

CHAPTER-V

ECONOMIC SECTOR **(State Public Sector Undertakings)**

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ECONOMIC SECTOR (State Public Sector Undertakings)

5.1 Introduction

The State Public Sector Undertakings (SPSUs) comprise of the State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature keeping in view the welfare of people and also occupy an important place in the State economy. As on 31 March 2015, there were six SPSUs in Mizoram. The details of the SPSUs as on 31 March 2015 are as given below.

Table-5.1 : Total number of SPSUs as on 31 March 2015

Type of SPSUs	Working SPSUs	Non-working SPSUs ¹	Total
Government Companies ²	6	-	6
Total	6	-	6

The working SPSUs registered a turnover of ₹ 17.42 crore as *per* their latest finalised and audited accounts as of September 2015 and provisional figures given by the Companies. This turnover was equal to 0.14 *per cent* of State Gross Domestic Product (GDP) for 2014-15. The working SPSUs incurred loss of ₹ 3.28 crore as per their latest finalised and audited accounts as of September 2015 and provisional figures furnished by the Companies. They had employed 259³ employees as at the end of March 2015.

Accountability framework

5.2 The audit of the financial statements of a company in respect of financial years commencing on or after 1 April 2014 is governed by the provisions of the Companies Act 2013. However, the audit of a company in respect of financial years that commenced earlier than 1 April 2014 continued to be governed by the Companies Act, 1956.

According to Section 2(45) of the Companies Act, 2013 (Act), a Government Company is one in which not less than 51 *per cent* of the paid-up capital is held by the Central and/or State Government(s) and includes a subsidiary of a Government Company. The process of audit of the Government companies under the Act is governed by respective provisions of Section 139 and 143 of the Act.

¹ Non-working SPSUs are those which have ceased to carry on their operations

² Government companies include Other Companies referred to in Section 139(5) and 139(7) of the Companies Act, 2013

³ Affairs of one Company *viz.* Mizoram Mineral Development Corporation Limited are being managed by Zoram Industrial Development Corporation Limited

Statutory Audit

5.3 The financial statements of a Government Company (as defined in Section 2(45) of the Companies Act, 2013) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 139(5) or (7) of the Companies Act. These financial statements are subject to supplementary audit to be conducted by CAG within sixty days from the date of receipt of the audit report under the provisions of Section 143(6) of the Act.

Further, the Statutory Auditors of any other company owned or controlled, directly or indirectly, by the Central and/or State Government(s) are also appointed by CAG as per the provisions of Section 139(5) or (7) of the Act.

As per the provisions of Section 143(7) of the Act, the CAG, in case of any company (Government Company or *Other Company*) covered under sub-section (5) or sub-section (7) of Section 139 of the Act, if considers necessary, by an order, cause test audit to be conducted of the accounts of such Company (Government Company and *Other Company*) and the provisions of Section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit.

Role of Government and Legislature

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

The State Legislature also monitors the accounting and utilisation of Government investment in the SPSUs. For this, the Annual Reports together with the Statutory Auditors' Reports and comments of the CAG, in respect of the State Government Companies and Separate Audit Reports in case of Statutory Corporations are to be placed before the Legislature under Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Mizoram

5.5 The State Government has mainly three types of financial stake in these SPSUs, as stated below:

- **Share Capital and Loans** - In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
- **Special Financial Support** - State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.

- **Guarantees -** State Government also guarantees the repayment of loans, with interest, availed by the SPSUs from financial institutions.

Investment in SPSUs

5.6 As on 31 March 2015, the investment (capital and long-term loans) in six SPSUs was ₹ 73.31 crore as per details given below.

