

CHAPTER-IV
ECONOMIC SECTOR (PUBLIC
SECTOR UNDERTAKINGS)

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4.1.1 Introduction

As of 31 March 2019, there were six PSUs (all Government companies) in Nagaland as detailed below:

Table 4.1: Total number of PSUs as on 31 March 2019

Type of PSUs	Working PSUs	Non-working PSUs	Total
Government Companies ¹	5	1	6
Statutory Corporations	Nil	Nil	Nil
Total	5	1	6

None of these companies are listed on the stock exchange which means that the shares of the PSUs cannot be traded in the stock exchange. During the year 2018-19, no new PSU was incorporated and no existing PSU was closed down.

4.1.2 Investment in PSUs

The investment in PSUs included the investments made by the State Government and Others (including the Central Government, Holding companies, Banks, Financial Institutions, etc.). The State Government's stake in these PSUs, is 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 from time to time.
- **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.

As on 31 March 2019, total investment of the State Government and Others (capital, and long-term loans) in six PSUs was ₹ 115.50 crore² as per details given in **Table 4.2** below:

Table 4.2: Details of total investment in six PSUs as on 31 March 2019

Particulars	(₹ in crore)		
	Equity Capital	Long term Loans	Total
State Government	34.34	0.81	35.15
Others*	7.92	72.43	80.35
Total	42.26	73.24	115.50

(Source: Information as provided by PSUs);

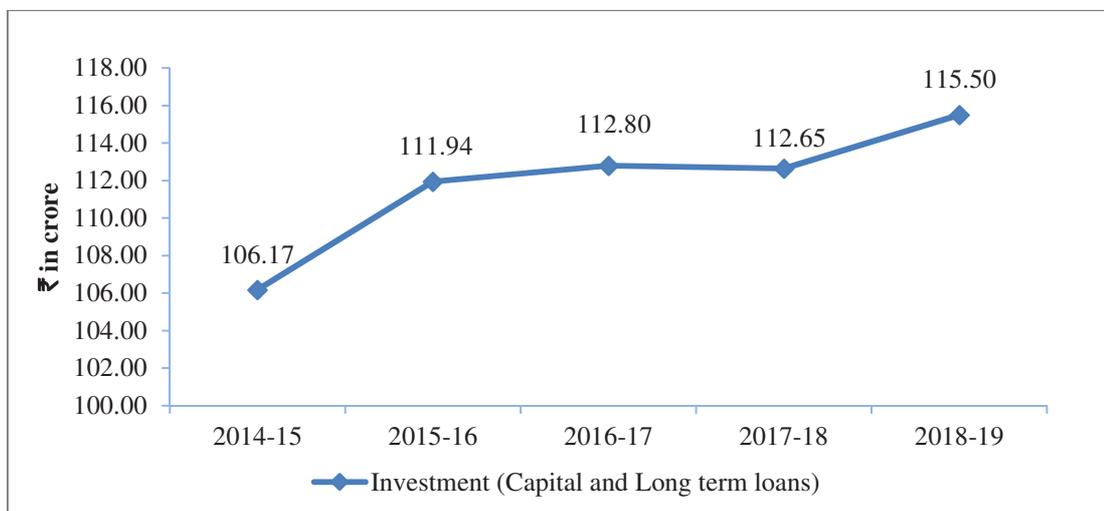
*Others included Central Government, holding companies, banks/FIs, etc.

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

² Investment figures are provisional and as per the information provided by the PSUs, as none of the six PSUs has finalised accounts for 2018-19 as of September 2019.

The total investment consisted of 36.59 *per cent* towards capital and 63.41 *per cent* in long-term loans. The investment grew by 8.79 *per cent* from ₹ 106.17 crore in 2014-15 to ₹ 115.50 crore in 2018-19 as shown in **Chart 4.1** below:

Chart 4.1: Total investment in PSUs



The thrust of investment during five years was in Finance sector as discussed in detail below:

4.1.2.1 Sector-wise investment in PSUs

The total investment by the State Government and Others (Central Government, Holding companies, Banks, Financial Institutions, etc.) in various important sectors at the end of 31 March 2015 and 31 March 2019 is given in **Table 4.3** below.

