

Executive Summary

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This Audit Report contains an overview on functioning of Telangana State Public Sector Enterprises (SPSEs) and observations based on Compliance Audit of Overburden Removal, Coal and Stowing material transportation Contracts in The Singareni Collieries Company Limited (Department of Energy).

Functioning of State Public Sector Enterprises

State Public Sector Enterprises (SPSEs) comprise State Government Companies, State Government Controlled Other Companies and Statutory Corporations. State Public Sector Enterprises were established to carry out activities of commercial nature, keeping in view the welfare of the people and contribute to the State economy. As on 31 March 2023, there were 83 SPSEs in Telangana including 77 Government Companies, three Statutory Corporations and three Government Controlled Other Companies under the audit jurisdiction of the Comptroller and Auditor General (CAG) of India.

This report covers analysis of financial performance of 18 SPSEs, based on accounts and /or information as furnished by SPSEs for the last three years ended March 2023. The oversight role of the CAG to ensure compliance with various criteria regarding preparation and submission of financial statements by SPSEs is also covered. Further, adherence to Provisions of Companies Act, 2013 with respect to Corporate Governance by 28 SPSEs based on the information furnished by them is also covered.

Audit Conclusions and Recommendations are given below:

- a) As on 31 March 2023, 83 State Public Sector Enterprises in Telangana were under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Of the 83 SPSEs, eight SPSEs were related to power sector and 75 SPSEs related to non-power sector. Out of these 83 SPSEs, 16 SPSEs were either defunct or under liquidation/demerger.
- b) Of the 67 working SPSEs, 49 SPSEs (73 per cent), whose accounts were in arrears for three or more years as on 30 September 2023 or which did not furnish information to audit, are not covered in this Report. The remaining 18 SPSEs (Power Sector –Seven SPSEs and Non-Power Sector – 11 SPSEs) registered an annual turnover of ₹95,204.74 crore, which was equal to 7.25 per cent of the Gross State Domestic Product (GSDP) of Telangana during 2022-23. As on 31 March 2023, the investment of the Central and State Governments and Others in equity and long-term loans in these 18 SPSEs was ₹98,572.08 crore. Out of the 18 working SPSEs, six SPSEs earned profits (₹3,857.48 crore), 11 SPSEs incurred losses (₹11,969.66 crore) and one SPSE reported 'Nil' profit or loss.
- c) The net worth of nine out of 18 SPSEs had been completely eroded by accumulated loss and their net worth was (-)₹50,930.63 crore against equity investment of ₹17,921.33 crore as on 31 March 2023.
- d) A total of 71 SPSEs (including 16 inactive Companies) have defaulted in timely submission of accounts. Of the 47 accounts reviewed and finalised during the

period from 1 October 2022 to 30 September 2023, CAG's comments were issued in respect of 35 accounts, the financial impact of which was ₹757.21 crore on the profitability and ₹31,989.68 crore on assets/ liabilities.

- e) Out of 15 SPSEs, where Independent Directors were to be appointed, nine SPSEs did not appoint Independent Directors whereas in one SPSE, required number of Independent Directors were not appointed and no assurance could be obtained on the availability of the Independent Directors in four SPSEs. Separate meeting of Independent Directors was not conducted in any SPSE. Further, three SPSEs did not have Woman Director throughout the financial year 2022-23.
- f) Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 provide that every listed company and every other public company having a paid-up share capital of rupees ten crore or more shall have three whole-time key managerial personnel (KMP). Audit observed that out of seven SPSEs that were required to appoint KMP, five SPSEs had the required three KMPs and the remaining two SPSEs had one/two KMP. The intervening period of conducting two consecutive meetings of the Board in eight SPSEs ranged between 123 days and 229 days.
- g) Further, five SPSEs did not constitute Audit committee. Out of 10 SPSEs, wherein Audit Committee was constituted, all SPSEs except one SPSE *i.e.* The Nizam Sugars Limited, fulfilled the criteria of having at least three directors in their Audit Committee during FY 2022-23. Moreover, the Independent Directors were not found in nine SPSEs, where Audit Committee was constituted.
- h) Nomination and Remuneration Committee (NRC) was not constituted in nine SPSEs, whereas in remaining six SPSEs (out of 15 eligible SPSEs), composition of NRC was not as per the provisions of the Act. No Vigil mechanism existed in four SPSEs. Two SPSEs did not appoint Internal Auditors.

