to the insured subject to a maximum of 50 *per cent* of the provisional premium paid. Fire Declaration Policy is not available for short term (less than 12 months).

The Company invited (June 2004) quotations from the Public Sector insurance companies to insure the stock of IMFS, beer and whisky in its godowns from 16 July 2004 to 15 July 2005. The National Insurance Company (NIC) quoted (July 2004) the lowest annual premium of Rs.35.66 lakh. As there was delay in getting the approval of the Board for release of annual premium, NIC agreed to provide insurance cover for one month from 16 July 2004 on payment of 15 *per cent* of the quoted amount *i.e.*, Rs.5.35 lakh subject to payment of balance premium before 15 August 2004 for providing insurance cover for full one year. The Company paid (July 2004) Rs.5.35 lakh for insurance for one month. Since there was further delay in getting the approval, the Company paid (August 2004) another Rs.5.35 lakh for the second month without confirming about adjustment of the premium paid for two short period policies against the premium for a full one year policy.

After obtaining (21 August 2004) the approval from the Board for annual insurance premium for the period from 16 July 2004 to 15 July 2005, the Company paid (September 2004) Rs.24.96 lakh i.e., balance 70 *per cent* of the quoted amount (30 *per cent* already paid for two months) to NIC with a request to cover the risk for 10 months from 16 September 2004 to 15 July 2005. NIC did not agree to this and informed (December 2004) the Company that it had issued two short period policies on the request of the Company by collecting 15 *per cent* of annual premium quoted for each month separately (16 July to 15 August 2004 and 16 August to 15 September 2004 respectively) and it was not possible to issue policy for 10 months, for which 100 *per cent* premium was required. NIC gave an alternative to take three months short term policy against payment of 40 *per cent* of quoted premium to be followed by annual policy after making full payment. In that case the Company was entitled for pro rata reduction in premium for short term policy. But the Company did not respond to this offer. NIC, therefore, issued insurance policy for six months from 16 September 2004 to 15 March 2005 (for which 70 *per cent* of annual premium was payable as per 'Tariff' provisions) and apportioned Rs.24.96 lakh against this.

After completion of one year, the Company claimed (July 2005) a refund of Rs.15.08 lakh from NIC, being the difference between the annual premium payable (Rs.20.58 lakh) based on the actual value of stock of Rs.69.24 crore held by the Company during the period from 16 July 2004 to 15 July 2005 and the provisional premium paid (Rs.35.66 lakh). But NIC refused to refund this amount on the ground that as per Tariff provisions such refunds could be made only on annual policies and not on short term policies.

Since the Company was aware of the expiry of annual insurance on its wholesale stock on 15 July 2004, it should have taken effective steps sufficiently in advance to pay the annual premium in July 2004 itself. Failure to do so resulted in an avoidable loss of Rs.15.08 lakh, being the differential premium not refunded by the insurer. More importantly, the wholesale stock worth Rs.100 crore had no insurance cover during the period 16 March 2005 to 15 July 2005.

The matter was reported to the Management/Government in May 2006; their replies are awaited (September 2006).

4.12 Loss of interest

Failure to invest surplus funds in long term deposits resulted in loss of interest of Rs.1.50 crore.

The Company is running more than 7,000 retail vending shops for Indian Made Foreign Spirit and beer and appoints bar/shop supervisors, shop salesman and bar tenders on contract basis. The Company collects non-interest bearing security deposit (SD) from the employees to be refunded on their leaving the service. The total amount of SD with the Company aggregated to Rs.74.64 crore as on 31 March 2006.

As the SD was to be refunded only at the time of leaving the service, the Company should have invested this amount in long term deposits i.e. in fixed deposits of one year duration, to earn higher interest. It was noticed that the Company kept this amount in its regular bank accounts and periodically invested the surplus funds in short-term deposits for periods ranging from seven to 46 days and earned interest of Rs.7.05 crore during the two years period ended 31 March 2006.

Failure to invest the surplus funds in long-term deposits resulted in a minimum interest loss of Rs.1.50 crore during the two years ended 31 March 2006 (computed with reference to the difference between the maximum interest earned on short term deposits and the maximum interest offered on deposits of one year duration).

The Company stated (October 2006) that it was in need of funds every month for payment of various dues viz. special privilege fee, sales tax, vend fee, salaries and rent, etc. and therefore, temporarily diverted the security deposits collected from the contract employees to meet these expenses. It was further stated that this was done as an alternative to the cash credit facility and with effect from April 2006, the security deposits collected from the contract employees are being kept in one year fixed deposit in banks.

The reply is not tenable as barring a few days in some of the months, the Company was maintaining bank balances in excess of the security deposits and, as such, it should have availed the cash credit facility from the banks for short periods and the security deposit amount should have been invested on long-term basis.

The matter was reported to the Government in May 2006; their reply is awaited (September 2006).

Statutory corporation

Tamil Nadu Electricity Board

4.13 Non-filing of Aggregate Revenue Requirement and tariff petition

Failure to file petition for revision of tariff denied the Board opportunity to reduce its deficit.

As per the Section 64(1) of the Electricity Act, 2003 (Act), the Board is required to file an application to the Tamil Nadu Electricity Regulatory Commission (TNERC) for determination of tariff under Section 62 of the Act. As per TNERC (Terms and Conditions for determination of Tariff) Regulations 2005, the Distribution/Transmission licensee like the Board has to file the Aggregate Revenue Requirement (ARR) on or before 30 November of each year giving the details of the expected revenue and estimated expenditure. ARR is to be filed every year even if no application for determination of tariff is to be made. On the basis of ARR, the Commission evaluates the financial performance of the Board, besides taking decision on tariff revision and enforcing performance standards on the Board. Thus, filing of ARR is a prerequisite for tariff determination. The Board filed its first ARR and tariff petition in September 2002. After scrutinising the ARR and the tariff petition, TNERC issued a tariff notification in March 2003 revising the then existing tariff. The revised tariff was to be in force till 31 March 2004 or till the Board approached the TNERC for the next tariff revision whichever was earlier.

TNERC directed (June 2003) the Board to submit the tariff revision proposal for the financial year 2004-05 by December 2003, in case revision in the tariff was required. The Board, however, neither filed tariff revision for the financial years 2004-05 to 2006-07 nor has it filed the ARR for these years. Consequently the tariff fixed by the TNERC for 2003-04 continues to be in force till date (August 2006). It is interesting to note that though TNERC informed the Board in March 2005 that submission of ARR was an independent activity and need not be combined with or wait for the tariff petition and that it was in the Board's interest to prepare and submit the ARR, the Board has not complied with this essential requirement.

The revenue account of the Board for the financial year 2004-05 showed a deficit of Rs.1,176.77 crore and the deficit for 2005-06 has increased to Rs.1,355.21 crore. As the Board did not file ARR and tariff petitions for 2004-05, 2005-06 and 2006-07, it has lost the opportunity to get the tariff reviewed/revised by the Commission to match the ARR of these years and thereby reduce the growing deficit. Regular and progressive reduction of revenue deficit would have enabled the Board to avail the incentive available from the Government of India for reduction of loss under the Accelerated Power Development and Reforms Programme.

The Board stated (May 2006) that even with the prevailing tariff rates, the high revenue yielding consumers *viz.*, HT industrial and commercial consumers were leaving its supply. The Board further stated that there was much resistance from domestic, agriculture and hut consumers for any tariff revision. Therefore, it had taken conscious steps to improve the financial performance without going in for tariff revision.

The reply is not acceptable for the following reasons:

- the percentage increase in the last tariff revision approved by TNERC for the domestic consumers ranged from 16 to 30 whereas it was 7 and 16 for the HT industries and HT commercial consumers respectively thus indicating that its concerns about loosing HT industrial and HT commercial consumers had been taken care of by TNERC while approving the tariff revision.
- as electricity is supplied free of cost to agriculture and hut services, the presumption of resistance from these categories of consumers had no reasonable basis. Moreover, the Board receives subsidy from the Government for supply of power free of cost to agriculture and hut services, and
- although the Board is a commercial concern it chose to ignore the direction of the Commission in spite of the huge revenue deficit incurred by it in recent years.

The matter was reported to the Government in March 2006; their reply is awaited (September 2006).

4.14 Loss of interest

Excess payment of fixed charges due to adoption of higher capital cost while making payment for power purchased resulted in interest loss of Rs.23.27 crore.

The Central Electricity Authority (CEA) accorded (November 1995) Techno-economic clearance (TEC) for the establishment of 330.5 MW Combined Cycle Gas Turbine (CCGT) plant by Dyna Makowski Power Company (DMPC) at an estimated cost of Rs.1,121.70 crore.

The Board entered (January 1997) into a Power Purchase Agreement (PPA) with DMPC to purchase the power generated by CCGT plant. The PPA, *inter alia,* stipulated that the capital cost of the project shall not be greater than the lesser of -

- the capital cost approved by the CEA, and

- the capital cost set forth in the reports delivered by DMPC to the Board.

The successor company *viz*., Pillaiperumalnallur Power Generation Company (PPNPGC) completed the project, commenced commercial operation on 26 April 2001 and started supplying power to the Board from that date. PPNPGC intimated (July 2001) to CEA the completed capital cost of the project as Rs.1,409.84 crore and sought its approval. CEA observed (October 2001) that certain items amounting to Rs.149.26 crore included in the completed capital cost needed to be deleted as these were, prima facie, inadmissible. Besides this, CEA also called for further information from PPNPGC, which revised (July 2002) the completed capital cost to Rs.1,379.24 crore and sought CEA's approval for this amount, which is awaited (September 2006).

The tariff for the power purchased by the Board comprises of variable and fixed charges. The approved capital cost is the basis for the payment of fixed charges like interest on debt, depreciation, insurance, *etc*. As the completed capital cost submitted by PPNPGC was yet to be approved by the CEA, the capital cost as approved by the CEA in the TEC *viz*., Rs.1,121.70 crore should have been adopted by the Board for the fixation of tariff.

It was noticed during audit that while making payments for the power purchased from PPNPGC, the Board adopted Rs.1,386.26 crore as the capital cost for the years 2002-03 to 2004-05 and Rs.1,379.24 crore for the year 2005-06 instead of Rs.1,121.70 crore approved by the CEA. This resulted in excess payment of Rs.162.59 crore as fixed charges to PPNPGC during 2002-03 to 2005-06. As the Board is depending on borrowed funds, this excess payment had resulted in loss of interest of Rs.23.27 crore during the period.

Audit also noticed that in the PPAs entered into by the Board with the other generating companies, there was a clause to recover/pay the overcharge/undercharge of capital cost upon finalisation of the same. There was no such clause in the PPA with PPNPGC and as such chances of recovery of excess payments effected towards fixed charges, such as interest on debt, depreciation and insurance charges aggregating to Rs.162.59 crore are remote.

The matter was reported to the Board/Government in May 2006; their replies are awaited (September 2006).

4.15 Avoidable extra expenditure

Failure to place purchase order within the validity period resulted in avoidable extra expenditure of Rs.18.79 crore on import of coal.

The Board operates four thermal power stations, which use coal as the fuel. The annual requirement of coal in these thermal power stations is around 145 lakh metric tonne (MT). The Board normally maintains a coal stock of 21 days' requirement (11 lakh MT approximately).

The Board estimated (October 2004) a shortfall of about 1.84 lakh MT of indigenous coal per month (equivalent to 1.38 lakh MT of imported coal) and accordingly the requirement of imported coal was estimated as 12.42 lakh MT for the period from October 2004 to June 2005. The Board authorised (16 October 2004) the Chairman to import coal through Minerals and Metals Trading Corporation Limited (MMTC) or through short tender on emergency basis, if the situation so warranted.

In view of the anticipated critical coal stock position from the end of December 2004 and the lead time involved in the open tender process, the Chairman of the Board put up (1 November 2004) a proposal to the Board Level Tender Committee (BLTC) to import 1.50 lakh MT of Type B Indonesian coal offered by MMTC at a cost of US $ 56 per MT, as it was found technically suitable. BLTC approved the proposal on 2 November 2004 and negotiations were held with MMTC on 3 November 2004 and the price of Type B was reduced to US $ 55.75 per MT for 1.50 lakh MT and US $ 55.50 per MT for 3.00 lakh MT to be supplied before 31 March 2005. MMTC kept the validity of the offer open up to 4 November 2004, which was subsequently extended to 16 November 2004. The Board authorised (4 November 2004) the Chairman to import coal through MMTC. However, no further action was taken and the offer lapsed on 16 November 2004.

After expiry of the earlier offer, MMTC made (7 December 2004) another offer of the Chinese coal having different specification at US $ 73.50 per MT. The Board placed (January 2005) purchase order on MMTC, for import of 5.00 lakh MT of the Chinese coal at the rate of US $ 73.50 per MT and as an extension of the contract, placed another purchase order (June 2005) for supply of 5.00 lakh MT of coal at US $ 73.00 per MT. Against these orders, MMTC supplied 5,12,436 MT (between March and June 2005) and 5,40,666 MT (between June and September 2005) of coal.

It was noticed during audit that the Chinese coal was costlier than the Indonesian Type B coal (after loading prices for variations in specifications). Thus, failure to place order for the purchase of Type B Indonesian coal within the validity period, even after finding it technically suitable, resulted in avoidable extra expenditure of Rs.18.79 crore on purchase of costlier Chinese coal.

The Board stated (January 2006) that the offer of MMTC to supply the Indonesian coal could not be finalised as the coal prices were declining and the coal stock was also not that much alarming. The Board further stated that on comparing the offers of MMTC for the Indonesian coal (US $ 59.00 per MT) and the Chinese coal (US $ 73.50 per MT) as on 7 December 2004, the Chinese coal was found cheaper by US $ 1.18 per MT.

The reply is not tenable as the statement about decline in price was based on the offers received from Glencore, National Co-operative Consumer Federation (NCCF) and State Trading Corporation (STC) of India. Out of these offers, the offer of STC was without any details and hence was invalid (as admitted by the Board). The price quoted by NCCF was higher than that of MMTC and the coal offered by Glencore, a private firm, was not suitable due to high moisture content. The contention of coal stock position not being alarming is also not correct as the Board had stock of 12.8 days requirement only as against normal requirement of stock for 21 days. The contention of the Chinese coal being cheaper than the Indonesian coal as on 7 December 2004 is not relevant since the Board had not acted upon MMTC's earlier offer at US $ 55.75 per MT for the Indonesian coal during the validity period.

The matter was reported to the Government in February 2006; their reply is still awaited (September 2006).

4.16 Avoidable extra expenditure

Failure to take advantage of decline in prices resulted in avoidable extra expenditure of Rs.12.48 crore on the purchase of meters.

The Board floated (October 1999) a tender for purchase of approximately 24 lakh single phase High Quality Energy Meters (HQMs) over a period of three years from 2000-01. The Board finalised (February 2000) an all inclusive firm price of Rs.733.84 per meter and purchased 34.73 lakh single phase HQMs during 2000-01 to 2002-03. The validity of the rate contract expired in March 2003.

The Chief Financial Controller (CFC) of the Board, while considering the repeat orders on the same firms directed (March 2003) the management to compare the prices paid by Southern Power Distribution Company of Andhra Pradesh Limited (SPDC), Karnataka Power Transmission Corporation Limited (KPTCL) and other State Electricity Boards also to ensure that the prices were not declining.

The Board placed further purchase orders for additional six lakh meters (April 2003) and 2.68 lakh meters (September 2003) at the same all inclusive price of Rs.733.84 per meter by extending the validity of the existing rate contract up to 31 March 2004. The Board received 8,68,477 single phase meters between May 2003 and March 2004 against the additional purchase orders.

It was noticed during audit that the Board had compared the prices paid by SPDC and KPTCL in May and February 2002, whereas another SEB (Eastern Power Distribution Company of Andhra Pradesh Limited) had placed orders in November 2002 at an all inclusive price of Rs.590.10 per meter, which was lower than the all inclusive price of Rs.733.84 per meter paid by the Board in April/September 2003.

Failure of the Board to compare the latest prices paid by other SEBs before placing the repeat orders resulted in an avoidable extra expenditure of Rs.12.48 crore on the purchase of 8,68,477 meters.

The matter was reported to the Board/Government in April 2006; their replies are awaited (September 2006).

4.17 Undue benefit

Payment of fixed charges to an Independent Power Producer in contravention of the agreement resulted in undue benefit of Rs.7.18 crore.

The Board entered (September 2003) into a Power Purchase Agreement (PPA) with ABAN Power Company Limited (ABAN), an Independent Power Producer (IPP), for purchase of power from 113.2 MW power project set up by ABAN. Section 5 of the PPA, *inter alia*, stipulated that the Board shall purchase and pay variable charges for all 'infirm power'* produced by ABAN and delivered to the Board prior to the date of commercial operation.

