

CHAPTER – III
ECONOMIC SECTOR
(PUBLIC SECTOR UNDERTAKINGS)

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3.1 Introduction

3.1.1 The State Public Sector Undertakings (SPSUs) consists 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 2016, there were 6 (Six) SPSUs in Nagaland. Of these, no Company was listed on the stock exchange(s). During the year 2015-16, neither any SPSU was incorporated nor closed down. The details of the SPSUs in Nagaland as on 31 March 2016 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 ₹ 6.23 crore as per their latest finalised accounts as of September 2016. This turnover was equal to 0.03 *per cent* of State Gross Domestic Product (SGDP) for 2015-16. The working SPSUs incurred aggregate loss of ₹ 49.28 crore as per their latest finalised accounts (September 2016). They had employed 576 employees at the end of March 2016.

As on 31 March 2016, one SPSU (Nagaland Sugar Mills Company Limited) with an investment of ₹ 5.89² crore was not working for the last 16 years (Since 1999-2000). 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 01 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

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

² As per latest figures furnished by the Company

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

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 (C&AG) 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 C&AG within 60 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 Company³ owned or controlled, directly or indirectly, by the Central and/or State Government (s) are also appointed by C&AG 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 C&AG, 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 C&AG, 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 C&AG are submitted to the Government under Section 19A of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

³ Other company as referred to in Section 1359(5) & 139(7) of the Companies Act 2013

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 2016, the investment (capital and long-term loans) in Six SPSUs⁴ was ₹ 111.96 crore as detailed below.

Table No.3.2

₹ in crore

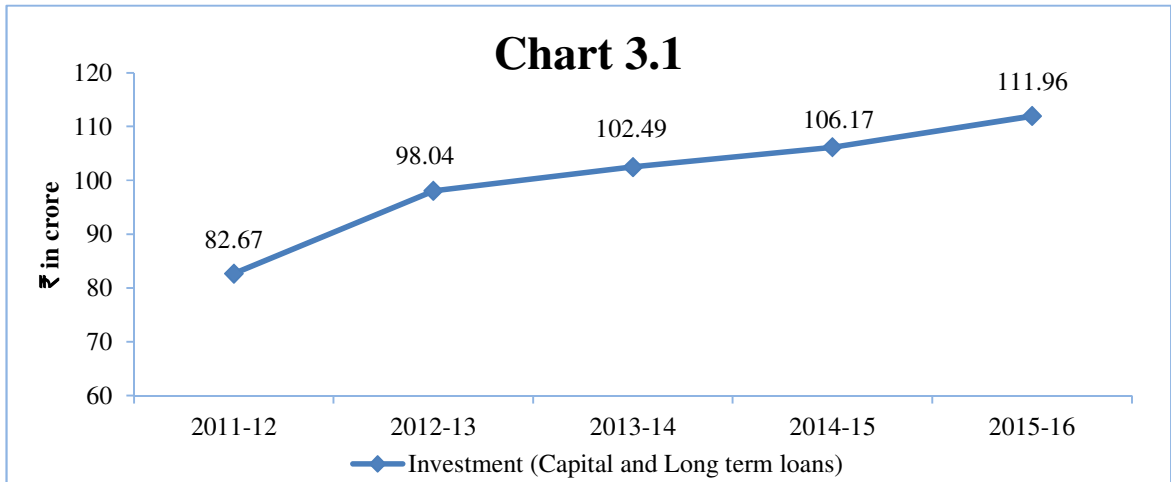
Type of SPSUs	Government Companies			Grand Total
	Capital*	Long Term Loans	Total	
Working SPSUs	35.95	66.93	102.88	102.88
Non-working SPSUs	5.89	3.19	9.08	9.08
Total	41.84	70.12	111.96	111.96

*includes ₹6.78 crore from sources other than State Government

Out of the total investment of ₹ 111.96 crore in SPSUs as on 31 March 2016, 91.89 per cent was in working SPSUs and the remaining 8.11 per cent in non-working SPSUs. This total investment consisted of 37.38 per cent towards capital and 62.62 per cent in long-term loans. The investment has grown by 35.41 per cent from ₹ 82.67 crore in 2011-12 to ₹ 111.96 crore in 2015-16 as shown in the graph below.

