

CHAPTER - III

ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

3.1 Introduction

3.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The PSUs are established to carry out activities of a commercial nature and they occupy an important place in the State economy. As on 31 March 2018, there were 6 (Six) PSUs in Nagaland as under:

Table 3.1.1

Working PSUs	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.
Non-working PSUs	1. Nagaland Sugar Mills Company (NSMC) Ltd.

The working PSUs registered a turnover of ₹ 6.48 crore as per their latest finalised accounts (September 2018). This turnover was 0.03 *per cent* of State Gross Domestic Product¹ (SGDP- ₹ 23623 crore) of 2017-18. During 2017-18, the working PSUs had incurred an aggregate loss of ₹ 63.40 crore as compared to the aggregate loss of ₹ 58.70 crore during 2016-17. At the end of March 2018, the working PSUs employed 573 employees.

As on 31 March 2018, one PSU (Nagaland Sugar Mills Company Limited) with an investment of ₹ 5.89 crore² was not operational for the last 19 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 Companies Act, 2013.

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

¹ Source: State Finance Accounts for the year 2017-18.

² 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.

3.1.4 Role of Government and Legislature

The State Government exercises control over the affairs of PSUs 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 PSUs. 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 in terms of 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 PSUs 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 PSUs.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

3.1.6 Investment in PSUs

As on 31 March 2018, the investment (capital and long-term loans) in six PSUs³ was ₹ 112.65 crore as detailed below.

Table 3.1.2

(₹ in crore)

Type of PSUs	Government Companies		
	Capital*	Long Term Loans	Total
Working PSUs	36.37	67.20	103.57
Non-working PSUs	5.89	3.19	9.08
Total	42.26	70.39	112.65

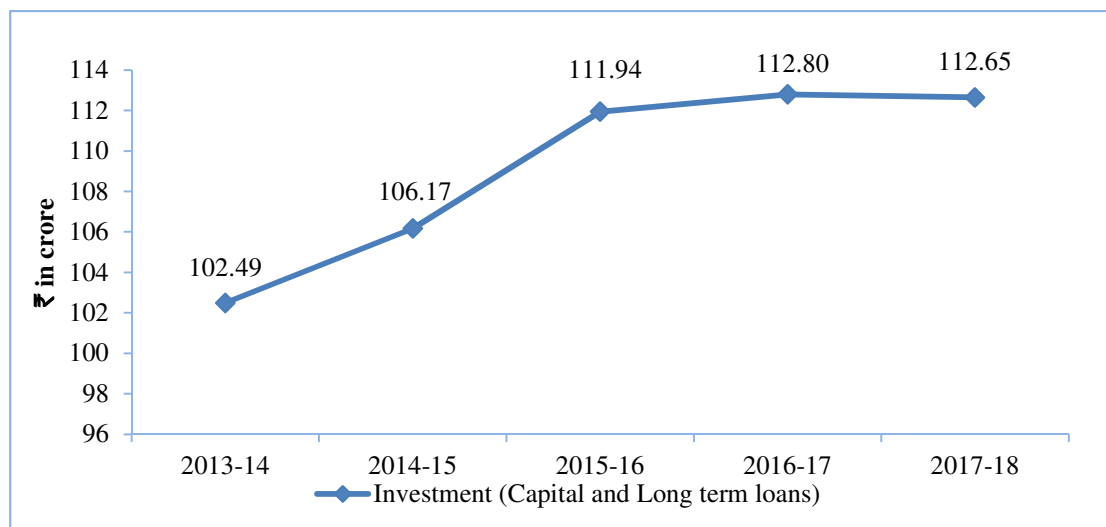
*also, includes ₹6.78 crore from sources other than State Government.

Out of the total investment of ₹ 112.65 crore in PSUs as on 31 March 2018, 91.94 per cent was in working PSUs and the remaining 8.06 per cent in non-working PSUs. This total investment consisted of 37.51 per cent towards capital and 62.49 per cent in

³ There are no Statutory Corporations in Nagaland.

long-term loans. The investment had increased by 9.91 per cent from ₹ 102.49 crore in 2013-14 to ₹ 112.65 crore in 2017-18 as shown in the graph below:

Chart 3.1: Total investment in PSUs



3.1.7 Summary of Investments

The sector-wise summary of investments in the PSUs as on 31 March 2018 is given below:

Table 3.1.3

Name of Sector	Government Companies		Total Investment (₹ in crore)
	Working	Non-Working	
Manufacturing	1.60	9.08	10.68
Finance	71.79	0	71.79
Miscellaneous	19.27	0	19.27
Service	10.91	0	10.91
Total	103.57	9.08	112.65

The investment in four significant sectors and percentage thereof to the total investment at the end of March 2018 are indicated in the table above. The thrust of PSU investment was mainly in finance sector which had increased from ₹ 63.34 crore in 2013-14 to ₹ 71.79 crore in 2017-18.

