

## 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 a commercial nature and they occupy an important place in the State economy. As on 31 March 2017, there were 6 (Six) SPSUs in Nagaland as under:

**Table No. 3.1.1**

<b>Working SPSUs</b>	1. Nagaland Industrial Development Corporation (NIDC) Ltd.
	2. Nagaland State Mineral Development Corporation (NSMDC) Ltd.
	3. Nagaland Hotels (NHL) Ltd.
	4. Nagaland Industrial Raw Materials & Supply Corporation (NIRMSC) Ltd.
	5. Nagaland Handloom & Handicrafts Development Corporation (NHHDC) Ltd.
<b>Non-working SPSUs</b>	1. Nagaland Sugar Mills Company Ltd., Dimapur

The working SPSUs registered a turnover of ₹ 6.61 crore as per their latest finalised accounts (September 2017). This turnover was 0.03 *per cent* of State Gross Domestic Product<sup>57</sup> (SGDP) of 2016-17. During 2016-17, the working SPSUs had incurred an aggregate loss of ₹ 58.70 crore as compared to the aggregate loss of ₹ 49.28 crore during 2015-16. At the end of March 2017, the working SPSUs employed 563 employees.

As on 31 March 2017, one SPSU (Nagaland Sugar Mills Company Limited) with an investment of ₹ 5.89 crore<sup>58</sup> was not operational for the last 18 years (since 1999-2000).

#### 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 01 April 2014 continue to be governed by the Companies Act, 1956. The 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 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

<sup>57</sup> Source: Directorate of Economics and Statistics, Government of Nagaland.

<sup>58</sup> Figure as per the latest finalised account (2001-02).

statements are subject to supplementary audit to be conducted by CAG within 60 days from the date of receipt of the audit report under the provisions of Section 143 (6) of the Act.

Audit of statutory corporations is governed by their respective legislations. However, there is no statutory corporation in Nagaland.

### **3.1.4 Role of Government and Legislature**

The State Government exercises control over the affairs of 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 thereon, in respect of State Government Companies are 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.

### **3.1.5 Stake of State Government**

The State Government's financial stake in these SPSUs are mainly of 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.
- **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 SPSUs**

As on 31 March 2017, the investment (capital and long-term loans) in six SPSUs<sup>59</sup> was ₹112.80 crore as detailed below.

**Table No. 3.1.2**

(₹ in crore)

Type of SPSUs	Government Companies		
	Capital*	Long Term Loans	Total
Working SPSUs	35.95	67.77	103.72
Non-working SPSUs	5.89	3.19	9.08
<b>Total</b>	<b>41.84</b>	<b>70.96</b>	<b>112.80</b>

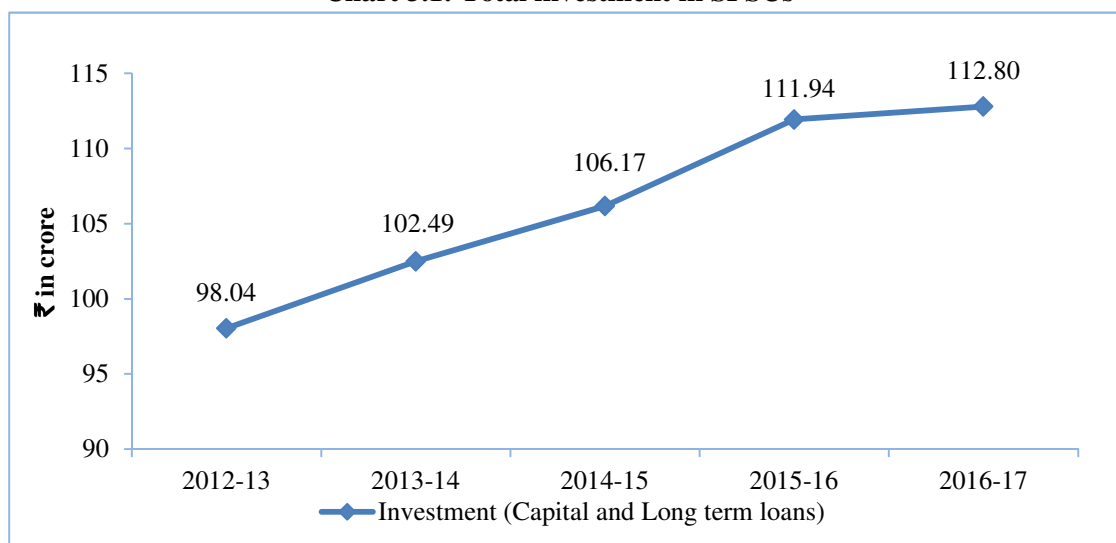
\*also, includes ₹6.78 crore from sources other than State Government.

