

## Chapter V: Functioning of State Public Sector Enterprises

This Chapter discusses the financial performance of the State Public Sector Enterprises (*viz. Government Companies, Statutory Corporations and Government Controlled Other Companies*). Impact of significant comments issued as a result of supplementary audit of the financial statements of these State Public Sector Enterprises (SPSEs) conducted by the Comptroller and Auditor General of India (CAG) for the year 2022-23 (or of earlier years which were finalised during the current year) has also been discussed.

### 5.1 Definition of Government Companies

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 of Audit

Audit of *Government Companies* and *Government Controlled Other Companies* is conducted by the CAG of India 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 thereunder. 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 the right to conduct a supplementary audit of the company's financial statements. The statutes governing some Statutory Corporations require their accounts to be audited only by CAG.

### 5.3 SPSEs and their contribution to the GSDP of the State

SPSEs consist of State Government owned Companies set up under the Companies Act, 2013 and Statutory Corporations set up under the statutes enacted by the Parliament and State Legislature. SPSEs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31 March 2023, there were seven<sup>13</sup> SPSEs (all Government Companies

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<sup>13</sup> *The analysis of the financial position and operational performance of one working SPSE at serial no. 5 (viz. Kohima Smart City Development Limited) has not been covered in the present Report due to non-submission of the required information and First Accounts by this SPSE.*

including two 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. Kohima Smart City Development Limited (KSCDL)
<b>Non-working SPSEs</b>	1. Nagaland Sugar Mills Company Limited (NSMC)
	2. Nagaland Industrial Raw Materials and Supply Corporation Limited (NIRMSC)

Source: Information provided by the SPSEs

None of the SPSEs in Nagaland are listed on the stock exchange.

The ratio of turnover of the SPSEs to the Gross State Domestic Product (GSDP) shows the extent of activities of the SPSEs in the State economy. Turnover of working SPSEs and GSDP for a period of three years ending 31 March 2023 are shown in **Table 5.2**.

**Table 5.2: Turnover of SPSEs vis-à-vis GSDP of Nagaland**

Particulars	₹ in crore)		
	2020-21	2021-22	2022-23
SPSEs-Turnover <sup>14</sup>	6.52	6.05	5.92
GSDP	29,831.64	31,912.54	35,933.96
Percentage of Turnover to GSDP	0.02	0.02	0.02

Source: Compilation based on turnover figures as per latest finalised accounts of SPSEs and GSDP figures as per Economic and Statistical Department, GoN

It can be seen from **Table 5.2** above that during last three years (2020-21 to 2022-23), the contribution of SPSEs-turnover to GSDP was meagre and constant at 0.02 per cent. Based on the information provided by four working SPSEs<sup>15</sup>, the State Government had investment of ₹28.87 crore (Equity ₹28.87 crore and long-term loans: Nil) in these working SPSEs as on 31 March 2023. In addition, the State Government (Government of Nagaland) had also provided budgetary assistance of ₹29.54 crore to these four working SPSEs by way of Grants (Revenue) during 2022-23.

## 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 the last three years is given in **Table 5.3**.

<sup>14</sup> As per the latest finalised accounts of working SPSEs as on 30<sup>th</sup> September of respective years

<sup>15</sup> Excluding one SPSE (Kohima Smart City Development Limited), which has not finalised its first Accounts.

**Table 5.3: Equity and Loans<sup>16</sup> outstanding as per the State Finance Accounts vis-à-vis records of SPSEs for last three years**

(₹ in crore)

Year	2020-21			2021-22			2022-23		
	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 <sup>17</sup>	111.05	34.34	76.71	111.05	34.34	76.71	111.05	34.34	76.71
Loans	0.48 <sup>18</sup>	0.81	0.33	0.48	0.81	0.33	0.48	0.00	0.48

Source: Finance Accounts and records of SPSEs

It can be seen from **Table 5.3** above, that equity figures as per the State Finance Accounts and SPSE-records remained unchanged during all the three years. Thus, there was a difference of ₹76.71 crore in the State's equity investment during 2020-21 to 2022-23 as per two sets of records. The difference in Equity investment occurred in respect of all six SPSEs<sup>19</sup> where State Government had made direct investment. As regards SPSE-Loans provided by the State Government, the difference in the loan figures as per the State Finance Accounts and SPSE-records increased from ₹0.33 crore (2021-22) to ₹0.48 crore (2022-23). Analysis of reasons for difference in loan figures was, however, not possible as the Finance Accounts did not provide the SPSE-wise details of the loans provided by the State Government.

