CHAPTER-V
FUNCTIONING OF STATE PUBLIC SECTOR ENTERPRISES

Chapter 5: Functioning of State Public Sector Enterprises

SUMMARY OF FINANCIAL PERFORMANCE OF STATE PUBLIC ENTERPRISES

5.1 Introduction

This Chapter presents the financial performance of 'Government Companies', 'Statutory Corporations' and 'Government Controlled Other Companies'. The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned companies set up under the Companies Act, 2013 and Statutory Corporations setup under the statutes enacted by the Parliament and State legislature.

A Government Company is defined in Section 2(45) of the Companies Act, 2013 as a Company in which not less than 51 *per cent* of the paid-up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a Company which is a subsidiary of a Government Company.

Besides, any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments are referred to in this Report as Government controlled other Companies.

5.2 Mandate

Audit of 'Government Companies' and 'Government Controlled Other Companies' is conducted by the CAG under the provisions of Section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 and the Regulations made there under. Under the Companies Act, 2013, the CAG appoints the Chartered Accountants as Statutory Auditors for Companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has right to conduct a supplementary audit. The statutes governing some Statutory Corporations require their accounts to be audited only by CAG.

5.3 Working and non-working SPSEs

As on 31 March 2020, there were six SPSEs (all working Government companies) under the audit jurisdiction of the CAG in Mizoram as shown in **Table 5.1.**

Table 5.1: Details of SPSEs in Mizoram

Type of SPSEs	Working SPSEs	Non-working SPSEs[24]	Total
Government Companies	6	0	6
Total	**6**	**0**	**6**

Table 5.2 below provides the comparative details of working SPSEs turnover and State GSDP for a period of three years ending 2019-20.

[24] Non-working SPSEs are those which have ceased to carry on their operations

Table 5.2: Contribution of SPSEs-turnover to GSDP

(₹ in crore)

Particulars	2017-18	2018-19	2019-20
SPSEs-Turnover[25]	17.58	13.87	10.78
GSDP	19,385	22,287	26,503
Percentage of Turnover to GSDP	0.09	0.06	0.04

Source: As per latest finalised accounts of SPSEs.

As could be noticed from the **Table** above, the contribution of SPSEs-turnover to GSDP over the past three years from 2017-18 to 2019-20 has shown a decreasing trend mainly due to gradual reduction in SPSE-turnover and continuous growth in GSDP during last three years. During 2019-20, the contribution of SPSEs-turnover to GSDP was meagre at 0.04 *per cent*. The major contributor to SPSEs-turnover during 2019-20 was Zoram Industrial Development Corporation Limited (₹ 9.72 crore).

5.4 Investment in SPSEs

State Government's investment in SPSEs

The State's investment in the SPSEs was by way of Equity Share Capital and Long Term Loans. The figures in respect of Equity Capital and Loans provided by the State Government as per the records of the SPSEs should agree with the corresponding figures appearing in the Finance Accounts of the State. In case of differences in the figures, the SPSEs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard for last three years is given in **Table 5.3.**

Table 5.3: Equity and Loans outstanding[26] as per the State Finance Accounts vis-à-vis records of SPSEs for last three years

(₹ in crore)

Year	2017-18			2018-19			2019-20		
	Amount as per Finance Accounts	Amount as per records of SPSEs	Difference	Amount as per Finance Accounts	Amount as per records of SPSEs	Difference	Amount as per Finance Accounts	Amount as per records of SPSEs	Difference
Equity	6.99	54.04	**47.05**	6.99	54.04	**47.05**	6.99	54.04	**47.05**
Loans	35.77	10.35	**25.42**	34.44	9.44	**25.00**	33.02	9.44	**23.58**

Source: As per State Finance Accounts and as per records of SPSEs.