ABAN synchronised its gas turbine unit in open cycle mode with the grid on 18 February 2005 for testing purposes. The project commenced commercial production from 11 August 2005.

In the meantime, ABAN requested (May 2005) the Board to buy electricity from their project and pay fixed and fuel charges as they were ready to generate around 55 MW of electricity continuously. The Board accepted (May 2005) this request as a special case and ABAN supplied 74.31 Million Units of power from its project to the Board during 14 May to 15 July 2005 for which the Board paid Rs.7.18 crore as fixed charges and Rs.6.56 crore as variable charges.

As the power supplied prior to commencement of commercial operation (11 August 2005) was 'infirm power', the Board was required to pay variable charges only. Payment of fixed charges to ABAN during the period resulted in undue benefit of Rs.7.18 crore to the IPP.

The Board stated (September 2006) that the IPP opted to generate and supply firm power with effect from 14 May 2005 on continuous basis and the Board accepted it in view of the fact that the cost of generation from the its own thermal plant was higher at Rs.2.18 per unit as compared to the payment made to the IPP *viz.*, Rs.1.86 per unit and that the payment was made outside the purview of PPA. The reply is not tenable as the variable cost of power generation from the thermal plant of the Board at the relevant point of time was only Rs.1.50 per unit. Since the power supplied during the testing period was infirm power, for which only variable cost was payable, the payment of cost higher than the variable cost of its own generation lacked justification.

The matter was reported to the Government in May 2006; their reply is awaited (September 2006).

* Section 1 of the PPA defined 'infirm power' as electricity produced by the project and delivered to the Board prior to the date of the commercial operation.

4.18 Avoidable extra expenditure

Failure to switch over to cheaper concrete poles resulted in avoidable extra expenditure of Rs.7.10 crore on casting of RCC poles at higher cost.

The Board has been using two types of concrete poles, *viz.*, Reinforced Cement Concrete (RCC) and Pre-stressed Cement Concrete (PSC) poles in the transmission and distribution lines. These poles are cast in the Pole Casting Yards of the Board spread throughout the State.

The Committee on Public Undertakings (COPU), while discussing the audit observations on the working of the Pole Casting Yards of the Board included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1994 (Commercial) – Government of Tamil Nadu, observed (May 1996) that the cost of the PSC poles was much cheaper than that of the RCC poles. It, therefore, recommended greater use of PSC poles to reduce the cost of electrification. It also recommended that even for road crossings and street lighting purposes, which require long poles, suitable design should be developed to cast PSC poles at cheaper cost.

In compliance to the recommendations of the COPU, the Board issued instructions (April 1999) to the Chief Engineers (CEs) in charge of distribution to cast 200 PSC poles of 9.14 metre length as per the approved drawings on a trial basis. After casting eight PSC poles from February 2001 onwards and carrying out the relevant tests, CE, Erode Region informed (March 2004) the Board Headquarters that these poles were found suitable for double pole structure, for road crossings in urban areas, for street lighting and for tangential location for 11 KV lines and that they had not failed or developed cracks after two years.

It was noticed by Audit that in spite of the above, the Board did not take effective steps to switch over to PSC poles. The Board produced 48,597 RCC poles of 9.14 metre only in 2005-06 at a cost of Rs.2,933 per pole while no PSC pole was cast (the cost of 9.14 metre PSC poles during the same period was estimated at Rs.1,471 per pole). Failure to switch over to PSC poles had resulted in an avoidable extra expenditure of Rs.7.10 crore in 2005-06.

The Board stated (March 2006) that the trial casting of 9.14 metre poles carried out by Mettur Electricity Distribution Circle did not conform to the requirements of the Board. Though the cost of production of PSC poles was apparently cheap, the difference in cost between RCC and PSC poles was small due to the prohibitive capital expenditure involved in the formation of PSC yards and the transportation cost involved as PSC yards were scattered throughout the State. The Board also stated that the failure rate of PSC poles had been very high.

The reply is not tenable as Chief Engineer, Erode Region after casting eight PSC poles of 9.14 metre length in the Mettur Pole Casting Yard and carrying out the required tests confirmed the suitability of poles for the purposes envisaged by the Board. The Board had not made any detailed study on the cost effectiveness of 9.14 metre PSC poles. Further, since the Board had not started using 9.14 metre PSC poles, the claim on their failure rate has no basis.

The matter was reported to the Government in May 2006; their reply is awaited (September 2006).

4.19 Loss of revenue

Failure to revise lease rent for the land leased out to GPCL resulted in revenue loss of Rs.3.60 crore.

The Board entered (March 1997) into a Land Lease Agreement (LLA) with GMR Power Company Limited (GPCL) for 29.03 acres of land at Perambur and Vepery villages for establishing a Diesel Engine Power Project at Basin Bridge Power House Complex. As per Article 3 of the LLA, the GPCL was to pay monthly lease rent at 14 *per cent* of market value of the land as assessed by the Revenue authorities. Further, the agreement provided for revision of the annual rate of lease rent once in three years in accordance with the applicable Government notification/guidelines and GPCL was required to pay without demur.

Accordingly, based on the market value of Rs.208.33 per Sq. ft. fixed (March 1997) by the Revenue authorities, the Board fixed the lease rent at Rs.30.74 lakh per month and this amount was being collected from the date of handing over the site to GPCL, *viz.*, 19 December 1996. On expiry of three years, the lease rent was revised (November 2000) to Rs.41.35 lakh per month based on the market value of Rs.316 per Sq. ft. and Rs.275 per Sq. ft. in Vepery and Perambur village respectively. The Board collected this revised lease rent with retrospective effect from 19 December 1999.

Based on the market value of Rs.421 per Sq. ft. and Rs.386 per Sq. ft. fixed by the Revenue authorities for Vepery and Perambur villages respectively, the Board increased (April 2003) the lease rent to Rs.83.18 lakh per month and made it effective from 19 December 2002. GPCL contested (April 2003) the method of assessment of the value of the land and requested the Board to reassess the value of the land. GPCL also approached the Collector of Chennai on the subject. The Collector of Chennai reassessed and communicated (December 2003) to the Board the market value of the entire land as Rs.336 per sq.ft.

The Board, however, did not take any action to revise the lease rent to Rs.49.58 lakh per month on the basis of the reassessed value with effect from 19 December 2002. Instead, it continued to collect lease rent at the pre-revised rate of Rs.41.35 lakh per month. This resulted in revenue loss of Rs.3.60 crore for the period of 44 months from 19 December 2002 to 18 August 2006.

The matter was reported to the Board/Government in March 2006; their replies are still awaited (September 2006).

4.20 Avoidable extra expenditure

Failure to take timely action for availing lower domestic tariff for water being supplied to the staff quarters resulted in avoidable extra expenditure of Rs.2.20 crore.

The Government of Tamil Nadu (Government) notified (July 1997) a separate tariff for water supplied for domestic purposes by the Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) with effect from 1 July 1997. The water supplied for domestic purposes was to be charged at Rs.25 per Kilo litre (KL), while the water supplied to commercial establishments was to be charged at Rs.40 per KL, which was later on increased to Rs.60 per KL with effect from 1 January 2003.

Ennore Thermal Power Station (ETPS) of the Board has been purchasing water from CMWSSB to meet the requirements of its thermal plant and the staff quarters attached to the plant through a single sump. In spite of the introduction of a lower tariff for the water supplied for domestic purposes with effect from July 1997, ETPS did not initiate any action to construct a separate sump for receiving water for supply to its staff quarters to get the benefit of lower tariff.

On this being pointed out by Audit (June 2003), ETPS took up (January 2004) the matter with CMWSSB. However, the matter was not pursued with CMWSSB until February 2005, when CMWSSB suggested construction of a common collection tank for the water supplied to the staff quarters. No action has been taken so far to construct the collection tank and as a result the entire water supplied by CMWSSB is being billed at the commercial tariff. It is pertinent to note in this connection that North Chennai Thermal Power Station (NCTPS), another unit of the Board, which also purchases water from CMWSSB for its plant and staff quarters, initiated action to get the water supplied to its staff quarters billed at domestic tariff as early as in August 1999 and CMWSSB started billing the water supplied to the staff quarters of NCTPS at the lower domestic tariff from April 2002 onwards.

Thus, failure to take timely action for availing the benefit of lower domestic tariff for the water being supplied to the staff quarters during January 1998 to August 2006 resulted in an avoidable extra expenditure of Rs.2.20 crore.

The matter was reported to the Board/Government in February 2006; their replies are awaited (September 2006).

4.21 Avoidable extra expenditure

Failure to take note of the lower prices paid by the field offices resulted in avoidable expenditure of Rs.1.43 crore on the procurement of AB switches.

The Board (Central Office) invited open tenders (March 2004) for the procurement of 11 KV and 22 KV outdoor type air break (AB) switches with post type (PT) insulators (six insulators per switch) during 2004-05. After negotiations, the Board placed (July 2004) purchase orders for procurement of 2,000, 22 KV switches and 6,600, 11 KV switches at the rate of Rs.10,732.60 and Rs.8,867.42 per switch with insulator respectively on 12 firms.

During the same period (March 2004 to July 2004), the Chief Engineers of the Board at Villupuram and Trichy (field offices) were able to purchase the same AB switches and PT insulators separately at prices lower than the above mentioned prices finalised by the Central Office as detailed below:

Item	Purchase Order and date	Quantity (in numbers)	Basic price (Rupees)
Regional Chief Engineer, Trichy			
22 KV AB switches (without insulators)	5/21.04.04	43	6.580
11 KV AB switches (without insulators)	1/06.04.04	53	5.349
11 KV AB switches (without insulators)	10/13.05.04	52	5.475
22 KV PT insulators	80/17.03.04	750	275
11 KV PT insulators	2/06.07.04	1.200	182.27
Regional Chief Engineer, Villupuram			
11 KV PT insulators	9/27.04.04	1.300	214
11 KV AB switches (without insulators)	37,78/14.07.04	74	5,780
11 KV AB switches (without insulators)	52,53/21.08.04	98	5.780
22 KV switches (without insulators)	47/10.08.04	30	6,400

Failure of the Board to take note of the lower prices at which its field office purchased the AB switches and PT insulators separately resulted in an avoidable extra expenditure of Rs.1.43 crore.

The matter was reported to the Board/Government in April 2006; their replies are awaited (September 2006).

4.22 Non-recovery of special guarantee amount

Failure to safeguard its interest and extension of new service connection to a litigant consumer against its own policy resulted in non-recovery of Rs.1.30 crore on premature surrender of connection.

The Board notified (February 2000) a policy according to which no request for a new connection from a consumer or its sister concern who is in litigation with the Board for theft of power, should be entertained. Further, as per Clause 13.08 of the Standrad terms and conditions of supply of electricity, where the capital cost to be incurred by the Board for providing electricity supply is Rs.10 lakh or more, the agreement for supply of electricity will be for a period of five years with a condition for payment of a special guarantee amount, if the agreement is terminated by the consumer due to any reason within the period of five years.

The Board granted (April 2002) a new service connection (HT SC No.53) with a connected load of 6,000 KVA to Grasim Industries Limited (GIL) by incurring a capital cost of Rs.2.94 crore. It was noticed during audit that the sister concern of GIL, Dharani Cements Limited was found (December 1998) unauthorisedly supplying power to GIL and a Court case was pending for the recovery of compensation of Rs.1.66 crore from it.

GIL requested (December 2003) the Board for the surrender and permanent disconnection of the service connection provided to them in April 2002 with effect from 31 December 2003. The Board disconnected (March 2004) the service connection. GIL neither paid the current consumption charges (Rs.32.45 lakh) for February and March 2004 nor the special guarantee amount of Rs.1.43 crore required to be paid for the surrender of service connection within five years of availing the connection. The Board has not taken effective steps (except corresponding with GIL) to recover this amount.

It was noticed during audit that the Board has not pursued for recovery of the special guarantee amount payable by the consumer for surrender of the service connections before the expiry of five years. Further, the decision to sanction new service connection to a consumer, whose sister concern was in litigation with the Board was against its notified policy.

Thus, there was non-recovery of Rs.1.30 crore (special guarantee amount Rs.1.43 crore plus current consumption charges of Rs.32.45 lakh less deposits available with the Board Rs.45 lakh) due to irregular sanction of service connection and failure to realise the compensation for premature surrender of connection.

The matter was reported to the Board and Government in August 2006; their replies are awaited (September 2006).

4.23 Avoidable extra expenditure

Faulty decision to 'lodge' the first tender resulted in avoidable extra expenditure of Rs.1.04 crore on procurement of power transformers.

The Board decided (April 2003) to purchase 20 power transformers (PTs) in the first phase as against the requirement of 40 PTs of 16 MVA, 33/11 KV capacity for the transmission and distribution works during 2003-04 and also for implementation of the Accelerated Power Development and Reforms Programmes (APDRP).

The Board received (May 2003) two valid offers against the tenders floated by it for purchase of 20 PTs. The offer of Indotech Transformers Limited (ITL) was lower with the price of Rs.47.29 lakh (excluding sales tax) per PT. After negotiations (July 2003), ITL reduced the price to Rs.46.66 lakh per PT (excluding sales tax and surcharge on sales tax). As the negotiated rate was still found to be higher by Rs.9.28 lakh (25 *per cent*) than that of the updated price of the previous purchase order placed in September 2000, the Board decided (September 2003) to 'lodge' the tender and call for fresh tenders.

The Board floated (October 2003) fresh tenders for purchase of 40 PTs of 16 MVA, 33/11 KV capacity and received offers from four firms against the tender. Out of these, two firms, which quoted the same lowest price, offered to supply only two transformers each. ITL, who had quoted the next lower price, offered to supply 27 PTs. After two negotiations in January 2004, the lowest tenderers reduced the price to Rs.51.75 lakh per transformer and ITL reduced the price to Rs.52.12 lakh per transformer.

Though the above prices were higher by 31 *per cent* than the updated price of the earlier order placed in September 2000 and also higher than the prices quoted by the tenderers in May 2003, the Board decided (March 2004) to place the order for 30 PTs on these prices (three with the lowest tenderers and 27 with ITL).

The decision to 'lodge' the tender floated in May 2003 for the 20 PTs lacked justification as the reasons given for accepting the higher prices in January 2004 *viz.*, increase in price of raw materials, supply on rate contract basis, stock of PTs and likelihood of losing APDRP grant were also valid even when the Board decided to 'lodge' the earlier tender in September 2003. This resulted in avoidable extra expenditure of Rs.1.04 crore on the procurement of 20 PTs.

The matter was reported to the Board/Government in April 2006; their replies are awaited (September 2006).

4.24 Extra expenditure on interest

Delay in substitution of high cost loan with a lower interest loan resulted in avoidable extra expenditure of Rs.44.03 lakh on interest.

The Board had entered into Power Purchase Agreements with various Independent Power Producers (IPPs) for purchase of power generated by them. The payment for the power so purchased included, *inter alia*, the reimbursement of interest paid on the loans raised by the IPPs for the project.

Samalpatti Power Company (SPC), one of the IPPs had taken loan for the project at interest rates ranging from 13.50 *per cent* to 16.4617 *per cent per annum* (fixed). In order to bring down the cost of power generated and to take advantage of the falling interest rates, SPC obtained (February 2003) sanction for a term loan of Rs.40 crore at 12 per cent *per annum* (floating) from the State Bank of Hyderabad (SBH). SPC sought (April 2003) approval of the Board for prepayment of the outstanding loan of Rs.33.53 crore to Infrastructure Development Finance Corporation (IDFC) (at the interest rate of 16.4617 *per cent*) along with the prepayment premium of Rs.84.30 lakh for availing term loan from SBH to that extent. SPC also sought approval of the Board to include the prepayment premium as a component of fixed cost of the power and indicated that prepayment would result in total interest saving of Rs.4.34 crore to the Board.

The Board permitted (19 May 2003) SPC to substitute the IDFC loan with SBH loan but stated that the treatment of prepayment premium would be decided at the time of finalisation of completed cost of the project. SPC pressed for the approval of its proposal and the Board finally gave approval (10 July 2003) to the proposal of SPC. The Board, however, did not pursue/follow-up the matter vigorously with the IPP to ensure that the substitution of high cost loan was effected immediately. SPC transferred the outstanding loan of IDFC (Rs.31.28 crore) to SBH only on 14 October 2003. The substituted loan carried an interest rate of 11.75 *per cent per annum*.

