

# Chapter I

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## **Introduction**

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### ***1.1 General***

Telangana State was formed on 2 June 2014. As on 31 March 2021, there were 82 Public Sector Undertakings (PSUs) in Telangana State under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). These included eight Government Companies in Power Sector, 68 Government Companies, three Other Companies<sup>1</sup> Controlled by Government and three Statutory Corporations<sup>2</sup> in Non-Power Sector. Out of the 82 PSUs, 66 were working and 16 were inactive<sup>3</sup> PSUs. Two working PSUs, namely, Andhra Pradesh Tribal Power Company Limited and Infrastructure Corporation of Andhra Pradesh Limited were under demerger. During the period 2019-21, one Government Company<sup>4</sup> got dissolved and four Government Companies<sup>5</sup> came under the audit jurisdiction of the CAG.

### ***1.2 Audit Mandate***

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and Section 19 and 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). The CAG also conducts supplementary audit of accounts of the PSUs under Section 143 of the Companies Act, 2013. Audit of Statutory Corporations is governed by their respective legislations. Out of the three Statutory Corporations, CAG is the sole auditor for Telangana State Road Transport Corporation.

Principles and methodologies for various audits are prescribed in Auditing Standards and Regulations on Audit and Accounts, as well as other guidelines, manuals and instructions issued by the CAG.

### ***1.3 Coverage of this Report***

The summary of financial performance of PSUs of Telangana Government (GoTS) as revealed from the accounts/ information furnished by them and results of oversight role of the CAG is reported separately as part of the CAG's State Finances Audit Report.

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<sup>1</sup> Hyderabad Growth Corridor Limited, Karimnagar Smart City Corporation Limited and Greater Warangal Smart City Corporation Limited

<sup>2</sup> Telangana State Financial Corporation, Telangana State Road Transport Corporation and Telangana State Warehousing Corporation

<sup>3</sup> Either defunct or under liquidation. Of these, 15 Companies are under demerger

<sup>4</sup> Southern Transformers and Electricals Limited

<sup>5</sup> Telangana Rythu Bandhu Samithi, Bio Tech Hub Limited, Karimnagar Smart City Corporation Limited and Greater Warangal Smarty City Corporation Limited

This Report of the CAG contains matters arising from the compliance audit of transactions and review of performance of the PSUs of the GoTS coming under the administrative control of three departments falling under three clusters<sup>6</sup>. The cluster wise list of Departments and the PSUs under their jurisdiction is given in **Appendix 1.1**.

In this Report, one Performance Audit on “Sand mining with special emphasis on initiatives taken to curb illegal mining”, one Detailed Compliance Audit on Hyderabad Metro Rail Project and one Compliance Audit Paragraph are included and these were issued to the Special Chief Secretary/ Principal Secretaries of the concerned Departments with a request to furnish reply within four to six weeks. Government replies and the views expressed by the State Government during the Exit Conference on the Performance Audit Report are suitably incorporated in this Report.

The primary purpose of this Report is to bring to the notice of the State Legislature, significant results of audit on PSUs. The findings of audit are expected to enable the Executive to take corrective action, to frame appropriate policies as well as to issue directives that will lead to improved financial management of the PSUs and contribute to better governance.

#### **1.4 Response of PSUs/ Government to audit findings**

##### **1.4.1 Response to previous Inspection Reports**

Inspection Reports are issued to the Head of the auditee unit with a copy to next higher authority for necessary action. They are required to respond to the audit observations within four weeks. As of 30 September 2021, 361 IRs containing 2,323 Paragraphs pertaining to previous years were pending settlement. Of these, first replies have not been received in respect of 552 Paragraphs (63 IRs) as detailed in **Table 1.1**. Working PSU wise and Department wise details are given in **Appendix 1.2**.

**Table-1.1:**

#### **IRs/ Paragraphs for which first replies were not received as of 30 September 2021**

Year	Number of IRs/ Paragraphs pending settlement		IRs/ Paragraphs for which even first replies were not received	
	IRs	Paragraphs	IRs	Paragraphs
2016-17 & earlier years	194	724	10	68
2017-18	41	389	12	139
2018-19	51	413	16	132
2019-20	57	642	18	149
2020-21	18	155	7	64
<b>Total</b>	<b>361</b>	<b>2,323</b>	<b>63</b>	<b>552</b>

*Source: Records maintained by Office of the Accountant General (Audit), Telangana*

<sup>6</sup> Telangana State Mineral Development Corporation Limited under the Director of Mines and Geology, Industries and Commerce Department of the Industry and Commerce cluster, Hyderabad Metro Rail Limited under Municipal Administration and Urban Development Department of Urban Development cluster and Northern Power Distribution Company of Telangana Limited under Energy Department of Energy and Power cluster

Lack of action on IRs and audit paragraphs is fraught with the risk of perpetuating serious financial irregularities as pointed out in these reports. It may also result in dilution of internal controls in the governance process, inefficient and ineffective delivery of public goods/ services, fraud, corruption and loss to public exchequer.

