CHAPTER III

ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

3.1 Introduction

3.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature keeping in view the welfare of people. In Nagaland there were six SPSUs (all Government companies) of which, one Government company was non-working[1]. The working SPSUs registered a turnover of ₹ 6.75 crore as per their latest annual accounts finalised as of November 2013. The turnover was 0.05 *per cent* of State (GDP)* for 2012-13. The working SPSUs incurred an overall loss of ₹ 1.01 crore in aggregate for 2012-13 as per their latest finalised accounts as on 30 November 2013. The five working SPSUs had 625 employees as on 31 March 2013. During 2012-13, neither any new SPSU was established nor was any existing SPSU closed down.

3.2 Audit Mandate

3.2.1 Audit of Government Companies is governed by Section 619 of Companies Act, 1956. As per Section 617 of the Companies Act 1956, a Government company is one in which not less than 51 *per cent* of paid up capital is held by Government. 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. However, there was no 619-B company in Nagaland.

3.2.2 The accounts of the State Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors, who are appointed by Comptroller and Auditor General of India (CAG) as per the provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

3.3 Investment in SPSUs

3.3.1 As on 31 March 2013, the investment of State and Central Government (Capital and long term loans) in six SPSUs was ₹ 98.04 crore as per details given below:

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[1] The accounts of non-working Company viz., Nagaland Sugar Mills Company Limited are in arrears for the last 35 years.

* The State GDP for 2012-13 was ₹ 13,321.61 crore (advance estimate).

Table No. 3.1

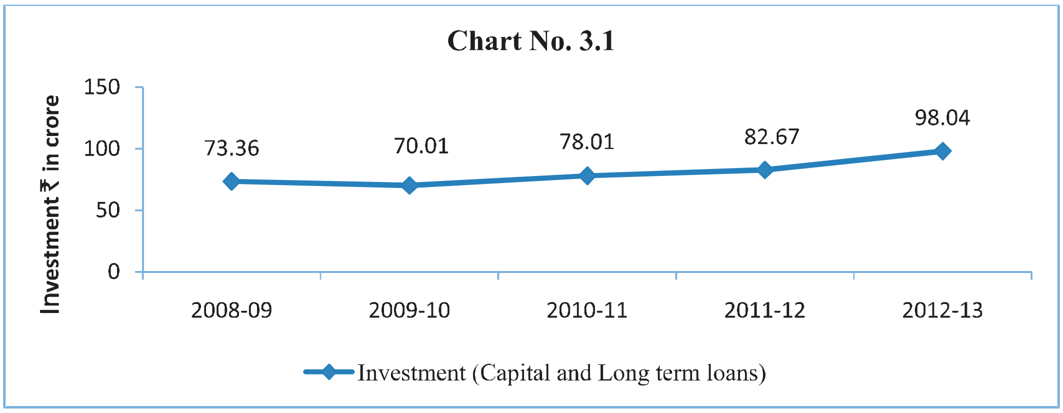
(₹ in crore)

Type of SPSUs	Government Companies		
	Capital	Long term loans	Total
Working SPSUs	31.62	61.46	93.08
Non-working SPSUs	4.96	0	4.96
Total	36.58	61.46	98.04

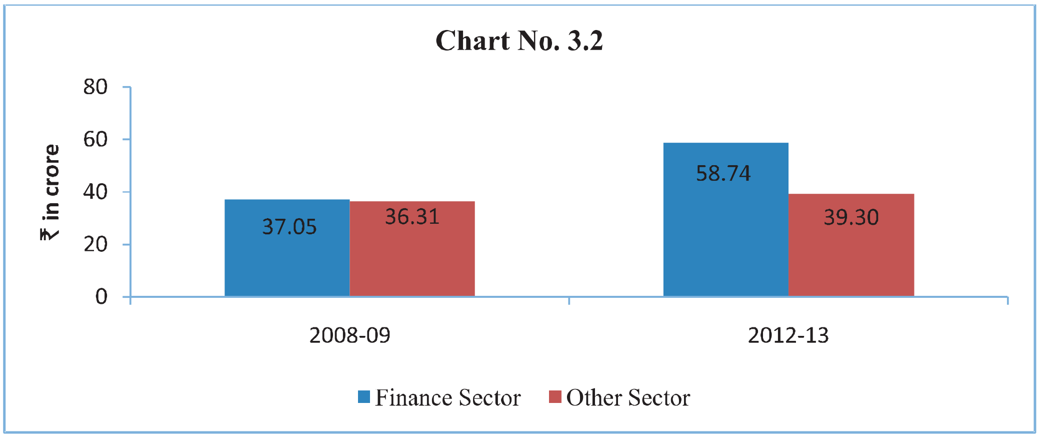
A summarised position of Government investment in SPSUs is detailed, in **Appendix - 3.1.**

3.3.2 As on 31 March 2013, of the total investment in SPSUs, 95 *per cent* was in five working SPSUs and remaining 5 *per cent* was in one non-working SPSU. The total investment consisted of 37 *per cent* towards capital and 63 *per cent* in long term loans.

