

CHAPTER-VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 *Overview of Government companies*

7.1.1 *Introduction*

As on 31 March 2007, there were six Government companies (five working companies and one non working company⁵¹) and nine departmentally managed Government commercial and Quasi-commercial undertakings with no change in position from that as on 31 March 2006 under the control of the State Government. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per the provisions of Section 619 (4) of the Companies Act, 1956. The accounts of departmentally managed Government commercial and quasi-commercial undertakings are audited solely by the CAG under Section 13 of CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Working Public Sector Undertakings (PSUs)

7.1.2 *Investment in working PSUs*

As on 31 March 2007, the total investment in five working PSUs (all Government companies) was Rs.59.74⁵² crore (equity:Rs.21.05 crore, share application money:Rs.2.34 crore and long term loans⁵³: Rs.36.35 crore) as against five working PSUs with a total investment of Rs.61.49 crore (equity Rs.20.90 crore, share application money Rs.2.05 crore and long term loans: Rs.38.54 crore) as on 31 March 2006. The analysis of investment in working PSUs is given in the following paragraphs:

⁵¹ Non-working companies are those that are in the process of liquidation/closure/ merger, etc.

⁵² State Government investment was Rs.28.26 crore (others: Rs. 31.48 crore) whereas the figure as per finance account 2006-07 was Rs.54.63 crore. The difference is under reconciliation.

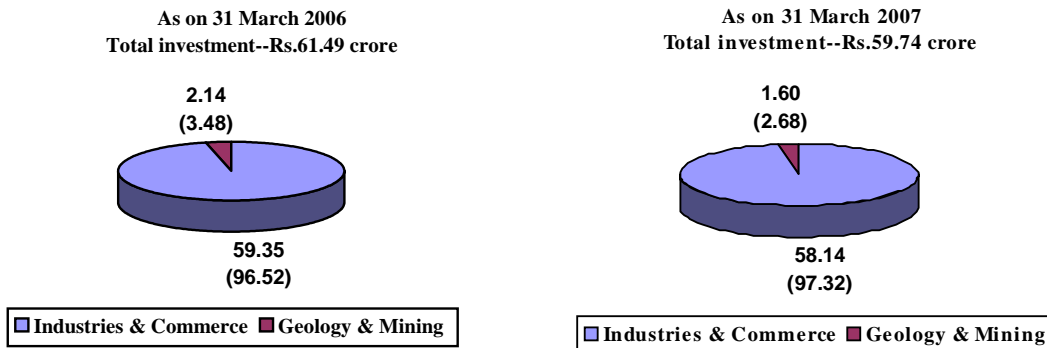
⁵³ Long-term loans mentioned in paras 7.1.2 and 7.1.3 are excluding interest accrued and due on such loans.

7.1.3 Sector-wise investment in working Government companies

The investment (equity and long term loans) in working PSUs in various sectors and percentage thereof at the end of 31 March 2006 and 31 March 2007 are indicated in the pie charts as below:

Sector-wise investment in working Government companies

(Figures in bracket indicate percentage of investment)



The total investment in working Government companies at the end of March 2006 and 2007 was as follows:

Table 7.1

(Rupees in crore)

| Year | Number of working Government companies | Investment in working Government companies | | | |
|---------|--|--|-------------------------|-------|-------|
| | | Equity | Share application money | Loan | Total |
| 2005-06 | 5 | 20.90 | 2.05 | 38.54 | 61.49 |
| 2006-07 | 5 | 21.05 | 2.34 | 36.35 | 59.74 |

Investment in the current year has decreased over the previous year mainly due to decrease in loans in PSUs in the Industries and Commerce sector.

As on 31 March 2007, the total investment in working Government companies comprised 39.15 per cent of equity capital and 60.85 per cent of loans as compared to 37.32 per cent and 62.68 per cent respectively as on 31 March 2006.

The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in **Appendix-7.1**.

7.1.4 Budgetary outgo, grants/subsidies, guarantees and waiver of dues and conversion of loans into equity

The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of the working Government companies are given in **Appendix-7.1 and 7.3**.