Recommendations:

The State Government may consider

- i. reviewing the functioning of all loss-making SPSEs and taking necessary steps to improve their financial performance;*
- ii. issuing necessary instructions to the Administrative Departments of concerned SPSEs for timely finalisation of accounts and clearance of arrears;*
- iii. reviewing the inactive Government Companies and taking appropriate decision on their revival/winding up.*

Subject Specific Compliance Audit on Overburden Removal, Coal and Stowing material transportation Contracts in The Singareni Collieries Company Limited (Department of Energy).

The Singareni Collieries Company Limited (SCCL/The Company) is jointly owned by Government of Telangana (51 *per cent*) and the Government of India (49 *per cent*). The accredited function of the Company is development of coal mines in the Godavari Valley Coal Field.

The Subject Specific Compliance Audit (SSCA) reviewed the Over Burden Removal (OBR), Coal and Stowing material transportation contracts for the five-year period from 2018-19 to 2022-23.

The SSCA was conducted to ascertain whether the award of contracts for removal of Overburden, Transportation of Coal and Stowing material was transparent and the execution of contracts was in compliance with the applicable guidelines and contractual terms and conditions.

Significant audit findings and conclusions:

A review of 13 OBR contracts awarded after February 2019, revealed that in all the conventional equipment contracts, the actual quantity of diesel consumption was more than the norms. Contrary to this, the actual diesel consumption in Heavy Earth Moving Machinery (HEMM) contracts, was much below the norms. These wide variances between actual and normative diesel consumption *viz.*, shortfalls in conventional equipment contracts and excesses in HEMM contracts indicate that the norms fixed for diesel consumption were unrealistic.

The rates awarded for deployment of Heavy Earth Moving Machinery (HEMM) were higher (between 12.36 *per cent* and 32 *per cent*) than those of conventional equipment in OBR contracts. However, the Company did not incorporate appropriate clauses in the OBR contracts as safeguard against under deployment of HEMM /over deployment of conventional equipment by the contractors. This resulted in avoidable expenditure of ₹251.05 crore.

The Company also did not enforce the contractual terms and conditions relating to OBR contracts timely which resulted in further avoidable expenditure of ₹74.19 crore.

In Coal transportation, the Coal linkage plans drawn were not optimal and there was also uneconomical movement of coal by field units, resulting in an avoidable expenditure of ₹25.59 crore. While fixing the Surface Transportation Charges, the actual expenditure was not considered resulting in excess collection of ₹1078.94 crore from the coal consumers.

Three OBR contractors in the test checked Area Offices¹ did not establish Effluent Treatment Plants as per the Contractual terms. In underground stowing operations, river

¹ Yellandu, Manuguru, Bellampalli and Srirampur

sand was preferred by Srirampur area office over bottom ash and Processed Over Burden (POB) which was costlier and environmentally unfriendly.

Recommendations:

In view of the above, the State Government/Company may consider

- *implementing measures to optimise diesel consumption;*
- *incorporating safeguarding clauses in the OBR contracts to ensure deployment of specified mix of equipment and adherence to other contractual obligations by the contractors;*
- *reviewing the coal linkage arrangements and pricing mechanism of Surface Transport Charges to ensure economy and reasonableness respectively;*
- *promoting environmental sustainability by installing Effluent Treatment Plants and giving preference to bottom ash or processed over burden over river sand in stowing operations.*