The investment has grown by 33.64 *per cent* from ₹ 73.36 crore in 2008-09 to ₹ 98.04 crore in 2012-13 as shown in graph below:-



3.3.3 The investments in various sectors at the end of 31st March 2009 and 31st March 2013 are indicated below in the bar chart.



It may be noticed that as compared to the investment in 2008-09, investment in 2012-13 has increased in Finance Sector by ₹ 21.69 crore (58.54 *per cent*). Investment in Other

Sectors has also increased marginally by ₹ 2.99 crore (8.23 *per cent*) during the said period.

3.4 Budgetary outgo, grants/subsidies, guarantees and loans

3.4.1 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 SPSUs are given in **Appendix-3.2.** The summarised details for three years ended 2012-13 are given below:

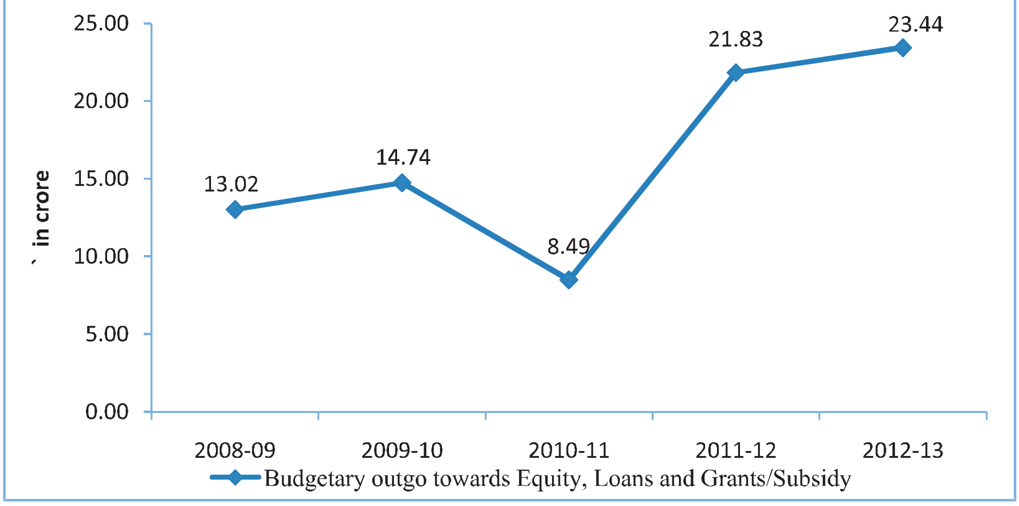
Table No. 3.2

(₹ in crore)

Sl. No	Particulars	2010-11		2011-12		2012-13	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1	Equity capital outgo from budget	3	1.45	2	1.60	2	2.40
2	Loans outgo from Budget	--	--	1	7.81	1	6.59
3	Grants/subsidy outgo	3	7.04	4	12.42	5	14.45
4	**Total outgo (1+2+3)**		**8.49**		**21.83**		**23.44**
5	Loans written off	--	--	--	--	--	--
6	**Total waiver (5 above)**	--	--	--	--	--	--
7	**Guarantees issued**	2	46.24	1	7.81	2	11.59

3.4.2 The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in the following graph:

Chart No. 3.3



The chart above indicated that the the budgetary outgo of the state government towards equity, loans and grants were in an increasing trend every year beginning from ₹ 13.02

crore in 2008-09 upto ₹ 23.44 crore in 2012-13 excepting 2010-11 when it was reduced to ₹ 8.49 crore from ₹ 14.74 crore in 2009-10. However, during the next year *i.e.* 2011-12 it was increased by ₹ 13.34 crore (157 *per cent*) from ₹ 8.49 crore (2010-11) to ₹ 21.83 crore.

