

**PART III**

**Public Sector Undertakings**

## CHAPTER IV

### 4.1 Introduction

State Public Sector Undertakings (PSUs) are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State. State PSUs consist of Government Companies and Statutory Corporations. As on 31 March 2020, there were 60 PSUs under the audit jurisdiction of this office<sup>1</sup> as given in **Annexure 6**. These include 52 Government Companies<sup>2</sup> (including four Non-functional companies) and eight Government Controlled Other Companies<sup>3</sup>. The annual accounts of the State PSUs for the three years ending 2019-20 (to the extent received) have been reviewed and the results are included in a separate report titled “General Purpose Financial Report of State PSUs” – Government of Tamil Nadu (Report No. 5 of 2021).

#### 4.1.1 Investment in PSUs and its performance

A comparative position of Equity, Long term loans, Turnover, Annual growth rate of turnover and Net Profit/Loss for 60 PSUs during the five years ending 2019-20 are given in **Table No. 4.1**.

**Table No. 4.1: Details of Equity, Long term loans, Turnover and Net Profit/Loss of PSUs during 2015-20**

(₹ in crore)

| Sl. No. | Particulars                                    | 2015-16    | 2016-17     | 2017-18    | 2018-19     | 2019-20     |
|---------|------------------------------------------------|------------|-------------|------------|-------------|-------------|
| 1       | Equity                                         | 35,002.42  | 37,765.84   | 54,435.95  | 58,892.94   | 62,921.85   |
| 2       | Long Term Loans                                | 98,103.55  | 1,03,512.60 | 91,356.25  | 1,35,037.23 | 1,77,410.29 |
| 3       | Turnover                                       | 60,109.07  | 69,401.99   | 64,493.54  | 79,575.71   | 80,297.49   |
| 4       | Annual Growth rate of turnover (in percentage) | 14.14      | 15.46       | (-) 7.07   | 23.38       | 0.91        |
| 5       | Net Profit/Loss after Tax                      | -14,822.41 | -8,378.28   | -17,521.50 | -17,025.67  | -17,243.38  |

(Source: Data of Annual Accounts of PSUs)

<sup>1</sup> Office of the Accountant General (Audit-II), Tamil Nadu and Puducherry.

<sup>2</sup> As per Section 2(45) of the Companies Act, 2013, Government company means any company in which not less than fifty-one *per cent* of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of a Government company

<sup>3</sup> As per the Companies (Removal of Difficulties) Seventh Order, 2014 issued by Ministry of Corporate Affairs vide Gazette Notification dated 4 September 2014, any other company, owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred to in this Report as Government controlled other Companies.

At the end of March 2020, the total investment in 60 State PSUs<sup>4</sup> stood at ₹ 2,40,332.14 crore (Equity: ₹ 62,921.85 crore and Long term loans: ₹ 1,77,410.29 crore). The growth rate of the turnover of the State PSUs during these five years was fluctuating in the range of (-) 7.07 to 23.38 *per cent*.

Out of the 60 State PSUs, 24 PSUs earned a profit of ₹ 1,340.25 crore during 2019-20, four PSUs reported no profit or loss and the remaining 29 PSUs reported a total loss of ₹ 18,583.63 crore during the same period.

#### **4.1.2 About this part of the Report**

This part of Report of the Comptroller and Auditor General of India (CAG) relates to results of Compliance Audit of 60 PSUs under the audit jurisdiction of this office. Compliance Audit covers the examination of the records relating to revenue and expenditure of the audited entities to ascertain whether the transactions of the Company were in compliance with the objectives of the Company and the provisions of applicable laws, rules, regulations and various orders and instructions issued by the competent authorities.

#### **4.1.3 Accountability Framework**

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) (DPC) Act, 1971. The procedure for audit of Government companies are laid down in Sections 139 and 143 of the Companies Act, 2013 (Act 2013).

Further, as per sub-Section 7 of Section 143 of the Companies Act 2013, the CAG of India may, in case of any company covered under sub-Section (5) or sub-Section (7) of Section 139 of the Companies Act, 2013, if considered necessary, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19A of the CAG's (DPC) Act, 1971 shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG of India.