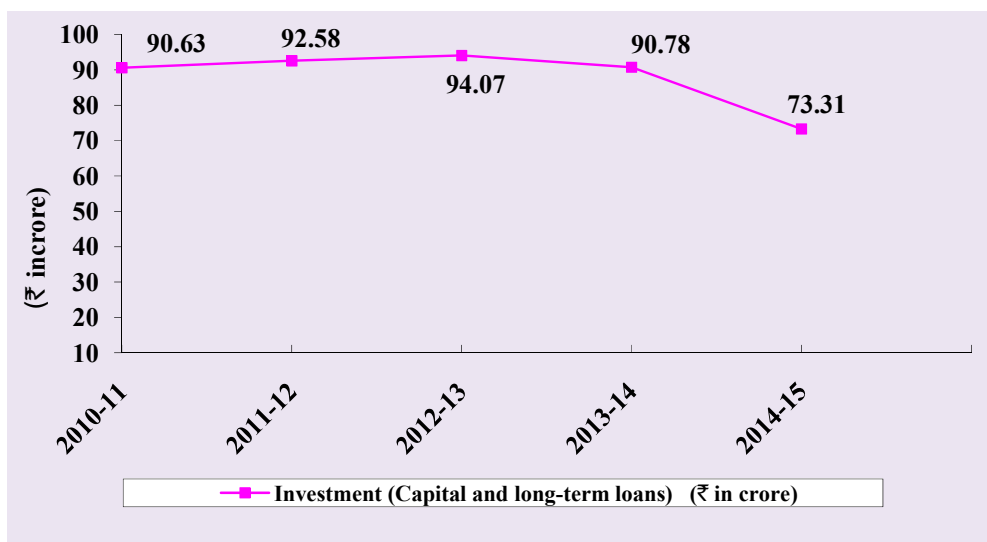
Table-5.2 : Total investment in SPSUs

Type of SPSUs	Government Companies		
	Capital	Long Term Loans	Total
Working SPSUs	49.69	23.62	73.31
Non-working SPSUs	-	-	-
Total	49.69	23.62	73.31

(₹ in crore)

This total investment consisted of 67.78 per cent towards capital and 32.22 per cent in long-term loans. The investment has declined by 19.11 per cent from ₹ 90.63 crore in 2010-11 to ₹ 73.31 crore in 2014-15 as shown in the graph below.

Chart-5.1 : Total investment in SPSUs



5.7 The sector wise summary of investments in the SPSUs as on 31 March 2015 is given below:

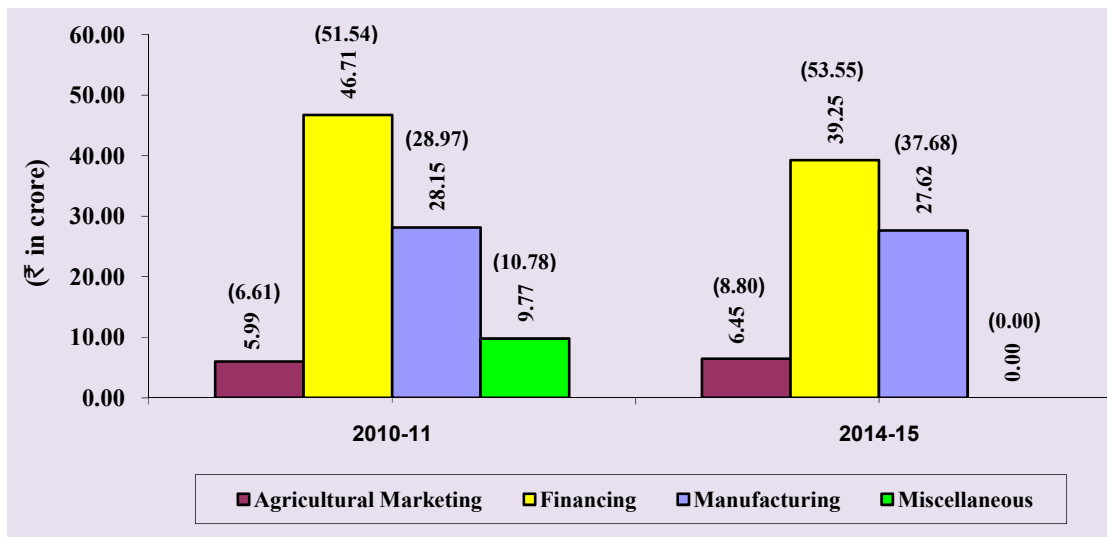
Table-5.3 : Sector-wise investment in SPSUs

Name of Sector	Government Companies	Investment (₹ in crore)
Agricultural Marketing	1	6.45
Financing	1	39.24
Manufacturing	2	27.62
Miscellaneous	2	0.00
Total	6	73.31

Source: As per information furnished by the Finance Department, Government of Mizoram

The investment in four significant sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are as indicated below in the bar chart.

Chart-5.2 : Sector wise investment in SPSUs



(Figures in brackets show the percentage of sector investment to total investment)

From the bar chart above, it may be noticed that compared to 2010-11, the thrust of SPSUs investment in 2014-15, was mainly in Agricultural Marketing Sector which increased from ₹ 5.99 crore to ₹ 6.45 crore (7.68 per cent). The investment in Financing Sector, Manufacturing Sector and Miscellaneous Sectors had decreased by ₹ 7.46 crore, ₹ 0.53 crore and ₹ 9.77 crore respectively.