3.5 Reconciliation with Finance Accounts

3.5.1 The figures in respect of equity, loans and guarantees outstanding as per records of SPSUs should agree with that of figures appearing in the Finance Accounts of the State. In case, the figures do not agree, the concerned SPSUs and the Finance department should carry out reconciliation of differences.

The position in this regard as at 31 March 2013 is stated below:

Table No.3.3

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	168.69	30.31	138.38
Loans*	Nil	0.73	0.73
Guarantees*	59.53	Nil	59.53

3.5.2 Audit observed that the differences in equity investment occurred in respect of all SPSUs and the differences were pending reconciliation since long. The Government and the SPSUs should take concrete steps to reconcile the differences in a time bound manner.

Efforts are needed to be taken to clear the arrears in accounts and ensure reconciliation between Finance Accounts and the accounts/record of SPSUs as there is a huge difference in figures of Finance Accounts and records of SPSUs.

3.6 Performance of SPSUs

3.6.1 The financial results of SPSUs, financial position and the working results of SPSUs are detailed in **Appendix-3.3**. A ratio of SPSUs turnover to State GDP shows the extent of SPSUs activities in the State economy. Table below provides the details of working SPSUs turnover and State GDP for the period 2008-09 to 2012-13.

* SPSU-wise figure of lons/guarantee not available in the Finance Accounts of the State.

Table No. 3.4

(₹in crore)

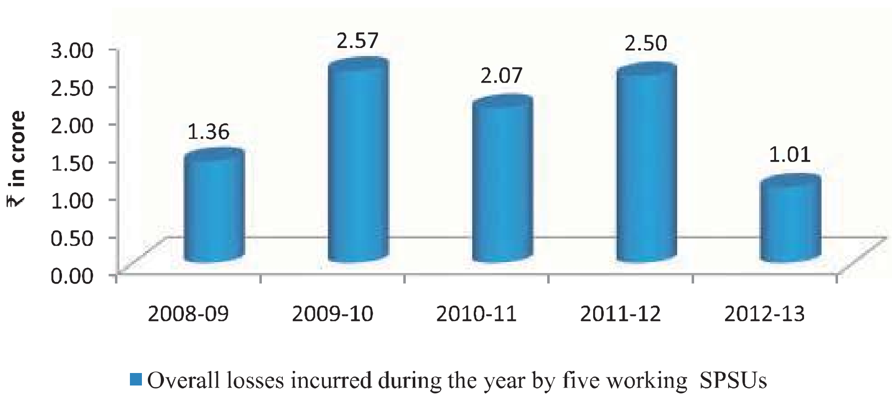
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Turnover *	3.51	4.06	18.06	5.36	6.75
State GDP	9436.07	10526.77	11315.13 (P)[2]	12272.15 (Q)[3]	13321.61 (A)[4]
Percentage of turnover to State GDP	0.04	0.04	0.16	0.04	0.05

(Source: Information furnished by the Directorate of Economics and Statistics and Appendix 3.3)

From the table, it may be noticed that excepting 2010-11, the percentage of SPSUs turnover to State GDP ranged between 0.04 and 0.05 *per cent* all the years under reference due to proportionate increase in the turnover of SPSUs and State GDP of respective years. During 2010-11, the percentage of SPSU turnover was exorbitabtly high at 0.16 *per cent* mainly due to abnormal increase in the turnover of one SPSU (namely, Nagaland Industrial Raw Material Supply Corporation Limited). The turnover of said SPSU was increased mainly because of the subsidy extended as per the central policy on supply of industrial raw material through Government agencies. The SPSU could not maintain the pace of the increased turnover in subsequent years due to presence of private enterpreneurs in the business of supplying raw materials to industries and a a result, its turnover after 2010-11 was reduced.

3.6.2 Losses incurred by working SPSUs during 2008-09 to 2012-13 are given below in a bar chart.

Chart No. 3.4



The lossess of working SPSUs during 2008-09 to 20012-13 showed a mixed trend. The overall losses incurred by five working SPSUs were increased from ₹ 1.36 crore (2008-09) to ₹ 2.57 crore (2009-10) and again from ₹ 2.07 crore (2010-11) to ₹ 2.50

[2] P=Provisional Estimate ,
[3] Q=Quick Estimate
[4] A= Advance Estimate
* Turnover of working SPSUs as per the latest finalised accounts as of September of the respective year.

crore (2011-12). The losses were, however, at the lowest in five years at ₹ 1.01 crore during 2012-13.