The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in a time-bound manner.

## 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 the past three years are given in **Table 5.4**.

**Table 5.4: Details regarding annual budgetary support to SPSEs**

(₹ in crore)

Sl. No.	Particulars	2020-21		2021-22		2022-23	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	0	0.00	0	0.00	0	0.00
2.	Loans given from budget	1	0.62	1	4.28	0	0.00
3.	Grants/Subsidy from budget	5	26.76	4	28.30	4	29.54
<b>Total</b>		<b>6</b>	<b>27.38</b>	<b>5</b>	<b>32.58</b>	<b>4</b>	<b>29.54</b>

Source: Figures furnished by the SPSEs

<sup>16</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 (2022-23).

<sup>17</sup> Including 'Share application money pending allotment'.

<sup>18</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.

<sup>19</sup> Excluding one working SPSE (Kohima Smart City Development Limited), which has not furnished the required information and had also not submitted its first Accounts since inception.

It can be seen from **Table 5.4** above that during last three years ending 2022-23, the budgetary support provided by State Government to SPSEs ranged between ₹27.38 crore (2020-21) and ₹32.58 crore (2021-22). During 2022-23, the State Government provided budgetary support of ₹29.54 crore by way of grant (revenue) to four SPSEs to meet the establishment expenditure. More than 81 per cent (₹23.99 crore) of this grant was provided to Nagaland State Mineral Development Corporation Limited (₹12.98 crore) and Nagaland Handloom and Handicrafts Development Corporation Limited (₹11.01 crore). Further, the other two SPSEs, which received the budgetary support of ₹4.75 crore (Nagaland Hotels Limited) and ₹0.80 crore (Nagaland Industrial Development Corporation Limited) respectively had negative net worth due to complete erosion of their equity by the accumulated losses. Thus, the grant (₹5.55 crore) provided to the above mentioned two SPSEs with negative net worth was unproductive and a drain on the State exchequer.

## 5.6 Investment in SPSEs and Budgetary Support

### 5.6.1 Equity holding and Loans in SPSEs

The State's investment in its SPSEs was by way of Equity Share Capital and Long Term Loans. The sector-wise Total Equity, Equity Contribution by State Government and Long Term Loans including the loans given by State Government in six SPSEs as on 31 March 2023 is shown in **Table 5.5**.

**Table 5.5: Sector-wise investment in SPSEs**

Particulars	Investment					Percentage of Total Equity and Long Term Loans
	Total Equity	State Government Equity	Total Long Term Loans	State Government Loans	Total Equity and Long Term Loans	
(A)	(B)	(C)	(D)	(E)	F= (B+D)	G=F/Total *100
<b>Finance Sector</b>						
Nagaland Industrial Development Corporation Ltd.	23.20	18.47	59.45	0	82.65	67.77
<b>Manufacturing Sector</b>						
Nagaland State Mineral Development Corporation Ltd.	1.60	1.60	0	0	1.60	1.31
Nagaland Sugar Mills Company Limited*	5.89	4.24	6.08	0	11.97	9.81
Nagaland Industrial Raw Materials & Supply Corporation Limited*	1.23	1.23	0.05	0	1.28	1.05
<b>Service Sector</b>						
Nagaland Hotels Ltd.	2.35	1.95	3.26	0	5.61	4.60
<b>Other</b>						
Nagaland Handloom & Handicrafts Development Corporation Ltd.	7.99	6.85	10.86	0	18.85	15.46
<b>Total</b>	<b>42.26</b>	<b>34.34</b>	<b>79.70</b>	<b>0</b>	<b>121.96</b>	<b>100.00</b>

Source: Information provided by the SPSEs

It can be seen from **Table 5.5** above that majority of State's investment (67.77 per cent) as on 31 March 2023 was in the Finance Sector SPSEs. Further, the entire State

Government investment (₹34.34 crore) was in the equity of SPSEs, which constituted 28.16 per cent of the total investment (₹121.96 crore) by Government and others in SPSEs in the form of equity and loans.

