REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1997

No. 1

(COMMERCIAL)

GOVERNMENT OF TAMIL NADU

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PREFACE

PREFACE

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

- Government Companies;
- Statutory Corporations; and,
- Departmentally-Managed Commercial Undertakings.

2 This Report deals with the results of audit of Government Companies and Statutory Corporations including the Tamil Nadu Electricity Board and has been prepared for submission to the Government of Tamil Nadu for presentation in the Legislature under Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in March 1984. The results of audit relating to Departmentally-Managed Commercial Undertakings are contained in the Report of the Comptroller and Auditor General of India (Civil) - Government of Tamil Nadu.

3 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 its accounts independently of the audit conducted by the Chartered Accountants appointed under the Warehousing Corporations Act, 1962.

4 There are, however, certain Companies, which are not subject to audit by the Comptroller and Auditor General of India as Government or Government owned/controlled Corporations hold less than 51 *per cent* of the shares in these Companies. A list of such Undertakings in which Government investment was Rs.10 lakh and above as on 31 March 1997 is given in Annexure - 1. The total investment in these Companies as on March 1997 was Rs.1.38 crore.

5 The cases mentioned in this Report are those which came to notice in the course of audit of accounts during the year 1996-97 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports. Matters relating to the period subsequent to 1996-97 have also been included, wherever considered necessary.

OVERVIEW

OVERVIEW

1 GENERAL

(A) GOVERNMENT COMPANIES

The State had 81 Government Companies (including six subsidiaries), two deemed Government Companies as defined in Section 619 (B) of the Companies Act, 1956 and two Statutory Corporations. The total investment by Government in the 81 Government Companies as on 31 March 1997 was Rs.4394.35 crore (equity: Rs.914.19 crore; long term loans: Rs.3480.16 crore).

{Paragraphs 1.1 and 1.2.1}

Abnormal delays ranging from 5 to 16 years in winding up of eight defunct Companies caused undue financial strain to the State Exchequer by way of administrative expenses amounting to Rs.2.93 crore to the end of March 1997.

{Paragraph 1.2.1}

Of the 81 Government Companies, accounts of a newly formed Government Company and another Company under liquidation were not due. Of the remaining 79, accounts of 27 Companies were not finalised within the time schedule and were in arrears for periods ranging from 1 to 8 years as on 30 September 1997.

{Paragraph 1.2.4}

During the period from October 1996 to September 1997, 71 Companies finalised their accounts for 1996-97 or earlier years. Of these, 30 Companies earned profit of Rs.106.25 crore and 39 Companies suffered loss of Rs.333.90 crore. The transport sector contributed the major share of loss aggregating Rs.302.60 crore (91 per cent*). While there was no transaction in respect of the defunct Tamil Nadu Dairy Development Corporation Limited pending winding up, there was no loss or profit (provisional) in respect of Tamil Nadu Civil Supplies Corporation Limited during 1996-97 due to Governmental subsidy. However, according to the Report of the Statutory Auditors on the accounts of the Tamil Nadu Civil Supplies Corporation Limited, the working of the Company would* *have resulted in loss of Rs.159.82 crore during 1996-97 had provision been made in respect of certain doubtful/bad debts.*

{Paragraph 1.2.5.1}

Out of 52 Companies which finalised their accounts for the year 1996-97, 22 Companies earned profit of Rs.104.18 crore and 29 Companies suffered loss of Rs.318.24 crore (excluding Tamil Nadu Civil Supplies Corporation Limited, which reported no profit or loss as mentioned earlier). During the year 1996-97, an amount of Rs.11.11 crore was earned as dividend by the Government in respect of eight Companies and this worked out to 1.22 per cent *of the total equity investment of Rs.914.19 crore in 81 Government Companies. The accumulated loss of Rs.1092.71 crore in respect of 41 Companies had far exceeded their paid-up capital of Rs.338.61 crore.*

{Paragraphs 1.2.5.2 and 1.2.5.3}

(B) DEEMED GOVERNMENT COMPANY

Tamil Nadu Newsprint and Papers Limited, a 619 (B) Company declared a dividend of 15 per cent *during the year 1996-97 which worked out to Rs.3.66 crore on the Government's investment of Rs.24.44 crore as against the return of Rs.7.77 crore (31.8* per cent*) during the earlier year (1995-96).*

{Paragraph 1.2.11}

(C) STATUTORY CORPORATIONS

The total investment of Government in two Statutory Corporations viz., *Tamil Nadu Electricity Board and Tamil Nadu Warehousing Corporation as on 31 March 1997 amounted to Rs.1084.61 crore. The working of the Tamil Nadu Electricity Board as per the provisional accounts for the year 1996-97 showed a net surplus of Rs.64.20 crore as compared to the surplus of Rs.339.19 crore during the previous year 1995-96. But for the receipt of subsidy of Rs.358.30 crore from the Government, the working result of the Tamil Nadu Electricity Board during 1996-97 would have ended up with a deficit of Rs.294.10 crore. According to the* *provisional accounts for the year 1996-97, Tamil Nadu Warehousing Corporation earned a net profit of Rs.1.48 crore.*

{Paragraphs 1.3.2, 1.3.3, 1.3.8.1 (iii) and 1.3.8.2 (ii)}

2 REVIEWS

The performance of Tamil Nadu Adi Dravidar Housing and Development Corporation Limited, Tamil Nadu Minerals Limited, Tamil Nadu Small Industries Development Corporation Limited and the activities relating to "Basin Bridge Power Project" and "Material Management" in respect of Tamil Nadu Electricity Board were reviewed in audit during 1996-97.

(A) GOVERNMENT COMPANIES

(I) TAMIL NADU ADI DRAVIDAR HOUSING AND DEVELOPMENT CORPORATION LIMITED

Tamil Nadu Adi Dravidar Housing and Development Corporation Limited set up (February 1974) initially with the objective of providing housing facilities to Adi Dravidars was later on entrusted (February 1975) with the task of undertaking various economic development schemes for poverty alleviation and upliftment of the standard of living of Adi Dravidars in the State. Though the scheme of construction of houses for Adi Dravidars was subsequently transferred to District Rural Development Agencies in 1989-90, the unutilised funds of Rs.2.49 crore held by the Company under the scheme had not been refunded to the Government.

{Paragraphs 2A.1, 2A.2 and 2A.6.1.(iii)}

Due to absence of effective control over timely implementation of various welfare schemes, funds to the tune of Rs.36.05 crore released by the Central/State Government remained unutilised and kept in Personal Deposit account for over two years during the period from 1992-93 to 1994-95.

{Paragraph 2A.6.1.(ii)}

But for the interest income on investment of unutilised scheme funds and on account of over-charging of Special Central Assistance schemes towards *administrative expenses, the cumulative profit of Rs.5.65 crore exhibited by the Company during the five years up to 1994-95 would have ended up into accumulated loss of Rs.13.27 crore.*

{Paragraph 2A.6.2}

Establishment of hosiery knitwear based industrial estates at Mudalipalayam and Ingur at the cost of Rs.23.02 crore by diversion of Special Central Assistance scheme funds defeated the basic objective of the upliftment of Adi Dravidars below poverty line in view of the requirement of a minimum contribution beyond the means of this segment. Moreover, both these estates constructed without assessing the demand potential remained idle/incomplete

{Paragraph 2A.7.3}

Non-utilisation/return of undisbursed loans obtained from National Scheduled Castes and Scheduled Tribes Finance and Development Corporation Limited entailed avoidable payment of penal interest of Rs.1.08 crore. Further, none of the landless Scheduled Castes/Tribes was provided financial assistance against the target of 4000 under the Sericulture scheme.

{Paragraph 2A.7.4}

Expenditure of Rs.1.91 crore incurred on 159 incomplete non-functioning tube wells meant to irrigate lands belonging to Scheduled Castes proved unproductive in the absence of plan/funds for bringing them to beneficial use.

{Paragraph 2A.10.1}

(II) TAMIL NADU MINERALS LIMITED

Tamil Nadu Minerals Limited was incorporated in April 1978 to plan/organise exploitation of mineral resources in the State and to pave the way for industrial development by scientific utilisation of mineral wealth available in the State.

{Paragraph 2B.1}

Due to injudicious investment of its huge surplus funds and on account of keeping of foreign currency holdings in excess of its requirements in the *foreign currency current accounts/term deposits carrying lesser rates of interest, the Company had foregone additional interest income of Rs.4.23 crore.*

{Paragraph 2B.6.2}

Non-operation of leasehold lands (854.45 hectares) over six years and delay in surrendering of identified barren/unviable lands resulted in avoidable payment of dead rent to the tune of Rs.2.87 crore.

{Paragraphs 2B.8.1.1 and 2B.8.1.2}

Expansion of capacity of the granite cutting and polishing unit, despite gross under-utilisation of existing capacity, led to investment of Rs.2.51 crore remaining unproductive.

{Paragraph 2B.8.2.1 (iii)}

Import of machinery for the granite tile plant without ensuring its suitability and Company's failure to properly ensure the market potential beforehand led to continued uneconomic operation of the plant installed at the cost of Rs.5.90 crore.

{Paragraph 2B.8.2.2 (ii)}

Acceptance of a higher tender offer for graphite beneficiation plant disregarding the technically acceptable lower offer without justifiable reasons resulted in an extra expenditure of Rs.6.53 crore. Further, because of non-achievement of guaranteed performance by the plant, the Company suffered loss of revenue of Rs.3.98 crore due to poor quality output and low recovery efficiency.

{Paragraphs 2B.8.2.3 (b) and (c)}

(III) TAMIL NADU SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED

Tamil Nadu Small Industries Development Corporation Limited was incorporated in March 1970 with a view to give an impetus to the planned *development of small scale industries in the State. The Company had not evolved any long-term corporate plan for achievement of the objectives.*

{Paragraphs 2C.1 and 2C.2}

Due to purchase of lands from private parties at higher prices through negotiations without initiating simultaneous land acquisition proceedings in contravention of Government directives, the Company incurred extra expenditure of Rs.4.69 crore.

{Paragraph 2C.7.1 (b)}

Sale of lands specifically meant for common purposes to private parties in contravention of approved layout at prices lower than even the guideline values led to loss of revenue of Rs.36.35 crore.

{Paragraph 2C.7.1 (c)}

Expenditure of Rs.1.23 crore incurred on construction of work/tiny sheds in two places without ensuring the demand/transfer of lands proved unfruitful.

{Paragraphs 2C.7.1 (e) and (f)}

Non-collection of maintenance charges from the allottees based on actual expenditure despite the instructions of Head Office resulted in loss of Rs.1.12 crore in respect of two industrial estates test checked in audit.

{Paragraph 2C.7.2}

Diversion of funds for development of private industrial estates not only defeated the basic objective of setting up of such estates without any financial commitment to the Company but also led to non-realisation of its investment of Rs.6.25 crore in the absence of any agreement/security.

{Paragraph 2C.7.6}

(B) STATUTORY CORPORATION

TAMIL NADU ELECTRICITY BOARD

(I) BASIN BRIDGE GAS TURBINE PROJECT

Basin Bridge Gas Turbine Project with four units of 30 MW each was commissioned in March 1996 against the original scheduled date of commissioning in July 1992. The original project cost had gone up from Rs.56.48 crore to Rs.429.40 crore (i.e. an increase of 660.3 per cent*) against which the actual expenditure up to March 1997 was Rs.394.80 crore.*

{Paragraphs 3A.1, 3A.4.1 and 3A.4.2}

Construction of new water tank for fire protection system without making use of the existing water tanks in the project area and pucca houses for fuel pumps without ensuring their suitability for Naptha based project resulted in extra/wasteful expenditure of Rs.1.22 crore.

{Paragraphs 3A.4.3 and 3A.4.4}

Non-completion of fire protection system resulted in extra expenditure of Rs.1.97 crore on the usage of HSD oil instead of naptha as originally envisaged and idling of naptha pipeline laid at the cost of Rs.2.57 crore for nearly 21 months.

{Paragraphs 3A.4.5 and 3A.5.2}

Delay in furnishing of work fronts/drawings for civil works even after receipt of main equipment led to unfruitful payment of operation and maintenance charges amounting to Rs.1.17 crore to the equipment supplier.

{Paragraph 3A.4.8}

Decision to go in for a gas turbine project without any concrete plan to make it viable, despite the advice of the project consultants to explore other alternative methods resulted in high cost of generation of Rs.27.83 per unit as against Rs.1.77 per unit envisaged in the feasibility report.

{Paragraph 3A.5.4}

(II) *MATERIAL MANAGEMENT*

The annual procurement of materials by the Tamil Nadu Electricity Board had registered threefold increase from Rs.400 crore to Rs.1200 crore over a decade from 1986-87 to 1996-97. The system of inventory control of the Board suffered from various system/procedural deficiencies like absence of centralised purchase organisation, non-preparation of material budgeting, non-maintenance of vendor rating registers, absence of scientific method of analysis to control inventory holdings, etc.

{Paragraphs 3B.1, 3B.2 and 3B.4}

Non-finalisation of tenders for purchase of underground cables, copper/aluminium cables within the validity periods, non-adoption of cheaper proven improved design on the purchase of 230/110 KV double circuit transmission towers and piecemeal procurement of RTS grills and certain other materials (cables, G.I. pipes, etc.) through limited tenders without ensuring the reasonableness of rates resulted in extra expenditure of Rs.17.20 crore.

{Paragraphs 3B.5.1 (a), (b), 3B.5.2, 3B.5.3 (a) and (b)}

Non-regulation of purchase to actual requirements and improper assessment of requirements resulted in idling of inventory worth Rs.5.21 crore for periods ranging from 12 to 32 months and consequential loss of interest of Rs.1.32 crore on locked up funds.

{Paragraphs 3B.6.2, 3B.6.3 and 3B.6.4}

Due to non-finalisation of tenders within the validity period, the Tamil Nadu Electricity Board had lost Rs.1.43 crore on the sale of 383.76 tonnes of copper scrap at lesser rates on re-tendering.

{Paragraph 3B.7.1}

3. OTHER TOPICS OF INTEREST

Besides the reviews, a test check of records of Government Companies and Tamil Nadu Electricity Board in general disclosed the following points of interest:

(A) GOVERNMENT COMPANIES

(i) Disinvestment of its entire share holdings (1410540 shares) in South India Shipping Corporation Limited at lower rate (Rs.375 per share) despite steady upward market trend (i.e. upto Rs.590 per share) based on a single offer without obtaining competitive quotations, Tamil Nadu Industrial Investment Corporation Limited was deprived of the opportunity of earning additional revenue of Rs.30.33 crore.

{Paragraph 4A.1}

(ii) Irregular sanction, ineffective pre-sanction appraisals, failure to safeguard its interests with adequate security resulted in non- realisation of overdues of Rs.9.65 crore in respect of 47 out of 60 short term loans sanctioned by Tamil Nadu Industrial Investment Corporation Limited to various industrial units during the period from March to May 1996.

{Paragraph 4A.2}

(iii) Release (November - December 1994) of loan to Elcot New Era Technologies Limited in contravention of the Board's directives without adequately safeguarding its interests with proper security led to non-realisation of dues of Rs.1.13 crore (inclusive of interest) by Tamil Nadu Industrial Development Corporation Limited.

{Paragraph 4A.3}

(iv) Failure to ensure the availability of required lands, financial tie up and foreign investment, expenditure of Rs.0.59 crore incurred on Singapore Trade Corridor Project by the Tamil Nadu Industrial Development Corporation Limited proved infructuous due to abandonment of the project.

{Paragraph 4A.4}

(v) Failure to place separate indents for 14159.80 tonnes of rice lifted and distributed to the hostels for welfare and development of weaker sections of Scheduled Castes/Scheduled Tribes and other Backward Classes, Tamil Nadu Civil Supplies Corporation Limited could not avail of the specially subsidised issue price and thus made excess payment of Rs.0.71 crore to the Food Corporation of India.

{Paragraph 4A.7}

(vi) Due to improper planning, incorrect assessment of requirements and delay in taking up of the work leading to cost escalation, investment of Rs.0.44 crore made by the Tamil Nadu Poultry Development Corporation Limited on an incomplete hatchery (Agastheeswaram) and a feed mixing plant (Kattupakkam) proved unproductive/unfruitful.

{Paragraphs 4A.14 and 4A.15}

(B) STATUTORY CORPORATION

Due to extension of irregular/ineligible tariff concessions to new industries, Tamil Nadu Electricity Board had foregone the revenue of Rs.9.10 crore in two cases noticed in Audit.

{Paragraph 4B.1}

CHAPTER 1

GENERAL VIEW OF GOVERNMENT COMPANIES INCLUDING DEEMED GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

CHAPTER 1

1 GENERAL VIEW OF GOVERNMENT COMPANIES INCLUDING DEEMED GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

1.1 Introduction

The accounts of the Government Companies and deemed Government Companies (as defined in Section 619 B of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the Central Government on the advice of the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per the provisions of Section 619 (4) of the Companies Act.

Of the two Statutory Corporations in the State, the accounts of Tamil Nadu Electricity Board (TNEB) are audited solely by the CAG under the Electricity (Supply) Act, 1948. The accounts of Tamil Nadu Warehousing Corporation are audited by the Chartered Accountants appointed by the State Government in consultation with the CAG who also undertakes the audit of this Corporation separately. Audit Reports on the accounts of these two Statutory Corporations are issued by the CAG to the respective organisations/State Government.

1.2 Government Companies - General view

1.2.1 As on 31 March 1997, there were 81 Government Companies (including six subsidiaries) with total investment of Rs.4394.35 crore (equity: Rs.914.19 crore; long term loans: Rs.3480.16 crore) as against 80 Companies (including six subsidiaries) with total investment of Rs.3719.41 crore as on 31 March 1996 (equity: Rs.628.35 crore; long term loans: Rs.3091.06 crore). During the year, two new Companies, *viz.,* Tamil Nadu Graphites Limited and Metropolitan Infrastructure Development Corporation Limited were formed/commenced their operations and one Company (Cheran Engineering Corporation Limited) ceased to exist consequent on its merger with another existing Company (Cheran Transport Corporation Limited). There were two deemed Government Companies as on 31 March 1997.

The classification of the 81 Government Companies is as under:

(Amount - Rupees in crore)

	Number of Companies	Paid-up capital
(a) Working Companies	72	903.72
(b) Non-working Companies		
(i) Defunct Companies*	8	10.14
(ii) Company under liquidation**	1	0.33

The State Government ordered the winding up of eight defunct Companies during different periods commencing from February 1981 to September 1992. However, no effective action was taken to liquidate these defunct Companies as required under the provisions of the Companies Act, 1956. Failure in taking action to wind up these Companies for the last 5 to 16 years had caused undue financial strain to the State Exchequer by way of administrative expenses amounting to Rs.2.93 crore to the end of March 1997 with further recurring commitment till their final winding up.

The following two working Companies had been referred to Board for Industrial and Financial Reconstruction (BIFR) for rehabilitation due to poor performance on account of dearth of working capital, lack of orders, *etc.*

Sl. No.	Name of the sick Company	Date when referred to BIFR
1.	Tamil Nadu Industrial Explosives Limited	14 September 1992
2.	Southern Structurals Limited	12 October 1992

However, no tangible progress had been made in rehabilitation of these Companies.

1.2.2 (i) The particulars regarding the financial position and working results in respect of all the Government Companies are given in Annexures 2 and 3 respectively.

(ii) The sector-wise investment in the 81 Companies was as shown below:

* Companies mentioned at Sl. Nos. 3, 22, 29, 32, 33, 64, 74 and 81 at Annexure 3

** Company mentioned at Sl. No.43 at Annexure 3

Equity and loans

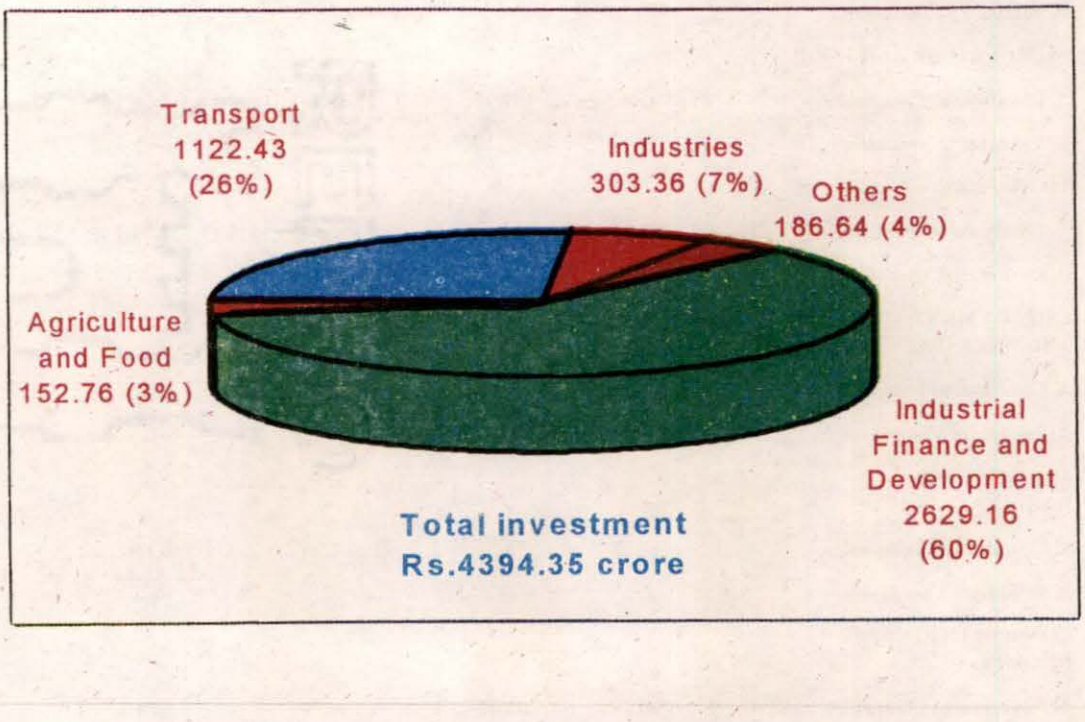
(Amount - Rupees in crore)

Ministry/Department Type of Public Sector Undertakings (PSUs)	As at the end of 1996-97 No.	Equity	Loan	As at the end of 1995-96 No.	Equity	Loan	Debt equity ratio in 1996-97	Re-marks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
INDUSTRIES								
A. Government Companies	12	137.38	38.97	11	132.86	53.08	0.28:1	--
B. Subsidiary Companies	5	35.31	91.70	5	35.36	45.66	2.59:1	--
INDUSTRIAL FINANCE AND DEVELOPMENT								
A. Government Companies	9	298.61	2330.55	8	242.61	2138.55	7.80:1	--
B. Subsidiary Companies	--	--	--	--	--	--	--	--
AGRICULTURE AND FOOD								
A. Government Companies	7	42.84	109.92	7	39.14	--	2.56:1	--
B. Subsidiary Companies	--	--	--	--	--	--	--	--
TRANSPORT								
A. Government Companies	25	287.21	835.22	26	86.69	845.19	2.90:1	--
B. Subsidiary Companies	--	--	--	--	--	--	--	--
EMPLOYMENT, HEALTH AND WELFARE								
A. Government Companies	8	7.26	0.86	8	5.94	0.36	0.12:1	--
B. Subsidiary Companies	--	--	--	--	--	--	--	--
TEXTILES AND HANDICRAFTS								
A. Government Companies	4	8.10	1.21	4	7.96	0.33	0.15:1	--
B. Subsidiary Companies	--	--	--	--	--	--	--	--
CONSTRUCTION AND HOUSING								
A. Government Companies	4	60.48	32.41	4	40.79	--	0.54:1	--
B. Subsidiary Companies	--	--	--	--	--	--	--	--
FORESTRY AND PLANTATION								
A. Government Companies	3	9.96	20.99	3	9.96	6.41	2.11:1	--
B. Subsidiary Companies	--	--	--	--	--	--	--	--
FILM AND TOURISM								
A. Government Companies	2	19.64	2.32	2	19.64	1.48	0.12:1	--
B. Subsidiary Companies	--	--	--	--	--	--	--	--

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
EXCISE								
A. Government Companies	1	3.40	--	1	3.40	--	--	--
B. Subsidiary Companies	1	4.00	16.01	1	4.00	--	4.00:1	--
Total	81	914.19	3480.16	80	628.35	3091.06	--	--

SECTOR-WISE INVESTMENT IN PUBLIC SECTOR UNDERTAKINGS

(Rupees in crore)



(iii) Analysis of Investments

(a) Net increase of Rs.674.94 crore in investment during the year 1996-97 was due to additional investments in the existing Companies and formation of a new Company.

(b) During the year 1996-97, the State Government converted the long term loans outstanding (Rs.110.94 crore) in eleven transport Companies into equity.

Consequently, the debt equity ratio in respect of the transport sector had steeply declined from 9.8:1 during 1995-96 to 2.90:1 in 1996-97.

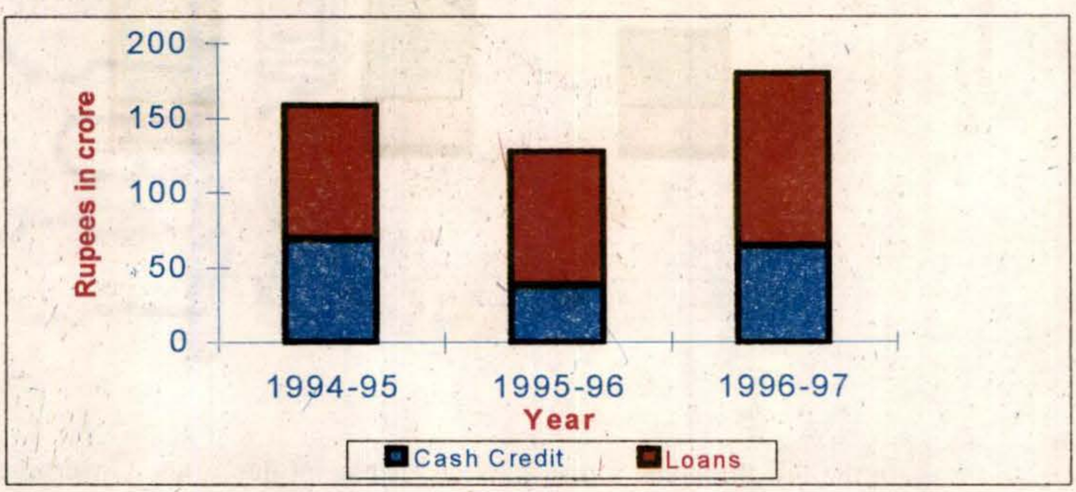
1.2.3 Guarantees

1.2.3.1 The guarantees given by the State Government against loans and credits given by banks, *etc.*, to the PSUs during the preceding three years up to 1996-97 and outstanding as on 31 March 1997 are shown in the table below:

(Amount - Rupees in crore)

Sl. No.	Guarantees	Amount guaranteed during			Guaranteed amount outstanding as on 31 March 1997
		1994-95	1995-96	1996-97	
1.	Cash credit from State Bank of India and other nationalised banks	69.68	38.50	64.97	64.66
2.	Loans from other sources	87.99	88.34	113.99	595.63
3.	Letters of credit opened by SBI in respect of imports	1.17	1.47	---	---

GUARANTEES GIVEN BY STATE GOVERNMENT



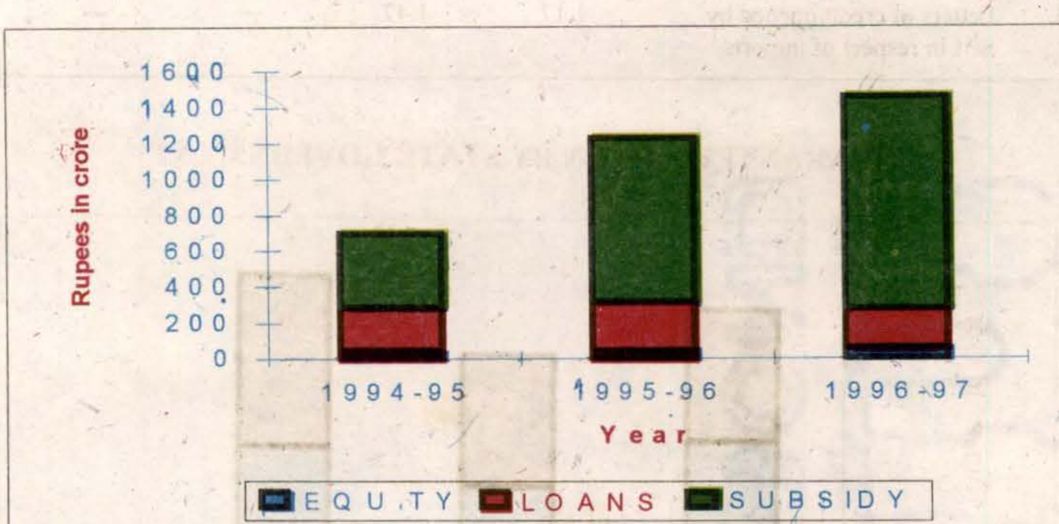
1.2.3.2 Budgetary outgo and waiver of dues

(i) The outgo from the State Government to various PSUs during the years 1994-95 to 1996-97 in the form of equity capital, loans and subsidy was as detailed below:

(Amount - Rupees in crore)

Sl. No.	Details of budgetary outgo	1994-95	1995-96	1996-97
1.	Equity capital outgo from Budget	41.87	39.33	55.56
2.	Loans	234.96	270.38	217.19
3.	Subsidy	410.81	907.85	1169.70
	Total	**687.64**	**1217.56**	**1442.45**

BUDGETARY OUTGO FROM STATE GOVERNMENT



(ii) In the last three years, the amounts of receipt due to the Government which were foregone by way of loans written off or interest waived or due to grant of moratorium on loan repayments are given below:

(Amount - Rupees in crore)

	Details of waiver	1994-95	1995-96	1996-97
1.	Loan repayments written off	0.003	15.14	5.11
2.	Interest waived	0.002	4.72	4.72
3.	Repayment of loans on which moratorium allowed	1.51	2.50	5.30
4.	Others (Sales tax waived)	----	0.15	---

1.2.4 Finalisation of accounts

Accountability of PSUs to the Legislature is to be achieved through the submission of audited annual accounts to the Legislature within the prescribed time schedule. Of the 81 Government Companies, accounts of a newly formed Government Company (Tamil Nadu Graphites Limited) and another Company under liquidation are not due. Of the remaining 79, accounts of 27 Companies were in arrears for periods ranging from one to eight years as on 30 September 1997 as indicated in Annexure 4.

According to the latest finalised accounts of these Companies, 33 Companies earned profit of Rs.107.26 crore, 41 Companies had incurred loss of Rs.335.72 crore, there was no profit or loss in one Company due to Governmental subsidy and there was no transaction in respect of 4 Companies as indicated in the table below:

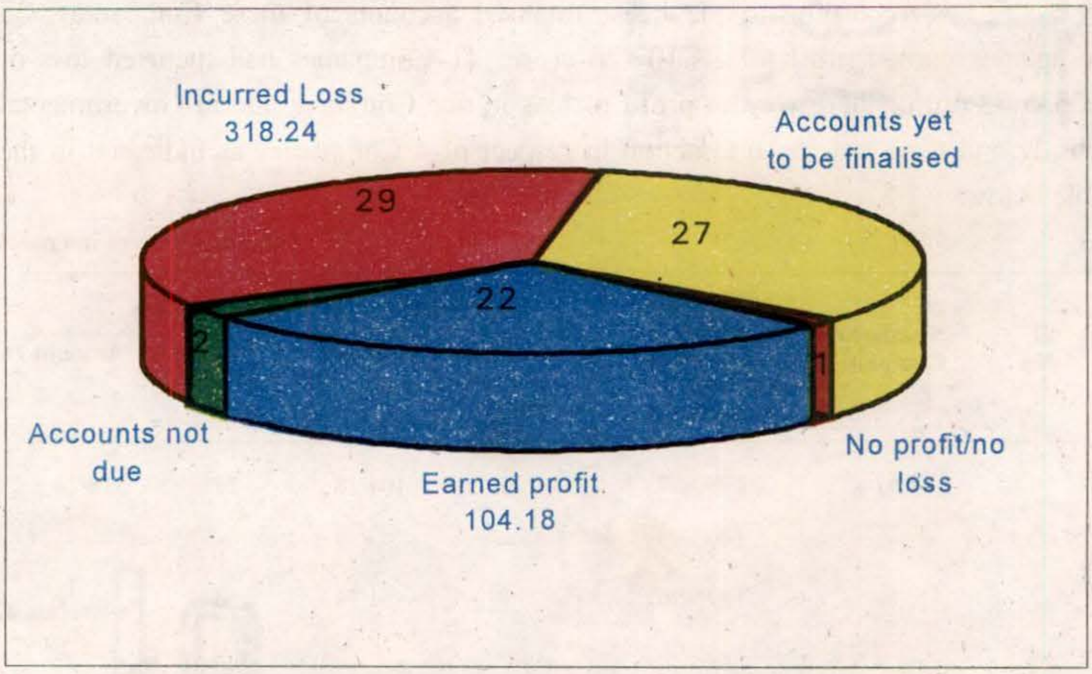
(Amount - Rupees in crore)

Sl. No.	Number of Companies	Year upto which accounts were finalised	Profit		Loss	
			Number of Companies	Amount	Number of Companies	Amount
1.	51	1996-97	22	104.18	29	318.24
2.	1	1996-97	--	--	--	--
3.	16	1995-96	8	1.74	8	16.22
4.	3	1995-96	--	--	--	--
5.	6	1994-95	2	0.97	4	1.26
6.	1	1989-90	--	--	--	--
7.	1	1988-89	1	0.37	--	--
Total	**79**		**33**	**107.26**	**41**	**335.72**

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the Companies in their Annual General Meeting within the time schedule prescribed in the Companies Act, 1956. The concerned administrative departments and officials of the Government were regularly apprised by Audit of the position of arrears. As the accounts of 27 Companies were not finalised within the time schedule their accountability could not be ensured in audit.

PROFILE OF GOVERNMENT COMPANIES (1996-97)

Total Number of Companies - 81
(Rupees in crore)



1.2.5 Working results

1.2.5.1 During the period from October 1996 to September 1997, 71 Companies finalised their accounts for 1996-97 or earlier years. Of these, accounts of 12 Companies were (15 December 1997) at various stages of certification which involved obtaining information and reply from the Companies, processing of comments by Audit, *etc*.

According to the latest certified/provisional accounts of these 71 Companies, 30 Companies earned profit of Rs.106.25 crore. Of these, 26 Companies earned profit for two successive years or more and 8 of them declared dividend as discussed in the succeeding Paragraph. Free reserves and surplus built up to the end of March 1997 in 21 of these Companies amounted to Rs.146.71 crore. While there was no transaction in respect of one of the defunct Companies *viz*., Tamil Nadu Dairy Development Corporation Limited pending winding up, there was no profit or loss (provisional) in respect of the Tamil Nadu Civil Supplies Corporation Limited (TNCSC) during 1996-97 due to Governmental subsidy. However, the Report of the Statutory Auditors on the accounts of the TNCSC has pointed out that the working of the Company would have resulted in loss of Rs.159.82 crore had provision been made in respect of certain doubtful/bad debts, *etc*. The remaining 39 Companies incurred loss of Rs.333.90 crore, of which the transport sector contributed the major share of loss amounting to Rs.302.60 crore (91 *per cent*).

1.2.5.2 Profits and dividend

Out of 52 Companies which finalised their accounts for 1996-97 by September 1997, 22 Companies earned profit of Rs.104.18 crore on their total share capital of Rs.444.37 crore and 8 of them declared dividend amounting to Rs.11.11 crore as indicated below:

(Amount - Rupees in crore)

Sl. No.	Name of the Company	Paid-up capital	Profit earned	Dividend declared (%)	Amount
(1)	(2)	(3)	(4)	(5)	(6)
1.	Tamil Nadu Minerals Limited	7.87	1.01	15.0	1.18
2.	Tamil Nadu Industrial Investment Corporation Limited	42.00	40.34	3.6	1.53
3	Tamil Nadu Industrial Development Corporation Limited	97.79	1.89	1.02	1.00
4..	State Industries Promotion Corporation of Tamil Nadu Limited	37.91	7.46	2.6	1.00
5.	Tamil Nadu Power Finance and Infrastructure Development Corporation Limited	17.00	9.81	14.1	2.40

(1)	(2)	(3)	(4)	(5)	(6)
6.	Tamil Nadu Transport Development Finance Corporation Limited	44.74	10.60	8.8	3.92
7.	Tamil Nadu Zari Limited	0.13	0.72	23.1	0.03
8.	Tamil Nadu Police Housing Corporation Limited	0.47	0.21	10.6	0.05
	Total	**247.91**	**72.04**	**4.5**	**11.11**

The dividend as percentage of share capital in these 8 Companies worked out to 4.5. The remaining profit making Companies did not declare any dividend on the profit of Rs.32.14 crore earned by them during 1996-97. The return on total equity investment of Rs.914.19 crore in 81 Companies worked out to 1.22 *per cent* in 1996-97 as compared to 1.07 *per cent* in 1995-96 and 0.9 *per cent* in 1994-95.

1.2.5.3 Loss making Companies

Out of 52 Companies which finalised their accounts for 1996-97, 29 Companies (excluding one Company which reported no profit or loss as discussed in Paragraph 1.2.5.1) incurred loss of Rs.318.24 crore on their total share capital of Rs.266.20 crore.

According to the latest available accounts, the paid-up capital of 41 Companies had been totally eroded as the accumulated loss of these Companies had far exceeded their paid-up capital, as shown below:

(Amount - Rupees in crore)

Sl. No.	Name of the Company	Accumu-lated loss	Paid-up Capital
(1)	(2)	(3)	(4)
1.	Southern Structurals Limited	45.15	33.09
2.	Tamil Nadu Small Industries Corporation Limited	45.84	15.05
3.	Tamil Nadu Ceramics Limited	2.06	1.86
4.	Perambalur Sugar Mills Limited	6.20	4.17
5.	State Engineering and Servicing Company of Tamil Nadu Limited	11.23	0.50
6.	Tamil Nadu Steels Limited	5.24	3.92
7.	Tamil Nadu Industrial Explosives Limited	42.89	27.00

(1)	(2)	(3)	(4)
8.	Tamil Nadu Leather Development Corporation Limited	5.25	2.50
9.	Tamil Nadu Magnesium and Marine Chemicals Limited	23.06	3.62
10.	The Chit Corporation of Tamil Nadu Limited	0.20	0.06
11.	Tamil Nadu Agro Industries Corporation Limited	13.00	4.37
12.	Tamil Nadu Dairy Development Corporation Limited	3.78	2.07
13.	Tamil Nadu Poultry Development Corporation Limited	2.17	1.27
14.	Tamil Nadu Fisheries Development Corporation Limited	4.94	4.36
15.	Tamil Nadu State Farms Corporation Limited	13.93	1.55
16.	Tamil Nadu Sugarcane Farm Corporation Limited	4.18	0.28
17.	Pallavan Transport Corporation Limited	151.29	12.00
18.	Pandiyan Roadways Corporation Limited	45.25	13.29
19.	Cheran Transport Corporation Limited	39.02	11.62
20.	Cholan Roadways Corporation Limited	60.20	24.18
21.	Anna Transport Corporation Limited	35.26	1.00
22.	Kattabomman Transport Corporation Limited	82.52	29.63
23.	Thanthai Periyar Transport Corporation Limited	20.18	6.50
24.	Tamil Nadu Goods Transport Corporation Limited	1.32	0.33
25.	Thiruvalluvar Transport Corporation Limited	92.16	39.46
26.	Marudhu Pandiyar Transport Corporation Limited	48.72	11.83
27.	Pattukottai Azhagiri Transport Corporation Limited	26.79	7.18
28.	Jeeva Transport Corporation Limited	17.47	7.00
29.	Nesamony Transport Corporation Limited	50.46	14.60
30.	Dheeran Chinnamalai Transport Corporation Limited	18.69	6.00
31.	Rani Mangammal Transport Corporation Limited	18.03	6.50
32.	Annai Sathya Transport Corporation Limited	13.66	4.00
33.	Puratchi Thalaivar MGR Transport Corporation Limited	34.59	8.55
34.	Rajiv Gandhi Transport Corporation Limited	16.02	1.44
35.	Dr. Ambedkar Transport Corporation Limited	41.98	10.00
36.	Mahakavi Bharathiyar Transport Corporation Limited	25.05	6.80
37.	Tamil Nadu Medicinal Plant Farms and Herbal Medicine Corporation Limited	0.39	0.21
38.	Tamil Nadu Textile Corporation Limited	2.54	1.54

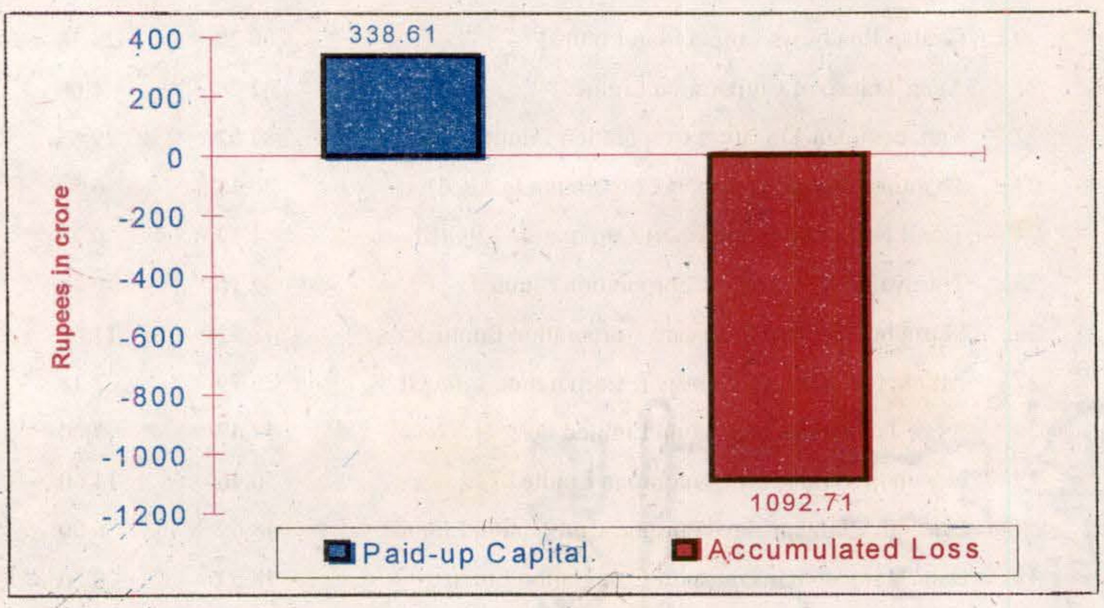
(1)	(2)	(3)	(4)
39.	Tamil Nadu State Construction Corporation Limited	8.66	3.00
40.	Tamil Nadu State Tubewells Corporation Limited	1.93	0.32
41.	Tamil Nadu Tea Plantation Corporation Limited	11.41	5.96
	Total	**1092.71**	**338.61**

Note: 1. Companies at Sl. Nos. 3, 10, 12, 15, 16, 24, and 40 were defunct/under liquidation.

2. The names of the Transport Companies have since been modified by the State Government as indicated in Annexure 3.

EROSION OF PAID-UP CAPITAL BY ACCUMULATED LOSS

Number of Companies: 81
Companies with accumulated loss exceeding paid-up capital: 41



1.2.5.4 Under Section 619 (4) of the Companies Act, 1956, the CAG has the right to comment upon or supplement the report of the Statutory Auditors. Accordingly, the audited annual accounts of Government Companies are reviewed on a selective basis. During the period from October 1996 to September 1997, 65 accounts (including arrear accounts) of 56 Companies were selected for review. The net effect as a result of comments and revision of accounts was as follows:

(Amount - Rupees in crore)

	Details	Number of accounts	Financial effect
(i)	Increase in profit	3	0.94
(ii)	Decrease in profit	4	0.67
(iii)	Increase in accumulated loss	18	27.02
(iv)	Decrease in loss	4	5.64
(v)	Increase in income and consequent reduction in subsidy from the Government	1	13.74
(vi)	Non-disclosure of material facts	9	17.49

1.2.5.5 Return on capital employed

Capital employed has been taken as net fixed assets (including capital works-in-progress) plus working capital. Interest on borrowed funds is added to/subtracted from the net loss/profit as disclosed in the profit and loss account. Thus, during 1996-97 the total capital employed worked out to Rs.3779.74 crore in 52 Companies and the return thereon amounted to Rs.324.49 crore which worked out to 8.6 *per cent* as compared to 9.8 *per cent* in 1995-96.