3.1.8 Special support and returns during the year

The State Government provides financial support to PSUs 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 2017-18 in respect of PSUs are given in the Table:

Table 3.1.4

(₹ in crore)

Sl. No	Particulars	2015-16		2016-17		2017-18	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity Capital outgo from budget	0	0	0	0	1	0.42
2	Loans given from budget	1	5.64	1	2.98	1	2.08
3	Grants/Subsidy from budget	4	16.25	4	18.90	5	24.41
	Total Outgo (1+2+3)		21.89		21.88		26.91
4	Repayment of loans	1	2.57	2	2.14	2	3.00
5	Guarantees issued	1	5.64	1	2.98	1	2.08
6	Guarantee Commitment	1	15.00	1	15.00	1	2.25

During the year 2017-18, two PSUs namely Nagaland Industrial Development Corporation Limited (NIDC) and Nagaland Handloom and Handicraft Development Corporation Limited (NHHDC) repaid a loan amount of ₹ 2.25 crore and ₹ 0.75 crore respectively.

In order to enable PSUs 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 2017-18, the State Government had given guarantee of ₹ 2.08 crore to the Nagaland Industrial Development Corporation Limited. The guarantee commitment had decreased by ₹ 12.75 crore (85 per cent) from ₹ 15.00 crore in 2016-17 to ₹ 2.25 crore in 2017-18. No PSU paid guarantee fee to the State Government during 2017-18 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 PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not match, the PSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2018 is given below.

Table 3.1.5

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	107.78	34.34	73.44
Loans	0	0.73	-0.73
Guarantees	48.53	2.08	46.45

Audit observed that the differences occurred in respect of all the PSUs which were pending for reconciliation since 2010-11. The Government and the PSUs 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 PSUs in finalisation of accounts as of 30 September 2018.

Table 3.1.6

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1	Number of Working PSUs	5	5	5	5	5
2	Number of accounts finalised during the year	17	6	2	3	6
3	Number of accounts in arrears	18	17	20	22	21
4	Number of Working PSUs with arrears in accounts	5	5	5	5	5
5	Extent of arrears (numbers in years)	1 to 5	1 to 5	1 to 6	1 to 7	1 to 8

It can be seen that the number of accounts in arrears had increased from 18 in 2013-14 to 21 in 2017-18. However, the arrears had decreased from 22 to 21 in 2017-18 as compared to previous year. Three PSUs (NIDC, NSMDC & NIRMSC) finalised six accounts as of 30 September 2018, while the remaining two PSUs did not finalise any accounts. The delay in finalisation of accounts of these PSUs was mainly due to delay in compilation/adoption of accounts by the Board of Directors of respective PSUs.

In addition to above, the accounts of one non-working PSU had arrears of accounts for 16 years (2002-18).

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 issued from time to time.

3.1.11 Investment by State Government in PSUs whose accounts are in arrears

The State Government had invested ₹ 85.32 crore in five PSUs {equity: ₹ 1.27 crore (one PSU), grants: ₹ 81.79 crore (five PSUs) and loan: ₹ 2.08 crore (one PSU)} during the years for which accounts were not 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 were 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 PSUs to the State GDP for the year 2017-18 could not be ascertained and their contribution to State exchequer was also not reported to the State Legislature.

3.1.13 Performance of PSUs

The financial position and working results of working Government companies and Statutory Corporations are detailed in **Appendix 3.1.2**. A ratio of PSU-turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for five years ending 2017-18.

Table 3.1.7

(₹ in crore)

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Turnover*	5.98	6.26	6.23	6.61	6.48
State GDP	17749	20099	20524	21119	23623
Percentage of Turnover to State GDP	0.03	0.03	0.03	0.03	0.03

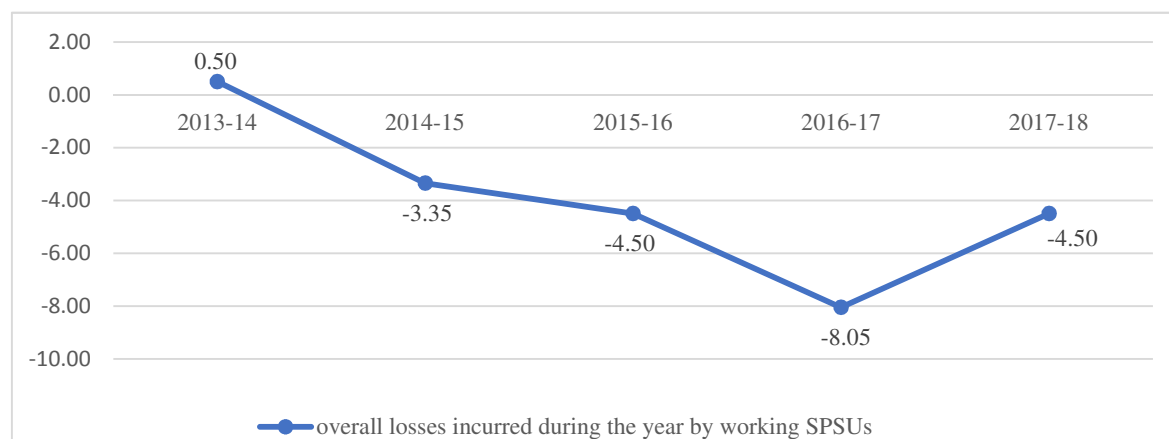
*Turnover as per the latest finalised accounts as of 30 September of the respective year

It can be noticed that during 2013-18, the State GDP had grown by 33.09 *per cent* while the turnover of PSUs during the corresponding period had increased by 8.36 *per cent*. Thus, the marginal increase in PSU's 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 PSUs.