Considering the fact that the substitution of loan would have resulted in a saving of Rs.4.34 crore to the Board, it should have accepted and pursued the proposal promptly to avail the benefit of lower interest rate say from July 2003 instead of 15 October 2003. Delay in accepting the swapping proposal resulted in avoidable extra expenditure of Rs.44.03 lakh on interest for the period from 1 July to 14 October 2003.

The matter was reported to the Board/Government in February 2006; their replies are awaited (September 2006).

4.25 Avoidable extra expenditure

Injudicious arrangement with HDFC bank for picking up of cash from the section offices resulted in an avoidable extra expenditure of Rs.44.15 lakh.

The electricity charges (both cash and cheque) collected from the consumers against power consumption are deposited by the staff in the collection accounts of the section offices held in various commercial banks.

HDFC Bank (Bank) offered (August/September 2002) its services for the pick up of cash and cheques pertaining to the collections from 100 section offices of the Board in Chennai city for a service charge of Rs.5 per Kilometre (Km). The total distance was estimated at 215 Kms.

The Board approved (January 2003) the proposal to utilise the services of the Bank for the pick up of cash and cheques from 100 section offices in eight revenue branches of the Board located in Chennai city at an estimated expenditure of Rs.26,875 per month. This estimated expenditure was considered less than the conveyance charges of Rs.30,000 (approximately) being paid to the employees of the Board for depositing the collections in the banks.

Immediately after commencing (17 February 2003) the collection of cash and cheques, the Bank increased the collection distance unilaterally to 406 Kms from 215 Kms thereby doubling the expenditure involved. The Bank also increased the service charges to Rs.30 per Km and started (November 2004) debiting the enhanced service charges to the Board's account. The Board approved (June 2005) the payment of enhanced service charges with effect from July 2005 only.

It was, however, noticed in audit that though the Board approved the increase in service charges with effect from 1 July 2005, the bank refused to refund Rs.20.30 lakh deducted during November 2004 to June 2005 towards increased service charges. The bank also short credited the Board by Rs.3.43 lakh (between February 2004 and June 2005), being the value of fake/soiled/mutilated notes. The Bank, however, did not return these notes to the Board (March 2006).

The Board should have terminated the arrangement with the HDFC bank, when the bank unilaterally increased the collection distance and the service charges, which increased the collection charges ten fold to almost Rs.3 lakh a month and should have utilised its staff for remittance purposes. Failure to do so resulted in an avoidable extra expenditure of Rs.44.15 lakh during the period from November 2004 to March 2006.

The matter was reported to the Board/Government in May 2006; their replies are awaited (September 2006).

GENERAL

4.26 Persistent non-compliance with Accounting Standards in preparation of Financial Statements

Accounting Standards (AS) are the accepted standards of accounting recommended by the Institute of Chartered Accountants of India and prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards under section 210A of the Companies Act, 1956. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the annual accounts prepared exhibit a true and fair view of the transactions and also to facilitate the comparability of the information contained in published financial statements of companies. Under Section 211(3A) of the Companies Act, it is obligatory for every company to prepare the financial statements (profit & loss account and balance sheet) in accordance with the AS.

The Auditors are also required to report under Section 227(3) (d) of the Act, *ibid* as to whether the accounts have been prepared in compliance with AS. The extent of compliance with AS in the State Government companies was examined by audit with a view to highlight cases of persistent non-compliance of Accounting Standards in preparation of annual accounts by these companies.

A review of the financial statements and the Statutory Auditors' Report thereon for three years in respect of 48 companies selected out of 53 working companies revealed non-compliance with five Accounting Standards by seven companies continuously as detailed in **Annexure-15.**

It would be seen from the **Annexure** that:

- One Company, Tamil Nadu Small Industries Corporation Limited (TANSI) did not comply with the provisions of **AS 2**, which stipulate that the inventory should be valued at the lower of cost and net realisable value. It valued the finished goods (including non-moving, obsolete and damaged goods) and semi finished goods at selling price, which included the element of profit.
- One Company, Metropolitan Transport Corporation Limited (MTC) did not comply with the provisions of **AS 9**, which stipulates that revenue from service transactions should be recognised in the financial statements only when there is certainty about the realisation of that amount. The Company included Rs.59.51 crore as student concession subsidy receivable from the Government of Tamil Nadu for the period up to 2002-03, though the Government categorically informed MTC that claims for the arrears under that head up to 2002-03 would not be paid to MTC.

- **AS-13** requires that provision for permanent diminution in the value of long term investments shall be made. Three companies (Tamil Nadu Industrial Development Corporation Limited, Electronics Corporation of Tamil Nadu Limited and Tamil Nadu Sugar Corporation Limited) did not provide for permanent diminution in the value of investments.
- Four companies (TANSI, Tamil Nadu Medical Services Corporation Limited, Tamil Nadu Ex-servicemen's Corporation Limited and MTC) did not comply with **AS 15,** which deals with accounting for retirement benefits to the employees (*viz.*, provident fund, pension, gratuity, leave encashment *etc*.,) and which provides that the contribution payable by the employer towards retirement benefits be charged to the profit and loss for the year on accrual basis and the accruing liability be calculated according to actuarial valuation.
- Two companies (TANSI and MTC) had violated the provisions of **AS 22**, which provide that the tax expenses for the period comprising current tax and deferred tax should be included in the determination of the net profit or loss for the period. These companies did not include deferred tax liabilities while preparing the financial statements.

Addendum to the Directors Report

As per section 217 (3) of the Companies Act, 1956 the Board is to give the fullest information and explanations in an addendum to the Director's Report on every reservation, qualification or adverse remarks contained in the Auditor's Report. Audit scrutiny revealed that the Board of Directors of six Companies (TASCO, Perambalur Sugar Mills Limited, TANSI, SIDCO, Tamil Nadu Handicrafts Development Corporation Limited and Tamil Nadu Medical Services Corporation Limited) failed to comply with this statutory requirement.

The matter was reported to the Companies/Government in July 2006; their replies are awaited (September 2006).

4.27 Follow-up action on Audit Reports

Explanatory notes outstanding

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

The Audit Reports for the years 1997-98, 1998-99, 1999-2000, 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05 were presented to the State Legislature in April 1999, May 2000, September 2001, May 2002, May 2003, July 2004, September 2005 and August 2006 respectively. Ten out of 18 departments, which were commented upon, had not submitted explanatory notes on 71, out of 192 paragraphs/reviews, as on August 2006, as indicated below:

Year of Audit Report (Commercial)	Total paragraphs/review in the Audit Report	Number of paragraphs/reviews for which explanatory notes were not received
1997-98	25	1
1998-99	29	1
1999-2000	28	13
2000-01	25	10
2001-02	32	13
2002-03	29	9
2003-04	24	24
TOTAL	**192**	**71**

Department-wise analysis is given in **Annexure-16.** The departments largely responsible for non-submission of explanatory notes were Industries, Small Industries and Energy.

Compliance to Reports of Committee on Public Undertakings (COPU) outstanding

4.27.2 The replies to paragraphs are required to be furnished within six weeks from the date of presentation of the Report by the Committee on Public Undertakings (COPU) to the State Legislature. Replies to 28 paragraphs pertaining to 20 Reports of COPU presented to the State Legislature between March 2000 and March 2006 had not been received as on August 2006 as indicated below:

Year of COPU Report	Total number of Reports involved	Number of paragraphs in respect of which replies were not received
1999-2000	1	2
2002-03	3	4
2003-04	9	14
2004-05	7	8
TOTAL	**20**	**28**

Action taken on persistent irregularities pointed out in Audit Reports

4.27.3 Government company

Sanction of loans in violation of guidelines by Tamil Nadu Industrial Investment Corporation Limited was included in the Reports of the Comptroller and Auditor General of India for the years 1997-98, 1999-2000 and 2004-05 (Commercial) – Government of Tamil Nadu. Audit scrutiny revealed that the irregularities (as detailed in **Annexure-17**) continued to persist for more than seven years as the action taken by the Company/the Government was inadequate.

Statutory corporation

Extension of undue benefit to Independent Power Producers, noticed in Tamil Nadu Electricity Board was included in Audit Reports of the Comptroller and Auditor General of India for the years 2001-02, 2003-04 and 2004-05, (Commercial) - Government of Tamil Nadu. Audit scrutiny revealed that these irregularities (as detailed in **Annexure-18**) continued to persist as the action taken by the Board/State Government was inadequate.

The matter was referred to the Government in August 2006; their reply is awaited (September 2006).

4.28 Response to inspection reports, draft paragraphs and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of the Public Sector Undertakings (PSUs) and departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through the respective heads of departments within a period of six weeks. Inspection reports issued up to March 2006 pertaining to 59 PSUs disclosed that 3,650 paragraphs relating to 860 inspection reports remained outstanding at the end of September 2006; of these, 382 inspection reports containing 1,293 paragraphs had not been replied to for more than two years. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2006 is given in **Annexure-19.**

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that 23 draft paragraphs forwarded to the various departments during the period from March to August 2006, as detailed in **Annexure-20**, had not been replied to so far (September 2006).

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

The matter was referred to the Government in September 2006; their reply is awaited (September 2006).

Chennai **(S.MURUGIAH)**
The 15 MAR 2007 **Accountant General**
(Commercial and Receipt Audit),
Tamil Nadu

Countersigned

New Delhi **(VIJAYENDRA N. KAUL)**
The 22 MAR 2007 **Comptroller and Auditor General of India**

ANNEXURES

ANNEXURE-1

(Referred to in paragraphs 1.3, 1.4, 1.5 and 1.17)

Statement showing particulars of up-to-date paid-up capital, budgetary outgo, loans given out of budget and loans outstanding as on 31 March 2006 in respect of Government companies and Statutory corporations

(Figures in column 3(a) to 4(f) are Rupees in lakh)

Sl. No.	Sector and name of the company/Statutory corporation	Paid-up capital at the end of the current year					Equity/loans received out of budget during the year		Other loans received during the year	Loans outstanding at the close of 2005-06*			Debt equity ratio for 2005-06 (previous year) 4(f)/3(e)
		State Government	Central Government	Holding companies	Others	Total	Equity	Loans		Government	Others	Total	
(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
A.	**WORKING COMPANIES**												
	AGRICULTURE												
1.	Tamil Nadu Fisheries Development Corporation Limited	445.52	---	---	---	445.52	---	---	---	---	---	---	---
	Sector-wise total	**445.52**	**---**	**---**	**---**	**445.52**	**---**	**---**	**---**	**---**	**---**	**---**	**---**
	INDUSTRY												
2.	Tamil Nadu Industrial Development Corporation Limited (TIDCO)	9,417.31	---	---	---	9,417.31	---	---	---	---	18,719.55	18,719.55	1.99:1 (2.40:1)
3.	Tamil Nadu Industrial Explosives Limited	2,214.14	---	---	481.54	2,695.68	---	---	85.25	4,562.66	740.89	5,303.55	1.97:1 (1.94:1)
4.	Tamil Nadu Paints and Allied Products Limited (Subsidiary of TANSI)	---	---	2.05	---	2.05	---	---	---	---	---	---	---
5.	Tamil Nadu Small Industries Corporation Limited (TANSI)	1,505.26	---	---	---	1,505.26	---	---	---	1,080.60	407.67	1,488.27	0.99:1 (1.07:1)
6.	Tamil Nadu Small Industries Development Corporation Limited (SIDCO)	770.00	---	---	---	770.00	---	---	---	---	---	---	---

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
7.	State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT)	14,321.25	---	---	---	14,321.25	---	---	---	---	---	---	--- (0.33:1)
8.	Tamil Nadu Salt Corporation Limited	317.01	---	---	---	317.01	---	---	---	---	---	---	---
9.	Tamil Nadu Magnesite Limited	1,665.00	---	---	---	1,665.00	---	---	---	1,937.75	---	1,937.75	1.16:1 (1.16:1)
10.	Tamil Nadu Leather Development Corporation Limited	250.00	---	---	---	250.00	---	---	---	294 33	13.50	307.83	1.23:1 (1.27:1)
	Sector-wise total	**30,459.97**	---	**2.05**	**481.54**	**30,943.56**	---	---	**85.25**	**7,875.34**	**19,881.61**	**27,756.95**	**0.90:1 (1.18:1)**
	ENGINEERING												
11.	State Engineering and Servicing Company of Tamil Nadu Limited (SESCOT) (Subsidiary of TANSI)	---	---	49.71	---	49.71	---	---	---	444.34	---	444.34	8.94:1 (8.94:1)
12.	Southern Structurals Limited	3,435.50	---	---	18.80	3,454.30	---	---	---	5,739.45	---	5,739.45	1.66:1 (1.68:1)
	Sector-wise total	**3,435.50**	---	**49.71**	**18.80**	**3,504.01**	---	---	---	**6,183.79**	---	**6,183.79**	**1.76:1 (1.78:1)**
	ELECTRONICS												
13.	Electronics Corporation of Tamil Nadu Limited (ELCOT)	2,593.05	---	---	---	2,593.05	---	---	---	---	---	---	---
	Sector-wise total	**2,593.05**	---	---	---	**2,593.05**	---	---	---	---	---	---	---
	TEXTILES												
14.	Tamil Nadu Textile Corporation Limited	154.00	---	---	---	154.00	---	---	---	242.22	---	242.22	1.57:1 (1.46:1)
15.	Tamil Nadu Zari Limited	34.40	---	---	---	34 40	---	40.00	---	40.00	---	40.00	1.16:1
	Sector-wise total	**188.40**	---	---	---	**188.40**	---	**40.00**	---	**282.22**	---	**282.22**	**1.50:1 (1.20:1)**

2-17—15a

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
	HANDLOOM AND HANDICRAFTS												
16.	Tamil Nadu Handicrafts Development Corporation Limited	180.26	116.00	---	0.71	296.97	---	---	---	---	218.94	218.94	0.74:1 (0.90:1)
17.	Tamil Nadu Handloom Development Corporation Limited	267.00	---	---	162.23	429.23	---	---	---	---	---	---	---
	Sector-wise total	**447.26**	**116.00**	---	**162.94**	**726.20**	---	---	---	---	**218.94**	**218.94**	**0.30:1 (0.37:1)**
	FOREST												
18.	Tamil Nadu Tea Plantation Corporation Limited	596.18	---	---	---	596.18	---	---	---	---	---	---	---
19.	Tamil Nadu Forest Plantation Corporation Limited	376.00	---	---	---	376.00	---	---	---	---	---	---	---
20.	Arasu Rubber Corporation Limited	845.00	---	---	---	845.00	---	---	---	649.62	---	649.62	0.77:1 (1.18:1)
	Sector-wise total	**1,817.18**	---	---	---	**1,817.18**	---	---	---	**649.62**	---	**649.62**	**0.36:1 (0.55:1)**
	MINING												
21.	Tamil Nadu Minerals Limited (TAMIN)	786.90	---	---	---	786.90	---	---	---	---	---	---	---
	Sector-wise total	**786.90**	---	---	---	**786.90**	---	---	---	---	---	---	---
	CONSTRUCTION												
22.	Tamil Nadu State Construction Corporation Limited	500.00	---	---	---	500.00	---	---	---	---	640.19	640.19	1.28:1 (20.40:1)
23.	Tamil Nadu Police Housing Corporation Limited	100.00	---	---	---	100.00	---	---	---	---	---	---	---
	Sector-wise total	**600.00**	---	---	---	**600.00**	---	---	---	---	**640.19**	**640.19**	**1.07:1 (17.00:1)**
	DRUGS AND CHEMICALS												
24.	Tamil Nadu Medicinal Plant Farms and Herbal Medicine Corporation Limited	20.75	---	---	---	20.75	---	---	---	---	---	---	---

