

CHAPTER – III
ECONOMIC SECTOR
(PUBLIC SECTOR UNDERTAKINGS)

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ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

3.1 Functioning of State Public Sector Undertakings

3.1.1 Introduction

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 and also occupy an important place in the State economy. As on 31 March 2015, there were 6 (Six) SPSUs in Nagaland. Of these, no company was listed on the stock exchange(s). During the year 2014-15, neither any SPSU was incorporated nor closed down. The details of the SPSUs in Nagaland as on 31 March 2015 are given below.

Table 3.1

Type of SPSUs	Working SPSUs	Non-working SPSUs*	Total
Government Companies ¹	5	1	6
Statutory Corporations	0	0	0
Total	5	1	6

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

The working SPSUs registered a turnover of ₹ 6.26 crore as per their latest finalised accounts as of September 2015. This turnover was equal to 0.31 *per cent* of State Gross Domestic Product (SGDP) for 2014. The working SPSUs incurred aggregate loss of ₹ 3.35 crore as per their latest finalised accounts as of September 2015. They had employed 616 employees as at the end of March 2015.

As on 31 March 2015, one SPSU with an investment of ₹ 4.96 crore was not working for the last 16 years (Since 1999-2000). This is a critical area as the investments in non-working SPSUs do not contribute to the economic growth of the State.

3.1.2 Accountability framework

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 1st 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 Government companies under the Act is governed by respective provisions of Section 139 and 143 of the Act.

¹ Government companies include Other Companies referred to in Section 139(5) and 139(7) of the Companies Act 2013.

3.1.3 Statutory Audit

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 also 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 (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.

Audit of Statutory Corporations is governed by their respective legislations. There is no Statutory Corporation in Nagaland.

3.1.4 Role of Government and Legislature

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 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.

3.1.5 Stake of Government of Nagaland

The State Government has huge financial stake in these SPSUs. This stake is of mainly three types:

- **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.

3.1.6 Investment in State SPSUs

As on 31 March 2015, the investment (capital and long-term loans) in Six SPSUs was ₹ 106.17 crore as per details given below.

Table 3.2

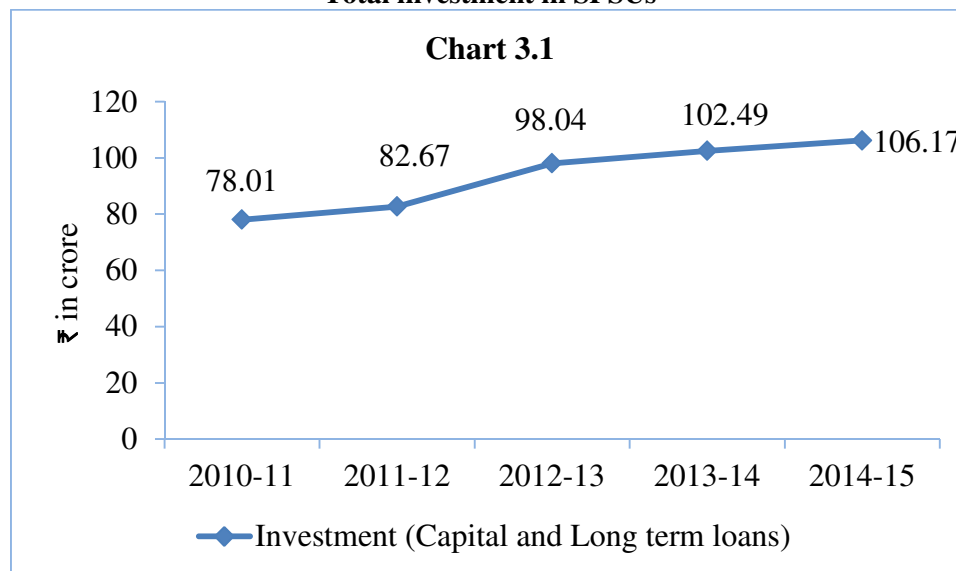
Type of SPSUs	Government Companies			Statutory Corporations			Grand Total
	Capital*	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working SPSUs	35.95	65.26	101.21	0	0	0	101.21
Non-working SPSUs	4.96	0	4.96	0	0	0	4.96
Total	40.91	65.26	106.17	0	0	0	106.17

₹ in crore

* As per latest finalized financial statements. Also, includes ₹ 6.27 crore from sources other than State Government.