It can be noticed from the **Table** above that, during last three years (2017-18 to 2019-20), as per the records of SPSEs, the Equity investment given by the State Government remained constant at ₹ 54.04 crore while loans decreased from ₹ 10.35 crore in 2017-18 to ₹ 9.44 crore in 2019-20. However, as on 31 March 2020, there were differences in the figures of Equity (₹ 47.05 crore) and Loan (₹ 23.58 crore) as per two sets of records.

The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in a time-bound manner. The Government should correct the system of financing the SPSEs and the Finance Accounts may be updated.

[25] As per the latest finalised accounts of SPSEs as on 30th September of respective years.

[26] Figures of investment (equity and loans) as per SPSE-records are provisional and as provided by the SPSEs as none of the six SPSEs had finalised their current accounts during any of the last three years.

5.5 Budgetary assistance to SPSEs

The State Government provides financial support to SPSEs in various forms through annual budgetary allocations. The summarised details of budgetary support towards Equity, Loans and Grants/subsidies in respect of SPSEs during past three years are given in **Table 5.4.**

Table 5.4: Details regarding annual budgetary support to SPSEs

(₹ in crore)

Particulars	2017-18		2018-19		2019-20	
	No. of SPSEs	Amount	No. of SPSEs	Amount	No. of SPSEs	Amount
Equity capital outgo from budget	Nil					
Loans given from budget	Nil					
Grants/subsidy from budget	2	5.17	2	4.54	2	5.53
Total Outgo	**2**	**5.17**	**2**	**4.54**	**2**	**5.53**

Source: As per SPSEs records

As can be seen from the **Table** above, the budgetary support provided by State Government to SPSEs increased from ₹ 5.17 crore in 2017-18 to ₹ 5.53 crore in 2019-20. During last three years (2017-20), the State Government has not provided any budgetary support in the form of equity capital and long term loans to SPSEs. During 2017-20, the budgetary assistance in the form of grants/subsidy was provided mainly to meet the salaries and other establishment expenditure of two SPSEs[27] (Zoram Industrial Development Corporation Limited and Mizoram Handloom and Handicrafts Development Corporation Limited). The State Government did not provide equity assistance to any PSUs during 2017-20.

5.6 Returns from Government Companies and Corporations

Profit earned and Dividend paid by SPSEs

The position of aggregate profit earned and dividend paid by profit earning SPSEs during the past three years as per the latest finalised accounts as on 30 September of respective year is given in **Table 5.5**.

Table 5.5: Details of profits earned and dividend paid by working SPSEs

Year	2017-18	2018-19	2019-20
Number of profit earning working SPSEs	2	1	1
Aggregate profit earned *(₹ in crore)*	2.94	2.54	0.82
Dividend paid	-	-	-

As can be noticed from **Table** above, during last three years, only two to one SPSEs earned profits ranging from ₹ 2.94 crore (2017-18) to ₹ 0.82 crore (2019-20). However, none of these SPSEs had declared any dividend during the past three years. There was no recorded information about the existence of any specific policy of the State Government regarding payment of minimum dividend by the SPSEs.

During last two years (viz. 2018-19 and 2019-20), out of total six working SPSEs, only one SPSE (Zoram Industrial Development Corporation Limited) earned profit of ₹ 2.54 crore (2018-19) and ₹ 0.82 crore (2019-20) respectively as per its latest finalised accounts. This

[27] During 2019-20, the budgetary assistance of ₹ 5.53 crore was received by Zoram Industrial Development Corporation Limited (₹ 3.42 crore) and Mizoram Handloom and Handicrafts Development Corporation Limited (₹ 2.11 crore).

indicated that the other SPSEs had not contributed towards the profits of the public sector enterprises.

5.7 Long Term Debt of SPSEs

The position of outstanding Long Term Debts of the SPSEs during the last three years as per their latest finalised accounts is given in **Table 5.6**.