#### **4.1.4 Statutory Audit**

The financial statements of the Government Companies are audited by Statutory Auditors, who are appointed by the CAG as per the provisions of Section 139 (5) or (7) of the Act 2013. The Statutory Auditors submit a copy of the Audit Report to the CAG of India including, among other things, financial statements of the Company under Section 143 (5) of the Act 2013. These financial statements are also subject to supplementary audit by the CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act 2013.

---

<sup>4</sup> Excluding four non-functional companies.

#### **4.1.5 Role of Government and Legislature**

The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the State Government. The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG of India, in respect of State Government Companies are placed before the State Legislature under Section 395 of the Companies Act, 2013.

#### **4.1.6 Planning and Conduct of Audit**

The audit observations are expected to enable the Management of the PSUs to take corrective action, as also to frame policies and directives that will lead to improved financial management, thus, contributing to better governance.

The primary purpose of this Report is to bring significant results of audit, to the notice of the State Legislature. Audit process starts with the assessment of risks faced by various PSUs based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit observations are also considered in this exercise. The frequency and extent of audit are decided based on this risk assessment. Based on such risk assessment, out of the total audit universe of 60 PSUs, 30 PSUs<sup>5</sup> were audited during 2019-20.

Inspection Reports (IRs) containing audit observations are issued to the Chief Executive of the PSUs after completion of audit. The PSUs are requested to furnish replies to the audit observations within one month of receipt of the IRs. Whenever replies are received, audit observations are either settled or further action for compliance is advised. Important audit observations arising out of these IRs are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the house of the State Legislature.

#### **4.1.7 Response to audit**

##### **Draft Paragraphs and Compliance Audit**

Five Draft Paragraphs containing serious financial irregularities were forwarded to the Principal Secretaries of the Departments concerned of the PSUs between December 2020 and March 2021, with the request to send their responses. Government replies to all the five Draft Paragraphs were received between February 2021 and July 2021. The replies have been suitably incorporated and included in this Audit Report.

---

<sup>5</sup> Including 58 units of two PSUs-viz TANGEDCO and TANTRANSO.

### **Follow-up action on Audit Reports**

As per the directions of the Committee on Public Undertakings (COPU), Explanatory Notes (EN) on the important points on the Audit Report should be furnished within a period of two months. Similarly, the Departments concerned should furnish remedial Action Taken Notes (ATNs) on the recommendations of COPU, relating to the Paragraphs contained in the Audit Reports, within six months. However, the outstanding position of ENs and ATNs on the Paragraphs included in the Reports of the CAG of India relating to the PSUs indicated that ENs in respect of 16 audit paragraphs and ATNs for 480 recommendations of COPU were outstanding as on 31 March 2020.

### **Outstanding replies to Inspection Reports**

On behalf of the CAG of India, the Accountant General conducts periodical inspections of the PSUs to test check the transactions and verify maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with issue of IRs to the Chief Executive of the respective PSUs for taking prompt corrective action, rectify the defects and omissions pointed out in the IRs and report compliance through replies.

Inspection Reports issued up to 31 March 2020 were reviewed and found that 3,317 Paragraphs relating to 738 IRs remained outstanding at the end of September 2020 (**Annexure 6**). Out of these IRs, 292 IRs containing 872 Paragraphs were pending for more than five years and 446 IRs containing 2,445 Paragraphs were pending between one and five years.

This large pendency of IRs, due to lack of corrective action or non-receipt of replies, was indicative of the fact that Chief Executive of the PSUs did not take appropriate action to rectify the defects, omissions and irregularities pointed out in the IRs.