### 5.6.2 Disinvestment, Restructuring and Privatisation

During the year 2022-23, there was no case of disinvestment, restructuring and privatisation of working as well as non-working SPSEs.

## 5.7 Returns from SPSEs

### 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 shown in **Table 5.6**.

**Table 5.6: Details of profits earned and dividend paid by working SPSEs**

Year	2020-21	2021-22	2022-23
Number of profit earning working SPSEs	1	1	1
Aggregate profit earned (₹ in crore)	2.50	2.50	0.46
Dividend paid	-	-	-

Source: Figures as provided by the SPSEs

As can be seen from **Table 5.6** above, only one working SPSE (Nagaland State Mineral Development Corporation Limited) earned profits of ₹2.50 crore<sup>20</sup> (2020-21 and 2021-22) which declined to ₹0.46 crore (2022-23). However, this profit earning SPSE has not declared any dividend.

## 5.8 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 shown in **Table 5.7**.

**Table 5.7: Position of outstanding Long Term Loans of the SPSEs**

Particulars	(₹ in crore)		
	2020-21	2021-22	2022-23
Total Loans outstanding (State Government and Others)	77.76	77.98	84.74
State Government Loans outstanding	0.81	0.81	0.00
Interest on Total Loans <sup>21</sup>	1.62	1.13	0.86

Source: As per latest finalised accounts of SPSEs

It can be seen from **Table 5.7** above that during the three years ending 2022-23, the total long term borrowings of the SPSEs from all sources registered an increase of ₹6.98 crore (8.98 per cent) from ₹77.76 crore (2020-21) to ₹84.74 crore (2022-23). However, the SPSEs had no State Government borrowings during 2022-23 as compared to the unpaid borrowings of ₹0.81 crore during each of the previous two years. Further, one SPSE (Nagaland State Mineral Development Corporation Limited) did not have

<sup>20</sup> The Company (Nagaland State Mineral Development Corporation Limited) earned profit (₹2.50 crore) during 2020-21 as per its latest finalised accounts (2018-19) and it did not finalise any Accounts during 2021-22.

<sup>21</sup> Interest figures as available in the latest finalised accounts of respective SPSEs

any outstanding long term borrowings during 2022-23 as per its latest finalised accounts.

## 5.9 Financial Performance of SPSEs

### 5.9.1 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 2022-23, the overall capital employed in respect of four working SPSEs<sup>22</sup> as per their latest finalised accounts was ₹32.83 crores as shown in **Table 5.8**.

**Table 5.8: Details of Capital Employed in working SPSEs as per latest finalised accounts**

(₹ in crore)				
Sl. No.	Name of PSU	Latest finalised accounts	Capital employed	ROCE
1.	Nagaland Industrial Development Corporation Ltd.	2021-22	22.63	-4.35
2.	Nagaland State Mineral Development Corporation Ltd.	2020-21	8.43	0.46
3.	Nagaland Hotels Ltd.	2017-18	-8.72	-2.84
4.	Nagaland Handloom & Handicrafts Development Corporation Ltd.	2019-20	10.49	-0.36
<b>Total</b>			<b>32.83</b>	<b>-</b>

Source: As per latest finalised accounts of SPSEs

Further, out of four working SPSEs, only one SPSE<sup>23</sup> had positive ROCE.

### 5.9.2 Return on Equity (RoE)

Return on Equity (RoE) is a measure of financial performance to assess how effectively a company's assets are being used to create profits. RoE is calculated by dividing net income by shareholders' fund. It is expressed as a percentage and can be calculated for any company if net income and shareholders' fund are both positive numbers.

During 2022-23, only one working SPSE<sup>24</sup> had positive RoE as per its latest finalised accounts (2020-21) as on 30 September 2023 (**Appendix 5.1**).

### 5.9.3 Rate of Return 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

<sup>22</sup> Excluding one SPSE (Kohima Smart City Development Limited), which has not submitted its First Accounts.