3.1.14 Overall Profit / Loss of PSUs

Overall profit and losses earned/incurred by working PSUs during 2013-14 to 2017-18 are given below in a chart.

Chart 3.2: Profit/Loss of working PSUs



Source: Finalised Annual Accounts of the PSUs.

It may be seen from the chart above that overall losses incurred by the working PSUs had decreased during the year compared to previous year. However, the losses have been increasing over the last four years. Two PSUs namely 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 decreasing trend in the net loss and one PSU namely Nagaland Industrial Development Corporation Limited (NIDC) showed increase in net loss. The figures for the other two PSUs were not available as accounts were not finalized during the year. Hence, the decrease in net loss compared to previous year was attributed to decrease in net losses of above two PSUs.

3.1.15 Key Indicators about the working of PSUs

Some other key parameters of PSUs are given below:

Table 3.1.8

Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
Return on Capital Employed <i>(per cent)</i>	5.02	*	*	*	*
Debt	61.66	65.26	70.12	70.96	67.20
Turnover ⁴	5.98	6.26	6.23	6.61	6.48
Debt/Turnover Ratio	10.31:1	10.42:1	11.26:1	10.74:1	10.37:1
Interest Payments					
Accumulated Profits/Losses	(49.35)	(51.84)	(49.28)	(73.80)	(78.50)

Source: Annual Accounts and information submitted by the PSUs.

From the above, it can be seen that the debt-turnover ratio of PSUs had increased due to increase in the long-term borrowings of PSUs. The accumulated losses of PSUs had increased by 60 *per cent* in 2017-18 as compared to 2013-14. There was no return on capital employed during 2014-15 to 2017-18.

3.1.16 Dividend Policy

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

3.1.17 Winding up of non-working PSUs

There was one non-working PSU (Nagaland Sugar Mills Company Ltd.) during the last five years (2013-18). The liquidation process of this PSU had not started.

It is recommended that the liquidation process may be initiated without any delays.

⁴ Turnover of working PSUs as per the latest finalised accounts as of 30 September of the respective year

3.1.18 Accounts Comments

Three working Companies forwarded their six audited accounts pertaining to the period 2011-17 to the Accountant General (Audit) during the period October 2017 to September 2018. Three out of six accounts pertaining to three companies were selected for supplementary audit and three were issued Non-Review Certificates. The Statutory Auditors had given unqualified certificates to four accounts and qualified certificates to two accounts.

The details of aggregate money value of comments of statutory auditors and CAG during 2017-18 is given below:

Table 3.1.9

(₹ in crore)

Sl. No.	Particulars	No. of Accounts	Amount
1	Increase in loss	1	3.05
2	Decrease in loss	-	-
3	Errors of classification	-	-
Total		1	3.05

Source: Comments issued to PSUs on supplementary accounts audit.

Some of the important comments in respect of accounts of the PSUs audited during 2017-18 are detailed below:

Nagaland Industrial Development Corporation Limited (2016-17)

- Short provision of outstanding loans on account of exclusion of interest on loan had resulted in understatement of liability on long term borrowing by ₹ 0.87 crore.
- Non provision of current liabilities towards electricity dues, gratuity premium dues and other payables had resulted in understatement of current liabilities by ₹ 2.10 crore.

3.1.19 Outstanding replies to Audit Reports

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 instructions to the Administrative Departments to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the CAG within a prescribed period of three months of their presentation to the legislature, in the prescribed format without waiting for any questionnaires from the COPU.

Table 3.1.10

Year of the Audit Report (Commercial/ PSUs)	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
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
2016-17	20 September 2018	1	0
Total		3	0

3.1.20 Discussion of Audit Reports by Committee on Public Undertakings

The status as on 30 September 2018 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and discussed by the Committee on Public Undertakings (COPU) was as under:

Table 3.1.11

Period of Audit Report	Number of reviews/paragraphs as on September 2018	
	Paragraphs appeared in Audit Report	Paragraphs discussed
2012-13	1	Nil
2013-14	1	1
2014-15	0	-
2015-16	0	-
2016-17	1	Nil
Total	3	1

During the period 2012-13 to 2016-17, three paragraphs relating to PSUs had appeared in the State Audit Reports against which two paragraphs were pending for discussion by COPU (November 2018).

3.1.21 Disinvestment, Restructuring and Privatisation of State Public Sector Undertakings and reforms in power sector

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. In Nagaland, the Government constituted the Nagaland Electricity Regulatory Commission as part of reforms envisaged by the Electricity Act of 2003. However, no action was taken relating to the restructuring of the Power Sector as required under the provision of the Electricity Act 2003 as no separate company was incorporated and the activities relating to generation, transmission and distribution of electricity are managed and controlled solely by the Power Department. There was no case of disinvestment or privatisation of PSUs in the State.