Table 4.3: Sector-wise investment in PSUs as on 31 March 2019
(₹ in crore)

Name of Sector	Year of investment	
	2014-15	2018-19
Finance	67.54	74.62
Manufacturing	6.60	10.68
Service	10.49	10.97
Miscellaneous	21.54	19.23
Total	106.17	115.50

As can be seen from the **Table** above, the thrust of PSU investment during 2014-15 and 2018-19 was in Finance sector³, which had increased by 10.49 *per cent* from ₹ 67.54 crore (2014-15) to ₹ 74.62 crore (2018-19). However, the share of this Sector in overall investment remained constant at around 64 *per cent* during 2014-15 (63.62 *per cent*) and 2018-19 (64.60 *per cent*).

³ Finance Sector included only one PSU (Nagaland Industrial Development Corporation Limited)

4.1.3 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per the records of PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the Finance Department and the PSUs concerned should carry out reconciliation of differences. The position in this regard as of 31 March 2019 is given in **Table 4.4** below:

Table 4.4: Variation between Finance Accounts and records of PSUs

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs ⁴	Difference
Equity	108.75	34.34	74.41
Loans	Not available ⁵	0.81	-
Guarantees	67.81	88.00	20.19

(Source: As per the State Finance Accounts, 2018-19 and information furnished by PSUs)

From the **Table** above, it can be noticed that there were unreconciled differences in the figures of equity (₹ 74.41 crore), and guarantees (₹ 20.19 crore) as per two sets of records. The differences for equity occurred in respect of all the PSUs while differences for guarantee relate to three PSUs⁶. As regards Loan figures, the Finance Department of GoN disburses the loans to various Departments of GoN for different sectoral activities and booked the amount sector-wise in the Finance Accounts. In turn, the Departments disburse these loans to respective PSUs functioning under their administrative control. Hence, figures of State Government loans provided to PSUs are not available in the State Finance Accounts.

Though the Principal Secretary, Finance Department, Government of Nagaland as well as the Management of the PSUs concerned were appraised regularly about the differences impressing upon the need for early reconciliation, no significant progress was noticed in this regard.

The Government and the PSUs concerned may take concrete steps to reconcile the differences and account for the loans given by Departments to their PSUs in a time-bound manner.

4.1.4 Accountability framework

The audit of the financial statements of a Company in respect of financial years commencing on or after 1 April 2014 is governed by the provisions of the Companies Act, 2013 and audit of the financial statements in respect of financial years that commenced earlier than 1 April 2014 continued to be governed by the Companies Act, 1956. The new Act has brought about increased regulatory framework, wider management responsibility and higher professional accountability.

⁴ Information as provided by PSUs and includes only the investment made by State Government.

⁵ In the State Finance Accounts, 2018-19, the loan figures appear sector-wise and not PSU-wise, hence, the figures of State Government loans provided to PSUs are not available in Finance Accounts.

⁶ Serial no. A1, A4 and B6 of *Appendix 3.2*

4.1.4.1 Statutory Audit/Supplementary Audit

Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) audit the financial statements of a Government Company. In addition, CAG conducts the supplementary audit of these financial statements under the provisions of Section 143(6) of the Act.

4.1.4.2 Role of Government and Legislature

The State Government exercises control over the affairs of these PSUs through its administrative departments. The Government appoints the Chief Executives and Directors on the Board of these PSUs.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this purpose, the Annual Reports of State Government Companies together with the Statutory Auditors' Reports and comments of the CAG thereon are required to be placed before the Legislature under Section 394 of the Act.

4.1.5 Arrears in finalisation of accounts

The financial statements of the companies are required to be finalised within six months after the end of the 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.

Timely finalisation of accounts is important for the State Government to assess the financial health of the PSUs and to avoid financial misappropriation and mismanagement. Persistent delay in finalisation of accounts is fraught with the risk of fraud and leakage of public money going undetected apart from violation of the provision of the Companies Act, 2013.

Table 4.5 below provides the details of progress made by the five working PSUs⁷ in finalisation of their annual accounts as on 30 September 2019.

Table 4.5: Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Number of Working PSUs	5	5	5	5	5
2	Number of accounts finalised during the year	6	2	3	6	8
3	Number of accounts in arrears	17	20	22	21	18
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 6	1 to 7	1 to 8	1 to 9

⁷ As on 30 September 2019, one PSU finalised accounts upto 2017-18 (*Nagaland Industrial Development Corporation Limited*); two PSUs finalised accounts upto 2016-17 (*Nagaland State Mineral Development Corporation Limited & Nagaland Industrial Raw Materials Supply Corporation Limited*); one PSU finalised accounts upto 2014-15 (*Nagaland Hotels Limited*) and one PSU finalised accounts upto 2009-10 (*Nagaland Handloom & Handicrafts Development Corporation Limited*).