<sup>23</sup> Nagaland State Mineral Development Corporation Limited (ROCE: (+) 5.46 per cent)

<sup>24</sup> Nagaland State Mineral Development Corporation Limited (Net profit for 2020-21 was ₹0.46 crore)



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), is 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.

State Government infused funds in the form of equity, loans (interest free) and revenue grants/subsidies in six SPSEs<sup>25</sup> since their inception. During 2022-23, three working SPSEs incurred losses while one working SPSE earned profit. In addition, two non-working SPSEs earned an overall profit of ₹0.22 crore as per their latest finalised accounts (*Appendix 5.1*).

On the basis of return on historical value, the State Government's investment in PSEs had eroded by (-) 3.04 *per cent* during 2022-23. As per the RORR where the PV of investment is considered, the State Government investment eroded by (-) 1.28 *per cent* as shown in *Appendix 5.2*. This difference in the percentage of investment erosion was on account of the adjustment made in the investment amount for time value of money.

## 5.10 SPSEs incurring Losses

### 5.10.1 Losses incurred

Out of four working SPSEs<sup>26</sup> in Nagaland, three had incurred losses as per their latest finalised accounts.

**Table 5.9: Number of working SPSEs that incurred losses during 2020-21 to 2022-23**

(₹ in crore)

Year	Number of loss making SPSEs	Net loss for the year	Accumulated loss	Net Worth
2020-21	3	(-) 8.80	(-) 77.31	(-) 52.46
2021-22	3	(-) 8.34	(-) 82.89	(-) 58.04
2022-23	3	(-) 8.41	(-) 87.76	(-) 54.22

Source: As per latest finalised accounts of SPSEs

From **Table 5.9** above, it can be seen that during the three years under reference, the accumulated losses of loss incurring SPSEs showed an increasing trend with an increase from ₹77.31 crore to ₹87.76 crore. During 2022-23, 57.91 *per cent* (₹4.87 crore) of total working SPSE-losses (₹8.41 crore) were attributed to Nagaland Industrial Development Corporation Limited.

### 5.10.2 Erosion of capital in Government Companies

The aggregate paid-up capital and accumulated losses of four working SPSEs<sup>27</sup> as per their latest finalised accounts as on 30 September 2023 were ₹35.14 crore<sup>28</sup> and

<sup>25</sup> Excluding one SPSE (Kohima Smart City Development Limited), for which no information is available as it has not finalised/submitted any Accounts since inception (March 2017).

<sup>26</sup> Excluding one SPSE (Kohima Smart City Development Limited), which has not finalised its first Accounts.

<sup>27</sup> Excluding one SPSE (Kohima Smart City Development Limited), which has not finalised its first Accounts.

<sup>28</sup> Including share application money.

₹80.93 crore respectively (**Appendix 5.1**). Analysis of investment and accumulated losses of these SPSEs revealed that the accumulated losses amounting to ₹81.45 crore of two working SPSEs had completely eroded their paid-up capital (₹25.55 crore) as per their latest finalised accounts as shown in **Table 5.10**.

**Table 5.10: PSUs with erosion of paid-up capital**

(₹ in crore)			
Name of PSU	Latest finalised accounts	Paid up capital	Accumulated losses
Nagaland Industrial Development Corporation Ltd., Dimapur	2021-22	23.20	(-)59.36
Nagaland Hotels Ltd., Dimapur	2017-18	2.35*	(-)22.09
<b>Total</b>	--	<b>25.55</b>	<b>(-)81.45</b>

Source: As per latest finalised accounts of SPSEs

\*including share application money pending allotment (₹1.53 crore)

The cash receipt and expenses of these two SPSEs whose net worth have eroded is detailed below.

**Table 5.11: Cash receipts and expenses of PSUs for the year 2022-23**

Name of PSU	Revenue from operations	Cash Expenses			Revenue grant from State
		Operational expenses	Employees' salaries & benefits	Total	
Nagaland Industrial Development Corporation Ltd., Dimapur	1.72	1.20	6.39	7.59	0.80
Nagaland Hotels Ltd., Dimapur	6.02	2.15	8.02	10.17	4.75

It can be seen from above Table that the main reason for loss in these two SPSEs is the increase in expenditure towards employees' salaries and benefits. During 2022-23, the State Government provided revenue grant of ₹4.75 crore (Nagaland Hotels Limited) and ₹0.80 crore (Nagaland Industrial Development Corporation Limited).

