

**CHAPTER V**  
**FUNCTIONING OF STATE PUBLIC**  
**SECTOR ENTERPRISES**



## Chapter V: 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 (five working and one non-working) under the audit jurisdiction of the CAG in Nagaland as shown in **Table 5.1**.

**Table 5.1: List of SPSEs in the State**

<b>Working SPSEs</b>	1. Nagaland Industrial Development Corporation Limited (NIDC)
	2. Nagaland State Mineral Development Corporation Limited (NSMDC)
	3. Nagaland Hotels Limited (NHL)
	4. Nagaland Handloom and Handicrafts Development Corporation Limited (NHHDC)
	5. Nagaland Industrial Raw Materials and Supply Corporation Limited (NIRMSC)
<b>Non-working SPSEs</b>	1. Nagaland Sugar Mills Company Limited (NSMC)

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

**Table 5.2: Contribution of SPSEs-turnover to GSDP**

(₹ in crore)			
Particulars	2017-18	2018-19	2019-20
SPSEs-Turnover <sup>8</sup>	6.48	6.70	6.78
GSDP	24492	27283	30508
Percentage of Turnover to GSDP	0.03	0.02	0.02

Source: As per latest finalised accounts of SPSEs

It could be noticed from the **Table** above that during last three years (2017-18 to 2019-20), the contribution of SPSEs-turnover to GSDP was meagre ranging between 0.03 and 0.02 *per cent*. The percentage of SPSEs-turnover to GSDP over the past three years has decreased from 0.03 *per cent* (2017-18) to 0.02 *per cent* (2019-20).

## 5.4 Investment in SPSEs

### State Government's investment in SPSEs

The State's investment in its 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<sup>9</sup> outstanding as per the State Finance Accounts *vis-à-vis* records of SPSEs for last three years**

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
<b>Equity</b>	107.78	34.34	<b>73.44</b>	108.75	34.34	<b>74.41</b>	109.75	34.34	<b>75.41</b>
<b>Loans</b>	0.48	0.73	<b>0.25</b>	0.48	0.81	<b>0.33</b>	0.48 <sup>10</sup>	0.81	<b>0.33</b>

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 records of SPSEs, the Equity investment by the State Government remained unchanged at ₹ 34.34 crore while the Loans had increased marginally by ₹ 0.08 crore (11 *per cent*) from ₹ 0.73 crore (2017-18) to ₹ 0.81 crore (2019-20). During 2019-20, however, there were differences in the figures of Equity (₹ 75.41 crore) and Loans (₹ 0.33 crore) as per two sets of records. The difference in

<sup>8</sup> As per the latest finalised accounts of working SPSEs as on 30<sup>th</sup> September of respective years.

<sup>9</sup> Figures as per the records of SPSEs are provisional and as provided by the SPSEs as none of the SPSEs had finalised their current accounts (2019-20).

<sup>10</sup> This represents the Loans provided by the State Government to 'Public Sector and other Undertakings' and booked under the heading 'Industry & Mineral-Loans to Consumer Industries-Sugar in the State Finance Accounts without giving the SPSE-wise details.

Equity investment occurred in respect of all six SPSEs where State Government had made direct investment. As regards Loan figures, SPSE-wise figures of State Government Loans not available in the State Finance Accounts and hence, the SPSEs having difference in the figures of State Government Loans as per two sets of records could not be ascertained.

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.

## 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	1	0.42	0	0	0	0
Loans given from budget	1	2.08	1	3.85	1	3.41
Grants/subsidy from budget	5	24.41	5	25.04	5	24.49
<b>Total</b>		<b>26.91</b>		<b>28.89</b>		<b>27.90</b>

Source: Figures as provided by the SPSEs

It can be noticed from the **Table** above that during last three years ending 2019-20, the budgetary support provided by State Government to SPSEs ranged between ₹ 26.91 crore (2017-18) and ₹ 28.89 crore (2018-19). During 2019-20, the major recipients of budgetary support were Nagaland Handloom and Handicrafts Development Corporation Limited (Grant: ₹ 9.74 crore), Nagaland State Mineral Development Corporation Limited (Grant: ₹ 9.29 crore) and Nagaland Industrial Development Corporation Limited (Loan: ₹ 3.41 crore and Grants: ₹ 0.80 crore). Further, in last three years, the State Government provided Equity support (₹ 0.42 crore) to only one SPSEs (Nagaland Hotels Limited) during 2017-18.