As can be seen from the **Table** above, the situation has improved gradually after 2016-17 due to increase in the number of accounts finalised by the PSUs during subsequent years. During 2018-19⁸, four PSUs⁹ finalised total eight accounts, while the remaining one PSU (Nagaland Handloom & Handicrafts Development Corporation Limited) had not finalised any Annual Accounts after 2013-14.

The administrative departments, which have the responsibility to oversee the activities of the PSUs, have to ensure that the PSUs finalise and adopt their accounts within the stipulated period. The Principal Accountant General (Audit), Nagaland had been regularly pursuing the issue with the Chief Secretary of Nagaland and the administrative departments concerned for liquidating the arrears of accounts of PSUs. However, the State Government and the PSUs concerned could not address the issue to clear pendency of accounts of the PSUs in a time bound manner.

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

The State Government had invested ₹ 5.12 crore in three PSUs {equity: ₹ 1.27 crore (two PSUs) and loan: ₹ 3.85 crore (one PSU)} during the years for which accounts were not finalised as detailed in **Appendix-3.1**. 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.

The Government may consider setting up a special cell under the Finance Department to oversee the expeditious clearance of arrears of accounts of PSUs. Where there is lack of staff expertise, Government may consider outsourcing the work relating to preparation of accounts and take punitive action against Company Management responsible for arrears of accounts. Until the accounts are made as current as possible, Government may consider not giving further financial assistance to such companies.

4.1.7 Special support and guarantees to PSUs during the year

State Government provides financial support to PSUs in various forms through annual budgetary allocations. The details of budgetary outgo towards equity, loans and grants/subsidies in respect of PSUs for three years ended 2018-19 are given in **Table 4.6** below:

⁸ October 2018 to 30 September 2019

⁹ Nagaland Hotels Limited (4 Accounts), Nagaland Industrial Raw Materials & Supply Corporation Limited (2 Accounts), Nagaland Industrial Development Corporation Limited (one year Accounts) and Nagaland State Mineral Development Corporation Limited (one year Accounts).

Table 4.6: Details of budgetary support to PSUs

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	0	0	1	0.42	0	0
2.	Loans given from budget	1	2.98	1	2.08	1	3.85
3.	Grants/Subsidy from budget	4	18.90	5	24.41	5	25.04
	Total Outgo (1+2+3)		21.88		26.91		28.89
4.	Guarantees issued	1	2.98	1	2.08	1	3.85
5.	Guarantee Commitment	1	15.00	1	2.25	1	15.00

(Source: Information as provided by the PSUs)

It can be seen from the **Table** above, the year-wise budgetary outgo to PSUs had shown an increasing trend during last three years (2016-19). During all three years under reference, the significant portion of budgetary support ranging between 86 *per cent* (2016-17) and 91 *per cent* (2017-18) was provided in the form of Grants/subsidy.

State Government also guarantees the repayment of loans (with interest) availed by the PSUs from Banks/Financial Institutions subject to the prescribed limits and payment of guarantee fee of one *per cent* of the guarantee amount by the PSUs concerned. During 2018-19, State Government issued guarantees of ₹ 3.85 crore against the borrowings availed by one PSU (Nagaland Industrial Development Corporation Limited). The PSU had not paid any guarantee fee to the State Government during 2018-19 in absence of any demand from the State Government.

4.1.8 Performance of PSUs as per their latest finalised accounts

The financial position and working results of working PSUs (all Government companies) as per their latest finalised accounts are detailed in **Appendix-3.2. Table 4.7** below provides the comparative details of working PSU turnover and State GDP for five years ending 2018-19.

Table 4.7: Details of working PSUs turnover vis-a-vis State GDP

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover ¹⁰	6.26	6.23	6.61	6.48	6.70
State GDP	20,099	20,524	21,119	23,623	26,637
Percentage of Turnover to State GDP	0.03	0.03	0.03	0.03	0.03

A ratio of PSU-turnover to State GDP shows the extent of PSU activities in the State economy. It can be noticed from the **Table** above that during last five years (2014-19), the State GDP had grown by 32.53 *per cent* while the turnover of PSUs during the corresponding period had increased by 7.03 *per cent*. Thus, the year-wise increase in PSU-turnover during the period of five years was not commensurate with the growth in the State GDP during the corresponding period. The percentage of PSU-turnover to

¹⁰ Turnover of working PSUs as per the latest finalised accounts as on 30 September of respective year

GSDP, however, remained static at 0.03 *per cent* due to rounding off of percentage figures to two decimal points.