#### **4.1.8 Coverage of this Report**

This chapter contains five Compliance Audit paragraphs in respect of three PSUs involving a financial effect of ₹ 337.08 crore. These paragraphs highlight the deficiencies in the management of PSUs resulting in serious financial implications as given below:

1. TANGEDCO failed to:
  - factor the transmission loss in the Energy Purchase Agreements with Solar Power Generators resulted in additional expenditure of ₹ 245.27 crore.
  - revise the quantum of power allotted based on the outage of Open Access Generators and to restrict the adjustment to entitled quantum, resulted in excess adjustment of power to consumers leading to loss of ₹ 53.05 crore.
  - monitor the connected load of LT Tariff IIIA consumers and revise the tariff to LT IIIB for exceeding the prescribed level of 12 KW had resulted in loss of revenue of ₹ 9.11 crore.

2. TANSIDCO failed to assess the demand before developing new industrial estates resulted in unproductive investment of ₹ 28.47 crore.
3. TIIC failed to inspect the actual receipt of machineries at the factory site before disbursement resulted in non-realisation of dues of ₹ 1.18 crore.

## **4.2 Compliance Audit Observations**

Important Audit findings, noticed as a result of test check of transactions of the State Public Sector Undertakings (PSUs) are given below:

### **Tamil Nadu Generation and Distribution Corporation Limited**

#### **4.2.1 Additional Expenditure**

**Failure to factor the transmission loss in the Energy Purchase Agreements with Solar Power Generators resulted in additional expenditure of ₹ 245.27 crore.**

Tamil Nadu Electricity Regulatory Commission (TNERC) issued a comprehensive Tariff Order<sup>6</sup> (TO) in September 2014 to regulate the purchase of solar power by distribution licensees from the solar power generators (SPG). As per Clause 12.9 (Metering) of the TO, the metering and communication should be in accordance with Central Electricity Authority (Installation and Operation of Meters) Regulations 2006 (Regulations) which stipulates (Clause 6(1)(d)) that all interface meters installed at the points of inter-connection for the purpose of electricity accounting and billing should be owned by the supplier of electricity.

TANGEDCO entered into long term Energy Purchase Agreement (EPA) for 25 years with 86 SPGs under Preferential Tariff Scheme<sup>7</sup> between March 2015 and March 2019. The EPA required that the meters should be installed and connected at the point of inter-connection between the electrical system of the generating company (i.e. the SPG) and the Transmission/Distribution system at the cost of SPG. These 86 SPGs have installed the energy accounting meters at generating end and connected their power plants by erecting the necessary transmission lines at their cost with the nearest sub-stations owned by TANGEDCO/TANTRANSCO.

In this connection, Audit observed that the SPG did not adhere to the EPA as well as the CEA Regulations by not installing the meters at the inter-connection point. TANGEDCO failed to ensure the installation of energy accounting meters at sub-station's end and the payment to the SPGs were being made based on the energy recorded in meters installed at generating end. Consequently, the transmission loss between the generating station and the pooling sub-station (i.e. TANGEDCO's sub-stations) was absorbed by TANGEDCO. Accordingly, the SPGs selected through Preferential Tariff Scheme were paid for the total power generated by them without any deduction for the transmission loss. Considering the rate<sup>8</sup> of transmission loss

---

<sup>6</sup> Order No.4/2014, dated 12 September 2014.

<sup>7</sup> Tariff fixed by the Appropriate Commission for sale of energy from a generating station using renewable energy sources to a distribution licensee.

<sup>8</sup> TNERC in its Tariff order of December 2014 had approved a transmission loss of 0.76 per cent for 230 KV line and 2.70 per cent for 110/33/22/11 KV lines which was applicable up to 10 August 2017. Subsequently, vide Tariff order of August 2017, the transmission loss was revised to 0.77 per cent and 3.91 per cent for 230 KV line and 110/33/22/11 KV lines respectively which was applicable from 11 August 2017.

approved by TNERC from time to time, transmission loss absorbed by TANGEDCO during March 2015 to March 2021 worked out to 406.06 MUs. This resulted in additional expenditure of ₹ 245.27 crore (worked out at the applicable tariff rates on 406.06 MUs) which was a loss to TANGEDCO and an undue benefit to the SPGs.