Special support and returns during the year

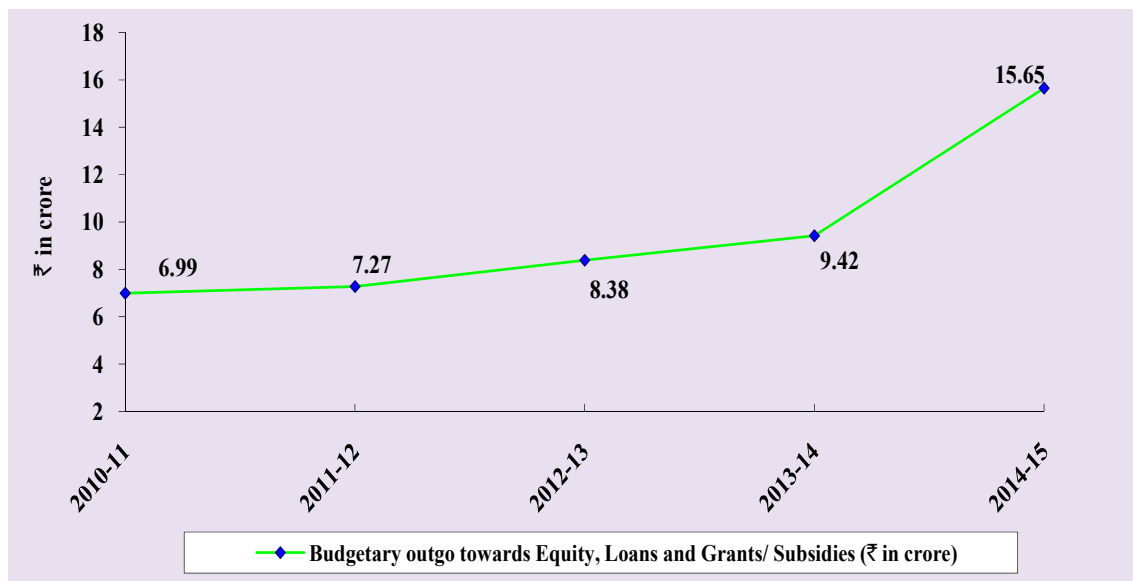
5.8 The State Government provides financial support to SPSUs in various forms through the annual budget. The summarized details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of SPSUs are given below for three years ended 2014-15.

Table-5.4 : Details regarding budgetary support to SPSUs

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of SPSUs	Amount (₹ in crore)	No. of SPSUs	Amount (₹ in crore)	No. of SPSUs	Amount (₹ in crore)
1.	Equity Capital outgo from budget	1	1.27	1	1.22	1	1.69
2.	Loans given from budget	-	-	-	-	-	-
3.	Grants/Subsidy received	2	7.11	3	8.20	4	13.96
4.	Total Outgo	6	8.38	6	9.42	6	15.65
5.	Waiver of loan and interest	-	-	-	-	-	-
6.	Guarantee issued	-	-	-	-	-	-
7.	Guarantee Commitment	1	23.07	1	18.61	2	23.63

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in a graph below.

Chart-5.3 : Budgetary outgo towards Equity, Loans and Grants/Subsidies



As on 31 March 2015, Guarantees given amounting to ₹ 23.63 crore were outstanding against Zoram Industrial Development Corporation Limited (ZIDCO) and Mizoram Food and Allied Industries Corporation Limited (MIFCO). There was no case of conversion of Government Loan into Equity, Moratorium in Repayment of Loan and Waiver of Interest in this year.

In order to enable SPSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee under Mizoram Guarantee Act, 2011 subject to the limits prescribed by the Constitution of India, for which the guarantee fee is being charged. The Government charges a minimum of 0.75 *per cent* of the guaranteed amount as guarantee commission. The guarantee commitment increased to ₹ 23.63 crore during 2014-15 from ₹ 23.07 crore in 2012-13. Further, two SPSUs paid guarantee fee to the tune of ₹ 1.50 crore during 2014-15.

Reconciliation with Finance Accounts

5.9 The figures in respect of equity, loans and guarantees outstanding as per records of SPSUs should agree with that of the 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 2015 is stated below.