4.1.8.1 Key parameters

Some other key parameters of PSUs performance as per their latest finalised accounts as on 30 September of the respective year are given in **Table 4.8** below.

Table 4.8: Key Parameters of PSUs

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Debt	65.26	70.12	70.96	67.20	70.05
Turnover ¹¹	6.26	6.23	6.61	6.48	6.70
Debt/Turnover Ratio	10.42:1	11.26:1	10.74:1	10.37:1	10.46:1
Interest Payments ¹²	1.93	1.97	2.38	2.06	2.08
Accumulated Profits/Losses	(51.84)	(49.28)	(73.80)	(78.50)	(66.38)

(Source: Annual Accounts and information submitted by the PSUs)

Debt-Turnover Ratio

A low debt-to-turnover ratio (DTR) demonstrates a good balance between debt and income. Conversely, a high DTR can signal of having too much of debt against the income of PSUs from core activities. Thus, the PSUs having lower DTR are more likely to successfully manage their debt servicing and repayments.

PSU Debt

During the period of five years, the PSU debt had been more than 10 times of their ‘turnover’ indicating acute difficulties in repayment and servicing of debts by the PSUs. Consequently, the DTR had been at high levels during all the five years under reference. The marginal growth in PSU-turnover after 2015-16 had correspondingly improved the DTR of PSUs.

Further, the high PSU debts had correspondingly increased the interest expenditure, which was also one of the factors contributing towards high accumulated losses of PSUs.

There was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the PSUs. During 2018-19, one PSU (Nagaland State Mineral Development Corporation Limited) had earned profit (₹ 1.18 crore) as per its latest finalised accounts, which was not sufficient to wipe off its accumulated losses (₹ 8.11 crore). No dividend was declared by this profit making company during the year 2018-19.

¹¹ Turnover of working PSUs as per the latest finalised accounts as of 30 September of the respective year

¹² Interest payments of working PSUs as per the latest finalised accounts as of 30 September of the respective year

4.1.8.2 Erosion of capital due to losses

The paid-up capital and accumulated losses of five working PSUs as per their latest finalised accounts as on 30 September 2019 were ₹ 27.26 crore and ₹ 66.38 crore respectively (**Appendix 3.2**).

The accumulated losses (₹ 65.19 crore) of four out of these five working PSUs had completely eroded their paid-up capital (₹ 26.03 crore) as per their latest finalised accounts as detailed in the **Table 4.9** below:

Table 4.9: PSUs with erosion of paid up capital

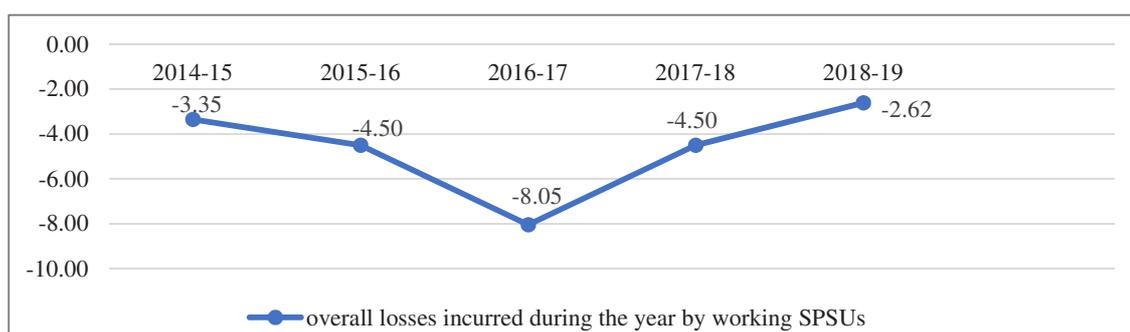
(₹ in crore)

Name of PSU	Latest finalised accounts	Paid up capital	Accumulated losses
Nagaland Industrial Development Corporation Limited	2017-18	23.20	39.27
Nagaland State Mineral Development Corporation Limited	2016-17	1.60	8.11
Nagaland Hotels Limited	2014-15	0.40	13.65
Nagaland Handloom & Handicrafts Development Corporation Limited	2009-10	0.83	4.16
Total		26.03	65.19

The Return on Equity (ROE)¹³ of these four PSUs was not workable due to complete erosion of their equity capital. ROE in respect of the remaining PSU (Nagaland Industrial Raw Materials Supply Corporation Limited) was also negative¹⁴ due to the net loss (₹ 0.05 crore) incurred as per its latest finalised accounts.