Table 5.6: Position of Outstanding loans of the SPSEs

(₹ in crore)

Particulars	2017-18	2018-19	2019-20
Total Loans outstanding (State Government and Others)[28]	30.68	31.87	31.87
State Government Loans outstanding[29]	10.35	9.44	9.44

It can be noticed from the **Table** above that during 2018-19, the total long term borrowings of the SPSEs from all sources registered a meagre increase of ₹ 1.19 crore as compared to previous year (2017-18), which remained unchanged during 2019-20.

As on 31 March 2020, however, three out of six working SPSEs did not have any outstanding long term loans.

5.8 Operating Efficiency of SPSEs

Key parameters

The working results of the SPSEs as per their latest finalised accounts as on 30 September 2020 have been summarised under ***Appendix VI.*** Some of the key parameters of the operational efficiency of working SPSEs for last three years as per their latest finalised accounts as on 30 September of the respective year are given in **Table 5.7**.

Table 5.7: Key parameters of operational efficiency of working SPSEs

(₹ in crore)

Year	No. of working SPSEs	Paid up capital	Net overall Accumulated profits (+)/ losses (-)	Net overall profits (+)/ losses (-)	EBIT	Capital Employed[30]
2017-18	6	58.61	(-) 59.14	(+) 0.08	(+) 0.08	30.15
2018-19	6	58.61	(-) 57.10	(-) 0.33	(-) 0.31	33.38
2019-20	6	58.61	(-) 55.55	(-) 2.05	(-) 2.03	34.93

From the **Table** above, it can be seen that, over the last three years the position of the Net overall losses and 'Earnings before Interest and Tax' (EBIT) has deteriorated. However, the Capital Employed of SPSEs during 2019-20 has increased by ₹ 4.78 crore in three years from ₹ 30.15 crore (2017-18) to ₹ 34.93 crore (2019-20).

Further, the net overall accumulated losses of SPSEs have decreased marginally by ₹ 3.59 crore over the period. The accumulated losses stood in the books of all the six SPSEs as per their latest finalised accounts. The major contributors to the accumulated

[28] Interest on loans availed from sources other than State Government had been consolidated into a One Time Settlement (OTS) package in 2013.

[29] State Government loans are interest free.

[30] **Capital Employed** = Paid up share capital *plus* Free reserves and Surplus *plus* Long term loans *minus* Accumulated losses *minus* Deferred revenue expenditure.

losses of SPSEs during 2019-20 were Mizoram Food and Allied Industries Corporation Limited (₹ 20.91 crore) and Zoram Industrial Development Corporation Limited (₹ 14.91 crore).

5.9 Return on Capital Employed

Return on Capital Employed (ROCE) is a profitability metric that measures the long term profitability and efficiency of the total capital employed by a company. Companies create value when they generate returns on the capital employed in excess of the cost of capital. ROCE is an important metric for long term lenders. ROCE is calculated by dividing a company's Earnings Before Interest and Taxes (EBIT) by the Capital Employed.

During 2019-20, the overall capital employed in respect of six SPSEs (all working) as per their latest finalised accounts was ₹ 34.93 crore. Further, out of six working SPSEs, only one SPSEs (Zoram Industrial Development Corporation Limited) had positive ROCE ***(Appendix VI)***.

In comparison, however, the overall capital employed in respect of working SPSEs during the previous two years (2017-18 and 2018-19) was ₹ 30.15 crore and ₹ 33.38 crore respectively. Further, out of six working SPSEs, only two and one SPSEs[31] had positive ROCE during 2017-18 and 2018-19 respectively.

5.10 Return on Equity (ROE)

Return on equity[32] (ROE) is a measure of financial performance of companies calculated by dividing the 'net income earned' by the Equity. During 2019-20, only one working SPSE earned profit (₹ 0.82 crore) as per its latest finalised accounts as on 30 September 2020 (***Appendix VI)***. The ROE of this profit making SPSE was 5.20 *per cent* as detailed in **Table 5.8** below.