3.6.3 Some key parameters pertaining to SPSUs are given in the following table:

Table No. 3.5

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Return on capital employed (*per cent*)	*	*	*	*	0.63
Debt	44.11	39.09	45.64	47.69	61.46
Turnover	3.51	4.06	18.06	5.36	6.75
Debt/Turnover ratio	12.57:1	9.63:1	2.53:1	8.90:1	9.11:1
Accumulated losses	28.63	34.02	33.62	48.53	51.38

*Negative Figures

From the above it may be noticed that excepting 2010-11, the accumulated losses had shown increasing trend during five years period. The return on capital employed was negative throughout the period of five years except during 2012-13 when the Government got marginal returns of 0.63 *per cent*.

Thus, steps are needed to be taken for better management, operation and monitoring of the activities of the working SPSUs to arrest the gradual deterioration of their financial results.

3.7 Arrears in finalisation of Accounts

3.7.1 The accounts of the companies for every financial year are required to be finalized within six months from the close of the relevant financial year under section 166, 210, 240, 619 and 619-B of Companies Act, 1956. The table below provides details of progress made by working SPSUs in finalisation of accounts by September 2013.

Table No.3.6

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13
1	No. of working SPSUs	5	5	5	5
2	No. of accounts finalized	12	15	34	21
3	No. of accounts in arrears	85	75	46	30
4	Average arrear per SPSU (3/1)	17.0	15	9.4	6
5	No. of working SPSUs with arrears in accounts	5	5	5	5
6	Extent of arrears (in years)	6 to 26	5 to 21	1 to 13	1 to 9

3.7.2 From the table, it may be seen that there had been a significant improvement in the arrear position of the accounts of SPSUs after 2009-10 mainly due to constant increase in the number of accounts finalised by the SPSUs each year. As a result, the average arrear per SPSU has also reduced from 17 (2009-10) to 6 accounts (2012-13). It may, however, be observed that none of the working SPSUs had finalisedup to date accounts and as of September 2013 total 30 accounts relating to 5 working SPSUs were still in arrears.

Thus, concrete steps should be taken by the SPSUs for preparation of accounts as per the statutory requirements with special focus on clearance of arrears in a time bound manner.

3.7.3 In addition to above, the accounts of the only non-working SPSU in the state were also in arrears for 35 years.

3.7.4 The Administrative departments have responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these SPSUs within the prescribed period.During the year 2012-13 the Accountant General has written (26 November 2013)to the Companies for early finalisation of accounts. The matter on arrears in finalisation of accounts was also addressed (08 August 2013) to the Chief Secretary, Government of Nagaland.

3.7.5 In view of above state of affairs, it is recommended that the Government should monitor and ensure timely finalisation of accounts in conformity with the provision of the Companies Act, 1956.

3.8 Accounts Comments and Internal Audit

3.8.1 Five working companies forwarded their 17 audited accounts to the Accountant General during the period October 2012 to September 2013. Of these, 4 accounts were selected for supplementary audit, 10 accounts were issued 'Non Review Certificates', while remaining 3 accounts were pending for selection for supplementary audit/ issue of Non-Review certificate.

3.8.2 Out of 17 accounts received during the year, the Statutory Auditor had given adverse opinion on 3 accounts, qualified certificates to 3 accounts and balance 11 accounts received unqualified certificates.

The details of aggregate money value of comments of Comptroller and Auditor General of India in respect of accounts finalised during 2011-12 and 2012-13 are given below:

Table No. 3.7

(₹ in crore)

Sl. No.	Particulars	2011-12		2012-13	
		No. of Accounts	Amount	No. of Accounts	Amount
1	Increase in loss	1	0.39	1	3.43
2	Increase in profit	--	--	2	0.38
3	Decrease in loss	--	--	2	1.80
4	Decrease in profit	1	0.22	1	0.26
5	Errors of classification	1	0.39	--	--
Total		**3**	**1.00**	**6**	**5.87**

3.8.2.1 Some of the important comments in respect of accounts of the PSUs audited during 2012-13 are detailed below:

Nagaland Industrial Development Corporation Ltd. 2011-2012

- Some assets were created out of the grants; the proportionate amount of depreciation should have been recouped from the reserve and surplus head by way of reorganizing an equal amount as income in the profit and loss account as per AS-12. Non compliance with AS-12 has resulted in overstatement of loss for the year by ₹ 3.43 crore.
- Long term loans and advances categorised by the management as "doubtful recovery". Non-provisioning against this loans and advances resulted in overstatement of loans and advances and understatement of loss by ₹ 1.45 crore.