The overall position of the aggregate losses incurred by working PSUs during 2014-15 to 2018-19 are given below in **Chart 4.2**.

Chart 4.2: Losses of working PSUs



(Source: Latest finalised accounts of the PSUs as on 30 September of the respective year)

As can be noticed from the **Chart** above, the losses of working PSUs were at the peak during 2016-17 in last five years mainly due to deterioration in the operational results

¹³ ROE = (Net Profit after taxes *minus* preference dividend) ÷ Shareholders' Fund/Equity; Where, Shareholders' Fund/Equity = Paid up Share Capital *plus* Free Reserves and Surplus *minus* Accumulated Loss *minus* Deferred Revenue Expenditure.

¹⁴ (-) 125 per cent

of two PSUs¹⁵ on account of increase in ‘employee related expenses’ and reduction in ‘other income’. The overall losses of working PSUs had reduced during last two years (2017-18 and 2018-19) mainly due to gradual improvement in the operational results of one PSU¹⁶, which had positive impact of ₹ 4.24 crore (2017-18) and ₹ 1.22 crore (2018-19) on overall PSU losses.

4.1.9 Return on Investment on the basis of Present Value of Investment

The Rate of Real Return (RORR) measures the profitability and efficiency with which equity and similar non-interest bearing capital have been employed, after adjusting them for their time value. To determine the RORR on Government Investment in the State PSUs, the investment of State Government in the form of equity, interest free loans and grants/subsidies given by the State Government for operational and management expenses less the disinvestments (if any), has been considered and indexed to their Present Value (PV) and summated. The RORR is then calculated by dividing the ‘profit after tax’ (PAT) of the PSUs by the sum of the PV of Government investment.

During 2018-19, as per their latest finalised accounts out of five working PSUs where State Government had made direct investment, four PSUs incurred losses and only one PSU¹⁷ earned profit. On the basis of return on historical value, the State Government’s investment in PSUs had eroded by 1.07 *per cent* during 2018-19. As per the RORR where the PV of investment is considered, the State Government investment eroded by 0.52 *per cent* as shown in **Appendix-3.3**. This difference in the percentage of investment erosion was on account of the adjustment made in the investment amount for time value of money.

4.1.10 Impact of Audit Comments on Annual Accounts of PSUs

During October 2017 to September 2018, four working Companies had forwarded their eight audited accounts to the Accountant General (Audit), Nagaland (AG). Of these, one year Accounts were selected for ‘supplementary audit’ while non-review certificates’ were issued in respect of the remaining seven Accounts. The Statutory Auditors had given unqualified certificates to four Accounts and qualified certificates to other four Accounts. The details of aggregate money value of comments of statutory auditors and CAG during last three years is given below:

¹⁵ During 2016-17, losses of one PSU (Nagaland State Mineral Development Corporation Limited) increased by ₹ 2.91 crore while profit of another PSU (Nagaland Industrial Raw Materials Supply Corporation Limited) reduced by ₹ 0.49 crore as per their latest accounts.

¹⁶ Nagaland State Mineral Development Corporation Limited

¹⁷ Sl. No. 2 of **Appendix 3.2**.

Table 4.10: Impact of audit comments on working Companies

(₹ in crore)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1	Increase in loss	1	0.79	2	5.74	3	4.88
2	Decrease in profit	0	0	0	0	2	0.74
3	Errors of classification	1	0.29	0	0.29	1	3.19
Total		2	1.08	2	6.03	6	8.81

(Source: Comments issued to PSUs by statutory auditors and CAG)

From the above **Table 4.10**, it can be noticed that the money value of comments of statutory auditors and CAG has increased from ₹ 1.08 crore (2016-17) to ₹ 8.81 crore (2018-19) indicating deficiencies in complying with the requirements of 'Generally Accepted Accounting Principles' (GAAP) and Accounting Standards (AS) by the PSUs.