It was also seen that though TANGEDCO had factored the transmission loss on the energy purchase agreements from Wind Energy generators and solar energy purchased from SPGs selected through tender process (commissioned between December 2017 and February 2020), the same was not followed in case of agreements with SPGs selected through Preferential Tariff Scheme. Thus, had TANGEDCO incorporated the relevant clause in the agreement with the SPGs selected through Preferential Tariff Scheme to factor the transmission loss between the generation end and sub-station end, it could have avoided substantial loss of revenue.

The additional expenditure stated above was worked out for the period up to March 2021 only and such additional payment would be continuing till the validity of the EPA which was signed for a period of 25 years.

Thus, it is clear that the additional payment was only on account of failure to factor the transmission loss in the EPA for which responsibility needs to be fixed.

Government in its reply (June 2021) stated that as per clause 2(1) (f1) (a) of Power Procurement from New and Renewable Sources of Energy Regulations issued by TNERC, though inter-connection point shall be at the pooling sub-station (*i.e.* TANGEDCO's sub-stations), the developers (*i.e.* the SPGs) are permitted to install the energy meters inside solar plant premises at "inter-connection point" for recording energy exports. Government also stated that to comply with the provisions contained in Procedure for implementation of TNERC Deviation Settlement Mechanism and Related Matters Regulations, 2019 (issued in October 2020), the location of energy accounting meters for solar projects commissioned under Preferential Tariff Scheme will be changed from solar power plant end (*i.e.* the private generating stations) to TANGEDCO/TANTRANSCO's Sub-station end.

The above reply proves that management's decision to continue with the metering at SPG's end was not taking care of the transmission losses and the additional payment was only on account of failure to factor the transmission loss in the EPA.

It is recommended that as stated in the reply, TANGEDCO may change the location of energy accounting meters to TANGEDCO/TANTRANSCO's Sub-station end immediately to avoid further loss which may continue beyond March 2040, as the present EPA is for a period of 25 years from March 2015.

#### **4.2.2 Loss of Revenue**

**Failure to revise the quantum of power allotted based on the outage of Open Access Generators and to restrict the adjustment to entitled quantum, resulted in excess adjustment of power to consumers, leading to loss of ₹ 53.05 crore.**

As per the provisions of Tamil Nadu Electricity Regulatory Commission (TNERC) Grid Connectivity and Intra-State Open Access Regulations, 2014 (Grid Regulations) (with effect from 07 May 2014), the generating stations/captive generating plants/consumers are eligible for open access<sup>9</sup> (OA) to the distribution system. As per Condition 15 (a) (ii) of the Grid Regulations read with Standard Terms and Conditions executed with TANGEDCO/TANTRANSCO, the OA Generator<sup>10</sup> has to submit the details of generation and wheeling quantum to High Tension (HT) consumers, in advance in the preceding month to the Nodal Agency/State Load Despatch Center (SLDC) for approval.

The SLDC based on the demand of the grid will allocate the quantum of generation for wheeling to OA consumers. The Superintending Engineer (SE) at generation end will allocate the approved quantum of generation both in terms of capacity in mega watt (MW) and units to various consumers based on the approval. In the event of outage of the generator in any particular month, the SE at generation side has to revise the original allocation duly deducting the quantum of units for the outage period and communicate the slot-wise power (units) generation to the SEs at OA consumers' end to adjust the slot-wise power (units) from the OA consumers' monthly energy bills.

TANGEDCO reiterated (August 2017) to the field offices that in case excess energy is injected by the OA Generators over and above the approved/revised slot-wise quantum of energy generated, the same need not be considered for adjustment in the OA consumers' monthly energy bills in order to avoid the OA Generator pumping excess energy at a later date in the month to compensate loss of generation occurred during the outages. Further, all the SEs of OA consumers' end were to ensure the above while making other adjustments in monthly energy bills of the consumers as this would otherwise lead to loss to TANGEDCO.

---

<sup>9</sup> "Open access" means the non-discriminatory provision for the use of transmission lines or distribution system or associated facilities with such lines or system by any licensee or consumer or a person engaged in generation in accordance with the Regulations.

