

CHAPTER - I

1 Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Tamil Nadu, the State PSUs occupy an important place in the state economy. The State PSUs registered a turnover of Rs.42,535.07 crore[∞] for 2008-09 as *per* their latest finalised accounts as of September 2009. This turnover was equal to 18.62 *per cent* of the State Gross Domestic Product (GDP) of Rs.2,28,479 crore for 2008-09. Major activities of the State PSUs are concentrated in power, service and finance sectors. The State PSUs incurred an aggregate loss of Rs.3,757.31 crore as per the latest accounts finalised during 2008-09. They had employed 2.75 lakh* employees as of 31 March 2009. The State PSUs do not include two^Ω Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in the Civil Audit Report for the State.

1.2 As on 31 March 2009, there were 75 PSUs as *per* the details given below. Of these, three[§] companies were listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs ^ψ	Total
Government Companies [♦]	62	11	73
Statutory Corporations	2	---	2
Total	64	11	75

1.3 During the year 2008-09, two new PSUs *viz.*, Adyar Poonga and Udangudi Power Corporation Limited were established and the Government gave the details of closure of three[♠] companies.

[∞] 13 companies finalised their accounts for the years other than 2008-09.

[♣] As per the details provided by 66 PSUs.

^Ω The Institute of Veterinary and Preventive Medicine, Ranipet and King Institute, Guindy.

[§] Tamil Nadu Newsprint and Papers Limited, Tamil Nadu Telecommunications Limited and Tamil Nadu Industrial Explosives Limited.

^ψ Non-working PSUs are those which have ceased to carry on their operations.

[♦] Includes 619-B companies.

[♠] Tamil Nadu State Sports Development Corporation Limited was closed in 1995 and Tamil Nadu Dairy Development Corporation Limited and Tamil Nadu Tubewells Corporation Limited were closed in 2005.

Audit mandate

1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as *per* Section 619-B of the Companies Act.

1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by the 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 of the Companies Act, 1956.

1.6 Audit of the statutory corporations is governed by their respective legislations. Out of two Statutory corporations in the State, CAG is the sole auditor of the Tamil Nadu Electricity Board. In respect of Tamil Nadu Warehousing Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

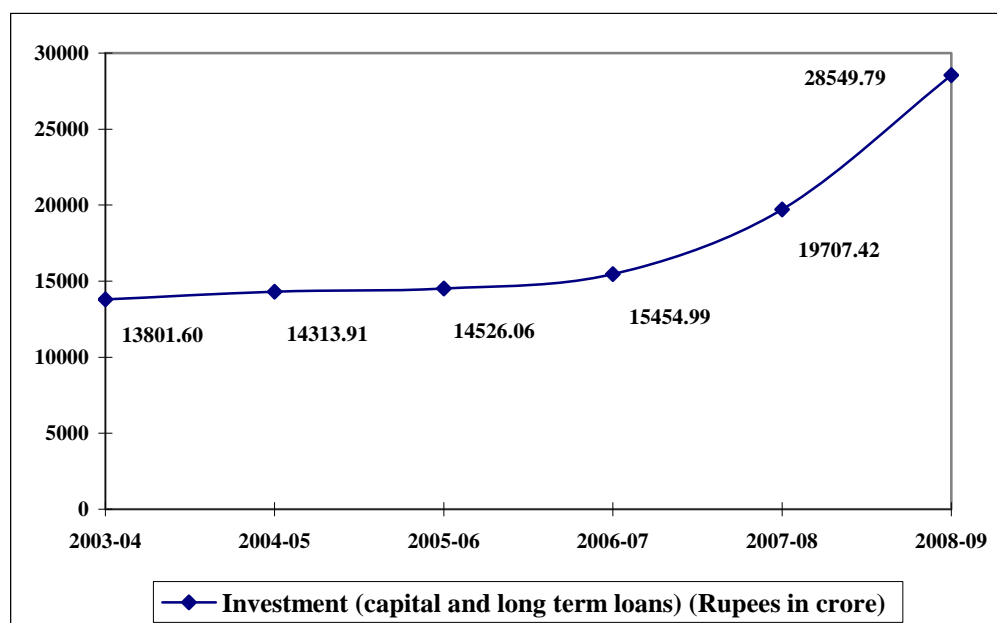
1.7 As on 31 March 2009, the investment (capital and long-term loans) in 75 PSUs (including 619-B companies) was Rs.28,549.79 crore as *per* details given below.

(Rupees in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	2,577.79	3,571.45	6,149.24	2,057.61	20,250.32	22,307.93	28,457.17
Non-working PSUs	36.15	56.47	92.62	---	---	---	92.62
Total	2,613.94	3,627.92	6,241.86	2,057.61	20,250.32	22,307.93	28,549.79

A summarised position of government investment in the State PSUs is detailed in **Annexure 1**.