Out of the total investment of ₹ 112.80 crore in SPSUs as on 31 March 2017, 91.95 per cent was in working SPSUs and the remaining 8.05 per cent in non-working

<sup>59</sup> There are no Statutory Corporations in Nagaland.

SPSUs. This total investment consisted of 37.09 *per cent* towards capital and 62.91 *per cent* in long-term loans. The investment had increased by 15.06 *per cent* from ₹ 98.04 crore in 2012-13 to ₹ 112.80 crore in 2016-17 as shown in the graph below:

Chart 3.1: Total investment in SPSUs



### 3.1.7 Summary of Investments

The sector-wise summary of investments in the SPSUs as on 31 March 2017 is given below:

Table No. 3.1.3

Name of Sector	Government Companies		Total Investment (₹ in crore)
	Working	Non-Working	
Manufacturing	1.60	9.08	10.68
Finance	72.15	0	72.15
Miscellaneous	19.48	0	19.48
Service	10.49	0	10.49
<b>Total</b>	<b>103.72</b>	<b>9.08</b>	<b>112.8</b>

The investment in four significant sectors and percentage thereof to the total investment at the end of March 2013 to March 2017 are indicated in the chart below. The thrust of SPSU investment was mainly in finance sector which had increased from ₹ 58.74 crore in 2012-13 to ₹ 72.15 crore in 2016-17.

### 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 along with the position of guarantee for three years ended 2016-17 in respect of SPSUs are given below.

**Table No. 3.1.4**

(₹ in crore)

Sl. No	Particulars	2014-15		2015-16		2016-17	
		No. of SPSUs	Amount	No. of SPSUs	Amount	No. of SPSUs	Amount
1.	Equity Capital outgo from budget	0	0	0	0	0	0
2.	Loans given from budget	1	8.68	1	5.64	1	2.98
3.	Grants/Subsidy from budget	3	10.66	4	16.25	4	18.90
<b>4.</b>	<b>Total Outgo (1+2+3)</b>		<b>19.34</b>		<b>21.89</b>		<b>21.88</b>
5.	Repayment of loans	1	4.48	1	2.57	2	2.14
6.	Guarantees issued	1	4.48	1	5.64	1	2.98
7.	Guarantee Commitment	1	8.68	1	15.00	1	15.00

During the year 2016-17, two SPSUs namely Nagaland Industrial Development Corporation Limited (NIDC) and Nagaland Handloom and Handicraft Development Corporation Limited repaid a loan amount of ₹ 1.43 crore and ₹ 0.71 crore respectively.

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. In 2016-17 the State Government had given guarantee to Nagaland Industrial Development Corporation Limited for an amount of ₹ 2.98 crore. The guarantee commitment had increased from ₹ 8.68 crore in 2014-15 to ₹ 15 crore in 2016-17. No SPSU paid guarantee fee to the State Government during 2016-17 as there was no demand from the State Government.

### 3.1.9 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not match, the SPSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2017 is given below.

**Table No. 3.1.5**

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of SPSUs	Difference
Equity	106.34	33.92	72.42
Loans	0	0.81	-0.81
Guarantees	48.95	20.64	28.31

Audit observed that the differences occurred in respect of all the SPSUs which were pending for 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) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act.

The table below provides the details of progress made by working SPSUs in finalisation of accounts as of 30 September 2017.