<sup>10</sup> Open Access (OA) Generators referred to in the para is the power generators who have been granted approval for Open Access and permitted to use the transmission lines and distribution system of TANTRANSCO/TANGEDCO for wheeling the energy generated for adjustment against the power consumed by HT consumers situated at different Electricity Distribution Circles, who is referred to in the para as HT (OA) consumers.

Audit noted that TANGEDCO granted OA licences to 34 Generators under 14 Electricity Distribution Circles (EDCs). However, only eight<sup>11</sup> EDCs furnished the monthly allocation statements of 23 OA Generators along with the Common Meter Reading Instrument<sup>12</sup> (CMRI) data. Analysis of the data revealed that there were intermittent outages in respect of 14 OA Generators. However, these outages were not taken into account and the allocation was neither revised nor communicated by the SEs of OA Generation side to SEs at OA Consumers' end. Consequently, the SE at OA Consumers' end could not factor the outage hours in their monthly HT energy bills which was in violation of the instructions of August 2017. As a result, excess energy pumped by the OA Generator at later dates of the month was also considered as allotted energy, leading to excess adjustment of units to OA Consumers than the entitled quantum with consequent under recovery of energy charges from them.

Audit worked out the excess adjustment of ₹ 53.05 crore (83.55 MUs) in the consumers bills resulting in under recovery from 14 OA Consumers (September 2017 to September 2020) (**Annexure 7**), which was otherwise recoverable from such OA Consumers for the energy drawn from TANGEDCO's grid during the outage period.

Government stated (July 2021) that show cause notices have been issued to the generators for recovering the amount. Upon perusal of replies, the final demand notices will be issued and the amount will be realised. However, the fact remains that the corrective action was initiated by TANGEDCO only after the lacuna was pointed out by Audit.

TANGEDCO may analyse the CMRI in respect of other OA Generators in the remaining EDCs and recover the power charges from consumers and fix responsibility for the lapse. A suitable mechanism may be put in place to contain further leakage of revenue.

---

<sup>11</sup> (i) Chennai North, (ii) Erode, (iii) Ramnad, (iv) Tuticorin, (v) Karur, (vi) Cuddalore, (vii) Udumalpet and (viii) Sivaganga. Details not received in respect of Nagapattinam, Pudukottai, Thiruvavur, Mettur, Coimbatore (North) and Tirunelveli EDCs.

<sup>12</sup> CMRI is a portable battery operated instrument applicable for viewing, downloading and uploading meter data.

#### **4.2.3 Loss of Revenue**

**Failure to monitor the connected load of LT Tariff IIIA consumers and revise the tariff to LT IIIB for exceeding the prescribed level of 12 KW had resulted in loss of revenue of ₹ 9.11 crore.**

As per the Tariff Orders (TO) of Tamil Nadu Electricity Regulatory Commission (TNERC), issued in August 2017, for cottage and tiny industries, micro enterprises engaged in the manufacture or production of goods, Low Tension (LT) Tariff IIIA (1) is applicable and the energy charges was fixed at the rate of ₹ 4.00/4.60<sup>13</sup> per unit. Similarly, for power looms, braided cords manufacturing and related ancillary tiny industries engaged in warping, twisting and winding, LT Tariff IIIA (2) is applicable and the energy charges was fixed at the rate of ₹ 5.20 to 5.75<sup>13</sup> per unit. The TO provided that the contracted load<sup>14</sup> of the industries covered under IIIA (1) and IIIA (2) should not exceed 12 Kilo Watt (KW). If the connected load<sup>15</sup> of these category of consumers exceeds 12 KW, such consumers will fall under LT Tariff IIIB for which the applicable energy charges is ₹ 6.35 per unit. Further, Regulation 5(2) of Tamil Nadu Electricity Supply Code also stipulated that whenever the consumer's connected load exceeds the contracted demand, such consumers should be categorized under LT Tariff IIIB and charged accordingly.