Out of the total investment of ₹ 106.17 crore in SPSUs as on 31 March 2015, 95.33 per cent was in working SPSUs and the remaining 4.67 per cent in non-working SPSUs. This total investment consisted of 38.53 per cent towards capital and 61.47 per cent in long-term loans. The investment has grown by 36.10 per cent from ₹ 78.01 crore in 2010-11 to ₹ 106.17 crore in 2014-15 as shown in the graph below.

Total investment in SPSUs



3.1.7 Summary of Investments

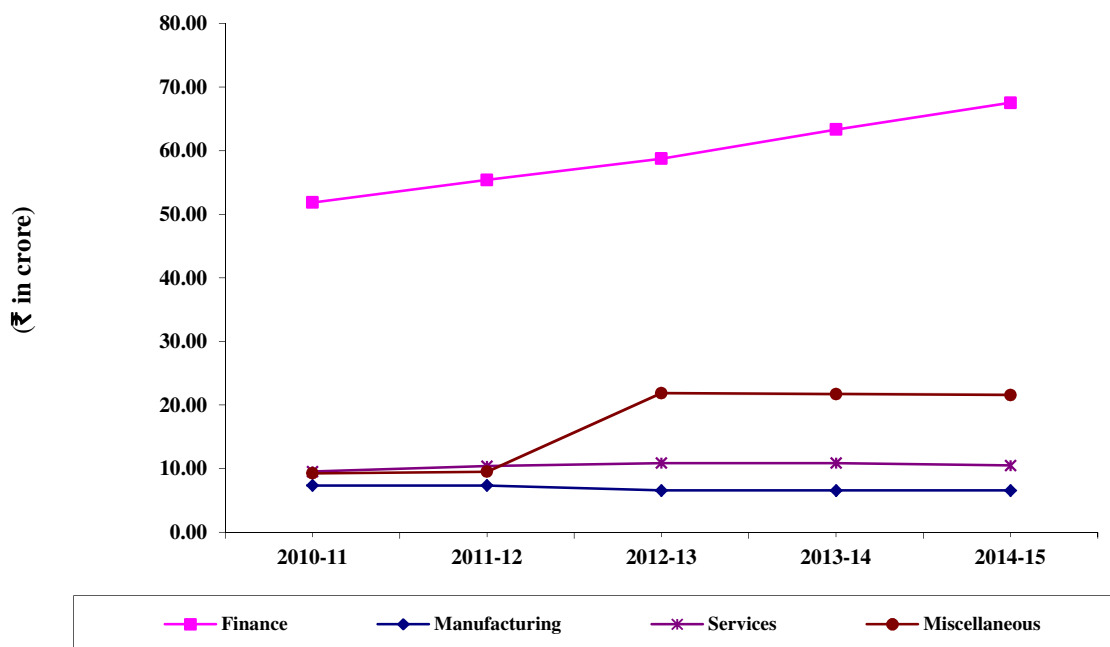
The sector wise summary of investments in the State PSUs as on 31 March 2015 is given below:

Table 3.3

Name of Sector	Government/Other ² Companies		Statutory Corporations	Total Investment (₹ in crore)
	Working	Non-Working	Working	
Power	0	0	0	0
Manufacturing	1.60	4.96	0	6.56
Finance	67.54	0	0	67.54
Miscellaneous	21.58	0	0	21.58
Service	10.49	0	0	10.49
Infrastructure	0	0	0	0
Agriculture & Allied	0	0	0	0
Total	101.21	4.96	0	106.17

The investment in four significant sectors and percentage thereof at the end of 31 March 2011 and 31 March 2015 are indicated below in the line chart. The thrust of SPSU-investment was mainly in Finance sector which had increased from 51.84 *per cent* (2010-11) to 67.54 *per cent* (2014-15) of the total investment of the respective years during 2010-11 to 2014-15.