Sector-wise details of the return on capital employed during 1996-97 was as under:

(Amount - Rupees in crore)

Sector	1996-97		
	Capital employed	Return on capital employed	Percentage of return on capital employed
(1)	(2)	(3)	(4)
Industries	351.84 (344.37)	56.05 (24.33)	15.9 (7.1)
Industrial Finance and Development	2586.71 (1807.89)	365.99 (273.58)	14.1 (15.1)
Agriculture and Food	128.90 (71.88)	9.41 (34.80)	7.3 (48.4)
Transport	609.78 (623.82)	(-)115.83 (-50.25)	--- (---)
Employment, Health and Welfare	0.89 (1.26)	(-)0.25 (-0.01)	--- (---)

(1)	(2)	(3)	(4)
Textiles and Handicrafts	14.90 (14.06)	2.19 (1.71)	14.7 (12.2)
Construction and Housing	28.32 (17.99)	0.46 (0.58)	1.6 (3.2)
Forestry and Plantation	33.46 (33.29)	6.92 (4.68)	20.7 (14.1)
Film and Tourism	8.74 (7.22)	0.54 (-1.20)	6.2 (---)
Excise	16.20 (17.20)	(-)0.99 (0.54)	--- (3.1)
Total	**3779.74** **(2938.98)**	**324.49** **(288.76)**	**8.6** **(9.8)**

(Figures of previous year are given in brackets)

1.2.6 Buy back of shares by joint sector companies promoted by Government Companies

Some of the Government Companies are engaged in the development/promotion of industries in the State by providing loans or making investments in their share capital. The terms and conditions of the promotional agreement provide for the buy-back of the shares from the Government Companies by the co-promoter after the promoted units start commercial production. During the year 1996-97, there was no disinvestment of any of the shares of the joint sector units held by the Government Companies.

1.2.7 Comments of CAG on the accounts of various Government Companies

Under Section 619(4) of the Companies Act, 1956, the CAG has the right to comment upon or supplement the Reports of the Statutory Auditors. Under this provision, the review of the annual accounts of Government Companies is being conducted in selected cases. Accounts relating to 56 Companies were selected for such review during the period from October 1996 to September 1997.

Some of the major errors/omissions noticed in the course of review of annual accounts of some of these Companies, but omitted to be pointed out by the Statutory Auditors, were as under:

(a) Transport Companies - accounts for the year 1996-97

(i) Contrary to the provisions of Section 140(2) of Motor Vehicles Act, 1988 and the instructions (September 1994 and August 1995) of the State Government, no provision had been made in respect of 1005 fatal accident cases by twelve transport Companies*. This had resulted in understatement of liabilities and loss to the extent of Rs.4.89 crore.

(ii) Omission to create liabilities towards the difference (Rs.6.92 crore) in Motor Vehicle Tax payable and actually paid and penalty (Rs.13.84 crore) thereon in respect of spare buses held by sixteen transport Companies** in terms of Motor Vehicles Taxation Act, 1974 had resulted in understatement of liabilities and loss by Rs.20.76 crore.

(b) Pallavan Transport Corporation Limited - accounts for the year 1996-97

(i) The Company did not give effect to the revised value as refixed (September 1996) by the State Government in respect of land, buses and vehicles transferred (1993-94) to another Transport Corporation. This had resulted in understatement of Capital reserve by Rs.19.54 crore, and overstatement of loss by Rs.4.49 crore and of loans and advances by Rs.15.05 crore.

(ii) Loss was understated by Rs.0.35 crore due to non-creation of liability in respect of 26 cases of accidents for which compensation (Rs.0.26 crore) had been awarded by the Courts prior to finalisation of accounts and on account of non-provision for Urban Land Tax payable (Rs.0.09 crore) in respect of assessed lands.

(iii) Liability of Rs.0.90 crore was not provided for the 16 chassis in transit as on 31 March 1997, though the relevant invoices were issued on 29 and 31 March 1997.

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* Companies mentioned at Sl.Nos. 34, 35, 39, 41, 44, 45, 47, 48, 50, 51, 52 and 55 at Annexure 3.

** Companies mentioned at Sl. Nos. 34, 35, 37 to 39, 41, 44, 45, 47, 48, 50 to 53, 55 and 56 at Annexure 3.

(c) Dr. Ambedkar Transport Corporation Limited - accounts for the year 1996-97

(i) Fixed assets were understated by Rs.0.31 crore and consequently depreciation was not provided for, due to inclusion of value of completed building under capital-work-in-progress.

(ii) Miscellaneous income was understated by Rs.0.34 crore (net) due to inclusion of rental income not due (Rs.0.20 crore) but exclusion of rental income due (Rs.0.54 crore) from other Transport Corporations.

(d) Tamil Nadu Transport Development Finance Corporation Limited - accounts for the year 1996-97

Profit and unsecured loans (considered good) were understated by Rs.0.72 crore due to non-accountal of arrears of interest income due from Tamil Nadu State Construction Corporation Limited (TNSCC), although the State Government ordered (April 1996) the adjustment of the amount to the loan account of TNSCC, after duly guaranteeing its repayment.

(e) Tamil Nadu Poultry Development Corporation Limited - accounts for the year 1994-95 (Arrear accounts)

(i) Fixed assets - Gross Block - Building included plant and machinery (Rs.0.11 crore) and electrical installation (Rs.0.03 crore) in respect of Feed Mixing Unit at Kattupakkam. This had resulted in overstatement of gross block of building by Rs.0.14 crore and consequent understatement of plant and machinery (Rs.0.11 crore) and electrical installation (Rs.0.03 crore). Depreciation not provided for amounted to Rs.0.02 crore.

(ii) Animal Husbandry and Fisheries Department transferred (1973) some buildings to the Company at the cost of Rs.0.36 crore. However, these buildings had not been taken into the accounts on the plea that specific order from the Government fixing the value had not been received.

1.2.7.2 Special reports from Statutory Auditors

The Companies Act, 1956 empowers the CAG to issue directions to the Statutory Auditors of Government Companies in regard to performance of their functions. In pursuance of the directives so issued by the CAG, 35 special reports of the Statutory Auditors on the accounts of 31 Companies for the years 1995-96 and 1996-97 were received during the period from October 1996 to September 1997. The important points noticed in these reports are summarised below:

Sl. No.	Nature of defects	Number of Companies in which defects were noticed	Reference to Sl.No of Companies as per Annexure 3
(1)	(2)	(3)	(4)
1.	Ineffective stores control	5	2, 36, 45, 54 and 62
2.	Non-obtaining of confirmation of balances	2	1 and 10
3.	Non-maintenance/non- reconciliation of control/subsidiary accounts	3	46, 70 and 76
4.	Absence/inadequate internal audit/internal control system	8	1, 9, 36, 45, 47, 68, 70 and 76
5.	Non-maintenance of cost records	3	10, 47 and 76
6.	Improper maintenance of fixed assets register	4	1, 36, 70 and 76
7.	Absence of norms for wastages/loss in storage/transit	2	2 and 70
8.	Absence of system of analysis of reasons for idleness of men/machinery	4	1, 47, 68 and 76
9.	Non-confirmation of assets lying with third parties/sub-contractors	1	1
10.	Non-existence of Accounting Manual	1	70

1.2.8 Capacity utilisation

The highest and lowest percentage of utilisation of the installed or rated capacity of some of the manufacturing Companies (to the extent the information was available) are given in Annexure 6.

1.2.9 The operational performance of all the transport Companies for the three years ending March 1997 is given below:

	1994-95	1995-96	1996-97
(1)	(2)	(3)	(4)
(i) Fleet			
(a) Average number of vehicles held	15423	15726	15879
(b) Average number of vehicles on road	14269	14491	14607
(c) Fleet utilisation (*per cent*)	92.5	92.1	92.0
(d) Average age of vehicles (years)	4.1	3.9	4.4
(ii) Operational efficiency			
(a) Kilometres (Kms) operated (in lakh)			
(i) Gross	20370.56	21763.92	21789.81
(ii) Effective	19969.53	21287.15	21306.47
(iii) Dead Kms (i) - (ii)	401.03	476.77	483.34
(b) Percentage of dead Kms to gross Kms	2.0	2.2	2.2
(c) Occupancy ratio *(per cent)*	69.4 to 97.1	68.5 to 96.0	74.8 to 96.0
(iii) Productivity			
(a) Vehicle productivity(average Kms/bus/day)	400.73	421.60	417.25
(b) Vehicle - staff ratio (*per cent*)	6.4 to 9.2	6.5 to 9.2	6.0 to 9.2
(c) Staff productivity (Kms/workers/day)	54.86	53.52	55.32
(iv) Fuel efficiency			
Average Kms per litre	4.2	4.2	4.2
(v) Inventory (Rupees in lakh)			
(a) Total consumption of stores and spares	10638.02	13931.13	18129.05
(b) Average value of stores and spares consumed per vehicle	0.74	0.93	1.43
(c) Value of inventory held at the end of the year	1891.53	2040.12	2394.40
(d) Average value of inventory per bus at the end of the year	0.16	0.13	0.13

(1)	(2)	(3)	(4)
(vi) Safety and maintenance			
(a) Average number of breakdowns per 10000 Kms.	0.67	0.61	0.77
(b) Average number of accidents per lakh Kms.	0.76	0.75	0.71
(vii) Tyre performance			
(a) Average Kms. Run	142603	141539	115526
(b) Retreadability factor	3.28 to 5.45	2.62 to 5.32	2.08 to 5.14
(viii) Earnings and expenditure			
(a) Average earnings per Km operated (paise)	756.17	777	1017.16
(b) Average expenditure per Km operated (paise)	776.40	876	1190.60
(c) Profit (+)/loss (-) per Km (paise)	(-)20.23	(-)99	(-)173.44

The vehicle productivity had shown a marginal decline from 421.60 Kms/bus/day during 1995-96 to 417.25 Kms/bus/day in 1996-97 and the fuel efficiency almost remained static (*i.e.,* 4.2 Kms per litre) during the three years up to 1996-97. There was, however, increased incidence of breakdowns in as much as the average number of breakdowns per 10000 Kms had gone up from 0.61 during 1995-96 to 0.77 in 1996-97. The average Kms run by the new/retreaded tyres had shown a steep decline from 1.42 lakh Kms during 1995-96 to 1.16 lakh Kms in 1996-97. While the average expenditure per Km operated registered an increase of Rs.3.15 during 1996-97, the average earnings per Km operated increased only by Rs.2.40, thereby contributing to the loss during 1996-97. Increase in the cost of consumption of stores, spares and fuel also contributed to the overall loss of Rs.302.60 crore in 1996-97 in this sector as against the loss of Rs.207.16 crore during 1995-96.

1.2.10 Irregular investment in shares by Government Companies

In terms of the Government directives (May 1988), any investment or disinvestment proposal exceeding Rs.50 lakh by the State Public Sector Undertakings was required to be cleared by the Project Investment Committee of the

State Government. In contravention of these directives, four Government Companies (excluding one discussed in Paragraph 2B.6.3) mentioned at Serial Numbers 18 to 21 at Annexure - 3 of this Report invested (1995-96) Rs.15.40 crore in 14 lakh equity shares of Rs.10 each at a premium of Rs.100 per share after receiving a request from Tamil Nadu Newsprint and Papers Limited (TNPL) to support its public issue. The State Government had, however, not accorded ex-post facto approval or ratification of these investments so far (October 1997).

The Government in reply stated (November 1996) that the Director of Vigilance and Anti Corruption was enquiring into all aspects of these investments.

1.2.11 Deemed Companies under Section 619 B of Companies Act, 1956

There were two Companies covered under Section 619 B of the Companies Act, 1956. The table below indicates the details of paid-up capital and working results of these Companies based on the latest available accounts.

(Amount - Rupees in crore)

Name of the Company	Period of accounts	Paid-up capital	Investment by			Profit or Loss
			State Government	Government Companies	Others	
1. Tamil Nadu Newsprint and Papers Limited	1996-97	68.70	24.44	2.56	41.70	(+)17.38
2. Tamil Nadu Telecommunications Limited	1996-97	11.73	--	5.98	5.75	(+)2.76

Tamil Nadu Newsprint and Papers Limited declared a dividend of 15 *per cent* during 1996-97 and the return to Government on its investment of Rs.24.44 crore worked out to Rs.3.66 crore as against the return of Rs.7.77 crore (31.8 *per cent)* during the earlier year (1995-96).

1.2.12 Other investments

The State Government had invested Rs.1.38 crore in other Companies. Though the Government had invested Rs.10 lakh and above in these Companies, they are not subject to audit by the CAG. A list of these Companies is given in Annexure 1.

1.3 Statutory Corporations

1.3.1 General aspects

There were two Statutory Corporations in the State as on 31 March 1997. Audit arrangement of these Corporations is as shown below:

Name of the Corporation	Statute under which constituted	Date of formation	Audit arrangement	Year upto which accounts finalised	Separate Audit Report placed in Legislature upto the year	Authority for audit by CAG
1. Tamil Nadu Electricity Board	Electricity (Supply) Act, 1948	1 July1957	Sole Audit by CAG	1995-96	1995-96	Section 69(2) of the Electricity (Supply) Act, 1948
2. Tamil Nadu Warehousing Corporation	Warehousing Corporation Act, 1962	2 May 1958	Supplementary Audit	1996-97	------	Section 31(8) of Warehousing Corporation Act, 1962

1.3.2 Investment

The total investment in these Corporations as on 31 March 1997 was Rs.1084.61 crore, as shown below:

(Amount - Rupees in crore)

	Equity	Loan	Total
Tamil Nadu Electricity Board	982.03	94.38	1076.41
Tamil Nadu Warehousing Corporation	7.61	0.59	8.20
Total			**1084.61**

1.3.3 Profit/loss of the Corporations

According to the provisional accounts of the two Statutory Corporations, TNEB showed a net surplus of Rs.64.20 crore and Tamil Nadu Warehousing Corporation earned a net profit of Rs.1.48 crore.

1.3.4 Guarantee on loans

Government of Tamil Nadu had guaranteed the repayment of principal and interest amounting to Rs.5009.65 crore in respect of loans availed of by TNEB up to 1996-97. As against this, the amount of Rs.1965.62 crore (Principal: Rs.1882.21 crore; Interest: Rs.83.41 crore) was outstanding as at the end of March 1997 as shown below:

(Amount - Rupees in crore)

Sl. No.	Details of guarantees	Amount guaranteed up to 1993-94	Amount guaranteed during			Guaranteed amount outstanding as on 31 March 1997	
			1994-95	1995-96	1996-97	Principal	Interest
1.	Loans from nationalised banks (bank participative)	813.05	81.00	139.20	124.20	327.03	0.79
2.	Loans from Rural Electrification Corporation	470.84	30.00	231.00	127.00	234.96	4.24
3.	Loans from Power Finance Corporation, New Delhi	627.22	100.00	29.30	273.48	330.77	35.39
4	Loans from Insurance Companies	212.00	40.00	---	55.00	196.33	4.75
5	Loans from other sources (open market)	1177.71	---	---	4.65	687.37	11.46
6.	Loan from IDBI	---	60.00	50.00	206.00	70.94	18.30
7.	Loan from SIDBI	---	50.00	35.00	73.00	34.81	8.48
	Total	**3300.82**	**361.00**	**484.50**	**863.33**	**1882.21**	**83.41**
			5009.65			**1965.62**	

In respect of Tamil Nadu Warehousing Corporation, the Government had not guaranteed the repayment of any loan.

1.3.5 Subsidy

During the three years up to 1996-97, the TNEB had received Rs.1124.29 crore by way of subsidy. In respect of Tamil Nadu Warehousing Corporation, the Government had not provided any subsidy during the three years up to 1996-97.

1.3.6 Disinvestment

There was no disinvestment by the Government in either of the Statutory Corporations so far.

1.3.7 Partial or total privatisation of any activity

No activities of these Statutory Corporations were privatised so far.

1.3.8 Financial position and working results of Statutory Corporations

1.3.8.1 Tamil Nadu Electricity Board

The financial position and working results as shown in the accounts of the TNEB for the three years up to 31 March 1997 are given below:

(i) Financial Position

(Amount - Rupees in crore)

Particulars	As on 31 March		
	1995	1996	1997 (provisional)
(1)	(2)	(3)	(4)
(A) Sources			
(i) Equity share capital	400.00	400.00	982.03
(ii) Government loans	412.78	444.48	94.38

(1)	(2)	(3)	(4)
(iii) Public loans	70.23	70.23	---
(iv) Loans from financial institutions	2969.13	3204.38	3354.40
(v) Contributions/Grants and subsidies towards cost of Capital Assets	913.21	1213.72	1294.21
(vi) Working capital borrowed from banks	96.93	116.40	120.92
(vii) Interest accrued on borrowings	115.05	100.01	137.74
(viii) Internal generation	1774.34	2162.41	2311.40
Total (A)	**6751.67**	**7711.63**	**8295.08**
(B) Applications			
(i) Gross fixed assets	5605.77	6320.16	7786.77
LESS: Depreciation	1326.68	1565.59	1779.00
Net fixed assets	4279.09	4754.57	6007.77
(ii) Capital work-in-progress	2274.14	2832.02	2384.62
(iii) Assets not in use	8.79	2.23	4.60
(iv) Deferred costs	114.74	115.12	104.46
(v) Investments	70.42	36.94	36.84
(vi) Net current assets	4.49	(-) 29.25	(-)243.21
Total (B)	**6751.67**	**7711.63**	**8295.08**
(C) Capital employed*	**6557.72**	**7557.34**	**8149.18**

The financial position of TNEB for the year 1996-97 revealed an increase of Rs.582.03 crore in equity share capital, consequent on the conversion of the Government loans into equity. There was increase in the internal generation of funds during 1996-97 by Rs.148.99 crore over the previous year. Net fixed assets

* Capital employed represents net fixed assets including work-in-progress PLUS working capital.

and capital work-in-progress also registered an increase of Rs.805.80 crore during 1996-97 over the previous year.

(ii) Working results

(Amount - Rupees in crore)

Particulars	1994-95	1995-96	1996-97 (Provisional)
(1)	(2)	(3)	(4)
(1) (a) Revenue receipts	3508.29	4128.27	4436.30
(b) Subsidy from Government	350.06	415.93	358.30
(c) Total (1)	3858.35	4544.20	4794.60
(2) Revenue expenditure (Net of expenses capitalised) including write off of intangible assets but excluding depreciation and interest	2957.05	3626.63	4058.55
(3) Gross surplus (+)/deficit (-) for the year (1) - (2)	901.30	917.57	736.05
(4) Adjustments relating to previous years	(-)39.23	(-)27.46	56.08
(5) Final Gross surplus (+)/deficit (-) for the year (3) + (4)	862.07	890.11	792.13
(6) Appropriations			
(a) Depreciation (LESS : Capitalised)	173.82	220.69	324.69
(b) Interest on Government loans	54.41	41.24	53.44
(c) Interest on other loans, bonds, advances, etc.	390.79	427.86	496.92
(d) Total interest on loans (b) + (c)	445.20	469.10	550.36
(e) LESS : Interest capitalised	104.70	138.87	147.12
(f) Net interest charged to revenue (d) - (e)	340.50	330.23	403.24
(7) Surplus (+)/deficit (-) before accounting for subsidy from the Government {(5) - 6(a) - 6(f) - 1(b)}	(-)2.31	(-)76.74	(-)294.10
(8) Net surplus (+) /deficit (-) {(5) - 6(a) - 6(f)}	347.75	339.19	64.20

(1)	(2)	(3)	(4)
(9) Total return on Capital employed*	688.25	669.42	614.36
(10) Percentage return on Capital employed	10.5	8.9	7.5

(iii) Audit assessment of the working results of the TNEB

TNEB earned net surplus of Rs.64.20 crore during the year 1996-97 as compared to the surplus of Rs.339.19 crore during the previous year 1995-96. But for the receipt of subsidy of Rs.358.30 crore from the Government, the working result of TNEB during 1996-97 would have ended up with a deficit of Rs.294.10 crore, as compared to the deficit of Rs.76.74 crore during the previous year 1995-96. The deficit of the TNEB before accounting for the subsidy from the State Government increased by 283.2 *per cent* during the year 1996-97 as compared to the year 1995-96.

The main reasons for the deficit were the increase in revenue expenditure on the generation/purchase of power, employees' cost, administrative expenses, *etc.*, and increase in interest/depreciation charges.

As at the end of 31 March 1997, no subsidy was pending receivable/due from the Government. The accumulated net surplus had been transferred to General Reserve/Development Fund. The amounts standing to the credit of General Reserve and the Development Fund to the end of March 1997 amounted to Rs.41.29 crore and Rs.1776.00 crore, respectively.

According to Section 59 of the Electricity (Supply) Act, 1948, as amended, the TNEB after taking credit of subvention from the State Government under Section 63 is required to carry on its operations and adjust its tariff so as to ensure that total revenue in any year of account shall after meeting all the expenses properly, leave such surplus which is not less than 3 *per cent* or any higher percentage fixed by the State Government of the value of fixed assets of the TNEB in service at the beginning of the year. Based on this, the TNEB was required to achieve a minimum surplus of Rs.142.64 crore (3 *per cent* of the value of fixed

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* Total return on capital employed represents Net Surplus/deficit PLUS total interest charged to profit and loss account (LESS : Interest capitalised)

assets in its service at the beginning of the year) for the year 1996-97. As against this, there was a net surplus of Rs.64.20 crore which worked out to 1.35 *per cent*.

The following major irregularities and omissions were pointed out in the Separate Audit Report on the annul accounts of the TNEB for the year 1995-96 (up to which period the accounts of the TNEB were certified):

Sl. No.	Irregularities/Omissions	Rupees in crore
(1)	(2)	(3)
1.	Overstatement of 'Revenue from Sale of Power' due to inclusion of	
	(a) Income earned during trial stage in North Chennai Thermal Power Project (NCTPP) under Revenue instead of as deduction from the capital cost in terms of the Electricity Supply Annual Accounts Rules, 1985	(-) 2.84
	(b) Accrued and unbilled revenue not supported by proper details	(-) 0.53
2.	Understatement of other income due to non-inclusion of interest accrued and due on the amount deposited (Rs.34 crore) in the Public Deposit Account	(+) 3.74
3.	Understatement of revenue expenditure - 'Generation of Power' due to incorrect withdrawal of provision towards freight and handling charges	(-) 69.42
4.	Overstatement of surplus due to booking of materials issued for operation and maintenance works to capital works	(-) 5.49
5.	Understatement of administrative and general expenses and consequent overstatement of surplus due to non-transfer of 1 per cent of value of assets in respect of NCTPP to a separate fund towards insurance against various risks as per TNEB's policy	(-) 11.65
6.	Inclusion of the amount arbitrarily withdrawn from the unreconciled amount shown under advances for fuel supplies under prior period credits on the ground that coal consumed in earlier years was overvalued	(-) 115.43
7.	Understatement of capital expenditure in progress due to under-allocation of revenue expenses to be capitalised	(+) 1.93
8.	Overstatement of stock/net surplus due to non-deduction of materials issued to works	(-) 1.00
9.	Non-creation of liabilities towards	
	(a) The difference in purchase rate of power from Madras Refineries Limited	(-) 2.24

(1)	(2)	(3)
(b)	Escalation of Operation and Maintenance charges payable to Power Grid Corporation Limited	(-) 2.13
(c)	Additional Customs Duty payable on the shipment of imported coal	(-) 1.02
(d)	Yen variation on interest for the loan availed	(-) 1.78
(e)	Withheld handling charges payable to the contractors on fulfilment of contract for the period from 1991-92 to 1995-96	(-) 49.64
(f)	Withheld amount payable to the contractors towards shortage of coal for the period from 1991-92 to 1995-96	(-) 16.22
	Total	**(-) 273.72**

As a result of the above irregularities/omissions the net surplus of the TNEB during 1995-96 would decrease by Rs.273.72 crore.

Based on the Audit assessment of the working results of TNEB for three years up to 1995-96 (up to which period the accounts were certified) and taking into consideration the major irregularities and omissions pointed out in the Separate Audit Report on the annual accounts of TNEB and by not taking into account subsidy/subventions receivable from the State Government, the net surplus/deficit and the percentage of the return on capital employed of the TNEB would be as under:

(Amount - Rupees in crore)

Sl. No.	Particulars	1993-94	1994-95	1995-96
(1)	(2)	(3)	(4)	(5)
1.	Net Surplus (+)/Deficit (-) as per Books of Accounts	225.54	347.75	339.19
2.	Subsidy from the State Government	527.10	350.06	415.93
3.	Net Surplus (+)/Deficit (-) before subsidy from the State Government (1 - 2)	(-)301.56	(-)2.31	(-)76.74
4.	Net increase/decrease in Net Surplus/ Deficit on account of Audit comments on the annual accounts of the TNEB	(-)55.49	(-)4.92	(-)273.72
5.	Net Surplus (+)/Deficit (-) after taking into the account the impact of Audit comments but before subsidy from the Government (3 + 4)	(-)357.05	(-)7.23	(-)350.46

(1)	(2)	(3)	(4)	(5)
6.	Total return on Capital employed *	(-)107.16	(+)333.27	(-)20.23
7.	Percentage return on Capital employed	--	5.1	--

1.3.8.2 Tamil Nadu Warehousing Corporation

The financial position and the working reuslts as shown in relevant accounts of Tamil Nadu Warehousing Corporation for the three years up to 1996-97 are given below:

(i) Financial position

(Amount - Rupees in crore)

	Particulars	1994-95	1995-96	1996-97 (Provisional)
	(1)	(2)	(3)	(4)
I.	**Liabilities**			
(a)	Paid-up capital	7.61	7.61	7.61
(b)	Reserves and surplus	13.45	14.25	15.48
(c)	Loans	--	--	0.59
(d)	Subsidy	0.26	0.26	0.26
(e)	Current liabilities	2.53	3.95	5.04
(f)	Provision for gratuity/pension	0.73	0.27	0.18
	Total I	**24.58**	**26.34**	**29.16**
II.	**Assets**			
(f)	Gross fixed assets	25.34	28.88	31.21
	LESS: Depreciation	4.90	5.64	6.13
(g)	Net fixed assets	20.44	23.24	25.08
(h)	Capital work-in-progress	--	--	--
(i)	Investments	0.001	0.001	0.001

* Total return on capital employed represents net surplus/deficit PLUS total interest charged to profit and loss account (LESS : interest capitalised).

	(1)	(2)	(3)	(4)
(j)	Current assets, loans and advances	4.14	3.10	4.08
	Total II	**24.58**	**26.34**	**29.16**
(k)	Capital employed*	22.05	22.39	24.12

The financial position of Tamil Nadu Warehousing Corporation for the year 1996-97 showed an increase of Rs.1.23 crore in Reserves and Surplus. The Net fixed assets increased by Rs.1.84 crore.

(ii) Working results

(Amount - Rupees in crore)

Particulars	1994-95	1995-96	1996-97 (Provisional)
(1)	(2)	(3)	(4)
Gross receipts	6.79	7.72	8.40
Operating expenses	2.95	3.54	3.80
Non-operating expenses	1.42	1.52	1.45
Profit before interest and depreciation	2.42	2.66	3.15
LESS			
Interest	0.04	0.07	0.14
Depreciation	0.43	0.51	0.51
Provision for bad debts	0.07	0.04	0.17
Profit before tax	1.88	2.04	2.33
Provision for tax	0.01	0.002	0.005
Profit for the year	1.87	2.04	2.33

* Capital employed represents net fixed assets PLUS working capital including capital works in progress.

(1)	(2)	(3)	(4)
Prior year adjustments	(-)0.21	(-)1.01	(-)0.85
Net profit	1.66	1.03	1.48
Percentage of operating expenses to gross receipts	43.4	45.8	45.2

1.3.8.3 The operational performance of TNEB and the physical performance of Tamil Nadu Warehousing Corporation for the three years up to 1996-97 are given in Annexures 7 and 8.

1.3.9 Salient points noticed in audit

During the course of audit of TNEB for the year ended 31 March 1997, underassessment of energy charges amounting to Rs.18.98 crore, on account of various reasons like arithmetical inaccuracy, wrong application of tariff, short levy of penalty, *etc.*, were pointed out by Audit. Out of this, a sum of Rs.2.12 crore had been recovered/settled up to September 1997.

1.4 Position of follow-up of Audit Reports

The Report of the Comptroller and Auditor General of India for the year ended 31 March 1996 (No. 1) Commercial was placed on the table of the State Legislature on 4 April 1997 and awaits examination by Committee on Public Undertakings (COPU). During the period from April 1996 to September 1997, COPU met on nine occasions and discussed 35 audit paragraphs relating to the Audit Reports for the year 1992-93 to 1994-95. Action Taken Notes for 32 audit paragraphs relating to previous Audit Reports were yet to be received by the Accountant General from the Government as on 30 September 1997 and 262 recommendations made by COPU were pending final settlement as on that date.

CHAPTER 2

REVIEWS IN RESPECT OF GOVERNMENT COMPANIES

SECTION 2A :	TAMIL NADU ADI DRAVIDAR HOUSING AND DEVELOPMENT CORPORATION LIMITED
SECTION 2B :	TAMIL NADU MINERALS LIMITED
SECTION 2C :	TAMIL NADU SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED

SECTION 2A

TAMIL NADU ADI DRAVIDAR HOUSING AND DEVELOPMENT CORPORATION LIMITED

HIGHLIGHTS

Tamil Nadu Adi Dravidar Housing and Development Corporation Limited set up (February 1974) initially with the objective of providing housing facilities to Adi Dravidars was later on entrusted (February 1975) with the task of undertaking various economic development schemes for poverty alleviation and upliftment of the standard of living of Adi Dravidars in the State. However, the scheme of construction of houses for Adi Dravidars was subsequently transferred to District Rural Development Agencies in 1989-90.

{Paragraphs 2A.1 and 2A.2}

Due to absence of effective control over timely implementation of various welfare schemes, funds to the tune of Rs.36.05 crore released by the Central/State Government remained unutilised and kept in Personal Deposit Account for over two years during the period from 1992-93 to 1994-95.

{Paragraph 2A.6.1 (ii)}

Although the scheme of construction of houses for Adi Dravidars was discontinued in 1989-90, the unutilised funds of Rs.2.49 crore had not been refunded to the Government.

{Paragraph 2A.6.1 (iii)}

But for the interest income on investment of unutilised scheme funds and on account of over-charging of Special Central Assistance schemes towards administrative expenses, the cumulative profit of Rs.5.65 crore exhibited by the Company during the five years *up to 1994-95 would have ended up into accumulated loss of Rs.13.27 crore.*

{Paragraph 2A.6.2}

Despite specific guidelines of the Government for releasing subsidy/margin money to the beneficiaries only through the bank, the Company released subsidy/margin money amounting to Rs.0.13 crore directly to a beneficiary. This action of the Company proved unproductive as the beneficiary could not mobilise the balance funds from the banks.

{Paragraph 2A.7.1.7}

Grant of subsidy not covered under the Special Central Assistance schemes and in excess of limit fixed by the State Government resulted in excess/inadmissible payment of subsidy of Rs.0.29 crore.

{Paragraphs 2A.7.1.8 and 2A.7.1.9}

Establishment of hosiery knitwear based industrial estates at Mudalipalayam and Ingur at the cost of Rs.23.02 crore by diversion of Special Central Assistance scheme funds defeated the basic objective of upliftment of Adi Dravidars below poverty line, in view of the requirement of a minimum contribution beyond the means of this segment. Moreover, both these estates constructed without assessing the demand potential remained idle/incomplete for want of demand.

{Paragraph 2A.7.3}

Non-utilisation/return of undisbursed loans obtained from National Scheduled Castes and Scheduled Tribes Finance and Development Corporation Limited entailed avoidable payment of penal interest of Rs.1.08 crore. Further, none of the landless Scheduled Caste/Tribe was provided financial assistance against the target of 4000 under the Sericulture scheme.

{Paragraph 2A.7.4}

Expenditure of Rs.1.91 crore incurred on 159 incomplete/non-functioning tube wells meant to provide irrigation facilities to lands belonging to Scheduled Castes proved unproductive in the absence of plan/funds for bringing them to beneficial use.

{Paragraph 2A.10.1}

2A.1 Introduction

Tamil Nadu Adi Dravidar Housing And Development Corporation Limited (TAHDCO) was incorporated on 15 February 1974 with a view to provide housing facilities to Adi Dravidars in the State. Subsequently, the scope of object clause of the Company was enlarged (February 1975) so as to enable it to undertake a wide spectrum of economic development schemes for alleviation of poverty and upliftment of the standard of living of Adi Dravidars in the State.

2A.2 Objectives

The main objectives as envisaged in the Memorandum of Association of the Company are:

(i) to provide housing facilities to the Adi Dravidars in the State;

(ii) to implement economic development schemes for the welfare and benefit of Adi Dravidars and Scheduled Tribes in the State;

(iii) to construct hostels, schools, buildings, community centres, *etc.*, for Adi Dravidars and backward classes; and,

(iv) to undertake any specific item of work entrusted by the Government from time to time.

During the period from 1974-75 to 1988-89, the Company was the sole agency for construction of houses for Adi Dravidars in the State. However, in 1989-90, this activity was made a part of "Jawahar Velai Vaippu Thittam" (Jawahar Rozgar Yojana) and entrusted to the District Rural Development Agencies (DRDA). Consequently, the present activities of the Company are confined to items (ii) to (iv) listed above.

2A.3 Organisational set up

The Articles of Association of the Company envisaged the management of the Company by a Board consisting of minimum five and maximum thirteen Directors. Against this, the Company had ten Directors on the Board as on 31 March 1997 including a full time Chairman and Managing Director; eight of the ten Directors were appointed by the State Government and the remaining two nominated one each by Government of India (GOI) and National Scheduled Castes and Scheduled Tribes Finance and Development Corporation Limited (NSFDC). The day-to-day management of the Company is being looked after by the Managing Director assisted by two functional General Managers.

Contrary to COPU's recommendations that Chief Executives of Public Sector Undertakings should have a minimum tenure of three years to ensure stability, continuity and accountability, the Company had eight Managing Directors between February 1993 and March 1997 and their tenures ranged from one to thirteen months.

2A.4 Scope of Audit

The performance of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1986 (Commercial). The recommendations of the Committee on Public Undertakings (COPU) on this report are contained in its 138th Report presented to the State Legislature on 29 April 1993. The activities of the Company during the period from 1990-91 to 1995-96 and adequacy or otherwise of the action taken on various recommendations of COPU were reviewed in audit between June and September 1996. The findings of Audit are discussed in the succeeding paragraphs.

2A.5 Funding

2A.5.1 Share capital and borrowing

As against the authorised capital of Rs.5000 lakh, the paid-up capital of the Company as on 31 March 1995 (the period up to which the accounts were finalised) was Rs.3700.93 lakh contributed by the State Government (Rs.2474.53 lakh) and the Central Government (Rs.1226.40 lakh). The outstanding amount of loans sanctioned by the State Government and NSFDC as at the end of March 1995 was Rs.498.61 lakh (inclusive of interest of Rs.40.36 lakh).

The working capital requirements of the Company are met from administrative expenses under Special Central Assistance Schemes and through centage charges* on the works executed. The Company has also been using the interest earned on deposit of unutilised scheme funds, towards its working capital requirements.

2A.6 Financial position and Working results

2A.6.1 Financial position

The accounts of the Company continued to be in arrears and had been finalised only up to 1994-95 (October 1997). The table below therefore indicates the financial position of the Company for the last five years up to 31 March 1995.

(Amount - Rupees in lakh)

		1990-91	1991-92	1992-93	1993-94	1994-95
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I.	**Liabilities**					
(a)	Paid-up capital	1301.00	2410.41	2410.41	2410.41	3700.93
(b)	Share application money	1109.41	225.81	629.54	1290.52	518.04
(c)	Reserves and surplus	--	--	63.16	182.57	117.97
(d)	Borrowings	51.19	95.19	229.90	509.74	498.61
(e)	Trade dues and other liabilities (including provisions)	3596.27	3687.89	5190.43	4743.45	5337.09
	Total (I)	**6057.87**	**6419.30**	**8523.44**	**9136.69**	**10172.64**
II.	**Assets**					
(a)	Gross fixed assets	54.36	56.64	59.83	64.48	102.27
(b)	LESS: Depreciation	26.36	30.25	33.69	38.55	46.41

* Centage charges are collected by the Company to defray its administrative expenses at prescribed rates (ranging from 2 to 12.5 *per cent* depending upon the nature of works) on the cost of works undertaken on behalf of various Government Departments.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
(c)	Net fixed assets	28.00	26.39	26.14	25.93	55.86
(d)	Current assets, loans and advances	5583.26	6152.10	8497.30	9110.76	10116.78
(e)	Intangible assets					
(i)	Miscellaneous expenditure	--	--	--	--	--
(ii)	Accumulated loss	446.61	240.81	--	--	--
	Total (II)	**6057.87**	**6419.30**	**8523.44**	**9136.69**	**10172.64**
	Capital employed*	2014.99	2490.60	3333.01	4393.24	4835.55
	Net worth†	1963.80	2395.41	3103.11	3883.50	4336.94

The following observations are made in this regard:

(i) During 1974-76, the State Government placed at the disposal of the Company Rs.1020 lakh for construction of 30000 houses for Adi Dravidars at the cost of Rs.1320 lakh. The balance requirement of funds of Rs.300 lakh was met by the Company out of its share capital without any prior approval from the Government. A comment has been made in the Report (Commercial) of the Comptroller and Auditor General of India for the year ended 31 March 1980 regarding utilisation of the Company's own funds for creation of assets on which it had no proprietary rights. The State Government, however, did not accede (September 1983) to the request of the Company for reimbursement of Rs.300 lakh spent by it out of its share capital. After exploring other alternatives like transfer of unutilised scheme funds available with the Company to its share capital account and after protracted correspondence, the State Government finally ordered (May 1990) for reduction of share capital of the Company to the extent of Rs.300 lakh. Consequently, the proposal (December 1992) of the Company for reduction of its share capital by Rs.300 lakh was pending (October 1997) with the Company Law Board.

(ii) The Company has been implementing various income generating schemes for the welfare of Adi Dravidars/Scheduled Tribes through financial assistance received in the form of share capital from the State/Central Government

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* Capital employed represents net fixed assets including capital work-in-progress PLUS working capital.

† Net worth represents paid-up capital PLUS reserves LESS intangible assets.

and Special Central Assistance. The State Government also provides funds for specific purposes such as construction of schools, hostels, community halls, *etc.* The funds thus released by the State/Central Government are kept in the Personal Deposit account (PD account) of the Company maintained by the State Government. Due to non-formulation of schemes, slow progress in implementation of the schemes and non-regulation of drawal of funds from PD accounts to actual needs/requirements, huge unspent balances have been kept in the Company's PD account, saving bank/fixed deposit accounts during the five years up to 1994-95 as detailed below:

(Amount - Rupees in lakh)

Year	Amount held in PD account	Amount kept by the Company in	
		Savings bank	Fixed deposit
1990-91	2655.25	820.00	1122.00
1991-92	442.95	502.74	3881.74
1992-93	3604.99	3863.64	2823.10
1993-94	5053.02	1289.48	345.72
1994-95	6202.94	789.02	174.89

Absence of effective control over timely implementation of welfare scheme resulted in unutilised funds of Rs.36.05 crore.

Further analysis in audit of the amount held in PD account revealed that a monthly minimum balance of Rs.3604.99 lakh was held for over two years during the period from 1992-93 to 1994-95, thereby indicating absence of effective control over timely implementation of various welfare schemes envisaged.

Unutilised funds of Rs.2.49 crore had not been refunded to the Government.

(iii) Consequent on transfer of work of construction of houses for Adi Dravidars to the DRDA in 1989-90, the Company held, at the time of transfer of this activity, unutilised balance of Rs.249.50 lakh out of Rs.299.90 lakh received from the State Government for that purpose. Despite repeated requests/reminders from the Government, the Company had not refunded the unutilised balance of Rs.249.50 lakh so far (October 1997). The Company had also not furnished any utilisation certificate for the balance amount of Rs.50.40 lakh spent on the scheme.

(iv) According to the report of the Statutory Auditors on the accounts of the Company for the year 1994-95, fixed deposit receipts to the extent of Rs.47.21 lakh were not made available for verification and it was not certain whether the same were traceable. Further, proceeds in respect of fixed deposits to the tune of Rs.25.45 lakh sent to banks long back for encashment have not been received by the Company so far (October 1997). Audit noticed that this kind of situation was mainly due to improper maintenance of records and ineffective control over investments. The Company did not also take any effective action on the findings of the Statutory Auditors.

2A.6.2 Working results

The table below indicates the working results of the Company for the five years ended 31 March 1995.

(Amount - Rupees in lakh)

		1990-91	1991-92	1992-93	1993-94	1994-95
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I.	**Income**					
(a)	Centage on works	52.63	63.31	49.21	48.82	64.38
(b)	Staff assistance from Special Central Assistance	49.34	127.34	175.53	211.02	218.68
(c)	Interest	136.77	282.62	414.25	263.65	112.20
(d)	Other income (including rent)	3.24	6.54	6.89	5.67	7.45
	Total (I)	**241.98**	**479.81**	**645.88**	**529.16**	**402.71**
II.	**Expenditure**					
(a)	Salaries and wages	176.24	190.65	224.74	259.83	300.74
(b)	Other administrative expenses	60.37	74.51	83.04	103.37	102.83
(c)	Interest	2.19	4.00	8.59	20.50	35.23
(d)	Depreciation	3.18	3.89	3.44	4.87	7.85
(e)	Provision for doubtful debts	--	--	22.10	21.17	20.66

(1)	(2)	(3)	(4)	(5)	(6)	(7)
(f)	Others	--	0.96	--	--	--
	Total (II)	**241.98**	**274.01**	**341.91**	**409.74**	**467.31**
	Profit (+)/Loss (-) for the year	--	205.80	303.97	119.42	(-)64.60

The cumulative profit of Rs.5.65 crore would turn into an accumulated loss of Rs.13.27 crore if non-operational income and overcharging of Special Central Assistance funds are taken into consideration.

The Company was able to make profits during the three years up to 1993-94 mainly on account of substantial non-operational income earned by way of interest on investment of unutilised scheme funds and administrative assistance received under Special Central Assistance Schemes. But for the non-operational income through interest (Rs.1209.49 lakh) on investment of unutilised scheme funds and over-charging (Rs.681.82 lakh) of Special Central Assistance funds towards administrative expenses over the norm as discussed in Paragraph 2A.7.1.3, the working of the Company during the five years up to 1994-95 would have ended with the cumulative loss of Rs.1326.72 lakh (as against the cumulative profit of Rs.564.59 lakh).

2A.7 Implementation of schemes

2A.7.1 Special Central Assistance Schemes

2A.7.1.1 The GOI formulated (1980) a scheme of Special Central Assistance (SCA) to give thrust to the development programmes in core sectors like Animal Husbandry, Agriculture and Khadi and Village Industries. The funds received under SCA as subsidy could be spent only for income generating economic programmes to enable poor Scheduled Caste families to cross the poverty line.

The Company, as an agency for implementation of SCA schemes in the State, undertakes various economic development programmes such as self employment schemes, agriculture and allied activities, individual entrepreneur schemes, *etc.*, through various agencies like Tamil Nadu Khadi and Village Industries Board (TNKVIB) and Departments of the State Government. The maximum subsidy allowable under SCA is Rs.10000 per beneficiary which is further limited to 50 *per cent* of the capital cost of the scheme. The balance requirement of funds for the scheme is to be met by way of margin money assistance (25 *per cent*) by the Company and through bank loan (25 *per cent*) to be raised by the beneficiaries.

2A.7.1.2 Non-surrender of unutilised SCA funds

Contrary to the instructions (1988) of State/Central Government that SCA funds should be utilised during the year of their receipt and unutilised funds, if any, at the end of each year should be surrendered to the Central Government, the Company carried forward huge unspent balances year after year due to non-formulation of schemes, as detailed below:

(Amount - Rupees in lakh)

Year	Opening balance of unutilised SCA funds	SCA received during the year	Total funds available	Funds utilised	Balance of unutilised assistance	Percentage of Column 6 to 4
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1990-91	3557.08	1300.00	4857.08	2400.85	2456.23	50.6
1991-92	2456.23	1741.05	4197.28	1727.96	2469.32	58.8
1992-93	2469.32	2437.38	4906.70	1925.00	2981.70	60.8
1993-94	2981.70	1877.28	4858.98	2604.18	2254.80	46.4
1994-95	2254.80	2653.37	4908.17	4908.17	NIL	--

Out of Rs.4908.17 lakh of SCA funds utilised during 1994-95, Rs.2687 lakh (54.7 *per cent*) were diverted at the instance of the State Government for establishment of two knitwear based industrial estates at Mudalipalayam and Ingur as discussed in Paragraph 2A.7.3. The cost of setting up a unit in these estates was estimated to range between Rs.21 lakh and Rs.130 lakh, depending upon use of indigenous or imported machinery. This was proposed to be financed by way of promoter's contribution (10 *per cent*), subsidy (15 *per cent*), State Government's contribution to share capital (5 *per cent*), margin money assistance by the Company (10 *per cent*) and institutional finance (60 *per cent*). Thus, the minimum envisaged contribution of Rs.2.10 lakh to Rs.13 lakh by each beneficiary apart from collateral security for at least 10 *per cent* of the project cost would evidently be beyond the means of poor Scheduled Castes, thereby defeating the basic objective of the SCA schemes *viz.*, formulation of economic programmes for upliftment of poor Scheduled Castes below the poverty line.