In order to verify the compliance to the correct classification of consumers as per their contracted demand vis-à-vis actual consumption, Audit collected the list of all the LT IIIA (1) and IIIA (2) consumers from EDP Wing at Head Office of TANGEDCO. On analysis of such data, it was found that, the connected load of 1,502 consumers were in excess of 12 KW (up to 51 KW) during August 2017 to March 2021 which were to be classified under LT IIIB and to be billed at enhanced rates<sup>16</sup>. But the field offices continued to bill these consumers under LT IIIA (1) or IIIA (2), as the case may be, at lesser tariff rates which was irregular. Audit worked out the differential energy charges to be ₹ 9.11 crore in respect of these 1,502 consumers for the period from August 2017 to March 2021. The failure of the field offices to monitor the connected load of LT IIIA consumers had resulted in loss of revenue to that extent.

It is pertinent that TANGEDCO had computerized the LT billing in the year 2008 itself and the entire data of LT consumers are available at Head Office. But, this data was not analysed for extracting exception reports to ascertain the change in the connected load for appropriate corrective action. This clearly indicated that TANGEDCO neither conducted the field inspection adequately nor analysed the data available at Head Office level for pointing out excess drawal. Further, the LT billing software was deficient to give alert message whenever the recorded demand exceeded the prescribed level of 12 KW. This indicates lack of internal control mechanism to enforce the tariff orders issued by TNERC.

---

<sup>13</sup> Depending upon the consumption slabs prescribed.

<sup>14</sup> The load as specified in the agreement between the consumer and TANGEDCO.

<sup>15</sup> The aggregate load of all equipments connected to the consumer's installation.

<sup>16</sup> As per the prevailing tariff, the applicable energy charges was ₹6.35 per unit.

Government in its reply (July 2021) stated that as pointed out by Audit, necessary action has been taken to modify the program in LT Billing software so as to Auto-generate a 15 days' notice intimating the consumer based on the recorded demand exceeding 12 KW and Auto-update the tariff reclassification after 15 days. However, the fact remains that corrective action was initiated by TANGEDCO only after the lacuna pointed out by Audit which indicated lack of monitoring of tariff provisions and Supply Code. Moreover, TANGEDCO is yet to issue 15 days' notice to the consumers who had already exceeded the prescribed level of 12 KW to prevent the revenue loss. Responsibility needs to be fixed for the failure to monitor the connected load resulting in loss of revenue.

### **Tamil Nadu Small Industries Development Corporation Limited**

#### **4.2.4 Idle Investment**

**Failure to assess the demand before developing new industrial estates resulted in unproductive investment of ₹ 28.47 crore.**

Tamil Nadu Small Industries Development Corporation Limited (TANSIDCO) was established (1970) for the formation and maintenance of industrial estates and to facilitate the promotion and development of Micro, Small and Medium Enterprises (MSMEs) in Tamil Nadu. It develops Industrial Estate (IEs) and allots the industrial plots to the MSMEs on outright sale basis.

As per Chapter 7 of the Accounts Manual of TANSIDCO, potential centres, where there is demand for plots for starting industries and formation of IEs and which are technically viable should be identified. The Branch Manager of TANSIDCO should first conduct extensive survey of these potential centers to assess the demand for starting industries through discussions with the Small Scale Industries Associations and thereafter assess the viability and potentiality of these centres to form IEs.

In order to encourage the MSME industries, Government of Tamil Nadu (GoTN), announced (April 2013) that seven<sup>17</sup> new IEs will be established through TANSIDCO in different villages in six districts. In pursuance of this announcement, TANSIDCO had identified the required land and developed these seven IEs, by creating 467 plots at a total cost of ₹ 52.67<sup>18</sup> crore between March 2014 and August 2020.

<sup>17</sup> (i) Kattuvananjur in Villupuram District, (ii) Parvathanahally in Dharmapuri District, (iii) Eachambadi in Dharmapurai District, (iv) Mallur in Ariyalur District, (v) Periyanesalur in Cuddalore District, (vi) Sakkarakottai in Ramanathapuram District and (vii) Vettambadi in Namakkal District.

<sup>18</sup> Total expenditure without considering the grant portion.