## 5.6 Return on investment in 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	1	1	Nil
Aggregate profit earned(₹ in crore)	0.06	1.18	-
Dividend paid	-	-	-

As can be noticed from **Table** above that in past three years, only one working SPSE<sup>11</sup> during each of the first two years (2017-18 and 2018-19) earned profits. However, none of these SPSEs had declared any dividend. During 2019-20, all the five working SPSEs incurred losses aggregating ₹ 6.03 crore.

## 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 Long Term Loans of the SPSEs**

Particulars	(₹ in crore)		
	2017-18	2018-19	2019-20
Total Loans outstanding (State Government and Others)	70.39	73.72	73.72
State Government Loans outstanding	0.81	0.81	0.81
Interest on Total Loans <sup>12</sup>	2.06	2.08	2.06

Source: As per latest finalised accounts of SPSEs

It can be noticed from the **Table** above that during the three years ending 2019-20, the total long term borrowings of the SPSEs from all sources registered a marginal increase of ₹ 3.33 crore (4.73 per cent) from ₹ 70.39 crore (2017-18) to ₹ 73.72 crore (2019-20). However, the State Government Loans remained constant at ₹ 0.81 crore during the last three years. Further, one out of six SPSEs in Nagaland (Nagaland State Mineral Development Corporation Limited) did not have any outstanding long term borrowings during 2019-20 as per their latest finalised accounts.

<sup>11</sup> **2017-18:** Nagaland Industrial Raw Materials and Supply Corporation Limited (profit: ₹ 0.06 crore); and **2018-19:** Nagaland State Mineral Development Corporation Limited (profit: ₹ 1.18 crore)

<sup>12</sup> Interest figures as available in the latest finalised accounts of respective SPSEs

## 5.8 Operating Efficiency of SPSEs

### Key parameters

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 <sup>13</sup>
2017-18	5	26.13	-63.40	-4.50	-2.44	(+) 27.04
2018-19	5	27.26	-66.38	-2.62	-0.54	(+) 28.52
2019-20	5	27.26	-68.62	-6.03	-3.97	(+) 26.28

Source: As per latest finalised accounts of SPSEs

From the **Table** above, it can be seen that, the position of the Net overall losses and 'Earnings before Interest and Tax' (EBIT) has deteriorated in 2019-20 as compared to 2017-18. The Capital Employed in SPSEs has also decreased in three years by ₹ 0.76 crore (2.81 per cent) from ₹ 27.04 crore (2017-18) to ₹ 26.28 crore (2019-20). None of the SPSEs in Nagaland had earned profits during 2019-20 as per their latest finalised accounts.

The net overall accumulated losses of SPSEs have increased by ₹ 5.22 crore (8.23 per cent) over the period from ₹ 63.40 crore (2017-18) to ₹ 68.62 crore (2019-20). Further, more than 77 per cent (₹ 52.92 crore) of the accumulated losses of SPSEs (₹ 68.62 crore) during 2019-20 were contributed by Nagaland Industrial Development Corporation Limited (₹ 39.27 crore) and Nagaland Hotels Limited (₹ 13.65 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 five working SPSEs as per their latest finalised accounts was ₹ 26.28 crore. Further, out of five working SPSEs, only two SPSEs<sup>14</sup> had positive ROCE.

<sup>13</sup> **Capital Employed**= Paid up share capital plus Free reserves and Surplus plus Long term loans minus Accumulated losses minus Deferred revenue expenditure.