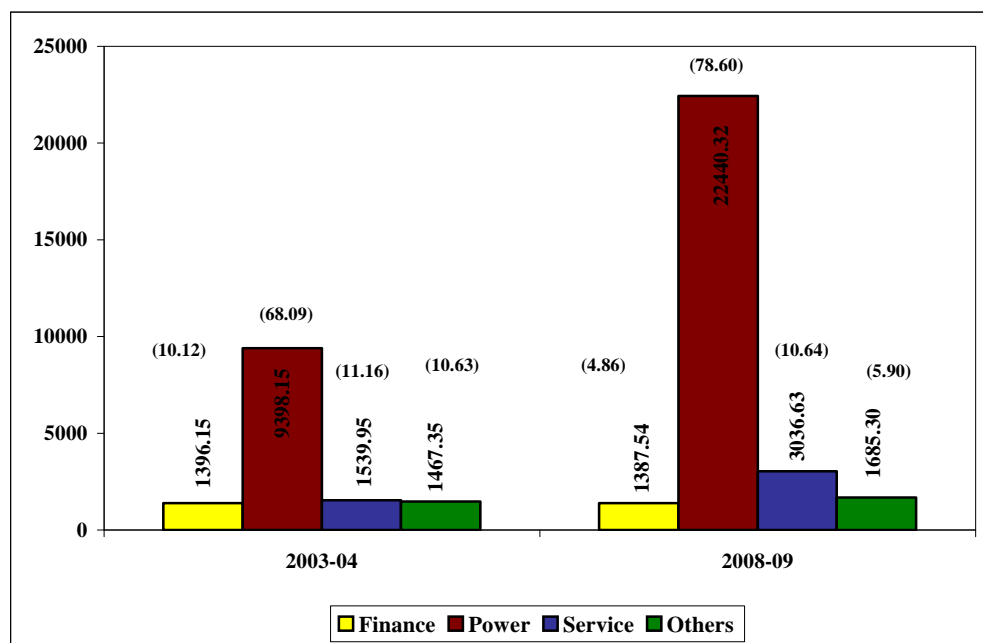
1.8 As on 31 March 2009, of the total investment in the State PSUs, 99.68 per cent was in working PSUs and the remaining 0.32 per cent was in non-working PSUs. This total investment consisted of 16.36 per cent towards capital and 83.64 per cent in long-term loans. The investment has grown by 106.86 per cent from Rs.13,801.60 crore in 2003-04 to Rs.28,549.79 crore in 2008-09 because of large loans availed by State Transport Undertakings and Tamil Nadu Electricity Board through other sources as shown in the graph below.



1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart. The major chunk of investment was in power sector which saw its percentage share rising to 78.60 per cent in 2008-09 from 68.09 per cent in 2003-04 of total investment.

The investment in power sector increased by 138.77 per cent from Rs.9,398.15 crore in 2003-04 to Rs.22,440.32 crore in the year 2008-09. The service sector followed the power sector where there was an increase in investments by 97.19 per cent from Rs.1,539.95 crore in 2003-04 to Rs.3,036.63 crore in 2008-09.

(Rupees in crore)



(Figures in brackets show the percentage of total investment)

Budgetary outgo, grants / subsidies, guarantees and loans

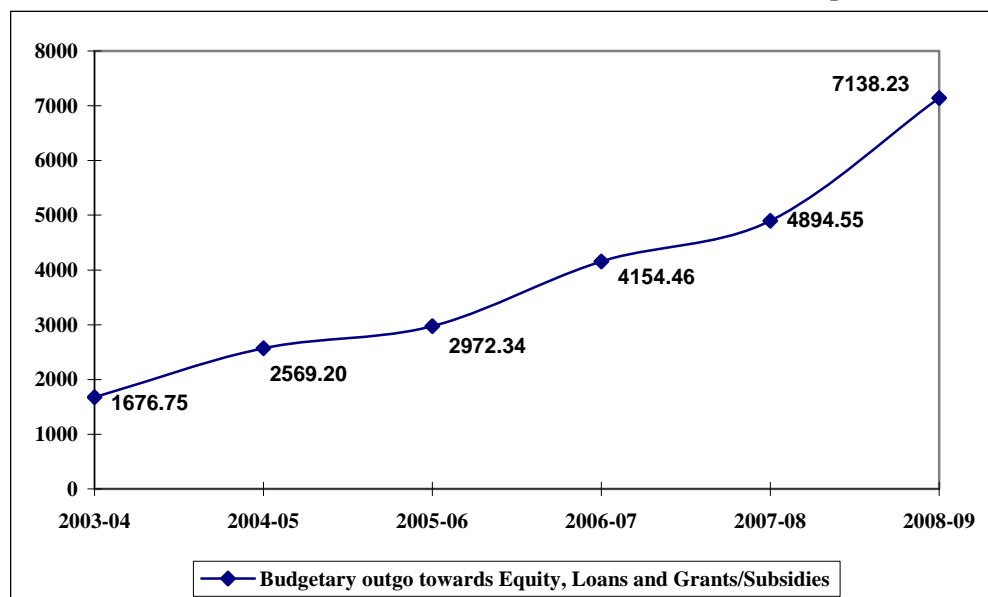
1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of the State PSUs during the year are given in **Annexure 3**. The summarised details are given below for three years ended 2008-09.

(Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity Capital outgo from budget	9	331.34	14	873.25	15	1,051.45
2	Loans given from budget	2	5.25	7	42.28	9	775.53
3	Grants/Subsidy received	17	3,817.87	17	3,979.02	13	5,311.25
4	Total Outgo (1+2+3)	21 [♦]	4,154.46	28 [♦]	4,894.55	26 [♦]	7,138.23
5	Loans converted into equity	1	100.00	---	---	1	4.95
6	Loans written off	---	---	---	---	1	3.47
7	Interest/Penal interest written off	---	---	---	---	2	6.13
8	Total Waiver (6+7)	---	---	---	---	2	9.60
9	Guarantees issued	5	493.95	6	599.55	6	1,322.81
10	Guarantee Commitment	17	3,600.69	13	3,500.55	14	4,036.49

1.11 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past six years are given in a graph below.

(Rupees in crore)



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

The budgetary support in respect of equity, loans and grants/ subsidies showed an increasing trend from 2003-04 to 2008-09 due to increase in grant and subsidy by the State Government to Tamil Nadu Electricity Board and Tamil Nadu Civil Supplies Corporation Limited.

1.12 The PSUs are liable to pay guarantee commission to the State Government equivalent to 0.5 *per cent* of the amount of guarantee utilised by them on raising cash credit from banks and loans from other sources including operating Letters of credit. During the year 2008-09, guarantee commission of Rs.133.58 crore was payable by 13 PSUs. Out of this amount Rs.130.69 crore remained unpaid including Rs.121.45 crore of TNEB.

Reconciliation with Finance Accounts

1.13 The figures in respect of equity, loans and guarantees outstanding as per records of the State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Rupees in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	3,073.68	4,402.31	1,328.63
Guarantees	3,909.60	4,036.89	127.29

1.14 Audit observed that the differences occurred in 12 PSUs in respect of equity and in 9 PSUs in respect of guarantees. Some of the differences were pending reconciliation since April 2004*. The Government had been addressed by Audit (December 2008) to expedite the process of reconciliation of figures between Finance accounts and the figures as furnished by the companies in their respective accounts. The Government and PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

1.15 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Annexures 2, 5 and 6** respectively. A ratio of PSU turnover to State GDP shows the significant extent of PSU activities in the State economy. The table below provides the

* Tamil Nadu Adi-dravidar Housing and Development Corporation Limited and Tamil Nadu Sugar Corporation Limited.

details of working PSUs' turnover *vis-a-vis* State GDP for the period from 2003-04 to 2008-09.

(Rupees in crore)

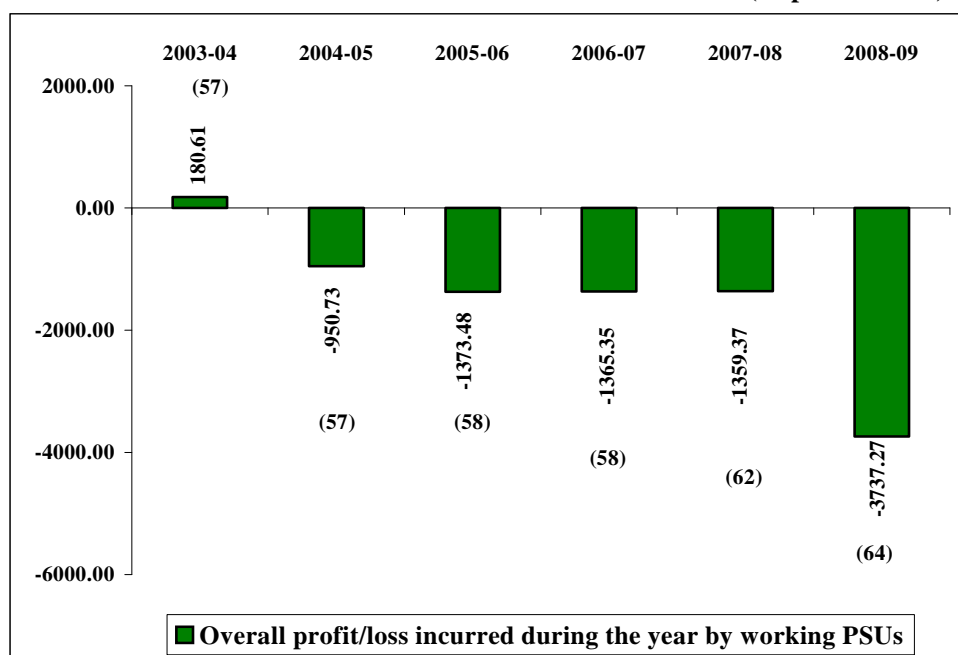
Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover [∞]	21,532.17	24,298.35	25,665.47	26,206.99	38,040.09	42,534.33
State GDP	1,75,897	2,00,780	2,23,528	2,46,266	2,79,287	2,28,479
Percentage of Turnover to State GDP	12.24	12.10	11.48	10.64	13.62	18.62

Figures of State GDP for 2008-09 are advance estimates.

