

## Chapter V

### Government Commercial and Trading Activities

#### Overview of State Public Sector Undertakings

##### Introduction

**5.1** The State Public Sector Undertakings (PSUs) consist of State Government companies and statutory corporations. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of the people. In Nagaland, there were six State PSUs (all Government companies) of which, one Government company was non-working. The state PSUs occupy insignificant place in state economy. The State working PSUs registered a turnover of ₹ 4.06 crore for 2009-10, as per their latest finalised accounts as of November 2010. This turnover was equal to 0.05 per cent of State Gross Domestic Product. The State working PSUs incurred an overall loss of ₹ 2.57 crore in the aggregate for 2009-10 as per their latest finalised accounts. Out of five working PSUs three PSUs had employed 245 personnel during 2009-10. Remaining PSUs did not furnish the details. During 2009-10, neither any new PSU was established nor was any existing PSU closed down.

##### Audit Mandate

**5.2** Audit of Government Companies is governed by Section 619 of Companies Act, 1956. According to section 617, a Government company is one in which not less than 51 *per cent* of paid up capital is held by Government. A Government company includes a subsidiary of a Government company. Further, a company in which not less than 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act. However, there was no 619-B company in Nagaland.

**5.3** The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by statutory auditor, who is appointed by CAG as per provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

##### Investment in State PSUs

**5.4** As on 31 March 2010, the investment (capital and long term loans) in six PSUs was ₹ 70.01 crore as per details given below:

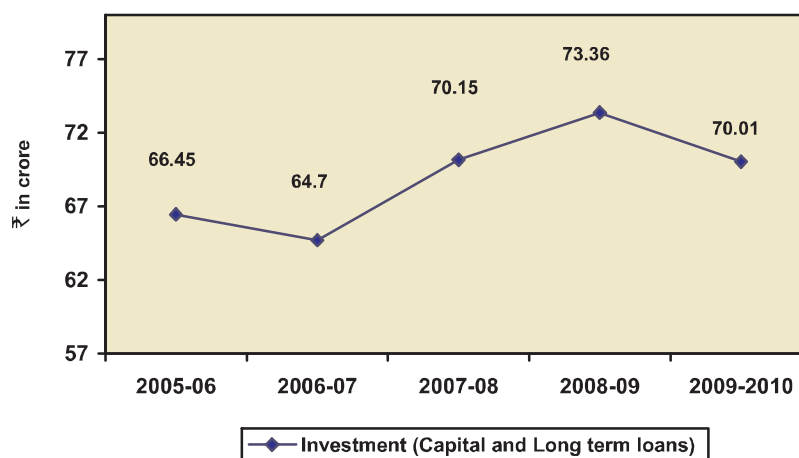
Table.5.1

(₹ in crore)

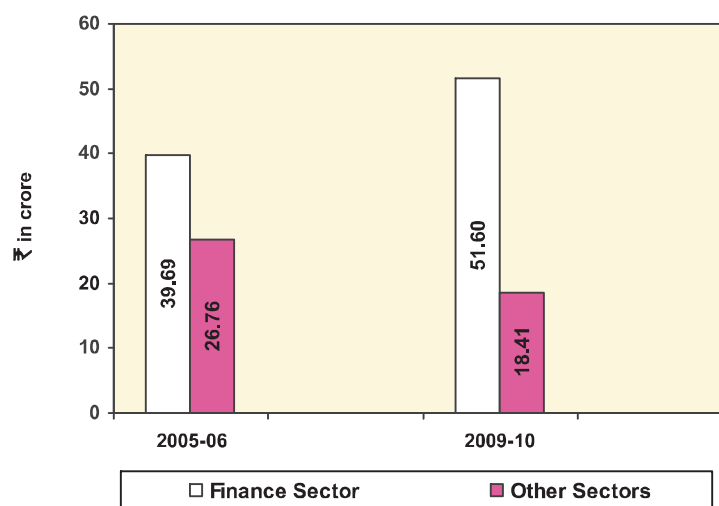
Type of PSUs	Government Companies		
	Capital	Long Term Loans	Total
Working PSUs	25.96	39.09	65.05
Non-working PSUs	4.96	--	4.96
<b>Total:</b>	<b>30.92</b>	<b>39.09</b>	<b>70.01</b>

The summarised position of Government investment in State PSUs is detailed in **Appendix –5.1**.