**Table No. 3.1.6**

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1	Number of Working PSUs	5	5	5	5	5
2	Number of accounts finalised during the year	21	17	6	2	3
3	Number of accounts in arrears	30	18	17	20	22
4	Number of Working PSUs with arrears in accounts	5	5	5	5	5
5	Extent of arrears (numbers in years)	1 to 9	1 to 5	1 to 5	1 to 6	1 to 7

It can be seen that the number of accounts in arrears had decreased from 30 in 2012-13 to 22 in 2016-17. However, the arrears increased from 20 to 22 in 2016-17 as compared to the previous year. Three SPSUs (NIDC, NSMDC & NIRMSC) finalised one accounts each as of 30 September 2017, while the remaining two SPSUs did not finalise any accounts. The delay in finalisation of accounts of these SPSUs was mainly due to delay in compilation/adoption of accounts by the Board of Directors of respective SPSUs.

In addition to above, the accounts of one non-working SPSU pertaining to the year 1981-82 to 2000-01 was finalised during the year. However, the SPSU had arrears of accounts for 16 years.

In view of the above, 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 Investment by State Government in SPSUs whose accounts are in arrears

The State Government had invested ₹ 68.01 crore in five SPSUs {equity: ₹ 0.85 crore (one SPSUs) and grants ₹ 67.16 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 PSUs remained outside the control of the State Legislature.

### **3.1.12 Impact of non-finalisation of Accounts**

As pointed out above (**Paragraph 3.1.10 to 3.1.11**), the delay in finalisation of accounts may 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 2016-17 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

### **3.1.13 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 five years ending 2016-17.

**Table No. 3.1.7**

(₹ in crore)

<b>Particulars</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Turnover*	6.75	5.98	6.26	6.23	6.61
State GDP	15676	17749	20099	20524	21119
Percentage of Turnover to State GDP	0.04	0.03	0.03	0.03	0.03

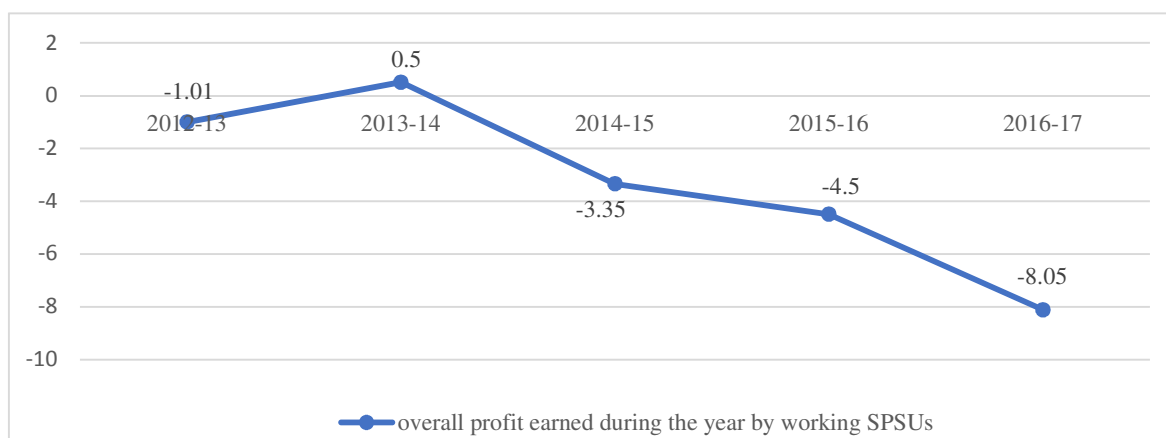
\*Turnover as per the latest finalised accounts as of 30 September of the respective year

It can be noticed that during 2012-17, the State GDP had grown by 35 *per cent* while the turnover of SPSUs during the corresponding period had decreased by 2 *per cent*. Thus, the decrease in SPSUs turnover during the period of five years as compared to the growth in the State GDP during the corresponding period shows the declining activities of SPSUs.

### **3.1.14 Overall Profit/Loss of SPSUs**

Overall profit and losses earned/incurred by State working SPSUs during 2012-13 to 2016-17 are given in the succeeding bar chart.

Chart 3.2: Profit/Loss of working SPSUs



It could be seen from the chart above that overall losses incurred by the working SPSUs had been increasing over the last three years. Three PSUs namely Nagaland Industrial Development Corporation Limited (NIDC), Nagaland State Mineral Development Corporation Limited (NSMDC) and Nagaland Industrial Raw Materials and Supply Corporation Limited (NIRMSC) which finalized their accounts during the year showed an increasing trend in the net loss. The figures for the other two PSUs were not available as no accounts were finalized during the year. Hence, increase in the net loss indicates loss incurred by the three SPSUs only.