⁴ There are no statutory Corporations in Nagaland

Total investment in SPSUs



3.1.7 Summary of Investments

The sector wise summary of investments in the State PSUs as on 31 March 2016 is given below:

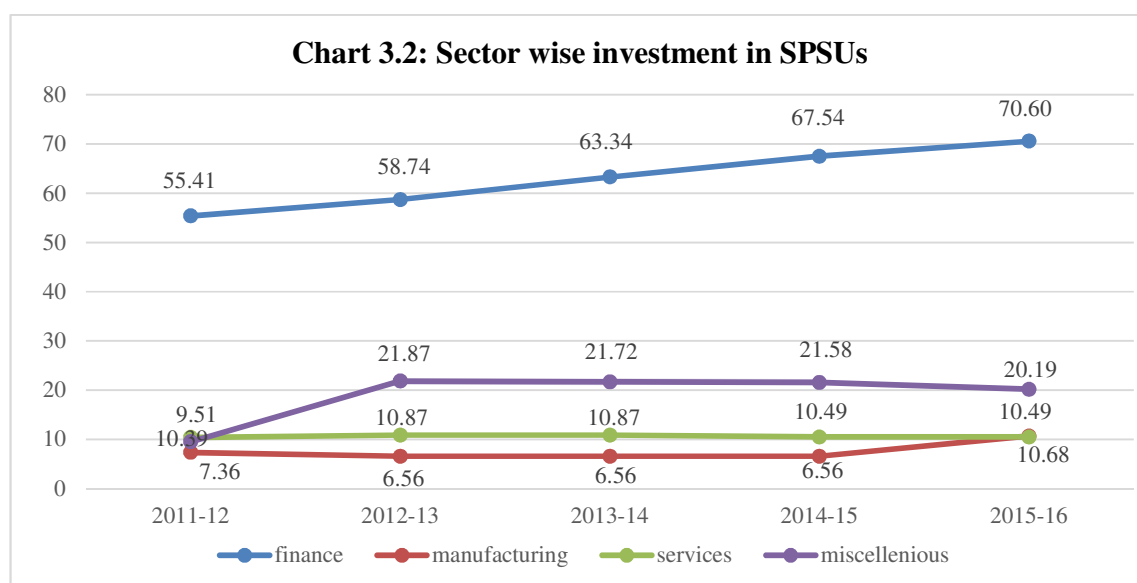
Table 3.3

₹ in crore

Name of Sector	Government Companies/Corporations ⁵		Total Investment (₹ in crore)
	Working	Non-Working	
Manufacturing	1.60	9.08	10.68
Finance	70.60	0	70.60
Miscellaneous	20.19	0	20.19
Service	10.49	0	10.49
Total	102.88	9.08	107.84

The investment in four significant sectors and percentage thereof at the end of 31 March 2012 to 31 March 2016 is indicated in the following line chart.

⁵ There was no Statutory Corporation in Nagaland as on March 2016



It may be noticed that investment of the State Government in finance sector was highest during the last five years whereas the investment in manufacturing and service sectors remained consistently low during last five years. However, the investment in manufacturing sector inspite of being consistently low during last five years recorded a noticeable increase of ₹ 4.12 crore in 2015-16 (i.e. an increase of 63 per cent) as compared with the previous year.