**5.5** As on 31 March 2010, of the total investment in State PSUs, 92.92 per cent was in working PSUs and the remaining 7.08 per cent was in non-working PSU. The total investment consisted of 44.17 per cent towards capital and 55.83 per cent in long term loans. The investment has grown by 5.36 per cent from ₹ 66.45 crore in 2005-06 to ₹ 70.01 crore in 2009-10 as shown in graph below:-



**5.6** The investment in various sectors at the end of 31 March 2006 and 31 March 2010 are indicated below in the bar chart.



### Budgetary outgo, grants/subsidies, guarantees and loans

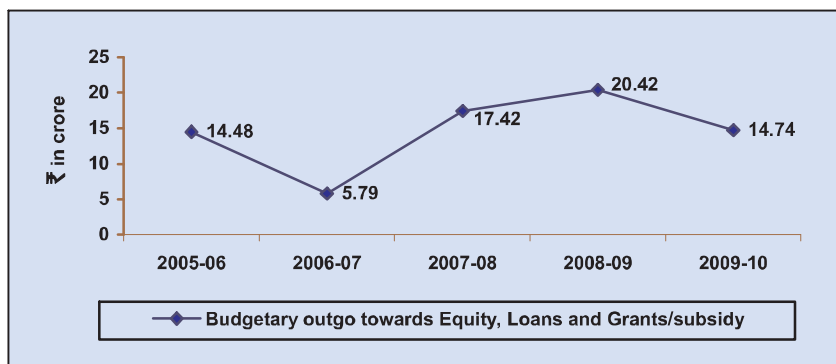
5.7 The details regarding budgetary outgo towards equity, loans grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Appendix 5.2**. The summarised details for three years ended 2009-10 are given below.

Table 5.2

(Amount: ₹ in crore)

Sl No	Particulars	2007-08		2008-09		2009-10	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity capital outgo from Budget	02	0.47	03	4.11	2	1.75
2.	Loans given from Budget	01	7.15	02	7.40	--	--
3.	Grants/subsidy received	04	9.80	04	8.91	04	12.99
4.	Total outgo (1+2+3)		17.42		20.42		14.74
5.	Loans written off	--	--	--	--	--	--
6.	Total waiver (5 above)	--	--	--	--	--	--
7.	Guarantees issued	02	7.27	02	39.40		36.00

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



### Reconciliation with finance Accounts

**5.9** 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 PSUs and the Finance department should carry out reconciliation of differences. Since the accounts of the companies are in arrears from six to 26 years, actual amount invested by Government in PSUs is not known. Hence the difference, if any, between the figures invested by Government as per the Finance Accounts and the figures in the accounts of companies with respect to equities, loans and guarantees could not be worked out.

### Performance of PSUs

**5.10** The financial results of PSUs, financial position and the working results of PSUs are detailed in **Appendix 5.3**. A ratio of PSU turnover to GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUs turnover and State GDP for the period 2005-06 to 2009-10.

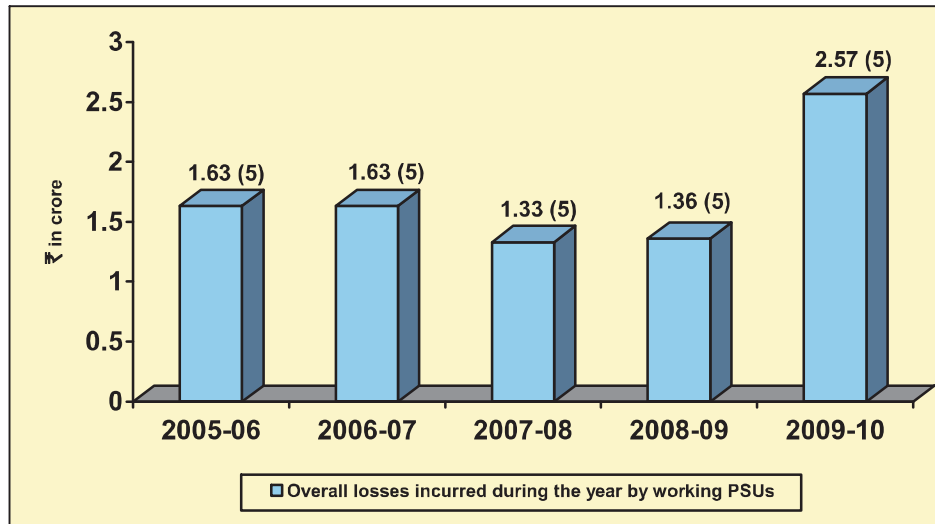
Table.5.3

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Turnover	1.89	1.89	3.70	3.51	4.06
State GDP	6374.56	6957.97	7168.52	7552.63	8474.12
Percentage of turnover to State GDP	0.03	0.03	0.05	0.05	0.05