The turnover of PSUs increased continuously from 2003-04 to 2008-09. The turnover increased by 97.54 per cent, in 2008-09 when compared to the turnover in 2003-04. The percentage of PSUs' turnover to State GDP declined between 2003-04 and 2006-07 but improved in 2007-08 and 2008-09.

1.16 Profits/losses earned/incurred by the State working PSUs during the period from 2003-04 to 2008-09 are given below in the bar chart.

(Rupees in crore)



(Figures in brackets show the number of working PSUs in respective years)

The State PSUs collectively incurred continuous losses from 2004-05 to 2008-09 which increased from Rs.950.73 crore to Rs.3,737.27 crore during the same period.

[∞] Turnover as per the latest finalised accounts as of 30 September.

During the year 2008-09, out of 64 working PSUs, 38 PSUs earned a profit of Rs.565.96 crore and 20 PSUs incurred a loss of Rs.4,303.23 crore. One PSU (Arasu Cable TV Corporation Limited) incorporated in October 2007 has not submitted the first accounts yet and another PSU, Udangudi Power Corporation Limited was incorporated in December 2008 and is yet to submit its first account. Three PSUs are in their preliminary stages of commercial operation (Tidel Park, Coimbatore a 619-B Company, incorporated in June 2007, Chennai Metro Rail Limited incorporated in December 2007 and Adyar Poonga incorporated in October 2008). In one PSU (Tamil Nadu Civil Supplies Corporation Limited), the deficit of income is entirely compensated by the State Government in the form of subsidy.

As per the accounts finalised as of 30 September 2009, the major contributors to profit are Tidel Park Limited, Chennai (Rs.163.82 crore), Tamil Nadu Newsprint and Papers Limited (Rs.107.39 crore), State Industries Promotion Corporation of Tamil Nadu Limited (Rs.64.54 crore) and Tamil Nadu Small Industries Corporation Limited (Rs.52.37 crore). Heavy losses were incurred by Tamil Nadu Electricity Board (Rs.3,512.08 crore), Tamil Nadu State Transport Corporation (Madurai) Limited (Rs.180.53 crore), Tamil Nadu State Transport Corporation (Coimbatore) Limited (Rs.124.73 crore) and Metropolitan Transport Corporation (Chennai) Limited (Rs.100.12 crore).

1.17 The losses of working PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of last three years Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs.1,045.94 crore and made infructuous investment of Rs.215.91 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(Rupees in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Loss	1,365.35	1,359.37	3,737.27	6,461.99
Controllable losses as per the CAG's Audit Report	170.67	240.85	634.42	1,045.94
Infructuous Investment	3.81	120.10	92.00	215.91

1.18 The above losses pointed out by the Audit Reports of the CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for greater professionalism and accountability in the functioning of PSUs.

1.19 Some other key parameters pertaining to State PSUs are given below.

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (<i>Per cent</i>)	8.88	1.76	NIL *	NIL *	0.17	NIL *
Debt	11,527.49	11,877.65	12,053.49	12,757.52	16,136.56	23,878.24
Turnover	21,532.17	24,298.35	25,665.47	26,206.99	38,040.09	42,534.33
Debt/Turnover ratio	0.54:1	0.49:1	0.47:1	0.49:1	0.42:1	0.56:1
Interest payments	1,440.65	1,377.77	1,424.13	1,479.80	1,582.58	2,059.37
Accumulated losses	4,003.94	5,020.69	6,420.24	7,896.15	9,324.65	13,207.60

(Above figures pertain to all PSUs except turnover which is for working PSUs).

1.20 The return on capital employed which was 8.88 *per cent* in 2003-04 declined to 1.76 *per cent* in 2004-05 and was negative for 2005-06, 2006-07 and 2008-09. Accumulated losses increased from Rs.4,003.94 crore in 2003-04 to Rs.13,207.60 crore in 2008-09.

1.21 The State Government has not formulated a dividend policy for payment of minimum dividend. As per their latest finalised accounts as of 30 September 2009, 38 working and two non-working PSUs earned an aggregate profit of Rs.566.66 crore (Rs.565.96 + Rs.0.70 crore) and 11 PSUs declared total dividend of Rs.69.11 crore. Of this, the major contributors of the dividend were Tidel Park Limited, Chennai and Tamil Nadu Newsprint and Papers Limited aggregating to Rs.44.34 crore, which worked out to 64.16 *per cent* of total dividend paid during the year 2008-09.