Table-5.5 : Equity, loans, guarantees outstanding as per Finance Accounts vis-a-vis records of SPSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	4.92	1.69	3.23
Loans	-	-	-
Guarantees	-	23.63	(-) 23.63

Audit observed that the differences occurred in respect of all SPSUs and the differences were pending reconciliation for more than ten years. The Accountant General appraised the matter to the Chief Secretary, Government of Mizoram, Administrative Departments of respective SPSUs and the Managing Directors of SPSUs periodically and had drawn their attention to the need to reconcile figures as appearing in the Finance Accounts and in their respective accounts. However, no significant progress was noticed in this regard. The Government and the SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

5.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.* by September end in accordance with the provisions of Section 96(1) the Act. Failure to do so, may attract penal provisions under Section 99 of the Act. Similarly, in case of statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

The table below provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2015.

Table-5.6: Position relating to finalisation of accounts of working SPSUs

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Number of Working SPSUs	5	6	6	6	6
2.	Number of accounts finalized during the year	8	4	2	18	1
3.	Number of Accounts in arrears	24	26	30	18	23
4.	Number of Working SPSUs with arrears in Accounts	5	6	6	6	6
5.	Extent of arrears in years	1 to 11	1 to 12	1 to 11	1 to 8	1 to 9

It can be observed that the number of accounts in arrears has marginally decreased from 24 (2010-11) to 23 (2014-15). The major arrears of accounts pertained to Zoram Electronics Development Corporation Limited (ZENICS) having nine accounts in arrears. The reasons

for delay in finalisation of Accounts are attributable to (i) lack of required control over the Companies by Government and (ii) abnormal delay in compilation/approval of the accounts and delayed submission of the same to the Statutory Auditors by the management.

The administrative departments have the 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. Though the Accountant General had brought the position of arrears of Accounts to the notice of the concerned Administrative Departments and officials of the Government periodically, no remedial measures were taken. As a result of this the Net Worth of these SPSUs could not be assessed in audit. The Accountant General had also raised this issue periodically to expedite the clearance of arrears in finalisation of Accounts in a time bound manner.

In view of the above state of arrears, it is recommended that the Government should monitor and ensure timely finalisation of accounts in conformity with the provisions of the Companies Act, 2013.

5.11 The State Government had invested ₹ 40.10 crore (Equity: ₹ 8.85 crore, and Grants: ₹ 31.25 crore in six SPSUs) during the years for which Accounts have not been finalised as detailed in **Appendix-5.1**. In the absence of Accounts and their subsequent audit, it cannot be ascertained whether the Income and Expenditure have been properly accounted for and the purpose for which the investment was made by the State Government has been achieved. Thus, the State Government Investment in such SPSUs remains outside the scrutiny of the State Legislature. Further, delay in finalisation of Accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 2013.

Impact of non-finalisation of accounts

5.12 As pointed out above (para 5.10), the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of SPSUs to the State GDP for the year 2014-15 could not be ascertained in audit and their contribution to State exchequer could not be reported to the State Legislature.

It is recommended that the Government may set up a system to oversee the clearance of arrears and set the targets for individual companies and monitor it strictly.

Performance of SPSUs

5.13 The financial position and working results of working Government companies and Statutory Corporations are detailed in **Appendix-5.2**. A ratio of SPSU-turnover to State GDP shows the extent of SPSU-activities in the State economy. Table below provides the details of working SPSU turnover and State GDP for a period of five years ending 2014-15.

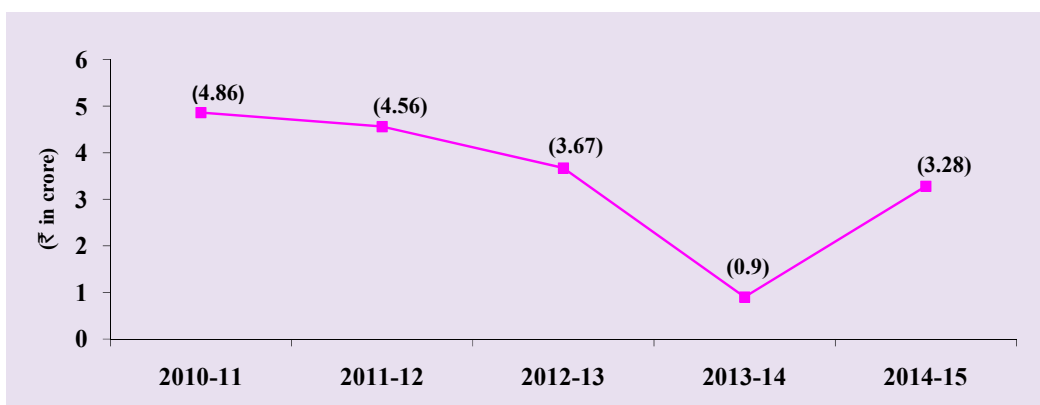
Table-5.7: Details of working SPSUs turnover vis-a vis State GDP

