

## CHAPTER VI

### ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

#### 6.1.1 Introduction

As of 31 March 2020, there were six Public Sector Undertakings (PSUs)<sup>1</sup> in Nagaland as shown in **Table 6.1.1**.

**Table 6.1.1: Total number of PSUs as on 31 March 2020**

Type of PSUs	Working PSUs	Non-working PSUs	Total
Government Companies <sup>2</sup>	5	1	6
Statutory Corporations	Nil	Nil	Nil
<b>Total</b>	<b>5</b>	<b>1</b>	<b>6</b>

Source: Information as provided by PSUs

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 2019-20, no new PSU was incorporated and no existing PSU was closed down.

#### 6.1.2 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 2020, total investment of the State Government and Others (capital, and long-term loans) in six PSUs was ₹118.57 crore<sup>3</sup> as per details shown in **Table 6.1.2**.

**Table 6.1.2: Details of total investment in six PSUs as on 31 March 2020**

Particulars	Equity Capital	Long term Loans	Total
State Government	34.34	0.81	35.15
Others*	7.92	75.5	83.42
<b>Total</b>	<b>42.26</b>	<b>76.31</b>	<b>118.57</b>

Source: Information as provided by PSUs

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

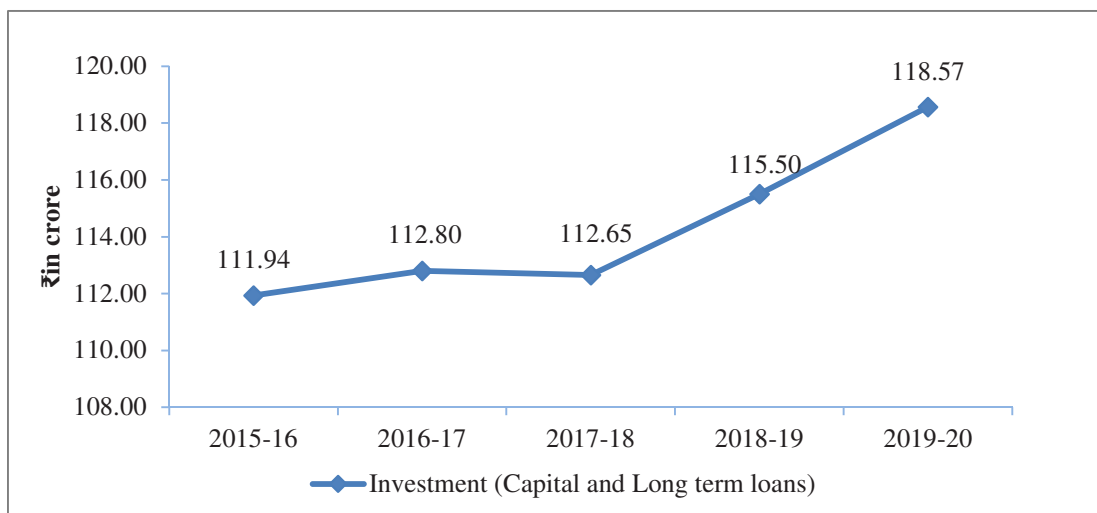
<sup>1</sup> All Government Companies

<sup>2</sup> Government Companies include 'Other companies' referred to in Section 139(5) and 139(7) of the Companies Act 2013

<sup>3</sup> Investment figures are provisional and as per the information provided by the PSUs, as none of the six PSUs has finalised accounts for 2019-20 as of September 2020

The total investment consisted of 35.64 *per cent* towards capital and 64.36 *per cent* in long-term loans. The investment grew by 5.92 *per cent* from ₹111.94 crore in 2015-16 to ₹118.57 crore in 2019-20 as shown in **Chart 6.1.1** below:

**Chart 6.1.1: Total investment in PSUs**



Source: Information as provided by PSUs

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

#### **6.1.2.1 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 2016 and 31 March 2020 is shown in **Table 6.1.3**.

**Table 6.1.3: Sector-wise investment in PSUs as on 31 March 2020**

(₹ in crore)

Name of Sector	Year of investment	
	2015-16	2019-20
Finance	70.60	77.57
Manufacturing	10.68	10.68
Service	10.49	10.97
Miscellaneous	20.19	19.35
<b>Total</b>	<b>111.96</b>	<b>118.57</b>

Source: Information as provided by PSUs

As can be seen from the **Table 6.1.3** above, the thrust of PSU investment during 2015-16 and 2019-20 was in Finance sector<sup>4</sup>, which had increased by 9.87 *per cent* from ₹70.60 crore (2015-16) to ₹77.57 crore (2019-20). However, the share of this Sector in overall investment remained constant at around 63 *per cent* during 2015-16 (63.06 *per cent*) and 65 *per cent* during 2019-20 (65.42 *per cent*).