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
25.	Tamil Nadu Medical Services Corporation Limited	404.00	---	---	---	404.00	104.00	---	---	---	---	---	--- (27.13:1)
	Sector-wise total	**424.75**	---	---	---	**424.75**	**104.00**	---	---	---	---	---	--- **(25.37:1)**
	SUGAR												
26.	Tamil Nadu Sugar Corporation Limited	679.15	---	---	100.00	779.15	---	---	---	3,450.20	---	3,450.20	4.43:1 (3.93:1)
27.	Perambalur Sugar Mills Limited (Subsidiary of TASCO)	---	---	226.75	190.60	417.35	---	---	---	2,597.40	---	2,597.40	6.22:1 (6.37:1)
	Sector-wise total	**679.15**	---	**226.75**	**290.60**	**1,196.50**	---	---	---	**6,047.60**	---	**6,047.60**	**5.05:1 (4.78:1)**
	CEMENT												
28.	Tamil Nadu Cements Corporation Limited	3,741.80	---	---	---	3,741.80	---	487.00	---	487.00	---	487.00	0.13:1
	Sector-wise total	**3,741.80**	---	---	---	**3,741.80**	---	**487.00**	---	**487.00**	---	**487.00**	**0.13:1**
	ECONOMICALLY WEAKER SECTION												
29.	Tamil Nadu Adi Dravidar Housing and Development Corporation Limited	5,018.50	4,493.91	---	---	9,512.41	---	---	---	9.19	---	9.19	--- (0.26:1)
30.	Tamil Nadu Backward Classes Economic Development Corporation Limited	1,227.01	---	---	---	1,227.01	70.00	---	1,425.00	---	3,021.04	3,021.04	2.46:1 (3.34:1)
31.	Tamil Nadu Minorities Economic Development Corporation Limited	5.01	---	---	---	5.01	---	---	500.00	---	912.50	912.50	182.14:1 (85.83:1)
32.	Tamil Nadu Corporation for Development of Women Limited	40.00	38.42	---	---	78.42	---	---	---	95.00	---	95.00	1.21:1 (1.21:1)

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
33.	Tamil Nadu Ex-servicemen's Corporation Limited	22.91	---	---	---	22.91	---	---	---	---	---	---	---
	Sector-wise total	**6,313.43**	**4,532.33**	---	---	**10,845.76**	**70.00**	---	**1,925.00**	**104.19**	**3,933.54**	**4,037.73**	**0.37:1 (0.64:1)**
	PUBLIC DISTRIBUTION												
34.	Tamil Nadu Civil Supplies Corporation Limited	3,339.10	---	---	---	3,339.10	---	30,000.00	---	30,000.00	---	30,000.00	**8.98:1 (0.29:1)**
	Sector-wise total	**3,339.10**	---	---	---	**3,339.10**	---	**30,000.00**	---	**30,000.00**	---	**30,000.00**	**8.98:1 (0.29:1)**
	TOURISM												
35.	Tamil Nadu Tourism Development Corporation Limited	678.63	---	---	---	678.63	---	---	---	189.24	137.50	326.74	0.48:1 (0.62:1)
	Sector-wise total	**678.63**	---	---	---	**678.63**	---	---	---	**189.24**	**137.50**	**326.74**	**0.48:1 (0.62:1)**
	FINANCING												
36.	Tamil Nadu Industrial Investment Corporation Limited (TIIC)	11,602.28	---	---	1,747.28	13,349.56	---	---	14,100.00	---	53,501.94	53,501.94	4.01:1 (4.34:1)
37.	Tamil Nadu Transport Development Finance Corporation Limited	4,303.00	---	---	1,871.18	6,174.18	---	---	---	---	7,000.00	7,000.00	1.13:1 (1.30:1)
	Sector-wise total	**15,905.28**	---	---	**3,618.46**	**19,523.74**	---	---	**14,100.00**	---	**60,501.94**	**60,501.94**	**3.10:1 (3.38:1)**
	INFRASTRUCTURE DEVELOPMENT												
38.	Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited	3,102.00	---	---	98.00	3,200.00	---	---	---	1,478.95	65,624.97	67,103.92	20.97:1 (25.34:1)
39.	Tamil Nadu Power Finance and Infrastructure Development Corporation Limited	2,200.00	---	---	---	2,200.00	--	---	---	---	10,800.00	10,800.00	4.91:1 (8.70:1)
40.	Tamil Nadu Rural Housing and Infrastructure Development Corporation Limited	300.01	---	---	---	300.01	---	---	---	---	---	---	---
41.	Tamil Nadu Road Infrastructure Development Corporation Limited	500.00	---	---	---	500.00	500.00	---	---	---	---	---	---
	Sector-wise total	**6,102.01**	---	---	**98.00**	**6,200.01**	**500.00**	---	---	**1,478.95**	**76,424.97**	**77,903.92**	**12.57:1 (17.58:1)**

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
	TRANSPORT												
42.	Metropolitan Transport Corporation Limited	24,296.81	---	---	---	24,296.81	---	---	819.40	---	2,616.65	2,616.65	0.11:1 (0.09:1)
43.	Tamil Nadu State Transport Corporation (Madurai) Limited	18,695.96	---	---	---	18,695.96	---	---	3,286.93	---	7,207.41	7,207.41	0.39:1 (0.26:1)
44.	Tamil Nadu State Transport Corporation (Coimbatore) Limited	7,739.08	---	---	---	7,739.08	---	---	4,437.01	---	6,909.98	6,909.98	0.89:1 (0.40:1)
45.	Tamil Nadu State Transport Corporation (Kumbakonam) Limited	10,484.04	---	---	---	10,484.04	---	---	4,965.97	---	7,590.82	7,590.82	0.72:1 (0.37:1)
46.	Tamil Nadu State Transport Corporation (Salem) Limited	4,034.74	---	---	---	4,034.74	---	---	3,391.66	---	4,791.09	4,791.09	1.19:1 (0.66:1)
47.	Tamil Nadu State Transport Corporation (Villupuram) Limited	6,610.21	---	---	---	6,610.21	---	---	4,476.90	---	6,808.40	6,808.40	1.03:1 (0.62:1)
48.	State Express Transport Corporation Limited	12,476.89	---	---	---	12,476.89	401.52	---	1,696.82	---	16,286.80	16,286.80	1.31:1 (1.29:1)
	Sector-wise total	**84,337.73**	---	---	---	**84,337.73**	**401.52**	---	**23,074.69**	---	**52,211.15**	**52,211.15**	**0.62:1 (0.43:1)**
	MISCELLANEOUS												
49.	Overseas Manpower Corporation Limited	15.00	---	---	---	15.00	---	---	---	---	---	---	---
50.	Tamil Nadu State Marketing Corporation Limited (TASMAC)	1,500.00	---	---	---	1,500.00	---	---	---	---	---	--	
51.	Poompuhar Shipping Corporation Limited	2,053.00	---	---	---	2,053.00	---	---	---	---	900.00	900.00	0.44:1 (0.73:1)
52.	Pallavan Transport Consultancy Services Limited	10.00	---	---	---	10.00	---	---	---	---	---	---	--- (3.64:1)
53.	Nilakottai Food Park Limited	---	---	65.00	2.54	67.54	---	---	---	---	---	---	---
	Sector-wise total	**3,578.00**	---	**65.00**	**2.54**	**3,645.54**	---	---	---	---	**900.00**	**900.00**	**0.25:1 (0.43:1)**
	TOTAL (A)	**1,65,873.66**	**4,648.33**	**343.51**	**4,672.88**	**1,75,538.38**	**1,075.52**	**30,527.00**	**39,184.94**	**53,297.95**	**2,14,849.84**	**2,68,147.79**	**1.53:1 (1.61:1)**

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
B.	**WORKING STATUTORY CORPORATIONS**												
	POWER												
1.	Tamil Nadu Electricity Board	53,500.00	---	---	---	53,500.00	2,500.00	---	2,13,405.85	---	9,32,365.87	9,32,365.87	17.43:1 (17.70:1)
	Sector-wise total	**53,500.00**	---	---	---	**53,500.00**	**2,500.00**	---	**2,13,405.85**	---	**9,32,365.87**	**9,32,365.87**	**17.43:1 (17.70:1)**
	AGRICULTURE												
2.	Tamil Nadu Warehousing Corporation	380.50	380.50	---	---	761.00	---	---	---	---	---	---	---
	Sector-wise total	**380.50**	**380.50**	---	---	**761.00**	---	---	---	---	---	---	---
	TOTAL (B)	**53,880.50**	**380.50**	---	---	**54,261.00**	**2,500.00**	---	**2,13,405.85**	---	**9,32,365.87**	**9,32,365.87**	**17.18:1 (17.44:1)**
	GRAND TOTAL (A+B)	**2,19,754.16**	**5,028.83**	**343.51**	**4,672.88**	**2,29,799.38**	**3,575.52**	**30,527.00**	**2,52,590.79**	**53,297.95**	**11,47,215.71**	**12,00,513.66**	**5.22:1 (5.23:1)**
C.	**NON-WORKING COMPANIES**												
	AGRICULTURE												
1.	Tamil Nadu Agro Industries Corporation Limited	435.98	165.00	---	---	600.98	---	---	---	1,820.66	---	1,820.66	3.03:1 (3.03:1)
2.	Tamil Nadu Poultry Development Corporation Limited	125.43	---	---	1.25	126.68	---	68.30	---	572.14	---	572.14	4.52:1 (3.68:1)
3.	Tamil Nadu Sugarcane Farm Corporation Limited	27.50	---	---	---	27.50	---	---	---	---	---	---	---
4.	Tamil Nadu State Farms Corporation Limited	155.13	---	---	---	155.13	---	---	---	---	---	---	---
5.	Tamil Nadu State Tube wells Corporation Limited	31.50	---	---	---	31.50	---	---	---	---	---	---	---
6.	Tamil Nadu Dairy Development Corporation Limited	207.36	---	---	---	207.36	---	---	---	---	---	---	---
	Sector-wise total	**982.90**	**165.00**	---	**1.25**	**1,149.15**	---	**68.30**	---	**2,392.80**	---	**2,392.80**	**2.08:1 (1.99:1)**

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
	INDUSTRY												
7.	Tamil Nadu Magnesium and Marine Chemicals Limited (Subsidiary of TIDCO)	---	---	362.00	---	362.00	---	---	---	---	---	---	---
8.	Tamil Nadu Graphites Limited	10.00	---	---	---	10.00	---	---	---	---	---	---	---
	Sector-wise total	**10.00**	---	**362.00**	---	**372.00**	---	---	---	---	---	---	---
	ENGINEERING												
9.	Tamil Nadu Steels Limited	392.00	---	---	---	392.00	---	---	---	584.37	465.99	1,050.36	2.68:1 (2.68:1)
	Sector-wise total	**392.00**	---	---	---	**392.00**	---	---	---	**584.37**	**465.99**	**1,050.36**	**2.68:1 (2.68:1)**
	FINANCING												
10.	The Chit Corporation of Tamil Nadu Limited	5.92	---	---	---	5.92	---	---	---	---	---	---	---
	Sector-wise total	**5.92**	---	---	---	**5.92**	---	---	---	---	---	---	---
	TRANSPORT												
11.	Tamil Nadu Goods Transport Corporation Limited	26.56	---	---	6.10	32.66	---	---	---	---	---	---	---
	Sector-wise total	**26.56**	---	---	**6.10**	**32.66**	---	---	---	---	---	---	---
	MISCELLANEOUS												
12.	Tamil Nadu State Sports Development Corporation Limited	0.002	---	---	---	0.002	---	---	---	---	---	---	---
13.	Tamil Nadu Film Development Corporation Limited	1,391.00	---	---	---	1,391.00	---	---	---	1,392.49	---	1,392.49	1.00:1 (1.00:1)

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	4(a)	4(b)	4(c)	4(d)	4(e)	4(f)	(5)
14.	Tamil Nadu Institute of Information Technology	510.44	---	---	---	510.44	---	---	---	---	---	---	---
	Sector-wise total	1,901.442	---	---	---	1,901.442	---	---	---	1,392.49	---	1,392.49	**0.73:1 (0.65:1)**
	TOTAL (C)	**3,318.822**	**165.00**	**362.00**	**7.35**	**3,853.172**	---	**68.30**	---	**4,369.66**	**465.99**	**4,835.65**	**1.25:1 (1.23:1)**
	GRAND TOTAL (A+B+C)	**2,23,072.982****	**5,193.83**	**705.51**	**4,680.23**	**2,33,652.552**	**3,575.52**	**30,595.30**	**2,52,590.79**	**57,667.61**	**11,47,681.70**	**12,05,349.31**	**5.16:1 (5.16:1)**

Note

1. Except in respect of companies/corporations which finalised their accounts for 2005-06 (Serial numbers A-1 to 5, 7 to 11. 14 to 16, 18 to 21, 23 to 28, 30, 33, 35 to 37. 39, 42 to 48, 52, C-4 and 8) the figures are provisional and as given by the companies/corporations.
2. *Loans outstanding at the close of 2005-06 represent long-term loans only.
3. ** State Government's investment in PSUs was Rs.2,807.41 crore (Others – Rs.11,582.61 crore). Figure as per Finance Accounts 2005-06 is Rs.2,330.86 crore. The difference is under reconciliation.

ANNEXURE-2

(Referred to in paragraphs 1.6, 1.7, 1.8, 1.13, 1.16, 1.19, 1.20 and 1.29)

Summarised financial results of Government companies and Statutory corporations for the latest year for which accounts were finalised

(Figures in columns 7 to 12 and 15 are Rupees in lakh)

Sl. No.	Sector and name of the company/ corporation	Name of department	Date of incorpo-ration	Period of accounts	Year in which accounts finalised	Net profit/ loss (-)	Net impact of audit comments	Paid-up capital	Accumu-lated profit/ loss (-)	Capital employed (A)	Total return on capital employed	Percen-tage of total return on capital emplo-yed	Arrears of accounts in terms of years	Turn over	Man power
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
A.	**WORKING COMPANIES**														
	AGRICULTURE														
1.	Tamil Nadu Fisheries Development Corporation Limited	Fisheries	11 April 1974	2005-06	2006-07	98.68	---	445.52	(-)516.74	(-)1.11	98.68	---	---	13,822.30	214
	Sector-wise total					**98.68**		**445.52**	**(-)516.74**	**(-)1.11**	**98.68**	**---**			
	INDUSTRY														
2.	Tamil Nadu Industrial Development Corporation Limited (TIDCO)	Industries	21 May 1965	2005-06	2006-07	233.56	---	9,417.31	2,614.14	90,086.78	2,519.34	2.80	---	10,630.21	100
3.	Tamil Nadu Industrial Explosives Limited	Industries	9 February 1983	2005-06	2006-07	(-)1,392.99	---	2,695.68	(-)3,043.43	4,964.58	(-)1,317.27	---	---	2,644.00	827
4.	Tamil Nadu Paints and Allied Products Limited (Subsidiary of TANSI)	Small Industries	18 November 1985	2005-06	2006-07	4.50	---	2.05	15.24	27.03	10.51	38.88	---	192.61	14

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
5.	Tamil Nadu Small Industries Corporation Limited (TANSI)	Small Industries	10 September 1965	2005-06	2006-07	52.21	---	1,505.26	(-)5,912.61	22,543.81	411.38	1.82	---	6,163.07	404
6.	Tamil Nadu Small Industries Development Corporation Limited (SIDCO)	Small Industries	23 March 1970	2004-05	2005-06	18.57	---	770.00	217.45	961.05	231.73	24.11	1	8,028.36	482
7.	State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT)	Industries	25 March 1971	2005-06	2006-07	1,759.70	---	14,321.25	2,932.58	22,115.49	2,262.30	10.23	---	6,396.96	318
8.	Tamil Nadu Salt Corporation Limited	Industries	22 July 1974	2005-06	2006-07	0.05	---	317.01	374.00	711.04	0.05	0.01	---	1,307.48	70
9.	Tamil Nadu Magnesite Limited	Industries	17 January 1979	2005-06	2006-07	1.22	---	1,665.00	(-)3,626.00	(-)2,338.04	151.72	---	---	3,612.18	601
10.	Tamil Nadu Leather Development Corporation Limited	Small Industries	21 March 1983	2005-06	2006-07	(-)127.94	---	250.00	(-)2,453.38	(-)1,153.07	19.04	---	---	---	45
	Sector-wise total					**548.88**		**30,943.56**	**(-)8,882.01**	**1,37,918.67**	**4,288.80**	**3.11**			
	ENGINEERING														
11.	State Engineering and Servicing Company of Tamil Nadu Limited (SESCOT) (Subsidiary of TANSI)	Small Industries	25 April 1977	2005-06	2006-07	(-)25.52	---	49.71	(-)1,862.41	(-)14.15	(-)0.83	---	---	---	---
12.	Southern Structurals Limited	Industries	17 October 1956	2004-05	2005-06	(-)1,277.17	Under statement of loss by Rs.4.36 crore	3,454.30	(-)13,723.02	(-)942.01	(-)248.31	---	1	7.75	7
	Sector-wise total					**(-)1,302.69**		**3,504.01**	**(-)15,585.43**	**(-)956.16**	**(-)249.14**	**---**			

