

# Chapter 1

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## **Functioning of Public Sector Undertakings**

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## 1.1 Introduction

Public Sector Undertakings (PSUs) are established by Governments to carry out activities of a commercial nature for the development of the State as well as cater to the welfare of its people.

Telangana State was formed on 2 June 2014, following the bifurcation of the erstwhile composite State of Andhra Pradesh (AP) into Telangana and the residual State of AP, as per the AP Reorganisation Act, 2014. As on 31 March 2019, there were 82 State PSUs in Telangana State (including 79 Government Companies and three Statutory Corporations<sup>1</sup>) under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). During 2018-19, incorporation of seven Government Companies<sup>2</sup> was intimated to Audit. None of the PSUs was listed on the stock exchange(s).

The nature of PSUs and the position of accounts as of 30 September 2019 are detailed in **Table 1.1**.

**Table 1.1: Number of PSUs covered in the Report**

Type of PSUs	Total No. of PSUs	No. of PSUs whose Accounts were received as of 30 September 2019				No. of PSUs whose accounts are in arrears (total arrears)
		Upto 2018-19	Upto 2017-18	Upto 2016-17	Total	
Government Companies <sup>3</sup>	59	9	13	4	26	50 (123)
Statutory Corporations	3	0	0	0	0	03 (11)
<b>Total Working PSUs</b>	<b>62</b>	<b>9</b>	<b>13</b>	<b>4</b>	<b>26</b>	<b>53 (134)</b>
Inactive Government Companies <sup>4</sup>	20	0	0	0	0	20 (426)*
<b>Total</b>	<b>82</b>	<b>9</b>	<b>13</b>	<b>4</b>	<b>26</b>	<b>73 (560)</b>

\* Pending for five years to 35 years

*Source: Annual accounts submitted by Telangana State PSUs*

During 2018-19, the working PSUs, as per their latest finalised accounts and information furnished, registered a turnover of ₹84,259.06 crore, which constituted 9.79 per cent of the GSDP (₹8,61,031 crore) of Telangana State. As of March 2019, the working PSUs had a work force of 1.43 lakh employees.

There were 20 PSUs which have been inactive for over five years and up to 31 years. The State and Central Governments and Others had invested an amount of ₹234.87 crore in the form of capital (₹61.53 crore) and long term loans (₹173.34 crore) in the inactive PSUs.

<sup>1</sup> Telangana State Warehousing Corporation (TSWC), Telangana State Financial Corporation (TSFC) and Telangana State Road Transport Corporation (TSRTC).

<sup>2</sup> Photonics Valley Corporation, Hyderabad Airport Metro Limited, Telangana State Water Resources Infrastructure Development Corporation Limited, Telangana Powerloom & Textiles Development Corporation Limited, Telangana Handloom Development Corporation Limited, Telangana Life Sciences Infrastructure Development Limited and Wehub Foundation

<sup>3</sup> Includes two PSUs namely, Andhra Pradesh Tribal Power Company Limited and Infrastructure Corporation of Andhra Pradesh Limited which are under demerger

<sup>4</sup> Includes 19 PSUs which are under demerger

## 1.2 Investment in PSUs

### 1.2.1 Stake of Government of Telangana

The State Government has a significant financial stake in these PSUs in the form of the following:

- (i) **Share Capital and Loans:** In addition to the share capital contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- (ii) **Special Financial Support:** State Government provides budgetary support by way of grants and subsidies to the PSUs, as required.
- (iii) **Guarantees:** State Government also guarantees the repayment of loans with interest availed of by the PSUs from Financial Institutions.

The sector-wise summary of investment (equity and long-term loans) in 82 PSUs as on 31 March 2019, is detailed in **Table 1.2**.

**Table 1.2: Sector-wise investment in PSUs**

(₹ in crore)

Name of Sector	Government Companies		Statutory Corporations		Total PSUs	Investments		
	Working	Inactive	Working	Inactive		Equity*	Long Term Loans*	Total
Power	8	0	0	0	8	18,490.46	45,514.14	64,004.60
Agriculture & allied	6	3	1	0	10	143.59	31,028.99	31,172.58
Service	15	1	1	0	17	98.04	29,797.23	29,895.27
Infrastructure	17	0	0	0	17	42.49	7,632.31	7,674.80
Manufacturing	4	15	0	0	19	64.87	211.69	276.56
Finance	5	1	1	0	7	13.82	18.11	31.93
Others	4	0	0	0	4	0.15	0.00	0.15
<b>Total</b>	<b>59</b>	<b>20</b>	<b>3</b>	<b>0</b>	<b>82</b>	<b>18,853.42</b>	<b>1,14,202.47</b>	<b>1,33,055.89</b>