4.1.10.1 Gist of some of the important comments of the statutory auditors and CAG in respect of the accounts of the PSUs are as under:

Nagaland Hotels Limited (2013-14)

Share application money pending allotment

As per the provisions of the Companies Act, 2013, if shares are not issued within 60 days of receipt of application money, the share application money should be refunded. The Company received ₹ 1.53 crore as share application money from the State Government 15 years ago. The Company had neither issued shares against share application money nor refunded the same to State Government. The government have also not ensured action in this regard, as promoter of the Company.

Penalties against delayed payment of EPF liabilities

The Company had not provided for the liability of ₹ 0.79 crore towards penalty, interest on penalty, etc. due to delayed payment of Employee Provident Fund Contribution with Employee Provident Fund Organisation authorities. This resulted in understatement of 'loss for the year' and 'current liabilities & provisions' to that extent.

Nagaland Industrial Raw Material & Supply Corporation Limited (2015-16 & 2016-17)

Non-provisioning against doubtful debts

The Company had the 'trade receivables' of ₹ 1.05 crore, which were pending for recovery for more than a decade and should have been provided for. Non-provisioning

against ‘trade receivables’ doubtful of recovery resulted in overstatement of ‘current assets’ and understatement of ‘loss for the year’ by ₹ 1.05 crore each.

Long pending short term advances

The Company neither had provided satisfactory explanation nor made necessary provisions against long pending ‘short term loans and advance’ of ₹ 0.54 crore. This has resulted in overstatement of ‘current assets’ and understatement of ‘loss for the year’ by ₹ 0.54 crore each.

4.1.11 Follow up action on Audit Reports

4.1.11.1 Submission of Explanatory notes

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 Administrative Departments concerned are required to submit the explanatory notes to paragraphs/performance audits included in the Audit Reports of the CAG after their presentation to the Legislature, without waiting for any questionnaires from the Committee on Public Undertakings (COPU). However, the Finance Department, Government of Nagaland had not issued any specific instructions in this regard.

The State Audit Reports¹⁸ for the years from 2013-14 to 2017-18 included two compliance audit paragraphs¹⁹ from PSU side in the PSUs Chapters of these Reports. As per the status available as on 30 September 2019, no explanatory notes were pending to be received from the Administrative Departments concerned against these compliance audit paragraphs.

4.1.11.2 Discussion of Audit Reports by COPU

The status as on 30 September 2019 of Performance Audits and paragraphs on the State PSUs that appeared in State Audit Reports and discussed by the Committee on Public Undertakings (COPU) was as under:

Table 4.11

Period of Audit Report	Number of reviews/paragraphs as on September 2018	
	Paragraphs appeared in Audit Report	Paragraphs discussed
2013-14	1	1
2014-15	0	-
2015-16	0	-
2016-17	1	Nil
2017-18	0	-
Total	2	1

¹⁸ The State Audit Reports for five years (2013-14 to 2017-18), were placed in the State Legislature between 17 March 2015 and 15 February 2020.

¹⁹ One compliance audit paragraph appeared in each of the State Audit Report for the year 2013-14 and 2016-17.

During the period 2013-14 to 2017-18, two paragraphs relating to PSUs had appeared in the State Audit Reports against which one paragraph was pending for discussion by COPU (November 2019).

4.1.12 Reforms in power sector

As part of the power sector reforms, separate State owned Company was to be formed under the Companies Act, 1956 to look after the activities of generation, transmission and distribution of electricity in the State. In Nagaland, the Government constituted (February 2008) the Nagaland Electricity Regulatory Commission as part of reforms envisaged by the Electricity Act of 2003. The State Government, however, had not taken any action for restructuring of the Power Sector and formation of a separate Company for taking up the activities of power sector in the State. At present, all the activities relating to generation, transmission and distribution of electricity in the State are managed and controlled solely by the Power Department of the State Government.

Compliance Audits

NAGALAND INDUSTRIAL DEVELOPMENT CORPORATION LTD

4.2 Irregular payment of advance to Chairman

The Company paid an irregular advance of ₹ 50 lakh to the Chairman of the Company by diverting Government Grants without approval of the competent authority and had not recovered the same

The Nagaland Industrial Development Corporation Limited (NIDC), a Company wholly owned by Government of Nagaland, was incorporated (26 March 1970) under the Companies Act, 1956 with the objective to promote, develop, establish and assist industries in the State. NIDC also acts as an agency of Industrial Development Bank of India (IDBI) for implementation of Capital Assistance Scheme or any Scheme which in opinion of NIDC shall contribute to the industrial and economic development of the State.