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	ELECTRONICS														
13.	Electronics Corporation of Tamil Nadu Limited (ELCOT)	Information and Technology	21 March 1977	2004-05	2005-06	232.66	Overstatement of profit by Rs.11.03 crore	2,593.05	252.97	2,190.93	234.53	10.70	1	1,592.35	207
	Sector-wise total					**232.66**		**2,593.05**	**252.97**	**2,190.93**	**234.53**	**10.70**			
	TEXTILES														
14.	Tamil Nadu Textile Corporation Limited	Handloom, Handicraft, Textiles and Khadi	24 April 1969	2005-06	2006-07	51.26	---	154.00	(-)161.58	251.15	77.61	30.90	---	1,719.36	236
15.	Tamil Nadu Zari Limited	Handloom, Handicraft, Textiles and Khadi	6 December 1971	2005-06	2006-07	24.41	---	34.40	299.19	378.02	27.25	7.21	---	2,044.63	157
	Sector-wise total					**75.67**		**188.40**	**137.61**	**629.17**	**104.86**	**16.67**			
	HANDLOOM AND HANDICRAFTS														
16.	Tamil Nadu Handicrafts Development Corporation Limited	Handloom, Handicraft, Textiles and Khadi	26 July 1973	2005-06	2006-07	(-)9.59	---	296.97	254.66	264.38	14.66	5.55	---	1,783.00	165
17.	Tamil Nadu Handloom Development Corporation Limited	Handloom, Handicraft, Textiles and Khadi	10 September 1964	2004-05	2005-06	(-)20.48	---	429.23	(-)64.27	886.34	26.02	2.94	1	106.05	30
	Sector-wise total					**(-)30.07**		**726.20**	**190.39**	**1,150.72**	**40.68**	**3.54**			
	FOREST														
18.	Tamil Nadu Tea Plantation Corporation Limited	Environment and Forest	22 August 1975	2005-06	2006-07	(-)847.00	---	596.18	(-)889.02	105.47	(-)839.51	---	---	4,213.00	6,734
19.	Tamil Nadu Forest Plantation Corporation Limited	Environment and Forest	13 June 1974	2005-06	2006-07	736.37	---	376.00	3,977.08	3,429.14	786.37	22.93	---	3,489.00	468

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
20.	Arasu Rubber Corporation Limited	Environment and Forest	10 August 1984	2005-06	2006-07	69.41	---	845.00	(-)2,349.55	(-)518.87	186.26	---	---	1,872.73	197
	Sector-wise total					**(-)41.22**		**1,817.18**	**738.51**	**3,015.74**	**133.12**	**4.41**			
	MINING														
21.	Tamil Nadu Minerals Limited (TAMIN)	Industries	6 April 1977	2005-06	2006-07	904.99	---	786.90	9,179.66	9,545.90	904.99	9.48	---	11,000.00	1,652
	Sector-wise total					**904.99**		**786.90**	**9,179.66**	**9,545.90**	**904.99**	**9.48**			
	CONSTRUCTION														
22.	Tamil Nadu State Construction Corporation Limited	Public Works	8 February 1980	2001-02	2004-05	(-)647.58	---	500.00	(-)2,643.86	8,013.98	(-)557.17	---	4	---	166
23.	Tamil Nadu Police Housing Corporation Limited	Home	30 April 1981	2005-06	2006-07	107.88	---	100.00	586.60	1,173.82	168.90	14.39	---	10,049.00	288
	Sector-wise total					**(-)539.70**		**600.00**	**(-)2,057.26**	**9,187.80**	**(-)388.27**	**---**			
	DRUGS AND CHEMICALS														
24.	Tamil Nadu Medicinal Plant Farms and Herbal Medicine Corporation Limited	Indian Medicine and Homeopathy	27 September 1983	2005-06	2006-07	169.79	---	20.75	547.43	597.22	169.79	28.43	---	1,049.90	185
25.	Tamil Nadu Medical Services Corporation Limited	Health and Family Welfare	1 July 1994	2005-06	2006-07	147.29	Over statement of profit by Rs 3.00 crore	404.00	341.66	917.74	341.66	37.23	---	1,775.21	176
	Sector-wise total					**317.08**		**424.75**	**889.09**	**1,514.96**	**511.45**	**33.76**			
	SUGAR														
26.	Tamil Nadu Sugar Corporation Limited (TASCO)	Industries	17 October 1974	2005-06	2006-07	(-)305.01	---	779.15	(-)7,319.36	1,772.43	750.14	42.32	---	5,476.35	519
27.	Perambalur Sugar Mills Limited (Subsidiary of TASCO)	Industries	24 July 1976	2005-06	2006-07	(-)554.21	---	417.35	(-)6,947.79	1,251.32	273.79	21.88	---	6,299.19	531
	Sector-wise total					**(-)859.22**		**1,196.50**	**(-)14,267.15**	**3,023.75**	**1,023.93**	**33.86**			

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	CEMENT														
28.	Tamil Nadu Cements Corporation Limited	Industries	11 February 1976	2005-06	2006-07	(-)361.85	---	3,741.80	(-)6,758.02	9,797.57	83 57	0.85	---	16,062 73	1,686
	Sector-wise total					**(-)361.85**		**3,741.80**	**(-)6,758.02**	**9,797.57**	**83.57**	**0.85**			
	ECONOMICALLY WEAKER SECTION														
29.	Tamil Nadu Adi Dravidar Housing and Development Corporation Limited	Adi Dravidar and Tribal Welfare	15 February 1974	2004-05	2005-06	571.75	Non-provision for doubtful debts for Rs.1.27 crore	9,512.41	1,409.16	15,263.72	738.63	4.84	1	1,715.00	487
30.	Tamil Nadu Backward Classes Economic Development Corporation Limited	Backward Classes and Most Backward Classes Welfare	16 November 1981	2005-06	2006-07	42.67	Overstatement of profit by Rs.2.88 crore	1,227.01	258.39	4,506.69	98.85	2.19	---	201.63	14
31.	Tamil Nadu Minorities Economic Development Corporation Limited	Backward Classes and Most Backward Classes Welfare	31 August 1999	2004-05	2005-06	(-)2.38	---	5.01	(-)9.68	767.34	3.47	0.45	1	642 57	10
32.	Tamil Nadu Corporation for Development of Women Limited	Social Welfare and Noon-Meal Programme	9 December 1983	2004-05	2005-06	(-)89.05		78.42	(-)440.11	(-)17.53	(-)78.87	---	1	3,343.90	39
33.	Tamil Nadu Ex-servicemen's Corporation Limited	Public (Ex-service-men)	28 January 1986	2005-06	2006-07	403.82	---	22.91	1,835.78	1,858.69	403.82	21.73	---	4,793.86	10
	Sector-wise total					**926.81**		**10,845.76**	**3,053.54**	**22,378.91**	**1,165.90**	**5.21**			

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	PUBLIC DISTRIBUTION														
34.	Tamil Nadu Civil Supplies Corporation Limited	Food and Consumer protection	21 April 1972	2004-05	2005-06	---		3,339.10	---	50,061.49	663.72	1.33	1	N.A	13,912
	Sector-wise total					**---**		**3,339.10**	**---**	**50,061.49**	**663.72**	**1.33**			
	TOURISM														
35.	Tamil Nadu Tourism Development Corporation Limited	Information and Tourism	30 June 1971	2005-06	2006-07	209.73	---	678.63	600.09	3,039.77	227.85	7.50	---	4,285.53	603
	Sector-wise total					**209.73**		**678.63**	**600.09**	**3,039.77**	**227.85**	**7.50**			
	FINANCING														
36.	Tamil Nadu Industrial Investment Corporation Limited (TIIC)	Small Industries	26 March 1949	2005-06	2006-07	456.70	---	13,349.56	(-)30,240.68	84,939.18	6,617.22	7.79	---	9,900.00	651
37.	Tamil Nadu Transport Development Finance Corporation Limited	Transport	25 March 1975	2005-06	2006-07	353.97	---	6,174.18	6,084.09	87,979.29	6,933.20	7.88	---	6,187.39	40
	Sector-wise total					**810.67**		**19,523.74**	**(-)24,156.59**	**1,72,918.47**	**13,550.42**	**7.84**			

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	INFRASTRUCTURE DEVELOPMENT														
38.	Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited	Municipal Administration and Water Supply	21 March 1990	2004-05	2005-06	3,917.26	---	3,200.00	2,652.14	85,996.02	10,880.27	12.65	1	12,137.00	41
39.	Tamil Nadu Power Finance and Infrastructure Development Corporation Limited	Energy	27 June 1991	2005-06	2006-07	2,931.53	Under statement of profit by Rs.0.90 crore	2,200.00	4,959.41	2,14,583.99	20,186.91	9.41	---	22,245.00	20
40.	Tamil Nadu Rural Housing and Infrastructure Development Corporation Limited	Rural Development	20 January 1999	2004-05	2005-06	8.00	---	300.01	(-)54.76	17,897.46	2,016.72	11.27	1	N.A	N.A
41.	Tamil Nadu Road Infrastructure Development Corporation	Highways	4 March 2005		First accounts			500.00					1		
	Sector-wise total					**6,856.79**		**6,200.01**	**7,556.79**	**3,18,477.47**	**33,083.90**	**10.39**			
	TRANSPORT														
42.	Metropolitan Transport Corporation Limited	Transport	10 December 1971	2005-06	2006-07	(-)11,338.54	---	24,296.81	(-)52,620.26	(-)15,448.55	(-)10,361.86	---	---	47,342.18	17,735
43.	Tamil Nadu State Transport Corporation (Madurai) Limited	Transport	10 December 1971	2005-06	2006-07	(-)8,593.54	---	18,695.96	(-)72,957.37	(-)19,981.88	(-)6,294.82	---	---	78,597.89	22,934
44.	Tamil Nadu State Transport Corporation (Coimbatore) Limited	Transport	17 February 1972	2005-06	2006-07	(-)5,853.96	---	7,739.08	(-)25,966.78	(-)6,108.25	(-)4,946.29	---	---	52,556.13	16,568
45.	Tamil Nadu State Transport Corporation (Kumbakonam) Limited	Transport	17 February 1972	2005-06	2006-07	(-)4,369.00	---	10,484.04	(-)24,617.15	(-)1,824.88	(-)3,271.00	---	---	66,448.61	18,010
46.	Tamil Nadu State Transport Corporation (Salem) Limited	Transport	23 January 1973	2005-06	2006-07	(-)3,283.57	---	4,034.74	(-)10,859.80	(-)124.81	(-)2,731.75	---	---	39,337.46	10,593
47.	Tamil Nadu State Transport Corporation (Villupuram) Limited	Transport	9 January 1975	2005-06	2006-07	(-)3,130.99	---	6,610.21	(-)18,655.31	(-)1,398.54	(-)2,250.47	---	---	66,727.22	18,282

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
48.	State Express Transport Corporation Limited	Transport	14 January 1980	2005-06	2006-07	(-)2,697.01	---	12,476.89	(-)43,967.52	(-)14,488.04	(-)2,312.79	---	---	25,665.00	7,158
	Sector-wise total					**(-)39,266.61**		**84,337.73**	**(-)2,49,644.19**	**(-)59,374.95**	**(-)32,168.98**	**---**			
	MISCELLANEOUS														
49.	Overseas Manpower Corporation Limited	Labour and employ-ment	30 Novem-ber 1978	2004-05	2005-06	5.88	---	15.00	24.19	39.70	5.88	14.81	1	188.00	21
50.	Tamil Nadu State Marketing Corporation Limited (TASMAC)	Prohibi-tion and Excise	23 May 1983	2003-04	2004-05	230.71	---	1,110.00	252.31	3,328.64	548.02	16.46	2	7,33,500.00	30,539
51.	Poompuhar Shipping Corporation Limited	Highways	11 April 1974	2004-05	2005-06	(-)127.97		2,053.00	(-)1,092.94	4,828.91	176.01	3.64	1	47,371.69	161
52.	Pallavan Transport Consultancy Services Limited	Transport	20 February 1984	2005-06	2006-07	(-)25.55	---	10.00	(-)100.82	(-)56.52	(-)25.55	---	---	32.05	15
53.	Nilakottai Food Park Limited	Industries	1 April 2004		First accounts			67.54					2		
	Sector-wise total					**83.07**		**3,255.54**	**(-)917.26**	**8,140.73**	**704.36**	**8.65**			
	TOTAL (A)					**(-)31,336.33**		**1,75,148.38**	**(-)3,00,185.98**	**6,92,659.83**	**24,014.37**	**3.47**			
B.	**WORKING STATUTORY CORPORATIONS**														
	POWER														
1.	Tamil Nadu Electricity Board	Energy	1 July 1957	2004-05	2005-06	(-)1,17,677.00	Net deficit decreased by Rs.8.66 crore	51,000.00	(-)3,58,253.00	10,76,071.00	(-)35,021.00	---	1	11,32,329.00	77,647
	Sector-wise total					**(-)1,17,677.00**		**51,000.00**	**(-)3,58,253.00**	**10,76,071.00**	**(-)35,021.00**	**---**			

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	AGRICULTURE														
2.	Tamil Nadu Warehousing Corporation	Food and Consumer Protection	2 May 1958	2004-05	2005-06	246.38	---	761.00	3,272.73	4,155.71	246.38	5.93	1	1,665.36	539
	Sector-wise total					**246.38**		**761.00**	**3,272.73**	**4,155.71**	**246.38**	**5.93**			
	TOTAL (B)					**(-)1,17,430.62**		**51,761.00**	**(-)3,54,980.27**	**10,80,226.71**	**(-)34,774.62**	---			
	GRAND TOTAL (A+B)					**(-)1,48,766.95**		**2,26,909.38**	**(-)6,55,166.25**	**17,72,886.54**	**(-)10,760.25**	---			
C.	**NON-WORKING COMPAIES**														
	AGRICULTURE														
1.	Tamil Nadu Agro Industries Development Corporation Limited	Agriculture	15 July 1966	2002-03	2003-04	(-)743.72	---	600.98	(-)4,290.72	532.46	(-)373.43	---	3		
2.	Tamil Nadu Poultry Development Corporation Limited	Animal Husbandry and Fisheries	12 July 1973	2004-05	2005-06	(-)54.09	---	126.68	(-)1,023.55	(-)388.06	(-)54.09	---	1		
3.	Tamil Nadu Sugarcane Farm Corporation Limited	Agriculture	22 February 1975	2000-01	2001-02	(-)0.16	---	27.50	(-)17.62	9.87	(-)0.16	---	5		
4.	Tamil Nadu State Farms Corporation Limited	Agriculture	8 December 1974	2005-06	2006-07	(-)209.40	---	155.13	(-)1,946.04	(-)475.85	(-)209.40	---	---		
5.	Tamil Nadu State Tube wells Corporation Limited	Public Works	19 March 1982	2004-05	2005-06	(-)2.01	---	31.50	(-)220.44	60.72	(-)2.01	---	1		
6.	Tamil Nadu Dairy Development Corporation Limited	Agriculture	4 May 1972	1993-94	2001-02	(-)166.67	---	207.36	(-)207.48	(-)0.12	(-)166.67	---	12		
	Sector-wise total					**(-)1,176.05**		**1,149.15**	**(-)7,705.85**	**(-)260.98**	**(-)805.76**	---			

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	INDUSTRY														
7.	Tamil Nadu Magnesium and Marine Chemicals Limited (Subsidiary of TIDCO)	Industries	10 February 1987	1999-2000	2000-01	(-)380.52	---	362.00	(-)1,550.81	140.38	(-)380.52	---	6		
8.	Tamil Nadu Graphites Limited	Industries	19 March 1997	2005-06	2006-07	(-)0.28	---	10.00	(-)7.64	2.36	(-)0.28	---	---		
	Sector-wise total					**(-)380.80**		**372.00**	**(-)1,558.45**	**142.74**	**(-)380.80**	**---**			
	ENGINEERING														
9.	Tamil Nadu Steels Limited	Industries	17 September 1981	1999-2000	2000-01	(-)941.19	---	392.00	(-)7,131.27	(-)2,053.95	(-)79.97	---	6		
	Sector-wise total					**(-)941.19**	**---**	**392.00**	**(-)7,131.27**	**(-)2,053.95**	**(-)79.97**	**---**			
	FINANCING														
10.	The Chit Corporation of Tamil Nadu Limited	Commer-cial Taxes	11 January 1984	2003-04	2005-06	(-)3.80	---	5.92	(-)54.81	(-)29.71	(-)3.80	---	2		
	Sector-wise total					**(-)3.80**		**5.92**	**(-)54.81**	**(-)29.71**	**(-)3.80**	**---**	**---**		
	TRANSPORT														
11.	Tamil Nadu Goods Transport Corporation Limited	Transport	26 March 1975	1989-90		0.21	---	32.66	(-)132.55	(-)29.85	6.57	Under liquidation since March 1990			
	Sector-wise total					**0.21**		**32.66**	**(-)132.55**	**(-)29.85**	**6.57**	**---**		**---**	
	MISCELLANEOUS														
12.	Tamil Nadu State Sports Development Corporation Limited	Education	15 Novem-ber 1984	1991-92	2003-04	(-)9.71	---	0.002	127.86	146.92	(-)9.71	---	14	---	---

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
13.	Tamil Nadu Film Development Corporation Limited	Information and Tourism	12 April 1972	2004-05	2005-06	5.39	---	1,391.00	(-)1,222.95	1,565.58	31.01	1.98	1		
14.	Tamil Nadu Institute of Information Technology	Higher Education	20 February 1998	2003-04	2004-05	---	---	510.44	(-)510.44	---	---	---	2		
	Sector-wise total					**(-)4.32**		**1,901.442**	**(-)1,605.53**	**1,712.50**	**21.30**	**1.24**			
	TOTAL (C)					**(-)2,505.95**		**3,853.172**	**(-)18,188.46**	**(-)519.25**	**(-)1,242.46**	**---**			
	GRAND TOTAL (A+B+C)					**(-)1,51,272.90**		**2,30,762.552**	**(-)6,73,354.71**	**17,72,367.29**	**(-)12,002.71**	**---**			

NOTE:

A: Capital employed represents net fixed assets (including capital work-in-progress) PLUS working capital except in case of finance companies/corporations, where the capital employed is worked out as a mean of aggregate of the opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinances).