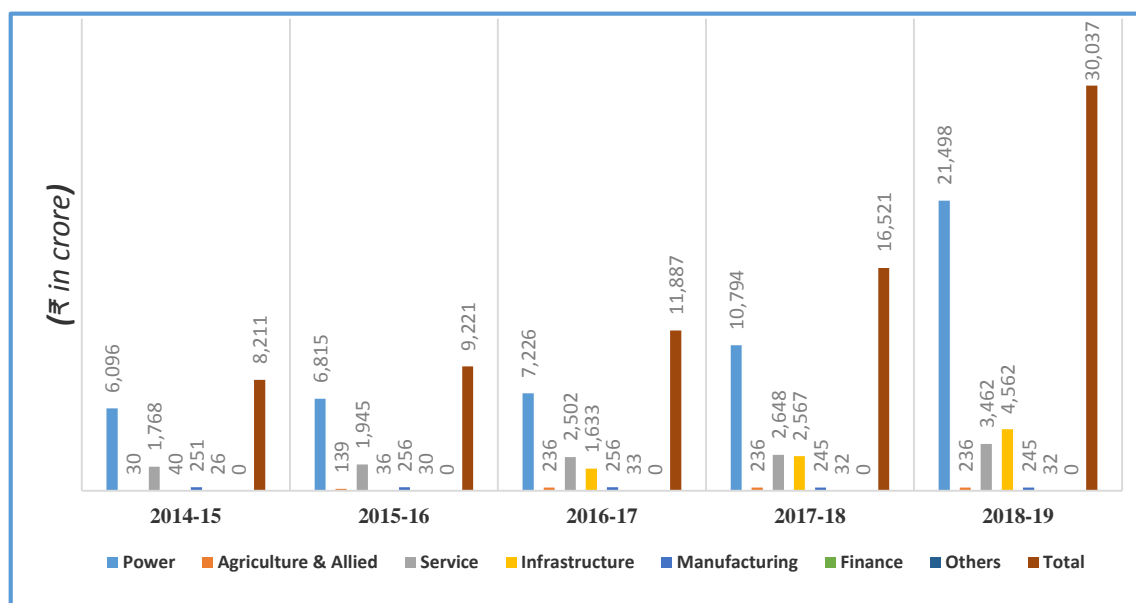
\* Equity includes share application money and long-term loans include loans from Central and State Governments, Public Financial Institutions and Commercial Banks

Source: Accounts/information furnished by PSUs

As on 31 March 2019, the total investment in PSUs comprised 14.17 per cent of equity capital and 85.83 per cent of long-term loans. The long-term loans in 62 working PSUs consisted of ₹12,790.82 crore advanced by the Central and State Governments and ₹1,01,411.65 crore raised from other sources. The thrust of State Government's investment in PSUs was mainly in power sector during the last five years. Out of total investment (equity, loans and subsidies/grants) of ₹52,219.41 crore during the period from 2014-15 to 2018-19, the share of power sector was 56.04 per cent (₹29,263.92 crore).

The pattern of State Government investment (equity and long-term loans) in various important sectors as at the end of the year from 2014-15 to 2018-19 is indicated in **Chart 1**.

Chart 1: Sector-wise investment in PSUs



Source: Accounts /information as furnished by PSUs

### 1.3 Accountability framework

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. Audit of Government Companies is governed by respective provisions of Sections 139 and 143 of the Companies Act, 2013. Section 2 (45) defines a ‘Government Company’ as one in which not less than 51 *per cent* of the paid-up share capital is held by the Government(s). A Government Company includes a subsidiary of a Government Company.

Statutory Auditors of the Government Companies are appointed by the CAG under Section 139 of the Companies Act, 2013 for conducting audit of accounts of PSUs in accordance with Section 143 (5) of the Companies Act, 2013. The accounts of PSUs are subject to supplementary audit by the CAG under Section 143 (6) of the Companies Act, 2013. The CAG plays an oversight role by monitoring the performance of the Statutory Auditors. This role is discharged by means of the following:

- (i) issuing directions to the Statutory Auditors under Section 143(5) of the Companies Act, 2013, and
- (ii) supplementing or commenting upon the Statutory Auditor’s report under Section 143 (6) of the Companies Act, 2013.

Audit of Statutory Corporations is governed by their respective legislations. Of the three Statutory Corporations (TSRTC, TSWC and TSFC), CAG is the sole auditor in respect of TSRTC. The audit of Telangana State Warehousing Corporation (TSWC) and Telangana State Financial Corporation (TSFC) is conducted by Chartered Accountants, followed by supplementary audit by the CAG.

## **1.4 Submission of Accounts by PSUs**

### **1.4.1 Need for timely finalisation and submission**

According to Sections 394 and 395 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation, laid before the House or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations. This mechanism provides the necessary legislative control over the utilisation of public funds invested in the PSUs from the Consolidated Fund of the State.

Section 96 of the Companies Act, 2013 requires every Company to hold an AGM of the shareholders once in every calendar year. It also specifies that not more than 15 months shall elapse between the date of one AGM and that of the next AGM. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statements for the financial year have to be placed in the said AGM. Section 129 (7) of the Companies Act, 2013 provides for levy of penalties like fine and imprisonment of the persons including Directors of the Company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

### **1.4.2 Role of Government and Legislature**

State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors of the Board are appointed by the Government.