<sup>4</sup> Finance Sector included only one PSU (Nagaland Industrial Development Corporation Limited)

### 6.1.3 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 2020 is shown in **Table 6.1.4**.

**Table 6.1.4: 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 <sup>5</sup>	Difference
Equity	109.75	34.34	75.41
Loans <sup>6</sup>	0.48	0.81	0.33
Guarantees	59.03	18.41	40.62

*Source: As per the State Finance Accounts, 2019-20 and information furnished by PSUs*

From the **Table 6.1.4** above, it can be noticed that there were unreconciled differences in the figures of equity (₹75.41 crore), and guarantees (₹40.62 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 PSUs<sup>7</sup>. 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.

### 6.1.4 Accountability framework

The audit of the financial statements of a Company in respect of financial years commencing on or after 01 April 2014 is governed by the provisions of the Companies Act, 2013 and audit of the financial statements in respect of financial years that commenced earlier than 01 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.

<sup>5</sup> Information as provided by PSUs and includes only the investment made by State Government

<sup>6</sup> In the State Finance Accounts, 2019-20, 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

<sup>7</sup> Serial no. A1, A4 and B6 of *Appendix 6.1.2*

**6.1.4.1 Statutory Audit/ Supplementary Audit**

Statutory Auditors appointed by the C&AG audit the financial statements of a Government Company. In addition, C&AG conducts the supplementary audit of these financial statements under the provisions of Section 143(6) of the Act.

**6.1.4.2 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 C&AG thereon are required to be placed before the Legislature under Section 394 of the Act.

**6.1.5 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 30 September 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. As per the Act, the SPSU and every officer of the SPSU who is at default shall be punishable with fine which may extend up to ₹one lakh and in the case of a continuing default, with a further fine which may extend upto ₹5,000 for every day during which such default continues.

Moreover, 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 6.1.5** below provides the details of progress made by the five working PSUs<sup>8</sup> in finalisation of their annual accounts as on 30 September 2020.

**Table 6.1.5: Position relating to finalisation of accounts of working PSUs**

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
1.	Number of Working PSUs	5	5	5	5	5
2.	Number of accounts finalised during the year	2	3	6	8	2
3.	Number of accounts in arrears	20	22	21	18	21
4.	Number of Working PSUs with arrears in accounts	5	5	5	5	5
5.	Extent of arrears (numbers in years)	1 to 6	1 to 7	1 to 8	1 to 9	1 to 10

Source: Department records

<sup>8</sup> As on 30 September 2020, three PSUs finalised accounts upto 2017-18 (*Nagaland Industrial Development Corporation Limited; 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 6.1.5** 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 2019-20<sup>9</sup>, two PSUs<sup>10</sup> finalised two 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.

### **6.1.6 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: ₹7.26 crore (one PSU)} during the years for which accounts were not finalised as detailed in **Appendix 6.1.1**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred were properly accounted for and the purpose for which the amount was invested was achieved.

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.

### **6.1.7 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 2019-20 are shown in **Table 6.1.6**.

**Table 6.1.6: Details of budgetary support to PSUs**

Sl. No.	Particulars	(₹ in crore)					
		2017-18		2018-19		2019-20	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	1	0.42	0	0.00	0	0.00
2.	Loans given from budget	1	2.08	1	3.85	1	3.41
3.	Grants/Subsidy from budget	5	24.41	5	25.04	5	24.49
<b>Total Outgo (1+2+3)</b>			<b>26.91</b>		<b>28.89</b>		<b>27.90</b>
4.	Guarantees issued	1	2.08	1	3.85	1	3.41
5.	Guarantee Commitment	1	2.25	1	15.00	1	15.00

Source: Information as provided by the PSUs

<sup>9</sup> October 2019 to 30 September 2020

<sup>10</sup> Nagaland Industrial Raw Materials & Supply Corporation Limited (2017-18) and Nagaland State Mineral Development Corporation Limited (2017-18).