Chart 3.2: Sector wise investment in SPSUs



² 'Other Companies' as referred to under Section 139 (5) and 139 (7) of the Companies Act, 2013.

It may be noticed that investment in finance sector has recorded highest among others and also has recorded stiff rise over last five years where as the investment in manufacturing and service sectors remained consistently low during last five years. The average investment in manufacturing and service sectors was ₹ 6.72 crore and ₹ 10.43 respectively. The investment in miscellaneous sector recorded a stiff increase of ₹ 12.36 crore in 2012-13 as compared with the previous year. The investment in miscellaneous sector was ₹21.87 crore in 2012-13 as compared with investment ₹ 9.51 crore in 2011-12.

3.1.8 Special support and returns during the year

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

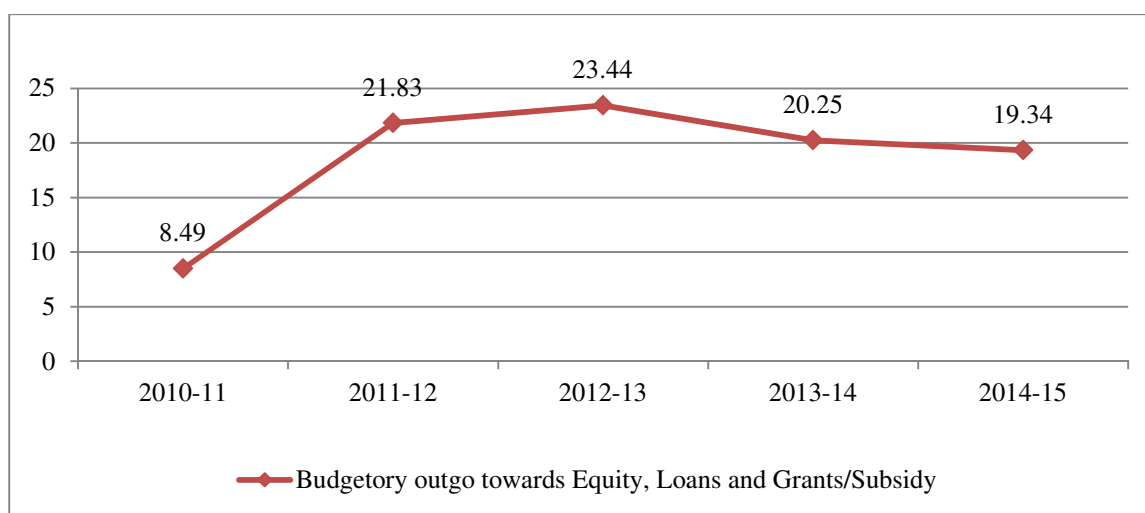
Table 3.4

₹ in crore

Sl. No.	Particulars	2012-13		2013-14		2014-15	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	2	2.40	1	4.25	0	0
2.	Loans given from budget	1	6.59	0	0	1	8.68
3.	Grants/Subsidy from budget	5	14.45	4	16.00	3	10.66
4.	Total Outgo (1+2+3)		23.44		20.25		19.34
5.	Waiver of loans and interest	0	0	0	0	1	4.48
6.	Guarantees issued	0	0	0	0	1	4.48
7.	Guarantee Commitment	2	11.59	1	6.55	1	8.68

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

Chart 3.3: Budgetary outgo towards Equity, Loans and Grants/Subsidies (₹ in crore)



The chart above indicated that the year-wise budgetary outgo of the State Government towards equity, loans and grants had shown an increasing trend during 2011-12 and

2012-13. During 2013-14 & 2014-15 however the budgetary support provided to SPSUs had marginally reduced to ₹ 20.25 crore and ₹ 19.34 crore respectively.