Particulars	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover ⁴	1.72	1.57	5.00	16.32	17.43
State GDP ⁵	6057.70	6991.40	8053.09	10296.98	12498.69
Percentage of Turnover to State GDP	0.03	0.02	0.06	0.16	0.14

It can be seen from the above Table that the percentage of turnover to State GDP increased from 0.03 per cent in 2010-11 to 0.14 per cent in 2014-15.

5.14 Overall losses incurred by State working SPSUs during 2010-11 to 2014-15 are given below in the chart.

Chart-5.4 : Overall loss incurred by working SPSUs



The five SPSUs were incurring losses continuously during the period between 2009-10 and 2014-15. During the year 2014-15, out of six SPSUs, only one SPSU namely Mizoram Handloom and Handicrafts Development Corporation Limited (ZOHANDCO) earned a profit of ₹ 62 lakh and the remaining five SPSUs incurred loss of ₹ 3.91 crore. Mizoram Food and Allied Industries Corporation Limited (MIFCO) incurred maximum loss followed by Mizoram Agricultural Marketing Corporation Limited (MAMCO) and Zoram Industrial Development Corporation Limited (ZIDCO) during this period.

The losses of SPSUs are mainly attributable to deficiencies in financial management, planning, running their operations and monitoring.

5.15 Some other key parameters of SPSUs are given below:

⁴ Turnover as per the latest finalised accounts as of 30 September 2015 and provisional figures furnished by the Company

⁵ The final figures of State GDP, provided by the Economic and Statistics Department of State Government has been adopted

Table-5.8 : Key Parameters of SPSUs

Particulars	(₹ in crore)					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital Employed (per cent)	-	-	-	-	-	-
Debt	30.30	30.93	30.93	30.93	30.93	39.67
Turnover ⁶	1.45	1.72	1.57	5.00	15.26	17.43
Debt/ Turnover Ratio	20.90:1	17.98:1	19.70:1	6.19:1	2.03:1	2.28:1
Interest Payments	2.18	0.30	0.30	0.30	0.06	0.07
Accumulated losses	43.45	49.20	50.58	51.34	58.04	57.89

The State Government had not formulated any dividend policy for payment of any minimum return by the SPSUs on the paid up share capital contributed by the State Government. As per the latest finalised accounts as of 30 September 2015, only one SPSU earned a profit of ₹ 0.62 crore. However, the SPSU had not declared any dividend during the year 2014-15.

Accounts Comments

5.16 During 2014-15, two⁷ working companies forwarded their four audited accounts to the Accountant General. Of these, one account (ZIDCO) was selected for supplementary audit, and issue of final comments is under process while one account (MMDCL) was given 'non-review certificate'.

Response of the Government to Audit

Performance Audits and Paragraphs

5.17 For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015, one audit paragraph was issued to the Secretary, Food, Civil Supplies and Consumer Affairs Department, Government of Mizoram with request to furnish reply within six weeks. Reply to paragraph from Secretary Food, Civil Supplies and Consumer Affairs Department, Government of Mizoram was received in February 2016.

⁶ Turnover of working SPSUs as per the latest finalised accounts as of 30 September 2015

⁷ ZIDCO (2012-13) & MMDCL (2013-14)

COMPLIANCE AUDIT PARAGRAPH

FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS DEPARTMENT

5.18 Loss due to shortage of stores/cash

There was a loss of ₹ 1.96 crore due to shortage of cash and stores at 18 different supply centres/godowns noticed during handing over of charge.

Para 8.6 of Revised Supply Manual (2011) of Food, Civil Supplies & Consumer Affairs Department provides that the custodian of the Godown is responsible for any shortage of commodities and stock at the Godown, detected as a result of handing over of charge, and responsibility shall be fixed accordingly. When shortage of stock or cash is detected, the same shall be reported to the District Civil Supply Officer (DCSO) concerned with a copy to the Director, Food, Civil Supplies & Consumers Affairs (DFCS&CA) who will take appropriate necessary punitive action according to quantity of the shortage.