### 3.1.15 Key Indicators

Some other key parameters of SPSUs are given below:

Table No. 3.1.8

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Return on Capital Employed (Per cent)	0.63	5.02	-	-	-
Debt	61.46	61.66	65.26	70.12	70.96
Turnover <sup>60</sup>	6.75	5.98	6.26	6.23	6.61
Debt/Turnover Ratio	9.11:1	10.31:1	10.42:1	11.26:1	10.74:1
Interest Payments					
Accumulated Profits/Losses	(51.38)	(49.35)	(51.84)	(49.28)	(73.80)

From the above it can be seen 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 increased by 50 per cent in 2016-17 as compared to previous year. There was no return on capital employed during 2014-15 to 2016-17.

<sup>60</sup> Turnover of working SPSUs as per the latest finalised accounts as of 30 September of the respective year

### **3.1.16 Dividend**

The State Government had not formulated any dividend policy for SPSUs regarding payment of minimum return on the paid up share capital contributed by the State Government.

### **3.1.17 Winding up of non-working SPSUs**

There was one non-working SPSU (Nagaland Sugar Mills Company Ltd., Dimapur) during the last five years (2012-17). The liquidation process of this SPSU had not started.

### **3.1.18 Accounts Comments**

Three working Companies forwarded one year audited accounts to Accountant General (Audit) during the year 2016-17. Non-Review Certificates were issued to all the accounts. The Statutory Auditors had given qualified certificates to two accounts and unqualified certificate to one account.

### **3.1.19 Replies outstanding**

The Report of the CAG 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 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. 3.1.9**

<b>Year of the Audit Report (Commercial/ SPSUs)</b>	<b>Date of placement of Audit Report in the State Legislature</b>	<b>Number of Paragraphs in the Audit Report</b>	<b>Number of Paragraphs for which explanatory notes were not received</b>
2012-13	25 July 2014	1	0
2013-14	17 March 2015	1	0
2014-15	19 March 2016	0	0
2015-16	28 March 2017	0	0
<b>Total</b>		<b>2</b>	<b>0</b>

### **3.1.20 Discussion of Audit Reports by Committee on Public Undertakings**

The status as on 30 September 2017 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. 3.1.10**

Period of Audit Report	Number of reviews/paragraphs as on September 2017	
	Paragraphs appeared in Audit Report	Paragraphs discussed
2012-13	1	Nil
2013-14	1	
2014-15	0	
2015-16	0	
Total	2	

During the period 2012-13 to 2015-16 two paragraphs relating to SPSUs had appeared in the State Audit Reports which are pending for discussion by COPU (November 2017).

### **3.1.21 Coverage of this chapter**

This chapter contains one compliance audit paragraph.

### **3.1.22 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. As part of the power sector reforms, separate companies were to be formed to look after the activities of generation, transmission and distribution of electricity in the State. The activities relating to generation, transmission and distribution of electricity in the State at present are being managed and controlled by the Power Department, GoN.

## ***Compliance Audit***

### **Nagaland Handloom and Handicrafts Development Corporation Limited (NHHDC)**

#### **3.2 Poor recovery of loans**

#### **Poor recovery of loans by NHHDC has resulted in borrowers owing ₹ 5.83 crore to NHHDC as a result of which NHHDC was not in a position to avail an offer of a waiver of ₹ 1.03 crore**

Nagaland Handloom and Handicrafts Development Corporation Limited (NHHDC) was established in May 1979 with the objective to develop, promote, execute and operate business for development of handloom and handicraft industry in the State. NHHDC was nominated (September 2001) by the GoN as the State Channelizing Agency (SCA) for availing refinance from the National Minorities Development &

Finance Corporation (NMDFC<sup>61</sup>) and to extend loans under various schemes to beneficiaries in handloom and handicraft sector of the State.

The two schemes availed by NHHDC from NMDFC were (i) Term loan at interest rate of three *per cent* p.a. to finance projects costing upto ₹ 20 lakh and (ii) micro finance scheme at an interest rate of one *per cent per annum* to finance projects costing upto Rupee one lakh. NHHDC provided loans (ranging between ₹15,000 to ₹10,00,000) to beneficiaries under these schemes at interest rate of six *per cent per annum* under term loan scheme and three *per cent* under micro finance scheme.