(Source: Audit reports for the years 2004-05 to 2007-08 and statement furnished by the Companies)

**5.11.** Losses incurred by State working PSUs during 2005-06 to 2009-10 are given below in a bar chart.



(Figures in bracket represent the number of working PSUs in respective years)

5.12 Some key parameters pertaining to State PSUs are given below:

Table.5.4

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Return on capital employed ( <i>per cent</i> )	6.79	4.50	3.65	--	--
Debt	38.54	36.35	40.29	44.11	39.09
Turnover	1.89	1.89	3.70	3.51	4.06
Debt/Turnover ratio	20.39:1	19.23:1	10.89:1	12.57:1	9.63:1
Accumulated losses	26.96	26.96	26.95	28.63	34.02

#### Arrears in finalisation of Accounts

5.13 The accounts of the companies for every financial year are required to be finalized within six months from the end of relevant financial year under section 166, 210, 240, 619 and 619-B of Companies Act, 1956. The table below provides details of progress made by working PSUs in finalisation of accounts by September 2010.

Table.5.5

(Rupees in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10
1	No. of working PSUs	5	5	5	5
2	No. of accounts finalized during the year	2	3	3	12
3	Number of accounts in arrears	88	90	92	85
4	Average arrears per PSU (₹/1)	17.6	18	18.4	17.00
5	Number of working PSUs with arrears in accounts	5	5	5	5
6	Extent of arrears (in years)	9 to 26	9 to 26	9 to 26	6 to 26

5.14 The PSUs having arrears of accounts need to take effective measures for early clearance of backlog and make the accounts up to date. The PSUs should ensure that

at least one year's accounts are finalized each year so as to restrict further accumulation of arrears.

**5.15** In addition to above, the accounts of the only non-working PSU in the State were also in arrears for 32 years. As no purpose is served by keeping this non-working company in existence, Government needs to expedite closing down of this company.

**5.16** The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalized and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and the officials of the government were informed every quarter by audit, of the arrears in finalization of accounts, no remedial measure were taken. As a result of this the net worth of these PSUs could not be assessed in audit.

**5.17** In view of above state of arrears it is recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

#### **Accounts comments and Internal Audit**

**5.18** Four working companies forwarded their 12 audited accounts to the Accountant General during 2009-10. Out of the 12 accounts, one account was selected for supplementary audit and one account was issued Non-Review certificate, rest 10 accounts are pending for selection for supplementary audit/issue of Non-Review certificates.

Out of the 12 accounts received during the year, the statutory auditors had given qualified certificates to five accounts and seven accounts received unqualified certificates.

## PARAGRAPHS

## NAGALAND STATE MINERAL DEVELOPMENT CORPORATION LIMITED

## 5.19 Irregular award of contract

**Non-observance of the laid down procedure for purchase of high value plant, machinery etc., for ‘Modernisation and expansion of Mini Cement Plant, Wazeho led to cost overrun of ₹ 10.73 crore and the plant has not yielded any output even after lapse of seven years resulting in loss of potential revenue of ₹ 15.55 crore**

The Nagaland State Mineral Development Corporation Ltd. (Corporation) decided (2002) to modernize the existing 50 TPD<sup>1</sup> Mini Cement Plant at Wazeho in Phek district as the existing plant & machinery was obsolete. Considering the growing demand of cement in Nagaland, it was also decided to expand the plant capacity to 150 TPD by adding a separate line of 100 TPD VSK<sup>2</sup> at the same location.

After several attempts to obtain funding failed, the State Government decided (2003) to finance this project with negotiated loan from the Life Insurance Corporation of India under Plan Scheme (2003-04) at a cost of ₹ 1128.89 lakh on the basis of a Detailed Project Report prepared (August 2003) by the ‘National Council for Cement and Building Materials (NCB), Haryana’.

National open tenders were called (April 2004) for the work of ‘Expansion of existing 50 tpd VSK Mini Cement Plant by addition of a 100 tpd VSK Mini Cement Plant’ (estimated cost of ₹ 530 lakh for manufacture, supply and commissioning of 100 tpd plant). In response, five firms<sup>3</sup> submitted their quotations.