3.1.8 Special support and returns during the year

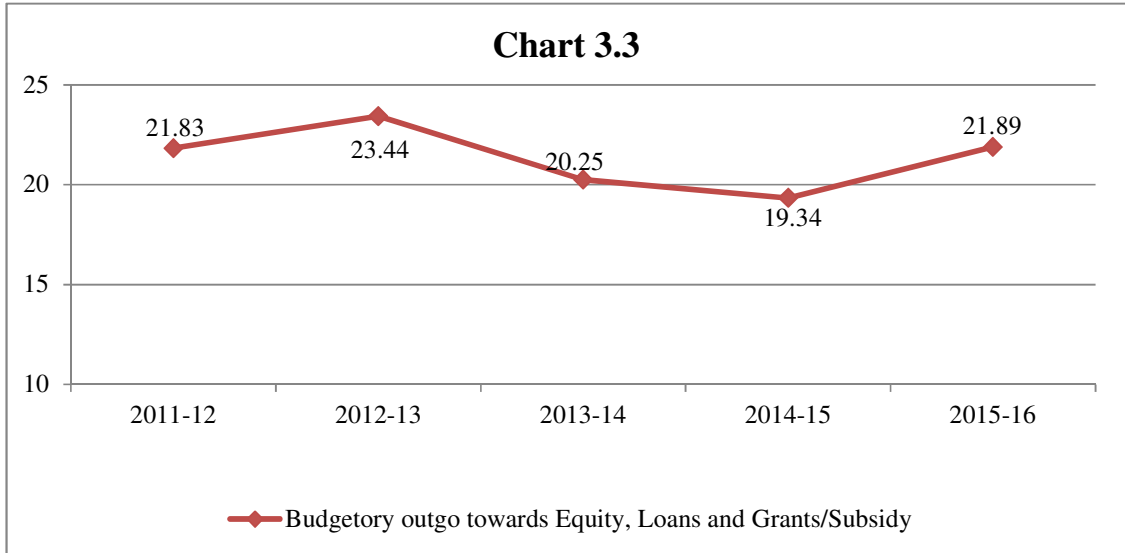
The State Government provides financial support to SPSUs in various forms through annual budget. The summarized details of budgetary outgo towards equity, loans, grants/subsidies, loans written-off and interest waived in respect of SPSUs are given below for three years ended 2015-16.

Table 3.4

₹ in crore

Sl. No	Particulars	2013-14		2014-15		2015-16	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	1	4.25	0	0	0	0
2.	Loans given from budget	0	0	1	8.68	1	5.64
3.	Grants/Subsidy from budget	4	16.00	3	10.66	4	16.25
4.	Total Outgo (1+2+3)		20.25		19.34		21.89
5.	Waiver of loans and interest	0	0	1	4.48	1	2.57
6.	Guarantees issued	0	0	1	4.48	1	5.64
7.	Guarantee Commitment	1	6.55	1	8.68	1	15.00

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



The chart above indicated that the year-wise budgetary outgo of the State Government towards equity, loans and grants increased from ₹ 21.83 crore in 2011-12 to ₹ 23.44 crore in 2012-13. However, the budgetary outgo decreased during 2013-14 and 2014-15, In 2015-16 the budgetary support provided to SPSUs had marginally increased by ₹ 2.55 crore to ₹ 21.89 crore as compared with 2014-15.

During the year 2015-16, the Government waived the loan of ₹ 2.57 crore and issued a guarantee of ₹ 5.64 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 had increased from ₹ 8.68 crore in 2014-15 to ₹ 15.00 crore in 2015-16. Further, no SPSU paid guarantee fee to the State Government during 2015-16 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 match, the concerned SPSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2016 is given in the following table.

Table 3.5

₹ in crore

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	97.90	33.92	63.98
Loans	0	0.81	-0.81
Guarantees	48.95	20.64	28.31

Audit observed that there were differences between two set of figures i.e. figures of State Finance Accounts and figures shown in Accounts of SPSUs. The differences were not reconciled since 2010-11.

3.1.10 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) of 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 2016.