Examination of records (August 2019) of NIDC for the period from April 2017 to March 2019 revealed that NIDC received Grants-in-aid of ₹ 3.63 crore from Government of Nagaland (GoN) towards employee related payments (viz. gratuity, leave encashment, CPF & disbursement of Term Loans) (₹ 0.80 crore) and cost of repair and maintenance works (₹ 2.83 crore) relating to Agro Food Processing Special Economic Zone (AFSEZ).

Examination of records relating to utilisation of the above mentioned Grants-in aid revealed (August 2019) that NIDC irregularly extended (December 2017) an advance²⁰ of ₹ 50 lakh to the then Chairman²¹ of NIDC on the verbal instructions of the Managing

²⁰ vide cheque No.767766 dated 22.12.2017

²¹ Shri. Amenba Yaden (w.e.f 27.10.2017 to 21.03.2018)

Director, NIDC by diverting the said Grants without the approval of the competent authority. The advance so granted also did not have the approval of the Board.

Audit observed that although as per the records of NIDC, the advance was extended for the purpose of 'office work', the amount of advance was credited into the 'personal account' of the then Chairman. Audit further observed that while granting the advance, NIDC did not specify the terms and conditions on various important aspects (viz. the interest chargeable on the advance, schedule for recovery of advance and interest, rights of NIDC in case of default in repayment of advance, etc.), which was against the financial interests of NIDC. Though the NIDC had written to the then Chairman on several occasions (25 January 2018, 18 September 2018 & 29 July 2019) to settle the principal amount of the advance (₹ 50.00 lakh), the money had not been refunded by the then Chairman so far (September 2020).

Thus, NIDC paid an advance of ₹ 50 lakh to the then Chairman by irregularly diverting the Government Grants, without the approval of the competent authority, without recording any purpose for the grant given, which needs to be recovered from the Chairman along with interest of ₹ 10.98 lakh²².

In reply, NIDC confirmed the facts and stated (January 2020) that reminders were issued to the then Chairman several times but no response received. NIDC further assured to pursue the issue for recovery of the unauthorized payment.

The matter was reported (October 2019) to the Government; their replies had not been received (September 2020).

The recovery of advance needs to be pursued on priority.

²²Interest calculated at 8.5 per cent per annum as applicable on employees' loans for the period from January 2018 to July 2020 (31 months)

NAGALAND STATE MINERAL DEVELOPMENT CORPORATION LTD

4.3 Additional expenditure

The Company paid an additional cost of ₹ 20.72 crore as cost escalation on a bridge work contrary to the contract terms after settlement of contractor's dues and closure of work

Nagaland State Mineral Development Corporation Limited (NSMDC) was established and incorporated (May 1981) under the Companies Act, 1956. The main objective of the Company is to initiate commercial exploitation of limestone, coal and other mineral deposits and to promote, establish and develop economic activities in mines and mineral-based industries.

Compliance audit of the accounts of NSMDC for the period from April 2017 to March 2018 was conducted during August 2018.

The Ministry of Development of North Eastern Region (MoDONER), Government of India (GoI) accorded (December 2010) administrative and financial approval of ₹ 15.73 crore for construction of 100 metre long bridge over Tizu River at Nimi-Laluri road to mineral deposit areas under Non-Lapsable Central Pool of Resources (NLCPR) with a funding pattern of Central (90 *per cent*) and State share (10 *per cent*). Accordingly GoI released Central share of ₹ 14.16 crore in three instalments²³.

In response to Notice Inviting Tender issued (January 2011) by the Managing Director, NSMDC for the work, three firms participated in the tendering process. The tender committee recommended the agency, which had quoted the lowest rate at par with Schedule of Rate (SOR), 2010, and issued (February 2011) work order for a contract value of ₹ 15.43 crore.

Examination of records (August 2018) revealed that the work commenced in February 2011 and was completed in May 2015. Bills were passed for payment to contractors in four running account (RA) bills amounting ₹ 15.38 crore²⁴ which included State share of the project cost. Audit observed that after completion of work and release of payments under RA bills (July 2014), the Contractor submitted a representation (July 2015) for revision of rate/cost from ₹ 15.42 lakh per metre span of the bridge to ₹ 35.00 lakh stating that the approved rate was below the prevailing approved rates of the same type of bridge work located in better and advantageous locations. In the meantime, NSMDC issued (August 2016) completion certificate stating that the work has been completed.