During the year 2014-15, the Government has waived the loan of ₹ 4.48 crore and issued a guarantee of ₹ 8.68 crore to Nagaland Industrial Development Corporation Limited.

In order to enable SPSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee. However, the State Government had not framed any rules regarding extending guarantee for the same. The guarantee commitment decreased to ₹ 8.68 crore during 2014-15 from ₹ 11.59 crore in 2012-13. Further, no SPSU paid guarantee fee to the state government during 2014-15 as there was no demand from the Government.

3.1.9 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs 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 3.5

₹ in crore

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	190.48	34.64	155.84
Loans	Nil	0.77	0.77
Guarantees	59.53	15.00	44.53

Audit observed that the differences occurred in respect of two SPSUs and some of the differences were pending reconciliation since 2010-11. The Government and the SPSUs should take concrete steps to reconcile the differences in a time-bound manner.

3.1.10 Arrears in finalisation of accounts

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 PSUs in finalisation of accounts as of 30 September 2015.

Table 3.6

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Number of Working PSUs/other companies	5	5	5	5	5
2.	Number of accounts finalised during the year	15	34	21	17	7
3.	Number of accounts in arrears	75	46	30	18	16
4.	Number of Working PSUs with arrears in accounts	5	5	5	5	5
5.	Extent of arrears (numbers in years)	5 to 21	1 to 13	1 to 9	1 to 5	1 to 5

It can be observed that the number of accounts in arrears has decreased from 75 (2010-11) to 16. (2014-15). None of the SPSUs, however, had made their accounts up-to-date as on 30 September, 2015. Further, one out of five SPSUs (Nagaland Handloom & Handicrafts Development Corporation Limited) did not finalise any accounts during 2013-14 and 2014-15.

All the SPSUs need to take effective measures for early clearance of the backlog and make their accounts up-to-date. SPSUs should ensure finalisation of at least one year accounts by 30 September each year so as to restrict further accumulation of accounts backlog.

In addition to above, the accounts of the only non-working SPSU in the State had the arrears of accounts for 37 years.

The administrative departments have the responsibility to oversee the activities of these entities and ensure that the accounts are finalised and adopted by these SPSUs within the prescribed period.

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 provisions of the Companies Act, 1956 and orders of the Ministry of Corporate Affairs from time to time.

3.1.11 Finalisation of Accounts

The State Government had invested ₹ 138.08 crore in five SPSUs {equity: ₹ 5.10 crore (two SPSUs), loans: ₹ 8.68 crore (one SPSU) and grants ₹ 124.30 crore (four SPSUs)} during the years for which accounts have not been finalised as detailed in **Annexure 3.1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not and thus Government's investment in such PSUs remained outside the control of State Legislature.

3.1.12 Arrears in finalisation of Accounts

In addition to above, as on 30 September 2015, there were arrears in finalisation of accounts by the non-working SPSU which was in the process of liquidation whose accounts were in arrears for 37 years.

Table 3.7

No. of non-working companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
One - Nagaland Sugar Mill Company Ltd.	1978-79 till date	37

3.1.13 Impact of non-finalisation of accounts

As pointed out above (paragraph 3.1.10 to 3.1.12), 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 Statues. 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 and their contribution to State exchequer was also not reported to the State Legislature.