<sup>14</sup> Nagaland Industrial Development Corporation Limited (ROCE: (+) 0.65 per cent), and Nagaland Handloom & Handicrafts Development Corporation Limited (ROCE: (+) 0.27 per cent).

## 5.10 Return on Equity (ROE)

Return on equity<sup>15</sup> (ROE) is a measure of financial performance of companies calculated by dividing the 'net income earned' by the Equity. During 2019-20, none of the working SPSEs earned profits as per their latest finalised accounts as on 30 September 2020. Hence, none of the working SPSEs had positive ROE during 2019-20.

## 5.11 SPSEs incurring Losses

As mentioned earlier, all five working SPSEs in Nagaland had incurred losses during 2019-20. 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 5.8**.

**Table 5.8: Details of loss making working SPSEs**

Year	2017-18	2018-19	2019-20
Total No. of working SPSEs	5	5	5
Number of loss making working SPSEs	4	4	5
Aggregate losses ( <i>₹ in crore</i> )	4.56	3.80	6.03

The details of major contributors to losses of working SPSEs (*₹* 5.86 crore) incurred during 2019-20 are given in **Table 5.9** below:

**Table 5.9: Major contributors to losses of working SPSEs during 2019-20**

<i>(₹ in crore)</i>			
Sl. No.	Name of the SPSE	Latest finalised accounts	Net Loss
1	Nagaland State Mineral Development Corporation Limited	2017-18	2.25
2.	Nagaland Hotels Limited	2014-15	1.92
3.	Nagaland Industrial Development Corporation Limited	2017-18	1.69
	<b>Total</b>		<b>5.86</b>

From the **Table** above, it can be noticed that more than 97 *per cent* of the losses incurred by working SPSEs during 2019-20 were contributed by the above mentioned three SPSEs.

## 5.12 Erosion of capital in Government Companies

The aggregate paid-up capital and accumulated losses of five working SPSEs as per their latest finalised accounts as on 30 September 2020 were *₹* 27.26 crore and (-) *₹* 68.62 crore respectively. Analysis of investment and accumulated losses of these SPSEs revealed that the accumulated losses of four working SPSEs (*₹* 67.41 crore) had completely eroded their paid-up capital (*₹* 26.03 crore) as detailed in **Table 5.10**.

<sup>15</sup> **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: Erosion of Capital of SPSEs

(₹ in crore)

Name of SPSE	Latest finalised accounts	Paid up capital	Accumulated losses
Nagaland Industrial Development Corporation Limited	2017-18	23.20	39.27
Nagaland Hotels Limited	2014-15	0.40	13.65
Nagaland State Mineral Development Corporation Limited	2017-18	1.60	10.33
Nagaland Handloom and Handicrafts Development Corporation Limited	2009-10	0.83	4.16
<b>Total</b>		<b>26.03</b>	<b>(-) 67.41</b>

Accumulation of huge losses by these SPSEs had eroded public wealth, which is a cause of serious concern and the State Government needs to review the working of these SPSEs to either improve their profitability or close 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 Public Sector Enterprises 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 statutory auditors of all the five working SPSEs and one non-working SPSE 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 5 working SPSEs during the last three years as of 30 September of respective year are given **Table 5.11**.

**Table 5.11: Position relating to finalisation of Accounts of working SPSEs**

Sl. No.	Particulars	2017-18	2018-19	2019-20
1.	Number of working SPSEs	5	5	5
2.	Number of Accounts finalised during the year	6	8	2
3.	Number of Accounts in arrears	21	18	21
4.	Number of Working SPSEs with arrears in Accounts	5	5	5
5.	Extent of arrears (number in years)	1 to 8	1 to 9	2 to 10

As could be seen from **Table 5.9**, none of the SPSEs had its account finalised upto date and the five working SPSEs had an arrear of total 21 Accounts ranging from two to 10 years. The highest pendency of accounts pertained to Nagaland Handloom & Handicrafts Development Corporation Limited (10 Accounts). Remaining one non-working SPSE namely Nagaland Sugar Mill Limited had a backlog of 18 years' accounts.