Table 5.8: Return on Equity

SL No.	Name of the Company	Year of Accounts	ROE (in *per cent*)
1.	Zoram Industrial Development Corporation Limited	2018-19	5.20

5.11 SPSEs Incurring Losses

The position of aggregate losses incurred by loss making working SPSEs during the past three years as per their latest finalised accounts is given **Table 5.9**.

Table 5.9: Details of loss making working SPSEs

Year	2017-18	2018-19	2019-20
Total No. of working SPSEs	6	6	6
Number of loss making working SPSEs	4	5	5
Aggregate losses *(₹ in crore)*	2.86	2.87	2.87

The details of major contributors to losses of working SPSEs (₹ 2.61 crore) incurred during 2019-20 are given in **Table 5.10** below:

31 SPSEs with positive ROCE: Zoram Industrial Development Corporation Limited (2017-18 and 2018-19) and Mizoram Handloom and Handicrafts Development Corporation Limited (2017-18).

32 **Return on Equity** = (Net Profit after Tax and preference Dividend ÷ Equity) x 100, where **Equity** = Paid up Capital *plus* Free Reserves *minus* Accumulated Loss *minus* Deferred Revenue Expenditure.

Table 5.10: Major contributors to losses of working SPSEs during 2019-20

(*₹ in crore*)

Sl. No.	Name of the Company	Latest finalised accounts	Net Loss
1	Mizoram Food and Allied Industries Corporation Limited	2014-15	1.59
2.	Mizoram Agricultural Marketing Corporation Limited	2010-11	1.02
	Total		**2.61**

From the **Table** above, it can be noticed that more than 90 *per cent* of the losses incurred by working SPSEs during 2019-20 were contributed by the above mentioned two SPSEs.

5.12 SPSEs having Complete Erosion of Capital

The aggregate paid-up capital and accumulated losses of six working SPSEs as per their latest finalised accounts as on 30 September 2020 were ₹ 58.61 crore and (-) ₹ 55.55 crore respectively. Analysis of investment and accumulated losses of these SPSEs revealed that the accumulated losses of three working SPSEs (₹ 28.00 crore) had completely eroded their paid-up capital (₹ 25.60 crore) as detailed in **Table 5.11**.

Table 5.11: Erosion of Capital of SPSEs

(*₹ in crore*)

Name of SPSE	Latest finalised accounts	Paid up capital	Accumulated losses
Mizoram Agricultural Marketing Corporation Limited	2010-11	5.45	(-) 6.91
Mizoram Food and Allied Industries Corporation Limited	2014-15	20.00	(-) 20.91
Mizoram Mineral Development Corporation Limited	2014-15	0.15	(-) 0.18
Total		**25.60**	**(-) 28.00**

Source: As per records of SPSEs

5.12.1 Net worth erosion-age analysis

All the six PSUs had accumulated huge losses leading to erosion of the Net worth of the six working SPSEs of the state during the last three years as shown in the table given below:

Table 5.12: Net worth erosion-age analysis

(*₹ in crore*)

Sl. No.	Name of SPSE	Net worth		
		2017-18	2018-19	2019-20
1	MAMCO	(-)1.46	(-)1.46	(-)1.46
2	ZIDCO	(-)1.36	(-)0.68	(+)0.87
3	ZENICS	(+)0.64	(+)0.64	(+)0.64
4	MIFCO	(-)0.91	(-)0.91	(-)0.91
5	ZOHANDCO	(+)3.96	(+)3.95	(+)3.95
6	MMDCL	(-)0.03	(-)0.03	(-)0.03
	Total	**(+)0.84**	**(+)1.51**	**(+)3.06**

It can be seen from the table above that the paid-up capital of four working SPSEs out of six had completely eroded during the years 2017-19 which reduced to three SPSEs during 2019-20.

Accumulation of huge losses by these SPSEs had eroded public wealth, which is a cause of serious concern and the State Government needs to either improve their profitability or fully review the working of these SPSEs for continuing their operations.