3.1.14 Performance of SPSUs as per their latest finalized accounts

The financial position and working results of working Government companies and Statutory Corporations are detailed in **Annexure 3.2**. 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 3.9

Particulars	₹ in crore				
	2010-11	2011-12	2012-13	2013-14	2014-15
Turnover*	18.06	5.36	6.75	5.98	6.26
State GDP	11759	13859	15676	17749	20099
Percentage of Turnover to State GDP	0.15	0.04	0.04	0.03	0.31

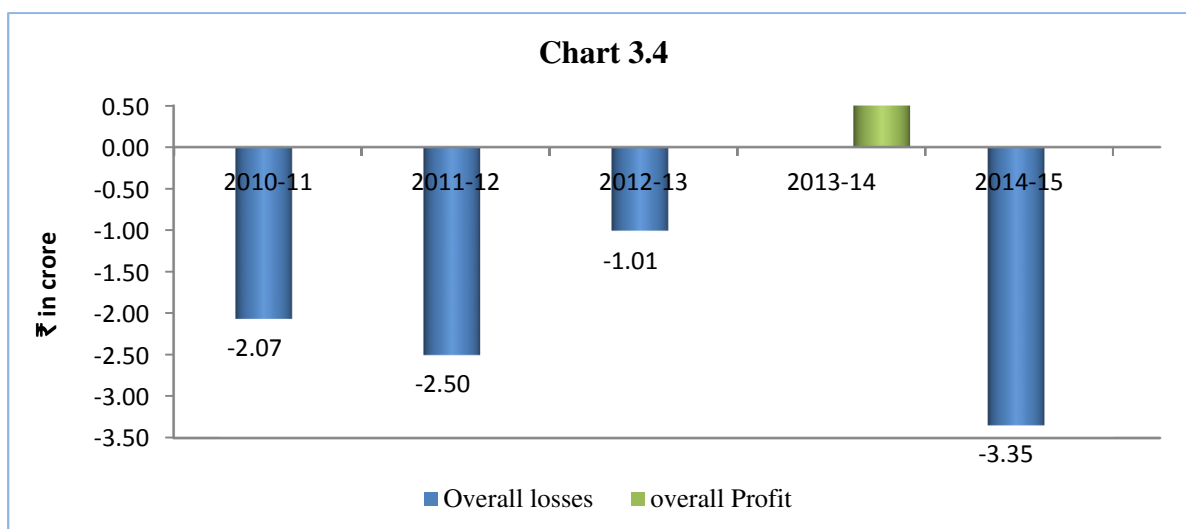
*Turnover as per the latest finalised accounts as of 30 September of the respective year

From the table, it may be noticed that during 2014-15 the percentage of SPSUs turnover to State GDP had marginally increased to 0.31 from 0.03 during 2013-14. During 2014-15, the percentage of SPSUs turnover was high at 0.31 *per cent* mainly due to increase in the turnover in respect of Nagaland State Mineral Development Corporation Limited (NSMDC). The increase in the turnover of NSMDC was mainly because of the Government Grants.

3.1.15 Overall Profit/Loss of SPSUs

Overall profit and losses earned/incurred by State working SPSUs during 2010-11 to 2014-15 are given below in a bar chart.

Chart 3.4: Profit/Loss of working SPSUs



It could be seen from the chart above that overall losses incurred by the working SPSUs had decreased from ₹ 2.07 crore in 2010-11 to ₹ 1.01 crore in 2012-13. During 2013-14 the working SPSUs had registered an overall profit of ₹ 0.50 crore but again incurred an overall loss of ₹ 3.35 crore during 2014-15 mainly due to loss (₹ 3.18 crore) sustained by Nagaland Industrial Development Corporation Limited. As per the latest finalised accounts of five working SPSUs as of November 2015, four SPSUs incurred loss of ₹ 3.97 crore, while the remaining one SPSU (Nagaland Industrial Raw Material Supply Corporation Limited) earned profit of ₹ 0.62 crore.

3.1.16 Key Indicators

Some other key parameters of SPSUs are given below.