State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. Towards this end, the Annual Reports of State Government Companies, together with the Statutory Auditors' Reports and comments of the CAG are to be placed before the Legislature under Section 394 of the Companies Act. Separate Audit Reports are also required to be placed before the Legislature in case of Statutory Corporations as stipulated in the respective Acts.

Audit Reports of the CAG are submitted to the Government for placing before the Legislature under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

## **1.5 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 on 30 September 2019, out of 202 Performance Audits (PAs)/ Paragraphs relating to Reports of Power Sector PSUs, Explanatory Notes (ENs) to 22 PAs/ Paragraphs that featured in CAG Reports were awaited. Similarly, out of 300 PAs/ Paragraphs relating to Reports of PSUs (Non-Power Sector), ENs to 72 PAs/Paragraphs were awaited as of this date. Details are given in **Table 1.3**.

**Table 1.3: Status of receipt of Explanatory Notes**

Year of the Audit Report <sup>\$</sup>	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
<b>Power Sector PSUs</b>							
<b>Upto 2013-14</b>		<b>42</b>	<b>148</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>14</b>
2014-15	30 March 2016	1	1	0	0	NA	NA
2015-16	27 March 2017	1	5	0	0	NA	NA
2016-17	29 March 2018	1	3	0	0	NA	NA
<b>Total</b>		<b>45</b>	<b>157</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>14</b>
<b>PSUs (Non-Power Sector)</b>							
<b>Upto 2013-14</b>		<b>39</b>	<b>251</b>	<b>0</b>	<b>2</b>	<b>13</b>	<b>50</b>
2014-15	30 March 2016	0	2	0	1	NA	NA
2015-16	27 March 2017	0	3	0	2	NA	NA
2016-17	29 March 2018	0	5	0	4	NA	NA
<b>Total</b>		<b>39</b>	<b>261</b>	<b>0</b>	<b>9</b>	<b>13</b>	<b>50</b>

<sup>\$</sup> Audit Report for 2017-18 has not been tabled in the State Legislature as of September 2020

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

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

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

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

The status of PAs and Paragraphs relating to both Power and Non-Power Sector PSUs that featured in Audit Reports (PSUs) as on 30 September 2019 and discussed by the CoPU is given in **Table 1.4**.

**Table 1.4: PAs/ Paragraphs discussed vis-à-vis featured in Audit Reports**

Year of the Audit Report (Commercial/ PSU)	Number of PAs/ Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
<b>Power Sector PSUs</b>				
<b>Up to 2013-14</b>	<b>42</b>	<b>148</b>	<b>9</b>	<b>80</b>
2014-15	1	1	NA	NA
2015-16	1	5	NA	NA
2016-17	1	3	NA	NA
<b>Total</b>	<b>45</b>	<b>157</b>	<b>9</b>	<b>80</b>

Year of the Audit Report (Commercial/ PSU)	Number of PAs/ Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
<b>PSUs (Non-Power Sector)</b>				
<b>Up to 2013-14</b>	<b>39</b>	<b>251</b>	<b>13</b>	<b>137</b>
2014-15	0	2	NA	NA
2015-16	0	3	NA	NA
2016-17	0	5	NA	NA
<b>Total</b>	<b>39</b>	<b>261</b>	<b>13</b>	<b>137</b>

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

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

Out of 45 PAs and 157 Paragraphs relating to Power Sector PSUs, nine PAs and 80 Paragraphs were discussed by CoPU. Similarly, out of 39 PAs and 261 Paragraphs relating to PSUs (Non-Power Sector), 13 PAs and 137 Paragraphs were discussed by CoPU. During 2018-19, CoPU had not discussed any PA/ Paragraph in the Audit Reports relating to PSUs. The issue of infrequent CoPU meetings to discuss the pending PAs/ Paragraphs and the modalities to reduce the pendency were discussed (July 2018 and November 2019) by the Principal Accountant General with CoPU; response to the letters addressed (October 2019) to CoPU in this regard was awaited as of September 2020.

## 1.7 Compliance to Reports of CoPU

Action Taken Notes (ATNs) on 15 recommendations pertaining to two CoPU Reports presented in the State Legislature in respect of Power Sector PSUs had not been received (September 2020), as detailed in **Table 1.5**.

**Table 1.5: Compliance to CoPU Reports**

Year of the CoPU Report	Total number of CoPU Reports	Total No. of recommendations in CoPU Report	ATNs not received	
			Exclusive to State	Common (TS & AP)
<b>Power Sector PSUs</b>				
<b>Upto 1998-99</b>	<b>3</b>	<b>24</b>	<b>2</b>	<b>0</b>
2000-01	3	21	0	0
2004-05	5	43	0	0
2006-07	1	13	0	13
<b>Total</b>	<b>12</b>	<b>101</b>	<b>2</b>	<b>13</b>

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

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

Similarly, ATNs on 443 recommendations pertaining to 38 Reports of the CoPU presented in the State Legislature in respect of PSUs (Non-Power Sector) had not been received (September 2020).

Lack of action on PAs/ Paragraphs that featured in CAG Audit Reports and lack of discussion by CoPU on these Reports coupled with absence of follow up action on the CoPU's Recommendation Reports are fraught with the risk of perpetuating serious financial irregularities 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.