OVERSIGHT ROLE OF COMPTROLLER & AUDITOR GENERAL OF INDIA

5.13 Audit of State Public Sector Enterprises (SPSEs)

Comptroller & Auditor General of India (CAG) appoints the statutory auditors of a Government Company and Government Controlled Other Company under Section 139 (5) and (7) of the Companies Act, 2013. CAG has a right to conduct a supplementary audit and supplement or comment upon the Audit Report of the statutory auditor. Statutes governing some corporations require that their accounts be audited by the CAG and a report be submitted to the State Legislature.

5.14 Appointment of Statutory Auditors of SPSEs by CAG

Sections 139 (5) of the Companies Act, 2013 provides that the statutory auditors in case of a Government Company or Government Controlled Other Company are to be appointed by the CAG within a period of 180 days from the commencement of the financial year. The State of Mizoram has total six SPSEs (all Government companies) and the statutory auditors of all six SPSEs are appointed by the CAG.

5.15 Submission of accounts by SPSEs

Need for timely submission

According to Section 394 of the Companies Act 2013, Annual Report on the working and affairs of a Government Company, is to be prepared within three months of its Annual General Meeting (AGM) and as soon as may be after such preparation laid before the State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. This mechanism provides the necessary Legislative control over the utilization of public funds invested in the companies from the State budget.

Section 96 of the Companies Act, 2013 requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Further, Section 129 of the Companies Act, 2013 stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration.

Section 129 (7) of the Companies Act, 2013 also provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Companies Act, 2013.

Despite above, annual accounts of various SPSEs were pending as on 30 September 2020, as discussed below.

5.16 Timeliness in preparation of accounts by SPSEs

The details relating to finalisation of accounts by six working SPSEs (all Government Companies) during the last three years as of 30 September of respective year are given **Table 5.13.**

Table 5.13: Position relating to finalisation of Accounts of working SPSEs

Sl. No.	Particulars	2017-18	2018-19	2019-20
1.	Number of working SPSEs	6	6	6
2.	Number of Accounts finalised during the year	2	2	2
3.	Number of Accounts in arrears	24	28	32
4.	Number of Working SPSEs with arrears in Accounts	6	6	6
5.	Extent of arrears (number in years)	2 to 8	1 to 9	1 to 10

As could be seen from the **Table 5.13**, the number of SPSEs Accounts in arrears had increased gradually from 24 Accounts (2017-18) to 32 Accounts (2019-20) due to deficiency in finalising at least one year Accounts by each SPSEs during each of the last three years. During 2019-20, out of six SPSEs, only one SPSE (Zoram Industrial Development Corporation Limited) had submitted two Annual Accounts (2017-18 and 2018-19) to PAG, Mizoram for supplementary audit. One of these two Accounts was selected for supplementary audit (2017-18) while the other was issued a 'Non-Review Certificate'. None of the SPSEs has prepared their up-to-date Accounts (2019-20) as on 30 September 2020. The highest pendency of accounts pertained to Zoram Electronics Development Corporation Limited (10 Accounts) and Mizoram Agricultural Marketing Corporation Limited (nine Accounts) as detailed in ***Appendix VI.***

The Administrative Departments concerned have the responsibility to oversee the activities of these entities and to ensure that the accounts of SPSEs under their control are finalised and adopted by the SPSEs within the stipulated period.

5.17 CAG's oversight - Audit of accounts and supplementary audit

Financial reporting framework

Companies are required to prepare the financial statements in the format laid down in Schedule III to the Companies Act, 2013 and in adherence to the mandatory Accounting Standards prescribed by the Central Government, in consultation with National Advisory Committee on Accounting Standards. The statutory corporations are required to prepare their accounts in the format prescribed under the rules, framed in consultation with the CAG and any other specific provision relating to accounts in the Act governing such corporations.