ANNEXURE-3

(Referred to in paragraph 1.5)

Statement showing subsidy/grants received, guarantees received, waiver of dues, loans on which moratorium allowed and loans converted into equity during the year and subsidy receivable and guarantees outstanding at the end of March 2006

(Figures in columns 3(a) to 7 are Rupees in lakh)

Sl. No.	Name of the company/ Statutory corporation	^Subsidy received during the year				*Guarantees received during the year and outstanding at the end of the year					Waiver of dues during the year				Loans on which moratorium allowed	Loans converted into equity during the year
		Central Government	State Government	Others	Total	Cash credit from banks	Loans from other sources	Letters of credit opened by banks in respect of import	Payment obligation under agreement with foreign consultants	Total	Loans repayment written off	Interest waived	Penal interest waived	Total		
(1)	(2)	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	(6)	(7)
(A)	WORKING COMPANIES															
	INDUSTRY															
1.	Tamil Nadu Industrial Development Corporation Limited	400.00	---	---	400.00	---	(46,174.15)	---	---	(46,174.15)	---	---	---	---	---	---
2.	Tamil Nadu Small Industries Corporation Limited (TANSI)	---	---	---	---	925.00 (765.49)	---	---	---	925.00 (765.49)	---	---	---	---	---	---
	ENGINEERING															
3.	Southern Structurals Limited	---	---	---	---	1,064.33 (1,060.15)	---	---	---	1,064.33 (1,060.15)	---	---	---	---	---	---

(1)	(2)	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	(6)	(7)
	ELECTRONICS															
4.	Electronics Corporation of Tamil Nadu Limited	11,161.25 (grants)	1,270.00 (grants)	---	12,431.25 (grants)	---	---	---	---	---	---	---	---	---	---	---
	TEXTILES															
5.	Tamil Nadu Zari Limited	12.75	6.00	---	18.75	---	---	---	---	---	---	---	---	---	---	---
	HANDLOOM AND HANDICRAFTS															
6.	Tamil Nadu Handicrafts Development Corporation Limited	26.49	39.80	---	66.29	---	---	---	---	---	---	----	----	----	---	---
7.	Tamil Nadu Handloom Development Corporation Limited	---	---	---	---	550.00 (550.00)	---	---	---	550.00 (550.00)	---	---	---	---	---	---
	FOREST															
8.	Arasu Rubber Corporation Limited	0.39	0.46	---	0.85	---	---	---	---	---	---	---	---	---	---	---
	DRUGS AND CHEMICALS															
9.	Tamil Nadu Medicinal Plant Farms and Herbal Medicine Corporation Limited	210.00 (grants)	---	---	210.00 (grants)	---	---	---	--	---	---	---	---	---	---	---
	SUGAR															
10.	Tamil Nadu Sugar Corporation Limited	---	---	---	---	3,000.00 (1,295.69)	--- (1,067.14)	---	---	3,000.00 (2,362.83)	---	---	---	---	---	---
11.	Perambalur Sugar Mills Limited	---	---	---	---	3,650.00 (2,441.03)	858.00 (858.00)	---	---	4,508.00 (3,299.03)	---	---	---	---	---	---

(1)	(2)	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	(6)	(7)
	ECONOMICALLY WEAKER SECTION															
12.	Tamil Nadu Adi Dravidar Housing and Development Corporation Limited	4,456.68	---	---	4,456.68	---	4,520.82 (3,014.67)	---	---	4,520.82 (3,014.67)	---	---	---	---	---	---
13.	Tamil Nadu Backward Classes Economic Development Corporation Limited	---	15.73	---	15.73	---	6,815.54 (3,646.52)	---	---	6,815.54 (3,646.52)	---	---	---	---	---	---
14.	Tamil Nadu Minorities Economic Development Corporation Limited	---	21.57	---	21.57	---	464.00	---	---	464.00	---	---	---	---	---	---
15.	Tamil Nadu Corporation for Development of Women Limited	338.45 (grants)	4,988.02 (grants)	---	5,326.47 (grants)	---	75.00 (2.08)	---	---	75.00 (2.08)	---	---	---	---	---	---
	PUBLIC DISTRIBUTION															
16.	Tamil Nadu Civil Supplies Corporation Limited	22,140.00	1,20,000.00	---	1,42,140.00	2000.00 (2,000.00)	---	---	---	2000.00 (2,000.00)	---	---	---	---	---	---
	TOURISM															
17.	Tamil Nadu Tourism Development Corporation Limited	60.50 (grants)	67.75 (grants)	---	128.25 (grants)	---	---	---	---	---	---	---	---	---	---	---
	FINANCING															
18.	Tamil Nadu Industrial Investment Corporation Limited	---	125.00 (20.00) (grants)	---	125.00 (20.00) (grants)	---	15,800.00 (56,007.00)	---	---	15,800.00 (56,007.00)	---	---	---	---	---	---
19.	Tamil Nadu Transport Development Finance Corporation Limited	---	---	---	---	---	(7,000.00)	---	---	(7,000.00)	---	---	---	---	---	---

(1)	(2)	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	(6)	(7)
	INFRASTRUCTURE DEVELOPMENT															
20.	Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited	5,145.37	4,791.99	---	9,937.36	---	---	---	---	---	---	---	---	---	---	---
21.	Tamil Nadu Rural Housing and Infrastructure Development Corporation Limited	---	---	---	---	---	(19,328.11)	---	---	(19,328.11)	---	---	---	---	---	---
	TRANSPORT															
22.	Tamil Nadu State Transport Corporation (Madurai) Limited	---	---	---	---	(75.00)	---	---	---	(75.00)	---	---	---	---	---	---
23.	Tamil Nadu State Transport Corporation (Coimbatore) Limited	---	3,657.23 (grants)	---	3,657.23 (grants)	---	---	---	---	---	---	---	---	---	---	---
24.	Tamil Nadu State Transport Corporation (Kumbakonam) Limited	---	4,784.87	---	4,784.87	---	---	---	---	---	---	---	---	---	---	---
25.	Tamil Nadu State Transport Corporation (Villupuram) Limited	---	4,778.33	---	4,778.33	---	---	---	---	---	---	---	---	---	---	---
26.	State Express Transport Corporation Limited	---	----	---	----	(350.00)	---	---	---	(350.00)	---	---	---	---	---	---
	TOTAL (A)	**32,181.68 11,770.20 (grants)**	**1,34,563.75 10,003.00 (grants)**	---	**1,66,745.43 21,773.20 (grants)**	**11,189.33 (8,537.36)**	**28,533.36 (1,37,097.67)**	---	----	**39,722.69 (1,45,635.03)**	---	----	---	----	---	----

(1)	(2)	3(a)	3(b)	3(c)	3(d)	4(a)	4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	(6)	(7)
(B)	**STATUTORY CORPORATIONS**															
27.	Tamil Nadu Electricity Board	---	1,17,949.00 547.00 (grants)	---	1,17,949.00 547.00 (grants)	---	(3,04,917.00)	---	---	(3,04,917.00)	---	---	---	---	---	---
	TOTAL (B)	---	**1,17,949.00 547.00 (grants)**	---	**1,17,949.00 547.00 (grants)**	---	**(3,04,917.00)**	---	---	**(3,04,917.00)**	---	---	---	---	---	---
	GRAND TOTAL (A+B)	**32,181.68 11,770.20 (grants)**	**2,52,512.75 10,550.00 (grants)**	---	**2,84,694.43 22,320.20 (grants)**	**11,189.33 (8,537.36)**	**28,533.36 (4,42,014.67)**	---	---	**39,722.69 (4,50,552.03)**	---	---	---	---	---	---

A Subsidy includes subsidy receivable at the end of year, which is also shown in brackets.

* Figures in bracket indicate guarantees outstanding at the end of the year.

Except in respect of companies which finalised their accounts for 2005-06 (Serial numbers A-1, 2, 5, 6, 8 to 11, 13, 17 to 19, 22 to 26) the figures are provisional and as given by the companies/corporations.

ANNEXURE-4

(Referred to in paragraph 1.7)

Statement showing financial position of Statutory corporations

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06 (Provisional)
I.TAMIL NADU ELECTRICITY Board			
A. LIABILITIES			
Equity capital[♣]	425.00	510.00	535.00
Loans from Government	---	---	---
Other long-term loans (including bonds)	9,104.85	9,330.92	9,583.66
Reserves and surplus	1,347.82	1,370.48	1,409.33
Others (subsidy)	2,755.27	3,146.19	3,569.34
Current liabilities and provisions	5,874.00	7,206.83	8,684.26
TOTAL (A)	**19,506.94**	**21,564.42**	**23,781.59**
B. ASSETS			
Gross fixed assets	16,535.08	17,746.27	19,242.64
LESS: Depreciation	6,291.60	7,371.44	8,525.83
Net fixed assets	10,243.48	10,374.83	10,716.81
Capital works-in-progress	2,702.26	2,768.52	2,728.22
Assets not in use	0.31	1.89	2.09
Deferred cost	9.81	3.24	1.24
Current assets	4,136.12	4,824.19	5,294.28
Investments	9.20	9.22	82.87
Subsidy receivable from the Government	---	---	18.34
Deficits	2,405.76	3,582.53	4,937.74
TOTAL (B)	**19,506.94**	**21,564.42**	**23,781.59**
C. **CAPITAL EMPLOYED**[♠]	**11,207.86**	**10,760.71**	**10,055.05**

♣ It represents loan converted into equity capital and are subject to adjustment against subsidy receivable from Government.

♠ Capital employed represents net fixed assets (including works-in-progress) PLUS working capital. While working out working capital, the element of deferred cost and investments are excluded from current assets.

(Rupees in crore)

2.TAMIL NADU WAREHOUSING CORPORATION			
Particulars	**2003-04**	**2004-05**	**2005-06 (Provisional)**
A. LIABILITIES			
Paid-up capital	7.61	7.61	7.61
Reserves and surplus	31.27	32.72	35.45
Subsidy	0.19	0.18	0.19
Trade dues and current liabilities (including provision)	7.43	7.81	9.09
Deferred tax liabilities	---	0.54	---
Insurance fund	---	0.50	---
TOTAL	**46.50**	**49.36**	**52.34**
B. ASSETS			
Gross block	40.02	40.41	41.08
LESS: Depreciation	12.01	13.04	14.09
Net fixed assets	28.01	27.37	26.99
Capital works-in-progress	---	---	---
Current assets, loans and advances	18.49	21.99	25.35
TOTAL	**46.50**	**49.36**	**52.34**
C. CAPITAL EMPLOYED•	**39.07**	**41.55**	**43.25**

• Capital employed represents net fixed assets PLUS working capital

ANNEXURE-5

(Referred to in paragraph 1.7)

Statement showing working results of Statutory corporations

1. TAMIL NADU ELECTRICITY BOARD

(Rupees in crore)

Sl. No	Particulars	2003-04	2004-05	2005-06 (Provisional)
1.	(a) Revenue receipts	11,508.21	11,779.15	13,159.38
	(b) Subsidy/subvention from Government	250.00	924.50	1,179.49
	TOTAL	**11,758.21**	**12,703.65**	**14,338.87**
2.	Revenue expenditure (net of expenses capitalised) including write off of intangible assets but excluding depreciation and interest	11,421.15	11,983.16	13,225.68
3.	Gross surplus (+) / deficit (-) for the year (1-2)	337.06	720.49	1,113.19
4.	Adjustments relating to previous years	287.57	14.56	(-)471.33
5.	Final gross surplus (+) / deficit (-) for the year (3+4)	624.63	735.05	641.86
6.	(a) Depreciation (LESS: Capitalised)	969.97	1,085.25	1,177.35
	(b) Interest on Government loans	---	---	---
	(c) Interest on others, bonds, advance, etc., and finance charges	981.02	1,057.29	1,017.55
	(d) Total interest on loans and finance charges (b) + (c)	981.02	1,057.29	1,017.55
	(e) LESS: Interest capitalized	216.23	230.72	197.83
	(f) Net interest charged to revenue (d) – (e)	764.79	826.57	819.72
	(g) Total appropriations (a) + (f)	1,734.76	1,911.82	1,997.07
7.	Surplus (+) / deficit (-) before accounting for subsidy from State Government {(5) – 6 (g) – 1 (b)}	(-)1,360.13	(-)2,101.27	(-)2,534.70
8.	Net surplus (+)/ deficit (-) {(5) – 6(g)}	(-)1,110.13	(-)1,176.77	(-)1,355.21
9.	**Total return on capital employed•**	**(-)345.34**	**(-)350.20**	**(-)535.49**
10.	**Percentage of return on capital employed**	---	---	---

• Total return on capital employed represents net surplus/deficit PLUS total interest charged to Profit and Loss account (LESS interest capitalised).