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

### 5.11 Audit of State Public Sector Enterprises (SPSEs)

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.

### 5.12 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 statutory auditors of four out of five working SPSEs for the year 2022-23 were appointed by the CAG up to September 2023.

### 5.13 Submission of accounts by State Public Sector Enterprises

#### 5.13.1 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 placement of its audited Annual Accounts in the Annual General Meeting<sup>29</sup> (AGM). As soon as may be after such preparation, the Annual Report must be laid before the State Legislature, together with a copy of the Audit Report and comments of the CAG upon or as supplement to the Audit Report. This mechanism provides the necessary Legislative control over the utilisation of public funds invested in the Companies from the Consolidated Fund of State.

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 Statements for the financial year along with the CAG's supplementary comments thereon have 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.

The annual accounts of various SPSEs (all Government companies) were pending as on 30 September 2023, as detailed in the following paragraph.

#### 5.13.2 Timeliness in preparation of accounts by SPSEs

As on 31 March 2023, there were seven SPSEs (including two non-working) under the purview of CAG's audit. Of these, accounts for the year 2022-23 were due from all the seven SPSEs including two closed SPSEs. However, none of these SPSEs finalised and submitted their accounts for the current year 2022-23 for audit by CAG as on 30 September 2023. As on 30 September 2023, total 42 accounts of seven SPSEs were in arrears, as shown in **Table 5.12** for various reasons.

**Table 5.12: Details of arrears of accounts of SPSEs**

Sl. No.	Name of SPSE	Accounts finalised up to	Number of accounts in arrear
<b>Working SPSEs</b>			
1.	Nagaland Industrial Development Corporation Ltd.	2021-22	1
2.	Nagaland State Mineral Development Corporation Ltd.	2020-21	2

<sup>29</sup> In case of the first AGM, it shall be held within a period of nine months from the date of closing of the first financial year of the company and in any other case within a period of six months, from the date of closing of the financial year *i.e.* 30 September.

Sl. No.	Name of SPSE	Accounts finalised up to	Number of accounts in arrear
3.	Nagaland Hotels Ltd.	2017-18	5
4.	Nagaland Handloom & Handicrafts Development Corporation Ltd.	2019-20	3
5.	Kohima Smart City Development Limited	-	6
<b>Non-working SPSEs</b>			
6.	Nagaland Industrial Raw Materials and Supply Corporation Limited	2018-19	4
7.	Nagaland Sugar Mills Company Limited	2001-02	21

Source: As per latest finalised accounts of SPSEs

Details of arrears in submission of accounts of SPSEs are shown in **Table 5.13**.

**Table 5.13: Details of arrears in submission of accounts**

Particulars		SPSEs	Number of Accounts
Total number of Companies under the purview of CAG's audit as on 31 March 2023		7	-
Less: New Companies from which accounts for 2022-23 were not due		0	0
Number of Companies from which accounts for 2022-23 were due		7	7
Number of Companies which presented the accounts for the year 2022-23 for CAG's audit by 30 September 2023		0	0
<b>Number of accounts in arrear</b>		<b>7</b>	<b>42</b>
Break-up of arrears	(i) Under Liquidation	-	-
	(ii) Defunct	2	25
	(ii) Others (working SPSEs)	5	17
Age-wise analysis of arrears against Working SPSEs category	One year (2022-23)	1	1
	Two years (2021-22 and 2022-23)	1	2
	Three years and more	3	14

Source: As per latest finalised accounts of SPSEs

As could be seen from **Table 5.12 and 5.13**, none of the five working SPSEs had finalised their accounts for the current year (2022-23). As on 30 September 2023, the five working SPSEs had arrear of a total of 17 Accounts ranging from one to six years. As regards non-working SPSEs, both the non-working SPSEs<sup>30</sup> had a backlog of 25 Accounts as on 30 September 2023.

The Administrative Departments, which have the responsibility to oversee the activities of the SPSEs, have to ensure that the SPSEs finalise and adopt their accounts within the stipulated period. In view of the position of arrears of accounts indicated above, the actual contribution of SPSEs to the GSDP for the year 2022-23 could not be ascertained and their contribution to State exchequer could not be reported to the State Legislature.