²³ 1st instalment: ₹ 5.66 crore (December 2010), 2nd instalment: ₹ 5.65 crore (September 2011) and 3rd instalment: ₹ 2.85 crore (August 2013).

²⁴ Excluding Contingencies (3 *per cent*), Quality Control (1 *per cent*) and Work Charge Establishment (1.5 *per cent*).

Based on the representation submitted by the Contractor, High Level Technical Committee (HLTC)²⁵ approved (November 2016) the ‘general abstract of cost’ submitted by NSMDC wherein rate of SOR 2013 was considered with 32.80 *per cent* enhancement thereby the total cost of work was enhanced by ₹ 19.62 crore (excluding contingencies, etc.) from the actual cost of completion (₹ 15.38 crore) to ₹ 35.00 crore. Accordingly, the State Level Project Implementation Committee (SLPIC) approved (November 2016) the enhancement of the cost. Based on the recommendations of HLTC/SLPIC, the Finance Department, Government of Nagaland accorded sanction for ₹ 20.72 crore²⁶ under the State Plan. NSMDC prepared and passed fifth and sixth RA bills for payment of the additional fund²⁷ to the Contractor in two instalments (January and May 2017).

The action of accepting the cost enhancement of the bridge was not in order due to the following reasons:

- (i) During the process of bidding, the rate was quoted by the Contractor on his own volition and after applying his best judgement that the rate was reasonable and workable. No specific clause to allow enhancement of rate was incorporated in the work order or the contract deed agreement as per Rule 204 of General Financial Rules, 2005.
- (ii) The delay in completion of the work was not attributable to the Government at any stage.
- (iii) The work was certified as completed in May 2015 and the contractor was paid the full value of ₹ 15.38 crore in April 2016 for the works executed. The Contractor claimed (July 2015) for enhancement of rate only after completion of work (May 2015), which raised questions on the genuineness of the claim.
- (iv) Proposal for enhancement of rate was not based on technical calculation as stipulated in GFR and not accompanied by detail-revised estimate. Instead cost of project was proposed to be enhanced at ₹ 35.00 lakh per metre span of the bridge on lump sum basis as requested by the Contractor. Further, the cost of ₹ 4.78 crore allowed under revised cost of the project towards ‘extra item of works’ (River diversion works) was not included in original project estimates.
- (v) After allowing the enhancement of rate (32.80 *per cent* above SOR 2013), the Contractor did not stand at L1 position against the work tender

²⁵ HLTC comprised of Engineer in Chief, Nagaland PWD (Chairperson), Members-Chief Engineer, PWD (Housing), Addl. Chief Engineer (Transmission & Generation), Power Department, Superintendent Engineer (Distribution), Power Department, Chief Engineer, Roads & Bridges, Managing Director, NSMDC, Deputy Manager, NSMDC, Chief Engineer, Public Health Engineering Department and Deputy Chief Engineer, Public Health Engineering Department

²⁶ Including ₹ 1.09 crore towards Contingencies (₹ 0.59 crore), Quality Control (₹ 0.20 crore) and Work Charge Establishment (₹ 0.30 crore).

²⁷ The Company passed (February/March 2017) 5th and 6th RA bills of the Contractor for payment of ₹ 9.54 crore and ₹ 10.08 crore respectively. However, payment details of balance amount (₹ 1.09 crore) not found on record.

(January 2011); rather, the Contractor stood at L2 position next after the second bidder (M/s L. Pukhato Sohe) who had quoted at 10 *per cent* above SOR 2010.

Thus, the NSMDC had irregularly entertained a claim of cost enhancement after the work was completed and closed, resulting in additional avoidable expenditure of ₹ 20.72 crore. The juncture and the manner in which cost escalation was sanctioned/allowed was clearly violative of the GFRs.

In reply, Government stated (January 2020) that based on the representation of the Contractor and subsequent approval by the HLTC and SLPIC, additional revised cost was sanctioned.

The reply is not acceptable in view of the fact that the enhancement of rates was allowed despite non-existence of any enabling clause for price variation in the contract and that too after the work was closed. Further, NSMDC did not work out the price variations on a scientific basis duly considering the cost variation that had occurred between the base level and scheduled delivery date and instead allowed the additional cost as claimed by the Contractor.

The issue merits investigation by the State Government.