Moreover, the industrial estates constructed in both the places (Mudalipalayam and Ingur) through diversion of the SCA funds were also not successful in view of lack of adequate demand/non-completion of works as discussed in Paragraph 2A.7.3.

2A.7.1.3 Over-charging of SCA schemes towards administrative expenses

The Company charged excess administrative expenses on Special Central Assistance funds to the extent of Rs.6.82 crore.

As per the guidelines issued (October 1988) by the GOI governing the grant of SCA schemes, the implementing agency can avail/utilise one *per cent* of SCA (sanctioned during each year) towards administrative expenses for implementation, supervision, monitoring and evaluation of the schemes. However, the State Government directed (December 1990) the Company to meet its entire administrative expenses from out of SCA funds from 1990-91 onwards on the ground that the Company was mainly concerned with the upliftment of Adi Dravidars in the State. Although this decision was in contravention of the GOI guidelines governing SCA, no prior consent/concurrence of the GOI was obtained in this regard. Moreover, charging of entire administrative expenses to SCA also lacked justification in as much as the Company was engaged in implementation of the State Government schemes also.

Though, as per the above guidelines, the Company was entitled to charge administrative expenses to the extent of Rs.100.09 lakh during the period from 1990-91 to 1994-95 against SCA schemes, the actual administrative expenses met out of SCA funds by the Company during the above periods amounted to Rs.781.91 lakh. The excess administrative expenses, thus met out of SCA funds for which the Company was not entitled to, worked out to Rs.681.82 lakh. The fact of over-charging of SCA schemes towards administrative expenses over the norm prescribed was also not apprised to the GOI.

2A.7.1.4 Diversion of SCA funds

In commemoration of the centenary celebration of Dr.B.R.Ambedkar, the GOI released (March 1991) an additional grant-in-aid of Rs.50 lakh under SCA schemes to the State Government for rendering financial assistance to leather procurement centres, training centres for Adi Dravidars engaged in manufacturing of leather goods and stone crushing projects. The scheme was required to be completed before the close of the financial year 1991-92 failing which the unspent amount was required to be surrendered to the GOI. The State Government in turn released (February 1992) the amount to the Company with a stipulation to formulate necessary schemes in this regard. The Company had not, however, formulated any scheme in this direction, nor did it surrender the unspent grant-in-aid to the GOI, though required in terms of the latter's directives (March 1991).

After a lapse of over one year, based on a proposal (August 1993) of the Company, the State Government ordered (September 1993) diversion of Rs.21.50 lakh from out of the above grant-in-aid (Rs.50 lakh) towards proposed construction of "Baba Saheb Dr. B.R.Ambedkar Centenary Memorial Auditorium" at Chennai. Although this diversion was in contravention of the GOI guidelines (1988) requiring release of SCA funds only for income generating economic programmes, the fact of such diversion for the unintended purpose was not appraised to the GOI. The work of construction of auditorium had also to be stopped (July 1994) midway on account of court stay after incurring the expenditure of Rs.22.42 lakh. Thus, out of Central grant-in-aid of Rs.50 lakh, Rs.22.42 lakh were not utilised for the intended purpose and the balance unutilised amount of Rs.27.58 lakh was also not remitted back to the GOI. Consequently, the underlying objective of release of Central grant-in-aid of Rs.50 lakh for upliftment of Adi Dravidars engaged in leather manufacturing and stone crushing projects remained unachieved.

2A.7.1.5 Slow and unplanned implementation of the scheme

The State Government evolved (1992) a scheme for provision of bunks and leather stitching machines free of cost to the footwear artisans, who were below the poverty line (annual income below Rs.11000). Under the scheme, the Company was required to ensure timely implementation of the scheme and watch receipt of necessary utilisation certificates in complete shape indicating the purpose of utilisation, details of beneficiaries, *etc.*, for the funds released to TNKVIB. The Company was also required to periodically inspect and ensure efficient functioning of these bunks. Based on the directives from the State Government, the Company released SCA funds to the tune of Rs.460 lakh to TNKVIB during February 1992 to January 1994 for implementation of the scheme.

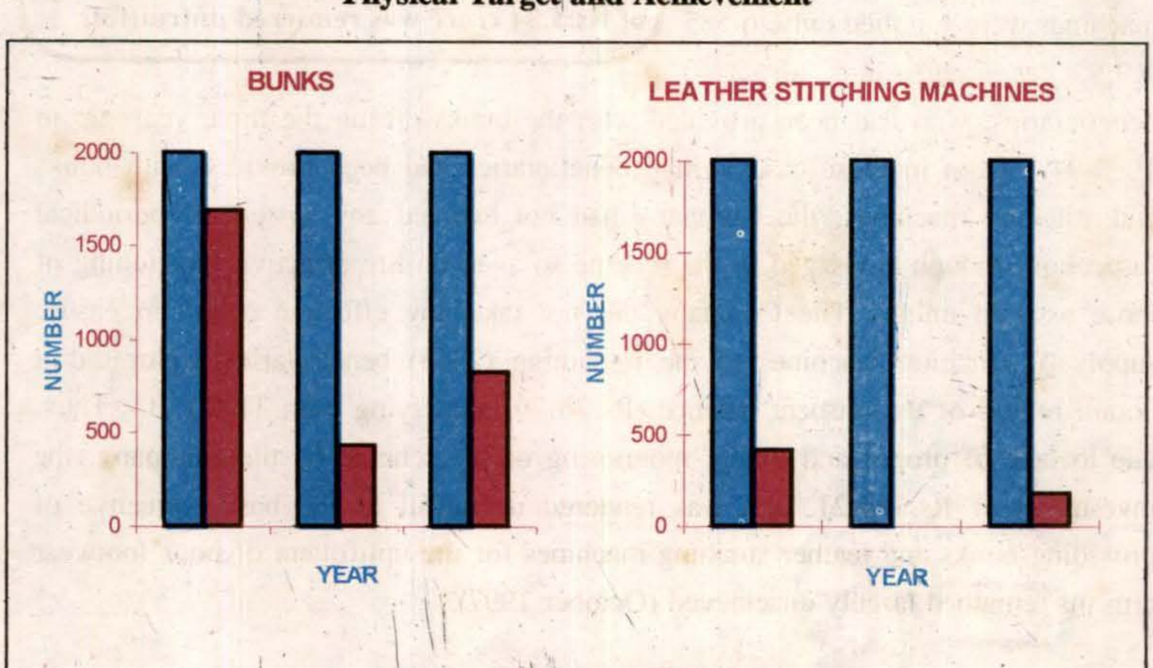
The table below indicates the physical and financial performance under the scheme during the three years up to 1993-94:

(Amount - Rupees in lakh)

Year	Amount released	Amount utilised	Bunks			Stitching machines		
			Target	Achieve ment	Percen-tage of achieve ment to target	Target	Achieve ment	Percen-tage of achieve ment to target
1991-92	180.00	149.75	2000	1687	84.4	2000	409	20.5
1992-93	180.00	147.78	2000	425	21.3	2000	NIL	--
1993-94	100.00	86.68	2000	828	41.4	2000	176	8.8
Total	**460.00**	**384.21**	**6000**	**2940**	**49.0**	**6000**	**585**	**9.8**

SCHEME FOR PROVISION OF BUNKS AND LEATHER STITCHING MACHINES

Physical Target and Achievement



The following were observed in audit:

(i) The basis of fixation of target and reasons for non-achievement of the same were not on record. Further, the target fixed also could not be achieved in any of the years and in case of stitching machines, the overall achievement of the target was below 10 *per cent*.

(ii) The Company had not ensured timely receipt of utilisation certificates for the funds released to TNKVIB. It was observed that out of Rs.384.21 lakh spent on the scheme, utilisation certificates for Rs.76.80 lakh were still to be received (October 1997) from TNKVIB. Further, utilisation certificates for Rs.180 lakh disbursed during 1991-92 and 1992-93 were also found to be incomplete as these did not contain the details/names of beneficiaries, purpose of utilisation, *etc.* Therefore, the utilisation of the above amount (Rs.256.80 lakh) for the intended purpose could not be verified by Audit.

Company failed to provide requisite number of stitching machines to poor footwear artisans which defeated the basic purpose of their upliftment and investment of Rs.3.84 crore was rendered unfruitful.

(iii) Despite the fact that provision of bunks without stitching machines would not serve the desired purpose, stitching machines were supplied only to 585 (19.9 *per cent*) out of 2940 beneficiaries, who had been provided with the bunks during the three years up to 1993-94. Even in those cases where beneficiaries had been provided with bunks and stitching machines, the Company had not evolved any system of periodical inspection, though envisaged in the scheme so as to ensure effective functioning of those assisted units. The Company did not take any effective action to ensure supply of stitching machines to the remaining (2355) beneficiaries. Nor did it obtain refund of the unspent balance (Rs.75.79 lakh) lying with TNKVIB. Thus, due to lack of proper and timely monitoring of the scheme by the Company, the investment of Rs.384.21 lakh was rendered unfruitful as the basic objective of providing bunks and leather stitching machines for the upliftment of poor footwear artisans remained largely unachieved (October 1997).

2A.7.1.6 Non-implementation of the scheme

Failure to effectively monitor the timely implementation of the scheme, Central funds of Rs.0.74 crore remained idle for more than six years.

(i) In pursuance of a decision to provide 100 *per cent* subsidy from SCA funds for purchase of modern tools and machinery for the existing 26 footwear units, 2 chrome tanning units and one tannery under the control of TNKVIB, the State Government released (October 1990) Rs.74.40 lakh to the Company for implementation of the proposal. It was expected that this scheme would improve the quality of leather goods of these units and also provide gainful employment with adequate wages to the artisans belonging to the Scheduled Castes, thereby enabling them to rise above the poverty line. Under the scheme, the Company was required to ensure timely implementation of the scheme, watch receipt of necessary utilisation certificates and also ensure successful functioning of the scheme through periodical monitoring. Although the Company released (February 1991) Rs.62.75 lakh to TNKVIB for purchase of required tools and machinery, the Company had not ensured the timely utilisation of the funds for the intended purpose by watching receipt of utilisation certificates and through periodical monitoring. As a result, no action had been taken by TNKVIB for purchase of required tools/machinery. Thus, due to the Company's failure to effectively monitor the timely implementation of the scheme, Central funds of Rs.74.40 lakh were idling for over six years besides non-achievement of the desired objective of improving the quality of the products of these units and upliftment of poor artisans.

Funds to the tune of Rs.1.50 crore were idling for more than two years due to ineffective follow-up action in identification of beneficiaries for the broiler units.

(ii) The State Government decided in April 1995 to provide a capital assistance of Rs.15000 (subsidy of Rs.7500 and bank loan Rs.7500) to 2000 Adi Dravidar women in the four districts of the State for setting up of broiler units. It was expected that this scheme would enable these Adi Dravidar women to become self sufficient and earn around Rs.500 per month. The Company received (May 1995) SCA funds of Rs.150 lakh for implementation of the scheme. Under the scheme, Adi Dravidar women living below the poverty line were eligible for assistance. The selection of eligible beneficiaries had to be done by the participating bank and the Non-

Governmental Organisations selected by the Company. The Company was required to take necessary follow-up action for implementation of the scheme, work out the modalities for release of funds and mobilise the resources and support services for the broiler farmers. The scheme was required to be implemented within three months from receipt of funds from the Government, *i.e.*, by July 1995. However, due to ineffective follow-up by the Company, identification of beneficiaries and modalities for implementation of the scheme were not completed yet (October 1997). As a result, Central funds of Rs.150 lakh were idling for more than two years without any beneficial use besides non-achievement of the desired objective of the scheme.

2A.7.1.7 Irregular sanction of subsidy/margin money loan under SCA scheme

Assistance of Rs.0.13 crore extended directly to the beneficiary unit for the establishment of a plastic bag manufacturing unit in violation of Government directives proved unfruitful.

As a part of SCA scheme, the State Government accorded (March 1990) approval for establishment of a plastic bag manufacturing unit in Sedapatti block, Madurai district at the cost of Rs.16.78 lakh for the benefit of 40 Adi Dravidar beneficiaries. The project cost was proposed to be met by way of subsidy under SCA scheme (Rs.9.20 lakh), margin money loan by the Company (Rs.3.79 lakh) and the balance (Rs.3.79 lakh) through bank loan. Instead of releasing the margin money loan and subsidy through the participating bank as laid down in the Government directive (May 1987), the Company released (March 1991) the subsidy/margin money amounting to Rs.12.99 lakh directly to the beneficiary unit. The Company also failed to safeguard its interests by obtaining suitable bank guarantee/undertaking to ensure repayment of amount in case of difficulties in mobilising the balance funds from bank. Owing to the bank's refusal to sanction the loan, the unit could not commence activity. Thus, the entire assistance of Rs.12.99 lakh extended by the Company in violation of Government directives was irregular and proved unfruitful.

2A.7.1.8 Excess payment of subsidy

In disregard to Government guidelines, the Company made an excess payment of subsidy amounting to Rs.0.20 crore for a scheme of provision of bullock carts to Scheduled Castes.

As per the State Government guidelines (May 1991), the subsidy allowable under SCA schemes is limited to 50 *per cent* of capital cost of the scheme/unit. The balance 50 *per cent* capital cost is required to be met by the beneficiaries through institutional finance. Audit analysis, however, indicated that in respect of a scheme of provision of bullock carts to Scheduled Caste beneficiaries, against the maximum admissible subsidy of Rs.4750 per unit, the Company extended subsidy at the rate of Rs.5000 to 8127 beneficiaries during the four years up to 1995-96, thereby resulting in excess payment of subsidy of Rs.20.32 lakh. Further, the Company had also not ensured the creation/retention of the assets by the beneficiaries.

2A.7.1.9 Payment of inadmissible subsidy

As a part of SCA schemes, the Company extends maximum subsidy of Rs.5000 or 50 *per cent* of the capital cost of the unit for various self employment programmes such as grocery shop, cycle shop, tea shop, radio repair shop, *etc.* It was, however, observed in audit that the Trichy district office of the Company, without the approval of Head Office/Government, extended (1993-94) a subsidy of Rs.8.28 lakh to 226 Scheduled Caste beneficiaries for purchase of milch animals. This scheme was, however, not found to be covered by the self employment schemes implemented by the Company with SCA. Reasons for release of such inadmissible subsidy were not on record. The Company had also not evolved any system to ensure/verify whether the assisted beneficiaries under the scheme had actually purchased the milch animals.

2A.7.1.10 Non-achievement of objectives

(i) Petty trade scheme

As the scheme of petty trade failed to raise the standard of living of the beneficiaries, the subsidy of Rs.0.37 crore provided to them remained largely unfruitful.

This scheme implemented with SCA funds envisaged providing of credit linked subsidy and margin money assistance to poor Adi Dravidars for starting petty employment ventures like printing press, shoe making unit, lathe, leather tanning unit, *etc.* Under the scheme, assistance is provided in the form of subsidy (50 *per cent*), margin money loan (25 *per cent*) and bank loan (25 *per cent*) for creation of necessary assets for carrying out the above ventures. During the three years up to 1993-94, the Company provided subsidy of Rs.28.54 lakh to 2153 beneficiaries. An evaluation of the scheme conducted by the Company during 1993-94 revealed that out of 469 cases selected, assets were available for verification only in 223 cases and in the remaining 246 cases, (subsidy/margin money: Rs.3.35 lakh) either the assets were not created or the created assets were disposed of within a short span of time. The evaluation report, therefore, concluded that the scheme provided only temporary relief and in majority of the cases, the beneficiaries had not been benefited to the extent of raising their standard of living economically. Without evolving strategies to overcome the constraints in the scheme, the Company continued to render further financial assistance of Rs.8.47 lakh by way of subsidy to 847 beneficiaries during the subsequent years, *i.e.*, 1994-95 and 1995-96. Thus, the entire assistance extended under the scheme remained largely unfruitful.

(ii) Self employment training scheme

Due to absence of post-training support to Adi Dravidar youths, an expenditure of Rs.1.33 crore incurred towards imparting training in various trades remained unproductive.

Under the self employment training scheme with SCA, the Company imparted training to 13808 semi-educated and educated Adi Dravidar youths in specified 24 trades like tailoring, radio and television mechanism, gem cutting, typewriting, *etc.,* at the cost of Rs.133.18 lakh during the five years up to 1995-96. The Company was to provide post-training support to the beneficiaries in the form of arranging placement services in suitable ventures or by rendering assistance for securing institutional finance for setting up of self employment ventures.

An evaluation of the scheme conducted (1993-94) by the Company in South Arcot and Villupuram districts revealed that only six out of fifty five beneficiaries selected were gainfully employed after training. According to the evaluation report, majority of them considered the scheme as "temporary dole". The evaluation report further concluded that majority of the trainees became just another "piece of statistics in the beneficiaries assisted list". The evaluation report also revealed that due to lack of financial support, most of the beneficiaries could not start their own business after completion of training. In the absence of any effective post-training support, the desired objective of the training scheme had largely not been achieved.

2A.7.2 National scheme for liberation and rehabilitation of scavengers and their dependants

The Company spent Rs.1.37 crore in excess of receipt of funds by diverting the funds received for implementation of other welfare schemes.

The GOI introduced (March 1992) a new scheme *viz.*, "National scheme for liberation and rehabilitation of scavengers and their dependants". The scheme envisaged providing alternative gainful/dignified employment opportunities to those engaged in the highly obnoxious hereditary occupation of manual scavenging within a period of five years from 1991-92. The implementation of the scheme in the State was entrusted (December 1992) to the Company. Under the scheme, the Company has been imparting training in various trades and rendering financial assistance to the scavengers and their dependants for setting up of projects costing up to Rs.20000. The pattern of assistance was in the form of subsidy (50 *per cent*), margin money (15 *per cent*) and bank loan (35 *per cent*).

Audit review of the implementation of the scheme revealed the following:

(i) The Company engaged (1993) the services of 43 voluntary Non-Governmental Organisations for conducting a rapid survey to identify scavengers and their dependants in the State. They identified 16937 scavenger families comprising 35561 persons eligible for financial assistance under the scheme. These voluntary organisations were paid Rs.5.93 lakh as remuneration for the survey (at the rate of Rs.35 per family). Later on, it was found by the Company, as evidenced from the reports (May 1993) of various District Managers, that the figures in the survey were exaggerated (by including non-scavengers also) so as to get higher remuneration. In fact, it was observed that the names of several genuine scavengers did not find place in the survey reports. Although it was decided (May 1993) in the review meeting of all District Managers to conduct a fresh survey, no action had been taken in this direction. Despite this, the Company continued to rely on the inaccurate data/survey furnished by the Non-Governmental Organisations and render financial assistance accordingly.

(ii) Out of the above 35561 persons identified as beneficiaries, the Company imparted training to 4860 beneficiaries in selected trades like automobile driving, tailoring, automobile repairs, refrigeration, *etc.*, at a cost of Rs.97.57 lakh without any post-training support. The Company further rendered financial assistance in the form of subsidy (Rs.743.43 lakh) and margin money loan (Rs.232.59 lakh) to 11637 beneficiaries as against the target of 28640 for setting up their projects during the period from 1993-94 to 1995-96. Reasons for non-achievement of targets were not on record. Of the above 16497 assisted beneficiaries, the exact number of genuine scavengers benefited could not be verified in audit in absence of records.

(iii) The State Government placed (1992-93) at the disposal of the Company, Central (Rs.824 lakh) and State funds (Rs.118.61 lakh) to the tune of Rs.942.61 lakh for implementation of the scheme, against which the Company expended Rs.1079.52 lakh on the scheme (inclusive of training and survey expenses). The Company had, thus, spent Rs.136.91 lakh in excess by diverting the funds provided by the GOI and the State Government for implementation of other welfare schemes without their specific approval.

(iv) In the absence of any system of obtaining feed back regarding setting up of the projects by the beneficiaries, the effectiveness of the scheme in achieving its desired objective *viz.*, providing relief and rehabilitation could not be ensured in audit. The Company had also not evaluated the efficacy of the scheme implemented at the total cost of Rs.1079.52 lakh.

2A.7.3 Establishment of industrial estates

Establishment of hosiery knitwear based industrial estates at a cost of Rs.23.02 crore by diversion of funds defeated the basic objective of upliftment of Adi Dravidars below poverty line.

In pursuance of the decision (July 1992) of the State Government to establish a hosiery knit wear based industrial estate with 100 units in Coimbatore district, the Company acquired (March 1993) 47.25 acres of temple lands and 60.59 acres of private lands at Mudalipalayam at a total cost of Rs.75.49 lakh. Although the industrial estate was exclusively meant for Adi Dravidar beneficiaries, the Company had not made any market study to assess the demand potential of the segment before venturing upon the project.

The civil works for construction of sheds were awarded (May 1995) with the approval of the State Government to the lowest tenderer, *viz.*, R.P.P Builders, Erode for Rs.691.04 lakh (*i.e.*, 29.89 *per cent* excess over the estimates). Due to escalation in cost of materials and inclusion of certain additional items of works, the revised cost of civil works was estimated to be Rs.825 lakh. The revised estimate sent to the Government in March 1996 was still pending approval (October 1997).

All these sheds were completed by February 1996 at a total cost of Rs.946.02 lakh (inclusive of land cost, land development expenditure, *etc.*,). Due to lack of demand for these sheds from the envisaged segment, in view of the high cost and consequent inability of the Company to identify the beneficiaries, the industrial estate constructed at the cost of Rs.946.02 lakh was remaining idle (October 1997) for over 20 months.

Likewise, for establishment of another knitwear based industrial estate with 200 work sheds at Ingur village in Periyar district for exclusive benefit of Adi Dravidars, the Company took (March 1995) on lease 150.35 acres of land from Tamil Nadu Corporation for Industrial Infrastructure Development Limited (TACID). Although the proposed estate was twice the capacity of the estate under construction at Mudalipalayam, which was just 40 Kms. from this proposed site at Ingur, the Company did not assess the demand potential for industrial sheds in the area beforehand. The State Government, while according approval (March 1995) for taking over of land from TACID, instructed the Company to finalise the beneficiary selection before taking up the scheme. The Company had not, however, made any effort/attempt in this direction. After a lapse of more than a year, the Company based on tender entrusted (April 1996) the construction of the estate to the lowest tenderer, *viz.*, S.P.Periaswamy and Company for the total value of Rs.1595.29 lakh (*i.e.*, 28.97 *per cent* excess over estimate). The works which were scheduled to be completed by December 1996 were still in progress (October 1997). The total expenditure incurred on the project up to end of July 1997 amounted to Rs.1356.19 lakh.

The entire expenditure on both these industrial estates was met by diversion of SCA funds received from the Central Government. As already mentioned in Paragraph 2A.7.1.2 *supra*, the cost of setting up a unit in these estates was estimated to be around Rs.21 lakh to Rs.130 lakh, with a minimum contribution of Rs.2.10 lakh to Rs.13 lakh and collateral security for 10 *per cent* of the project cost by each beneficiary would be beyond the means of the poorer sections of Adi Dravidars, thereby defeating the basic objective of the SCA scheme *viz.*, upliftment of poorer Adi Dravidars below the poverty line.

2A.7.4 Schemes with NSFDC loan assistance

Non-utilisation/return of undisbursed loans (Rs.7.44 crore) entailed avoidable payment of penal interest of Rs.1.08 crore.

(i) NSFDC extends financial assistance to State level Corporations for financing income generating schemes for the benefit of Scheduled Castes/Tribes. The assistance is in the form of term loan, seed capital loan, bridge loan, working capital loan for projects costing up to Rs.30 lakh. These loans which carry an interest rate of 4.5 *per cent* with a prompt repayment rebate of 0.5 *per cent* are repayable in quarterly instalments within a period of ten years. The funds remaining unutilised with the channelising agencies would attract levy of penal interest at 10 *per cent per annum*.

The Company obtained Rs.668.97 lakh from NSFDC in December 1992 (Rs.25 lakh), January 1994 (Rs.26.97 lakh) and January 1996 (Rs.617 lakh) for implementation of schemes under transport sector. Due to existence of a similar scheme, with more attractive terms (provision of subsidy, lower interest rates) under SCA scheme, the Company could not succeed in identification of beneficiaries for implementation of the scheme with NSFDC assistance. Thus, non-utilisation/non-return of the unutilised loan assistance entailed payment of penal interest of Rs.80 lakh to NSFDC up to January 1997.

(ii) The State Government entrusted to the Company (July 1992) the task of implementation of a sericulture scheme in the State. The scheme envisaged purchase and distribution of land for sericulture at the rate of one acre each to benefit 4000 landless Adi Dravidar families and to provide infrastructure facilities to 6000 land owning Adi Dravidar families in the State.

The Company secured a loan assistance of Rs.275 lakh from NSFDC during April and May 1993. The Company entrusted the implementation of the scheme to the Director of Sericulture and released Rs.218 lakh from NSFDC (Rs.200 lakh) and SCA funds (Rs.18 lakh) during July and August 1993. Non-utilisation of balance NSFDC funds of Rs.75 lakh for the intended purpose resulted in payment of avoidable penal interest of Rs.28.13 lakh for the period from September 1993 to May 1997.

Against the target of 6000 land owning and 4000 landless beneficiaries envisaged under the scheme, the benefits were extended only to 4258 land owning beneficiaries at a cost of Rs.191.97 lakh and not a single beneficiary under the landless category was provided assistance, thereby largely defeating the objective of the scheme. The balance unspent amount of Rs.26.03 lakh was still lying (October 1997) with the Director of Sericulture.

2A.7.5 Non-recovery of old dues under margin money loan scheme

Margin money loan of Rs.4.13 crore sanctioned prior to March 1988 was pending recovery.

Under a Centrally sponsored (June 1980) margin money loan scheme, soft loan assistance is given to Adi Dravidar beneficiaries at 4 *per cent* interest as a part of unit/project cost for creating assets for their welfare. The scheme is implemented with the share capital assistance granted to the Company by the State and Central Governments in the ratio of 51:49. Under the scheme, 25 *per cent* of the unit cost is granted as margin money by the Company at the interest rate of 4 *per cent per annum* and the balance by way of bank loans. This margin money loan is disbursed through participating banks. The responsibility for completing all formalities for disbursement of loans (including margin money) and for recovery of loans (including margin money) primarily vests with the participating banks.

Considering the huge margin money loan outstanding, COPU recommended (April 1993) that concerted action had to be taken by the Company to ensure early and complete recovery of margin money loan, so as to guard against any possible loss due to efflux of time and non-availability of beneficiaries. It was, however, observed that as on 31 March 1995, margin money loan of Rs.4.13 crore sanctioned prior to March 1988 was pending recovery. The Statutory Auditors in their report on the accounts of the Company for 1994-95 also commented about the lack of adequate action by the Company for recovery of these old dues.

2A.7.6 Other development schemes

The Company has a civil engineering technical wing under the control of General Manager (Technical), which is engaged in various construction activities for the benefit of Adi Dravidars in the State. Consequent on stoppage of construction of houses for Adi Dravidars since 1989, the construction activity of the wing revolves around construction of boys/girls hostels, school buildings, teachers' quarters, shopping complexes, community hall, *etc*.

During the five years up to 1995-96, the Company received Rs.2649.02 lakh from the State Government for construction of 154 hostels, schools, *etc*.

A test check in audit of some of the works executed by the technical wing revealed the following:

(i) The work of construction of two school buildings one each at Melmathur and Elathur in South Arcot district taken up in March 1993 (scheduled to be completed by September 1993) at a cost of Rs.10 lakh had to be stopped in the middle after incurring the expenditure of Rs.3.20 lakh due to slow progress of work by the contractor. Although the agreement with the contractor provided for completion of the work at the risk and cost of the contractor, the Company did not take any action to complete the building even after a lapse of nearly four years. The expenditure of Rs.3.20 lakh on the incomplete buildings, thus, proved unfruitful apart from non-achievement of desired objective of construction of school buildings for the benefit of Adi Dravidars in the respective areas.

(ii) During the course of works audit conducted by the technical wing of the Company during March 1994 and May 1996, the following irregularities in execution of various works such as construction of school buildings, hostels, *etc.*, were noticed:

(Amount - Rupees in lakh)

	Amount of loss
Acceptance of exhorbitant rates over market rates	11.15
Improper and false recording of measurements in measurement books, payments for work not done, adoption of incorrect formula for measurements, manipulation of steel requirements, etc.	3.82
Non-recovery of dues from contractors towards non-return of materials	4.60
Deviation from approved design	0.15
Wasteful expenditure on conveyance of excavated earth	0.17
Shortage on physical verification	0.44
Total	**20.33**

The Company had not taken any action to make good the loss (October 1997).

(iii) On completion of each work undertaken, the Company has to prepare completion report in order to assess and analyse the excess/savings in expenditure on each such work. Non-preparation of completion reports in time would result in ineffective control on scheme funds received from the Government.

On an audit comment regarding the long pendency in the preparation of completion reports for works completed, COPU recommended (April 1993) that expeditious steps should be taken to finalise the completion reports. It was, however, observed that the completion reports for as many as 125 works executed prior to 1988-89 were still pending finalisation (October 1997). In respect of works sanctioned/completed after 1988-89, the Company had no details/records regarding receipt/non-receipt of completion reports. It is pertinent to point out in this context that savings of Rs.103.99 lakh and Rs.14.94 lakh made in respect of works completed during 1994-95 and 1995-96 were not surrendered to the Government, due to non-finalisation of completion reports in all these cases.

2A.7.7 Idle investment on an auditorium

The State Government sanctioned (March 1991) a sum of Rs.15 lakh to the Company for construction of a centenary auditorium at Chidambaram in honour of the services rendered by Swami Sahajananda for the welfare of the Adi Dravidar community. The auditorium was proposed to be used for conducting seminars, conferences, marriages, cultural programmes, Government functions. Although the building was completed in March 1993 at the cost of Rs.13.67 lakh, the same could not be put to any beneficial use due to non-provision of certain amenities like compound wall, special type of flooring and furniture. The cost of carrying out these amenities, which was originally estimated (May 1993) at Rs.4.80 lakh rose further to Rs.5.83 lakh in May 1995 due to escalation in cost of materials. The revised estimate had not, however, been sanctioned by the Government (October 1997).

As a result, the auditorium was lying idle (October 1997), thereby rendering the investment of Rs.13.67 lakh incurred on this account unfruitful for over four years. According to the report furnished (May 1995) by the Company to Adi Dravidar and Tribal Welfare Department, the building was getting damaged due to non-occupation and there was misuse by anti-social elements. Despite these, the Company/Government had not taken any action to bring the auditorium to beneficial use.

2A.8 Lack of control on undisbursed margin money/subsidy

In the implementation of various schemes, while the loan assistance is made available through institutional credit, the subsidy/margin money is released by the Company to the participating banks giving particulars of beneficiaries and the quantum of subsidy/margin money granted to them. The banks in turn release the loan along with margin money loan/subsidy to the beneficiaries.

However, the Company did not introduce any system of follow-up of the actual loan disbursement/availment of loan by the beneficiaries so as to exercise an effective control over timely refund of undisbursed margin money/subsidy by the banks. It was noticed that in Nagapatnam division, the bank was yet (October 1997) to refund the undisbursed margin money/subsidy for the period from 1993-94 onwards. In 17 divisions, margin money of Rs.26.47 lakh in respect of beneficiaries, who did not avail of bank loan, was returned after a delay of more than one year; of which, Rs.2.60 lakh were returned after four years. The Company had not, however, claimed any interest from banks for belated refund of this undisbursed margin money. Computed with reference to the minimum interest rate of 12 *per cent*, the revenue, thus, foregone by the Company worked out to Rs.7.91 lakh.

2A.9 Internal audit

Since 1988-89, the Statutory Auditors in their reports on the accounts of the Company repeatedly commented about the absence of any formal internal audit system commensurate with the size and nature of business of the Company. Despite this, the Company did not establish any full fledged internal audit wing. Internal audit is, however, conducted by the Company's own skeleton staff engaged for the purpose. Their scope of work had, however, not been defined. Inspite of its existence for over 23 years, the Company had not compiled any Internal Audit Manual so far (October 1997).

2A.10 Other points of interest

2A.10.1 Unproductive expenditure due to non-completion and non-functioning of tubewells

Expenditure of Rs.1.91 crore incurred on incomplete/non-functioning tubewells proved unproductive.

In May 1982, the State Government entrusted to the Tamil Nadu State Tubewells Corporation Limited (TNSTWC) the task of sinking of 192 tube wells in five districts at the total cost of Rs.268.21 lakh to provide irrigation facilities to 3785.16 acres of lands belonging to Scheduled Castes. The cost of sinking of these wells was proposed to be met by way of subsidy (50 *per cent*) under SCA and margin money loan (25 *per cent*) to be released by the Company (TAHDCO) and the balance (25 *per cent*) through bank loan. Consequent on the closure of TNSTWC for want of work, the Company at the instance of the State Government took over (June 1989) all these wells (including 104 incomplete wells).

Meanwhile, the Company released (1982 - 1987) Rs.230.10 lakh to TNSTWC as subsidy (Rs.172.92 lakh) and margin money loan (Rs.57.18 lakh) being the expenditure incurred on all these wells.

As per the directives (June 1989) of the State Government, the Company was required to take necessary action for completion of 104 incomplete wells. However, on inspection (August 1992), the Company found that 55 out of 88 completed wells were also not functioning due to non-completion of repairs works. The Company's proposals (November 1989 and February 1994) for sanction of financial assistance of Rs.77 lakh for carrying out residual works of 104 incomplete wells and repairs to 55 non-functioning wells were still (October 1997) pending with the State Government.

Thus, the expenditure of Rs.190.55 lakh incurred on these 159 incomplete/non-functioning wells proved unproductive. Besides, the basic objective of providing irrigation facilities to the lands belonging to Scheduled Castes could not be achieved.

2A.11 Conclusion

The various economic development schemes undertaken by the Company for poverty alleviation and raising of standard of living of poor Adi Dravidars/Scheduled Castes did not yield the desired results due to improper selection/non-implementation of various schemes and on account of absence of proper monitoring/evaluation to take appropriate corrective action. Drawal of funds from the State/Central Government without formulation of necessary schemes left the Company with huge unutilised scheme funds. The Company was able to thrive mainly on account of non-operational income by way of interest on investment of unutilised funds and over charging towards administrative expenses under Special Central Assistance schemes. Effective evaluation/monitoring and proper selection of schemes are called for to secure better results in achievement of the basic objective of upliftment of poorer sections of Adi Dravidars/Scheduled Castes in the State.

The above observations were reported to the Company and the Government in March 1997; their replies had not been received (October 1997).

SECTION 2B

TAMIL NADU MINERALS LIMITED

HIGHLIGHTS

Tamil Nadu Minerals Limited was incorporated in April 1978 to plan/organise exploitation of mineral resources in the State and to pave the way for industrial development by scientific utilisation of mineral wealth available in the State.

{Paragraph 2B.1}

Due to injudicious investment of its huge surplus funds and on account of keeping of foreign currency holdings in excess of its normal/actual requirements in the foreign currency current accounts/term deposits carrying lesser rates of interest, the Company had foregone additional interest income amounting to Rs.4.23 crore.

{Paragraph 2B.6.2}

Non-operation of leasehold lands to the extent of 854.45 hectares over six years and delay in surrendering barren/unviable lands even after such identification resulted in avoidable payment of dead rent amounting to Rs.2.87 crore during the period from April 1991 to March 1997.

{Paragraphs 2B.8.1.1 and 2B.8.1.2}

Non-regulation of production of raw granite blocks to actual demand and continuance of mining operations in quarries having no demand potential during the three years up to 1995-96 resulted in accumulation of 3482 M^3 of raw granite blocks valued at Rs.3.24 crore.

{Paragraph 2B.8.1.3 (ii)}

Expansion of capacity of the granite cutting and polishing unit by addition of one gang saw and three block saws despite *underutilisation of existing capacity led to avoidable investment of Rs.2.51 crore.*

{Paragraph 2B.8.2.1 (iii)}

Import of machinery for the granite tile plant without ensuring its suitability for the intended purpose and Company's failure to properly ensure the export market potential beforehand resulted in continued uneconomic operations of the plant installed at the total cost of Rs.5.90 crore.

{Paragraph 2B.8.2.2 (ii)}

Acceptance of a higher tender offer for graphite beneficiation plant disregarding the technically acceptable lower offer without justifiable reasons resulted in extra expenditure of Rs. 6.53 crore.

{Paragraph 2B.8.2.3 (b)}

Non-achievement of guaranteed performance in graphite beneficiation plant led to loss of revenue of Rs.3.98 crore due to poor quality output and low recovery efficiency.

{Paragraph 2B.8.2.3 (c)}

2B.1 Introduction

The State Government decided (December 1977) to exclusively reserve the exploitation of mineral resources in Government lands by a suitable Government agency with a view to overcome the unsystematic mining of these lands by private leaseholders. Accordingly, Tamil Nadu Minerals Limited (TAMIN) was incorporated in April 1978 mainly with a view to plan/organise exploitation of mineral resources in the State and to pave the way for industrial development by scientific utilisation of mineral wealth available in the State.

2B.2 Objectives

The main objectives of the Company as envisaged in the Memorandum of Association are:

- to search for, prospect, raise and deal in all minerals and sell all produce obtained therefrom;

- to acquire by lease, transfer or otherwise of any mineral field and mine contracts/works from any person or corporation, *etc.*,

- to engage in such activities which would help promotion of all types of mineral based industries in the State and bring into effective exploitation of the mineral deposits in the State.

The corporate plan for the period from 1990-91 to 1994-95, though sent to the State Government in March 1990, had not been approved. The corporate plan for the subsequent period from 1995-96 to 1999-2000 had not been finalised (October 1997) by the Company. Absence of corporate plan deprived the Company the advantage of planned exploitation of mineral bearing leasehold lands held by it as discussed in Paragraph 2B.8.1.1.

2B.3 Current activities

Consequent upon the surrender of limeshell bearing leasehold lands of 1575 hectares to the State Government during 1994-95 due to unviable operations, the current activities of the Company were confined to exploitation/mining of minerals like black/coloured granite, quartz, feldspar, vermiculite, silica sand and graphite. The Company has also engaged itself in production and sale/export of granite slabs/monuments, granite tiles, exfoliated vermiculite, graphite concentrate and Indian standard sand.

2B.4 Organisational set up

The Articles of Association envisaged management of the Company by a Board consisting of minimum two and maximum nine Directors. Against this, the Board as at the end of March 1997 had eight Directors including a full time Chairman and Managing Director, one nominee each from Minerals and Metal Trading Corporation of India Limited (MMTC), State Trading Corporation of India Limited (STC) and Mineral Exploration Corporation Limited (MEC). The Chairman and Managing Director looks after the day-to-day management of the Company with the assistance of a General Manager (Finance) who has also been functioning as General Manager (Technical) since January 1992 due to non-filling up of the vacant post of the General Manager (Technical).

2B.5 Scope of Audit

The performance of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1989 - No.3 (Commercial). The Report was considered by the Committee on Public Undertakings (COPU) in May 1994 and Action Taken Report thereon is available in COPU's 289th Report (March 1996). The activities of the Company during the last five years from 1992-93 to 1996-97 were reviewed in audit between September 1996 and March 1997. The results of Audit are discussed in the succeeding paragraphs.

2B.6 Funding

2B.6.1 As against the authorised capital of Rs.1000 lakh, the paid-up capital of the Company as on 31 March 1997 was Rs.786.90 lakh, wholly held by the State Government. The working capital requirements and cost of new/expansion schemes were met mainly through internal generation of funds.

2B.6.2 Financial management

The Company had not evolved any system of periodical preparation of cash flow statements as required in terms of State Bureau of Public Enterprises (SBPE) guidelines issued in June 1976. Due to injudicious investment of its huge surplus funds, the Company had foregone additional interest income amounting to Rs.422.79 lakh as discussed below:

Due to the investment in term deposit with banks, contrary to the directions of the State Government, the Company had foregone interest income of Rs.1.43 crore.

(i) The State Government directed (January 1989 and September 1993) the Public Sector Undertakings (PSUs) to invest their surplus funds in Housing Development Finance Corporation Limited (HDFC) and Tamil Nadu Transport Development Finance Corporation Limited (TDFC) in view of higher rates of interest on deposits offered by them. Contrary to these directives, the Company kept its surplus funds ranging from Rs.20 lakh to Rs.2136.50 lakh in term deposits with banks for a period exceeding one year at the lesser rates of interest (*i.e.,* 7 to 12 *per cent*) as against the interest rates of 13 to 16.06 *per cent* offered by HDFC, TDFC, *etc.,* thereby foregoing an additional interest income of Rs.143.12 lakh during the period from 1991-92 to 1996-97.

Keeping the funds in the non-interest bearing PD account resulted in loss of interest income of Rs.0.87 crore.

(ii) The Company kept the additional share capital amount of Rs.50 lakh received (March 1987 and March 1988) from the State Government towards implementation of Sivaganga Graphite Beneficiation Project (as discussed in Paragraph 2B.8.2.3) in non-interest bearing Personal Deposit account (PD account) with the Reserve Bank of India. Although the Company allotted necessary shares for this amount to the State Government, the Company withdrew the amount from the PD account nearly after a decade in January 1997. Meanwhile, the Company made use of its own funds on this project since 1988-89 onwards. Thus, by keeping the amount in the non-interest bearing PD account instead of investing in HDFC/TDFC as mentioned above or depositing in the term deposits in banks, the Company had foregone the interest income (at the minimum bank interest rate of 12 *per cent per annum*) of Rs.86.70 lakh for the period from April 1987 to December 1996.

The Company had foregone additional interest income of Rs.1.93 crore due to keeping of foreign currency in excess of its requirement.

(iii) The Company had been keeping a portion of its foreign exchange earnings on export of its products in foreign currency in current accounts/term deposits with the banks. The actual expenditure incurred by the Company in foreign currency on the import of capital goods/stores, *etc.*, during the three years up to 1995-96 amounted to Rs.24.66 lakh, Rs.44.11 lakh and Rs.97.92 lakh, respectively. Even after meeting the above commitments, the amount held in foreign currency accounts as at the end of each of the above three years was Rs.908.20 lakh, Rs.1247.13 lakh and Rs.705.92 lakh, respectively. Thus, the Company had been keeping funds in foreign currency far in excess of its actual requirements. The term deposits kept by the Company in foreign currency for the periods ranging from one to 3 1/2 years carried lower rates of interest ranging from 2.93 to 6.82 *per cent* as against the interest rates of 8 to 16 *per cent* offered for such deposits in Indian currency by banks/financial institutions. Had the Company converted its excess foreign currency holdings over and above its actual/normal requirements into Indian currency and invested them in term deposits with the approved financial institutions, it could have earned an additional revenue by way of interest amounting to Rs.192.97 lakh (even after taking into account the gain accrued due to exchange rate fluctuations) during the period from March 1993 to September 1996.

2B.6.3 Investment in shares

In terms of Government directives (May 1988), any investment or disinvestment proposal exceeding Rs.50 lakh by the State Public Sector Undertakings was required to be cleared by the Project Investment Committee of the State Government. In contravention of these directives, the Company without the approval of the Government, based on a request received from Tamil Nadu Newsprint and Papers Limited (TNPL) to support its public issue, invested (December 1995) in seven lakh equity shares of Rs.10 each at a premium of Rs.100 per share.

While the Company chose to dispose of (February 1996) two lakh partly paid-up shares (sale value: Rs.85.50 lakh) at a profit of Rs.25.50 lakh without any Government approval, it sought (April 1996) the guidelines of the Government for disposal of the remaining five lakh shares. Despite receipt (June 1996) of better offer of Rs.140 per share for purchase of these shares, the Company did not approach the Government with any specific proposal. This had deprived the Company an opportunity of realising a better price for these shares. It was also observed that the market price of TNPL shares had been steadily declining and was quoted at Rs.51 per share (17 April 1997).

The Government accepted the facts and stated (November 1996) that all aspects of the issue were under investigation by the Director of Vigilance and Anti Corruption.