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.

The Principal Accountant General (Audit), Nagaland had been regularly pursuing with the administrative departments and concerned SPSEs for liquidating the arrears of accounts of SPSEs. However, the State Government and the SPSEs concerned could not address the issue to clear pendency of accounts of the SPSEs in a time bound manner.

## 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 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 Non-Compliance with provisions of Accounting Standards/IND AS

In exercise of the powers conferred by Section 469 of the Companies Act, 2013, read with Section 129 (1), Section 132 and Section 133 of the said Act, the Central Government prescribed Accounting Standards 1 to 7 and 9 to 29. Besides these, the Central Government notified 41 Indian Accounting Standards (Ind AS) through Companies (Ind AS) Rules, 2015 and Companies (Ind AS) (Amendment) Rules, 2016.

The Statutory Auditors reported that one company namely Nagaland State Mineral Development Corporation Limited did not comply with mandatory Accounting Standards. The deviation is shown in **Table 5.12**.

Table 5.12 Deviations reported by statutory auditors

Accounting Standard		Name of the Company	Deviation
AS-1	Disclosure of Accounting Policies	Nagaland State Mineral Development Corporation Limited	Accounts are being prepared in hybrid system of accounting in contravention of fundamental accounting assumption.
AS-15	Employees Benefit		Non-provision of gratuity on mercantile system.
AS-9	Revenue recognition		Accounting for sales and hire charges income has not been made as per AS-9

Source: Statutory Audit Reports

## 5.21 Result of CAG's oversight role

### Audit of accounts of SPSEs

#### Government Companies

During 2019-20, two working companies namely Nagaland Industrial Raw Materials & Supply Corporation Limited (2017-18) and Nagaland State Mineral Development Corporation Limited (2017-18) forwarded one accounts each to the Principal Accountant General (Audit), both accounts were issued Non-Review Certificates.

## 5.22 Conclusion

As on 31 March 2020, the State of Nagaland had total six SPSEs (all Government companies), which included one non-working SPSE. As on 31 March 2020, there were differences in the figures of State's investment in Equity (₹ 75.41 crore) and Loan (₹ 0.33 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 ₹ 27.90 crore to SPSEs in the form of Loans (₹ 3.41 crore) and Grants/subsidy (₹ 24.49 crore). The major recipients of budgetary support were Nagaland Handloom and Handicrafts Development Corporation Limited (Grant: ₹ 9.74 crore), Nagaland State Mineral Development Corporation Limited (Grant: ₹ 9.29 crore) and Nagaland Industrial Development Corporation Limited (Loan: ₹ 3.41 crore and Grants: ₹ 0.80 crore).

During 2019-20, all the five working SPSEs incurred losses aggregating ₹ 6.03 crore. Further, the accumulated losses of four working SPSEs (₹ 67.41 crore) had completely eroded their paid-up capital (₹ 26.03 crore).

As on 30 September 2020, the five working SPSEs had an arrear of total 21 Accounts ranging from two to ten Accounts. The highest pendency of accounts pertained to Nagaland Handloom & Handicrafts Development Corporation Limited (10 Accounts).

## 5.23 Recommendations

- 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.

- Accumulation of huge losses by four out of five working SPSEs had eroded public wealth, which is a cause of concern and the State Government may review the working of these SPSEs to either improve their profitability or close their operations.
- The Administrative Departments overseeing the SPSEs having backlog of Accounts may ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them be reviewed.

**Kohima**  
The 21 September 2021

  
(E. MHONBEMO PATTON)  
Principal Accountant General (Audit)

*Countersigned*

**New Delhi**  
The 05 October 2021

  
(GIRISH CHANDRA MURMU)  
Comptroller and Auditor General of India