5.18 Audit of accounts of Government Companies by Statutory Auditors

The statutory auditors appointed by the CAG under Section 139 of the Companies Act 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the statutory auditors in audit of the public sector enterprises with the overall objective that the statutory auditors discharge the functions assigned to them properly and effectively.

This function is discharged by exercising the power:

- to issue directions to the statutory auditors under Section 143 (5) of the Companies Act, 2013 and
- to supplement or comment upon the statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

5.19 Supplementary Audit of accounts of Government Companies

The prime responsibility for preparation of financial statements in accordance with the financial reporting framework prescribed under the Companies Act, 2013 or other relevant Act is of the Management of an entity.

The statutory auditors appointed by the CAG under section 139 of the Companies Act, 2013 are responsible for expressing an opinion on the financial statements under section 143 of the Companies Act, 2013 based on independent audit in accordance with the Standard Auditing Practices of Institute of Chartered Accountants of India (ICAI) and directions given by the CAG. The statutory auditors are required to submit the Audit Report to the CAG under Section 143 of the Companies Act, 2013.

The certified accounts of selected Government Companies along with the report of the statutory auditors are reviewed by CAG by carrying out a supplementary audit. Based on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the Annual General Meeting.

5.20 Result of CAG's oversight role

Audit of accounts of SPSEs

Government Companies/ Government Controlled Other Companies

During 2019-20, one SPSE (working company) had forwarded two Accounts to the Principal Accountant General, Mizoram; of which, one year Accounts were selected for Supplementary audit during the year. Non-Review Certificates (NRC) was issued against the remaining one year Accounts.

The audit reports of Statutory Auditors appointed by the C&AG and the supplementary audit conducted by the CAG indicated that the quality of maintenance of SPSEs' accounts needs to be improved substantially. The results of the review are detailed below:

Significant comments of the CAG issued as supplement to the statutory auditors' reports on Government Companies

Some of the significant comments issued on financial statements of the Government Companies are detailed **Table 5.14**.

Table 5.14: Gist of significant comments on the accounts of the SPSEs

Name of the Company	Comments
Zoram Industrial Development Corporation Limited **(Year of Accounts: 2017-18)**	**Balance Sheet** **Equity and Liabilities** **Other long term liabilities (Note 3)** **Interest accrued and due on NMDFC refinance: ₹ 2.68 crore** This is understated by ₹ 4.69 crore due to short provisioning towards interest liability (including penal interest and LD) payable due to default in repayment of National Minority Development Financial Corporation (NMDFC) loan as per the Demand Notice served (March 2018) by NMDFC. This has correspondingly resulted in overstatement of 'profit for the year' to the same extent.
Zoram Industrial Development Corporation Limited **(Year of Accounts: 2017-18)**	**Balance Sheet** **Equity and Liabilities** **HUDCO Refinance: ₹ 9.55 crore** This is understated by ₹ 5.27 crore due to short accounting of interest overdues payable against HUDCO Refinance loan as on 31 March 2018 as per the Demand Notice served (March 2018) by HUDCO. This has correspondingly resulted in overstatement of 'Profit for the year' to the same extent. Further, the Company did not disclose the fact regarding its OTS proposal to liquidate the HUDCO Refinance loan, which failed (26.09.2013) subsequently even after making initial deposit towards OTS dues
	General 1. The closing balance of inventories (₹ 0.44 crore) as depicted under Note-13 (Changes in Inventories) to the 'financial statements' could not be authenticated in the absence of complete supporting records. The contention of the Statutory Auditor regarding valuation of closing inventories at cost (refer Annexure-I of the Audit Report) could also not be verified in the absence of the supporting calculation sheet. Further, missing/ shortage of 26,151 liquor bottles of different brands pertaining to the period 2015-16 as reported (18. March 2018) during internal audit/physical verification of inventories was not suitably disclosed in the accounts.

