

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 people. In Nagaland there were six State PSUs (all Government companies) of which, one Government company was non-working. The State working PSUs registered a Turnover of ₹18.06 crore only as per their latest annual accounts finalized as on 30 September 2011. The Turnover was equal to 0.15 *per cent* of State Gross Domestic Product. The State working PSUs incurred an overall loss of ₹2.07 crore in the aggregate for 2010-11 as per their latest finalised accounts, thereby indicating a relatively minor role in the economy of the State. Out of five working PSUs, four PSUs have employed 408 personnel during 2010-11 and remaining one PSU did not furnish the details. During 2010-11, 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 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 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 31st March 2011, the investment (capital and long term loans) in six PSUs was ₹78.01 crore as per details given below:

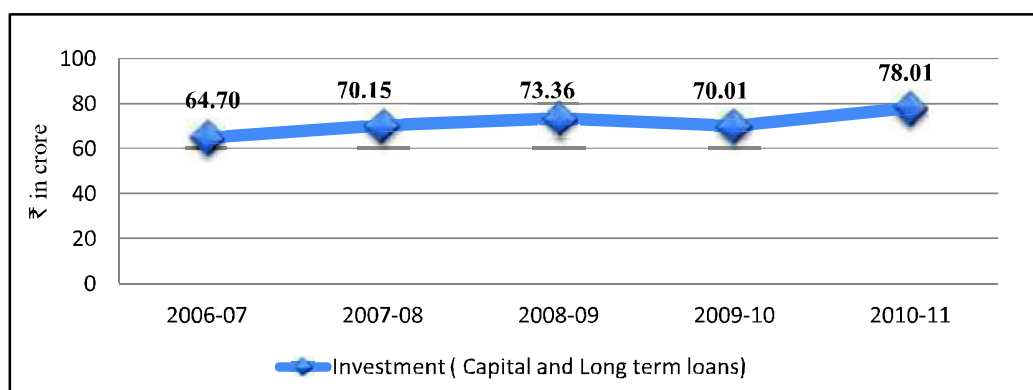
Table 5.1 (₹ in crore)

Type of PSUs	Government Companies		
	Capital	Long term loans	Total
Working PSUs	27.41	45.64	73.05
Non-working PSUs	4.96	0.00	4.96
Total	32.37	45.64	78.01

A summarised position of Government investment in State PSUs is detailed in **Appendix-5.1**.

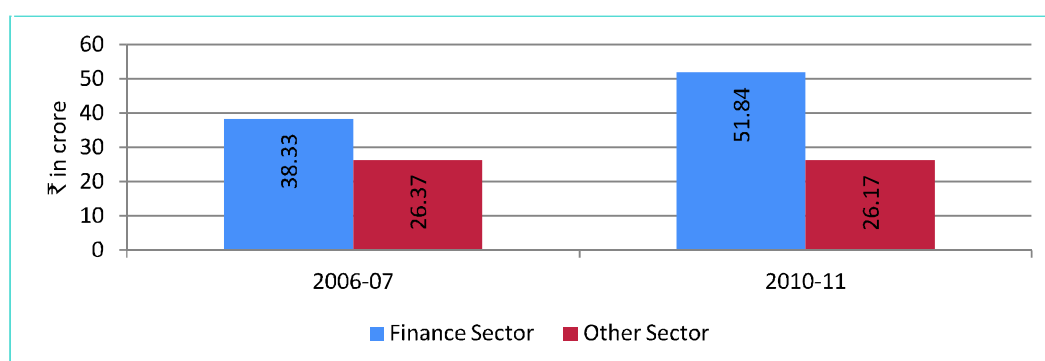
5.5 As on 31 March 2011 of the total investment in State PSUs, 93.64 per cent was in working PSUs and remaining 6.36 per cent was in a non-working PSUs. The total investment consisted of 41.49 per cent towards capital and 58.51 per cent in Long Term Loans. The investment has grown by 20.57 per cent from ₹64.70 crore in 2006-07 to ₹78.01 crore in 2010-11 as shown in graph below:-

Chart 5.1



5.6 The investments in various sectors at the end of 31 March 2007 and 31 March 2011 are indicated below in the bar chart.

Chart 5.2



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

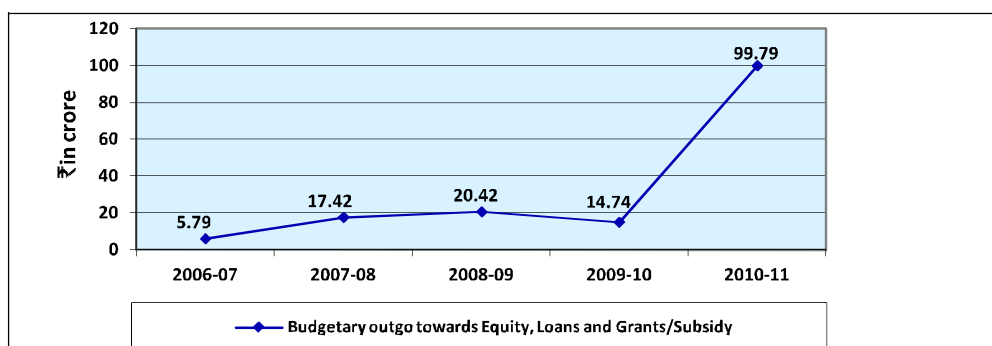
respect of State PSUs are given in **Appendix-5.2**. The summarized details for three years ended 2010-11 are given below:

Table 5.2

Sl. No	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	03	4.11	02	1.75	03	1.45
2	Loans outgo from Budget	02	7.40	--	--	Nil	Nil
3	Grants/subsidy outgo	04	8.91	04	12.99	04	98.34
4	Total outgo (1+2+3)	--	20.42	--	14.74	07	99.79
5	Loans written off	--	--	--	--	Nil	Nil
6	Total waiver (5 above)	--	--	--	--	Nil	Nil
7	Guarantees issued	02	39.40	--	--	2	46.24

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

Chart 5.3



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 figures appearing in the Finance Accounts of the State. However, reconciliation of figures with the Finance Accounts was not conducted by PSUs and the Finance Department. Since the accounts of the companies are in arrears from 5 to 21 years, actual amount invested by Government is not known. Hence the difference, if any, between the figures invested by Government as per Finance Accounts and the figures as per accounts of PSUs could not be worked out.

Performance of PSUs

5.10 The financial results of PSUs, are detailed in **Appendix-5.3**. A ratio of PSUs turnover to State GDP shows the extent of PSUs activities in the State economy. Table below provides the details of working PSUs turnover and State GDP for the period 2006-07 to 2010-11.

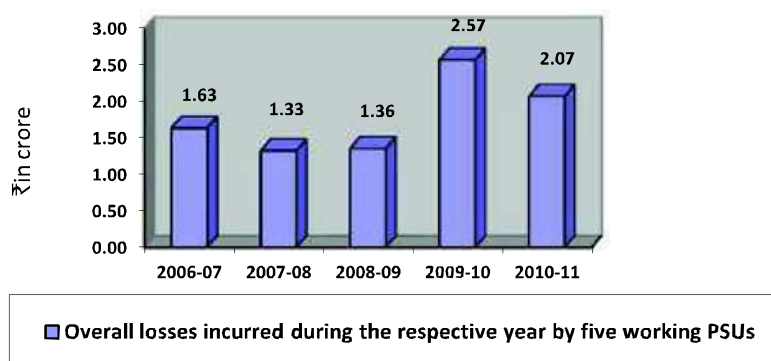
Table 5.3

Particulars	(₹ in crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover	1.89	3.70	3.51	4.06	18.06
State GDP	7257.09	8075.27	9066.59	10337.83	11823.45
Percentage of turnover to State GDP	0.03	0.05	0.04	0.04	0.15

(Source: Audit reports for the years 2006-07 to 2009-10 and statements furnished by the PSUs)

5.11 Losses incurred by State working PSUs during 2006-07 to 2010-11 are given below in a bar chart.

Chart 5.4



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

Table 5.4

Particulars	(₹ in crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Return on capital employed (per cent)	4.50	3.65	--	--	--
Debt	36.35	40.29	44.11	39.09	45.64
Turnover	1.89	3.70	3.51	4.06	18.06
Debt/Turnover ratio	19.23:1	10.89:1	12.57:1	9.63:1	2.53:1
Accumulated losses	26.96	26.95	28.63	34.02	33.62

Arrears in finalisation of Accounts

5.13 The accounts of the companies for every financial year are required to be finalised within six months from the close of the 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, 2011.

Table 5.5

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11
1	No. of working PSUs	5	5	5	5
2	No. of accounts finalized	3	3	12	15
3	No. of accounts in arrears	90	92	85	75
4	Average arrear per PSU (3/1)	18	18.4	17	15
5	No. of working PSUs with arrears in accounts	5	5	5	5
6	Extent of arrears (in years)	9 to 26	9 to 26	6 to 26	5 to 21

5.14 The average number of accounts in arrears per working PSU has decreased from 17 in 2009-10 to 15 in 2010-11. Effective measures for early finalisation of accounts need to be taken. The PSUs should ensure that the accounts of each year are finalised by 30 September of next year so as to restrict further accumulation of arrears. In the absence of accounts and their subsequent audit, the proper accounting of the Investment and Expenditure incurred cannot be ensured. Further, the achievement of the purpose for which the amount was invested by the State Government also cannot be ensured. As a

result, the State Government Investment in such PSUs remains outside the scrutiny of the State Legislature.

5.15 The accounts of the only non-working PSU in the State were also in arrears for 33 years. As no purpose is served by keeping this non-working Company in existence, the Government may suitably review its functioning.

5.16 The Administrative departments have the responsibility to oversee the activities of these entities to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. The concerned administrative departments and officials of the Government were informed of the arrears in finalisation of accounts every quarter by the Accountant General (AG). However, no remedial measure was taken.

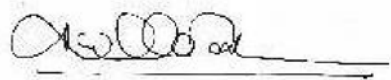
5.17 In view of the above state of arrears, it is recommended that – the Government should monitor and ensure timely finalisation of Accounts with special focus on liquidation of arrears and comply with the provisions of the Companies Act, 1956.

Accounts Comments and Internal Audit

5.18 Five working companies forwarded 15 audited accounts to the Accountant General during the period October 2010 to September 2011. Of these, seven accounts were finalised as on 30 September 2011, while the finalisation of remaining eight accounts were in progress.


5.19 Out of 15 accounts received during the year, the Statutory Auditor had given qualified certificates for one account and unqualified certificates for 14 accounts.

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