Performance of major PSUs

1.22 The investment in working PSUs and their turnover together aggregated to Rs.70,991.50 crore during 2008-09. Out of 64 working PSUs, three PSUs accounted for 78.18 *per cent* of aggregate investment *plus* turnover.

(Rupees in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment <i>plus</i> Turnover of all PSUs
(1)	(2)	(3)	(4)	(5)
Tamil Nadu Electricity Board	22,300.32	15,672.85	37,973.17	53.49
Tamil Nadu State Marketing Corporation Limited	15.00	12,831.70	12,846.70	18.10
Tamil Nadu Civil Supplies Corporation Limited	39.01	4,642.04	4,681.05	6.59
Total	22,354.33	33,146.59	55,500.92	78.18

Some of the major audit findings of previous years for the above PSUs are stated in the succeeding paragraphs.

* NIL indicates that ROCE was negative during those years.

Tamil Nadu Electricity Board

1.23 The Board had finalised its accounts for each of the years 2005-06 to 2007-08 with delay of one year from the due dates. The arrears were primarily due to delay in consolidation and compilation of accounts from its various accounting centres spread all over the State. The net deficit of the Board rose from Rs.1,329 crore in 2005-06 to Rs.3,512.08 crore in 2007-08 despite increase in turnover from Rs.14,457.31 crore to Rs.15,672.85 crore during the same period. The return on capital employed remained negative due to continuous losses incurred by the Board.

1.24 Deficiencies in planning

- The Board did not synchronise the construction of sub-station with their related line works in three cases resulting in idling of the line works valued at Rs.18.51 crore for one to three years up to March 2008.

(Paragraphs 3.1.33 to 3.1.35 of Audit Report 2007-08)

1.25 Deficiencies in financial management

- Delayed remittance of the electricity tax into the Government Account by the Board led to avoidable liability of penal interest of Rs.89.84 crore.

(Paragraph 4.15 of Audit Report 2006-07)

- Failure to convince the Government to pay the subsidy towards current consumption charges directly to it instead of routing through the beneficiaries led to non-recovery of Rs.47.28 crore.

(Paragraph 4.16 of Audit Report 2006-07)

- Failure to comply with the conditions stipulated to make payments of dues to Central Public Sector Undertakings led to loss of Rs.24.63 crore.

(Paragraph 4.17 of Audit Report 2006-07)

1.26 Deficiencies in implementation

- Delays of 7 to 83 months and 11 to 132 months in completion of sub-stations and line works respectively in excess of Tamil Nadu Electricity Regulatory Commission norms led to loss of revenue of Rs.123.97 crore over a period of five years ending March 2008.

(Paragraphs 3.1.16, 3.1.22 and 3.1.32 of Audit Report 2007-08)

- Procurement of costlier high quality meters instead of low cost static meters despite their suitability resulted in avoidable expenditure of Rs.14.18 crore.

(Paragraph 4.18 of Audit Report 2006-07)

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

(Paragraph 4.21 of Audit Report 2005-06)

1.27 Deficiencies in monitoring

- Extension of undue benefit of Rs.53.18 crore to an Independent Power Producer (IPP) by incorrectly regulating payment of fixed capacity charges and return on equity in violation of power purchase agreement.

(Paragraph 4.13 of Audit Report 2007-08)

- Extension of undue favour of Rs.5.92 crore to the private wind mill developers by recovering development charges at 7.5 per cent instead of 15 per cent.

(Paragraph 4.14 of Audit Report 2007-08)

Tamil Nadu State Marketing Corporation Limited

1.28 The Company had no arrears of accounts as of September 2009. The Company which incurred a loss of Rs.2.64 crore in 2005-06 earned a profit of Rs.2.84 crore in 2008-09. The steady increase in turnover from Rs.7,520.97 crore in 2005-06 to Rs.12,831.70 crore in 2008-09 primarily contributed for the Company's profit. Consequently, the return on capital employed increased from 11.51 per cent in 2005-06 to 23.03 per cent in 2008-09.

Tamil Nadu Civil Supplies Corporation Limited

1.29 The Company had arrears of accounts for one year as of September 2009. During the past five years upto September 2009, the Company could not finalise the accounts of any year within the prescribed time schedule of six months as per companies Act due to delay in compilation of accounts from various cost centres. The Company's turnover increased from Rs.4,041.57 crore in 2005-06 to Rs.4,642.04 crore in 2007-08. However the return on capital employed declined from 4.43 per cent to 4.27 per cent due to increase in expenditure.