Audit observed that, out of the seven IEs, only in Eachampadi IE there was a substantial demand wherein out of 110 plots created (May 2018) TANSIDCO had sold 103 plots representing 94 *per cent* of the plots during January 2019 to February 2021. However, in respect of the remaining six IEs, out of the 357 plots developed during March 2014 to August 2020 at a total cost of ₹ 32.67 crore, TANSIDCO sold only 34<sup>19</sup> plots at a sale price of ₹ 4.20 crore in the last four years, representing 9.52 *per cent* of the plots created so far (November 2020) and there was no demand for the remaining 323 plots (90.48 *per cent*). Though TANSIDCO had issued advertisements four times between July 2016 and September 2019 calling for the applications from the entrepreneurs to take plots in the above IEs, the response was inadequate and thus the developed plots remained unallotted.

It was further observed that despite the provisions in the Accounts Manual to conduct a survey to assess the demand and viability of the potential centres before developing them as IEs, TANSIDCO did not conduct any demand survey before finalising the centers (site) and developing them as IEs. TANSIDCO developed these six IEs by spending a total sum of ₹ 28.47 crore. Failure to assess the demand before developing the IEs resulted in non-saleability of the plots and consequent unproductive investment of ₹ 28.47 crore, being the proportionate cost of unsold 323 plots. It is pertinent to mention that, even after five years since development, 90.48 *per cent* of the plots remained unsold.

TANSIDCO replied (November 2020) that the IEs were established in the backward area and it took up the strategy of phased development in the IEs. It further stated that, it is taking up various promotion activities to sell the plots including reduction of plot cost for which a proposal has been sent to the Government. The reply is not tenable for the reason that even after repeated advertisements, TANSIDCO could not find the prospective MSME Units. Thus, embarking on new investment without demand survey was in violation of its own manual provisions as well as financial prudence. Besides, the objective of the GoTN to encourage the MSME in these backward areas remained unachieved.

Government in its reply stated (May 2021) that in order to develop industrial activities in rural areas, these IEs were created in rural areas. The area being backward, demand for plot was very less and the development was made in a phased manner based on demand to initiate industrial promotional activities as per the Government announcement. It further stated that future investment will be made after feasibility study or demand assessment report. However, the fact remains that initiation of development of IEs without conducting demand study was in violation of its own laid down policy which led to non-saleability of the developed plots.

---

<sup>19</sup> (i) Kattuvananjur: Nil, (ii) Parvathanahally: Five plots, (iii) Mallur: Two, (iv) Periyanesalur: Five, (v) Sakkarakottai: Seven and (vi) Vettambadi: 15 plots.

It is recommended that TANSIDCO should conduct a demand survey before finalising any site for development of new IEs in future. Further, the Government may assess the reasons for low saleability of the existing plots and draw up a viable plan to sell the unsold plots.

### **Tamil Nadu Industrial Investment Corporation Limited**

#### **4.2.5 Irrecoverable dues**

##### **Failure to inspect the actual receipt of machineries at the factory site before disbursement resulted in non-realisation of dues of ₹ 1.18 crore.**

Tamil Nadu Industrial Investment Corporation Limited (Company) extends financial assistance to the industrial units within the State of Tamil Nadu in the form of Term loan, Working Capital loan, *etc.* The Company sanctioned (October 2017) a Term Loan of ₹ 72.00 lakh and Subsidy Bridge Loan (SBL) of ₹ 21.79 lakh to M/s. Bhaghavan Printer and Publisher (borrower) under New Entrepreneur-Cum-Enterprise Development Scheme (NEEDS) formulated (October 2012) by the Government of Tamil Nadu. The loan was sanctioned for purchase and erection of five second hand imported offset printing machines and allied indigenous machineries. During pre-sanction appraisal, the borrower stated (October 2017) that full payment was made to the suppliers of the machineries through private arrangement and the machineries have arrived at Chennai Port. Accordingly, the loan was disbursed as reimbursement of expenditure. The Company disbursed a total sum of ₹ 83.21<sup>20</sup> lakh in four instalments between November 2017 and January 2018.