2B.7 Financial position and Working results

2B.7.1 Financial position

The financial position of the Company for the last five years up to 1996-97 is tabulated below:

(Amount - Rupees in lakh)

		1992-93	1993-94	1994-95	1995-96	1996-97
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
I.	**Liabilities**					
(a)	Paid-up-capital	262.30	786.90	786.90	786.90	786.90
(b)	Reserves and surplus	4874.54	6024.86	7364.50	7535.53	7487.00
(c)	Borrowings	112.45	73.13	39.82	6.50	---
(d)	Trade dues and other liabilities (including provisions)	1114.62	1701.27	1996.20	1664.23	1698.26
	Total (I)	**6363.91**	**8586.16**	**10187.42**	**9993.16**	**9972.16**
II.	**Assets**					
(a)	Gross fixed assets	1861.22	2481.12	5103.26	5390.33	5673.28
(b)	LESS: Depreciation	1340.22	1625.45	1763.04	2280.70	2816.53
(c)	Net fixed assets	521.00	855.67	3340.22	3109.63	2856.75
(d)	Capital works in progress	709.23	1945.97	62.89	127.92	163.88
(e)	Other assets/investments	395.24	536.19	650.26	792.01	1653.65

(1)	(2)	(3)	(4)	(5)	(6)	(7)
(f)	Current assets, loans and advances	4738.44	5248.33	6134.05	5963.60	5297.88
(g)	Intangible assets	---	---	---	---	---
	Total (II)	**6363.91**	**8586.16**	**10187.42**	**9993.16**	**9972.16**
	Capital employed*	4854.05	6348.70	7540.96	7536.92	6620.25
	Net worth†	5136.84	6811.76	8151.40	8322.43	8273.90

2B.7.2 Working results

The working results of the Company for the five years up to 1996-97 are given below:

(Amount - Rupees in lakh)

		1992-93	1993-94	1994-95	1995-96	1996-97
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I.	**Income**					
(a)	Sales	3619.61	4116.91	4177.96	3654.84	3375.02
(b)	Other income	363.90	419.52	384.87	526.97	390.08
(c)	Accretion(+)/Decretion(-) to stock	(-)74.38	(-)28.58	(+)276.47	(+)47.37	(-)72.99
	Total (I)	**3909.13**	**4507.85**	**4839.30**	**4229.18**	**3692.11**
II.	**Expenditure**					
(a)	Raw materials consumed	35.68	93.34	145.02	200.15	245.40
(b)	Employees' cost	501.23	601.78	810.17	944.67	1044.47
(c)	Operational and other expenses	1182.87	1305.98	1897.86	2119.01	1724.21
(d)	Interest	37.38	24.92	18.34	18.41	19.34

* Capital employed represents net fixed assets including capital work-in-progress PLUS working capital.

† Net worth represents paid-up-capital PLUS reserves LESS intangible assets.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
(e)	Depreciation	197.53	331.25	438.94	680.11	557.37
	Total (II)	**1954.69**	**2357.27**	**3310.33**	**3962.35**	**3590.79**
	Profit for the year	1954.44	2150.58	1528.97	266.83	101.32
	Add (+) / Deduct (-) prior period adjustments and depreciation written back	(-)3.56	(-)1.98	255.34	174.21	2.59
	Profit before tax	1950.88	2148.60	1784.31	441.04	103.91
	Less: Provision for income tax	166.52	198.26	169.25	112.63	22.60
·	Profit after tax	1784.36	1950.34	1615.06	328.41	81.31

The steep decline in profit since 1993-94 was attributed (September 1995 and September 1996) by the Management to:

- fall in demand for black granite in Japan and stiff competition from countries like China, South Africa, *etc.*, leading to decline in sales from 3625 M^3 during 1993-94 to 1668 M^3 in 1995-96.
- increase in rejection of colour granite (*i.e.*, from 20.5 *per cent* in 1993-94 to 30.6 *per cent* in 1995-96) by the buyers who became more choosy because of increased availability of blocks consequent to the large number of leases granted by the State Government to private parties during 1995-96.
- low production in the graphite beneficiation plant, coupled with the impact of full depreciation provided on the plant.
- steady increase in employees' cost, *etc*.

Analysis in audit, however, indicated that the following controllable factors also contributed to the decline in profitability of the Company:

- ineffective exploitation of mineral deposits in leasehold lands.
- non-identification/surrender of barren and unviable leasehold lands.
- non-regulation of production to actual demand.
- absence of effective marketing strategy.

These points are discussed in the succeeding paragraphs.

2B.8 Performance analysis

2B.8.1 Mining activities

2B.8.1.1 The Company had been exploiting black and colour granite reserves in the leasehold lands obtained from the Government. Till December 1988, the Company had to pay only royalty on the quantum of minerals extracted from these lands. However, since December 1988 the State Government introduced a system of levy of dead rent for non-operated leasehold areas. In respect of operated areas, the Company was required to pay either the royalty on the quantum of granite extracted or dead rent on the areas held whichever was higher.

Considering the ineffective exploitation of mineral deposits in the leasehold lands, the COPU recommended (May 1994) that the Company should find ways by which it could increase the utilisation of leasehold area. The Government in reply informed (December 1994) the COPU that it would exploit all the leasehold areas within two to three years.

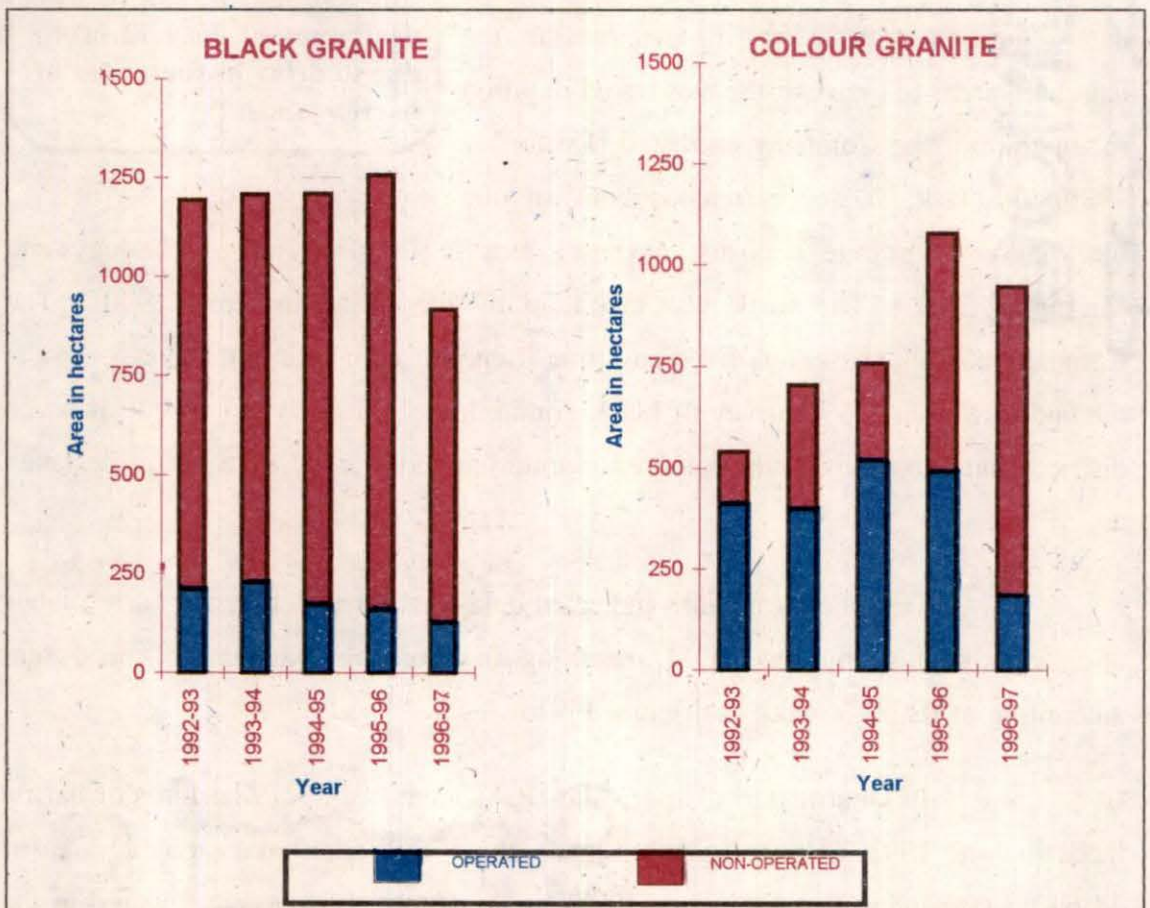
It was, however, observed that as discussed in Paragraph 2B.2 *infra* absence of corporate plan deprived the Company the planned exploitation of mineral bearing leasehold lands held by it. As a result, the extent of utilisation of leasehold areas had shown a steadily declining trend leading to increased payment of dead rent year after year as detailed below:

(Amount - Rupees in lakh)

	Black granite				Colour granite			
Year	Available area	Operated area	Extent of exploitation	Dead rent paid	Available area	Operated area	Extent of exploitation	Dead rent paid
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	(Hectares)		(Per cent)		(Hectares)		(Per cent)	
1992-93	1193.15	210.04	17.6	62.73	540.84	411.84	76.1	19.69
1993-94	1208.33	227.89	18.8	66.99	704.72	399.93	56.8	23.18

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	(Hectares)		(Per cent)		(Hectares)		(Per cent)	
1994-95	1210.21	172.08	14.2	67.72	756.47	519.50	68.7	32.20
1995-96	1256.35	159.55	12.7	67.44	1077.75	492.50	45.7	31.66
1996-97	916.29	126.59	13.8	53.28	946.62	183.84	19.4	37.69
	Total			318.16				144.42

UTILISATION OF LEASEHOLD AREAS



Non-operation of leasehold lands resulted in avoidable payment of dead rent amounting to Rs.2.45 crore.

Analysis in audit indicated that leasehold lands to the extent of 854.45 hectares (excluding the areas already surrendered as discussed in the following paragraph) were not in operation for over six years due to lack of demand and holding of barren/unviable lands. This resulted in avoidable payment of dead rent amounting to Rs.244.67 lakh during the period from April 1991 to March 1997.

2B.8.1.2 Surrender of barren unviable leasehold lands

The Company had to pay dead rent of Rs.0.42 crore due to delay in surrender of barren lands.

In the absence of any geological data regarding mineral bearing reserves in the leasehold areas to arrive at the exact area required for operation, the Company entrusted (December 1989) the task of survey/reassessment of the black/coloured granite deposits in these areas to the Director of Geology and Mining (DGM). The work was taken up by the DGM in April 1990. The Company had not, however, fixed any time frame for completion of the task. As at the end of March 1997, survey of black granite leasehold lands in two out of seven districts and survey of entire coloured granite leasehold areas were yet to be taken up.

Test checks in audit indicated delays in surrendering the barren lands after identification by the DGM, resulting in avoidable payment of dead rent amounting to Rs.42.35 lakh as discussed below :

(i) In Dharmapuri district, the DGM identified 55.79 hectares of barren lands in June 1991. However, these lands along with additional unviable area of 34.64 hectares identified (February 1993) by the Company were surrendered to the Government only between May and August 1996. Delay in surrendering these barren/unviable leasehold lands for reasons not on record resulted in avoidable payment of dead rent amounting to Rs.22.85 lakh for the period from June 1991 to August 1996.

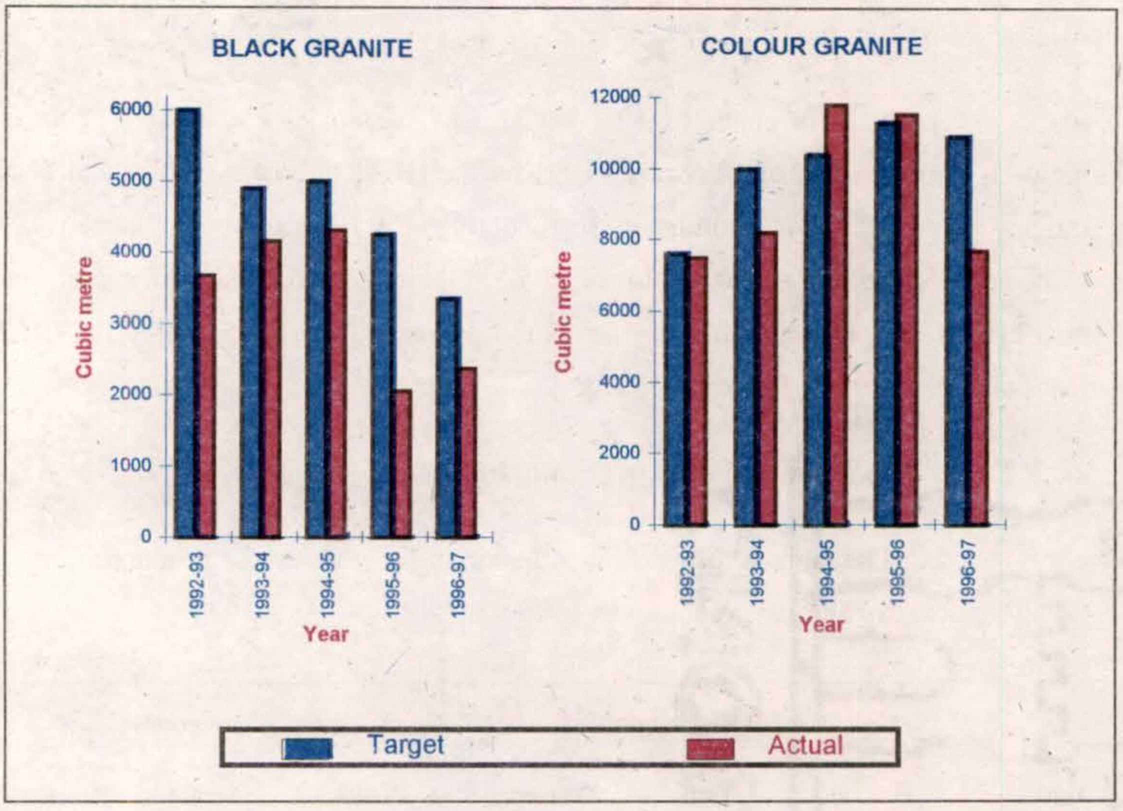
(ii) Non-surrender of 5.01 hectares of barren leasehold lands identified between October 1990 and February 1991 by the DGM in Salem district and delays ranging from 16 to 44 months in surrendering 259.07 hectares of barren lands identified (September 1990 to July 1995) in North Arcot and Thiruvannamalai districts resulted in avoidable payment of dead rent aggregating to Rs.19.50 lakh from October 1990 to February 1997.

2B.8.1.3 Exploitation of raw granite blocks

The table below indicates the target *vis-a-vis* actual production of raw granite blocks for the five years up to 1996-97:

Year	Black granite			Colour granite		
	Target	**Actual**	**Percentage of actual to target**	**Target**	**Actual**	**Percentage of actual to target**
	(Cubic métre)			(Cubic metre)		
1992-93	6000	3679	61.3	7600	7504	98.7
1993-94	4900	4161	84.9	10000	8206	82.1
1994-95	5000	4318	86.4	10400	11798	113.4
1995-96	4250	2054	48.3	11300	11534	102.1
1996-97	3350	2372	70.8	10900	7684	70.5

TARGET VIS-A-VIS ACTUAL



There was declining trend of target fixed for the production of black granite in all the years except 1994-95 for which reasons were not on record. However, the decline in production of black granite during 1995-96 was attributed (September 1996) by the Management to poor demand from the major importing country *viz.*, Japan and also due to stiff competition from countries like China and South Africa. The decline in production of colour granite during 1996-97 was mainly due to keen competition in the field consequent upon grant of large number of mining leases to private parties as discussed in Paragraph 2B.7.2. The Company had not, however, evolved any comprehensive effective marketing strategy to overcome these constraints.

Operation of eight quarries was unviable (loss: Rs.1.40 crore) due to acceptance of sale price below cost.

(i) The Company had no system to regulate the operation of quarries with reference to market trends, profit margin, *etc*. Consequently, operation of eight quarries was unviable due to acceptance of sale price below cost, thereby resulting in operational loss of Rs.140.14 lakh during 1994-95 and 1995-96.

Non-regulation of production to actual demand resulted in accumulation of raw granite blocks valued at Rs.3.24 crore.

(ii) Non-regulation of production to actual demand and continuance of mining operations in certain quarries (two in 1994-95 and seven in 1995-96) having no demand potential resulted in accumulation of 3482 M^3 of black/colour granite blocks (value: Rs.323.87 lakh) produced during the period from 1993-94 to 1995-96. The loss of interest on the amount locked up on the accumulated stock to the end of March 1997 worked out to Rs.86.22 lakh. It is relevant to mention in this context that the granite blocks can not be stocked as they develop cracks and thereby lose their export worthiness.

Failure of the Company in redressing the rejected blocks and offer the same for inspection by the buyer resulted in losing an opportunity of selling 65.298 M^3 granite blocks valued at Rs.0.17 crore.

(iii) As at the end of March 1996, the Company had stock of 12648 M^3 of rejected black (2886 M^3) and coloured (9762 M^3) granite blocks (value not assessed and accounted for). The Company had not taken any effective action for disposal of these rejected blocks. In this context, it is relevant to mention that the Company's failure to redress (*i.e.*, rectification work) and offer the rejected blocks for inspection as desired by the buyers resulted in the Company losing an opportunity of selling 65.298 M^3 of granite blocks (value: 55067 US dollars equivalent to Rs.16.52 lakh approximately) during the period from July 1995 to June 1996 in seven cases test checked in audit.

2B.8.1.4 Vermiculite mine and Vermiculite exfoliation plant

The Company took over (1980) from the Geology branch of the State Industries department the vermiculite* mine (23.72 hectares) at Sevathur in North Arcot district and vermiculite exfoliation* plant at Ambattur. The table below indicates the operational performance of the mine and the plant for the five years up to 1996-97:

		1992-93	1993-94	1994-95	1995-96	1996-97
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I.	**Mine**					
(a)	Overburden removed (tonnes)	N.A.†	4462	4454	4765	N.A.
(b)	Production (tonnes)	877	762	481	450	1126
(c)	Recovery {Percentage (b) % (a)}	---	17.1	10.8	9.4	---
(d)	Cost of production per tonne (Rupees)	1764	2447	4307	5008	2183
(e)	Quantity sold (tonnes)	475	592	676	593	862
(f)	Average sales realisation per tonne (Rupees)	629	635	629	695	835
(g)	Loss per tonne (Rupees)	1135	1812	3678	4313	1348
(h)	Total loss on production (Rupees in lakh)	9.95	13.80	17.69	19.41	15.18
II.	**Plant**					
(a)	Production (tonnes)	91	111	256	400	408
(b)	Cost of production per tonne (Rupees)	7466	8697	8568	8292	5219

* Vermiculite is a versatile thermal and insulation material. Exfoliated vermiculite is used in light weight concrete aggregate and for decorative wall paper and partition boards.

† Not Available

(1)	(2)	(3)	(4)	(5)	(6)	(7)
(c)	Sales (tonnes)	90	113	243	406	348
(d)	Average sales realisation per tonne (Rupees)	2561	2593	2597	2850	3441
(e)	Loss per tonne (Rupees)	4905	6104	5971	5442	1778
(f)	Total loss on production (Rupees in lakh)	4.46	6.79	15.29	21.77	7.25

The poor recovery percentage of the mineral was attributed to occurrence of the mineral in small scattered pockets. It was also observed that due to unplanned exploitation, raw vermiculite had accumulated to the extent of 2714 tonnes (value: Rs.20.16 lakh) to the end of March 1997. Computed with reference to the present level of consumption pattern of the plant, this accumulated stock would meet the requirement of the plant for the next 24 months.

Despite continuous loss due to poor recovery, high cost of production, lack of adequate demand, etc., the Company did not conduct any viability/feasibility study to decide about the future course of action for the mine and the plant.

2B.8.2 Manufacturing activities

The Company has three major production units, *viz.*, Granite Cutting and Polishing Unit at Manali, Granite Tile Plant at Madhepalli and Graphite Beneficiation Plant at Sivaganga. The performance of these units is discussed in the succeeding paragraphs.

2B.8.2.1 Granite cutting and polishing unit

(i) The 100 *per cent* export oriented granite cutting and polishing unit set up (March 1986) at a cost of Rs.638.66 lakh at Manali near Chennai is engaged in the production of granite cut slabs, polished slabs and monuments. The table below indicates the performance data of the unit for the last five years up to 1996-97.

Year	Cut and polished slabs							
	Production					Sales		
	Installed capacity	Target	Actual	Percentage of actual to installed capacity	Percentage of actual to target	Target	Actual	Percentage of actual to target
	(M^2)					(M^2)		
1992-93	50400	24000	1804	3.6	7.5	10600	1963	18.5
1993-94	50400	12600	2427	4.8	19.3	7800	1939	24.9
1994-95	50400	9600	3834	7.6	39.9	3500	2551	72.9
1995-96	24060	7300	3749	15.6	51.4	12500	2698	21.6
1996-97	24060	12300	7157	29.7	58.2	12300	4913	39.9

1. The basis of fixation of target was not on record. The target for production was fixed without any relevance to sales target.
2. The installed capacity was revised and restricted to actual area of finished goods during 1995-96
3. Improved production and sales performance in respect of monuments was due to execution of orders for supply of 1400 M^2 of monumental blocks from the Tamil Nadu Industrial Investment Corporation Limited (TIIC) during 1995-96.

Monuments							
Production					Sales		
Installed capacity	Target	Actual	Percentage of actual to installed capacity	Percentage of actual to target	Target	Actual	Percentage of actual to target
	(M^2)				(M^2)		
31290	7000	416	1.3	5.9	2830	547	19.3
31290	2000	292	0.9	14.6	500	287	57.4
31290	2000	437	1.4	21.9	300	486	162.0
10650	500	2376	22.3	475.2	1260	2363	187.5
10650	3100	44	0.4	1.4	3100	31	1.0

The poor production and sales performance of the unit was attributed (September 1995 and September 1996) to dearth of orders. The Company had not, however, evolved any comprehensive marketing strategy to boost the sales.

(ii) Debonding* of the unit

As per the terms and conditions governing the 100 *per cent* export oriented units, the Company was entitled to sell 25 *per cent* of the finished goods and rejects up to 5 *per cent* in the domestic market.

Despite failure to strengthen its domestic marketing, the Company debonded the unit by paying Rs.1.03 crore to the Government.

The Company obtained (July 1992 and August 1995) permission from the Government of India for sale of finished goods for the value of Rs.83.71 lakh being its domestic market entitlement for the periods 1991-92 and 1993-94 to execute the orders received from the Public Works Department and TIIC. Against these sanctions, Company's actual sale was only Rs.31.09 lakh (37.1 *per cent*). Even in regard to its entitlement for sale of rejects in the domestic market against the sanction (February 1995) for Rs.43.62 lakh (*i.e.*, entitlement up to 1992-93), the Company could sell to the extent of Rs.3.06 lakh only (7 *per cent*), thereby indicating lack of adequate efforts to develop the domestic market.

The Company, however, debonded (March 1997) the unit by paying Rs.103.18 lakh to the Government of India by way of customs/central excise duties payable for such debonding.

In the light of Company's failure to strengthen its domestic marketing, the debonding of the unit at this juncture by paying Rs.103.18 lakh as duties was injudicious.

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* Debonding means removal of obligation imposed on the export oriented unit for sale of its product in the export market.

(iii) Avoidable investment on expansion of capacity

The unit has three gang saws* (annual capacity: 50400 M^2) and one block saw* (annual capacity: 8640 M^2). The capacity utilisation of the gang saws during the period from 1986-87 to 1990-91 ranged between 5.5 and 18.2 *per cent* only and that of the block saws was between 1.67 and 13.75 *per cent*.

Expansion of capacity despite underutilisation of existing capacity led to investment of Rs.2.51 crore remaining unfruitful.

Though there was gross underutilisation of this existing machinery, the Company expanded (November 1991 and September 1996) the capacity by installation of three additional block saws (annual capacity: 22650 M^2) and one gang saw (annual capacity: 9420 M^2) at a total cost of Rs.250.95 lakh. Audit analysis of the performance of the unit after expansion indicated that the production achieved by the gang saws and block saws during 1996-97 was 7157 M^2 and 44 M^2 respectively, thereby indicating gross underutilisation of the original installed capacity itself. Therefore, investment of Rs.250.95 lakh made on the installation of additional gang/block saws despite underutilisation of the existing capacity lacked justification.

2B.8.2.2 Granite tile plant

(i) With a view to export value added products and also to make use of the rejected granite blocks available at various quarries, the Company set up (February 1994) a granite tile plant at a cost of Rs.590.14 lakh at Madhepalli with imported machinery (cost: Rs.341.54 lakh).

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* Gang saws are used for cutting raw granite blocks into slabs of required size and block saws are used for cutting raw granite blocks into monuments.

(ii) Production performance

Due to limited sawing capacity of the imported circular saws (used for cutting the slabs into strips of required thickness) erected, the installed capacity of the plant was reduced (July 1996) to 21300 M^2 *per annum*. The Company could not achieve even this reduced level of production due to dearth of orders as detailed below:

		1994-95	1995-96	1996-97
			(Square metres)	
(i)	Installed capacity	72000	21300	21300
(ii)	Target	30000	30000	12000
(iii)	Actual production	2391	5945	11485
(iv)	Rejection	137	1934	2247
(v)	Percentage of actuals to installed capacity (iii) to (i)	3.3	27.9	53.9
(vi)	Percentage of rejection to actual production (iv) to (iii)	5.7	32.5	19.6

The feasibility report assumed that the entire production of the unit (72000 M^2) could be sold without any problem. It was, however, noticed that the Company was not able to market even the limited quantum of production as it could sell only 14165 M^2 (71.5 *per cent*) out of the total production of 19821 M^2 during the three years up to 31 March 1997. Due to poor sales performance, the unit could not break-even since commissioning and the cumulative loss at the end of 31 March 1997 amounted to Rs.448.37 lakh.

A technical committee constituted (November 1996) by the Company to study the bottlenecks in the existing plant identified the following factors:

- unsuitability of the machinery for tile production, since the machinery installed was most suited for a granite monument plant;
- higher cost of operation (*i.e.*, Rs.1311 per M^2) of the Company's plant as compared to cost of operation of Rs.205 per M^2 by other successful private tile plants;
- poor recovery due to high incidence of cutting deviations in the Company's saws.

Import of machinery without ensuring its suitability resulted in continued uneconomic operation (cumulative loss: Rs.4.48 crore) of the plant.

Thus, import of machinery without ensuring its suitability for the intended purpose and the Company's failure to properly ensure the export market potentials of the new product proposed to be launched resulted in continued uneconomic operations of the plant installed at the total cost of Rs.590.14 lakh. Incidentally, out of 548.341 M^3 of raw blocks supplied by various quarries to the unit for production of tiles during 1994-95 and 1995-96, supply of new granite blocks constituted 490.734 M^3 (89.5 *per cent*). This largely defeated the basic objective of setting up the unit for making use of rejects available in the nearby quarries in the area. Reasons for usage of new blocks despite availability of adequate rejects were not on record.

(iii) Excess consumption of raw material

As compared to norms, there was an excess consumption of raw block valued at Rs.0.38 crore.

The feasibility report envisaged that one cubic metre of raw block could produce 47 M^2 of tiles of 10 mm thick. Against 584.808 $M^3$of raw block to be consumed as per the above norms for 27486 M^2 of tiles (inclusive of works-in-progress) produced during the period from 1994-95 to 1996-97, the actual consumption of raw block was 912.083 M^3 resulting in excess consumption of 327.275 M^3 of raw block valued at Rs.38.45 lakh.

2B.8.2.3 Graphite beneficiation plant

(a) The Company decided (August 1981) to set up a graphite beneficiation plant at Sivaganga to produce high purity graphite concentrate with the ultimate objective of developing industrial units to manufacture carbon bonded crucibles, aircraft components, *etc*. Mention was made in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1989 - No.3 (Commercial) regarding delay in the implementation of the project.

Based on a Detailed Project Report (DPR) prepared (October 1990) by Triveni Engineering Works (TEW), the State Government approved (April 1991) the proposal of the Company for implementation of the project at Sivaganga at the estimated cost of Rs.1500 lakh. The DPR was based on the process flow chart as developed by National Metallurgical Laboratory (NML), Chennai. The DPR envisaged processing of 200 tonnes of graphite ore of 14 *per cent* Fixed Carbon (FC) per day to produce 28 tonnes of high purity graphite concentrate of 95 to 96 *per cent* FC content.

(b) Award of contract

Acceptance of higher tender offer for graphite benefication plant resulted in extra expenditure of Rs.6.53 crore.

Tenders for implementation of the project on turn key basis were called for by the Company in February 1991. The Committee constituted (March 1991) by the Company to scrutinise and finalise the tenders rated the offer (Rs.1836.78 lakh) of Larsen and Toubro (L&T) as technically first and that of (Rs.1184.07 lakh) TEW as second. Although there was no consensus among the members of the Committee regarding award of contract, the Board of Directors of the Company decided (December 1991) subject to the approval of the Government to accept the higher offer of L&T for the following reasons:

- adoption of the latest technology by L&T;
- consistent quality output of higher purity of 96 *per cent* FC content as against the quality output of +95 *per cent* offered by TEW;
- increase in output by 15 to 20 *per cent* on account of which the extra cost incurred on the purchase would be recovered in 2 to 3 years by higher sales realisation;
- machines offered by L&T were rubber lined which would enable to get bigger size graphite flakes having better sales realisation.

The Government accepted (July 1992) the proposal of the Board and accordingly the contract was awarded (July 1992) to L&T at their offered price of Rs.1836.78 lakh.

However, acceptance of higher offer of L&T in preference to lower offer of TEW on the grounds of advanced technology and reported higher output was not found justified in view of the following:

(i) The tender specification was not in conformity with the DPR and the offer of L&T did not specify the details of product compositions, varieties and their grades.

(ii) Since NML's process, on which L&T offer was based, envisaged an overall recovery of 92.2 *per cent* of graphite present in the ore, the contention of the Company that L&T's advanced technology would yield increase in output by 15 to 20 *per cent* was not borne out of facts. Further, the contract with L&T stipulated a recovery of 92.2 *per cent* of FC from the ore.

(iii) The contention of the Company that the machines offered by L&T were rubber lined did not take cognizance of the fact that TEW had also agreed to provide rubber lined machinery.

(iv) TEW as reported to the Board were also experienced/reputed engineering contractors who had done a number of beneficiation projects and also designed and implemented mineral processing units.

Thus, acceptance of higher offer of L&T without justifiable reasons, disregarding the technically acceptable lower offer of TEW, resulted in extra expenditure of Rs.652.71 lakh. Further, the contract with L&T did not also contain any penal clause for its failure to achieve higher output and higher percentage of graphite flakes of bigger size. However, in actual practice, the plant, could not achieve the envisaged/guaranteed output as discussed in the subsequent paragraph.

(c) Loss due to non-achievement of guaranteed performance

Non-achievement of guaranteed performance led to loss of revenue of Rs.3.98 crore.

After completion of the project (cost: Rs.2366.54 lakh inclusive of civil works/main building), L&T commenced load trials of the plant in May 1994. The plant could not, however, achieve the guaranteed performance in respect of various vital parameters (*viz.*, processing capacity, quality output, recovery efficiency, *etc.*,). Even the subsequent performance guarantee test conducted (February 1996) after completion of such rectification works was not successful. However, the Company commenced commercial production in December 1994, pending completion of certain rectification works by the plant supplier.

The guaranteed performance of the plant had not yet been proved by the plant supplier (October 1997). As a result, the performance of the plant during the period from December 1994 to March 1997 had been affected badly due to underutilisation of capacity, poor quality output and low recovery, as detailed below:

		1994-95 (December 1994 to March 1995)	1995-96	1996-97
(1)	(2)	(3)	(4)	(5)
A	**Capacity utilisation**			
(i)	Ore to be processed as per contract (tonnes)	13200	39600	52800
(ii)	Actual ore processed (in tonnes)	7583	11470	16068
(iii)	Percentage of (ii) to (i)	57.4	29.0	30.4
(iv)	Production of graphite concentrate as per contract (tonnes)	1848	5544	7392
(v)	Actual production of graphite concentrate (tonnes)	443	1175	2303
B.	**Loss due to poor quality**			
(vi)	Grade (fixed carbon content) of concentrate as per contract (per cent)	96.3	96.3	96.3
(vii)	Actual grade of concentrate (per cent)	83.3	87.8	92.3
(viii)	Quantity equivalent to 96.3 per cent grade (tonnes) (vii) / (vi) x (v)	383	1071	2207
(ix)	Sale/realisable price for 96.3 per cent grade (Rupees per tonne)	16000	16000	16000

(1)	(2)	(3)	(4)	(5)
(x)	Average sale price of grade produced (Rupees per tonne)	8023	9312	11734
(xi)	Loss per tonne (Rupees) (ix) - (x)	7977	6688	4266
(xii)	Total loss due to poor quality (Rupees in lakh) (viii) x (xi)	30.55	71.63	94.15
C.	**Loss due to low recovery**			
(xiii)	Quantity of graphite to be recovered as per contract (tonnes)	1016.49	1570.70	2150.43
(xiv)	Actual recovery of graphite (tonnes) (v) x (vii)	369.01	1031.65	2125.67
(xv)	Loss due to low recovery (tonnes) (xiv) - (xiii)	647.48	539.05	24.76
(xvi)	Value of loss (at the rate of Rs.16667/tonne) (Rupees in lakh)	107.92	89.84	4.13
(xvii)	Total loss due to poor quality and low recovery (xii) + (xvi) (Rupees in lakh)	138.47	161.47	98.28

Thus, because of non-achievement of the guaranteed performance, the Company had foregone the revenue of Rs.398.22 lakh during the period from December 1994 to March 1997 due to poor quality output and low recovery efficiency.

9 Sales performance

The table below indicates the sales performance of granite/granite products (which constituted nearly 92 to 97 *per cent* of the total turnover of the Company) for the five years up to 1996-97:

	1992-93			1993-94		
	Target	**Achievement**	**Percentage of achievement to target**	**Target**	**Achievement**	**Percentage of achievement to target**
		M^3			M^3	
Black granite	3500	4296	122.7	3700	3625	98.0
Coloured granite	6320	7377	116.7	8300	7507	90.4
		M^2			M^2	
Granite products	18730	2510	13.4	8300	2612	31.5

1994-95			1995-96			1996-97		
Target	**Achievement**	**Percentage of achievement to target**	**Target**	**Achievement**	**Percentage of achievement to target**	**Target**	**Achievement**	**Percentage of achievement to target**
	M^3			M^3			M^3	
3650	3015	82.6	3350	1668	49.8	2870	2961	103.0
9150	9841	107.6	9700	9116	94.0	9500	4272	45.0
	M^2			M^2			M^2	
29050	4088	14.1	20860	9108	43.7	27500	15390	56.0

The decline in sales in respect of black granite since 1992-93 was attributed (September 1996) by the Management to fall in demand from major granite consuming country *viz.*, Japan and stiff competition from countries like China, South Africa, *etc*.

The following points were observed in audit in this connection:

(i) Inadequate marketing strategy/planning and inability to approach the actual consumers for finished products were, *inter alia*, identified as the main weakness of the Company as per the draft corporate plan prepared (March 1990) by it. The Company had not taken adequate steps to develop domestic markets for its granite blocks and finished goods nor has it been able to market its granite blocks/products in countries like U.K., Malaysia, Thailand and Canada having adequate demand potential for Indian granite products.

(ii) The Kashmir white variety of granite blocks produced in the Company's Keelaiyur and Keelvalavu quarries had good export potential as evidenced from the fact that the Company exported 3982.20 M^3 and 3898 M^3 of this variety during 1993-94 and 1994-95. However, this variety was not included in the global tender finalised by the Company on 27 March 1995, the reasons for which were not on record. However, on the third day immediately after finalisation of the global tender, the Company received (30 March 1995) an offer from a foreign buyer for purchase of 5000 M^3 of this variety at the rate of 750 per M^3, *i.e.*, the rate at which it was sold by the Company during 1994-95. The Company accepted this offer in April 1995. Likewise another popular variety *viz.*, red wave (having good export potential) produced in the Company's Jekkery quarry was also not included in the global tender finalised on 27 March 1995. However, the offer for purchase of 2400 M^3 received from a buyer (*viz.*, Darwin resources) just two days after finalisation of a global tender at the previous selling rate of 405 US dollars per M^3 was accepted by the Company in April 1995.

Thus, non-inclusion of these two varieties having good export potential in the global tender and acceptance of rates based on unsolicited offers received immediately after finalisation of global tender lacked justification. This also deprived the Company an opportunity of obtaining better competitive rates through global tenders.

2B.10 Other points of interest

2B.10.1 Unproductive expenditure on implementation of Molybdenum* project

Expenditure of Rs.1.12 crore incurred on the project proved unproductive.

Based on the reports of the Geological Survey of India (GSI) indicating the presence of molybdenum ore in a stretch of 27 Kms. in Harur-Uthangari Zone in Dharmapuri district, the Company decided (March 1993) to take up detailed exploration for ultimate exploitation and beneficiation of the mineral. As a part of follow up of implementation of the project, the information obtained (August 1994) by the Company from Government of India indicated that the grade of ore throughout the world was 0.12 to 0.30 *per cent* Molybdenum Oxide (MO) (*i.e.,* minimum requirement for molybdenum production).

However, GSI intimated (June 1995) the Company that exploratory studies conducted in the proposed area revealed availability of ore with 0.108 *per cent* MO only. Despite the fact that the grade of ore in the proposed Harur - Uthangarai zone was poorer in grade as compared to international standards, the Company carried out further exploratory studies/mining through GSI and Mineral Exploration Corporation Limited (MECL) at the cost of Rs.112.11 lakh. Since these studies also confirmed the unviability of the project in view of poor quality of ore in the area, further mining works in the area were ordered (September 1996) to be stopped.

Thus, the expenditure of Rs.112.11 lakh incurred (inclusive of Rs.5.51 lakh paid to GSI towards cost of exploration reports) on the project without

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* Molybdenum is an important strategic refractory mineral used primarily as an alloying agent in steels, cast irons and super alloys to enhance hardenability, strength, toughness and wear and corrosion resistance.

taking due note of the already known factor regarding existence of only poorer grade of ore in the proposed area proved unproductive.

2B.10.2 Contribution to South Asian Federation Games

Funds required for air-conditioning of indoor stadium for SAF games were released in two parts *viz.,* Rs.0.08 crore before the start of games and Rs.1.17 crore after one month of conclusion of games which rendered the entire amount unproductive.

Based on a request (November 1995) of the sponsors of VII South Asian Federation Games (SAF games), the State Government permitted (December 1995) the Company to contribute Rs.125 lakh to Tamil Nadu Basketball Association (TNBA) for air-conditioning its indoor basketball stadium wherein certain events of SAF games were proposed to be held between 18 and 27 December 1995.

Accordingly, the Company released (15 December 1995) the first instalment of Rs.8 lakh to TNBA with a condition to render proper accounts once in a fortnight for the expenditure along with the progress of work. However, the remaining major portion of the contribution, *i.e.,* Rs.117 lakh was released by the Company one month after conclusion of SAF games, (*i.e.,* on 2 February 1996), thereby defeating the basic objective of air-conditioning the stadium during the conduct of SAF games.

Due to non-receipt of any information from TNBA about the progress of work, the officials of the Company visited the site after a delay of nearly one year in November 1996 and found that no air-conditioning work was actually undertaken. The Company therefore asked (November 1996) TNBA to refund the contribution. The Company filed (June 1997) a civil suit for recovery of the contribution.

2B.11 Conclusion

There had been a steep decline in the performance of the Company over the last three years due to ineffective exploitation of mineral deposits in leasehold lands, non-identification/surrender of barren/unviable leasehold lands, non-regulation of production to actual demand and ineffective marketing strategy. All the major production units of the Company had also been incurring continuous loss, mainly due to technical inadequacies and lack of adequate marketing efforts. The operations of the Company also suffered due to improper funds management and improper planning, leading to creation of excessive capacity/production and unproductive investment. In these circumstances, concerted efforts are called for in all these areas to sustain the profitable working of the Company.

The above observations were reported to the Company and the Government in May 1997; their replies had not been received (October 1997).

SECTION 2C

TAMIL NADU SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED

HIGHLIGHTS

Tamil Nadu Small Industries Development Corporation Limited was incorporated on 23 March 1970 with a view to give an impetus to the planned development of small scale industries in the State. The Company had not evolved any long term corporate plan for achievement of the objectives.

{Paragraphs 2C.1 and 2C.2}

Purchase of lands from private parties at higher prices through negotiations without initiating simultaneous land acquisition proceedings in contravention of the directives/guidelines of the Government resulted in extra expenditure of Rs.4.69 crore.

{Paragraph 2C.7.1 (b)}

Investment of Rs.0.45 crore on purchase (December 1993) of lands from private parties in Rasathavalasu near Vellakoil in Erode district for industrial purposes without assessing the demand potential proved unproductive.

{Paragraph 2C.7.1 (b) (ii)}

Sale of lands specifically meant for common purposes to private parties in contravention of approved lay out at prices lower than even the guideline values resulted in loss of revenue of Rs.36.35 crore.

{Paragraph 2C.7.1 (c)}

Investment of Rs.0.74 crore made on construction of 22 worksheds at Nanjikottai in Thanjavur district without ensuring/assessing the demand potential proved unfruitful.

{Paragraph 2C.7.1 (e)}

Expenditure of Rs.0.49 crore incurred on construction of tiny sheds in Vellanur village near Avadi without ensuring transfer of lands became unproductive due to mid-way abandonment of works.

{Paragraph 2C.7.1 (f)}

Non-adherence to instructions of Head Office to collect maintenance charges from the allottees with reference to actual expenditure resulted in loss of Rs.1.12 crore during the three years up to 1995-96 in respect of two industrial estates test checked in audit.

{Paragraph 2C.7.2}

Diversion of the Company's funds for development of private industrial estates defeated the basic objective of setting up of such estates without any financial commitment to the Company. This apart, release of funds without any agreement/security led to non-realisation of the Company's investment of Rs.6.25 crore.

{Paragraph 2C.7.6}

Distribution of raw material to ACSR conductor manufacturing units on credit basis without proper security resulted in non-realisation of cost of raw material amounting to Rs.0.87 crore.

{Paragraph 2C.7.7.1}

2C.1 Introduction

Tamil Nadu Small Industries Development Corporation Limited (SIDCO) was incorporated on 23 March 1970 with a view to give an impetus to the planned development of Small Scale Industries (SSIs) in the State. The Company provides necessary inputs such as infrastructure, raw materials and marketing assistance required by this sector.

2C.2 Objectives

The following are the main objectives envisaged in the Memorandum of Association of the Company:

(i) to promote the interests of small or any other industries in the State and to provide them with assistance of all kinds including capital credit, resources and technical, managerial/marketing assistance;

(ii) to promote and operate schemes for development of industries in the State;

(iii) to effect co-ordination between large and small scale industries enabling the latter to function as ancillaries to the former;

(iv) to provide industrial infrastructure facilities by way of industrial estates comprising of worksheds and/or developed plots with all basic amenities; and,

(v) to manufacture, buy, sell, import and install any plant, machinery, *etc.,* in tune with any of its objects.

The Company had not evolved any long term corporate plan for achievement of the above objectives. The activities of the Company are at present confined to the items listed at (i) and (iv) above.

2C.3 Organisational set up

The Articles of Association envisaged management of the Company by a Board consisting of minimum three and maximum ten Directors. Against this, the Board as at the end of March 1997 consisted of eight Directors, including a full time Managing Director, Secretary to Small Industries Department functioning as ex-officio Chairman, one nominee each from Tamil Nadu Industrial Investment Corporation Limited (TIIC), Electronics Corporation of Tamil Nadu Limited (ELCOT) and Small Industries Development Bank of India (SIDBI).

Contrary to the recommendations of the COPU that the Chief Executives of the Public Sector Undertakings (PSUs) should have a minimum tenure of three years to ensure stability, continuity and accountability, the Company had nine Managing Directors during the span of six years from January 1991 to March 1997. Their tenure ranged between 9 and 772 days only.

The Managing Director looks after the day-to-day management of the Company with the assistance of a General Manager.

2C.4 Scope of Audit

The performance of the Company was last reviewed and included in the Report (Commercial) of the Comptroller and Auditor General of India for the year ended 31 March 1988. The recommendations of the Committee on Public Undertakings (COPU) are contained in its 62^{nd} Report presented to the State Legislature on 28 April 1992. The activities of the Company during the period from 1991-92 to 1995-96 and adequacy or otherwise of the action taken on the recommendations of COPU were reviewed in audit between October 1996 and February 1997. The findings of Audit are discussed in the succeeding paragraphs.

2C.5 Funding

2C.5.1 Share capital and borrowing

As against the authorised capital of Rs.2500 lakh, the paid-up capital of the Company as on 31 March 1996 was Rs.655 lakh, wholly contributed by the State Government.

The Company has been mobilising its resources by way of loans from the State Government, financial institutions, banks and the public, apart from the ways and means advances obtained from the State Government from time to time. The loans raised by the Company through the various sources, outstanding as at the end of March 1996 amounted to Rs.1541.59 lakh inclusive of interest accrued and due amounting to Rs.457.42 lakh on these loans.

2C.6 Financial position and Working results

2C.6.1 Financial position

The Company had not finalised the accounts for 1996-97 (October 1997). The table below indicates the financial position of the Company for the five years up to 31 March 1996.