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

The Reports of the CAG are products of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. As per the instructions issued (June 2004) by the Finance Department of erstwhile Government of AP, all Administrative Departments are required to submit replies/ explanatory notes to paragraphs/ reviews included in the Audit Reports of the CAG of India within a period of three months of their presentation in the Legislature in the prescribed format, without waiting for any questionnaires from the Committee on Public Undertakings (CoPU).

As of 30 September 2021, out of 85 Performance Audits (PAs) and 428 Paragraphs featured in CAG Reports on Telangana PSUs, Explanatory Notes (ENs) to 19 PAs and 72 Paragraphs were awaited. Of these, one PA and 13 Paragraphs pertains exclusive to Telangana and 18 PAs and 59 Paragraphs are common to both Andhra Pradesh and Telangana. Details are given in **Table 1.2**.

**Table 1.2: Status of receipt of Explanatory Notes**

Year of the Audit Report	Date of Placement of Audit Report in the State Legislature	Total PAs and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which ENs were not received			
				Exclusive to State		Common (TS & AP)*	
		PAs	Paragraphs	PAs	Paragraphs	PAs	Paragraphs
Upto 2013-14		81	399	0	2	18	59
2014-15	30 March 2016	1	3	0	0	NA	NA
2015-16	27 March 2017	1	8	0	0	NA	NA
2016-17	29 March 2018	1	8	0	2	NA	NA
2017-18	26 March 2021	1	6	1	5	NA	NA
2018-19	26 March 2021	0	4	0	4	NA	NA
<b>Total</b>		<b>85</b>	<b>428</b>	<b>1</b>	<b>13</b>	<b>18</b>	<b>59</b>

*\*These relate to PSUs in the composite State of AP. These PSUs are, however currently under the control of Government of Telangana*

*NA implies Not Applicable as Separate Audit Reports were issued from 2014-15 onwards*

*Source: Compiled by Office of the Accountant General (Audit), Telangana*

### 1.4.3 Discussion of Audit Reports by the Committee on Public Undertakings (CoPU)

The status of PAs and Paragraphs that featured in CAG Audit Reports on Telangana PSUs and discussed by the CoPU as on 30 September 2021 is given in **Table 1.3**.

**Table 1.3: PAs/ Paragraphs discussed vis-à-vis featured in Audit Reports**

Year of the Audit Report (Commercial/ PSU)	Total PAs and Paragraphs in the Audit Report		Number of PAs/ Paragraphs Discussed			
			Exclusive to State		Common (TS & AP)*	
	PAs	Paragraphs	PAs	Paragraphs	PAs	Paragraphs
Up to 2013-14	81	399	1	23	21	199
2014-15	1	3	1	1	NA	NA
2015-16	1	8	0	2	NA	NA
2016-17	1	8	0	2	NA	NA
2017-18	1	6	0	0	NA	NA
2018-19	0	4	0	0	NA	NA
<b>Total</b>	<b>85</b>	<b>428</b>	<b>2</b>	<b>28</b>	<b>21</b>	<b>199</b>

\* These relate to PSUs in the composite State of AP. These PSUs are however, currently under the control of Government of Telangana

NA implies Not Applicable as Separate Audit Reports were issued from 2014-15 onwards

Source: Compiled by Office of the Accountant General (Audit), Telangana

Out of 85 PAs and 428 Paragraphs relating to Telangana PSUs, 23 PAs and 227 Paragraphs were discussed by CoPU. During 2019-21, CoPU had partly discussed one PA (Audit Report for 2014-15) and five Paragraphs in the Audit Reports relating to PSUs.

### 1.4.4 Compliance to Reports of CoPU

Action Taken Notes (ATNs) in respect of 458 recommendations pertaining to 41 CoPU Reports (upto 2006-07) on PSUs had not been received from the Administrative departments (September 2021) as detailed in **Table 1.4**.

**Table 1.4: Compliance to CoPU Reports**

Year of the CoPU Report	Total number of CoPU Reports	Total No. of recommendations in CoPU Reports	ATNs not received	
			Exclusive to State	Common (TS & AP)
Upto 1998-99	22	592	2	378
2000-01	13	114	0	52
2002-03	1	24	0	0
2004-05	10	80	0	7
2006-07	4	25	0	19
<b>Total</b>	<b>50</b>	<b>835</b>	<b>2</b>	<b>456</b>

Note: After 2006-07 no Report was issued by the CoPU

Source: Compiled by Office of the Accountant General (Audit), Telangana

Lack of remedial action on Performance Audits/ Paragraphs that featured in CAG Audit Reports and lack of discussion by CoPU on these Reports coupled with absence of follow up action by the Government are fraught with the risk of perpetuating serious financial irregularities as pointed out in the earlier Reports. It may also result in dilution of internal controls in the governance process, inefficient and ineffective delivery of public goods/ services, fraud, corruption and loss to public exchequer.