Nagaland State Mineral Development Corporation 2003-04

- Short accountal of sales resulted in understatement of sales and sundry debtors ₹ 0.20 crore with corresponding understatement of profit by the same amount.

Nagaland Hotels Ltd. 2003-04

- Non-provisioning of service charges amounting to ₹ 0.04 crore resulted in understatement of expenditure as well as current liabilities with corresponding overstatement of profit to that extent.

INDUSTRIES AND COMMERCE DEPARTMENT

Nagaland Industrial Development Corporation

3.9 Idle infrastructure

Infrastructure created at a cost of ₹ 19.91 crore under EPIP and SEZ remained unutilised due to unrealistic assessment of users requirement and potential number of interested entrepreneurs for the schemes.

Government of India (GOI), approved (May 1999) Export Promotion Industrial Park (EPIP) Scheme for providing adequate infrastructure facilities of high standard in the State of Nagaland at a project cost of ₹ 12.50 crore so as to involve the State Government in export efforts. The project was to be completed within 24 months (viz., upto May 2001) and the project cost was to be shared by the GOI and Government of Nagaland (GON) in the ratio of 80:20 (GOI: ₹ 10 crore, GON: ₹ 2.50 crore). The GON provided 100 acres of land in Dimapur for setting up the project and appointed Nagaland Industrial Development Corporation Limited (Company) as the implementing agency for the project. The project envisaged to build total saleable area of 2.01 lakh square meter consisting of Industrial plots, Factories, Sheds, etc under Industrial sector and Mini market, Post office, Banks, etc under commercial sector. As per the project report, 100 *per cent* occupancy was projected within 5 and 3 years under Industrial Sheds/Factories and Commercial & other facilities respectively with projected revenue of ₹ 86.81 lakh as lease rent, etc. from fifth year.

GOI and GON had released an aggregate amount of ₹ 13.56[5] crore to the Company during 1999-00 to 2005-06 for setting up of EPIP. The work was commenced in September 2001 and the Company had completed development of infrastructure facilities valued at ₹ 14.64 crore by the end of July 2006. The infrastructure facilities so created under EPIP were, however, not availed by any of the entrepreneur till 2009.

In the meantime, the Special Economic Zones (SEZ) Act, 2005 was passed by the Parliament in May 2005 with an objective to generate additional economic activity of an earmarked exporting area/zone by promotion of exports and investment from domestic and foreign sources, creation of employment opportunities and development of infrastructure facilities. As there was no entrepreneurs to take up the projects under EPIP, the Company proposed (July 2009) to GOI for conversion of EPIP into an SEZ in Agro-Food processing Sector. GON also allotted another 50 acres of land adjacent to

[5] GOI -₹ 11.06 crore and GON ₹ 2.50 crore

EPIP in addition to 100 acres of land earlier allotted. The proposal was approved (July 2009) by the GOI at an estimated cost of ₹ 35 crore, which included the infrastructure created for EPIP. The project besides creating employment opportunities for 3000 persons was also expected to earn ₹ 2 to ₹ 5 crores from exports in the initial years and ₹ 10 to ₹ 20 crores per annum after achieving optimum capacity utilisation.

Scrutiny (April 2013) of records revealed that the Company received ₹ 17.50[6] crore during 2007-08 to 2011-12 for development of additional infrastructure facilities, of which an amount of ₹ 5.27 crore was utilised. It was, however, observed that the Company could not find entrepreneurs who were interested to set up industrial units/factories in the project area developed under EPIP and SEZ schemes till date (April 2013). This was indicative of the fact that the projects were initiated without assessing the user requirement or availability of interested entrepreneurs.

Thus, due to unrealistic assessment of users requirement and potential number of interested entrepreneurs, the infrastructure facilities developed by the Company for EPIP and SEZ schemes at a consolidated cost of ₹ 19.91 crore remained unproductive since 2001 defeating the scheme objectives.

In reply, the Management stated (April 2013) that apprehensions of law and order situation, security concerns and worsening power situation in the State were the deterent factors affecting investment decisions of the entrepreneurs.

The reply is not acceptable as the situation on these fronts were more or less same when the proposal for setting up of EPIP and conversion of EPIP to SEZ was initiated by the Company. Further, the reply also confirms the fact that the development works under the two schemes were initiated without conducting proper feasibility study of the project.

The matter was reported to the Government (July 2013); their replies had not been received (January 2014).

[6] GOI (ASIDE) -₹ 8.50 crore + GON - ₹ 9 crore