Table 3.10

Particulars	₹ in crore				
	2010-11	2011-12	2012-13	2013-14	2014-15
Return on Capital Employed (Per cent)	*	*	0.63	5.02	*
Debt	45.64	47.69	61.46	61.66	65.26
Turnover ³	18.06	5.36	6.75	5.98	6.26
Debt/ Turnover Ratio	2.53:1	8.90:1	9.11:1	10.31:1	10.42:1
Interest Payments					
Accumulated Profits/ (losses)	(33.62)	(48.53)	(51.38)	(49.35)	(51.84)

*Negative figures

(Above figures pertain to all SPSUs except for turnover which is for working SPSUs).

From the above it can be noticed that the debt-equity ratio of SPSUs had increased consistently after 2010-11 due to increase in the long term borrowings of SPSUs. The accumulated losses of SPSUs had also shown an increasing trend during 2010-15 (excepting 2013-14). This has also positively affected the return on capital employed

³ Turnover of working SPSUs as per the latest finalised accounts as of 30 September of the respective year.

during 2013-14. There was, however, no return on capital employed during 2009-10 to 2011-12. The losses of SPSUs are generally due to deficiencies in management, planning, running their operations and monitoring.

Thus, appropriate 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.

3.1.17 Paid up share capital

The State Government has not formulated any dividend policy under which all SPSUs could have been required to pay a minimum return on the paid up share capital contributed by the State Government.

3.1.18 Winding up of non-working SPSUs

There was one non-working SPSU as on 31 March 2015 which has commenced liquidation process. The numbers of non-working SPSUs (companies and corporations) at the end of each year during past five years are given below.

Table 3.11

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
No. of non-working companies	1	1	1	1	1
No. of non-working corporations	0	0	0	0	0
Total	1	1	1	1	1

1.19 Closure of non-working SPSUs

The stages of closure in respect of non-working SPSUs are given below:

Table 3.12

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working SPSUs	1	0	1
2.	Of (1) above, the No. under			
(a)	liquidation by Court (liquidator appointed)	0	0	0
(b)	Voluntary winding up (liquidator appointed)	0	0	0
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	1*	0	1

* In the process of liquidation.

During the year 2014-15 no company was finally wound up.

3.1.20 Accounts Comments

Four working companies forwarded their audited seven accounts to AG during the year 2014-15. Of these, none of the account was selected for supplementary audit and Non-Review Certificate was issued with respect to all the accounts received. The audit reports of statutory auditors appointed by CAG indicate that the quality of maintenance of accounts needs to be improved substantially.

During the year, the Statutory Auditors had not given unqualified certificates for any accounts.

Response of the Government to Audit

3.1.21 Performance Audits and Paragraphs

For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2015, no performance audit and audit paragraph was issued to the Government/Management.

Follow up action on Audit Reports

3.1.22 Replies outstanding

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 Nagaland did not issue any instruction to any 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 No.3.15:

Year of the Audit Report (Commercial/S PSUs)	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 (as on 30 September,2015)	
		PAs	Paragraphs	PAs	Paragraphs
2010-11	22 March 2012	0	0	0	0
2011-12	18 July 2013	0	1	0	0
2012-13	25 July 2014	0	1	0	0
2013-14	17 March 2015	0	1	0	0
Total		0	3	0	0

3.1.23 Discussion of Audit Reports by Committee on Public Undertakings

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

Table No.3.16

Period of Audit Report	Number of reviews/paragraphs as on September 2015			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2011-12	0	1	0	0
2012-13	0	1	0	0
2013-14	0	1	0	0
Total	0	3	0	0

3.1.24 Recommendations of COPU

It is recommended that the Government may ensure; (a) sending of replies to IRs/explanatory Notes/draft paragraphs/performance audits and ATNs on the recommendations of COPU as per the prescribed time schedule; (b) recovery of loss/outstanding advances/overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

3.1.25 Coverage of this Report

This Report does not contain any Paragraph.

3.1.26 Disinvestment, Restructuring and Privatisation of SPSUs and any reforms in power sector

There is no instance of disinvestment, restructuring and privatization of SPSUs during the year under Report.