(Amount - Rupees in lakh)

		1991-92	1992-93	1993-94	1994-95	1995-96
I	**Liabilities**					
(a)	Paid-up capital	655.00	655.00	655.00	655.00	655.00
(b)	Reserves and Surplus[1]	245.32	266.78	299.76	321.72	53.02
(c)	Short-term and long-term loans	929.55	762.24	1767.50	1410.17	1084.17
(d)	Trade dues and other liabilities (including provisions)	3810.15	4692.99	6071.51	6554.66	8738.34
	Total (I)	**5640.02**	**6377.01**	**8793.77**	**8941.55**	**10530.53**
II	**Assets**					
(a)	Gross fixed assets	261.28	313.57	318.88	334.10	369.76
(b)	LESS: Depreciation	100.86	116.86	132.48	148.62	168.95
(c)	Net fixed assets	160.42	196.71	186.40	185.48	200.81
(d)	Investments	1.10	1.10	1.10	11.10	11.10
(e)	Current assets, loans and advances	5478.50	6179.20	8606.27	8744.97	10263.73
(f)	Intangible assets					
	(i) Accumulated loss	--	--	--	--	54.89
	Total (II)	**5640.02**	**6377.01**	**8793.77**	**8941.55**	**10530.53**
	Capital employed[2]	1828.77	1682.92	2721.16	2375.79	1726.20
	Net worth[3]	900.32	921.78	954.76	976.72	653.13

2C.6.2 Working results

The working results of the Company for the last five years up to 1995-96 are given below:

1 The steep decline in Reserves and Surplus during 1995-96 was mainly due to setting off a portion (Rs.262.52 lakh) of the loss incurred by the Company during the year against the Reserves and transfer of forfeited Earnest Money Deposit credited to Reserves to Miscellaneous Receipts.

2 Capital employed represents net fixed assets including capital work-in-progress PLUS working capital

3 Net worth represents paid-up capital PLUS reserves LESS intangible assets.

(Amount - Rupees in lakh)

		1991-92	1992-93	1993-94	1994-95	1995-96
I	**Income**					
(a)	Sale of raw materials and worksheds	8289.49	6681.42	10810.54	11242.63	11111.59
(b)	Service charges	53.52	96.74	173.50	206.61	159.96
(c)	Interest on loans/deposits	189.90	205.95	328.76	342.96	340.90
(d)	Miscellaneous income	99.64	45.02	73.73	99.25	106.36
(e)	Accretion(+)/Decretion(-) to:					
	(i) stock of raw materials	(+)155.43	(-)292.94	(-)105.04	(-)38.71	(+)490.62
	(ii) cost of vacant worksheds	(+)9.45	(-)20.76	(-)15.78	(-)176.62	(+)629.62
	Total (I)	**8797.43**	**6715.43**	**11265.71**	**11676.12**	**12839.05**
II	**Expenditure**					
(a)	Purchase of raw materials and cost of additional worksheds	8122.56	5947.36	10242.30	10464.88	11787.67
(b)	Employees' cost	283.39	348.89	395.40	449.26	524.65
(c)	Advertisement and exhibition expenses	17.86	13.68	11.54	18.06	23.98
(d)	Maintenance of industrial estates	37.50	33.52	41.08	68.54	93.08
(e)	Interest	191.09	204.77	343.80	426.21	481.04
(f)	Depreciation	18.36	18.54	18.99	20.96	22.31
(g)	Provision for doubtful debts and bad debts written off	13.94	9.44	7.30	2.02	76.33
(h)	Other expenses (Repairs, electricity charges, postage, telephone, bank charges, etc.,)	76.36	97.38	147.11	195.32	157.18
	Total (II)	**8761.06**	**6673.58**	**11207.52**	**11645.25**	**13166.24**
	Profit(+)/Loss(-)	(+)36.37	(+)41.85	(+)58.19	(+)30.87	(-)327.19

The loss suffered by the Company during 1995-96 was mainly due to decline in income on sale of raw materials/service charges and on account of increased interest burden on loans and provision for doubtful debts.

2C.7 Performance analysis

2C.7.1 Development of infrastructure facilities

Out of 71 worksheds constructed by the Company, 67 worksheds (cost: Rs.4.02 crore) were lying idle.

(a) In pursuance of its objective to provide industrial infrastructure facilities in the State, the Company has been developing industrial estates (with all basic amenities) comprising of worksheds and developed plots in various places to cater to the needs of small scale industries. During 1970 to 1996, the Company developed 71 industrial estates consisting of 3747 worksheds spread over 22 districts of the State. As at the end of March 1997, 67 out of 71 worksheds constructed (1991-96) at the cost of Rs.402.47 lakh in eight places were lying vacant. Of these, 22 sheds (cost: Rs.82.19 lakh) in three places (*viz.*, Kirangikottai, Urapuli and Veerapandi) were vacant for over three years due to ineffective assessment of requirement of worksheds in these areas and high cost of these sheds.

Audit analysis indicated instances of extra cost on purchase of lands from private parties, loss of revenue on sale of lands, improper planning leading to injudicious investment/mid-way abandonment, non-realisation of maintenance expenses, procedural lapses/violations in allotment, and deficiencies in execution of civil works as discussed in the succeeding paragraphs.

(b) Extra cost on acquisition of lands

Purchase of lands from private parties at higher prices resulted in extra expenditure of Rs.4.69 crore.

In order to avoid delays in acquisition of lands required for industrial purposes under the provisions of Land Acquisition Act (L.A. Act), 1894, the State Government, departing from the earlier procedure, permitted (March 1991) the PSUs to conduct simultaneous negotiations with private land owners apart from initiating land acquisition proceedings under the above Act. For fixation of prices through negotiations, the State Government envisaged (March 1991) constitution of a district level Private Negotiation Committee (PNC) comprising of the District Collector, District Revenue Officer, Executive Engineer of the Public Works Department and a representative from the concerned PSUs. Prior approval of the State Government was also required to be obtained in cases where the negotiated value was higher than the value fixed by Land Acquisition Officers (LAOs) in terms of further guidelines (December 1992) issued by the State Government.

However, in contravention of the above directives/guidelines, the Company on its own volition, without initiating any land acquisition proceedings under L.A Act, acquired 392.814 acres of land in four places from various private parties at higher prices as compared to the price fixed by the LAOs. This had resulted in extra cost of Rs.468.99 lakh as detailed below:

(Amount - Rupees in lakh)

Sl. No.	Place	Date of approval of the proposal by the Board	Extent of land acquired (In acres)	Period of acquisition	Land cost per acre as fixed by LAO	Acquisition cost per acre as fixed by PNC	Total extra cost
1.	Thirumudivakkam (Chenglepet district)	24 February 1993	240.169	April 1994 - April 1996	1.00	2.25	300.21
2.	Vichoor (Chenglepet district)	1 September 1993	59.165	April 1994 - July 1995	1.00	3.20	130.16
3.	Solapuram - South Venganallur (Virudhunagar district)	1 October 1991	41.110	November 1993	0.23	0.80	23.43
4.	Rasathavalasu near Vellakoil (Erode district)	1 September 1993	52.370	December 1993	0.45	0.74	15.19
	Total		392.814				468.99

Excepting 52.370 acres of lands acquired at Rasathavalasu near Vellakoil (item at Sl.No.4), in all the remaining three cases, there had been

considerable delays ranging from seven months to three years (since date of approval of proposals of acquisition) in acquisition of lands through private negotiations, thereby defeating the basic objective of eliminating delays involved in acquisition of industrial lands under L.A. Act. This would indicate that the Company could have as well gone in for land acquisition proceedings under L.A. Act and thereby avoided the extra cost.

(i) In respect of acquisition of 41.110 acres in Solapuram/South Venganallur in Virudhunagar district (item at Sl.No. 3 in the table), against the land cost of Rs.23000 per acre fixed by LAO , the initial offer (March 1993) of PNC (*i.e.,* Rs.45000 per acre) was found to be double that price without any recorded reasons therefor. This offered rate was further enhanced (August 1993) to Rs.80000 per acre by PNC (based on further negotiations) at the insistence of the Company although PNC was in favour of acquisition of these lands only through land acquisition proceedings in view of exhorbitant rates demanded by the land owners. Further, the Company acquired 41.110 acres of lands at this abnormally higher price though the Board accorded approval (November 1993) for acquisition of only 26.770 acres of lands in this area. The Company did not seek the approval of the Board for purchase of additional lands (14.340 acres). In this context, it is also relevant to mention that eleven out of twenty sheds constructed (1994-95) in this area at the cost of Rs.53.59 lakh were still (October 1997) lying vacant due to lack of demand.

Investment of Rs.0.45 crore on purchase of lands for industrial purposes without assessing the demand potential proved unproductive.

(ii) Lands to the extent of 52.370 acres acquired (December 1993) in Rasathavalasu near Vellakoil in Erode district (item no.4 in the table) at the total cost of Rs.44.56 lakh (inclusive of stamp duty and registration charges) were not developed into industrial estates due to dearth of demand for worksheds in the area and had been remaining idle for over three years. This indicated absence of any system to assess beforehand the demand potential for industrial worksheds from the prospective entrepreneurs. The entire investment of Rs.44.56 lakh on acquisition of these lands in this area, thus, proved unproductive.

(iii) In contravention of the guidelines (May 1993) of the State Bureau of Public Enterprises requiring prior approval of Project Investment Committee (PIC) for capital expenditure/projects costing over Rs.50 lakh, the Company incurred capital expenditure ranging from Rs.86.47 lakh to Rs.644.96 lakh in development of industrial estates in three places (*viz.,* Thirumudivakkam, Vichoor and Solapuram/South Venganallur) without the approval of the State Government. The Company did not even seek any *post-facto* ratification of expenditure from the Government.

(c) Loss on sale of common purpose lands to private parties

Sale of common purpose lands to private parties resulted in loss of revenue of Rs.36.35 crore.

Audit analysis of sale of lands during the five years up to 1995-96 in respect of three industrial estates taken over (December 1975) from the State Government revealed that 28.10 lakh square feet of lands notified as common/specific purpose lands (*i.e.,* green belt areas, road corners, stockyard, open space, burial ground, pond, park, *etc.,*) as per the approved lay out and not meant for sale for industrial purposes were sold to a few private parties based on their request letters. The sale price of these lands had been arrived at by adding 25 *per cent* annually to the cost of these lands as fixed by the Government during the period 1986-87 and 1987-88 plus service charges at 5 *per cent* thereon. The sale prices, thus, arrived at were, however, found to be comparatively lower than even the guideline values for registration of sale of lands in these areas, thereby resulting in loss of revenue of Rs.3634.99 lakh to the Company as detailed below:

Place of industrial estate	Extent of common purpose lands sold (in lakh Square feet)	Guideline value range per Square feet (Rupees)	Sale price range per Square feet (Rupees)	Total loss (Rupees in lakh)
Ambattur	13.29	104.17 to 194.00	26.27 to 28.03	1642.33
Guindy	8.73	137.40 to 570.15	35.03 to 43.04	1752.61
Thuvakudi	6.08	40.90 to 47.10	3.69 to 3.96	240.05
Total	**28.10**			**3634.99**

No responsibility for the loss had, however, been fixed (October 1997).

(d) Loss on sale of industrial plots

The Company incurred a loss of Rs.0.46 crore in the development of 40 plots.

In view of demand for industrial sheds and plots in Thirumazisai, the Company, without the approval of the Board, accorded (5 December 1994) administrative sanction for development of about 16 acres of low lying area at Thirumazisai industrial estate at the estimated cost of Rs.121 lakh. The proposal envisaged filling up of the entire low lying area of the estate with gravel for development into industrial plots. However, no field survey or soil testing of the area was conducted beforehand either by the technical wing of the Company or by any independent technical agency to explore the possibility of going in for cheaper earthen filling of the area.

The work of filling up of the low lying area of 12.926 acres with gravel was split up and entrusted (July 1995) to nine different contractors at the rate of Rs.117 per cubic metre. The work was completed in October 1995 at the total cost of Rs.143.87 lakh. The Company sold the 40 industrial plots developed in this area to 22 firms based on the request letters obtained by the then Managing Director at the rate of Rs.7.31 lakh and Rs.8.13 lakh per acre originally fixed for sale of lands/plots in the industrial estate. It was, however, observed that the sale price thus fixed did not cover the entire cost of filling up of the area. Consequently, as against the expenditure of Rs.143.87 lakh incurred by the Company on development of these 40 plots, the Company could realise Rs.98.05 lakh only by way of sale of these plots, thereby incurring the loss of Rs.45.82 lakh.

Audit analysis of allotment of these industrial plots also revealed that 14 out of 40 plots were allotted (November 1994) to two firms (*viz.*, Rasi Graphics and Tuscon Exports) even before according administrative sanction for filling up of the area.

(e) Injudicious investment on idle infrastructure

Pursuant to an announcement (15 December 1994) made by the then Chief Minister during the Eighth World Tamil Conference held at Thanjavur regarding setting up of an industrial estate exclusively for women entrepreneurs of the area, the Company identified an extent of 26.30 acres of temple lands under the control of Hindu Religious and Charitable Endowment Board (HR & CE Board) in Nanjikottai village. The Company, without any formal permission of HR & CE authorities, entered upon the proposed lands on 30 December 1994. Out of 26.30 acres of land acquired, the Company made use of only 1.40 acres towards construction of 22 worksheds. Considering the remoteness of the locality in which the lands were situated and lack of demand even for the 22 worksheds already constructed, the acquisition of land to the extent of 26.30 acres in this area for industrial sheds lacked justification. Also, the Company had not settled (July 1997) the land cost as HR & CE authorities did not agree to the rate fixed by the Revenue authorities. Non-settlement of land cost would entail interest burden/commitment to the extent of Rs.29.33 lakh for the period from December 1994 to July 1997.

Further, without ensuring/assessing the demand potential for industrial worksheds from the prospective women entrepreneurs of the area, the Company completed (September 1996) construction of 22 worksheds at the cost of Rs.73.80 lakh. All the sheds were still (October 1997) lying vacant in the absence of any demand, thereby rendering the entire investment unfruitful.

(f) Unproductive expenditure on lands not taken over

The Company, without ensuring the transfer of lands, entrusted (January 1996) the work of construction of 50 tiny/worksheds in an area of 221.134 acres of lands in Vellanur village near Avadi to a private contractor (based on tenders) at the total cost of Rs.109.06 lakh. Consequently, the work had to be abandoned (July 1996) mid-way after incurring the expenditure of Rs.49.10 lakh on construction of thirteen tiny sheds up to lintel/sill stage. The entire expenditure of Rs.49.10 lakh incurred on incomplete tiny sheds on the lands not taken over, thus, became unproductive. The Company had also no plans to get the lands alienated (October 1997) in its name.

2C.7.2 Loss due to non-realisation of maintenance charges

Non-adherence to instructions of Head Office to collect maintenance charges resulted in loss of Rs.1.12 crore.

The Company has been looking after the day-to-day maintenance of the industrial estates (like maintenance of roads, water supply/sewerage systems, street lights, *etc.,*). In the absence of any procedure for levy and collection of maintenance charges from the allottees/occupants of the industrial sheds, the Company had to waive/write off (March 1988) recovery of Rs.148 lakh incurred by it towards maintenance of various industrial estates for the periods up to 1986-87.

The Board introduced (March 1988) a system of levy of maintenance charges at block rates (ranging from Rs.600 to Rs.1800 per acre *per annum*) based on categorisation of each industrial estate depending on its location with effect from 1987-88. A review of this procedure conducted (1992) by the Company, however, indicated that the maintenance charges collected did not match with the actual maintenance expenditure incurred. The loss on account of adoption of this procedure during the three years up to 1990-91, in respect of two industrial estates alone (Ambattur and Guindy), was assessed (1992) to be of the order of Rs.62.38 lakh.

The Company, therefore, decided (February 1993) to carry out the maintenance works on "no profit no loss" basis with effect from 1993-94. Accordingly, all the branch offices were instructed (February 1993) by the Head Office of the Company to work out and fix the maintenance charges with reference to actual expenditure incurred on this account with effect from 1993-94. Despite this, levy/collection of maintenance charges in respect of all the 66 industrial estates under the control of the Company continued as per the earlier practice in vogue since 1987-88 (*i.e.,* collection at block rate based on locality). Non-adherence to the instructions of the Head Office to collect maintenance charges with reference to actual expenditure resulted in loss of Rs.112.37 lakh to the Company during the period from 1993-94 to 1995-96 in respect of two industrial estates alone (*viz.,* Ambattur and Guindy) test checked in audit.

Further, based on a request (June 1991) of the Company, the State Government ordered (March 1993) transfer of maintenance works in respect of twelve industrial estates (wherein sale of entire area has been completed) to the respective Municipalities. Although more than four years had lapsed since issue of Government Order, the Company had not initiated any action in this direction (October 1997).

2C.7.3 Idling of investment due to improper planning

Taking up of construction of plots without ensuring the demand/commitment from the entrepreneurs resulted in idling of Company's funds of Rs.0.37 crore on eleven vacant flats for nearly two years.

The Board accorded (September 1993) approval for construction of 18 housing flats in the Company's pharmaceutical industrial estate at Alathur at the estimated cost of Rs.55.20 lakh for the benefit of the entrepreneurs in the estate. The cost of the scheme was proposed to be financed by way of margin money (25 *per cent*) by the entrepreneurs and the balance (75 *per cent*) through the loans raised by the entrepreneurs from the Housing and Urban Development Corporation Limited (HUDCO). As such, no investment of the Company's funds was envisaged for the implementation of the scheme.

At the time of taking up the work (January 1994) only three out of 77 entrepreneurs in the industrial estate opted for taking up the flats in the industrial estate. However, the Company went ahead with the construction of 18 flats by diverting its own funds without ensuring firm commitments for the flats proposed. The Company did not also obtain the approval of the PIC in terms of the guidelines (May 1993) of the State Bureau of Public Enterprises for projects costing over Rs.50 lakh.

The construction of the flats taken up in January 1994 was completed in September 1995 at the cost of Rs.61.35 lakh. The Company was able to dispose of only seven flats on outright sale basis for Rs.42.48 lakh up to March 1997. The remaining eleven flats were lying idle for want of demand.

Thus, taking up of construction of flats without ensuring the demand/commitment from the entrepreneurs resulted in idling of the Company's funds of Rs.37.49 lakh on the eleven vacant flats for nearly two years.

2C.7.4 Locking up of funds

Funds to the extent of Rs.0.43 crore locked up in the construction of houses.

In order to provide a better working environment for the lower category employees of the Company, the Board decided (September 1995) to construct 73 houses (plinth area of 200 Sq. ft. each) in the Company's industrial estate at Guindy at the estimated cost of Rs.48.18 lakh. The cost of each house estimated at Rs.0.65 lakh (exclusive of land cost) was proposed to be recovered from the allottees in convenient instalments with interest.

However, on completion of construction (November 1996) of these houses at the cost of Rs.42.93 lakh, the Company refixed the cost of each house ranging from Rs.1.02 lakh to Rs.1.17 lakh due to inclusion of land cost and increase in cost of construction. Moreover, contrary to the earlier decision to collect the cost of the houses in instalments, the Company decided (November 1996) to recover the entire cost in one lumpsum from the allottees. Accordingly, allotment letters were issued to eligible employees with a condition to express their willingness or otherwise of taking over the houses on lumpsum payment basis before 15 December 1996. None of the allottees responded to the offer in view of increase in cost and change in terms of payment stipulated by the Company. As a result, all the 73 houses were (October 1997) remaining vacant, thereby resulting in locking up of the Company's funds to the extent of Rs.42.93 lakh from December 1996 to October 1997 without any benefit. The Company had not taken any action to bring these houses to beneficial use.

2C.7.5 Deficiencies in execution of civil works

2C.7.5.1 The following general deficiencies were noticed during test checks of various construction works undertaken by the Company during the three years up to 1995-96:

- Failure to obtain required approval of PIC of the State Government for execution of schemes costing over Rs.50 lakh;

- Splitting up works of identical nature into numerous items so as to bring them within the ceiling limit of Rs.4 lakh prescribed for finalisation of tenders based on limited tenders, thereby foregoing the advantage of calling for open tenders at more competitive rates;

- Non-preparation of completion reports/material-at-site accounts in respect of construction of worksheds at 21 places at the cost of Rs.1276.70 lakh;

- Non-maintenance of proper ledgers/register of works to exercise an effective control over progress/expenditure on various schemes; and,

- Absence of work and year-wise details in support of cost (Rs.1476.79 lakh) of worksheds under construction.

2C.7.5.2 Procedural deficiencies in allotment of worksheds/developed plots

Till 1991, the Company had a set procedure for allotment of worksheds and developed plots in the industrial estates. There was a decentralised system of issue of applications for allotment both at Registered Office and branch level, registration of applications received, scrutiny of applications by a screening committee (comprising of the General Manager, Financial Controller and the Manager of the concerned industrial estate) and selection of applicants for allotment based on interviews by the screening committee. Based on the recommendations of the committee, allotments were made to the selected applicants by the Managing Director.

It was, however, observed that this established system was diluted and not followed seriously after 1991 and completely done away with during 1994 to March 1996. Thereafter, applications were issued and received by the Managing Director direct and allotments were made at the discretion of the Managing Director. Under this discretionary procedure, the Company sold 681 worksheds and 843 developed plots at the cost of Rs.4586.27 lakh during the period from 1991-92 to 1995-96. Due to non-observance of any well laid down procedure, it could not be ensured in audit that allotments of these sheds/industrial plots was made to genuine industrial entrepreneurs. It is of relevance in this context that as discussed in Paragraphs 2C.7.1 (c) and (d), the Company had lost Rs.3680.81 lakh on such discretionary sale of common purpose lands (28.10 lakh Sq.ft.) and 40 industrial plots to certain select private parties at lower prices in four cases test checked in audit.

2C.7.6 Development of private industrial estates

2C.7.6.1 Since 1990, the Company has been encouraging promotion of private industrial estates mainly with a view to reduce its financial burden as well as the recurring expenditure on maintenance of the industrial estates. Under this scheme, the industrial entrepreneurs of the respective areas were required to form co-operative societies/associations comprising of prospective allottees of the industrial sheds. The lands required for development of industrial estates were required to be purchased by the associations and made available to the Company. While the development works of the area were to be done by the Company, the construction works were to be done by the private agencies selected by the associations.

The role of the Company under the scheme was to act as a co-ordinator to ensure good quality works and make arrangements for supply of cement/steel and settlement of claims of the contractors. The funding of the scheme was to be done by the associations by way of margin money and through mobilisation of institutional finance. As such no investment of the Company's funds was envisaged under the scheme and the funds raised by the industrial associations were required to be placed at the disposal of the Company. On completion, the worksheds were required to be handed over to the concerned associations/societies for allotment to their members.

Audit scrutiny, however, revealed diversion of the Company's funds for development of private industrial estates and non-realisation of dues for the sheds handed over in the absence of any agreement/proper security as discussed in the succeeding paragraphs.

2C.7.6.2 Non-realisation of cost of construction/service charges

Due to absence of any agreement/security, a sum of Rs.2.35 crore incurred on sheds could not be realised.

Based on a request received (1993) from the Tiruppur Export Knitwear Manufacturers Association (TEKMA), the Company completed (August 1995) construction of 37 worksheds on the lands (6.06 acres) made available by TEKMA at Chettipalayam near Tiruppur at the total cost of Rs.298.82 lakh (exclusive of service charges of Rs.14.94 lakh). Contrary to the original proposal to fund the entire project by way of margin money and loan assistance obtained by TEKMA from the Tamil Nadu Industrial Investment Corporation Limited (TIIC), TEKMA paid only Rs.78.39 lakh to the Company. The balance funds (Rs.235.37 lakh) were met by the Company by diversion of its own funds due to reluctance on the part of TEKMA to obtain loan assistance from TIIC.

Despite this, the Company, without entering into any agreement/obtaining any security for realisation of its major investment, formally handed over (August 1995) the completed sheds to TEKMA for allotment to its members. In the absence of any agreement/security, the Company could not realise its investment of Rs.235.37 lakh (October 1997) although more than two years had lapsed since handing over of the sheds. This defeated the basic objective of promotion of private industrial estates for reducing the financial burden of the Company.

2C.7.6.3 Non-realisation of excess expenditure and short levy of service charges

Excess expenditure of Rs.0.56 crore incurred on the works had not been recovered even after a lapse of more than three years in the absence of any agreement with TEKICS.

It was observed that in respect of 157 sheds constructed (April 1992 - December 1993) at Mudalipalayam (Phase I) on behalf of Tiruppur Export Knitwear Industrial Complex Society (TEKICS), the Company claimed Rs.1307.44 lakh only as against the actual expenditure of Rs.1363.18 lakh incurred on the construction as per the cash book. Due to non-maintenance of proper records by the construction wing of the Company as discussed in Paragraph 2C.7.5.1, the reasons for excess could not be ensured in audit. However, the excess expenditure of Rs.55.74 lakh incurred on the works had not been recovered (October 1997) even after a lapse of more than three years in the absence of any agreement with TEKICS.

It was also noticed that the Company charged a service charge of 7.5 *per cent* on the scheme expenditure in respect of the above Phase I works. It, however, levied a service charge of only 3 *per cent* (for reasons not on record) in respect of Phase II works at the same place. This resulted in short levy of service charges to the extent of Rs.16.30 lakh in respect of Phase II works.

2C.7.6.4 Non-realisation of dues and short levy of service charges

The Company could not realise its dues of Rs.3.53 crore due to non-execution of any agreement.

In respect of 147 sheds constructed in Urangampatti on behalf of Madurai Hosiery Industries Association (MAHIA), the Company, which was only to act as co-ordinator of the scheme, diverted its funds to the tune of Rs.433.33 lakh towards payment to a civil work contractor (Rs.166.50 lakh), development works (Rs.195.29 lakh) and interest/other expenses (Rs.71.54 lakh) on the loans obtained by MAHIA for implementation of the scheme. After adjustment of grant-in-aid of Rs.99.27 lakh received from the Government of India under the Integrated Infrastructure Development Scheme, the net amount recoverable from MAHIA under the scheme amounted to Rs.334.06 lakh, apart from the balance service charges of Rs.18.48 lakh. In the absence of any agreement/security, the Company could not realise its dues of Rs.352.54 lakh although more than three years had lapsed since handing over of the sheds to MAHIA.

Thus, diversion of huge funds to certain private entrepreneurs in the three cases mentioned above was not only detrimental to the financial interests of the Company/Government but also defeated the basic objective of promotion of private industrial estates without any financial commitment to the Government/Company.

2C.7.7 Raw material distribution and marketing assistance

Failure to obtain proper security, a sum of Rs.0.87 crore could not be realised.

2C.7.7.1 The Company had been undertaking procurement and distribution of various industrial raw materials required by SSIs and also rendering marketing assistance for sale of the products manufactured by SSIs.

Under this marketing assistance scheme, the Company had been participating in the tenders floated by various Government departments/organisations on behalf of SSIs enrolled with it for marketing their products. For this purpose, the Company quoted the rates obtained from these units for their products along with its service charge (3 *per cent*) in response to tenders floated by various Government departments/organisations. On securing of orders from the Government departments/organisations, the Company distributed them to various units enrolled with it.

Audit scrutiny of this activity revealed the following:

As a part of its marketing assistance, the Company has been helping the small scale Aluminium Conductor Steel Reinforced (ACSR) conductor manufacturing units to secure orders from the Tamil Nadu Electricity Board (TNEB). In order to enable the assisted units to adhere to their delivery schedules, the Company decided (March 1993) to supply the basic raw material, *viz.*, aluminium to these units for manufacture of the same. Under this proposal, the Company was to arrange for bulk procurement of aluminium from the National Aluminium Company Limited (NALCO) and make payments for the supplies initially from its own funds. The aluminium thus procured was required to be distributed to the various manufacturing units on credit basis with a service charge of Rs.250 per tonne of raw material supplied.

Contrary to the original proposal to obtain necessary bank guarantee or irrevocable letter of credit from the manufacturing units for the value of raw material supplied, the Company released the aluminium to various manufacturing units based on the personal guarantee given by them. During the period from 1993-94 to 1995-96, the Company supplied 12329.52 tonnes of aluminium (value: Rs.8431 lakh) to various manufacturing units. Due to the Company's failure to obtain proper security for the value of raw material supplied on credit basis, the Company could not realise the cost of raw material amounting to Rs.86.90 lakh from eight manufacturing units. The validity of personal guarantee given by these units had already expired and no supply bills of these units were pending settlement by TNEB. In these circumstances the above dues were doubtful of recovery.

2C.8 Other points of interest

2C.8.1 Expenditure on functions and celebrations in excess of ceiling limits

(i) The State Government fixed (September 1986) a ceiling limit of Rs.200 per person for presentation of gifts by PSUs to their employees/Government officials on important occasions like Silver Jubilee Celebration, *etc*. In commemoration of the Silver Jubilee celebration, the Company presented (February 1995) gifts worth Rs.33.94 lakh to 843 employees/Government officials as against the permissible limit of Rs.1.69 lakh in terms of the above directive.

Against the permissible limit of Rs.0.017 crore, the Company presented gifts worth Rs.0.34 crore to 843 employees/ Government officials on commemoration of silver jubilee celebration.

(ii) The Company incurred expenditure of Rs.21.05 lakh towards inauguration of the new office building at Erode (Rs.1.47 lakh), two industrial estates one each at Chennai (Rs.15.10 lakh) and Bargur (Rs.1.26 lakh) and for celebration of the then Chief Minister's birthday (Rs.3.22 lakh) between October 1995 and March 1996. It was observed in this context that State PSUs could incur expenditure only up to Rs.0.10 lakh for any inaugural function as per the guidelines (August 1989) of the State Bureau of Public Enterprises. On a proposal for ratification of the above expenditure of Rs.21.05 lakh, the Board decided (September 1996) not to ratify the same. The Company in reply to Audit stated (September 1996) that the matter would be referred to the Government.

Company incurred an expenditure of Rs.0.21 crore towards inauguration of building, etc., which was against the guidelines of SBPE.

2C.9 Conclusion

The review of the working of the Company during the five years up to 1995-96 revealed gross violation of Government directives leading to extra cost on purchase of land and loss of revenue on sale of lands. There were also instances of improper planning, irregular procedures in allotment of sheds/industrial plots and lack of control over execution of civil works. Further, diversion of huge funds for setting up of a few private industrial estates without any agreement or security resulted in non-realisation of investment. Concerted action is, therefore, called for to streamline the systems and procedures in various areas of operation of the Company.

These matters were reported to the Company and the Government in April 1997; their replies had not been received (October 1997).

[illegible] Conclusion

The review of the working of the Company during the five years up to 1991-92 revealed non-observance of [illegible] directives leading to extra cost on purchase of land and loss of revenue on sale of lands. There were also instances of improper planning, irregular [illegible] of allotment of [illegible] plots and lack of control over execution of works. Further, diversion of huge funds for [illegible] of a few private [illegible] without any agreement or system resulted in [illegible]. [illegible] action is, therefore, called for [illegible] streamlining the systems and procedures in various areas of operation of the Company.

These matters were reported to the Company and the Government in April 1992; their replies had not been received (October 1992).

CHAPTER 3

REVIEWS IN RESPECT OF STATUTORY CORPORATION

TAMIL NADU ELECTRICITY BOARD

SECTION 3A: BASIN BRIDGE GAS TURBINE PROJECT

SECTION 3B: MATERIAL MANAGEMENT

SECTION 3A

TAMIL NADU ELECTRICITY BOARD

BASIN BRIDGE GAS TURBINE PROJECT

HIGHLIGHTS

Tamil Nadu Electricity Board decided in July 1985 to set up four gas turbine units of 30 MW each at Basin Bridge to meet the peak load demand of the State and to stabilise the power supply to Chennai city.

{Paragraph 3A.1}

Against the original estimated project cost of Rs.56.48 crore, the actual project cost had gone up to Rs.429.40 crore which represented 660.3 per cent increase against which the actual expenditure up to March 1997 was Rs.394.80 crore. There was also time overrun of 43 months in implementation of the project.

{Paragraphs 3A.4.1 and 3A.4.2}

Tamil Nadu Electricity Board's failure to make use of the existing water tanks in the project area resulted in avoidable extra expenditure of Rs.0.55 crore on the construction of a new water tank for fire protection system.

{Paragraph 3A.4.3}

Construction of pucca houses for fuel pumps without ensuring their suitability for naptha based power station resulted in wasteful expenditure of Rs.0.67 crore.

{Paragraph 3A.4.4}

Non-completion of fire protection system resulted in extra expenditure of Rs.1.97 crore on the usage of HSD oil instead of naptha *as originally envisaged apart from idling of naptha pipeline laid at the cost of Rs.2.57 crore for nearly 21 months from February 1996 to October 1997.*

{Paragraphs 3A.4.5 and 3A.5.2}

Delay in furnishing of various inputs like work fronts/drawings for civil works, even after receipt of main equipment, resulted in unfruitful payment of operation and maintenance charges amounting to Rs.1.17 crore to the equipment supplier for the periods during which the units were not commissioned.

{Paragraph 3A.4.8}

Decision to go in for a gas turbine project without any concrete plan to make it viable, despite the advice (September 1992) of the project consultants to explore other alternative methods, resulted in high cost of generation of Rs.27.83 per unit as against Rs.1.77 per unit envisaged in the feasibility report.

{Paragraph 3A.5.4}

3A.1 Introduction

Till 1985, Basin Bridge Thermal Power Station established in 1910 with a total generating capacity of 90 MW was the main source of supply of electricity to Chennai city. This station had, however, to be closed down (1985) due to ageing of the machinery installed. Considering the advantages of making use of the already available infrastructure at the above site, Tamil Nadu Electricity Board (TNEB) decided (July 1985) to set up four gas turbine units of 30 MW each at Basin Bridge with a view to provide stability in power supply to Chennai city and also to meet a part of the peak hour requirement of the State, which was estimated to be between 2076 and 2503 MW during the period from 1985-86 to 1987-88.

The project envisaged usage of High Aromatic Naptha or Low Sulphur Heavy Stock (LSHS) as fuel. The Central Electricity Authority (CEA) cleared (October 1985) the setting up of the project at the estimated cost of Rs.5648 lakh. Based on the confirmation (October 1988) of supply of liquid fuels

(Naptha/HSD/LSD) to the extent of 50000 tonnes *per annum* by the Ministry of Petroleum and Natural Gas, the Union Planning Commission conveyed (December 1988) its concurrence for execution of the project in the State's Seventh Five year Plan (1985-1990). The CEA was appointed as project consultant to provide complete design and engineering services for implementation of the project at a fee of Rs.32.97 lakh.

Initially the project was to be taken up for implementation (1985-90) with State plan funds. However, due to change in funding pattern of the project (Japanese Yen credit assistance), the project could be taken up for implementation only in November 1990.

Against the scheduled date of commissioning of all the four units of the project between January and July 1992, these were commissioned only in February and March 1996, thereby resulting in revision of project cost at various stages from Rs.5648 lakh to Rs.42939.95 lakh as discussed in Paragraph 3A.4.2 *infra*. The actual expenditure incurred on the project up to March 1997 amounted to Rs.39479.63 lakh. It was also observed that as against the cost of generation of Rs.1.77 per unit envisaged in the feasibility report, the cost during 1996-97 was Rs.27.83 per unit due to non-stabilisation of generation with naptha as main fuel, poor efficiency of the plant, interest burden on heavy capital outlay, *etc.*, thereby affecting the viability of the project as discussed in Paragraph 3A.5.4.

3A.2 Scope of Audit

The implementation of the project and the performance of all the four units of the project after their commissioning (February and March 1996) were reviewed in audit between December 1996 and March 1997. The findings of Audit are discussed in the succeeding paragraphs.

3A.3 Project finance

As mentioned earlier, the cost of the project was met by way of Yen credit assistance from Japan. In terms of an agreement entered (March 1990) into between the TNEB and Overseas Economic Co-operation Fund (OECF), the TNEB was entitled for 100 *per cent* Yen credit assistance towards cost of main equipment, civil and electrical works. This loan assistance, however, did not cover the general administration expenses, taxes and duties, land cost and consultancy fees, which had to be borne by the TNEB. The loan from OECF, which carried an interest of 2.5 *per cent per annum* was repayable over a period of 20 years after an initial moratorium period of 10 years. Out of the total expenditure of Rs.39479.63 lakh (including general administration expenses, taxes and duties) incurred on the project up to March 1997, the TNEB claimed reimbursement from OECF to the extent of Rs.32582.08 lakh against which the amount of Rs.30451.77 lakh had been received by the TNEB (March 1997). The balance amount of Rs.2130.31 lakh was still to be reimbursed (March 1997) by OECF.

3A.4 Implementation of the project

3A.4.1 Time overrun

The TNEB chose to go in for gas turbine project in view of shorter gestation period of about two years in establishing such projects as against the gestation period of 7 to 10 years for setting up of thermal and hydro projects. However, in actual practice, the TNEB took more than five years (November 1990 - February 1996) for establishing this gas turbine project.

The original scheduled date of commissioning of the project by July 1992 envisaged at the time of project formulation was rescheduled to December 1992 at the time of conclusion (March 1990) of loan agreement with OECF. However, the first two units of the project were commissioned in February 1996 and the other two units in March 1996, *i.e.,* after a delay of 37 to 38 months since the rescheduled date of commissioning.

The time overrun was mainly due to abnormal delay in

- finalisation of tenders for the main equipment by about 27 months (*i.e.,* November 1990 to March 1993) on account of prolonged discussions with the consultants/foreign plant supplier and in getting approval from the Government and OECF;

- deciding the specification for fuel handling system (*i.e.,* from February 1991 to May 1993);

- furnishing of work front/drawings for general civil works; and,
- award of contracts for pile foundation/general civil works.

Even after commissioning, the units could not use naptha as main fuel as originally envisaged due to non-completion of fire protection system, thereby incurring extra expenditure of Rs.197.44 lakh on the usage of HSD oil as discussed in Paragraph 3A.5.2.

3A.4.2 Cost overrun

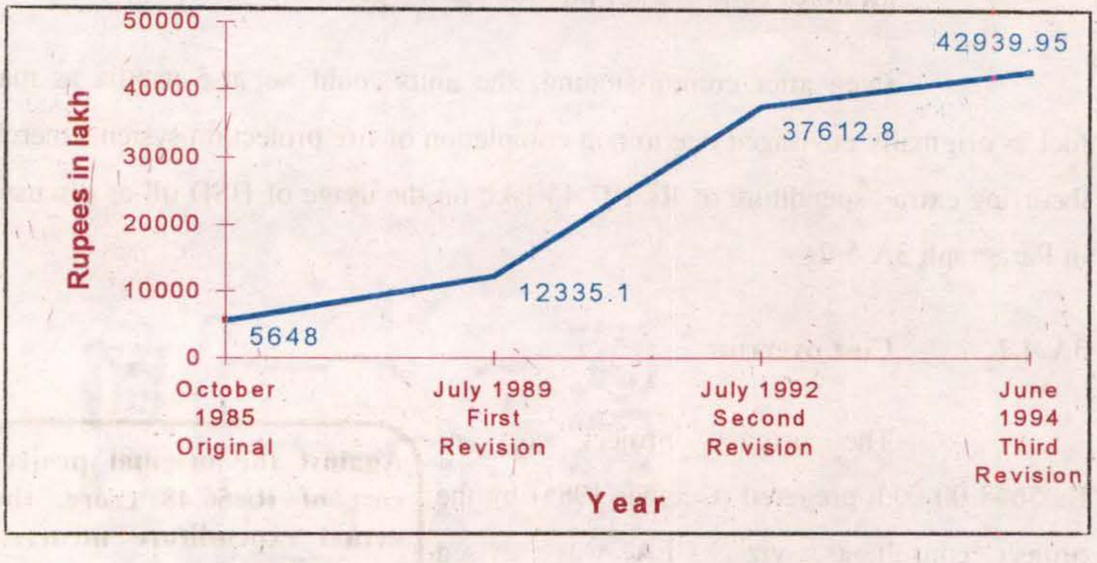
Against the original project cost of Rs.56.48 crore, the actual expenditure incurred was Rs.394.80 crore.

The original project cost of Rs.5648.00 lakh prepared (October 1985) by the project consultants, viz., CEA was revised thrice. This was revised (July 1989) to Rs.12335.10 lakh and then (July 1992) to Rs.37612.80 lakh. Based on the actual expenditure, the project cost was again revised (June 1994) to Rs.42939.95 lakh (660.3 *per cent* increase). The details of revision are given below:

(Amount - Rupees in lakh)

Nature of items	Original project cost (October 1985)	First revision (July 1989)	Second revision (July 1992)	Third revision (June 1994)
Civil works	175.00	380.00	805.80	1065.95
Main equipments	2753.00	8244.10	27901.00	32820.00
Other equipments	1369.00	1491.00	3133.00	3537.00
Duties, Taxes, Consultancy fees, etc.	1351.00	2220.00	5773.00	5517.00
Total	**5648.00**	**12335.10**	**37612.80**	**42939.95**

ESCALATION IN PROJECT COST



The actual expenditure on the project up to March 1997 amounted to Rs.39479.63 lakh. The increase in project cost was mainly due to increase in the cost of main/other equipments (Rs.26904.00 lakh), Exchange rate variations (Rs.5331.00 lakh), civil works (Rs.890.95 lakh) and duties/taxes (Rs.4166.00 lakh) on account of considerable time lag in the implementation of the project.

Audit, however, noticed certain instances of avoidable/infructuous expenditure, idle investment, *etc.*, due to various lapses on the part of the TNEB as discussed below:

3A.4.3 Avoidable expenditure on construction of a new water tank

Failure to make use of the existing water tanks resulted in avoidable expenditure of Rs.0.55 crore on the construction of new water tank.

Two water tanks (D and E) with a capacity of 900 M^3 each were in existence in the project site at Basin Bridge. The TNEB, however, without taking note of the existence of these tanks, finalised (February 1995) the contract for fire protection system which *inter alia* included construction of a new water tank of 1600 M^3 capacity at the cost of Rs.34.81 lakh.

After award of contract, the TNEB approached (April 1995) the contractor for exploring the possibility of making use of the water tanks already available at the project site. Although the contractor had agreed (July 1995) to utilise the existing tanks by carrying out certain modifications at the cost of Rs.15.89 lakh (as against the cost of Rs.34.81 lakh quoted for construction of a new water tank), the TNEB asked (July 1995) the contractor to go ahead with the construction of a new water tank and reserved the two existing water tanks for future use. It is of relevance in this context that as mentioned in Paragraph 3A.1 *supra,* the project was located at Basin Bridge mainly to take advantage of the already available infrastructure facilities in the area.

Thus, TNEB's failure to make use of the existing infrastructure as originally envisaged resulted in avoidable expenditure of Rs.54.81 lakh (inclusive of Rs.35.89 lakh being the cost of piles used for the new tanks and exclusive of Rs.15.89 lakh on modification of the existing tank) on the construction of a new water tank besides idling of the existing two water tanks.

3A.4.4 Wasteful expenditure on construction of pucca houses for fuel oil unloading and forwarding pumps

Construction of pucca houses for the fuel pumps without ensuring suitability resulted in wasteful expenditure of Rs.0.67 crore.

The TNEB constructed (1995) pucca houses for stationing the fuel oil unloading and forwarding pumps at the total cost of Rs.65.25 lakh. It was, however, subsequently found (February 1996) that since these pump houses were covered by walls on all sides, any leak of naptha fumes might cause serious explosion in case of any fire accident. The TNEB further came to know that in Madras Refineries Limited (MRL) and Indian Oil Corporation (IOC) terminals, naptha pumps were kept only in the open space to have better ventilation. The TNEB, therefore, removed/dismantled (April 1996) all the side walls at the additional expenditure of Rs.1.66 lakh.

Thus, construction of pucca houses for the fuel pumps without properly ensuring their suitability for naptha based power station resulted in wasteful expenditure of Rs.66.91 lakh on the construction of these pucca houses.

3A.4.5 Locking up of funds on idle investment

Pipe line laid at the cost of Rs.2.57 crore for transportation of naptha remained idle since February 1996.

The TNEB based on tenders entrusted (February 1995) the work of design, manufacture, supply, erection and other allied civil/electrical works in respect of fire protection system to the lowest tenderer, *viz.*, Pragati Engineering Private Limited, Calcutta at the total cost of Rs.364.54 lakh. Although the entire work was scheduled to be completed by August 1995, the work had not been completed yet (October 1997). The delay was mainly on account of delayed finalisation of work fronts and drawings by the contractor. However, no action was taken against the contractor.

Due to non-completion of the fire protection system, the TNEB had to incur extra expenditure of Rs.197.44 lakh on the usage of HSD oil as discussed in Paragraph 3A.5.2. Besides, the pipe line laid at the cost of Rs.257.33 lakh for transportation of naptha from the terminal of IOC to the plant site has been idling since February 1996 thereby resulting in loss of interest of Rs.11.26 lakh (at the borrowing rate of 2.5 *per cent* from OECF) for the period from February 1996 to October 1997.

3A.4.6 Non-fixation of appropriate recovery rates for departmental issue of cement and steel

There was short recovery from contractor for cement and steel amounting to Rs.0.38 crore.

In terms of turn-key contracts (December 1994 and February 1995) for switchyard and fire protection systems, the contractors were required to make their own arrangements for procurement of various materials like cement and steel required for these works. The TNEB, however, at the request of the contractors, supplied 897.75 tonnes of cement and 215.42 tonnes of steel at the rates of Rs.2657 per tonne and Rs.16990 per tonne respectively to speed up the works without ascertaining the rates adopted by the contractors for such materials in their quoted rates.