Audit noticed that the borrower imported (November 2017) only one offset printing machine and purchased indigenous equipment *i.e.* Generator set, Air-conditioner, *etc* at a total cost of ₹ 45.74 lakh and installed at the factory premises. The remaining four<sup>21</sup> imported second hand machinery had not been received due to some dispute between the borrower and the local dealer of the imported machineries. The Company decided (December 2018) to foreclose the loan account and required the borrower to repay the entire sum amounting to ₹ 78.07 lakh (30 November 2018). Due to non-receipt of dues, the Company took constructive possession of the hypothecated assets (December 2018) and collateral security<sup>22</sup> (June 2019) which were brought for e-auction (February 2020). However, no bids were received. The outstanding dues stood at ₹ 1.18 crore (Principal: ₹ 82.05 lakh and Interest and other charges ₹ 35.83 lakh) (December 2020).

<sup>20</sup> Comprising term loan of ₹ 61.42 lakh and subsidy portion of ₹ 21.79 lakh.

<sup>21</sup> Polar cutting machine, Die cutting, Die punching machine, GUK folding machine *etc.*

<sup>22</sup> A piece of land admeasuring 1,875 square feet at Lakshmipuram co-operative Building Society, Tambaram Town valuing ₹ 1.03 crore.

In connection with the above, Audit observed the following irregularities:

- The cost of the lone machine imported and installed by the borrower was ₹ 32.26 lakh against which the Company disbursed a sum of ₹ 26.92 lakh (November 2017). In respect of the other imports *i.e.* the remaining four second hand machineries valuing ₹ 42.18 lakh and indigenous machineries valuing ₹ 12.72 lakh, the disbursement of ₹ 56.29 lakh, was made in instalments based on the request of borrower to release the loan amount stating that it had imported the machineries on payment from its own sources. But, the Nodal Officer<sup>23</sup> neither verified the documents (*viz.*, Import invoice, Bill of lading, *etc*) nor conducted any physical verification of the imported assets before disbursement of loan. This was in contravention of Para 2 (Role of Nodal Officer) of the Disbursement Manual, before releasing the loan in January 2018.
- As per the condition (Item 2 of NEED Subsidy/SBL conditions), in case of violation of any of the terms and conditions of Term loan, the subsidy was repayable. Therefore, ₹ 10.89 lakh adjusted against the SBL of the borrower (May 2018) was not correct and tantamount to violation of the above condition.

Therefore, due to the lapse in conducting physical verification of the assets and documents prior to the disbursement of loan resulted in non-realisation of dues amounting to ₹ 1.18 crore (December 2020).

Principal Secretary (PS) to Government, Industries Department in the reply (February 2021) stated that due to certain dispute between the borrower and the local agent of the foreign supplier, the borrower could not install the machines. PS further stated that the Company has initiated disciplinary action against the concerned six officials. However, the fact remained that if the condition prescribed in the Disbursement Manual for inspection of the Unit was followed, the dispute with the local dealer and the non-receipt of machineries by the borrower could have been ascertained and the disbursement avoided.

A similar observation on “Non-adherence to the disbursement procedures of loan resulted in siphoning of ₹ 1.07 crore by the loanee” was included in the Audit Report No.2 of 2021 on Public Sector Undertakings, Government of Tamil Nadu, for the year ended March 2019 with the recommendation to review all such cases of disbursement by the officials of the Company to ensure that the amount of loan is not misused/siphoned of (Para no. 5.4 of the Report).

---

<sup>23</sup> Nodal Officer is a person who prepares the Disbursement note and his duty includes inspection of the unit in one or two stages of disbursement for verification of the assets for which loan disbursement has been made.

It is further recommended that the Company may fix responsibility for the lapses in the disbursement and take appropriate action to recover the amount.

**Chennai**  
**The 15 Dec 2021**



**(VISHWANATH SINGH JADON)**  
**Accountant General (Audit-II)**  
**Tamil Nadu and Puducherry**

**Countersigned**

**New Delhi**  
**The 27 Jan 2022**



**(GIRISH CHANDRA MURMU)**  
**Comptroller and Auditor General of India**