It can be seen from the **Table 6.1.6** above, the year-wise budgetary outgo to PSUs had decreased during 2019-20 by ₹0.99 crore as compared to previous year (2018-19). During all three years under reference, the significant portion of budgetary support ranging between 91 *per cent* (2017-18) and 87 *per cent* (2018-19) 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 2019-20, State Government issued guarantees of ₹3.41 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 2019-20 in absence of any demand from the State Government.

### **6.1.8 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 6.1.2**. The comparative details of working PSU turnover and State GDP for five years ending 2019-20 is shown in **Table 6.1.7**.

**Table 6.1.7: Details of working PSUs turnover *vis-à-vis* State GDP**

	(₹ in crore)				
Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Turnover <sup>11</sup>	6.23	6.61	6.48	6.70	6.78
State GDP	20,524.00	21,119.00	23,623.00	26,637.00	30,508.00
Percentage of Turnover to State GDP	0.03	0.03	0.03	0.03	0.02

Source: Information as provided by PSUs

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 6.1.7** above that during last five years (2015-20), the State GDP had grown by 48.65 *per cent* while the turnover of PSUs during the corresponding period had increased by 8.83 *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 GSDP, has decreased to 0.02 *per cent* due to rounding off of percentage figures to two decimal points.

#### **6.1.8.1 Key parameters**

Some other key parameters of PSUs performance as per their latest finalised accounts as on 30 September of the respective year are shown in **Table 6.1.8**.

<sup>11</sup> Turnover of working PSUs as per the latest finalised accounts as on 30 September of respective year

**Table 6.1.8: Key Parameters of PSUs**

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Debt	70.12	70.96	67.20	70.05	73.72
Turnover <sup>12</sup>	6.23	6.61	6.48	6.70	6.78
Debt/Turnover Ratio	11.26:1	10.74:1	10.37:1	10.46:1	10.78:1
Interest Payments <sup>13</sup>	1.97	2.38	2.06	2.08	2.06
Accumulated Profits/Losses	(49.28)	(73.80)	(78.50)	(66.38)	(68.62)

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. Though there was marginal growth in PSU-turnover for last five years, there was corresponding increase of debt of the PSUs except for 2017-18 which showed a marginal decrease, the remaining four years had increased DTR from the previous year.

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 2019-20 no PSU had earned profit as per their latest finalised accounts, the accumulated losses was ₹68.62 crore.

#### **6.1.8.2 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 2020 were ₹27.26 crore and ₹68.62 crore respectively (*Appendix 6.1.2*).

The accumulated losses (₹67.41 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 shown in **Table 6.1.9**.

<sup>12</sup> Turnover of working PSUs as per the latest finalised accounts as of 30 September of the respective year

<sup>13</sup> Interest payments of working PSUs as per the latest finalised accounts as of 30 September of the respective year

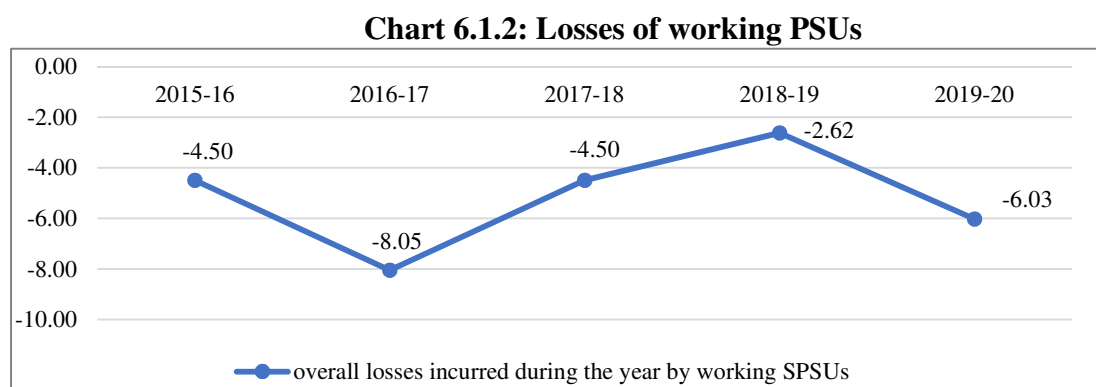
**Table 6.1.9: PSUs with erosion of paid-up capital**

(₹ 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	2017-18	1.60	10.33
Nagaland Hotels Limited	2014-15	0.40	13.65
Nagaland Handloom & Handicrafts Development Corporation Limited	2009-10	0.83	4.16
<b>Total</b>		<b>26.03</b>	<b>67.41</b>

Source: Department records

The Return on Equity (ROE)<sup>14</sup> 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 negative<sup>15</sup> due to the net loss (₹0.03 crore) incurred as per its latest finalised accounts.