(Rupees in crore)

2.TAMIL NADU WAREHOUSING CORPORATION

	Particulars	2003-04	2004-05	2005-06 (Provisional)
1.	**Income**			
(a)	Warehousing charges	11.72	11.73	14.89
(b)	Other income	1.37	1.71	1.73
	TOTAL	**13.09**	**13.44**	**16.62**
2.	**Expenses**			
(a)	Establishment charges	7.41	7.17	8.08
(b)	Other expenses	4.40	4.52	5.07
	TOTAL	**11.81**	**11.69**	**13.15**
3.	Profit (+) / Loss (-) before tax	1.28	1.75	3.47
4.	Other appropriations/adjustments	(-)0.10	(+)0.71	(+)0.06
5.	Amount available for dividend	1.18	2.46	3.53
6.	Dividend for the year (excluding dividend tax)	0.31	0.34	0.34
7.	**Total return on capital employed**	**1.18**	**2.46**	**3.53**
8.	**Percentage of return on capital employed**	**3.02**	**5.92**	**8.16**

ANNEXURE-6

(Referred to in paragraph 1.12)

Statement showing operational performance of Statutory corporations

1. TAMIL NADU ELECTRICITY BOARD

Sl. No	Particulars	2003-04	2004-05	2005-06 (Provisional)
1.	Installed capacity		(MW)	
(a)	Thermal	2,970	2,970	2,970
(b)	Hydel	1,996	1,988	2,137
(c)	Gas	424	424	424
(d)	Other	19	19	19
	TOTAL	**5,409**	**5,401**	**5,550**
2.	Normal maximum demand	7,253	7,473	8,209
	Percentage increase/decrease (-) over previous year	4.25	3.03	9.85
3.	Power generated		(MKWH)	
(a)	Thermal	20,431	20,004	18,795
(b)	Hydel	2,067	4,426	6,141
(c)	Gas	1,592	2,003	1,964
(d)	Other	24	18	15
	TOTAL	**24,114**	**26,451**	**26,915**
	Percentage increase/decrease (-) over previous year	(-)3.27	9.69	1.75
	LESS: Auxiliary consumption			
(a)	Thermal	1,736	1,735	1,640
	(Percentage)	8.50	8.67	8.72
(b)	Hydel	484	251	583
	(Percentage)	23.42	5.67	9.49
(c)	Gas	86	115	123
	(Percentage)	5.40	5.74	6.26
	TOTAL	**2,306**	**2,101**	**2,346**
	(Percentage)	9.56	7.94	8.72
5.	Net power generated	21,808	24,350	24,569
6.	Power purchased			
(a)	Within the State			
	(i) Government	8,391	8,606	8,492
	(ii) Private	5,997	4,825	9,130
(b)	Other States	---	---	1,303

Sl. No	Particulars	2003-04	2004-05	2005-06 (Provisional)
(c)	Central grid	10,996	12,463	10,886
7.	**Total power available for sale**	**47,192**	**50,244**	**54,380**
8.	Power sold			
	(a) Within the State	38,374	40,848	43,582
	(b) Outside the State	323	352	1,010
9.	Transmission and distribution losses	8,495	9,044	9,788
10.	Load factor (Percentage)			
(a)	Hydel	11.88	25.00	34.39
(b)	Thermal	78.53	77.00	72.24
11.	Percentage of transmission and distribution losses to total power available for sale	18.0	18.0	18.0
12	Number of villages/towns electrified (in lakh)	0.64	0.64	0.64
13.	Number of pump sets/wells energised (in lakh)	17.03	17.37	17.68
14.	Number of sub-stations	1,044	1,082	1,110
15.	Transmission and Distribution lines (in lakh KMs)			
(a)	High/medium voltage	1.44	1.29	1.30
(b)	Low voltage	4.68	4.77	4.87
16.	Connected load (in MW)	29,404	31,981	33,701
17	Number of consumers (in lakh)	166.51	171.30	178.03
18.	Number of employees (in lakh)	0.84	0.80	0.77
19.	Consumer/employees ratio (No. of consumers per employee)	198.22	214.13	231.21
20.	Total expenditure on staff during the year (Rupees in crore)	1,634.26	1,668.82	1,901.07
21.	Percentage of expenditure on staff to total revenue expenditure	12.42	12.02	12.52
22.	Units sold		(MKWH)	
(a)	Agriculture	9,588	9,764	9,804
	Percentage share to total units sold	24.78	23.70	21.99
(b)	Industrial	13,497	15,349	16,312
	Percentage share to total units sold	34.88	37.25	36.58
(c)	Commercial	3,498	3,794	3,967
	Percentage share to total units sold	9.04	9.21	8.89
(d)	Domestic	9,894	9,857	11,236
	Percentage share to total units sold	25.57	23.92	25.20
(e)	Others	2,221	2,436	3,273
	Percentage share to total units sold	5.73	5.92	7.34
	TOTAL	**38,697**	**41,200**	**44,592**

Sl. No	Particulars	2003-04	2004-05	2005-06 (Provisional)
		(Paise per KWH)		
(a)	Revenue (excluding subsidy from Government)	297	286	307
(b)	Expenditure*	315	337	336
(c)	Profit (+) / Loss (-)	(-)18	(-)51	(-)29
(d)	Average subsidy claimed from Government	06	22	27
(e)	Average interest charges	29	29	25

2. TAMIL NADU WARE HOUSING CORPORATION

	Particulars	2003-04	2004-05	2005-06
	Number of stations covered	65	65	63
	Storage capacity created up to the end of the year (tonne in lakh)			
(a)	Owned	6.00	6.00	6.00
(b)	Hired	0.36	0.36	0.36
	TOTAL	**6.36**	**6.36**	**6.36**
	Average capacity utilised during the year (lakh metric tonnes)	3.69	3.52	4.27
	Percentage of utilization	58	55	67
	Average revenue per metric tonne per year (Rupees)	354.72	381.88	389.22
	Average expenses per metric tonne per year (Rupees)	320.28	334.68	307.96

* Revenue expenditure includes depreciation but excludes interest on long-term loans.

ANNEXURE-7

(Referred to in paragraph 1.28)

Major recommendations/comments made by the Statutory Auditors on possible improvements in internal audit/internal control systems of Government companies

Sl. No	Nature of recommendations/comments	Number of companies where recommendations/ comments	Reference to Serial Number in Annexure-2
1.	Internal audit system to be improved	5	A-7, 14, 29, 49and 51
2.	Lack of details on fixed assets	3	A-12, 16, and 26
3.	Absence of system to monitor timely recovery of dues and non-obtaining of confirmation of balances	3	A-14, 26 and 28.
4.	Absence of system to identify obsolete stores	1	A-16
5.	Lack of internal control system	1	A-12
6.	Non-inclusion of specific areas of attention in Internal Audit Reports	3	A-21, 28 and 36
7.	Lack of follow-up on internal audit suggestions	2	A-5 and 16
8.	Lack of norms for rejections in production/storage losses	2	A-16 and 24
9.	Need to improve utilisation of computers	2	A-24 and 28
10	Manpower in excess of norms	1	A-27

ANNEXURE-8

(Referred to in paragraph 1.31)

Statement showing paid-up capital, investment and summarised working results of 619-B companies as per their latest finalised accounts

(Figures in columns 5 to 17 are Rupees in lakh)

Sl. No.	Name of company	Status	Year of account	Paid-up capital	Equity by				Loans/grants by			Total investment by way of equity, loans and grants			Profit (+)/ Loss (-)	Accumulated Profit (+)/ Loss (-)
					State Govt.	State Govt. companies	Central Govt. and its companies	Others	State Govt.	State Govt. companies	Central Govt.	State Govt.	State Govt. companies	Central Govt.		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
1.	Tamil Nadu Telecommunications Limited	Working	2005-06	2,266.01	---	668.40 (29.5%)	695.10 (30.7%)	902.51 (39.8%)	---	---	---	---	668.40	695.10	246.85	(-)3,475.27
2.	Tidel Park Limited	Working	2005-06	4,400.00	---	1,275.00 (29%)	---	3,125.00 (71%)	---	---	---	---	1,275.00	---	3,117.98	7,226.50
3.	Tamil Nadu Newsprints and Papers Limited	Working	2005-06	6,937.78	2,444.49 (35.2%)	236.02 (3.4%)	---	4,257.27 (61.4%)	---	---	---	2,444.49	236.02	---	8,054.57	27,215.92

ANNEXURE-9

(Referred to in Paragraph 2.12)

Details of extra expenditure due to non-adherence to budgeted proportion of pulp

Details	Budget	Actual	Difference	Excess consumption (MT) (Col.4 X Production)	Rate (Rupees per MT)	Extra expenditure (Rupees in lakh)
1	2	3	4	5	6	7
Newsprint-2001-02			**Production :33,809 MT**			
HWP	0.090	0.164	0.074	2,501.87	11,690	292.47
CBP	0.270	0.210	(-) 0.060	(-) 2,028.54	9,187	(-) 186.36
MBP	0.360	0.322	(-) 0.038	(-) 1,284.74	10,017	(-) 128.69
Imported Pulp	0.180	0.205	0.025	845.22	23,012	194.50
TOTAL						**171.92**
Newsprint-2002-03			**Production :20,359**			
HWP	0.090	0.217	0.127	2,585.59	10,715	277.04
CBP	0.269	0.188	(-) 0.081	(-) 1,649.08	8,981	(-) 148.10
MBP	0.358	0.326	(-) 0.032	(-) 651.49	8,294	(-) 54.03
Imported Pulp	0.179	0.173	(-) 0.006	(-) 122.15	20,345	(-) 24.85
TOTAL						**50.06**
Newsprint-2003-04			**Production :11,586**			
HWP	0.179	0.167	(-) 0.012	(-) 139.03	11,783	(-) 16.38
CBP	0.269	0.180	(-) 0.089	(-) 1,031.15	10,195	(-) 105.12
MBP	0.313	0.221	(-) 0.092	(-) 1,065.91	8,586	(-) 91.52
Imported Pulp	0.134	0.292	0.158	1,830.59	19,887	364.05
TOTAL						**151.03**
Newsprint-2004-05			**Production :7,693**			
HWP	0.224	0.123	(-) 0.101	(-) 776.99	13,963	(-) 108.49
CBP	0.224	0.256	0.032	246.17	12,831	31.59
MBP	0.269	0.116	(-) 0.153	(-) 1,177.03	11,700	(-) 137.71
Imported Pulp	0.179	0.386	0.207	1,592.45	21,749	346.34
TOTAL						**131.73**
Total extra expenditure on Newsprint production						**504.74**

Details	Budget	Actual	Difference	Excess consumption (MT) (Col.4 X Production)	Rate (Rupees per MT)	Extra expenditure (Rupees in lakh)
1	2	3	4	5	6	7
Printing and Writing Paper-2001-02				**Production :1,50,670**		
HWP	0.155	0.155	--	--	11,690	--
CBP	0.674	0.664	(-) 0.010	(-) 1,506.70	9,187	(-) 138.42
Imported Pulp	0.057	0.078	0.021	3,164.07	23,326	738.05
TOTAL						**599.63**
Printing and Writing Paper-2002-03				**Production :1,46,160**		
HWP	0.199	0.197	(-) 0.002	(-) 292.28	10715	-31.32
CBP	0.668	0.629	(-) 0.039	(-) 5,700.24	8,981	(-) 511.94
Imported Pulp	0.022	0.073	0.051	7,456.16	22,692	1,691.50
TOTAL						**1,148.24**
Printing and Writing Paper-2003-04				**Production :1,73,818**		
HWP	0.174	0.195	0.021	3,650.18	11,783	430.10
CBP	0.645	0.618	(-) 0.027	(-) 4,693.09	10,195	(-) 478.46
Imported Pulp	0.071	0.095	0.024	4,171.63	24,614	1,026.80
TOTAL						**978.44**
Printing and Writing Paper-2004-05				**Production :1,88,898**		
HWP	0.206	0.198	(-) 0.008	(-) 1,511.18	13,960	(-) 210.96
CBP	0.609	0.519	(-) 0.090	(-)17,000.82	12,831	(-) 2,181.37
Imported Pulp	0.074	0.181	0.107	20,212.08	25,290	5,111.63
TOTAL						**2,719.30**
Printing and Writing Paper-2005-06				**Production :2,23,070**		
HWP	0.182	0.186	0.004	892.28	15,538	138.64
CBP	0.553	0.569	0.016	3,569.10	12,667	452.10
Imported Pulp	0.090	0.081	(-) 0.009	(-) 2,007.62	25,966	(-) 521.30
BSSP	0.061	0.061	0.000	---	27,720	---
TOTAL						**69.44**
Total extra expenditure on Printing and Writing Paper production						**5,515.05**
Overall extra expenditure						**6,019.79**

ANNEXURE-10

(Referred to in Paragraph 2.13)

Details of consumption of chemicals in excess of norms

Paper Production

(Kgs. per MT)

Chemical	2001-02		2002-03		2003-04		2004-05		2005-06	
	Norm	Excess	Norm	Excess	Norm	Excess	Norm	Excess	Norm	Excess
Alum (PM-I)	30	7	30	6	37	1	40	---	28	11
Alum (PM-II)	30	7	30	6	30	8	40	---	25	15
Filler material (PM-I)	79	---	80	---	59	17	75	15	60	---
Filler material (PM-II)	74	5	76	---	82	---	80	---	77	---
Rosin (PM-I)	11	2	11	2	12	4	12	---	12	---
Rosin (PM-II)	10	4	10	5	10	6	12	---	12	---

Pulp Production

(Kgs. per MT)

Chemical	2001-02		2002-03		2003-04		2004-05		2005-06	
	Norm	Excess	Norm	Excess	Norm	Excess	Norm	Excess	Norm	Excess
TAA (HWP)	352	15	360	37	390	16	407	8	400	7
TAA (CBP-I)	250	15	250	12	265	---	245	---	240	---
TAA (CBP-II)	250	12	250	11	265	---	248	---	240	---
Caustic lye (HWP)	19	4	34	---	33	7	38	---	33	5
Caustic lye (CBP-I)	18	2	17	3	19	3	21	1	21	1
Caustic lye (CBP-II)	18	2	17	3	19	4	21	2	21	---
Chlorine (HWP)	69	3	65	5	69	1	69	2	70	---
Chlorine (CBP-I)	32	2	30	4	32	2	33	4	34	---
Chlorine (CBP-II)	32	---	30	3	32	2	33	2	34	---
Hydrogen Peroxide (CBP-I)	6	---	6	1	6	---	6	1	7	1
Hydrogen Peroxide (CBP-II)	6	---	6	1	6	---	6	1	7	---
Sodium sulphate (MBP)	45	---	44	5	45	9	54	20	36	36
Caustic soda lye (MBP)	44	3	44	---	44	---	45	---	41	3
Hydrogen Peroxide (bleaching)	45	17	45	---	42	---	43	9	33	25

ANNEXURE-11

(Referred to in Paragraph 2.24)

Details of shortfall in steam generation and consequent loss of power generation

Boiler	Year	Steam generation (In MT per hour)			Number of hours worked	Shortfall in steam generation (In MT) (5)X(6)	Steam required per unit of power generation (In Kg.)	Loss of power generation (In units) (7) X 1,000/(8)
		Budget	Actual	Shortfall				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Boiler-I	2001-02	54	42	12	6,296	75,552	3.26	10,40,35,276
Boiler-II		54	40	14	7,017	98,238		
Boiler-III		54	43	11	4,445	48,895		
Boiler-IV		59	54	5	7,286	36,430		
Boiler-V		89	79	10	8,004	80,040		
Boiler-I	2002-03	54	48	6	6,529	39,174	3.29	4,20,72,948
Boiler-II		54	48	6	6,164	36,984		
Boiler-III		54	49	5	6,258	31,290		
Boiler-IV		59	57	2	7,601	15,202		
Boiler-V		89	87	2	7,885	15,770		
Boiler-I	2003-04	54	46	8	6,381	51,048	3.17	5,87,55,205
Boiler-II		54	46	8	6,492	51,936		
Boiler-III		54	46	8	7,606	60,848		
Boiler-IV		59	57	2	7,194	14,388		
Boiler-V		89	88	1	8,034	8.034		

Boiler	Year	Steam generation (In MT per hour)			Number of hours worked	Shortfall in steam generation (In MT) (5)X(6)	Steam required per unit of power generation (In Kg.)	Loss of power generation (In units) (7) X 1,000/(8)
		Budget	Actual	Shortfall				
Boiler-I	2004-05	54	45	9	5.079	45.711	3.15	5.79.98.730
Boiler-II		54	45	9	6.118	55.062		
Boiler-III		54	45	9	5.597	50,373		
Boiler-IV		59	56	3	7.843	23.529		
Boiler-V		89	88	1	8.021	8.021		
Boiler-I	2005-06	54	46	8	8.193	65.544	3.21	6.41.40.810
Boiler-II		54	42	12	5.226	62.712		
Boiler-III		54	46	8	7.722	61.776		
Boiler-IV		59	57	2	7.930	15.860		
TOTAL						**10,52,417**		**32,70,02,969**

ANNEXURE-12

(Referred to in Paragraph 2.25)

Details of excess steam consumption in paper making process

Details	2001-02				2002-03				2003-04				2004-05				2005-06			
	P	B	A	E (A-B)XP)	P	B	A	E (A-B)XP)	P	B	A	E (A-B)XP)	P	B	A	E (A-B)XP)	P	B	A	E (A-B)XP)
PM I PWP	95992	2.00	1.94	--	87478	1.95	1.88	---	96773	1.70	2.04	32902.82	107474	1.80	2.09	31167.46	121469	2.20	2.13	---
NP-PM II	36381	1.80	1.86	---	22557	1.85	1.87	---	12244	1.60	1.72	---	8052	1.60	1.74	---	5870	1.59	1.74	---
PWP PM-II	74698	1.80	1.81	---	79589	1.80	1.71	---	103901	1.60	1.64	---	104493	1.60	1.64	---	127625	1.56	1.61	---
HWP MP steam	32684	1.20	1.25	---	37876	1.20	1.29	---	40656	1.30	1.28	---	43330	1.30	1.32	---	46568	1.20	1.50	13970.40
LP Steam	32684	0.12	0.19	2287.88	37876	0.20	0.00	---	40656	0.00	0.00	---	43330	0.00	0.00	---	46568	---	---	---
LP Steam	28937	0.35	0.47	3472.44	33533	0.40	0.47	2347.31	358852	0.45	0.49	---	38263	0.50	0.35	---	41907	0.23	0.36	5447.91
CBP-I MP steam	137341	1.70	1.83	---	128310	1.70	1.78	---	120554	1.80	1.68	---	107963	1.70	1.76	---	63946	1.54	1.77	14707.58
LP steam	51861	0.35	0.44	4667.49	48351	0.35	0.45	4835.10	45492	0.40	0.47	3184.44	40311	0.50	0.32	---	58835	0.21	0.34	7648.55
CBP-II MP steam	150133	1.60	1.58	---	129807	1.60	1.58	---	171688	1.80	1.75	---	158946	1.70	1.80	---	76574	1.42	1.73	23737.94
LP steam	56654	0.50	0.83	18695.82	48984	0.60	0.72	5878.08	64788	0.60	0.63	---	59344	0.60	0.61	---	70420	0.23	0.57	23942.80
MBP	10896	0.35	0.46	1198.56	6588	0.40	0.46	395.28	2560	0.45	0.62	435.20	920.	0.60	0.39	---	----	----	----	---
Soda Recovery Plant																				
MP steam	42917	2.50	2.64	---	42357	2.50	2.59	---	45633	2.40	2.78	17340.54	44220	2.60	2.57	---	---	2.50	2.23	---
LP Steam	42917	8.25	8.34	---	42357	8.50	8.40	---	45633	8.30	8.57	---	44220	8.50	8.41	---	--	8.50	8.43	---
TOTAL				30322.19				13455.77				53863.00				31167.46				89455.18