Conclusion

1.30 The above details indicate that there is scope for improvement in overall performance of the State PSUs. They need to imbibe greater degree of professionalism to ensure delivery of products and services efficiently and profitably. The State Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

1.31 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by

working PSUs in finalisation of accounts by September 2009.

SL. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1	Number of Working PSUs	57	58	58	62	64
2	Number of accounts finalised during the year	56	57	59	63	54
3	Number of accounts in arrears	20	23	22	21	31
4	Average arrears <i>per</i> PSU (3/1)	0.35	0.40	0.38	0.34	0.48
5	Number of Working PSUs with arrears in accounts	16	18	16	13	20
6	Extent of arrears (years)	1 to 3	1 to 4	1 to 5	1 to 6	1 to 7

1.32 In addition to above, there were arrears in finalisation of accounts by non-working PSUs. Out of 11 non-working PSUs, two PSUs (Tamil Nadu Steels Limited and Tamil Nadu Magnesium and Marines Limited) had gone into liquidation process. Of the remaining nine non-working PSUs, eight^o PSUs had arrears of accounts for 1 to 19 years.

1.33 The State Government had invested Rs.5,829.82 crore (equity: Rs.852.77 crore, loans: Rs.32.62 crore, grants: Rs.147.51 crore and others: Rs.4,796.92 crore) in 11 PSUs during the years for which accounts had not been finalised as on 30 September 2009 as detailed in **Annexure 4**. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

1.34 The administrative Departments have the responsibility to oversee the activities of these entities and ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was taken up with the Chief Secretary/Finance Secretary in the Apex Committee meeting held in May 2009. The latest arrears position has been apprised to the Chief Secretary in November 2009.

^o 1. Tamil Nadu Agro Industries Development Corporation Limited, 2. Tamil Nadu Poultry Development Corporation Limited, 3. Tamil Nadu State Farms Corporation Limited, 4. Tamil Nadu Sugarcane Farms Corporation Limited, 5. The Chit Corporation of Tamil Nadu Limited, 6. Tamil Nadu Film Development Corporation Limited, 7. Tamil Nadu Goods Transport Corporation Limited and 8. Tamil Nadu Institute of Information Technology.

1.35 In view of above state of arrears, it is recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

Winding up of non-working PSUs

1.36 There were 11 non-working PSUs (all companies) as on 31 March 2009. Liquidation process had commenced in two[♥] PSUs. The number of non-working companies at the end of each year during the past five years are given below:

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Number of non-working companies	14	14	14	14	11

The Government may consider the closure of non-working PSUs as their existence is not going to serve any purpose. During 2008-09, Tamil Nadu Graphites Limited incurred an establishment expenditure Rs.0.39 lakh. Other PSUs have not finalised their accounts for 2008-09 and hence the amount of establishment expenditure incurred by these PSUs and their sources could not be assessed by Audit.

1.37 The stages of closure in respect of non-working PSUs are given below.

Sl. No.	Particulars	Companies
1	Total number of non-working PSUs [∞]	11
2	Of (1) above, the number under	
(a)	Liquidation by Court (liquidator appointed)	2
(b)	Voluntary winding up	6
(c)	Closure, <i>i.e.</i> , closing orders / instructions issued but liquidation process has not yet started.	3

1.38 During the year 2008-09, the Government gave details of closure of three companies *viz.*, Tamil Nadu State Sports Development Corporation Limited in 1992, Tamil Nadu Dairy Development Corporation Limited and Tamil Nadu Tubewells Corporation Limited in 2005. The two companies which have taken the route of winding up by the Court order are under liquidation for a period ranging from eight to eleven years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/pursued vigorously. The closure of these companies are delayed due

♥ Tamil Nadu Magnesium and Marine Chemicals Limited and Tamil Nadu Steels Limited.

∞ As of 30 September 2009.

to (i) non-settlement of disputed claims (Tamil Nadu Magnesium and Marines Chemicals Limited, Tamil Nadu Sugarcane Farms Corporation Limited and Tamil Nadu Steels Limited), (ii) due to non-closure of accounts (Tamil Nadu Film Development Corporation Limited and Tamil Nadu Agro Industries Development Corporation Limited), (iii) decision pending from State Government on writing off proposals of the government dues (Tamil Nadu Poultry Development Corporation Limited and The Chit Corporation of Tamil Nadu Limited and Tamil Nadu State Farms Corporation Limited) and (iv) decision pending on merger of companies with Registrar of companies (TANITEC), with Ministry of Company Affairs (TN Graphite Limited). The Government may consider setting up a cell to expedite closing down its non-working companies.

Accounts Comments and Internal Audit

1.39 Fifty four working companies forwarded their 54 accounts to AG during 2008-09. Of these, 47 accounts of 47 companies were selected for supplementary audit. The audit reports of statutory auditors and the sole/supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and the CAG are given below.

(Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Decrease in profit	10	96.41	6	150.09	15	241.93
2	Increase in loss	4	73.82	9	3.91	12	72.19
3	Non-disclosure of material facts	---	---	---	---	9	99.38
4	Errors of classification	3	6.34	2	61.20	4	7.80

1.40 During the year 2008-09, the statutory auditors had given unqualified certificates for 19 accounts, qualified certificates for 30 accounts, adverse certificate (which means that accounts do not reflect a true and fair position) for two accounts and disclaimers (which means that the auditors are unable to form an opinion on accounts) for three accounts. The compliance of companies with the Accounting Standards remained poor as there were 33 instances of non-compliance in 16 accounts during the year.

1.41 Some of the important comments in respect of accounts of companies are stated below:

Tamil Nadu Minerals Limited (2008-09)

- The Company adopted the value of unapproved granite blocks in deviation to the laid down accounting policy resulting in overvaluation of inventory and profit by Rs.4.72 crore.

- The Company provided for lesser licence charges payable to Government resulting in understatement of liability and overstatement of profit by Rs.7.76 crore for quarrying rights.

Tamil Nadu Magnesite Limited (2008-09)

- The Company made provision towards income tax even when the minimum alternate tax credit was sufficient to meet the tax liability resulting in overstatement of tax liability and understatement of profit by Rs.0.96 crore.

Tamil Nadu Handicrafts Development Corporation Limited (2008-09)

- The Company did not consider the amount recovered under miscellaneous income resulting in understatement of income and profit by Rs.1.60 crore.
- Misclassification of interim arrears paid to employees as advance to staff resulted in overstatement of both loans and advances and profit by Rs.0.62 crore.

Tamil Nadu State Transport Corporation (Villupuram) Limited (2008-09)

- The Company misclassified current year receipts as prior period income contrary to AS-5 requirements resulting in overstatement of prior period income and loss by Rs.2.27 crore and understatement of current year income to the extent.

Tamil Nadu Industrial Explosives Limited (2007-08)

- The Company did not provide for interest and penal interest resulting in understatement of current liabilities and net loss by Rs.1.20 crore.

Southern Structurals Limited (2006-07)

- The Company did not provide for extra shift depreciation of Rs.1.78 crore on plant and machinery resulting in understatement of depreciation and loss and overstatement of fixed assets.

1.42 Similarly, two working statutory corporations forwarded their two arrears accounts for 2007-08 to the Accountant General during the year 2008-09. The audit reports of statutory auditors and the sole/supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and the CAG are given below.

(Amount – Rupees in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Increase in profit	1	0.25	1	0.45	1	0.52
2	Increase in loss	1	227.33	1	141.45	1	284.13
3	Non-disclosure of material facts	2	193.16	1	621.32	1	1,388.79
4	Errors of classification	1	653.06	1	7.04	1	140.10

Some of the important comments in respect of accounts of Statutory Corporations are stated below:

Tamil Nadu Warehousing Corporation (2006-07 and 2007-08)

- The Corporation made excess provision for deferred tax liability resulting in understatement of profit and overstatement of Deferred Tax Liability by Rs.0.52 crore.
- The Corporation wrote off bad debts and debited the 'warehousing charges' instead of 'Bad debts written off'. This has resulted in understatements of warehousing charges and profit for the year by Rs.0.46 crore.

Tamil Nadu Electricity Board (2007-08)

- Non-provision of liability of Rs.117.20 crore being the balance amount of Minimum Alternate Tax withheld by the Board from the independent power producer (IPP) resulted in understatement of liability for purchase of power and deficit to that extent.
- Non-provision of liability of Rs.20.52 crore towards rent resulted in understatement of liability for expenses and deficit to that extent.
- The value appearing under 'Sundry debtors for sale of power' could not be ensured in audit as the difference of Rs.1,277.67 crore between balances as per billing units and LT database was not reconciled in respect of nine regions of the Board.
- The value of Rs.2.21 crore of coal in transit as on 31 March 2008 pertaining to Mettur Thermal Power Station shown as Rs.11.51 crore was in excess by Rs.9.30 crore with reference to the actual quantity as certified by the stores custodian resulted in overvaluation of stock of coal in transit and understatement of deficit to the extent of Rs.9.30 crore.
- The net assets exhibited in the Headquarters balance sheet was more than the consolidated balances of all the circles by Rs.9,725.57 crore (including the difference of Rs.34.98 crore in cash and bank balances).
- The Board did not account for fixed capacity charges of Rs.7.18 crore recoverable from an independent power producer resulting in understatement of other claims and receivables and deposits and overstatement of deficit to the same extent.
- The Board did not provide for liability of Rs.11.43 crore towards arrears payable to handling contractors of coal resulting in understatement of both other Fuel Related Liabilities and deficit.