In the absence of break-up details of the rates quoted by the contractors, the actual overpayment or otherwise to the contractors due to issue of cement/steel at departmental rates could not be assessed in audit.

Analysis in audit, however, indicated that as per the standard data/schedule of rates (1993-94) adopted by the State Public Works Department for such works, the cost of materials included in the quoted rates of the contractors (without taking into account their profit margin) worked out between Rs.5228 and Rs.5768 per tonne for cement and between Rs.20258 and Rs.24158 per tonne for steel. Computed with reference to these rates, the actual recovery (*i.e.*, Rs.2657 per tonne for cement and Rs.16990 per tonne for steel) in respect of 897.75 tonnes of cement and 215.42 tonnes of steel supplied to the contractor was found to be less by Rs.37.72 lakh.

3A.4.7 Excess payment to a civil work contractor

The civil works for fuel oil unloading and storage facilities entrusted (August 1994) to Techno Electric and Engineering Company at the cost of Rs.92.70 lakh *inter alia* included construction of an unloading pump house of size 42 X 7.5 metres at the cost of Rs.30.50 lakh. The size of the unloading pump house was, however, subsequently reduced during execution to 27 X 7.5 metres. The TNEB's failure to restrict the payment to the actual size of the unloading pump house resulted in excess payment of Rs.10.80 lakh to the contractor.

3A.4.8 Unfruitful expenditure on operation and maintenance

Delay in furnishing of various inputs resulted in unfruitful payment of maintenance charges of Rs.1.17 crore to the contractor.

Orders for design, manufacture and supply of 4 X 30 MW gas turbine generator sets were placed (March 1993) on Sumitomo Corporation, Japan and Bharat Heavy Electricals Limited (BHEL) on consortium arrangement at their lowest quoted rates of Rs.22911 lakh.

Two gas turbine generator sets ordered (March 1993) on Sumitomo Corporation were received between August and December 1994. In terms of the contract, the units were to be commissioned by January 1995. However, due to delay in furnishing of various inputs like work fronts/drawings for civil works by the TNEB, these units could be commissioned only in February 1996.

Though the delay was solely attributable to the TNEB, the supplier however agreed for deemed handing over of the sets with effect from 9 August 1995. The liability for payment of operation and maintenance charges arose since the date of such deemed handing over in terms of contract with the supplier. Consequently, the TNEB had to pay operation and maintenance charges amounting to Rs.117.42 lakh to the contractor for the period from August 1995 to February 1996 (*i.e.,* up to the date of commissioning of the units) during which time these units were not commissioned at all. The entire expenditure of Rs.117.42 lakh incurred on operation and maintenance, thus, proved unfruitful.

3A.5 Performance appraisal

3A.5.1 The Units I and II of the project were commissioned on 12 and 25 February 1996, respectively. The other two units *viz.,* Unit III and IV were commissioned on 26 and 31 March 1996, respectively.

Due to low efficiency of the plant, there was loss of revenue of Rs.0.93 crore.

The feasibility report as approved (October 1985) by CEA envisaged operation of the plant at full capacity for six hours a day for 240 days in a year. However, all the four units of the project were totally in operation for 1197 hours (20.8 *per cent*) only during 1996-97 as against the envisaged operation for 5760 hours. It was also observed that during the first year of operation (*i.e.,* 1996-97), the plant was able to generate only 30.34 million units against the optimum possible generation of 35.91 million units resulting in loss of generation of 5.57 million units and consequential loss of revenue of Rs.93.02 lakh (at the average rate of realisation of Rs.1.67 per unit). The TNEB had not, however, analysed the reasons for low efficiency of the plant.

3A.5.2 Extra expenditure on the usage of HSD oil as main fuel instead of naptha

Non-completion of fire protection system resulted in an extra expenditure of Rs.1.97 crore on the usage of HSD oil instead of naptha.

The project envisaged usage of HSD oil as starting/stopping fuel and naptha as the main running/load carrying fuel. The pipe line laid at the cost of Rs.257.33 lakh for transportation of naptha from IOC terminal to the project site was also ready in February 1996 by which time IOC also expressed their readiness to spare the required quantity of naptha for running the plant.

Despite these, the TNEB had to continue the usage of HSD oil as main fuel due to non-completion of fire protection system as discussed in Paragraph 3A.4.5. Thus, due to non-usage of naptha with higher heat rate (*i.e.*, 10200 Kcal/Kg) as main fuel as originally envisaged, the TNEB incurred extra expenditure of Rs.197.44 lakh on the usage of 11.32 million litres of HSD oil (heat rate 9950 Kcal/Kg) for generation of 30.34 million units of power during the period from April 1996 to March 1997.

3A.5.3 Excess consumption of HSD oil

There was an excess consumption of 0.62 million litres of HSD oil valued at Rs.0.46 crore for generation of 30.34 million units.

It was further observed that the heat requirement per unit of generation as envisaged in the design specification of the purchase orders with Sumitomo Corporation/BHEL was 2900 Kcal. Accordingly, for generation of 30.34 million units during 1996-97, 10.70 million litres of HSD oil was to be consumed. However, the actual consumption of HSD oil was 11.32 million litres resulting in excess consumption of 0.62 million litres of HSD oil valued at Rs.46.45 lakh. The TNEB had not investigated the reasons for such excess consumption.

3A.5.4 Cost of generation - project viability

The actual cost of generation per unit was Rs.27.83 against the envisaged cost of Rs.1.77 per unit.

Against the cost of generation of Rs.1.77 per unit envisaged in the feasibility report, the actual cost of generation during 1996-97 was Rs.27.83 per unit. The increase in cost of generation was due to various factors such as interest burden on heavy capital outlay, high fuel cost, non-stabilisation of generation with naptha as main fuel, poor efficiency of the plant, heavy wastage of exhaust gas due to simple cycle operation, *etc*.

In this context, it is relevant to mention that considering the high cost of generation of Rs.6.10 per unit at the revised (July 1992) escalated cost of the project at Rs.37612.80 lakh, the consultants (CEA) advised the TNEB in September 1992 itself (*i.e.*, even before finalisation of orders for main equipment) to re-examine the viability/desirability of going in for gas turbine project and explore other alternative methods. The TNEB, however, without ensuring/re-examining the viability, went ahead on the ground that it could be converted into combined cycle operation* with cheaper Liquified Natural Gas (LNG) as fuel with 6000 hours of operation per year, which would drastically bring down the per unit cost of generation to Rs.1.69. The TNEB had not, however, taken any effective action to bring the station into combined cycle operation so as to make the project viable.

3A.6 Conclusion

The gas turbine project conceived in view of shorter gestation period suffered heavy slippages in implementation leading to huge escalation in project cost. The project also suffered due to improper planning, non-synchronisation of various activities leading to avoidable expenditure, idle investment and non-stabilisation of generation. The highly prohibitive cost of generation of the project in the absence of any concrete plan to bring it down would render it rather difficult to continue the uneconomic operations of the plant in the present form. Expeditious

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* In the present simple cycle operation, there is wastage of exhaust hot gas, which is let into the atmosphere. In a combined cycle, the waste exhaust gas is recycled and used for further generation.

remedial measures are, therefore, called for so as to derive optimum benefit on the investment of Rs.39480 lakh made in the project.

These matters were reported to the TNEB and the Government in May 1997; their replies had not been received (October 1997).

SECTION 3B

TAMIL NADU ELECTRICITY BOARD

MATERIAL MANAGEMENT

HIGHLIGHTS

The annual purchases of various materials by the Tamil Nadu Electricity Board had registered threefold increase from Rs.400 crore to Rs.1200 crore over a decade from 1986-87 to 1996-97. The procurement/inventory operations of the Tamil Nadu Electricity Board suffered from various system/procedural deficiencies like absence of centralised purchase organisation, non-preparation of material budgeting, non-maintenance of vendor rating registers, absence of scientific method of analysis to control inventory holdings, etc.

{Paragraphs 3B.1, 3B.2 and 3B.4}

Due to non-finalisation of tenders within the original/extended validity periods, the Tamil Nadu Electricity Board incurred extra expenditure of Rs.2.78 crore on the purchase of underground cables and copper control/aluminium cables at higher rates from the second lowest tenderer and through retenders.

{Paragraphs 3B.5.1 (a) and (b)}

Non-adoption of cheaper proven improved design for 230/110 KV double circuit transmission towers resulted in extra expenditure of Rs.4.08 crore on the purchase of 1153 such towers during the period from January to September 1995.

{Paragraph 3B.5.2}

Piecemeal purchase of RTS grills and certain other materials like cables, G.I. pipes, etc., through limited tenders without ensuring the reasonableness of rates resulted in extra expenditure of Rs.10.34 crore.

{Paragraphs 3B.5.3 (a) and (b)}

Non-regulation of purchase to actual/field requirements and improper assessment of requirements resulted in idling of materials/equipment worth Rs.5.21 crore for periods ranging from 12 to 32 months and consequent loss of interest on locked up funds amounting to Rs.1.32 crore.

{Paragraphs 3B.6.2, 3B.6.3, and 3B.6.4}

Non-finalisation of tenders within the validity period resulted in loss of Rs.1.43 crore on the sale of 383.76 tonnes of copper scrap at lesser rates on re-tendering.

{Paragraph 3B.7.1}

3B.1 Introduction

Tamil Nadu Electricity Board (TNEB) spends every year considerable amount on purchase of various materials required for both capital and operation and maintenance works. The annual purchase of the TNEB had registered threefold increase from Rs.400 crore to Rs.1200 crore over the decade from 1986-87 to 1996-97. In the context of ever increasing expenditure on purchases, the TNEB has to exercise an effective and proper control over its material purchases, distribution and storing so as to make them more cost effective.

3B.2 Organisational set up

The TNEB has no centralised purchase organisation to co-ordinate the procurement and distribution activities of various wings of the TNEB. At the apex level, there is a tender committee consisting of Chairman, Member (Accounts), Member (Generation), Member (Distribution) and the Chief Engineer dealing with the concerned tender/purchase. The tender committee lays down the general policy on procurement. The powers for purchase of various materials are largely vested with three Chief Engineers, viz.,

- the Chief Engineer (Material Management) for assessing and purchasing the requirements of Distribution Circles.

- Chief Engineer (Transmission) for procuring the requirements of General Construction Circles engaged in setting up of sub-stations and laying of new transmission lines.
- Chief Engineer (Projects) for procurement of materials required for implementation of various generation projects.

Besides, eight Regional Chief Engineers, Chief Engineers in-charge of thermal stations and Superintending Engineers of various circles are also empowered to procure the required materials within the monetary powers delegated to them.

The purchase powers delegated to the various authorities in terms of TNEB's Tender Regulations (August 1991) are as indicated below:

(Amount - Rupees in lakh)

Authority	**Value of Purchase**	
	Open Tender	**Limited Tender**
(i) Board	Without any limit	Without any limit
(ii) Board Level Tender Committee	600	60
(iii) Chief Engineer	100	8
(iv) Superintending Engineer	2	0.25

3B.3 Scope of Audit

Certain aspects relating to material management in the TNEB were reviewed and included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1988 - No.4 of 1989 (Commercial). The recommendations of the Committee on Public Undertakings (COPU) on this Report are contained in its 22nd Report presented to the State Legislature on 4 October 1991. The present review conducted between November 1996 and April 1997 covers various aspects relating to procurement, distribution and utilisation of materials with particular reference to transmission and distribution works for the last five years up to 1996-97. Follow-up or otherwise of the action taken on some of the important recommendations of COPU has also been discussed in the relevant paragraphs of the present review.

3B.4 General system/procedural deficiencies

The following general system/procedural deficiencies were noticed during the course of test check of transactions (1992-93 to 1996-97) relating to purchases, distribution and stocking of materials by the TNEB.

- Absence of ABC or other scientific method of analysis to control inventory holdings.

- Non-preparation of material budgeting despite COPU's recommendation (October 1991) for preparation of the same.

- Non-preparation of a list of pre-qualified tenderers for various materials based on the past performance data obtained from the various field offices and other State Electricity Boards contrary to the TNEB's directives (August 1991).

- Non-implementation of the recommendation (October 1991) of COPU for maintenance of vendor rating registers recording the performance of various suppliers/contractors regarding quality of materials supplied, adherence to various tender conditions, *etc.*, despite TNEB's Tender Regulations (1991).

- Absence of standardised specification for various major supply items/materials.

- Absence of any system to compare the actual quantity procured against quantity approvals obtained from the Board/Regional level tender committees.

- Improper maintenance of Register of firms for supply of each item of material, plant and equipment, contrary to the TNEB's standing instructions (January 1971). These registers had not been kept item-wise and updated.

- Non-recording of reasons for going in for limited tenders instead of open tenders, in violation of the terms of TNEB's Tender Regulations (1991).

3B.5 Irregularities in purchase of materials

Audit noticed instances of avoidable extra expenditure due to various lapses on the part of the TNEB as discussed below:

3B.5.1 Avoidable extra expenditure due to non-finalisation of tenders within the original/extended validity periods

Failure to finalise the tenders within the validity period resulted in avoidable expenditure of Rs.2.36 crore.

(a) In response to open tenders (June 1994) for supply of 250 KMs. of 3.5 X 120 Sq.mm. and 120 KMs. of 3.5 X 240 Sq.mm. underground cables, the lowest offers received from Vikas Cable Company, New Delhi were found to be acceptable. The offered F.O.R. destination rates at Rs.158971 per KM for 3.5 X 120 Sq.mm. and Rs.310472 per KM for 3.5 X 240 Sq.mm. cables were valid up to 9 and 15 October 1994 respectively.

Due to non-finalisation of tenders within the validity period, the TNEB had to procure a part of its immediate requirements (*i.e.,* 60 KMs. of 3.5 X 120 Sq.mm. and 30 KMs. of 3.5 X 240 Sq.mm. cables) through fresh limited tenders (December 1994) and the balance through open tenders (August 1995) from various firms at higher rates.

These rates were found to be higher by Rs.47069 to Rs.59735 per KM. for 3.5 X 120 Sq. mm. and Rs.59048 to Rs.85016 per KM. for 3.5 X 240 Sq. mm. cables respectively, as compared to the rates received against the original tenders (June 1994). Thus, the TNEB's failure to finalise the original tenders well within the validity period resulted in avoidable expenditure of Rs.236.45 lakh on procurement of these cables at higher rates.

The TNEB attributed (March 1997) the non-finalisation of original tenders within the validity period to delays in getting the vendor rating and factory inspection details of the lowest tenderer. It was, however, observed that both the vendor rating and factory inspection details of the lowest tenders were received (18 July 1994) by the TNEB long before the expiry (15 October 1994) of validity of the original offers.

Delay on part of Board in finalising the tenders and lack of effective follow-up to secure timely clearance from the Government resulted in avoidable expenditure of Rs.0.42 crore.

(b) Likewise, in respect of open tenders (September 1994) for supply of 480 KMs. of copper control cables and aluminium power cables of various sizes in three lots (Lots I to III), the lowest acceptable offers of Paramount Corporation Limited for all the three lots for the total value of Rs.386.04 lakh were valid up to 31 January 1995. The TNEB, however, did not finalise the offers within the validity period but decided to place orders on this lowest offerer only on 14 March 1995 pending receipt of extension of validity period from the offerer. Since the above purchase proposal exceeded over Rs.1 crore, the TNEB sought (20 March 1995) the approval of the State Government as required in terms of Government directives (May 1991). The Government accorded approval for the proposal on 23 July 1995.

Due to refusal (April 1995) of the lowest tenderer to extend the validity of the offer for Lot No.I covering supply of 250 KMs. of cables, the TNEB had to place orders (July 1995) on the second lowest tenderer *viz.,* Elkay Telelinks Private Limited at the originally quoted higher rates for the total value of Rs.227.13 lakh. In respect of the remaining two lots for supply of 230 KMs. of cables also, the TNEB could not finalise the order even within the extended period of validity (*i.e.,* up to 30 June 1995) offered by the lowest tenderer due to delay in receipt of approval from the Government for the proposal. The TNEB had, therefore, to procure the quantity (230 KMs.) covered under these two lots at higher rates based on retenders (October 1995) for the total value of Rs.200.68 lakh.

Thus, delay on the part of the TNEB in finalising the tenders coupled with lack of effective follow-up to secure timely clearance from the Government resulted in avoidable expenditure of Rs.41.77 lakh.

The Chief Engineer (Transmission) in reply stated (July 1996) that the validity period of 120 days specified in the tenders/offers was quite insufficient to finalise the tenders. In this context, it is relevant to mention that on an audit comment regarding non-finalisation of tenders within the time frame of 90 days prescribed by the TNEB, COPU had recommended (October 1991) that the TNEB should carefully monitor the finalisation of tenders so as to adhere to the time schedule prescribed.

3B.5.2 Loss due to non-adoption of proven improved design

Non-adoption of cheaper proven improved design of towers resulted in an extra expenditure of Rs.4.08 crore.

In order to reduce the cost of 230/110 KV double circuit transmission towers, the TNEB entrusted (October 1992) the task of evolving an improved design for such towers to Larsen and Toubro Limited at the total cost of Rs.38.27 lakh. The prototype towers manufactured based on the improved design after successful completion of testing were received by the TNEB between February and October 1994. The TNEB noticed (October 1994) that adoption of this improved design would reduce the weight of such towers by 14.79 to 38.98 *per cent* as compared to the weight of towers hitherto used by it . This, in turn, would result in cost reduction due to lesser requirement of basic raw materials such as zinc, steel, *etc*.

Despite this, the TNEB had not adopted the improved design in respect of orders for supply of 1153 numbers of such towers finalised between January and September 1995. Due to non-adoption of the cheaper proven improved design, the TNEB had incurred an extra expenditure to the extent of Rs.408.33 lakh on the above purchase.

3B.5.3 Extra expenditure due to procurement of materials through limited tenders

Piecemeal purchase through limited tenders resulted in an extra expenditure of Rs.8.72 crore.

(a) Regional Chief Engineers were empowered to purchase their requirement of materials up to Rs.8 lakh at a time through limited tenders. It was observed that the Ribbed Tar Steel (RTS) grills meant for casting concrete poles used for stringing distribution lines constituted a major share of the purchases made by the various Regional Chief Engineers. The average annual purchase of RTS grills by each of the Regional Chief Engineers of the TNEB was of the order of Rs.324 lakh.

Test checks in audit of the purchase of RTS grills in four (Madurai, Coimbatore, Vellore and Chennai) out of eight Regional Chief Engineers' Offices during the three years up to 1996-97 revealed the following:

(i) The Regional Chief Engineers were resorting to piecemeal purchase of RTS grills every now and then based on limited tenders obtained from certain selected firms. It was observed that in Regional Chief Engineer's office at Madurai, tender enquiries were sent at a time to maximum of five to fifteen registered firms as against fifty nine firms registered with it for supply of these RTS grills. This deprived the benefit of obtaining more competitive offers. Further, the purchase orders had also been split up in such a way (*i.e.*, by placing four or five orders on the same day) so as to bring them within the financial powers of the Regional Chief Engineers. Audit observed that the value of orders thus split up during the period from April 1994 to March 1996 in four regions amounted to Rs.2811.50 lakh.

(ii) The reasons for purchase of RTS grills through limited tenders in preference to open tenders were not recorded, though required as per the TNEB's Tender Regulations (August 1991).

(iii) The reasonableness of the rates obtained/accepted through limited tenders was also not ensured. It was, however, observed that the rates accepted for purchase of RTS grills during the period from April 1994 to May 1996 through limited tenders were abnormally higher as compared to the rates subsequently obtained/accepted (September and November 1996) against the open tenders as detailed below:

(Amount - Rupees)

Type of RCC grills (length in metres)	Limited tender accepted rates per grill during April 1994 to May 1996	Open tender accepted rates per grill during September and November 1996
7.50	563.00 to 893.34	518.99
8.00	730.00 to 933.52	603.52
9.14	1495.00 to 2157.85	1328.16

Thus, piecemeal purchase of RTS grills through limited tenders instead of through open tenders without ensuring the reasonableness of rates resulted in extra expenditure of Rs.871.87 lakh on purchases of 2.69 lakh grills of different sizes during the period from April 1994 to May 1996.

Purchase through limited tenders resulted in an extra expenditure of Rs.1.62 crore.

(b) Similarly in respect of purchase of certain other items of materials through limited tenders from selected firms without ensuring the reasonableness of the rates, the TNEB incurred extra expenditure of Rs.161.76 lakh with reference to the rates subsequently obtained under open tender system as detailed below:

(Amount - Rupees in lakh)

Sl. No.	Region	Material	Period of purchase	Quantity purchased	Limited tender purchase rate	Period of subsequent open tender	Accepted open tender rates	Loss on purchase through limited tenders
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1)	Chennai	3.5 X25 Sq.mm underground cables	June 1995	190 Kms	94770 per Km.	August 1996	80936.30	26.28
(2)	Chennai•	Pillar boxes of various types	December 1995 to May 1996	1442 Nos.	13343.29 to 19044.00 each	August 1996	11961.12 to 17062.94 each	22.86
(3)	Chennai, Madurai, Vellore, Coimbatore, Salem, Trichy, Tirunelveli	Aluminium paints	July 1995 to May 1996	94225 litres	59.25 to 120.60 per litre	September 1996	38.50 per litre	33.92
(4)	Chennai, Vellore, Tirunelveli, Trichy, Madurai	G.I. earth pipes	May 1995 to April 1996	38500 Nos.	300 to 428 each	February 1997	155.60 each	78.70
	Total							161.76

3B.5.4 Extra expenditure due to non-adherence to Government/TNEB directives

Extra expenditure of Rs.1.75 crore incurred by the Board on purchase of line materials through limited tenders in contravention of the directives of the Government.

During the period from 1987 to 1993, the TNEB had been regularly entering into annual rate contract with Tamil Nadu Small Industries Corporation Limited (TANSI) for the purchase of nine items of line materials like transformer structural materials, cross arms, HT/LT fittings, stay sets, *etc.* This rate contract was in accordance with the Government directives (December 1984/May 1991) requiring purchase of the requirements of Government organisations/agencies from certain specified priority institutions.

However, during 1994-95, due to non-supply of indented quantities by TANSI, the TNEB decided (November 1994) to procure only 20 *per cent* of its requirements of line materials for the year 1994-95 from TANSI. In terms of Government directives (May 1991), in cases wherein the priority institutions could not supply the materials/services required by the Government agencies, open tender system should be followed for procurement of such items. However, in contravention of all the above directives, the regional offices of the TNEB resorted (August 1994 - November 1996) to procurement of these line materials through limited tenders from certain firms without ensuring the reasonableness of the rates. In the absence of open market rates during the above periods, the actual extra expenditure incurred by the TNEB on the purchase through limited tenders could not be assessed in audit. It was, however, observed that in four out of eight regions test checked in audit, the ordered (August 1994 - November 1996) rates through limited tenders ranged between Rs.164.08 and Rs.6589.05 each depending upon the nature of items. These rates were found to be higher as compared to the rates (*i.e.,* Rs.88 to Rs.4341 each) under rate contract subsequently concluded (December 1996) with TANSI. Computed with reference to this rate contract (December 1996) rates, the extra expenditure incurred by the TNEB on the purchase (August 1994 to November 1996) of the line materials through limited tenders in contravention of the directives of the Government amounted to Rs.175.20 lakh.

3B.6 Inadequate inventory control

3B.6.1 The TNEB had not fixed the maximum, minimum and economic re-ordering levels even for major items of stores like conductors, transformers, cables, *etc.,* despite COPU's recommendation (October 1991) for fixation of the same.

As a result, Audit noticed instances of locking up of the TNEB's funds on idle inventory due to various reasons such as non-regulation of purchases to actual/field requirements, improper assessment of requirements, *etc.,* as discussed in the succeeding paragraphs.

3B.6.2 Non-regulation of purchase to actual requirements

Non-regulation of purchase to actual requirement resulted in locking up of funds of Rs.3.83 crore.

Out of 420 numbers of 11 KV outdoor Vacuum Circuit Breakers (VCBs) received (cost : Rs.799.60 lakh) during November 1995 to March 1996 for meeting the requirements of Transmission and Distribution (T&D) programme for 1995-96, 201 VCBs costing Rs.382.66 lakh were lying idle (March 1997) even after meeting the T&D requirement for 1996-97. Thus, non-regulation of purchase of VCBs to actual requirements resulted in locking up of the TNEB's funds of Rs.382.66 lakh for over one year. The loss of interest on the locked up funds at the TNEB's borrowing rate of 18 *per cent* for the period from April 1996 to March 1997 amounted to Rs.68.88 lakh.

3B.6.3 Purchase of material without taking note of field requirement

Failure to make correct assessment of size of the cables resulted in locking up of funds of Rs.0.49 crore and loss of interest of Rs.0.24 crore.

In December 1993, the TNEB placed an order on Industrial Cables (India) Limited for supply of 16.25 KMs. of 11 KV 3 X 70 Sq.mm. XLPE underground power cables for use in Tirupur Urban Development Area. The above size of the cable was decided upon based on the load pattern prevalent in the area during 1989. Immediately after the placement of the order, the Superintending Engineer, Coimbatore (South) informed (January 1994) the TNEB about the unsuitability of the proposed cable due to its inadequate current carrying capacity in the context of complete change in the loading pattern of the area. Despite this, the TNEB went ahead with the purchase and these cables were received between April and July 1994 at the total cost of Rs.83.38 lakh.

Due to the TNEB's failure to make correct assessment of the size of the cables consistent with the load pattern of the area, 9.60 KMs. (excluding 6.65 KMs. utilised elsewhere) of the above cables costing Rs.49.26 lakh were still lying idle (March 1997). This resulted in locking up of the TNEB's funds of Rs.49.26 lakh for more than 32 months and consequential loss of interest of Rs.23.64 lakh (at the rate of 18 *per cent*) for the period from August 1994 to March 1997.

3B.6.4 Locking up of funds due to improper assessment of requirement

Absence of proper assessment of actual requirement resulted in locking up of funds to the extent of Rs.0.62 crore.

(a) Six numbers of 22 KV outdoor control and metering cubicles (cost: Rs.30.15 lakh) received (September - October 1994) for use in new high tension service connections and sixty numbers of indoor metering cubicles (cost: Rs.31.56 lakh) received (July 1993 - March 1995) for installation in sub-station to assess the transmission and distribution losses were not put to use (June 1997) even after a lapse of 32 and 27 months, respectively. This indicated absence of proper assessment of actual requirements. The reasons for non-utilisation of these equipments were, however, not analysed by the TNEB. As a result of non-utilisation of these equipments, the TNEB's funds to the extent of Rs.61.71 lakh were locked up, thereby resulting in loss of interest of Rs.27.25 lakh (at the rate of 18 *per cent*) for the period from August 1993 to June 1997.

(b) Similarly, five out of twelve numbers of 33 KV outdoor control and metering cubicles received (September and November 1994) at the total cost of Rs.64.83 lakh for installation in new high tension services were diverted (March 1995) to the General Construction Circle, Tirunelveli without any specific need. The reasons for this diversion were, however, not on record. Consequently, all these five numbers of 33 KV outdoor control cubicles were still lying idle (June 1997). This resulted in locking up of the TNEB's funds of Rs.27.01 lakh for 31 months and consequential loss of interest of Rs.12.56 lakh (at the rate of 18 *per cent*) for the period from December 1994 to June 1997.

3B.7 Other points of interest

3B.7.1 Loss on sale of copper scrap

Failure to finalise the sale orders within the validity period resulted in the loss of Rs.1.43 crore.

Offers received (March 1996) against open tenders for disposal of 383.76 tonnes of accumulated copper scrap held in the Central Stores at Tirunelveli and Vellore were valid up to 4 and 6 June 1996, respectively. The TNEB, however, finalised (5 and 28 June 1996) the sale orders on the successful tenderers at their highest quoted rates (ranging from Rs.1.30 lakh to Rs.1.34 lakh per tonne) only after the expiry of validity of their offers.

These tenderers, therefore, backed out on the ground that sale orders were not received within the validity period of their offers. Consequently, the TNEB had to dispose (February 1997) of the accumulated stock at lesser rates (ranging from Rs.0.86 lakh to Rs.0.99 lakh per tonne) based on subsequent retenders (January 1997).

Thus, the TNEB's failure to finalise the sale orders within the validity period resulted in the loss of Rs.143.12 lakh on the sale of 383.76 tonnes of accumulated copper scrap at lesser rates.

The Chief Engineer (Material Management) justified (April 1997) the delay in finalisation of tenders on the ground that these proposals had to be routed through various agencies in the Headquarters office. It is, however, relevant to mention in this context that the TNEB's Tender Regulations (1991) had prescribed a time frame of only 30 days for finalisation of such sale proposals requiring approval of Headquarters. Moreover, the sale proposals of scrap do not involve any complicated technical scrutiny/evaluation unlike that required in the case of purchase of equipments.

3B.8 Conclusion

The control mechanism of the TNEB with regard to purchase of materials/inventory was deficient in as much as there were instances of delays in decision making, non-adherence/violation of codal provisions/Government directives, improper assessment of requirements, irregular tender procedures, *etc.*, leading to avoidable extra expenditure and excess/idle inventory holdings. Corrective measures are, therefore, called for to streamline the systems and procedures with a view to exercise an effective control over material purchases, distribution and inventory so as to make them more cost effective.

These matters were reported to the TNEB and the Government in May 1997; their replies had not been received (October 1997).

CHAPTER 4

MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES AND STATUTORY CORPORATION

SECTION 4A: GOVERNMENT COMPANIES

SECTION 4B: STATUTORY CORPORATION

SECTION 4A

TAMIL NADU INDUSTRIAL INVESTMENT CORPORATION LIMITED

4A.1 Loss of revenue on disinvestment of shares

Due to disinvestment of its shareholdings on a single offer without obtaining competitive offers, the Company was deprived of the opportunity of earning additional revenue of Rs.30.33 crore.

The State Government evolved (June 1991 and June 1993) the following guidelines for disinvestment of equity shares held by the Company in its assisted units:

- The valuation of the shares has to be done with reference to investment value, net worth value, market value, yield value and face value of shares and the highest of the prices thus determined has to be taken as minimum disinvestment value of these shares.
- In determining the market value of shares, the average of the rates quoted in Chennai Stock Exchange during the three months immediately preceding the date of offer or date of orders for disinvestment, whichever is higher, shall form the basis for arriving at the market price of shares to be disinvested.
- The shares are required to be offered first to the promoters. In case of their non-acceptance of the offer, the shares are to be next offered to institutions like Unit Trust of India (UTI), Life Insurance Corporation (LIC), Mutual Funds and banks by calling for offers from them. If they also do not come forward, then the shares are to be offered to the public through brokers.

The Company held 1410540 equity shares of Rs.10 each in one of its assisted units, *viz.,* South India Shipping Corporation Limited (SISCO).

In September 1993, Essar Shipping Limited (ESSAR) approached the Company for purchase of these shares for the total consideration of Rs.4700.06 lakh (*i.e.,* at the rate of Rs.333.21 per share). The above proposal was favourably considered (October 1993) by the Board of the Company on the ground that they were the original promoters of SISCO and their offered rates were in accordance with the guidelines of the Government.

The Government also accorded (8 December 1993) approval for acceptance of the above offer of ESSAR. The Company, however, made (15 December 1993) a counter offer of Rs.375 per share based on the average stock market rates of these shares during the three months immediately preceding the orders of the Government, for which ESSAR had also agreed. Accordingly, the Company confirmed (December 1993) the sale of its 1410540 shares in SISCO to ESSAR for the total consideration of Rs.5289.53 lakh.

The above disinvestment decision was found to be detrimental to the financial interests of the Company in view of the following:

- ESSAR were not the original promoters as evidenced from the pattern of share holdings held by SISCO as obtained (March 1991) by the Company. They secured control of SISCO subsequently by acquiring substantial shares from the Insurance Companies and others. As such, acceptance of the lone offer of ESSAR on the ground that they were the promoters of SISCO lacked justification.

- The share price of SISCO had shown a steady upward trend from Rs.326 per share at the beginning of November 1993 to Rs.590 per share since 9 December 1993 (*i.e.*, prior to Company's counter-offer for disposal of these shares at Rs.375 per share) which had further gone up to Rs.650 per share by the end of December 1993.

- The Company held surplus funds ranging from Rs.294.30 lakh to Rs.987.29 lakh (after meeting all its commitments and loan disbursements) during the period from April to September 1993. The Company also reported to the Board/Government in October 1993 (*i.e.*, at the time of this disinvestment decision) that it was not in cash crunch. Therefore there was no need for this distress sale especially in the context of the steadily increasing market trend in the price of SISCO's shares.

- Since the price of shares as determined based on the guidelines laid down by the Government was only the minimum disinvestment value of shares, the Company could have taken advantage of market trends by obtaining competitive quotations from other sources. Moreover, sale of shares in block would normally fetch higher sales realisation. It is also of relevance in this context that there was an offer (July 1993) from Alpha Marines, Bombay for purchase of the Company's entire share holdings in SISCO either at market rates or at mutually agreeable rates. This offer was not at all considered. Nor was the fact of receipt of this offer brought to the notice of the Board at any time.

In view of the foregoing, disinvestment of the Company's share holdings in SISCO based on a single offer without obtaining competitive offers from other sources deprived the Company the opportunity of earning additional revenue of Rs.3032.66 lakh on the disinvestment of 1410540 shares of SISCO (computed with reference to the market rate of Rs.590 per share, prevalent prior to the Company's counter-offer for disposal of these shares at Rs.375 per share).

Further, while the Government accorded (December 1993) approval for transfer of these shares in favour of ESSAR, transfers were actually effected/made in the names of six of their nominees (Merchant Bankers) stated to be the associates of ESSAR, in contravention of the directives of the Government.

The Government in reply stated (October 1997) that the price at which these shares were disinvested was a cause for concern and the matter had been referred to the Director of Vigilance and Anti Corruption.

4A.2 Irregular sanction of short term loans

Due to irregular sanction of loans and ineffective pre-sanction appraisals, the Company could not realise overdues of Rs.9.65 crore from 47 out of 60 units.

Considering the risks involved in short term loan assistance to industrial units, the State Government directed (February 1995) the Company not to entertain such type of lending. Accordingly, fresh short term lending was stopped in February 1995.

However, in contravention of the above directive, the Company, without the approval of the State Government and for reasons not on record, revived the scheme of sanction of short term loans ranging from Rs.25 lakh to Rs.250 lakh to industrial units in March 1996, *inter alia* subject to the following guidelines:

- These loans were intended to meet the urgent fund requirements of the existing industrial units and were not available for expansion and service purposes;

- These loans which carried an interest rate of 23 *per cent* were to be released only on execution of required documents and were repayable within a maximum period of 18 months;

- The assistance under the scheme should not exceed the term loan amount sanctioned to the unit and should not also be in excess of 50 *per cent* of the average turnover of the units during the last three years of operation;

- Collateral security at 150 *per cent* of the assistance should be obtained in the form of freehold landed property, fixed deposit receipts, listed blue chip shares, *etc*.

During the period from March to June 1996, the Company disbursed Rs.4241 lakh as short term loans to 60 industrial units. Audit noticed gross violation of the guidelines prescribed in sanction of these loans as detailed below:

(Amount - Rupees in lakh)

Sl. No.	Nature of violation	Number of units involved	Amount of short term loans sanctioned
(1)	(2)	(3)	(4)
(I)	Sanction of short term loans exceeding		
	(a) Term loans	13	918.00
	(b) 50 per cent of the average turnover of the assisted units during the last three years	4	620.00
(II)	Disbursement of loans before execution of documents	4	330.00

(1)	(2)	(3)	(4)
(III)	Sanction of loans for ineligible purposes (like expansion, repair works, trading, *etc.*)	5	350.00
(IV)	Release of loans based on inflated value of security offered at Rs.3.46 crore as against the independent assessment of Rs.0.51 crore without any cross verification/assessment	4	265.00

Due to irregular sanction of loans and ineffective pre-sanction appraisals, the Company could not realise (February 1997) overdues to the tune of Rs.965.13 lakh from 47 out of the 60 units assisted during the period from March to June 1996.

These matters were reported to the Company and the Government in May 1997; their replies had not been received (October 1997).

TAMIL NADU INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

4A.3 Irregular release of loans - non-realisation of dues

Release of the loan to ELNET in contravention of Board's directive without adequately safeguarding financial interests resulted in non-realisation of loan amounting to Rs.1 crore

Tamil Nadu Industrial Development Corporation Limited (TIDCO) is engaged in the promotion of large scale industries in joint/associate sectors with private participation. In October 1993, Elcot New Era Technologies Limited (ELNET), a joint venture company of Electronic Corporation of Tamil Nadu Limited (ELCOT), another Government Company, approached TIDCO for a loan of Rs.50 lakh, repayable on call basis at the then prevailing market rate of interest.

However, the Board of Directors of TIDCO did not accede (November 1993) to the request of ELNET. The Board further directed (November 1993) the Company to invest its surplus funds only with dividend paying joint sector Companies of TIDCO, Public Sector Companies and banks. Despite this, based on a subsequent request (October 1994) received from ELNET (which was not a joint sector company of TIDCO), the then Chairman and Managing Director of TIDCO, without the prior approval of the Board, released (November - December 1994) Rs.100 lakh as loan repayable on call basis at an interest rate of 16.25 *per cent* (payable in monthly instalments). The Company, however, failed to safeguard its interests with adequate security like bank guarantee and released the loan based on the personal guarantee of the Managing Director of ELNET, which was against principles of financial prudence. The matter of sanction of loans to ELNET was brought to the notice (February 1995) of the Board only after the disbursement of loan and was got ratified.

Although the loanee company (ELNET) defaulted in payment of monthly interest since September 1995, TIDCO called back the loan along with interest only in June 1996. However, the principal and interest due amounting to Rs.113.37 lakh had not been received (October 1997) and the Company was yet to categorise the entire loan as non-performing asset as per the norms fixed by the Reserve Bank of India.

The Company in reply stated (February 1997) that legal action for liquidation of ELNET for realisation of its dues had been initiated. The Company, however, subsequently found (March 1997) that the loans obtained in favour of ELNET were transferred into the personal account of the private co-promoter acting as the Managing Director of ELNET. The Company had not invoked the personal guarantee obtained from the Managing Director of ELNET. The matter was stated to be under investigation by the State Criminal Investigation Department.

Thus, release of the loan to ELNET in contravention of the Board's directives without adequately safeguarding its interests with proper security resulted in non-realisation of dues of Rs.113.37 lakh (including interest of Rs.13.37 lakh).

The Government in its reply (August 1997) accepted the facts and stated that the action would be taken against the officers concerned.

4A.4 Infructuous expenditure due to abandonment of Singapore Trade Corridor Project

Failure of the Company to acquire the land for the project, non-identification of foreign co-promoter, apathy on the part of Indian co-promoter and existence of another firm, resulted in an infructuous expenditure of Rs.0.59 crore.

The Government of India (GOI) proposed (1989) to establish an "Indo-Singapore Trade Corridor" (project) to enable entrepreneurs from Singapore to set up industries in India. The concept envisaged development of international quality industrial infra-structure to attract foreign investment. At the instance of the State Government, GOI agreed (1989) to the proposal to locate the project at Chennai in view of certain locational advantages like proximity to Singapore and existence of a good seaport and airport. Implementation of the project was entrusted by the State Government to the Company (TIDCO), which is mainly engaged in promotion of industries in joint/associate sector with private participation. The Company accordingly identified (January 1993) a vast stretch of land of about 2450 acres (*i.e.,* 1393 acres of Government poromboke lands and 1057 acres of patta lands) at Sholinganallur in Chenglepet district for location of the project. Although the private patta lands (1057 acres) were occupied by Ex-servicemen and Pensioners' Association and Ex-servicemen League for nearly three decades, the Company failed to obtain their consent for parting of their lands beforehand. As a result, the acquisition of the proposed area was not smooth and stay was also obtained (January 1993) by the occupants from the Courts.

Despite this, even without resolving the dispute and ensuring the land required for the purpose, the Company entrusted (February 1993) the task of preparation of concept paper and feasibility report for the project to a private firm, *viz.,* Feed Back Ventures and Collaboration Services Limited at a fee of Rs.11 lakh. Their services were also proposed to be retained for a period of one year from 15 July 1993 to assist the Company in the implementation of the project on a retainer fee of Rs.1.70 lakh per month.

Meanwhile the visit (January 1993) of a high level team (comprising of officials of the State Government, Company, consultancy firm, Tamil Nadu Industrial Guidance and Export Bureau, *etc.,*) to Singapore, Malaysia and Indonesia followed by the visit (February 1993) of a delegation from Singapore to attract foreign investment did not yield the desired results, mainly on account of the Company's inability to acquire the required land for the project. No further progress was made in the implementation of the project for nearly a year.

In February 1994, the Company promoted a new associate private sector company *viz.,* Madras Industrial Park Limited (MIP) for further follow-up and implementation of the project. The equity of the associate sector company (MIP) was proposed to be met by the Company (11 *per cent*), Indian co-promoters (49 *per cent*) and foreign co-promoters (40 *per cent*) to be selected. Based on press advertisements, MIP inducted (December 1994) two Indian co-promoters (viz., Southern Petro Chemical Industries Corporation Limited (SPIC) and Balaji Industries Corporation Limited) for implementation of the project. However, at this stage, the project outlay and the pattern of financing by way of equity/debt had not been determined. The Indian co-promoters did not bring in any equity contribution nor did they take any initiative for implementation of the project. The Company (TIDCO), however, had spent Rs.59.12 lakh on the project towards the consultant's fees, advertisement/publicity expenses and foreign travel expenses.

Due to delay in acquisition of proposed lands at Sholinganallur on account of litigation, the State Government allotted (June 1995) 450 acres of land at an alternative location at Sriperumbudur. Since the extent of land allotted was found to be inadequate for development of the project, MIP approached (August 1995) the State Government for allotment of additional 1350 acres in that area. However, no further progress had been made in this direction.

The State Government had therefore to abandon (September 1996) the project and order for winding up of the associate sector company (MIP) due to its inability to acquire the required land for the project, non-identification of foreign co-promoters, lack of initiative of Indian co-promoters and existence of another Government Company (*viz.,* State Industries Promotion Corporation of Tamil Nadu Limited) for creation of such infrastructure facilities for promotion of industries. The Company (TIDCO), therefore, absorbed the expenses of Rs.59.12 lakh incurred by it on the project in terms of the agreement with the Indian co-promoters.

The Company in reply stated (May 1997) that the expenditure on the project was incurred as a part of attainment of its main objective, *viz.,* promotion of industries in the State. It may, however, be pointed out that the entire expenditure of Rs.59.12 lakh incurred on the project proved infructuous due to the Company's failure in ensuring the availability of sufficient suitable land, financial tie-up and foreign investment.

TAMIL NADU CORPORATION FOR INDUSTRIAL INFRASTRUCTURE DEVELOPMENT LIMITED

4A.5 Infructuous expenditure on engagement of consultants

The Company, as a nodal agency for development of industrial infrastructure in the State, acquired (1992-94) 413 acres of land at Nilakottai in Dindigul district to establish an agro industrial complex.

Due to engagement of consultants without properly ensuring their capabilities, an expenditure of Rs.0.13 crore incurred towards consultancy charges proved infructuous.

Considering the climatic characteristics of the area and the rich horticultural resources of the hinterland of this complex, the Company decided (May 1994) to set up a Biotechnology park (project) to promote, develop and commercialise biotechnology in the State. The Company, without inviting tenders, engaged (May 1994) the services of Feedback Ventures and Collaboration Services Private Limited as consultants for preparation of a feasibility report for the proposed project at a fee of Rs.6 lakh plus out of pocket expenses on actual basis. The capabilities of the consultants were also not properly ensured beforehand. The consultants were required to conceptualise and configure an industrial park that would be attractive to potential investors, apart from designing and assessing the viability of the project. On receipt (August 1994) of the feasibility report highlighting the project concept, its configuration, investors' perception, design, *etc.,* the Company released Rs.8.35 lakh to the consultants between August 1994 and May 1995.

However, the Company without properly evaluating and examining the feasibility report received, based on a request (March 1996) from the consultants, decided to retain their services for firming up/finalising funding for the project and marketing of lands of the proposed complex at a fee of Rs.12 lakh. Against this, the Company paid Rs.4.41 lakh inclusive of out of pocket expenses of Rs.0.41 lakh as advance payment between April and June 1996.

Subsequently in June 1996, the Board of Directors of the Company, for reasons not on record, authorised the Managing Director to make a total review of the assignment entrusted to the consultants and evaluate the tasks completed by them so as to decide further course of action. On evaluation (July 1996), the Company found that many of the assumptions made by the consultants were intrinsically unrealistic and unreasonable. It was further observed that the consultants' assumptions on housing, water requirements, maintenance charges, selling price, sales projects, *etc.*, were not to the satisfaction of the Company. The Company, therefore, decided (January 1997) to terminate the contract with the consultants without any additional payment.