Table 3.6

Sl.No	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Number of Working PSUs/other companies	5	5	5	5	5
2	Number of accounts finalised during the year	34	21	17	6	2
3	Number of accounts in arrears	46	30	18	17	20
4	Number of Working PSUs with arrears in accounts	5	5	5	5	5
5	Extent of arrears (numbers in years)	1 to 13	1 to 9	1 to 5	1 to 5	1 to 6

It can be observed that the number of accounts in arrears has decreased from 46 in 2011-12 to 17 in 2014-15, however, the arrears increased to 20 in 2015-16 as compared with the previous year. Only two SPSUs (NIDC & NSMDC) finalised one account each during 2015-16, the remaining three SPSUs did not finalise any accounts inspite of repeated reminders issued at the end of each quarter. None of the SPSUs, had updated their accounts as on 30 September, 2016.

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 one non-working SPSU pertaining to the years 1977-78 to 1980-81 was finalised during the year. However, the non-working SPSU had arrears of accounts for 34 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 Arrears in finalisation of Accounts of working SPSUs

The State Government had invested ₹ 142.04 crore in five SPSUs {equity: ₹ 0.85 crore (one SPSUs), loans: ₹ 5.64 crore (one SPSU) and grants ₹ 135.55 crore (five SPSUs)} during the years for which accounts have not been finalised as detailed in **Appendix-3.1.1**. 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 SPSUs remained outside the control of State legislature.

3.1.12 Arrears in finalisation of Accounts of non-working SPSUs

In addition to above, as on 30 September 2016, there were arrears in finalisation of accounts by one non-working SPSU whose accounts were in arrears for 34 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.	1981-82 till date	34

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 Statutes. In view of the above state of arrears of accounts, the actual contribution of SPSUs to the State GDP for the year 2015-16 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

3.1.14 Performance of SPSUs

The financial position and working results of working Government Companies and Statutory Corporations are detailed in **Appendix 3.1.2**. 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 2015-16.

Table 3.8

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover*	5.36	6.75	5.98	6.26	6.23
State GDP	13,859	15,676	17,749	20,099	20,524
Percentage of Turnover to State GDP	0.04	0.04	0.03	0.03	0.03

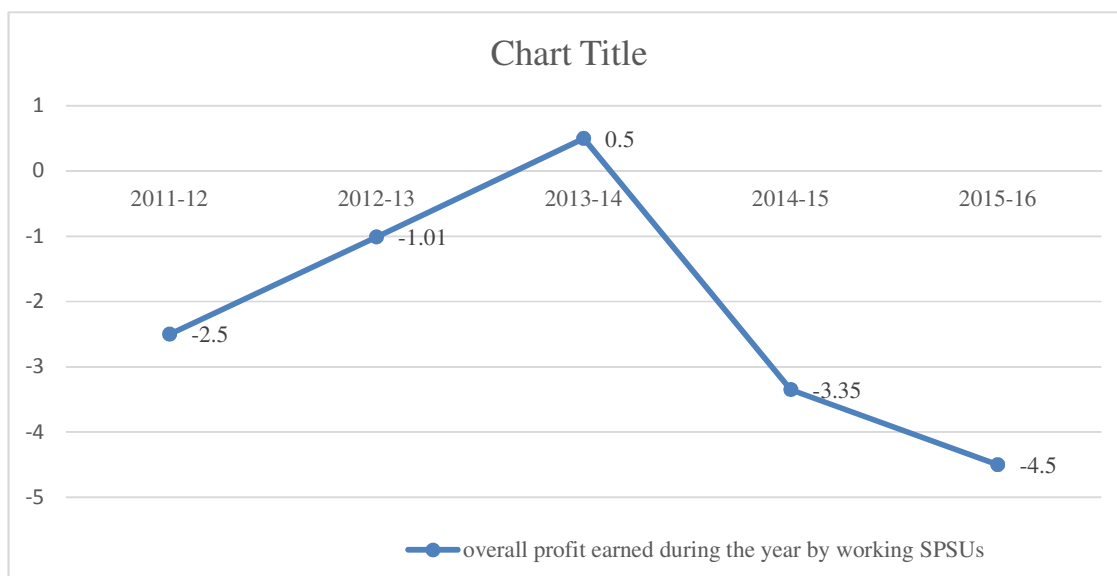
*Turnover as per the latest finalised accounts as of 30 September of the respective years

From the table, it can be seen that there was no substantial change in the percentage of SPSUs turnover to State GDP during the last five years.