Name of the Company	Comments
	2. Refer Auditors' qualification under Annexure I of their Audit Report, regarding non-maintenance of Fund Accounting relating to JNV agreement for construction of School and improper accounting of expenses and funds received by the Company for JNV works. As per paragraph 21 of AS-7 (Construction Contracts), revenue and costs associated with the construction contract should be recognised in the Accounts with reference to the 'Stage of completion of the contract activity at the reporting date'. Further, as per para 38 and 39 of AS-7, it is mandatory, among other things, to make adequate disclosures with regard to (i) method used to determine the stage of completion of contract in progress; (ii) method used to determine the revenue recognised against the construction contract during the period (iii) aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date; and (iii) amount of advances received, etc. During the year, the Company received ₹ 4.15 crore from Novodaya Vidyalaya Samiti for the construction of school building in the State of Mizoram. As against this, the Company during the year, has booked ₹ 3.08 crore as 'revenue' (Other Operating Revenues-Note 13) and ₹ 3.19 crore as 'expenditure' (other expenses-Note 15) in the 'Statement of Profit and Loss' against the construction contract. The Company, however, failed to make mandatory disclosures on the issues mentioned above as per the requirements of paragraphs 38 and 39 of AS-7.

5.21 Management Letters

One of the objectives of financial audit is to establish communication on audit matters arising from the audit of financial statements between the auditor and those charged with the responsibility of governance of the corporate entity.

The material observations on the financial statements of SPSEs were reported as comments by the CAG under Section 143 (6)(b) of the Companies Act, 2013. Besides these comments on accounts, irregularities or deficiencies observed by CAG in the financial reports or in the reporting process, are also communicated to the management through a 'Management Letter' for taking corrective action. These deficiencies generally related to -

- application and interpretation of accounting policies and practices,
- adjustments arising out of audit that could have a significant effect on the financial statements and
- inadequate or non-disclosure of certain information on which management of the concerned PSE gave assurances that corrective action would be taken in the subsequent year.

No 'Management Letters' were issued to SPSEs during the year.

5.22 Conclusion

As on 31 March 2020, the State of Mizoram had total six SPSEs (all working Government companies). As on 31 March 2020, there were differences in the figures of State's investment in Equity (₹ 47.05 crore) and Loan (₹ 23.58 crore) of SPSEs as per State Finance Accounts vis-à-vis records of SPSEs.

During 2019-20 the State Government has provided budgetary support of ₹ 5.53 crore to two SPSEs in the form of Grants/subsidy to meet the salaries and other establishment expenditure. The recipients of the budgetary assistance were Zoram Industrial Development Corporation Limited (₹ 3.42 crore) and Mizoram Handloom and Handicrafts Development Corporation Limited (₹ 2.11 crore). The State Government did not provide equity assistance to any PSUs during 2017-20.

During 2019-20, out of six working SPSEs, only one SPSE earned profits (₹ 0.82 crore) as per its latest finalised accounts. Further, the accumulated losses (₹ 28.00 crore) of three working SPSEs had completely eroded their paid-up capital (₹ 25.60 crore).

As on 30 September 2020, all six working SPSEs had a total arrear of total 32 Accounts ranging from one to 10 Accounts. The highest pendency of accounts pertained to Zoram Electronics Development Corporation Limited (10 Accounts) and Mizoram Agricultural Marketing Corporation Limited (nine Accounts).

5.23 Recommendations

i. The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in the investment figures (Equity and Long term Loans) of the State Government as appearing in the State Finance Accounts vis-à-vis SPSE records in a time-bound manner.

ii. Accumulation of huge losses by three out of six working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to either improve their profitability or fully review the working of these SPSEs for continuing their operations.

iii. The Administrative Departments overseeing the SPSEs having backlog of Accounts need to ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them may be reviewed.

Aizawl
The: 20 October 2021

(LHUNKHOTHANG HANGSING)
Principal Accountant General, Mizoram

Countersigned

New Delhi
The: 29 October 2021

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India