Since the feasibility report/data furnished by the consultants was not up to the expectations of the Company and hence of no use to it, payment of Rs.12.76 lakh to the consultants engaged without properly ensuring their capabilities thus proved infructuous.

The matter was reported to the Company and the Government in May 1997; their replies had not been received (October 1997).

TAMIL NADU CIVIL SUPPLIES CORPORATION LIMITED

4A.6 Avoidable payment of commitment charges

Absence of any system for making realistic assessment of credit requirements, failure of the Company for initiating timely action for finalisation of tenders and obtaining projections resulted in avoidable payment of commitment charges of Rs.0.25 crore.

The Company has been availing of cash credit facilities from the State Bank of India and its subsidiaries for operation of its non-cereal transactions. For this purpose, the Company was required to furnish to the bankers its quarterly requirement of funds after analysing the requirement scientifically in the prescribed proforma in advance at the latest by the week immediately preceding the commencement of each quarter. Based on this information, the bankers would fix the Quarterly Operative Limit (QOL) for the

Company. Utilisation below 85 *per cent* of this limit would attract levy of commitment charges at the rate of one *per cent* (later increased to 1.25 *per cent* from April 1995 onwards) *per annum* on the unutilised portion of QOL on the daily balance basis.

Audit analysis, however, indicated that the average daily cash credit availed of (*i.e.,* from Rs.8.83 crore to Rs.16.52 crore) by the Company during the three years from 1993-94 to 1995-96 ranged between 37 and 66 *per cent* of QOL as against the minimum operational limit of 85 *per cent* stipulated by the bankers, thereby indicating unrealistic projection/assessment of credit requirements without relevance to its actual needs. This resulted in avoidable payment of commitment charges of Rs.25.48 lakh during the above three years. It is also relevant in this context that the Company has no system of periodical preparation of cash flow statements for non-cereal transactions so as to make realistic assessment of its credit requirements.

The Company in reply stated (April 1997) that the projections made in Quarterly Information Statement (QIS) in respect of purchase of dhal and edible oil could not be achieved due to :

- erratic allotment of edible oil by the Government;
- difficulties in finalising tenders for purchases with the approval of the Government; and,
- difficulties in obtaining projections from all the regions at a time.

It may, however, be pointed out that the absence of any system to make a realistic assessment of credit requirements and the Company's failure to take timely action for finalisation of tenders (for purchase) and obtaining of projections/forecasts resulted in avoidable payment of commitment charges of Rs.25.48 lakh. Moreover, the Company could have operated a current account with overdraft facilities and thereby avoided this payment of commitment charges.

4A.7 Excess payment due to non-availment of subsidised issue price

Company's failure in placing monthly indents with Food Corporation of India for lifting the subsidised rice resulted in excess payment of Rs.0.71 crore.

In order to ensure adequate standards of nutrition in the hostels meant for the welfare and development of weaker sections of Scheduled Castes/Scheduled Tribes and other Backward Classes, the Government of India introduced (October 1994) a scheme for supply of rice at a specially subsidised Central issue price to these institutions. This specially subsidised issue price was Rs.50 per quintal less than the normal Central issue price (*i.e.*, Rs.537 to Rs.648 per quintal) under Public Distribution System.

The Company, being the implementing agency of the scheme in the State, was permitted (November 1994) to avail of this concessional rate, while lifting the rice from Food Corporation of India (FCI) by placing separate monthly indents based on the authorisations issued by the District Collectors.

However, due to non-placement of separate monthly indents, the Company could not avail of the concessional rate and thus made excess payment of Rs.70.80 lakh on 14159.80 tonnes of rice lifted and distributed under the scheme during the period from November 1994 to August 1995. The refund claims subsequently preferred (September 1995) by the Company were turned down (November 1995) by FCI on the ground that there was no reference/request/indent from the Company prior to September 1995.

Thus, the failure of the Company to place separate monthly indents for the quantity of rice lifted under the scheme resulted in excess payment of Rs.70.80 lakh.

The matter was reported to the Company and the Government in May 1997; their replies had not been received (October 1997).

STATE INDUSTRIAL PROMOTION/DEVELOPMENT CORPORATIONS

4A.8 Nugatory expenditure on engaging of consultants

Engagement of consultants without ensuring their capabilities as a follow-up measure after lapse of twenty months of a seminar conducted to attract foreign investment resulted in nugatory expenditure of Rs.0.15 crore.

In April 1994, an autonomous body *viz.,* Tamil Nadu Industrial Guidance and Export Promotion Bureau (Guidance) organised industrial seminars/campaigns in the Gulf Region to attract investments from Non-Resident Indians (NRIs) and foreign investors for setting up of projects/industries in the State. In order to sustain the efforts made through these seminars/campaigns, the State Government accorded (July 1994) approval for engaging Image Financial Services (IMAGE), Dubai as consultants on behalf of Guidance for follow-up on project proposals/enquiries received from prospective investors of the region.

In view of the inability expressed (June 1994) by Guidance to support the consultancy fees (8000 US dollars per month) due to dearth of resources, the State Government, at the request of Guidance, ordered (July 1994) the sharing of consultancy fees equally between the State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT) and Tamil Nadu Industrial Development Corporation Limited (TIDCO).

The consultancy arrangement, which was initially for a period of six months, was modified (August 1994) to one year from 1 August 1994. However, due to Reserve Bank of India's refusal to grant permission to IMAGE for remittance of consultancy fees in Dubai in foreign exchange, Guidance could not finalise the contract with IMAGE for rendering their services.

After a lapse of nearly twenty months since the conclusion of industrial seminars/campaigns, a Bombay based firm *viz.,* Dynasty Financial Corporation Limited (Dynasty) which was an associate firm of IMAGE was nominated (November 1995) for the same work for a period of one year from December 1995 at a monthly fee of Rs.2.80 lakh to be shared equally between TIDCO and SIPCOT. However, the capability of the new consultancy firm (*viz.,* Dynasty) and their knowledge about the potential investors in the targeted region was not assessed beforehand.

A review of the work done by Dynasty during the period from December 1995 to April 1996 conducted by Guidance revealed that it was purely of a preliminary nature and that they had no specific knowledge of the investment community of the Gulf region. It was also felt by Guidance that it could, by itself make such efforts either directly or through Indian embassies with similar results. The contract with Dynasty was, therefore, terminated with effect from May 1996.

Against the consultancy fees of Rs.16.80 lakh payable to Dynasty for the period from December 1995 to May 1996, SIPCOT paid (March 1995) Rs.15.12 lakh (50 *per cent* of which was to be reimbursed by TIDCO through Guidance) and the balance Rs.1.68 lakh had not yet been settled (October 1997).

Thus, engaging a consultancy firm as a follow-up measure of the efforts made during industrial seminars/campaigns held twenty months earlier and the failure in ensuring the consultants' capabilities resulted in nugatory expenditure of Rs.15.12 lakh, apart from a further commitment of Rs.1.68 lakh.

The Government in reply stated (July 1997) that the matter was under investigation by the Director of Vigilance and Anti Corruption.

STATE INDUSTRIES PROMOTION CORPORATION OF TAMIL NADU LIMITED

4A.9 Idle water storage facilities

Due to non-procurement of motor, pumps/accessories, water storage facilities created at a cost of Rs.0.25 crore were lying idle.

As a part of its programme for providing necessary infrastructure facilities to promote industrial development in the State, the Company developed (1984) an industrial complex at Gummidipoondi in an area of 801 acres. In order to provide basic amenities like water supply, the entire area of the industrial complex was divided into four zones for the convenience of design and economical execution of various works. The water supply arrangements for Zones I and II were completed/commissioned in 1990.

As regards Zones III and IV, based on an estimate of daily water requirement of 15.89 lakh litres, the Company decided (September 1990) to create storage arrangement for 50 *per cent* of its daily requirement (*i.e.,* 8 lakh litres). Accordingly, the Company envisaged construction of an overhead tank in Zone III (capacity: 5 lakh litres), two underground sumps one each at Zone III and IV (capacity of 1.5 lakh litres each) with pumphouses and laying of supply and distribution lines.

The above works taken up in piecemeal in May 1991 were completed only by February 1995 at the total cost of Rs.24.72 lakh. However, due to non-procurement of required motor, pumps/accessories, all these facilities were lying idle (October 1997), thereby resulting in locking up of the Company's funds of Rs.24.72 lakh for nearly 32 months and consequential loss of interest of Rs.11.87 lakh (calculated at the rate of 18 *per cent*) for the period from March 1995 to October 1997.

The Company, in reply (May 1997), accepted the facts and stated that the work orders for the purchase of pump and accessories would be finalised in a couple of months.

ARASU RUBBER CORPORATION LIMITED

4A.10 Idle investment on Effluent Treatment Plant

In order to control the pollution caused by the waste water discharged from the centrifuging factory at Mylar, the Company installed (November 1991) an effluent treatment plant at the cost of Rs.6.03 lakh. However, the plant could be commissioned only in March 1993 due to delay in completion of civil and electrical works by the Company. After three months of operation, the plant had to be stopped in July 1993 due to emission of foul smell from the anaerobic lagoon. The Company, however, did not identify the reasons for unsatisfactory performance of the plant and hence no corrective action was initiated for nearly two years to make the plant operational.

In March 1995, the Company entrusted to the Joint Director, Rubber Board the task of studying the effluent treatment system in the factory and to suggest ways to make the plant operational. The study report by the Rubber Board technologist revealed (July 1995) that the plant was constructed without any practical knowledge and suggested certain improvements at the cost of Rs.7.70 lakh for satisfactory performance of the plant. The Company had not however, acted upon the suggestion for reasons not on record. As a result, the effluent treatment plant installed at the cost of Rs.6.03 lakh remained idle for more than five years, apart from non-achievement of the desired objective of controlling the pollution caused by the centrifuging factory.

The Company in reply stated (April 1997) that a team of technical personnel of the Company evolved a new chemical treatment system after repeated experiments to bring the plant to efficient working condition. The Company further stated that the plant would be re-commissioned soon. However, the fact remains that the effluent discharged from the centrifuging factory remained untreated and let into the adjacent river, thereby causing environmental pollution.

The matter was reported to the Government in February 1997; their reply had not been received (October 1997).

4A.11 Loss on sale of cenex

The Company sustained revenue loss of Rs.0.20 crore due to wrong fixation of selling price of re-processed and fresh stock of cenex.

The Company has two rubber factories one each at Keeraiparai and Perunchani in Kanyakumari district for processing "latex" collected from its own rubber plantations. The latex is, *inter alia* converted into "cenex" (*i.e.*, concentrated latex) by addition of certain chemicals (*viz.*, di-ammonium phosphate and ammonia gas) and centrifuged before packing into barrels for sale.

Pursuant to a decision (June 1988) of the State Government to evolve a new marketing strategy for sale of all grades of rubber directly to industrial consumers without middlemen, the Company constituted a marketing Committee (Committee) with the General Manager as convenor for periodical fixation of selling prices. The sale of cenex was ordered to be made on "First In First Out" (FIFO) method at rates fixed by the Committee.

Accordingly, the Committee fixed (10 May 1996) a price of Rs.39 per litre for disposal of cenex stock of 4.05 lakh litres produced between November 1995 and February 1996. Since the Forest Corporation of nearby States like Kerala and Karnataka were selling such kind of old stock at reduced rates, the Committee refixed (16 May 1996) the price at Rs.37 per litre for disposal of the above old stock. In violation of the approved procedure of disposal of cenex by FIFO method, the Company, for reasons not on record, disposed (May 1996) the cenex produced during January and February 1996 (0.69 lakh litres) to a private firm *viz.*, Kerala Rubber House at the reduced rate of Rs.37 per litre thereby retaining the bulk of the stock (3.36 lakh litres) produced earlier during November and December 1995.

Due to lack of demand for the above stock on account of expiry of its shelf life, the same was reprocessed and sold (June 1996) to various parties at the rate of Rs.40 per litre as fixed (13 June 1996) by the Committee. In this context, it was observed that the Company itself subsequently found (July 1996) that the reprocessed old stock could have easily fetched a minimum price of Rs.42 per litre as per the then market trends/conditions. Thus, fixation of lower selling price for reprocessed stock without relevance to market conditions led to extension of undue benefit of Rs.6.72 lakh to private parties.

The above selling price of Rs.40 per litre was fixed by the Committee for sale of old reprocessed stock of cenex only. However, the Company on its own volition sold fresh stock of 1174 barrels (2.41 lakh litres) also at the same reduced rates on the same day (*i.e.*, 13 June 1996) to the same private firm *viz.*, Kerala Rubber House, as against the sale price of Rs.45.50 per litre fixed for sale of such fresh stock. Thus, sale of fresh stock at lower price without valid justifiable reasons resulted in loss of revenue of Rs.13.24 lakh to the Company.

Thus, fixation of lower selling price for reprocessed stock without relevance to market conditions and sale of fresh stock at lesser rates than that fixed by the Committee resulted in loss of revenue of Rs.19.96 lakh to the Company which had otherwise gone as undue benefit to the private firms.

The Company in reply stated (April 1997) that the loss of Rs.19.96 lakh as pointed out by Audit was a real loss for which the then General Manager of the Company was responsible. It further stated that the relevant records relating to these transactions were sent to the Government for further action.

4A.12 Loss on sale of rubber

Fixation of selling price of rubber without reference to market rates and in contravention of approved marketing policy resulted in loss of revenue of Rs.0.17 crore.

Till 1988, the Company had been selling its rubber products through public auction. With a view to enable the Company to compete with other rubber producers in the field, the State Government approved (June 1988) a new marketing strategy by which the Company could sell all grades of rubber directly on agreement basis to the rubber consuming industries. The Company was empowered to fix the selling price for different grades of rubber based on the "Kottayam market" rates as published in the Malayala Manorama.

In response to a tender (May 1986) for sale of two grades of rubber *viz.*, EBC 3X and skin crepe, the Company received only one offer from Pure Rubber Company at Rs.36 per Kg. for EBC 3X and Rs.34 per Kg. for skin crepe. These rates were, however, found to be much lower than the rate of Rs.43.84 per Kg. arrived at by the Company with reference to the then prevailing rate at Kottayam market. Considering the lower offer received, the then Chairman and Managing Director of the Company ordered (June 1996) negotiations with the offerer and other interested parties for a minimum price of Rs.42 per Kg. for skin crepe and Rs.45.19 per Kg. for EBC 3X. The Company, however, without assigning any reason, agreed (June 1996) to the rates of Rs.37 per Kg. and Rs.37.10 per Kg. for skin crepe and EBC 3X, respectively.

Against the tendered quantity of 63 tonnes of EBC 3X and 117 tonnes of skin crepe, the Company actually (June 1996) sold 149 tonnes of EBC 3X and 99 tonnes of skin crepe at the lower negotiated rates. Specific reasons for release of EBC 3X in excess of tendered quantity were not on record.

Thus, fixation of selling price without reference to the Kottayam market rates in contravention of the approved marketing policy and also of the specific directives of Chairman and Managing Director resulted in loss of revenue of Rs.17 lakh on the sale of 99 tonnes of skin crepe and 149 tonnes of EBC 3X.

The matter was reported to the Government and the Company in April 1997; their replies had not been received (October 1997).

TAMIL NADU POULTRY DEVELOPMENT CORPORATION LIMITED

4A.13 Avoidable extra expenditure on purchase of poultry feed

Failure of the Company to consider cheaper offer for poultry feed resulted in avoidable expenditure of Rs.0.12 crore.

The Company has four chick hatcheries at Arasur, Kappalur, Annupankulam and Kottapattu for production of hybrid and other varieties of chicks. Feed requirements for these hatcheries were met by the Company's two feed mixing units. In view of poor hatchability in the hatcheries on account of inferior quality feeds, the Company resorted (March 1995) to purchase of feeds from a private firm *viz.*, Kaveri Bio-Proteins, Namakkal on an experimental basis. With better productivity achieved in the hatcheries as a result of private feeds, the Company decided (April 1995) to close down its feed mixing units and continue procurement of feeds from private sources.

Accordingly, based on open tenders, the Company placed orders (April 1995) on the same private firm for meeting the requirement of feeds for the period from June to August 1995. On expiry of the contractual period, the Company obtained (25 August 1995) fresh quotations from six feed manufacturers. Of these, the offers of two firms including the offer of the earlier supplier (Kaveri Bio-Proteins) were found to be valid and acceptable. The Company, however, failed to consider these offers for reasons not on record. Based on fresh quotations, the Company placed orders on another supplier *viz.*, Palaniappa Feeds, even though the offer from Kaveri Bio-Proteins (25 August 1995) was still valid. The ordered rates on Palaniappa Feeds were, however, found to be higher by Rs.13 to Rs.70 per 75 Kgs. depending upon the nature of feeds than the rates offered (25 August 1995) by Kaveri Bio-Proteins. Thus, the Company incurred avoidable extra expenditure of Rs.10.67 lakh on the purchase of 8.41 lakh Kgs. of feeds at higher rates during the period from September 1995 to January 1996.

Further, while Kaveri Bio-Proteins had offered firm price basic rates during the entire period of contract (September 1995 - August 1996), the Company accepted variable rates (based on price variation clause) in case of Palaniappa

Feeds. Acceptance of variable rates resulted in the additional expenditure of Rs.1.05 lakh on the above purchase.

Thus, as a result of the failure to consider the cheaper firm offer of Kaveri Bio-Proteins without valid/justifiable reasons, the Company incurred avoidable extra expenditure of Rs.11.72 lakh. Further, the Company had not evolved any foolproof system of procurement of feed from the open market but resorted to piecemeal purchases every now and then. Consequential monetary impact on the hatchability of chicks could not however be assessed in Audit.

The Company in its reply (April 1997) admitted the facts and stated that even the quality of the feed so supplied by Palaniappa Feeds was not as per the standard specifications which affected the egg yielding and hatchability. It further added that disciplinary action had been taken against the staff/officials responsible for the irregularities noticed in calling and finalising the quotations. According to the Company, the Government had also been requested to take action against the then Chairman and Managing Director by referring the matter to the Directorate of Vigilance and Anti Corruption.

The matter was reported to the Government (April 1997); however, reply had not been received (October 1997).

4A.14 Unfruitful investment on incomplete hatchery

Construction of hatchery without getting the land alienated in its name and abandonment of scheme resulted in unfruitful investment of Rs.0.28 crore.

A joint survey (1990) conducted by the Company and the Animal Husbandry Department of the State Government indicated a greater demand for broiler chicks. The survey also found that the farmers had to wait for about four months after payment of advance before their requirements from the hatcheries could be met. Therefore, with a view to improve productivity, the Company decided (June 1990) to establish a new broiler chick hatchery at Agastheeswaram in Kanyakumari district at the cost of Rs.19.95 lakh. Accordingly, the State Government released (August 1990) Rs.9.98 lakh as equity and Rs.9.97 lakh as loan. Based on a subsequent request made (March 1991) by the Company for further financial assistance to meet the cost of land and increase in the cost of civil works/machinery, the Government released (March 1991) further funds by way of equity (Rs.6.25 lakh) and loan (Rs.6.25 lakh). The loans obtained (Rs.16.22 lakh) from the Government, which carried an interest of 10 *per cent* were repayable in ten equal annual instalments.

The Company, without first getting the land alienated in its favour, entrusted (December 1991) the task of preparation of estimate for setting up the hatchery to Tamil Nadu Meat Corporation Limited which estimated (January 1992) the cost at Rs.50 lakh. In order to implement the scheme within the amount sanctioned by the Government, the Company entrusted (February 1993) the work to the construction wing of the Industries Department of the Government and requested them to prepare a fresh estimate and send the necessary plan. The estimate of Rs.27.50 lakh thus prepared by the Industries Department was approved by the Company in January 1994. The work was commenced by the Industries Department in January 1994 at the Government land taken over (July 1993) by the Company.

While the execution of work was in midway, the Industries Department submitted (November 1994) a revised estimate for Rs.38 lakh on account of escalation in cost of materials, inclusion of additional items such as construction of generation room, store room, earth filling of low lying area of the site, *etc*. Due to the refusal of the Government to extend further financial assistance and the Company's inability to mobilise the balance funds required for completion of the scheme through internal generation, it was decided (April 1995) to abandon the scheme by which time major civil works such as construction of hatchery, layer/brooder sheds at the total value of Rs.27.50 lakh were completed. The Company decided to dispose of these incomplete infrastructure facilities through open tender. This did not however materialise (October 1997) due to non-alienation of land in favour of the Company because of the Company's inability to meet the cost of land (Rs.2.16 lakh) on account of paucity of funds.

Thus, the investment of Rs.27.50 lakh made on this incomplete hatchery proved unfruitful mainly due to cost escalation on account of delay in taking up the work and incorrect assessment of requirements. The objective of meeting the growing demand for broiler chicks in the State could not be achieved. The Company had also not repaid (October 1997) the overdue instalment of loans (Rs.9.72 lakh) and interest (Rs.10.79 lakh) due to the Government.

The matter was reported to the Company and the Government in February 1997; their replies had not been received (October 1997).

4A.15 Unproductive investment due to improper planning

An investment of Rs.0.17 crore made on incomplete modern food mixing unit rendered unproductive as the Company could not plan and estimate the requirement of basic infrastructure facilities.

As a part of the Centrally Sponsored Scheme of providing financial assistance to streamline marketing of eggs/poultry and supply of poultry feed, the Company proposed (March 1987) to set up a modern automatic feed mixing plant in the premises of the existing unit at Nandanam in Chennai at the cost of Rs.21 lakh. This estimate did not, however, contain provision for essential back up infrastructure facilities such as godowns, office rooms, *etc.*, required for the plant. The funds for the new plant were proposed to be shared equally by the Central Government (Rs.10.50 lakh) and the Company (Rs.10.50 lakh).

Based on tenders, the Company entrusted (March 1990) the work of construction, supply and erection of machinery for installation of the plant to a Chennai based private firm, *viz.*, TECSYS at the cost of Rs.20.89 lakh. Consequent on a decision of the Board to locate the Registered Office of the Company at Nandanam complex, it was decided (August 1990) to shift the location of the new feed mixing plant at Kattupakkam in Chinglepet district. The site at the new place was accordingly handed over to the contractor in October 1990.

Due to the inability of the contractor to complete the work within the stipulated period, the work was entrusted (April 1992) to another contractor, *viz.*, Dry Conn Engineering Private Limited, Chennai at the original contract value (*i.e.*, Rs.20.89 lakh) and under the same terms and conditions. The civil works and erection of plant and machinery were completed in December 1992 at the cost of Rs.16.71 lakh. Meanwhile, the Company received the Government of India's share of Rs.10.50 lakh as grant in two instalments between March 1990 and March 1992.

The Company, however, could not commission the plant in the absence of other back up infrastructure facilities such as godowns, analytical laboratory, lorry shed, molasses tanks, *etc.*, at the plant site. The additional cost of providing these facilities which was not included in the original estimate was estimated (December 1992) at Rs.24 lakh. The Company, therefore, approached (December 1992) the State Government for provision of additional funds to that extent for completion of these infrastructure facilities.

Due to the inability to mobilise additional funds either from the State Government or through internal generation, the Company, after a lapse of nearly three years, decided in June 1995 to transfer the incomplete feed mixing unit at Kattupakkam to the Animal Husbandry Department. No further progress had, however, been made (October 1997) in this direction.

Thus, failure on the part of the Company to properly plan and estimate the requirement of basic infrastructure facilities required for the plant, rendered the investment of Rs.16.71 lakh made on the incomplete modern feed mixing unit at Kattupakkam unproductive.

The Company in reply (April 1997) accepted the facts and stated that the Director of Animal Husbandry had frequently been reminded for taking over of the land. On receipt of orders from the Government, the plant would be transferred to the Director of Animal Husbandry for better use.

4A.16 Loss due to injudicious establishment of quail hatchery

The Company decided (October 1986) to introduce Japanese quails (domesticated species) for rearing for table purposes on commercial lines as supplementary to poultry farming in view of the following advantages:

- Quails grow faster and become ready for the market in a short span of five to six weeks;
- It requires limited space and lesser investment;
- Demand for quail meat is good.

Accordingly, the State Government accepted (May 1987) the proposal of the Company for establishment of a Japanese Quail Breeding-cum-Demonstration Farm at Thekkupalayam in Coimbatore district and sanctioned Rs.3 lakh for implementation of the same. Without undertaking any market survey, it was assumed that the proposed farm would encourage the poultry farmers to diversify their activities by taking up rearing of quails for table purposes.

Due to delay in taking over of the land, the construction of farm/hatchery was completed only in October 1990 at the total cost of Rs.3.80 lakh. The unit started functioning from June 1991. Against the annual target of production of 85000 quail chicks fixed by the Company, the actual achievement ranged between 24250 (28.5 *per cent*) and 32553 (38.3 *per cent*) during the three years up to 1993-94. Non-achievement of target was attributed (June 1994) by the Company to improper planning, lack of regular parent stock, inadequate capacity of various facilities created, lesser rearing space and frequent power failures in the concerned area leading to poor hatchability.

In view of the poor performance, the unit could not break-even and the Company, therefore, sought (1994) the advice of experts from Tamil Nadu Veterinary and Animal Sciences University (TNVASU), Coimbatore. They expressed the view (May 1995) that the quail hatchery would not be commercially viable in view of heavy mortality, inconsistent hatchability and on account of fluctuating egg yield.

The Company had, therefore, to close down the uneconomic operations of the unit in May 1995 and the cumulative operational loss up to the date of closure of the unit amounted to Rs.6.63 lakh.

Thus, venturing upon the project on a commercial scale without ensuring its financial viability coupled with improper planning and incorrect selection of location for the project resulted in avoidable loss of Rs.6.63 lakh apart from the unproductive investment of Rs.3.80 lakh.

The Company in reply (January 1997) accepted the facts and stated that in view of poor response from the local farmers for quails, high mortality rate and low hatchability, it was forced to close the hatchery to avoid further loss. It may, however, be pointed out that the project was embarked upon without ensuring its viability.

TAMIL NADU FISHERIES DEVELOPMENT CORPORATION LIMITED

4A.17 Idling of infrastructure facilities due to improper planning and non-realisation of cost of damages and lease rent

An ice plant and a processing complex constructed at a cost of Rs.0.62 crore was lying idle due to failure in conducting feasibility study and ensuring the performance guarantee.

The Company set up (June 1991) an automatic ice plant (capacity: 100 tonnes/day) and a processing complex comprising of cold storage (capacity: 50 tonnes), frozen storage (capacity: 200 tonnes) and two processing halls (3390 square feet) in the fishing harbour at Chennai at the total cost of Rs.61.50 lakh. The Company, however, did not conduct any market/feasibility study to make a realistic assessment of requirement of all these facilities before proceeding with the implementation of the scheme.

Considering the stiff competition from several private ice and processing plants in the area, the Company (immediately after establishment of the plant/complex) based on tenders leased out the ice plant and the processing complex (comprising of cold storage, frozen storage and processing halls) to Kala Cartons Private Limited for a period of five years from 1 September 1991 on an annual lease rent of Rs.4.60 lakh and Rs.5.35 lakh, respectively.

In this context, it was observed that the Company took over (June 1991) the ice plant from the plant supplier, *viz.*, Kirloskar Pneumatic Company Limited without ensuring its performance guarantee. Due to non-achievement of the rated capacity, the lessee surrendered the plant to the Company on 1 July 1992 after payment of lease rent due on this account. Since the Company could not succeed in its attempts to set right the defects in the plant through the supplier, it filed a suit against the supplier in September 1993 after a delay of over one year claiming damages to the tune of Rs.40.92 lakh for breach of contract. The ice plant (actual cost not separately ascertainable) had therefore been remaining idle since July 1992.

As regards the processing complex leased out, the Company noticed (March - July 1994) that certain parts of the machinery had been removed by the lessee and that improper maintenance had led to rusting of the machinery and leakage/seepage in the buildings. Due to the lessee's refusal to carry out the required repairs to the machinery and the building, as requested by the Company, and on account of default in payment of instalments of lease rent (Rs.3.99 lakh), the Company took (August 1994) forceful possession of the complex along with the additional machinery installed by the lessee. On settlement of the lease rent dues, the Company returned (November 1994) the machinery to the lessee. The Company, however, failed to assess the cost of damages to its machinery/building so as to recover the same from the lessee in terms of the lease agreement.

In September 1994, the Company based on tenders (August 1994) again leased out the complex on "as is where is condition" to another lessee *viz.*, Satori India Fisheries Limited, Chennai on an annual lease of Rs.6.12 lakh. The Company handed over possession of the complex in December 1994 on receipt of advance lease rent of Rs.1.53 lakh without entering into any lease agreement specifying the terms and conditions of lease. The Marine Product Export Development Authority, at the instance of the lessee, estimated (December 1994) the cost of repair/upgradation of the plant and buildings to the original status at Rs.15 lakh. No repair/upgradation was, however, carried out, nor did the Company initiate any action for recovery of the cost of repairs from the first lessee, *viz.*, Kala Cartons Private Limited as per the terms of the lease agreement.

Although the second lessee *viz.*, Satori India Fisheries Limited had not paid any lease rent other than the advance amount right from the date of taking over (December 1994), the Company took neither timely action for recovery of lease rent dues nor re-possession of the complex. After a lapse of more than 15 months, the Company took possession of the complex in April 1996 by which time the arrears of lease rent had accumulated to the tune of Rs.8.16 lakh. Due to non-execution of any agreement with this lessee, the Company had not been able to realise these dues so far (October 1997).

Since the plant and machinery were found to be outdated, the Company decided (September 1996) to close down the complex and dispose of the plant and machinery. However, no further progress had been made in this direction (October 1997).

Thus, venturing upon the scheme without any market/feasibility study, failure in ensuring the performance guarantee of the ice plant before taking over, non-enforcement of the terms of lease with regard to recovery of damages from the first lessee and non-execution of lease agreement with the second lessee resulted in non-realisation of lease rent and cost of damages of Rs.23.16 lakh, apart from idling of infrastructure facilities created at the cost of Rs.61.50 lakh.

The Company in reply stated (June 1997) that necessary plaint had been prepared for filing a suit against Satori Fisheries India Limited.

TAMIL NADU STEELS LIMITED

4A.18 Loss of revenue due to non-adherence to Government directives

The Company has been selling its steel materials at prices fixed by the State Government from time to time. In terms of the Government directives (June 1979), all Government Departments, Corporations, Boards and Quasi-Government agencies should invariably procure their requirements of steel only from the Company at prices fixed by the Government. This was again reiterated by the Government in September 1992.

However, considering the requirement of substantial quantity of steel for the proposed expansion and diversification by Tamil Nadu Newsprint and Papers Limited (TNPL), the Company had agreed (July 1993) to consider offering discount on placement of bulk orders as a special case. It was, however, observed that no such concession was offered/extended to any other Government organisations/agencies before.

Based on an indication of requirement of about 7500 tonnes of steel by TNPL, the Company offered (October 1993) a discount of Rs.1000 per tonne on the selling prices fixed by the Government. The Company also made it clear (October 1993) that the price discount could be extended only for placement of orders for bulk/substantial quantity.

TNPL, however, placed orders (October 1993 - July 1995) only for 1824 tonnes of steel materials. Despite this, the Company extended the bulk quantity price discount of Rs.1000 per tonne to TNPL.

Thus, due to extension of discount on the selling prices in contravention of the Government directives and in spite of non-receipt of envisaged bulk orders, the Company had foregone revenue of Rs.18.24 lakh on the sale of 1824 tonnes of steel materials to TNPL.

The Company in reply stated (May 1997) that the special rebate was offered to increase its turnover and to reduce its ground stock. However, the fact remains that as against 7500 tonnes, only 1824 tonnes of steel material was sold to TNPL and therefore TNPL did not qualify for bulk quantity discount, which was also contrary to the Government's directives.

STATE TRANSPORT UNDERTAKINGS

4A.19 Extra expenditure on purchase of seat assemblies

Due to purchase of bulk of prefabricated seat assemblies at higher cost from the open market without utilising the available inhouse facilities at cheaper cost, the Company incurred extra expenditure of Rs.0.32 crore on the purchase of 4925 prefabricated seat assemblies.

Till 1993-94, the State Transport Undertakings (STUs) had been resorting to inhouse fabrication of seat assemblies required for their buses. However, during 1994-95, pursuant to a decision taken in the meeting (24 January 1994) of all Managing Directors of STUs to introduce 100 buses before April 1994, the STUs decided (January 1994) to go in for purchase of pre-fabricated seat assemblies to adhere to the time frame for introduction of these new buses. However, no cost benefit analysis had been made before deciding for open market purchase of pre-fabricated seat assemblies.

Test checks (October 1996) in audit in respect of one of the STUs, *viz.*, Nesamony Transport Corporation Limited (NTC) renamed as Tamil Nadu State Transport Corporation (Madurai Division III) Limited, revealed that as against the inhouse fabrication cost of Rs.697 and Rs.836 per high back seat assembly, the Company, based on quotations, bought 4925 pre-fabricated seat assemblies at the cost of Rs.1315.85 and Rs.1503.33 each during 1994-95 and 1995-96, respectively. The balance requirement of about 575 seat assemblies was met through inhouse fabrication. Specific reasons for bulk purchase of pre-fabricated seat assemblies at higher cost from the open market were, however, not on record.

Against the target of introduction of 100 buses as replacement/augmentation by April 1994, the Company could put into operation only 11 buses and the remaining buses were introduced between May and November 1994 only.

Thus, due to purchase of bulk of the pre-fabricated seat assemblies from the open market at higher cost without utilising the available inhouse facilities at cheaper cost, the Company incurred extra expenditure of Rs.31.58 lakh on the purchase of 4925 pre-fabricated seat assemblies during 1994-95 and 1995-96. In respect of other STUs, the financial impact on open market purchase of pre-fabricated seat assemblies in preference to inhouse fabrication could not however be assessed in Audit for want of inhouse cost data.

The matter was reported to the Company and the Government in May 1997; their replies had not been received (October 1997).

PATTUKOTTAI AZHAGIRI TRANSPORT CORPORATION LIMITED
{Renamed as Tamil Nadu State Transport Corporation (Villupuram Division II) Limited}

4A.20 Unproductive investment on construction of a community hall

Due to poor occupancy, an investment of Rs.0.45 crore on the construction of community hall largely proved unproductive apart from the recurring loss.

An expert committee constituted by the State Government to study the working of State Transport Undertakings (STUs), *inter alia* recommended (January 1990) that STUs should give priority for development of infrastructure facilities for repair/maintenance of vehicles. In case of any investment for creation of any non-earning assets, cost benefit analysis was required to be done. The Company, however, without assessing the demand/any cost benefit analysis, decided (June 1990) to construct a community hall at the total cost of Rs.15 lakh at Sathuvachari for letting out to its employees and others for marriages and other functions. The Government accorded

(February 1991) approval for the proposal with a specific stipulation that the expenditure on this account should not exceed Rs.15 lakh.

The construction of the community hall taken up in November 1991 was completed in August 1992 at the total cost of Rs.45.13 lakh, thus exceeding the sanction accorded by the Government by 200.9 *per cent*. Audit analysis (April 1997) indicated that abnormal increase in expenditure over sanctioned estimate was mainly due to:

- construction of an indoor stadium not approved by the Board;
- increase in the plinth area of the community hall by 678 square metres over the sanctioned area of 769 square metres without any approval from the Board/Government; and
- inclusion of a viewer's lobby not originally envisaged.

The approval of the Government for increase in expenditure over the sanctioned limit, though sought for (July 1994) by the Company, had not been received so far (October 1997).

During the period from April 1993 to March 1997, the community hall was rented only for 100 days (just 6.8 *per cent* of the total 1461 available days). Due to poor occupancy and heavy interest burden on borrowed funds, the Company could not recover even the maintenance expenses incurred on the community hall. Against the expenditure of Rs.43.50 lakh incurred by the Company during the above periods by way of maintenance expenses (Rs.5.25 lakh) and interest on borrowed funds (Rs.38.25 lakh), the Company earned the revenue of Rs.5.86 lakh only by way of rental charges.

Thus, the investment of Rs.45.13 lakh made on the construction of the community hall largely proved unproductive, apart from the recurring loss due to poor occupancy.

The matter was reported to the Company and the Government in May 1997; their replies had not been received (October 1997).

TAMIL NADU CEMENTS CORPORATION LIMITED

4A.21 Avoidable payment of monthly minimum charges

Consequent on the closure (February 1988) of Tamil Nadu Ceramics Limited (TACEL) due to continuous uneconomic operations, the Company at the instance of the State Government took over (June 1988) the Stoneware Pipe Factory at Virudhachalam (a unit of erstwhile TACEL) to run it on viable/profitable lines. The assets and liabilities taken over by the Company *inter alia*, included one 250 KVA transformer fed from a common service connection in the area.

In order to transfer, erect and energise the transformer in the Company's premises at the same place, the Company applied (January 1992) to the Tamil Nadu Electricity Board (TNEB) for a separate High Tension (HT) service connection and accordingly remitted (January 1993) to TNEB Rs.0.92 lakh towards Earnest Money Deposit/Development charges for that purpose.

According to the terms and conditions governing the supply of power by TNEB, the intending consumer had to avail the power supply within three months from the date of notice regarding availability/supply of power by the TNEB, failing which the consumer had to pay monthly minimum charges at the prescribed tariff rates from the date of expiry of the said three months to the actual date of availing of power supply.

On 2 July 1994, TNEB informed the Company about the completion of its portion of work for effecting service connection and requested the Company to avail of the power supply within the stipulated time of three months, *i.e.,* before 1 October 1994.

However, due to abnormal delays in taking up/completion of necessary civil works and obtaining a fresh test certificate for the transformer from the Chief Electrical Inspector of the State Government, the Company was able to avail of the service connection only on 27 February 1996, *i.e.*, after a delay of nearly seventeen months since expiry of the stipulated time limit.

The Company approached (September 1995) TNEB to get exemption from payment of monthly minimum charges (Rs.25000) for the period from 1

October 1994 to 27 February 1996. TNEB, however, held the view (January 1996) that there was considerable time for completion of necessary civil works and other formalities by the Company and as such the delay was avoidable.

Thus, the Company's failure to ensure timely completion of civil works and lack of effective action to obtain the required test certificate for the transformer in time resulted in avoidable payment of monthly minimum charges amounting to Rs.4.25 lakh for the periods during which the service connection was not at all energised.

The matter was reported to the Company and the Government in April 1997; their replies had not been received (October 1997).

TAMIL NADU HANDLOOM DEVELOPMENT CORPORATION LIMITED

4A.22 Non-achievement of objectives

In view of very limited role played by the Company and in the light of findings of NABARD, continuance of the Company in its present form needs to be reconsidered.

A mention has been made in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1990 (Commercial) about the need to reappraise the very continuance of the Company in view of its insignificant role in achievement of its basic objective, *viz.*, promotion of growth and development of handloom industries outside the co-operative sphere. Committee on Public Undertakings (COPU), which considered (October 1993) the report recommended (April 1994) that the Company should play a better role in achieving the objective for which it was established.

The performance of the Company during the last three years upto 1996-97 in the light of the above recommendation of COPU was reviewed (April 1997) in Audit and the results thereof are set out below:

(i) The Company could not make much head way in achievement of its objective since it had remained as a mere financing agency for extending working capital loan assistance to weavers outside the co-operative fold for production, processing and marketing of handloom goods. Even in this limited activity, it could not make any significant impact. Out of about 1.20 lakh weavers estimated to be outside the co-operative fold, the Company was able to enroll/render such financial assistance only to 11437 weavers (9.5 *per cent*) over sixteen years of its existence (March 1981 to March 1997).

(ii) The physical target fixed for grant of such loans were also reduced year after year. The target of 3000 fixed for 1994-95 was reduced to 2500 in 1995-96 and further to 2000 during 1996-97. The Company was not able to achieve even the reduced target and the shortfall in achievement during the three years up to 1996-97 varied between 9 and 33.3 *per cent*. The Company had not analysed the reasons for non-achievement of even the reduced target.

(iii) It was also observed that 63.7 *per cent* of loans sanctioned (Rs.1126.38 lakh) during the three years up to 1996-97 constituted repeat loans to the existing beneficiaries only, contrary to the recommendation (April 1994) of COPU that the Company should desist from extending such repeat loans.

(iv) On the recovery front also, the Company was not able to improve its efficiency despite COPU's recommendation that the Company should concentrate on recovery of loans outstanding for over three years. It was observed that out of the principal due of Rs.223.53 lakh to the end of March 1997, Rs.121.34 lakh (54.3 *per cent*) was overdue for more than three years.

(v) Due to the limited sphere of activity, the income generated by the Company by way of interest on loans was not sufficient to cover the expenditure and the accumulated loss suffered by the Company to the end of 1996-97 amounted to Rs.49.73 lakh.

(vi) A recent study (January 1997) conducted by the National Bank for Agriculture, Reconstruction and Development (NABARD) to improve the living conditions of handloom weavers in the State revealed that the Company had virtually an insignificant role in the development of handloom industries in view of the fact that most of the handloom weavers had come into the co-operative fold due to their inability to face competition from power loom/mill sectors.

Thus, in view of the very limited role played by the Company in achievement of its desired objective coupled with the absence of any plan/programme to shift its focus or revamp its working and in the light of the findings of NABARD, continuance of the Company in its present form needs to be reappraised.

SECTION 4B

TAMIL NADU ELECTRICITY BOARD

4B.1 Loss of revenue due to irregular extension of tariff concessions

Audit noticed instances of irregular extension of tariff concessions to new industries resulting in loss of revenue of Rs.909.88 lakh to Tamil Nadu Electricity Board (TNEB) in the following two cases:

Extension of irregular tariff concession and ineligible backward area concession resulted in loss of revenue of Rs.8.75 crore to the Board.

(a) In terms of an amendment issued (March 1989) by the Government to the "Tamil Nadu Revision of Tariff Rates on Supply of Electrical Energy Act, 1978", new industries set up in areas other than Chennai Metropolis were eligible for tariff concession ranging from 66 2/3 to 90 *per cent* of normal rates for the first five years from the date of service connection under High Tension Tariff I (*i.e.,* industrial tariff). In addition, the new industries set up in backward areas as notified by the Industries Department were entitled for a further tariff concession of 15 *per cent* for the same period of five years. Later on in September 1989, the Government restricted the tariff concession to the first three years and also withdrew the backward area concession with retrospective effect from 3 May 1989.

G.K. Steel and Allied Industries Limited, Dindigul, a new industry, was given service connection under High Tension Tariff I with a contracted load of 16 MVA with effect from 31 March 1990. The TNEB extended tariff concession to the consumer for the first three years from the date of service connection (i.e., from 31 March 1990) as per the tariff conditions prevailing then.

However, based on a subsequent request from the consumer, the Government, on the recommendation of the TNEB, extended (February 1995) the benefit of concessional tariff and backward area concession for a period of five years as per the tariff conditions applicable for the service connections effected prior to 3 May 1989. Again, the Chief Secretary to the Government, based on the recommendation of the TNEB, further relaxed the concession by directing (June

1995) the TNEB to compute the backward area concession on the gross amount of the bill instead of on the net amount after adjustment of normal tariff concession as usually done in all such cases. Accordingly, the TNEB refunded/adjusted a sum of Rs.875.01 lakh to the consumer between April and June 1995. It was, however, observed in this context that the TNEB failed to apprise the Government regarding huge revenue loss likely to be suffered consequent on the relaxation of normal terms and conditions of tariff in favour of a particular consumer.

Interestingly, it was observed that the taluk (*i.e.,* Tamaraipadi) in which this industry was located did not fall in the list of backward areas as notified by the Industries Department. As such, the consumer was not entitled/eligible for any backward area concession at all.

Thus, extension of irregular tariff concession (*i.e.,* for five years instead of for three years) and ineligible backward area concession resulted in loss of revenue of Rs.875.01 lakh to the TNEB, which had gone as undue benefit to the consumer.

The TNEB in reply stated (November 1996) that the matter was under investigation by the Vigilance and Anti Corruption Department.

As a result of extending tariff concession for the ineligible periods in contravention of the Government Orders, the Board suffered loss of revenue of Rs.0.35 crore.

(b) According to the amendment (31 January 1995) issued by the State Government to the "Tamil Nadu Revision of Tariff Rates on Supply of Electrical Energy Act, 1978", new industries set up in areas other than Chennai Metropolis are eligible for concessional tariffs (*i.e.,* 60 to 80 *per cent* of tariff rates) for the first three years from the date of service connection under High Tension Tariff I (*i.e.,* industrial tariff). Such tariff concession shall also be applicable to expansion, which term shall mean an increase in production resulting in an increase of 25 *per cent* or more in the consumption of electricity by the industry with reference to the highest electricity consumption of such industry in the three financial years preceding the application.

Jai Hind Wire Rod Mills Limited, Salem, a new industry, was given a service connection with a contracted load of 3750 KVA under High Tension Tariff I with effect from 25 October 1993. Based on a subsequent application (22 January

1994) made by the consumer for additional load for expansion of his activity, the TNEB provided another service connection with an additional load of 1750 KVA under the same tariff with effect from 27 August 1995.