Scrutiny of the records of the District Civil Supply Officer (DCSO), Saiha revealed that during June 2010 to September 2014, centre-in-charge in 18 stores/supply godowns, handed over lesser quantity of stores and cash valuing ₹ 2.14 crore to their relieving officers than accounted for in the books as given in table below:

Sl. No.	Particulars	Quantity (in Qtl)	Rate (in ₹)	Amount (₹ in lakh)
1.	Rice (A Grade)	20,991.83	930	195.22
2.	Rice (C Grade)	54.61	730	0.40
3.	Sugar	30.83	1,330	0.41
4.	Cash	--	--	18.01
Total				214.04

The Department had neither recovered the shortages from the respective handing-over charge officials nor taken any punitive action against the defaulting officials.

This had resulted in loss of ₹ 2.14 crore due to shortage of cash and stores at 18 different supply centres/godowns.

While accepting the facts, the DCSO stated (August 2015) that action against the shortage of sale proceeds of ₹ 2.14 crore was in progress. In their reply (February 2016), the Government stated that recoveries amounting to ₹ 17.79 lakh were made from five officials. The Government in reply also accepted that proceedings in respect of 13 defaulting officials had not been finalised (godown wise shortages given in **Appendix-5.3**).

While some action had been taken to recover the shortages, the fact remained that the Department was not pursuing the recoveries seriously as there were huge shortages of cash/stores, particularly on account of two officials. The Department had not even finalised the case against one of them, against whom the shortage was ₹ 65.36 lakh. Recovery of ₹ 32.04 lakh from another official was doubtful as he was already removed from the service.

5.19 Follow up action on Audit Reports

Replies outstanding

5.19.1 The Report of the Comptroller and Auditor General (CAG) of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Mizoram issued (August 2015) instructions to all Administrative Departments 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 to the Legislature, in the prescribed format without waiting for any questionnaires from the COPU.

Table-5.9 : Explanatory notes not received (as on 30 September 2015)

Year of the Audit Report (Commercial/SPSUs)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2011-12	24.06.2013	-	4	-	4
2012-13	09.07.2014	-	1	-	1
2013-14	08.07.2015	1	1	1	1
Total		1	6	1	6

From the above, it could be seen that explanatory notes on one performance audit and six paragraphs which were commented upon, were awaited (September 2015).

Discussion of Audit Reports by COPU

5.19.2 The status as on 30 September 2015 of Performance Audits and paragraphs that appeared in Audit Reports (SPSUs) and were discussed by the Committee on Public Undertakings (COPU) was as under.

Table-5.10 : Reviews/Paras that appeared in Audit Reports vis a vis discussed as on 30 September 2015

Period of Audit Report	Number of reviews/ paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
2007-08	1	2	1	-
2008-09	-	4	-	1
2009-10	-	2	-	No recommentation made.
2010-11	-	1	-	1
2011-12	-	4	-	4
2012-13	-	1	-	-
2013-14	1	1	-	-
Total	2	15	1	8

From the above, it could be seen that out of two reviews and 15 paras that appeared in Audit Report from 2007-08 to 2013-14, only one review and eight paras were discussed by COPU as on September 2015.

Compliance to Reports of Committee on Public Undertakings (COPU)

5.19.3 Action Taken Notes (ATN) to paragraphs pertaining to one Report of the COPU presented to the State Legislature had not been received (December 2015) as indicated below:

Table-5.11 : Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Report	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
2007-08 & 2008-09	1	6	-
Total	1	6	-

The Report of COPU contained recommendations in respect of six paragraphs pertaining to five Companies, which appeared in the Reports of the CAG of India for the years 2007-08 to 2008-09.

It is recommended that the Government may ensure sending of replies to IRs/explanatory Notes/draft paragraphs/performance audits, ATNs on the recommendations of COPU as per the prescribed time schedule and recovery of loss/outstanding advances/overpayments within the prescribed period.

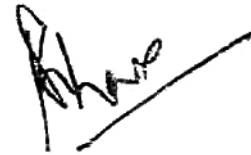
Aizawl
The 12 April 2016



(H.K. Dharmadarshi)
Accountant General (Audit), Mizoram

Countersigned

New Delhi
The 19 April 2016



(Shashi Kant Sharma)
Comptroller and Auditor General of India