The overall position of the aggregate losses incurred by working PSUs during 2015-16 to 2019-20 shown in **Chart 6.1.2**.



Source: Latest finalised accounts of the PSUs as on 30 September of the respective years

As can be noticed from the **Chart 6.1.2** above, the losses of working PSUs has increased by 130 per cent in 2019-20 as compared to 2018-19 and the reason mainly due to deterioration in the operational results of the PSUs. The overall losses of working PSUs are basically due to less turnover of the PSUs from its operation. The PSUs mostly depend on the State Government grants to meet the salary expenditure of its employees since they have less or no income from operation.

### 6.1.9 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

<sup>14</sup> 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

<sup>15</sup> (-) 125 per cent



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 2019-20, as per their latest finalised accounts out of five working PSUs where State Government had made direct investment, all five PSUs incurred losses. On the basis of return on historical value, the State Government's investment in PSUs had eroded by 2.23 per cent during 2019-20. As per the RORR where the PV of investment is considered, the State Government investment eroded by 1.05 per cent as shown in **Appendix 6.1.3**. This difference in the percentage of investment erosion was on account of the adjustment made in the investment amount for time value of money.

### **6.1.10 Impact of Audit Comments on Annual Accounts of PSUs**

During October 2019 to September 2020, two working Companies forwarded one audited accounts each to the Accountant General (Audit), Nagaland. Both Accounts were issued 'non-review certificates'. The Statutory Auditors had given qualified certificates to both the Accounts. The details of aggregate money value of comments of statutory auditors and C&AG during last three years is shown in **Table 6.1.10**.

**Table 6.1.10: Impact of audit comments on working Companies**

(₹ in crore)

Sl. No.	Particulars	2017-18		2018-19		2019-20	
		No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1.	Increase in loss	2	5.74	3	4.88	2	1.63
2.	Decrease in profit	0	0	2	0.74	0	0
3.	Errors of classification	0	0.29	1	3.19	1	0.06
<b>Total</b>		<b>2</b>	<b>6.03</b>	<b>6</b>	<b>8.81</b>	<b>3</b>	<b>1.69</b>

Source: Comments issued to PSUs by statutory auditors and C&AG

From the above **Table 6.1.10**, it can be noticed that the money value of comments of statutory auditors and C&AG has decreased from ₹6.03 crore (2017-18) to ₹1.69 crore (2019-20) indicating deficiencies in complying with the requirements of 'Generally Accepted Accounting Principles' (GAAP) and Accounting Standards (AS) by the PSUs.

### **6.1.11 Follow up action on Audit Reports**

#### **6.1.11.1 Submission of Explanatory notes**

The Report of the C&AG 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 C&AG 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 Reports<sup>16</sup> for the years from 2013-14 to 2018-19 included four compliance audit paragraphs<sup>17</sup> on PSUs in the PSU Chapters of these Reports. As per the status available as on 30 September 2020, no explanatory notes were pending to be received from the Administrative Departments concerned against these compliance audit paragraphs.

#### **6.1.11.2 Discussion of Audit Reports by COPU**

The status as on 30 September 2020 of Performance Audits and paragraphs on the State PSUs that appeared in State Audit Reports and discussed by the COPU was as under:

**Table 6.1.11**

<b>Period of Audit Report</b>	<b>Number of reviews/ paragraphs as on September 2020</b>	
	<b>Paragraphs appeared in Audit Report</b>	<b>Paragraphs discussed</b>
2013-14	1	1
2014-15	0	-
2015-16	0	-
2016-17	1	Nil
2017-18	0	-
2018-19	2	Nil
<b>Total</b>	<b>4</b>	<b>1</b>

*Source: Audit Reports of the respective years*

During the period 2013-14 to 2018-19, four paragraphs relating to PSUs had appeared in the State Audit Reports against which three paragraph was pending for discussion by COPU (January 2022).

#### **6.1.12 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.

---

<sup>16</sup> 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 and Audit Report 2018-19 was placed on 5 August 2021

<sup>17</sup> One compliance audit paragraph appeared in each of the State Audit Report for the year 2013-14 and 2016-17 and two paragraph appeared in 2018-19