Against the increased electricity consumption of 3.74 lakh units {based on the highest consumption of 14.96 lakh units recorded during the period (*i.e.* October 1993 to January 1994) immediately preceding the application for additional service connection} to be achieved to become eligible for the concessional tariff, the actual consumption of the expanded unit during the period from September 1995 to October 1996 ranged between 2.21 lakh and 3.71 lakh units. However, the TNEB extended tariff concession amounting to Rs.34.87 lakh for the above period, although no such concession was admissible in terms of the Government Orders.

Thus, as a result of extending tariff concession for the ineligible period in contravention of the Government Orders, the TNEB suffered loss of revenue to the extent of Rs.34.87 lakh.

The matter was reported to the TNEB in February 1997 and to the Government in May 1997; their replies had not been received (October 1997).

4B.2 Avoidable expenditure due to idling of Reverse Osmosis Plant

Due to inability of the Board to supply raw water of specified parameter, the Board had to incur an expenditure of Rs.1.05 crore apart from idling of the plant erected at a cost of Rs.3.19 crore.

Based on the advice of the technical consultants of North Chennai Thermal Power Project, the TNEB entered into (October 1991) a contract with ION Exchange (India) Limited, Bombay for design, manufacture, supply, erection and commissioning of Reverse Osmosis plant. The plant was meant for treatment/purification of raw water required by the three units of the project and was required to work in conjuction with Demineraliser plant. The plant erected in August 1993 at the cost of Rs.319 lakh had not been commissioned (January 1997) on account of the TNEB's inability to supply raw water of specified parameters. Due to non-commissioning of Reverse Osmosis plant, the TNEB had to incur substantial expenditure of Rs.105 lakh on the usage of acid and lye for treatment/purification of raw water during the period from

April 1995 (*i.e.,* since date of commissioning of second unit in March 1995) to January 1997 with further recurring expenditure of Rs.0.20 lakh per day for treatment of water till the plant is commissioned. Moreover, the plant erected at the cost of Rs.319 lakh was lying idle for nearly four years thereby resulting in loss of interest (at 18 *per cent*) of Rs.196.18 lakh on the locked up funds for the period from September 1993 to January 1997.

The matter was reported to the TNEB and the Government in February 1997; their replies had not been received (October 1997).

Chennai,
The

(S.C.S. GOPALKRISHNAN)
Accountant General (Audit) II,
Tamil Nadu

Countersigned

New Delhi,
The

(V.K.SHUNGLU)
Comptroller and Auditor General of India

ANNEXURES

ANNEXURE - 1

List of Companies in which Government invested Rs.10 lakh and above but which are not subject to audit by the Comptroller and Auditor General of India

(Referred to in Paragraph 1.2.12 at Page 23)

(Amount - Rupees in lakh)

Sl. No.	Name of the Company	Amount invested as on 31 March 1997
1.	South India Viscose Limited	61.25
2.	Madras Cements Limited	40.00
3.	Binny Limited	36.34

ANNEXURE - 2

STATEMENT SHOWING PARTICULARS OF UP-TO-DATE CAPITAL, BUDGETARY OUTGO, LOANS GIVEN OUT FROM BUDGET AND OUTSTANDING AS ON 31 MARCH 1997

(Referred to in Paragraph 1.2.2. at Page 4)

(Amount - Rupees in lakh)

Sl. No.	Name of the Company	Paid-up capital at the end of 1996-97					Loans given out of budget during the year 1996-97	Loans out standing as on 31 March 1997
		State Government	Central Government.	Holding Companies	Others	Total		
(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	(4)	(5)
	Industries							
1.	Southern Structurals Limited	3435.50	--	--	18.80	3454.30	790.00	--
2.	Tamil Nadu Small Industries Corporation Limited (TANSI)	1505.26	--	--	--	1505.26	--	925.52
3.	Tamil Nadu Ceramics Limited	186.11	--	--	--	186.11	--	NIL
4.	Tamil Nadu Salt Corporation Limited	317.01	--	--	--	317.01	--	58.00
5.	Tamil Nadu Sugar Corporation Limited (TASCO)	311.10 (97.01)	368.05	--	100.00	779.15	--	110.36
6.	Tamil Nadu Cements Corporation Limited	1799.13	--	--	--	1799.13	--	1862.62
7.	Perambalur Sugar Mills Limited (Subsidiary of TASCO)	--	--	220.62	196.71	417.33	--	198.74
8.	Electronics Corporation of Tamil Nadu Limited (ELCOT)	2593.05 (200.00)	--	--	--	2593.05	--	70.46
9.	State Engineering and Servicing Company of Tamil Nadu Limited (SESCOT) (Subsidiary of TANSI)	--	--	49.71	--	49.71	--	1087.10
10.	Tamil Nadu Minerals Limited (TAMIN)	786.90	--	--	--	786.90	--	--
11.	Tamil Nadu Magnesite Limited	1665.00	--	--	--	1665.00	125.00	549.54
12.	Tamil Nadu Steels Limited	392.00	--	--	--	392.00	--	N.A

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	(4)	(5)
13.	Tamil Nadu Industrial Explosives Limited (Subsidiary of TIDCO)	--	--	2218.09	481.54	2699.63	--	6637.46
14.	Tamil Nadu Leather Development Corporation Limited	250.00	--	--	--	250.00	--	320.59
15.	Tamil Nadu Paints and Allied Products Limited (Subsidiary of TANSI)	--	--	2.05	--	2.05	--	15.84
16.	Tamil Nadu Magnesium and Marine Chemicals Limited (Subsidiary of TIDCO)	--	--	362.00	--	362.00	--	1231.39
17.	Tamil Nadu Graphites Limited	10.00 (10.00)	--	--	--	10.00	--	--
	Industrial Finance and Development							
18.	Tamil Nadu Industrial Investment Corporation Limited (TIIC)	2452.28	--	--	1747.28	4199.56	300.00	89840.75
19.	Tamil Nadu Industrial Development Corporation Limited (TIDCO)	9779.31	--	--	--	9779.31	330.00	8087.90
20.	Tamil Nadu Small Industries Development Corporation Limited (SIDCO)	655.00	--	--	--	655.00	--	956.63
21.	State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT)	3791.25 (1100.00)	--	--	--	3791.25	1978.00	23941.63
22.	The Chit Corporation of Tamil Nadu Limited	5.92	--	--	--	5.92	--	--
23.	Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited	102.00	--	--	98.00	200.00	--	11080.01
24.	Tamil Nadu Power Finance and Infrastructure Development Corporation Limited	1700.00 (500.00)	--	--	--	1700.00	10000.00	97098.33
25.	Tamil Nadu Corporation for Industrial Infrastructure Development Limited	3600.00	2930.00	--	--	6530.00	2000.00	2050.00

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	(4)	(5)
26.	Metropolitan Infrastructure Development Corporation Limited	3000.00 (3000.00)	--	--	--	3000.00	--	NIL
	Agriculture and Food							
27.	Tamil Nadu Agro Industries Corporation Limited	275.90 (29.00)	165.00	--	--	440.90	--	520.00
28.	Tamil Nadu Civil Supplies Corporation Limited	2890.85 (340.00)	--	--	--	2890.85	--	10228.02
29.	Tamil Nadu Dairy Development Corporation Limited	207.36	--	--	--	207.36	--	--
30.	Tamil Nadu Poultry Development Corporation Limited	126..69	--	--	--	126.69	--	116.69
31.	Tamil Nadu Fisheries Development Corporation Limited	435.52	--	--	--	435.52	51.70	127.05
32.	Tamil Nadu State Farms Corporation Limited	155.13	--	--	--	155.13	--	--
33.	Tamil Nadu Sugarcane Farm Corporation Limited	27.50	--	--	--	27.50	--	--
	Transport							
34.	Pallavan Transport Corporation Limited	1200.00	--	--	--	1200.00	--	7403.84
35.	Pandiyan Roadways Corporation Limited	* 1329.02	--	--	--	1329.02	--	1192.59
36.	Cheran Transport Corporation Limited	* 1162.24	--	--	--	1162.24	--	1637.53
37.	Cholan Roadways Corporation Limited	* 2418.36	--	--	--	2418.36	--	1401.87
38.	Anna Transport Corporation Limited	100.00	--	--	--	100.00	604.00	1197.57
39.	Kattabomman Transport Corporation Limited	* 2963.08	--	--	--	2963.08	--	1135.34
40.	Poompuhar Shipping Corporation Limited	2053.00	--	--	--	2053.00	--	133.71
41.	Thanthai Periyar Transport Corporation Limited	* 650.00	--	--	--	650.00	--	1810.30
42.	Tamil Nadu Transport Development Finance Corporation Limited	2603.01	--	--	1871.18	4474.19	2000.00	49592.65

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	(4)	(5)
43.	Tamil Nadu Goods Transport Corporation Limited (Under Liquidation)	26.56	--	--	6.10	32.66	--	--
44.	Thiruvalluvar Transport Corporation Limited	*3946.10	--	--	--	3946.10	--	1393.91
45.	Marudhu Pandiyar Trans-port Corporation Limited	*1183.00	--	--	--	1183.00	--	495.57
46.	Pattukottai Azhagiri Trans-port Corporation Limited	*717.94	--	--	--	717.94	--	1841.86
47.	Jeeva Transport Corporation Limited	*700.00	--	--	--	700.00	--	1374.70
48.	Nesamony Transport Corporation Limited	*1460.07	--	--	--	1460.07	--	1319.23
49.	Pallavan Transport Consultancy Services Limited	2.00	--	--	--	2.00	--	--
50.	Dheeran Chinnamalai Transport Corporation Limited	*600.00	--	--	--	600.00	500.00	1570.04
51.	Rani Mangammal Transport Corporation Limited	*650.00	--	--	--	650.00	--	1570.50
52.	Annai Sathya Transport Corporation Limited	*400.00	--	--	--	400.00	--	1601.28
53.	Puratchi Thalaivar M.G.R. Transport Corporation Limited	*855.01	--	--	--	855.01	--	1086.20
54.	Rajiv Gandhi Transport Corporation Limited	144.45	--	--	--	144.45	548.00	831.69
55.	Dr. Ambedkar Transport Corporation Limited	*1000.00	--	--	--	1000.00	2482.00	4360.81
56.	Mahakavi Bharathiyar Transport Corporation Limited	*680.00	--	--	--	680.00	--	570.79
57.	Veeran Sundaralingam Transport Corporation Limited	--	--	--	--	--	--	--
58.	Veeran Alagumuthukone Transport Corporation Limited	--	--	--	--	--	--	--

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	(4)	(5)
	Employment, Health and Welfare							
59.	Dharmapuri District Development Corporation Limited	15.00	–	–	–	15.00	–	–
60.	Overseas Manpower Corporation Limited	15.00	–	–	–	15.00	10.00	10.00
61.	Tamil Nadu Backward Classes and Minorities Economic Development Corporation Limited	273.56 (42.00)	–	–	–	273.56	–	–
62.	Tamil Nadu Medicinal Plant Farms and Herbal Medicine Corporation Limited	20.75	–	–	–	20.75	–	14.62
63.	Tamil Nadu Corporation for Development of Women Limited	40.00	38.42	–	–	78.42	–	–
64.	Tamil Nadu State Sports Development Corporation Limited	0.002	–	–	–	0.002	–	–
65.	Tamil Nadu Ex-service-men's Corporation Limited	22.91	–	–	–	22.91	–	61.25
66.	Tamil Nadu Medical Services Corporation Limited	300.00 (100.00)	–	–	–	300.00	–	–
	Textiles and Handicrafts							
67.	Tamil Nadu Handloom Development Corporation Limited	267.00	–	–	156.56	423.56	–	–
68.	Tamil Nadu Textile Corporation Limited	154.00	–	–	–	154.00	–	–
69.	Tamil Nadu Zari Limited	13.20	–	–	–	13.20	–	32.73
70.	Tamil Nadu Handicrafts Development Corporation Limited	134.26 @	84.00	–	0.70	218.96	–	88.11
	Construction and Housing							
71.	Tamil Nadu Adi Dravidar Housing and Development Corporation Limited	2439.93 @	3029.50	–	–	5469.43	–	458.25
72.	Tamil Nadu State Construction Corporation Limited	500.00	–	–	–	500.00	–	–

(1)	(2)	3(a)	3(b)	3(c)	3(d)	3(e)	(4)	(5)
73.	Tamil Nadu Police Housing Corporation Limited	47.00	--	--	--	47.00	--	2782.30
74.	Tamil Nadu State Tubewells Corporation Limited	31.50	--	--	--	31.50	--	--
	Forestry and Plantation							
75.	Tamil Nadu Forest Plantation Corporation Limited	200.00	--	--	--	200.00	--	591.28
76.	Tamil Nadu Tea Plantation Corporation Limited	596.18	--	--	--	596.18	--	1454.02
77.	Arasu Rubber Corporation Limited	200.00	--	--	--	200.00	--	53.45
	Film and Tourism							
78.	Tamil Nadu Tourism Development Corporation Limited	573.42	--	--	--	573.42	--	231.93
79.	Tamil Nadu Film Development Corporation Limited	1391.00	--	--	--	1391.00	--	--
	Excise							
80.	Tamil Nadu State Marketing Corporation Limited (TASMAC)	340.00	--	--	--	340.00	--	--
81.	Tamil Nadu Spirit Corporation Limited (Subsidiary of TASMAC)	160.00	--	240.00	--	400.00	--	1600.82
	Total	**77034.32 (5555.91)**	**6614.97**	**3092.47**	**4676.87**	**91418.63**	**21718.70**	**348015.37**

Figures in bracket indicate budgetary outgo during the year

* Loan has been converted into equity and hence there is no budgetary outgo.

@ Equity has been converted into loan and hence reduction in equity.

ANNEXURE - 3

SUMMARISED FINANCIAL RESULTS OF GOVERNMENT COMPANIES

(Referred to in Paragraph

Sl. No.	Name of the Company	Date of Incorporation	Period of accounts
(1)	(2)	(3)	(4)
	Industries		
1.	Southern Structurals Limited	17 October 1956	1995-96
2.	Tamil Nadu Small Industries Corporation Limited (TANSI)	10 September 1965	1996-97
3.	Tamil Nadu Ceramics Limited	14 December 1973	1995-96
4.	Tamil Nadu Salt Corporation Limited	22 July 1974	1996-97
5.	Tamil Nadu Sugar Corporation Limited (TASCO)	17 October 1974	1996-97
6.	Tamil Nadu Cements Corporation Limited	11 February 1976	1996-97
7.	Perambalur Sugar Mills Limited (Subsidiary of TASCO)	24 July 1976	1996-97
8.	Electronics Corporation of Tamil Nadu Limited (ELCOT)	21 March 1977	1996-97
9.	State Engineering and Servicing Company of Tamil Nadu Limited (SESCOT) (Subsidiary of TANSI)	25 April 1977	1996-97
10.	Tamil Nadu Minerals Limited (TAMIN)	6 April 1978	1996-97
11.	Tamil Nadu Magnesite Limited	17 January 1979	1996-97
12.	Tamil Nadu Steels Limited	17 September 1981	1995-96
13.	Tamil Nadu Industrial Explosives Limited (Subsidiary of TIDCO)	9 February 1983	1996-97
14.	Tamil Nadu Leather Development Corporation Limited	21 March 1983	1996-97
15.	Tamil Nadu Paints and Allied Products Limited (Subsidiary of TANSI)	18 November 1985	1996-97
16.	Tamil Nadu Magnesium and Marine Chemicals Limited (Subsidiary of TIDCO)	10 February 1987	1996-97
17.	Tamil Nadu Graphites Limited	19 March 1997	
	Industrial Finance and Development		
18.	Tamil Nadu Industrial Investment Corporation Limited (TIIC)	26 March 1949	1996-97
19.	Tamil Nadu Industrial Development Corporation Limited (TIDCO)	21 May 1965	1996-97
20.	Tamil Nadu Small Industries Development Corporation Limited (SIDCO)	23 March 1970	1995-96

FOR THE LATEST YEAR FOR WHICH ACCOUNTS WERE FINALISED

1.2.2 at Page 4)

(Amount - Rupees in lakh)

Year in which finalised	Profit(+)/ Loss(-)	Paid-up capital	Accumulated Profit / Loss	Capital employed	Return on capital employed	Percentage of Return on capital employed
(5)	(6)	(7)	(8)	(9)	(10)	11
1996-97	(-)177.05	3309.30	(-)4514.57	1408.33	125.88	8.94
1997-98	(-)147.47	1505.26	(-)4584.32	5792.33	234.93	4.06
1996-97	(-)0.66	186.11	(-)205.50	(-)6.99	(-)0.66	--
1997-98	171.93	317.01	(-)12.06	386.66	192.25	49.72
1997-98	46.43	779.15	(-)505.73	4094.13	911.06	22.25
1997-98	1553.38	1799.13	2160.58	6748.20	2197.42	32.56
1997-98	(-)334.49	417.33	(-)620.02	3965.46	944.05	23.81
1997-98	33.55	2593.05	32.03	1283.43	51.43	4.01
1997-98	(-)31.11	49.71	(-)1122.63	1.15	37.38	--
1997-98	101.32	786.90	7219.67	6620.25	123.25	1.86
1997-98	282.72	1665.00	(-)544.71	1882.67	358.34	19.03
1996-97	(-)591.11	392.00	(-)524.41	1402.57	(-)499.66	--
1997-98	92.64	2699.63	(-)4289.18	5071.08	773.49	15.25
1997-98	(-)163.05	250.00	(-)524.69	20.65	(-)116.06	--
1997-98	0.37	2.05	3.33	21.22	3.47	16.35
1997-98	(-)364.25	362.00	(-)2306.29	(-)703.13	(-)106.35	--
			ACCOUNTS NOT DUE			
1997-98	4034.16	4199.56	87.00	102788.61	16903.09	16.44
1997-98	188.70	9779.31	1810.65	27512.22	2284.39	8.30
1997-98	(-)327.19	655.00	(-)54.89	1726.21	153.85	8.91

(1)	(2)	(3)	(4)
21.	State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT)	25 March 1971	1996-97
22.	The Chit Corporation of Tamil Nadu Limited	11 January 1984	1994-95
23.	Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited	21 March 1990	1995-96
24.	Tamil Nadu Power Finance and Infrastructure Development Corporation Limited	27 June 1991	1996-97
25.	Tamil Nadu Corporation for Industrial Infrastructure Development Limited	21 March 1992	1996-97
26.	Metropolitan Infrastructure Development Corporation Limited	3 January 1996	
	Agriculture and Food		
27.	Tamil Nadu Agro Industries Corporation Limited	15 July 1966	1995-96
28.	Tamil Nadu Civil Supplies Corporation Limited	24 April 1972	1996-97
29.	Tamil Nadu Dairy Development Corporation Limited	4 May 1972	1989-90
30.	Tamil Nadu Poultry Development Corporation Limited	12 July 1973	1994-95
31.	Tamil Nadu Fisheries Development Corporation Limited	11 April 1974	1996-97
32.	Tamil Nadu State Farms Corporation Limited	8 December 1974	1995-96
33.	Tamil Nadu Sugarcane Farm Corporation Limited	22 February 1975	1995-96 Upto 30 June 1996
	Transport		
34.	Pallavan Transport Corporation Limited	10 December 1971	1996-97
35.	Pandiyan Roadways Corporation Limited	10 December 1971	1996-97
36.	Cheran Transport Corporation Limited	17 February 1972	1996-97
37.	Cholan Roadways Corporation Limited	17 February 1972	1996-97
38.	Anna Transport Corporation Limited	23 January 1973	1996-97
39.	Kattabomman Transport Corporation Limited	12 December 1973	1996-97
40.	Poompuhar Shipping Corporation Limited	11 April 1974	1996-97
41.	Thanthai Periyar Transport Corporation Limited	9 January 1975	1996-97
42.	Tamil Nadu Transport Development Finance Corporation Limited	25 March 1975	1996-97
43.	Tamil Nadu Goods Transport Corporation Limited (Under Liquidation)	26 March 1975	1989-90
44.	Thiruvalluvar Transport Corporation Limited	14 January 1980	1996-97
45.	Marudhu Pandiyar Transport Corporation Limited	1 September 1982	1996-97
46.	Pattukottai Azhagiri Transport Corporation Limited	11 November 1982	1996-97

(5)	(6)	(7)	(8)	(9)	(10)	(11)
1997-98	745.96	3791.25	392.87	26042.21	3651.11	14.02
1995-96	(-)5.28	5.92	(-)19.88	9.54	(-)0.24	--
1996-97	10.13	200.00	44.23	11574.70	664.01	5.74
1997-98	981.04	1700.00	992.72	93738.16	13687.50	14.60
1997-98	44.79	6530.00	23.92	8590.07	72.85	0.85

FIRST ACCOUNTS (1996-97) DUE

1996-97	21.93	437.00	(-)1300.42	2282.06	118.45	5.19
1997-98	NIL	2890.85	(-)444.66	12689.17	959.07	7.56
1996-97	NIL	207.36	(-)377.53	227.64	--	--
1997-98	(-)48.29	126.69	(-)216.66	17.44	(-)38.80	--
1997-98	(-)25.68	435.52	(-)493.75	200.84	(-)18.22	--
1996-97	(-)47.47	155.13	(-)1392.58	(-)543.59	0.06	--
1997-98	(-)0.37	27.50	(-)417.81	(-)100.20	(-)0.37	--
1997-98	(-)2255.92	1200.00	(-)15128.76	(-)5677.92	(-)1283.04	--
1997-98	(-)2141.94	1329.02	(-)4524.67	1176.18	(-)1465.63	--
1997-98	(-)1120.34	1162.24	(-)3902.25	548.56	(-)551.35	--
1997-98	(-)1683.16	2418.36	(-)6020.49	535.72	(-)985.37	--
1997-98	(-)1676.31	100.00	(-)3526.46	(-)317.26	(-)1217.50	--
1997-98	(-)2505.42	2963.08	(-)8252.34	255.43	(-)1581.90	--
1997-98	322.19	2053.00	(-)1218.83	7239.90	997.30	13.78
1997-98	(-)969.14	650.00	(-)2018.36	1433.31	(-)560.29	--
1997-98	1060.25	4474.19	547.24	46145.89	7663.43	16.61
--	0.21	32.66	(-)132.25	(-)29.85	6.57	--
1997-98	(-)3830.33	3946.10	(-)9216.48	(-)6.96	(-)2997.84	--
1997-98	(-)1539.30	1183.00	(-)4871.69	199.46	(-)951.45	--
1997-98	(-)895.99	717.94	(-)2678.51	1132.99	(-)413.90	--

(1)	(2)	(3)	(4)
47.	Jeeva Transport Corporation Limited	28 December 1982	1996-97
48.	Nesamony Transport Corporation Limited	16 February 1983	1996-97
49.	Pallavan Transport Consultancy Services Limited	20 February 1984	1995-96
50.	Dheeran Chinnamalai Transport Corporation Limited	1 January 1985	1996-97
51.	Rani Mangammal Transport Corporation Limited	19 March 1986	1996-97
52.	Annai Sathya Transport Corporation Limited	26 March 1987	1996-97
53.	Puratchi Thalaivar M.G.R. Transport Corporation Limited	24 February 1992	1996-97
54.	Rajiv Gandhi Transport Corporation Limited	1 October 1993	1996-97
55.	Dr. Ambedkar Transport Corporation Limited	18 October 1993	1996-97
56.	Mahakavi Bharathiyar Transport Corporation Limited	29 December 1993	1996-97
57.	Veeran Sundaralingam Transport Corporation Limited	8 March 1996	
58.	Veeran Alagumuthukone Transport Corporation Limited	8 March 1996	
	Employment, Health and Welfare		
59.	Dharmapuri District Development Corporation Limited	7 November 1975	1995-96
60.	Overseas Manpower Corporation Limited	30 November 1978	1996-97
61.	Tamil Nadu Backward Classes and Minorities Economic Development Corporation Limited	16 November 1981	1995-96
62.	Tamil Nadu Medicinal Plant Farms and Herbal Medicine Corporation Limited	27 September 1983	1996-97
63.	Tamil Nadu Corporation for Development of Women Limited	9 December 1983	1995-96
64.	Tamil Nadu State Sports Development Corporation Limited	15 November 1984	1988-89
65.	Tamil Nadu Ex-servicemen's Corporation Limited	28 January 1986	1994-95
66.	Tamil Nadu Medical Services Corporation Limited	1 July 1994	1995-96
	Textiles and Handicrafts		
67.	Tamil Nadu Handloom Development Corporation Limited	10 September 1964	1996-97
68.	Tamil Nadu Textile Corporation Limited	24 April 1969	1994-95
69.	Tamil Nadu Zari Limited	6 December 1971	1996-97
70.	Tamil Nadu Handicrafts Development Corporation Limited	26 July 1973	1996-97
	Construction and Housing		
71.	Tamil Nadu Adi Dravidar Housing and Development Corporation Limited	15 February 1974	1994-95
72.	Tamil Nadu State Construction Corporation Limited	8 February 1980	1995-96
73.	Tamil Nadu Police Housing Corporation Limited	30 April 1981	1996-97
74.	Tamil Nadu State Tubewells Corporation Limited	19 March 1982	1994-95

(5)	(6)	(7)	(8)	(9)	(10)	(11)
1997-98	(-)759.09	700.00	(-)1746.89	1228.93	(-)394.28	--
1997-98	(-)1638.51	1460.07	(-)5046.41	338.09	(-)1086.27	--
1996-97	1.20	2.00	6.30	(-)1.95	1.20	--
1997-98	(-)953.56	600.00	(-)1868.50	1286.03	(-)582.66	--
1997-98	(-)837.10	650.00	(-)1803.42	1326.21	(-)495.44	--
1997-98	(-)1131.49	400.00	(-)1365.93	1010.49	(-)863.28	---
1997-98	(-)1749.90	855.01	(-)3459.15	597.23	(-)1277.23	--
1997-98	(-)958.16	144.45	(-)1602.42	1181.37	(-)599.63	--
1997-98	(-)2546.97	1000.00	(-)4197.85	1673.81	(-)2085.32	---
1997-98	(-)1067.34	680.00	(-)2504.94	(-)329.83	(-)851.39	---
			FIRST ACCOUNTS DUE			
			FIRST ACCOUNTS DUE			
1997-98	9.86	15.00	75.26	132.13	10.38	7.86
1997-98	2.19	15.00	7.64	32.76	3.23	9.86
1996-97	76.78	273.56	39.78	1622.70	114.87	7.08
1997-98	(-) 29.98	20.75	(-)38.88	56.13	(-)27.99	--
1997-98	7.82	78.42	13.80	1641.90	7.82	0.48
1996-97	36.38	0.002	59.96	77.69	41.32	53.19
1996-97	7.56	22.91	(-)22.86	48.82	20.77	42.54
1996-97	8.48	200.00	15.12	267.75	8.48	3.17
1997-98	(-)11.35	423.56	(-)49.73	926.89	65.56	7.07
1995-96	89.60	154.00	(-)254.11	136.07	115.24	84.69
1997-98	72.36	13.20	110.64	158.83	73.95	46.56
1997-98	47.83	218.96	74.66	403.90	79.47	19.68
1996-97	(-)64.60	4218.97	--	4835.55	(-)29.37	--
1996-97	(-)214.52	300.00	(-)865.59	(-)148.82	(-)156.74	--
1997-98	21.46	47.00	3.79	2832.08	46.26	1.63
1997-98	(-)7.75	31.50	(-)193.33	(-)110.36	(-)7.75	--

(1)	(2)	(3)	(4)
	Forestry and Plantation		
75.	Tamil Nadu Forest Plantation Corporation Limited	13 June 1974	1996-97
76.	Tamil Nadu Tea Plantation Corporation Limited	22 August 1975	1996-97
77.	Arasu Rubber Corporation Limited	10 August 1984	1996-97
	Film and Tourism		
78.	Tamil Nadu Tourism Development Corporation Limited	30 June 1971	1996-97
79.	Tamil Nadu Film Development Corporation Limited	12 April 1972	1995-96
	Excise		
80.	Tamil Nadu State Marketing Corporation Limited (TASMAC)	23 May 1983	1995-96
81.	Tamil Nadu Spirit Corporation Limited (Subsidiary of TASMAC)	10 July 1989	1996-97

Note : Name of the Transport Companies mentioned in the above Annexure have since been modified as per Government directive (July 1997) as detailed below:

Reference to Sl. No. in the Annexure	Renamed as
34.	Metropolitan Transport Corporation (Chennai. Division. I) Limited
35.	Tamil Nadu State Transport Corporation (Madurai. Division. I) Limited
36.	Tamil Nadu State Transport Corporation (Coimbatore. Division. I) Limited
37.	Tamil Nadu State Transport Corporation (Kumbakonam. Division. I) Limited
38.	Tamil Nadu State Transport Corporation (Salem. Division. I) Limited
39.	Tamil Nadu State Transport Corporation (Madurai. Division. II) Limited
41.	Tamil Nadu State Transport Corporation (Villupuram. Division. I) Limited
44.	State Express Transport Corporation (Tamil Nadu. Division. I) Limited
45.	Tamil Nadu State Transport Corporation (Kumbakonam. Division. III) Limited
46.	Tamil Nadu State Transport Corporation (Villupuram. Division. II) Limited
47.	Tamil Nadu State Transport Corporation (Coimbatore. Division. II) Limited
48.	Tamil Nadu State Transport Corporation (Madurai. Division. III) Limited
50.	Tamil Nadu State Transport Corporation (Kumbakonam. Division. II) Limited
51.	Tamil Nadu State Transport Corporation (Madurai. Division. IV) Limited
52.	Tamil Nadu State Transport Corporation (Salem. Division. II) Limited
53.	Tamil Nadu State Transport Corporation (Villupuram. Division. III) Limited
54.	State Express Transport Corporation (Tamil Nadu. Division. II) Limited
55.	Metropolitan Transport Corporation (Chennai. Division. II) Limited
56.	Tamil Nadu State Transport Corporation (Coimbatore. Division. III) Limited
57.	Tamil Nadu State Transport Corporation (Madurai. Division. V) Limited
58.	Tamil Nadu State Transport Corporation (Kumbakonam. Division. IV) Limited

(5)	(6)	(7)	(8)	(9)	(10)	(11)
1997-98	539.81	200.00	713.24	1678.04	651.76	38.84
1997-98	(-)206.28	596.18	(-)1141.33	1135.00	(-)10.83	--
1997-98	42.87	200.00	273.68	532.54	51.23	9.62
1997-98	32.48	573.42	(-)174.23	873.55	53.74	6.15
1996-97	(-)264.00	1391.00	(-)464.52	1964.80	(-)94.00	--
1996-97	38.04	340.00	(-)13.37	1760.07	176.76	10.04
1997-98	(-)250.84	400.00	(-)371.76	1620.32	(-)98.77	--

ANNEXURE - 4

Particulars of Companies whose accounts are in arrears

(Referred to in Paragraph 1.2.4 at Page 9)

Sl. No.	Name of the Company	Extent of arrears	No. of years involved
(1)	(2)	(3)	(4)
1.	Southern Structurals Limited	1996-97	1
2.	Tamil Nadu Ceramics Limited	1996-97	1
3.	Tamil Nadu Steels Limited	1996-97	1
4.	Tamil Nadu Small Industries Development Corporation Limited	1996-97	1
5.	The Chit Corporation of Tamil Nadu Limited	1995-96 and 1996-97	2
6.	Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited	1996-97	1
7.	Metropolitan Infrastructure Development Corporation Limited	1996-97	1
8.	Tamil Nadu Agro Industries Corporation Limited	1996-97	1
9.	Tamil Nadu Dairy Development Corporation Limited	1990-91 to 1996-97	7
10.	Tamil Nadu Poultry Development Corporation Limited	1995-96 and 1996-97	2
11.	Tamil Nadu State Farms Corporation Limited	1996-97	1
12.	Tamil Nadu Sugarcane Farm Corporation Limited	1996-97	1
13.	Pallavan Transport Consultancy Services Limited	1996-97	1
14.	Veeran Sundaralingam Transport Corporation Limited	1996-97	1
15	Veeran Alagumuthukone Transport Corporation Limited	1996-97	1
16.	Dharmapuri District Development Corporation Limited	1996-97	1
17.	Tamil Nadu Backward Classes and Minorities Economic Development Corporation Limited	1996-97	1
18.	Tamil Nadu Corporation for Development of Women Limited	1996-97	1

(1)	(2)	(3)	(4)
19.	Tamil Nadu State Sports Development Corporation Limited	1989-90 to 1996-97	8
20.	Tamil Nadu Ex-servicemen's Corporation Limited	1995-96 and 1996-97	2
21.	Tamil Nadu Medical Services Corporation Limited	1996-97	1
22.	Tamil Nadu Textile Corporation Limited	1995-96 and 1996-97	2
23.	Tamil Nadu Adi Dravidar Housing and Development Corporation Limited	1995-96 and 1996-97	2
24.	Tamil Nadu State Construction Corporation Limited	1996-97	1
25.	Tamil Nadu State Tubewells Corporation Limited	1995-96 and 1996-97	2
26.	Tamil Nadu Film Development Corporation Limited	1996-97	1
27.	Tamil Nadu State Marketing Corporation Limited	1996-97	1

ANNEXURE - 5

STATEMENT SHOWING SUBSIDY RECEIVED, GUARANTEES RECEIVED, WAIVER OF DUES

(Referred to in Paragraph

Sl. No.	Name of the Company	Subsidy received during the year				Guarantees (Outstanding
		Central Govern- ment	State Govern- ment	Others	Total	Cash Credit from SBI and other nationa- lised banks
(1)	(2)	3(a)	3(b)	3(c)	3(d)	4(a)
1.	**Southern Structurals Limited**	--	--	--	--	2500.00 (387.55)
2.	**Tamil Nadu Small Industries Corporation Limited**	--	27.00	--	27.00	(1000.00)
3.	**Tamil Nadu Ceramics Limited**	--	--	--	--	--
4.	**Perambalur Sugar Mills Limited**	--	--	--	--	--
5.	**Tamil Nadu Leather Development Corporation Limited**	--	--	--	--	50.00 (50.00)
6.	**Tamil Nadu Industrial Investment Corporation Limited**	--	3850.00	--	3850.00	--
7.	**Tamil Nadu Industrial Development Corporation Limited**	--	--	--	--	--
8.	**State Industries Promotion Corporation of Tamil Nadu Limited**	--	--	--	--	--
9.	**Tamil Nadu Urban Finance and Infra-structure Development Corporation Limited**	--	--	--	--	--
10.	**Tamil Nadu Corporation for Industrial Infrastructure Development Limited**	--	1000.00	--	1000.00	--
11.	**Tamil Nadu Civil Supplies Corporation Limited**	--	100000.00	--	100000.00	--
12.	**Pallavan Transport Corporation Limited**	--	2666.41	--	2666.41	--
13.	**Pandiyan Roadways Corporation Limited**	--	329.33	--	329.33	--
14.	**Cheran Transport Corporation Limited**	--	380.97	--	380.97	--
15.	**Cholan Roadways Corporation Limited**	--	251.00	--	251.00	--

DURING THE YEAR AND GUARANTEES OUTSTANDING AT THE END OF THE YEAR

1.2.3 at Pages 7 and 8)

(Amount - Rupees in lakh)

received during the year and at the end of the year)				Waiver of dues during the year				
Loans from other sources	Letters of credit opened by SBI in respect of imports	Payment obligations under agreements with foreign consultants or contracts	Total	Loans repayments written off	Interest waived	Penal interest waived	Repayment of loans on which moratorium allowed	Others
4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	5(e)
387.00 (387.00)	--	--	2887.00 (774.55)	--	--	--	--	--
(300.00)	--	--	(1300.00)	--	--	--	--	--
--	--	--	--	510.71	471.72	--	--	--
(19.54)	--	--	(19.54)	--	--	--	--	--
--	--	--	50.00 (50.00)	--				--
5971.00 (35967.00)	--	--	5971.00 (35967.00)	--				--
(3445.50)	--	--	(3445.50)	--	--		330.00	--
(1971.81)	--	--	(1971.81)	--	--	--	--	--
(8562.61)	--	--	(8562.61)	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
205.83 (NIL)	--	--	205.83 (NIL)	--	--	--	--	--

(1)	(2)	3(a)	3(b)	3(c)	3(d)	4(a)
16.	Anna Transport Corporation Limited	--	268.12	--	268.12	--
17.	Kattabomman Transport Corporation Limited	--	118.12	--	118.12	150.00 (150.00)
18.	Thanthai Periyar Transport Corporation Limited	--	280.17	--	280.17	--
19.	Thiruvalluvar Transport Corporation Limited	--	--	--	--	250.00 (250.00)
20.	Marudhu Pandiyar Transport Corporation Limited	--	102.15	--	102.15	--
21.	Pattukottai Azhagiri Transport Corporation Limited	--	178.78	--	178.78	--
22.	Jeeva Transport Corporation Limited	--	174.24	--	174.24	--
23.	Nesamony Transport Corporation Limited	--	133.47	--	133.47	150.00
24.	Dheeran Chinnamalai Transport Corporation Limited	--	224.07	--	224.07	--
25.	Rani Mangammal Transport Corporation Limited	--	193.04	--	193.04	--
26.	Puratchi Thalaivar M.G.R. Transport Corporation Limited	--	149.40	--	149.40	--
27.	Dr. Ambedkar Transport Corporation Limited	--	1752.59	--	1752.59	--
28.	Mahakavi Bharathiar Transport Corporation Limited	--	185.00	--	185.00	--
29.	Tamil Nadu Backward Classes and Economic Development Corporation Limited	--	--	--	--	--
30.	Tamil Nadu Handloom Development Corporation Limited	--	--	--	--	550.00 (550.00)
31.	Tamil Nadu Textile Corporation Limited	--	--	--	--	--
32.	Tamil Nadu Adi Dravidar Housing and Development Corporation Limited	2637.49	4705.81	--	7343.90	(93.87)
33.	Tamil Nadu Police Housing Corporation Limited	--	--	--	--	1346.59 (2484.72)
34.	Tamil Nadu Forest Plantation Corporation Limited	--	--	--	--	--
35.	Tamil Nadu Tea Plantation Corporation Limited	--	--	--	--	--
36.	Tamil Nadu State Marketing Corporation Limited	--	--	--	--	1500.00 (1500.00)

4(b)	4(c)	4(d)	4(e)	5(a)	5(b)	5(c)	5(d)	5(e)
--	--	--	--	--	--	--	--	--
3539.00 (3744.83)	--	--	3689.00 (3894.83)	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	250.00 (250.00)	--	--	--	--	--
125.00 (79.17)	--	--	125.00 (79.17)	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
300.00 (300.00)	--	--	450.00 (300.00)	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
761.00 (822.67)	--	--	761.00 (822.67)	--	--	--	--	--
(1810.52)	--	--	(1810.52)	--	--	--	--	--
	--	--	550.00 (550.00)	--	--	--	--	--
110.00 (98.43)	--	--	110.00 (192.30)	--	--	--	--	--
(1097.50)	--	--	(1097.50)	--	--	--	--	--
--	--	--	1346.59 (2484.72)	--	--	--	--	--
(484.20)	--	--	(484.20)	--	--	--	--	--
(472.25)	--	--	(472.25)	--	--	--	200.00	--
--	--	--	1500.00 (1500.00)	--	--	--	--	--

ANNEXURE - 6

STATEMENT SHOWING THE CAPACITY UTILISATION OF MANUFACTURING COMPANIES DURING THE YEAR 1996-97

(Referred to in Paragraph 1.2.8 at Page 19)

	Name of the Company	Installed/ rated	Actual utilisation	Percentage of utilisation
		(In tonnes)		
	INDUSTRIES			
1.	Tamil Nadu Cements Corporation Limited	9.79 lakh (9.79 lakh)	7.34lakh (7.19 lakh)	75.0 (73.4)
2.	Tamil Nadu Steels Limited	95000 (95000)	62261 (53456)	65.5 (56.3)
3.	Tamil Nadu Magnesite Limited	49500 (49500)	37828 (34205)	76.4 (69.0)
4.	Tamil Nadu Sugar Corporation Limited	920000 (1035000)	773838 (933322)	84.1 (90.2)
5.	Perambalur Sugar Mills Limited	618000 (876000)	459069 (779805)	74.3 (89.0)
		(In marcs)		
	TEXTILES AND HANDICRAFTS			
6.	Tamil Zari Limited	42900 (39600)	40161 (33614)	93.6 (85.0)
		(In Million KGs.)		
	FORESTRY AND PLANTATION			
7.	Tamil Nadu Tea Plantation Corporation Limited	9.00 (7.50)	8.55 (7.63)	95.0 (101.7)

(Previous year's figures are given in brackets)

ANNEXURE - 7

Operational Performance of the Tamil Nadu Electricity Board for the three years ending 1996-97

(Referred to in Paragraph 1.3.8.3 at Page 33)

		Particulars	1994-95	1995-96	1996-97
		(1)	(2)	(3)	(4)
				(MW)	
(1)	Installed capacity				
	(i)	Thermal	2760	2970	2970
	(ii)	Hydel	1948	1948	1948
	(iii)	Others (Windmills and Gas turbines)	29	149	149
		Total (1)	**4737**	**5067**	**5067**
				(MKWH)	
(2)	Power generated				
	(i)	Thermal	14026	17220	18595
	(ii)	Hydel	5847	4714	4272
	(iii)	Others (Windmills and Gas turbines)	164	437	82
		Total (2)	**20037**	**22371**	**22949**
				(MKWH)	
(3)	Auxiliary consumption		1284	1500	1676
(4)	Net power generation (2) - (3)		18753	20871	21273
(5)	Power purchased from other sources		9038	8750	9667
(6)	Total power available for sale (4) + (5)		27791	29621	30940
(7)	Power sold		23093	24610	25659
(8)	Transmission and distribution loss (6) - (7)		4698	5011	5281
				(MW)	
(9)	Normal maximum demand		4360	4424	4875
				(KWH)	
(10)	Number of units generated per KW of installed capacity		4229	4415	4529

		(1)	(2)	(3)	(4)
(11)	Load factor (in per cent)				
	(i)	Thermal	68.4	71.0	71.5
	(ii)	Hydel	34.3	28.0	24.9
(12)	Percentage of :				
	(i)	Generation to installed capacity	48.3	50.4	51.7
	(ii)	Power purchased to power available for sale	32.5	29.5	31.2
	(iii)	Transmission and distribution loss	17.0	17.0	17.0
(13)	Plant availability				
	(i)	Thermal	76.1	83.9	80.2
	(ii)	Hydel	N.A.	50.7	N.A.
(14)	Number of sub-stations as at the end of the year		613	691	734
				(lakh kilometres)	
(15)	Transmission and distribution lines as at the end of the year				
	(i)	High/Medium voltage	1.01	1.05	1.07
	(ii)	Low voltage	3.80	3.92	4.04
		Total (15)	**4.81**	**4.97**	**5.11**
				(MW)	
(16)	Connected load as at the end of the year		16867	18208	19396
			(Number in lakhs as at the end of the year)		
(17)	Villages/towns electrified		0.64	0.64	0.64
(18)	Pumpsets/wells				
	(i)	Energised	14.87	15.27	15.66
	(ii)	Awaiting energisation	4.97	5.03	4.91
(19)	Distribution transformers		1.08	1.07	1.12
(20)	Consumers		97.54	105.15	110.41
(21)	Number of employees		0.86	0.78	0.84
(22)	Total expenditure on staff (Rupees in lakhs)		63608	71153	83370
(23)	Percentage of expenditure on staff to total revenue expenditure		16.5	16.9	17.2

		(1)	(2)	(3)	(4)
				(MKWH)	
(24)	Break-up of sale of energy according to categories of accounts				
	(a)	Agriculture	6228	6600	6910
	(b)	Industries	9622	10392	10973
	(c)	Commercial	1531	1575	1676
	(d)	Domestic	3765	4150	4181
	(e)	Others	1947	1893	1919
		Total (24)	**23093**	**24610**	**25659**
				(paise)	
(25)	(a)	Revenue per KWH (excluding subsidy)	151.92	167.75	172.89
	(b)	Expenditure per KWH	152.02	170.87	186.54
	(c)	Profit (+) / Loss (-) per KWH	(-) 0.10	(-) 3.12	(-) 13.65

N.A. : Not Available

ANNEXURE - 8

Physical performance of Tamil Nadu Warehousing Corporation for three years up to 1996-97

(Referred to in Paragraph 1.3.8.3 at Page 33)

	1994-95	1995-96	1996-97 (Provisional)
		(In numbers)	
Warehousing centres at the beginning of the year	63	62	62
Warehousing centres set up during the year	--	--	1
Warehouses closed/merged during the year	1	--	1
Warehouses at the end of the year	62	62	62
Capacity established		(In lakh tonnes)	
Constructed (owned)	5.64	5.84	5.98
Hired	0.27	0.26	0.23
Average storage capacity available	5.91	6.10	6.21
Average capacity utilised	4.67	4.66	4.66
Percentage of utilisation	79.0	76.4	75.0
Storage charges received (in lakhs of rupees)	631.88	727.83	790.14