P:Paper production (In MT)   B:Budget (consumption of steam in MT per tonne of production)   A: Actual consumption of steam   E:Excess consumption of steam (In MT)

ANNEXURE-13

(Referred to in Paragraph 2.26)

Details of excess power consumption in paper making process

Details	2001-02				2002-03				2003-04				2004-05				2005-06			
	P	B	A	E (A-B)XP	P	B	A	E (A-B)XP	P	B	A	E (A-B)XP	P	B	A	E (A-B)XP	P	B	A	E (A-B)XP
PM I PWP	95992	590	617	---	87478	620	628	---	96773	660	636	---	107474	620	576	---	121469	550	583	---
NP-PM II	36381	590	656	2401146	22557	650	720	1578990	12444	725	688	---	8052	675	686	---	5870	606	694	516560
PWP PM II	74698	585	640	---	79589	635	645	---	103901	650	605	--	104493	600	637	---	127625	580	616	---
HWP	28937	395	395	----	33533	390	413	---	35852	395	426	---	38263	395	409	---	41907	344	386	1760094
CBP-I	51865	350	357	---	48351	350	376	---	45492	360	351	---	40311	350	363	---	58835	315	363	2824080
CBP-II	56654	400	453	3002662	48984	425	463	---	64788	450	436	---	59344	430	457	---	70420	398	426	---
Refiner	27312	1261	1306	---	15653	1300	1253	---	6416	1300	1174	---	2321	1200	1192	---	---	---	---	---
Others	10896	400	514	1242144	6588	400	490	592920	2560	450	481	---	920	500	615	105800	1041	358	413	57255
Soda Recovery Plant	42917	460	482	---	42357	460	507	1990779	45633	500	484	----	44000	480	477	---	52454	450	475	---
Hypo	3421	150	150	---	3535	145	155	---	3939	150	152	---	4211	150	150	---	---	150	150	---
Kiln	44045	20	27	308315	46317	20	57	1713729	50205	70	70	---	48515	70	54	---	---	55	52	---
WTP	20541	240	273	677853	19348	463	514	986748	18001	535	653	2124118	20748	662	580	---	---	596	547	---
TOTAL				7632120				6863166				2124118				105800				5157989

P:Production (In MT) B:Budgetted consumption of power in units per tonne of production A: Actual (consumption of power in units) E:Excess consumption of power (In units)

ANNEXURE - 14

(Referred to in Paragraph 2.28)

Details of various varieties of paper sold and margin derived thereon

Particulars	Year	Quantity produced (MT)	Quantity sold (MT)	Cost of Production	Cost of Sales	Average realisation	Margin
				(Rupees per MT)			
Newsprint-PM2	2001-02	33.272	33.272	22,859	24,690	26.488	1.798
	2002-03	20,496	20,496	23.779	25.572	20.854	(-) 4718
	2003-04	11.581	11,581	25.782	27.294	22.341	(-) 4953
	2004-05	7.708	7.708	25,289	27.352	25.438	(-) 1914
	2005-06	5.468	5.468	24.566	26.772	27,434	662
Cream Wove - PM#1							
40 - 60 GSM	2001-02	30.849	30.839	20.184	26.233	30.977	4.744
	2002-03	30.978	30.976	20.491	25.858	29.885	4.027
	2003-04	41.174	40.452	22.745	27.349	30,959	3.610
61 - 80 GSM	2001-02	5.750	5.750	20.088	27.266	31.573	4.307
	2002-03	7.685	7,685	20,801	28.201	31.934	3.733
	2003-04	7,905	7.883	23.157	28.947	31.890	2.941
Combined	2004-05	49,769	50,505	24.180	28.524	31.521	2.997
	2005-06	33,176	33.164	23.140	27.867	33.428	5.560
Cream Wove - PM#2							
40 - 60 GSM	2001-02	30,820	30.816	21.303	27.048	31.823	4.775
	2002-03	31,669	31,647	20,417	26.167	31,387	5.220
	2003-04	46,465	45,356	22,960	27.061	30.520	3.459
61 - 80 GSM	2001-02	2,921	2.921	20,822	27,525	32,097	4.572
	2002-03	3,479	3,479	20.855	27.009	32.311	5.302
	2003-04	5.648	5.428	22.580	29.069	32,591	3.522
Combined	2004-05	63,978	65.297	25,245	28,981	30,999	2.018
	2005-06	1,02,937	1.02,935	24,844	28.283	32,077	3.793
Super printing PM-1							
40 - 60 GSM	2001-02	6,559	6,559	20,056	26.549	31.434	4.885
	2002-03	13,478	13.978	20.348	25.451	30.499	5.048
	2003-04	10.450	10,145	23.010	29,282	33.753	4.471
61 - 80 GSM	2001-02	14,488	14,488	19.578	24.619	30.685	6.066

Particulars	Year	Quantity produced (MT)	Quantity sold (MT)	Cost of Production	Cost of Sales	Average realisation	Margin
				(Rupees per MT)			
	2002-03	5,272	5,272	20,590	27,314	33,167	5,853
	2003-04	2,091	2,073	22,396	28,408	34,184	5,776
Combined	2004-05	2,950	3,284	24,983	30,135	33,797	3,662
Super Printing-PM 2							
Combined	2004-05	63,978	65,297	25,245	28,981	30,979	2,018
	2005-06	3,885	3,885	25,230	28,598	31,509	2,911
TNPL Copier - PM-1							
75-80 GSM -	2001-02	16,040	16,029	22,383	29,100	33,383	4,283
	2002-03	12,332	12,320	22,519	29,962	34,385	4,423
	2003-04	11,584	11,235	25,267	31,792	35,023	3,231
	2004-05	28,607	28,933	26,598	31,460	34,304	2,844
	2005-06	37,646	37,628	25,478	29,549	35,542	5,992
TNPL Copier - PM-2							
75-80 GSM	2002-03	2,919	2,916	22,997	29,497	35,492	5,995
	2003-04	8,157	8,060	24,071	30,056	35,022	4,966

ANNEXURE-15

(Referred to in Paragraph 4.26)

Statement showing the details of companies which did not comply with the Accounting Standards in the preparation of financial statements

Sl. No.	Name of the Company	Accounting Standard numbers and details				
		AS 2	AS 9	AS 13	AS 15	AS 22
		Valuation of Inventories	Revenue Recognition	Accounting for investments	Accounting for Retirement benefits	Taxes on income
1.	Tamil Nadu Industrial Development Corporation Limited			2002-03, 2003-04 and 2004-05		
2.	Tamil Nadu Small Industries Corporation Limited	2002-03, 2003-04 and 2004-05			2002-03 2003-04 and 2004-05	2002-03, 2003-04 and 2004-05
3.	Electronics Corporation of Tamil Nadu Limited			2002-03, 2003-04 and 2004-05		
4.	Tamil Nadu Medical Services Corporation Limited				2002-03, 2003-04 and 2004-05	
5.	Tamil Nadu Sugar Corporation Limited			2002-03, 2003-04 and 2004-05		
6.	Tamil Nadu Ex-Servicemen's Corporation Limited				2002-03, 2003-04 and 2004-05	
7.	Metropolitan Transport Corporation Limited		2003-04 and 2004-05		2003-04 and 2004-05	2003-04 and 2004-05

ANNEXURE-16

(Referred to in paragraph 4.27.1)

Statement showing paragraphs/reviews for which explanatory notes were not received

Sl. No.	Name of the Department	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Total
1.	Adi Dravidar and Tribal Welfare	---	---	---	---	1	1	---	2
2.	Energy	---	---	---	1	---	---	12	13
3.	Environment and Forests	---	----	---	---	---	---	1	1
4.	Co-operation, Food and Consumer Protection	---	---	---	---	---	---	4	4
5.	Handloom, Handicraft, Textiles and Khadi	---	---	---	---	1	---	---	1
6.	Highways	---	1	---	---	1	---	1	3
7.	Industries	---	---	7	5	5	4	2	23
8.	Rural Development and Local Administration	1	---	---	---	---	---		1
9.	Small Industries	---	---	6	4	4	4	1	19
10.	Transport	---	---	---	---	1	---	1	2
11.	General	---	---	---	---	---	---	2	2
	TOTAL	**1**	**1**	**13**	**10**	**13**	**9**	**24**	**71**

ANNEXURE-17

(Referred to in Paragraph 4.27.3)

Statement showing persistent irregularities pertaining to Government companies appeared in the Report of CAG of India (Commercial) – Government of Tamil Nadu

Sl. No.	Gist of Persistent irregularities	Year of Audit Report/ Para No.	Money Value (Rupees in crore)	Gist of Audit observations	Actionable points/Action to be taken	Details of actions taken
1. Tamil Nadu Industrial Investment Corporation Limited						
(i)	Violation of guidelines governing sanction of loan	1997-98/4A.4	8.84	Violation of guidelines while sanctioning leasing and hire purchase loans to 16 industrial units.	Responsibility is required to be fixed on the officials for extension of leasing and hire purchase loans in violation of Guidelines.	The Company accepted the facts and stated that appropriate action was being initiated against the officials responsible for such lapses. No further compliance received.
		1999-2000/4A.8	0.85	Sanction of loan ignoring the appraisal report, release of loan disregarding the guidelines prescribed by the Board of Directors of the company.	Responsibility is required to be fixed on the officials for release of loan disregarding the guidelines.	Action was intimated for invoking the collateral security (May 2000). No further compliance received
		2004-05/4.7	1.84	Sanction of loan ignoring the appraisal report and the guidelines prescribed by the Board of Directors of the company.	Responsibility is required to be fixed on the officials for release of loan disregarding the guidelines.	The company stated (July 2005) that it was taking steps to recover the balance amount of Rs.1.84 crore. No further compliance is received.

ANNEXURE-18

(Referred to in Paragraph 4.27.3)

Statement showing persistent irregularities pertaining to Statutory corporation appeared in the Reports of CAG of India (Commercial) – Government of Tamil Nadu

Sl.No.	Gist of Persistent Irregularities	Year of Audit Report/Para No.	Money value (Rupees in crore)	Gist of Audit observations	Actionable points/Action to be taken	Details of actions taken
1. Tamil Nadu Electricity Board						
1.	Extension of undue benefit to Independent Power Producer (IPP)	2001-02/ 4B.1.2	Rs.5.21	The Board extended undue benefit of Rs.5.21 crore to an Independent Power Producer viz., GMR Vasavi Power Corporation, by not restricting the element of Sales Tax in the fuel cost for power supplied to the rate actually paid during April 1999 to July 2003.	Before admitting the claims of the Independent Power Producers, the Board should ensure that the claims preferred by the IPP's are strictly in conformity with the provisions of Power Purchase Agreement.	On being pointed out by audit, the Board recovered a sum of Rs.8.62 crore (Rs.6.89 crore towards excess paid Sales Tax and Rs.1.73 crore towards interest thereon) in March 2002. As a result of this Audit observation, there would be future saving of Rs.22.84 crore to the Board during the remaining period of PPA viz., ten years and four months.

Sl.No.	Gist of Persistent Irregularities	Year of Audit Report/Para No.	Money value (Rupees in crore)	Gist of Audit observations	Actionable points/Action to be taken	Details of actions taken
		2003-04/ 4.9	Rs.40.19	The Board made payments totalling to Rs.40.19 crore against the monthly claims for Income Tax by M/s.ST-CMS Electric Company Private Limited (Generating Company) during January 2003 to March 2004. These payments were made by the Board ignoring the facts that the generating company did not provide for the liability for Income Tax in its accounts for 2002-03 due to losses and the company was availing Tax Holiday for 10 years commencing from April 2003.	Before admitting the claims of the IPP, the Board should ensure that the claims preferred by them are strictly in conformity with the provisions of Power Purchase Agreement.	The matter was reported to the Board/Government in June 2004. The reply is, however, awaited (June 2005).
		2003-04/ 4.12	Rs.5.59	The Board extended an undue benefit of Rs.5.59 crore to Balaji Power Corporation Private Limited (Generating Company) towards interest on working capital (Rs.4.70 crore) and Return on Equity (Rs.88.90 lakh) even though Generating Company would not incur any expenditure towards interest on working capital as per Generating Company's agreement with fuel supplier and exchange rate protection on Return on Equity on the increased foreign equity contribution of 5.03 million US dollars.	Before admitting the claims of the IPP, the Board should ensure that the claims preferred by them are strictly as per the provisions of Power Purchase Agreement.	The matter was reported to the Board/Government in June 2004. The reply is, however, awaited.

Sl.No.	Gist of Persistent Irregularities	Year of Audit Report/Para No.	Money value (Rupees in crore)	Gist of Audit observations	Actionable points/Action to be taken	Details of actions taken
		2004-05/ 4.14	Rs.4.12	As per the terms of Power Purchase Agreement with GMRV Vasavi (IPP), the tariff payable by the Board inter alia included interest on working capital. The working capital requirement from 2002-03 onwards had to be computed based on the Plant Load Factor (PLF) of 85 per cent or average of actual PLF whichever was lower. The Board made excess payment of Rs.4.12 crore for the tariff years 2002-03 and 2003-04 to the IPP by admitting interest on working capital computed based on PLF of 85 per cent instead of average of actual PLF of preceding three years which were lower.	Before admitting the claims of the IPP, the Board should ensure that the claims preferred by them are strictly as per the provisions of Power Purchase Agreement.	The mater was reported to the Board/Government in June 2005; The reply is however awaited.

ANNEXURE-19

(Referred to in paragraph 4.28)

Statement showing the department-wise outstanding inspection reports

Sl. No	Name of Department	Number of PSUs	Number of outstanding IRs	Number of outstanding paragraphs	Years from which paragraphs outstanding
1.	Industry	11	44	259	1998-99
2.	Small Industry	5	16	72	1999-2000
3.	Information Technology	1	5	18	1999-2000
4.	Commercial Taxes	1	1	4	2001-02
5.	Information and Tourism	2	6	30	2002-03
6.	Agriculture	4	6	12	2001-02
7.	Prohibition and Excise	1	5	44	2000-01
8.	Social Welfare and Noon-Meal Programme	1	4	16	2000-01
9.	Energy	1	1	1	2005-06
10.	Municipal Administration and Water Supply	1	3	14	2003-04
11.	Transport	9	41	135	2001-02
12.	Fisheries	1	2	10	2004-05
13.	Labour and Employment	2	5	14	1998-99
14.	Health and Family Welfare	2	5	19	2000-01
15.	Adi Dravidar and Tribal Welfare, Backward Classes, Most Backward Classes and Minority Welfare	3	10	32	2000-01
16.	Rural Development and Local Administration	1	1	2	2005-06
17.	Home	1	3	8	2002-03
18.	Public Works	1	9	36	1995-96
19.	Highways	1	7	41	1995-96
20.	Handloom, Handicrafts, Khadi and Textiles	4	11	26	2002-03
21.	Environment and Forest	3	6	18	2000-01
22.	Food and Consumer Protection	2	4	19	2003-04
23.	Tamil Nadu Electricity Board	1	665	2,820	1997-98
	Grand Total	**59**	**860**	**3,650**	

ANNEXURE-20

(Referred to in paragraph 4.28)

Statement showing the department-wise draft paragraphs, reply to which are awaited

Sl. No	Name of Department	Number of draft paragraphs	Period of issue
1.	Industry	1	March 2006
2.	Energy	13	March to September 2006
3.	Handloom, Handicrafts, Khadi and Textiles	1	March 2006
4.	Information Technology	1	May 2006
5.	Prohibition and Excise	2	May 2006
6.	Fisheries	1	September 2006
7.	Transport	1	April 2006
8.	Finance	3	September 2006
	TOTAL	**23**	

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