1.43 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the statutory auditors on possible improvement in the

internal audit/internal control system in respect of 11 companies for the year 2007-08 and 16 companies for the year 2008-09 are given below:

Sl. No.	Particulars	Number of companies where recommendations were made		Reference to serial number of the companies as per Annexure-2	
		2007-08	2008-09	2007-08	2008-09
1	The internal audit system needs to be strengthened to make it commensurate with the size and nature of the business	7	4	6, 18, 15, 21,32, 45 and 50	2, 15, 45 and 50
2	There was no internal audit standards/manual/guidelines prescribed by the companies for the conduct of internal audit	2	4	32 and 41	9, 18, 41 and 50
3	Proper records showing full particulars including quantitative details and situation of fixed assets were not maintained	3	2	6, 15 and 45	2 and 45
4	The existing system of monitoring the recovery of dues needs to be strengthened by preparing age-wise analysis of debtors and periodical monitoring	2	3	6 and 8	26, 32 and 54
5	Internal control system needs to be strengthened	2	2	6 and 50	2 and 50
6	The Companies did not have any defined fraud policy	3	8	15, 43 and 50	15, 26 to 29, 35, 43 and 45
7	Documentation of software programs not available with the companies	2	4	43 and 59	9, 15, 37, and 50
8	The companies have no IT strategy/plan	---	7	---	18, 27 to 29, 37, 54 and 60
9	The companies have not fixed minimum and maximum limits for maintenance of stores and spares	1	2	41	2 and 29
10	The companies did not make ABC analysis for effective inventory control.	2	2	41 and 45	26 and 29

Recoveries at the instance of audit

1.44 During the course of propriety audit in 2008-09, recoveries of Rs.61.37 crore were pointed out to the Management of various PSUs. Out of which, Rs.16.85 crore pertaining to earlier years and Rs.1.88 crore pertaining to the year 2008-09 was recovered during the year 2008-09.

Status of placement of Separate Audit Reports

1.45 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

Sl. No	Name of the Statutory Corporation	Year upto which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Tamil Nadu Electricity Regulatory Commission	2007-08	2008-09	20 October 2009	Yet to be placed in the legislature

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the Legislature.

Disinvestment, Privatisation and Restructuring of PSUs

1.46 There was no disinvestment, privatisation or restructuring of PSUs in the State during the year.

Reforms in Power Sector

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

1.47 The State formed Tamil Nadu Electricity Regulatory Commission (TNERC) in March 1999 under the Electricity Regulatory Commissions Act, 1998, with the objective of rationalisation of electricity tariff for advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2008-09, TNERC issued 10 orders (Nil on annual revenue requirements and 10 on others)

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

Commitments made in the MOU, except the following have been achieved as reported by Tamil Nadu Electricity Board:

	Commitment as per MOU	Targeted completion Schedule	Status (as on 31 March 2009)	Remarks
1.	Reduction of Transmission and Distribution losses to 15 <i>per cent</i>	December 2003	Transmission and Distribution losses - 18 <i>per cent</i>	---
2.	100 <i>per cent</i> metering of all consumers	December 2003	All services except the agricultural and hut services have been metered	The Government requested (September 2009) TNERC for extension of time for three years from 1 October 2009 for installation of meters in the agricultural and hut services. TNERC accepted Government's request and approved for extension of time for three years upto 1.10.2012.
3.	Current operations in distribution to reach break-even	March 2003	The Board had a deficit of Rs.3,512.08 crore in 2007-08. The deficit doubled to Rs.7,131.94 crore in 2008-09 (as per provisional accounts).	---
4.	Energy audit at 11 KV sub-stations level	January 2002	Energy audit was conducted in all the 11/22 KV feeders. 1,587 feeders were identified to have line losses of more than 10 <i>per cent</i> . By carrying out improvement works the line losses have been brought below 10 <i>per cent</i> in 797 feeders so far.	---

Discussion of Audit Reports by COPU

1.48 The matter relating to clearance of backlog of reviews/paragraphs was informed to the Committee Officer, Tamil Nadu Legislative Assembly Secretariat in May 2008. Further, an informal meeting with Chairman/COPU was held in January 2009. Following this, COPU held 13 meetings between June 2008 and December 2009. The status as on 31 December 2009 of reviews and paragraphs that appeared in Audit Reports (Commercial) and discussed by the COPU is as under:

Period of Audit Report	Number of reviews and paragraphs appeared in the Audit Report		Number of reviews/paragraphs discussed/ passed over	
	Reviews	Paragraphs	Reviews	Paragraphs
1998-99	6	23	1	23
1999-2000	4	24	2	23
2000-01	4	21	1	21
2001-02	3	29	1	29
2002-03	2	27	1	26
2003-04	4	20	2	20
2004-05	2	23	2	20
2005-06	2	26	---	25
2006-07	4	23	---	11
2007-08	4	20	---	1
TOTAL	35	236	10	199