The Principal Accountant General (Audit), Nagaland had been pursuing with the administrative Departments<sup>31</sup> and concerned SPSEs<sup>32</sup> for liquidating the arrears of accounts of SPSEs. However, the State Government and the SPSEs concerned could

<sup>30</sup> Nagaland Industrial Raw Materials Supply Corporation Limited (4 Accounts) and Nagaland Sugar Mills Company Limited (21 Accounts).

<sup>31</sup> Vide DO letter No. Comm/PSU/Policy/Vol.III/2018-19/6-8 dated 20 April 2023.

<sup>32</sup> Vide letter No. Comm/PSU/Policy/Vol.III/2018-19/9-11 dated 20 April 2023.

not address the issue to clear pendency of accounts of the SPSEs in a time-bound manner.

## **5.14 CAG's oversight - Audit of accounts and supplementary audit**

### **5.14.1 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 renamed as National Financial Reporting Authority<sup>33</sup>. 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.

### **5.14.2 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
- supplement or comment upon the Statutory auditor's report under Section 143 (6) of the Companies Act, 2013.

### **5.14.3 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 an 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

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<sup>33</sup> Effective from 01 October 2018.

on such review, significant audit observations, if any, are reported under Section 143 (6) of the Companies Act, 2013 to be placed before the AGM.

## **5.15 Result of CAG's oversight role**

### **5.15.1 Audit of accounts of SPSEs**

Three Financial Statements for the previous years (2019-20, 2020-21 and 2021-22) were received from two SPSEs during the period 01 October 2022 to 30 September 2023.

Two Financial Statements of two SPSEs were reviewed in audit by the CAG and Non-Review Certificate was issued for one SPSE. The results of the review are detailed below:

### **5.15.2 Amendment of Financial Statements**

During 2022-23, there was no case of SPSEs amending their Financial Statements before laying the same in the AGM.

### **5.15.3 Revision of Auditors Report**

During 2022-23, there was no case of revision of statutory auditors' report as a result of supplementary audit of the Financial Statements conducted by the CAG.

## **5.16 Conclusion**

As on 31 March 2023, there were seven SPSEs (all Government companies), which included two non-working. SPSEs did not adhere to the prescribed timeline regarding finalisation and submission of their Annual Financial Statements. As on 30 September 2023, total 42 accounts of seven SPSEs were in arrears.

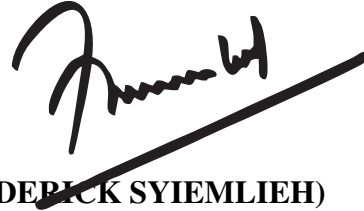
Out of five working SPSEs, three had incurred losses aggregating to ₹8.41 crore while only one SPSE earned a profit of ₹0.46 crore as per their latest finalised accounts. However, the profit earning SPSE did not declare any dividend during 2022-23. Further, one SPSE did not finalise and submit the Annual Accounts for supplementary audit since its inception (March 2017).

The accumulated losses (₹81.45 crore) of two working SPSEs had completely eroded their paid-up capital of ₹25.55 crore as per their latest finalised accounts which is a cause for concern and the State Government needs to either improve their working or review the working of these SPSEs to decide on continuing their operations.

## **5.17 Recommendations**

- The State Government may consider initiating liquidation process of these two non-working SPSEs which are neither contributing to the State economy nor meeting the intended objectives of their formation.
- The State Government may analyse the reasons of losses in those SPSEs whose net worth has been eroded and initiate steps to make their operations efficient and profitable or consider continuance of their operations.

- The State Government may impress upon the Managements of the SPSEs to ensure timely submission of their Financial Statements as 42 accounts of seven SPSEs were in arrears. In the absence of finalised accounts, Government investments in such SPSEs remains outside the oversight of the State Legislature.



**Kohima**  
**Dated: 12 April 2024**

**(FREDERICK SYIEMLIEH)**  
**Principal Accountant General (Audit)**

**Countersigned**



**New Delhi**  
**Dated: 12 April 2024**

**(GIRISH CHANDRA MURMU)**  
**Comptroller and Auditor General of India**