Scrutiny of the comparative statements prepared for tender eligibility, scope and other conditions, plant and machinery with specifications, positive and negative comparisons and list of critical items and desired capacities revealed that though SEPL, Jodhpur had quoted the lowest but all the machineries offered by them were not as per the required specifications. It was also observed that the machineries offered by the other firms (Movers India Ltd and Promac, Bangalore) were as per the required specifications and of better quality. It was further seen from the Reports of

<sup>1</sup> tonne per day

<sup>2</sup> Vertical Shaft Kiln

<sup>3</sup>

Sl No.	Name of the firm	Price quoted (inclusive of all taxes)
1.	M/s RRL, Jorhat	₹ 1532.14 lakh
2.	M/s Promac, Bangalore	₹ 847.41 lakh
3.	M/s Minitech, New Delhi	₹ 811.20 lakh
4.	M/s Saboo Engineering Pvt. Ltd. (SEPL), Jodhpur	₹ 732.02 lakh
5.	M/s Movers India Ltd., Bangalore	₹ 1273.74 lakh

the Technical Committee which had conducted a tour of the other plants and factories that SEPL had so far supplied only one 100 tpd plant which was not functioning. While highlighting their inexperience and deficiencies, the technical team had stated (May 2004) that SEPL was not trustworthy and the firm was placed fifth in the order of merit. The Report submitted by the Management Team of the corporation had also stated that the machineries offered by SEPL were of smaller/shorter size, below the desired specifications, fragile and not suitable for areas like Wazeho and that the integrity of the firm was doubtful.

The State Level Tender Board (SLTB) of the Government, however, disregarded the above reports and recommended (June 2004) that negotiation with SEPL be made to get the deficiencies in technology improved and to reduce the amount quoted. Further, it was recommended that the estimated cost be revised since all the tenderers had quoted higher than the estimated project cost.

On request by Corporation, SEPL agreed (June 2004) to manufacture and supply higher capacity machineries of the required specifications at an enhanced amount of ₹ 840 lakh excluding all taxes & duties and commissioning & erection charges and the Corporation entered (June 2004) into agreement with them though that the rate was higher than the rates quoted by other two firms<sup>4</sup>. The DPR was revised (August 2004) and the project cost enhanced to ₹ 1695 lakh, out of which the estimated cost of this work was increased to ₹ 952 lakh excluding the erection and commissioning charges (₹ 20 lakh) on the basis of the technical specifications and rates quoted by SEPL.

The DPR was again revised in September 2005 and the project cost further enhanced to ₹ 1849.40 lakh as price escalation was claimed by the firm due to increase in the price of steel.

The expansion and modernization works were completed and the Plant was inaugurated (June 2008) followed by trial operation (July 2008) which was not successful as the capacity was not achieved and the cement produced was not of acceptable quality. A number of major defects were detected in the Plant and Machinery after it was put on trial run and corporation decided to engage an independent consultant to study and suggest rectification/modifications to the Plant. The Consultant in its report (June 2009) stated that 'mistakes in design and supply of equipments and improper erection and scant respect for details during commissioning had caused the major trouble'. The consultant had also suggested several modifications in the Plant which have been carried out by the corporation (November 2010).

The Corporation as on March 2009 had spent ₹ 22.02 crore on the project out of the total amount of ₹ 22.22 crore received as funds for the expansion and modernization project, which was ₹ 3.53 crore (₹ 22.02 crore-₹ 18.49) crore above the revised

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<sup>4</sup> M/s Minitech (₹ 811.20 lakh) and M/s Promac (₹ 847.41 lakh) including 32 lakh being erection & commissioning ranges.

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estimated project cost as per DPR, September 2005 and ₹ 10.73 crore (₹ 22.02 crore ₹ 11.29 crore) above the DPR, August 2003.

Thus, the decision of the Government to award the work of 'Manufacturing, supply, erection and commissioning of the Mini Cement Plant at Wazeho' to SEPL without following the laid down procedures and also disregarding several forewarnings regarding their inexperience and doubtful integrity led to cost overrun of ₹ 10.73 crore and time over run by seven years as the plant could not run successfully till date resulting in loss of potential revenue of ₹ 15.55 crore worked out on the basis of projections made in the DPR.

The Management accepted (November 2010) the fact and stated that the Cement Plant is now ready for operation and as per the directive of the Government of Nagaland and Board of Directors of the Corporation, negotiation is being done with one local Company to hand over the plant on lease basis for operation and maintenance.

The matter was reported to the Government (October 2010); replies have not been received (December 2010).



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