The total outstanding loans taken by NHHDC from NMDFC as on 31 March 2016 stood at ₹ 6.88 crore (including interest Rupee one crore and penal interest ₹ 0.22 crore). In October 2016, NMDFC offered to write off ₹ 1.03 crore as a one-time settlement on the condition that NHHDC make an upfront payment of the balance loan amount owed by the NHHDC to NMDFC. However, due to financial constraints brought upon largely on account of poor recovery of loans from loanees (as brought out in the succeeding paragraphs), NHHDC could not avail NMDFC's offer.

As on 31 March 2017, NHHDC had disbursed loans of ₹ 13.57 crore to 2210 loanees. Audit observed that out of 2210 loanees, 1217 loanees (55 *per cent*) had defaulted in repayment of dues of ₹ 5.83 crore for periods ranging between one and eleven years. Out of the 1217 loan defaulters, 522 defaulters (43 *per cent*) had not repaid even a single instalment after availing the loan aggregating to ₹ 2.01 crore. The position in this respect was as under:

**Table 3.2.1**

Type of loans	No. of loanees	Amount Loaned (in ₹ crore)	No. of loan defaulters	Amount due (in ₹ crore)
Term loans	2116	11.37	1178	5.20
Micro Finance Loans	94	2.20	39	0.63
<b>Total</b>	<b>2210</b>	<b>13.57</b>	<b>1217</b>	<b>5.83</b>

Out of 1217 cases of default, audit test checked 305 cases (25 *per cent*). Reasons for non-recovery of dues as analyzed by audit in these cases were as follows:

**(i) Absence of collateral security**

The terms and conditions of loan stipulated that the loan advanced by NHHDC shall be secured by a first charge on all the immovable assets of the borrower. NHHDC had however, disbursed loans without any collateral security like hypothecation/ mortgage of property to secure the loan in all the cases test checked.

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<sup>61</sup> NMDFC (incorporated on 30th September 1994) is a company not for profit, registered under Section 25 of the Companies Act 1956. It is a National Level Apex Body for the benefit of Minorities as defined under the National Commission for Minorities Act 1992. The prime mandate of NMDFC is to provide concessional finance to the minorities for self-employment/ income generation activities.

**(ii) Absence of monitoring mechanism and follow up**

One of the conditions of the loan was that the project should be implemented within one month of the loan disbursement and progress reports were to be submitted during project implementation till commercial production. However, no such reports were submitted by any loanees and NHHDC did not conduct any pre and post inspections of the project. The beneficiaries were to take insurance for the project equipment during the currency of loan. However, no insurance documents were found in the records. Thus, in the absence of these documents audit could not ascertain whether the loan availed were actually utilized for the said purposes or not in all test checked cases.

**(iii) Non-invocation of Guarantee**

It was observed that in all the 305 cases checked by Audit, government employees of different departments of GoN had stood as guarantors for the loans and had accordingly executed an undertaking for deduction of instalments from their salary in the event of failure on the part of loanee to repay the loan. However, the NHHDC did not pursue with the concerned department immediately for deduction of instalment from the salary of the guarantor in accordance with the terms and conditions of the undertaking executed. The NHHDC only served notices to the Head of Departments for recovery of dues after delays ranging from three months to six years. Audit observed that 78 guarantors of loan defaulters had retired from service and 25 guarantors had expired.

**(iv) No recovery suit/ legal cases filed**

The Nagaland Recovery of Loan Act, 2007 was notified (January 2008) by GoN to provide for recovery, as public demands, of loans advanced by banks and other financial institutions. However, till date no recovery suit under the Act has been filed by NHHDC against its loan defaulters.

In sum, the poor record of repayment of loans by the borrowers of NHHDC indicated a weak monitoring mechanism. NHHDC's inadequate follow up on loan recovery and failure to invoke guarantees or file recovery suits against defaulting borrowers resulted in accumulation of outstanding dues of ₹ 5.83 crore from its borrowers. This situation in turn resulted in NHHDC not being able to avail the waiver of ₹ 1.03 crore offered by NMDFC.

The Government accepted (August 2017) the above facts and assured that positive steps will be taken for recovery of the outstanding loans.