3.1.15 Overall Profit/Loss of SPSUs

Overall profit and losses earned/incurred by State working SPSUs during 2011-12 to 2015-16 are given in chart below.

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 increased from ₹ 2.50 crore in 2011-12 to ₹ 4.50 crore in 2015-16. Except during 2013-14 when there was a slight increase in profits, none of the working SPSUs had

made profit from their operations during the year. The two PSUs namely Nagaland Industrial Development Corporation Limited (NIDC) and Nagaland State Mineral Development Corporation Limited (NSMDC) which finalised their accounts during the year showed an increasing trend in the net loss. The figures for the other three PSUs had not been updated as no accounts were finalized during the year. Hence, increase in the net loss indicates loss incurred by the two SPSUs only.

3.1.16 Key Indicators

Some other key parameters of SPSUs are given below.

Table 3.9

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed (Per cent)	Nil	0.63	5.02	Nil	Nil
Debt	47.69	61.46	61.66	65.26	70.12
Turnover ⁶	5.36	6.75	5.98	6.26	6.23
Debt/Turnover Ratio	8.90:1	9.11:1	10.31:1	10.42:1	11.26:1
Interest Payments					
Accumulated Profits/Losses	(48.53)	(51.38)	(49.35)	(51.84)	(49.28)

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

From the above it can be noticed that the debt-turnover ratio of SPSUs had increased consistently due to increase in the long term borrowings of SPSUs. The accumulated losses of SPSUs had decreased slightly during 2015-16. There was, however, no return on capital employed during 2011-12, 2014-15 and 2015-16. 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.

⁶ Turnover of working SPSUs as per the latest finalised accounts as of 30 September of the respective year.

3.1.18 Winding-up of non-working SPSUs

There was one non-working SPSU⁷ as on 31 March 2016. The number of non-working SPSUs (companies and corporations) at the end of each year during past five years are given in the following table.

Table 3.10

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
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

3.1.19 Closure of non-working SPSUs

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

Table 3.11

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

**the liquidation process of one non-working company had not started as on September 2016.*

During the year 2015-16 no company was finally wound up.

3.1.20 Accounts Comments

Two working Companies forwarded one year audited accounts each to AG (Audit) during the year 2015-16. Non-Review Certificate was issued with respect to one accounts and one account was selected for supplementary audit.

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

⁷ Nagaland Sugar Mills Company Limited Dimapur

Response of the Government to Audit.

3.1.21. Performance Audits and Paragraphs

For the Report of the C&AG of India for the year ended 31 March 2016, no performance audit/audit paragraph was issued to the Government/Management.

Follow up action on Audit Reports

3.1.22 Replies outstanding

The Report of the C&AG 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 C&AG 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 3.12

Year of the Audit Report (Commercial/SPSUs)	Date of placement of Audit Report in the State Legislature	Number of Paragraphs in the Audit Report	Number of Paragraphs for which explanatory notes were not received (as on 30 Sept 2016)
2011-12	18 July 2013	1	0
2012-13	25 July 2014	1	0
2013-14	17 March 2015	1	0
2014-15	19 March 2016	0	0
Total		3	0

3.1.23 Discussion of Audit Reports by Committee on Public Undertakings.

The status as on 30 September 2016 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) was as under:

Table 3.13

Period of Audit Report	Number of reviews/paragraphs as on September 2016			
	Appeared in Audit Report		Paragraphs discussed	
	PAs	Paragraphs	PAs	Paragraphs
2012-13	0	1	0	0
2013-14	0	1	0	0
2014-15	0	0	0	0
Total	0	2	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 Disinvestment, Restructuring and Privatisation of SPSUs and any reforms in power sector

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