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the State Government to working Government companies for the three years upto 2006-07 are given below:

Table-7.2

(Rupees in crore)

| | 2004-2005 | | 2005-06 | | 2006-07 | |
|----------------------------------|---------------------|-------------|---------------------|--------------|---------------------|-------------|
| | Number of companies | Amount | Number of companies | Amount | Number of companies | Amount |
| Equity capital outgo from budget | 2 | 0.60 | 2 | 0.50 | 2 | 0.45 |
| Loans given from budget | --- | --- | 1 | 4.34 | -- | -- |
| Grants/Subsidy towards | | | | | | |
| (i)Projects/Programmes/Schemes | --- | --- | 3 | 3.34 | 3 | 5.34 |
| (ii)Other subsidy | --- | --- | 1 | 2.00 | --- | --- |
| (iii) Total subsidy | 4 | 6.22 | 3 | 5.34 | 3 | 5.34 |
| Total outgo | 4 | 6.82 | 3 | 10.18 | 3 | 5.79 |

During the year 2006-07, the State Government guaranteed loans aggregating Rs.5.28 crore obtained by one working Government company (viz., Nagaland Industrial Development Corporation Limited). At the end of the year, no guarantees were outstanding against any PSU.

7.1.5 Finalisation of accounts by working Government companies

The accounts of the Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619 B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. These are also to be laid before the Legislature within nine months from the end of the financial year.

However, as can be seen from **Appendix-7.2**, none of the five working Government companies had finalised their accounts for the year 2006-07 within the stipulated period.

The accounts of all five working Government companies were in arrears for periods ranging from nine to 26 years as on 30 September 2007, as detailed in **Table 7.3**.

Table 7.3

| Sl. No. | Name of Government companies | Year from which accounts are in arrears | Number of years for which accounts are in arrears | Reference to serial number of Appendix-7.2 |
|---------|---|---|---|--|
| 1. | Nagaland Industrial Development Corporation Ltd., Dimapur | 1998-99 to 2006-07 | 9 | A1 |
| 2. | Nagaland Industrial Raw Materials & Supply Corporation Ltd., Dimapur | 1981-82 to 2006-07 | 26 | A3 |
| 3. | Nagaland Handloom & Handicrafts Development Corporation Ltd., Dimapur | 1984-85 to 2006-07 | 23 | A2 |
| 4. | Nagaland Hotel Ltd | 1988-89 to 2006-07 | 19 | A4 |
| 5 | Nagaland State Mineral Development Corporation Ltd., Kohima | 1996-97 to 2006-07 | 11 | A5 |

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments of the Government were apprised quarterly by the Accountant General regarding arrears in finalisation of accounts, no effective measures had been taken by the Government, and as a result, the net worth of these companies could not be assessed in audit.

7.1.6 Financial position and working results of working PSUs

The summarised financial results of working PSUs (all Government companies) as per their latest finalised accounts are given in **Appendix-7.2**.

According to the latest finalised accounts of five Government companies, three companies had incurred an aggregate loss of Rs.1.63 crore.

7.1.7 Loss incurring companies

Despite poor performance, the State Government continued to provide financial support to three⁵⁴ loss making companies in the form of grants and subsidy. According to available information, the total financial support so provided by the State Government by way of grants and subsidy during 2006-07 to these companies amounted to Rs.5.34 crore (**Appendix-7.3**).

⁵⁴ Nagaland Industrial Development Corporation Ltd., Nagaland Industrial Raw Materials and Supply Corporation Ltd. and Nagaland Handloom and Handicrafts Corporation Ltd.

7.1.8 Return on capital employed

As per the latest finalised accounts, the capital employed⁵⁵ worked out to Rs.19.79 crore in four companies and total return⁵⁶ thereon amounted to Rs.0.95 crore⁵⁷. The details of capital employed and total return on capital employed in case of working Government companies are given in **Appendix-7.2**.

Non working Public Sector Undertakings (PSUs)

7.1.9 Investment in non-working PSU

As on 31 March 1996⁵⁸ the paid-up capital in one non-working PSU (Government company) was Rs.4.96 crore. The company was closed on 30 September 2001 and its accounts are in arrears since 1978-79.

Results of audit by the Comptroller and Auditor General of India

7.1.10 Persistent irregularities and system deficiencies in financial matters of PSUs

The following persistent irregularities and system deficiencies in financial matters of the companies had been repeatedly pointed out during the course of the audit of their accounts but no corrective action had been taken by these companies so far:

- The accounts are not finalised in time.
- Most of the companies did not hold the Meetings of its Board of Directors' regularly as required under Section 285 of the Companies Act, 1956. Major decisions are often taken without the approval of the Board of Directors.
- The returns required to be submitted under the Companies Act, 1956 are not submitted in time.

7.1.11 Internal Audit/Internal Control

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including the internal audit/internal control system followed by Government companies and to identify areas which need improvement in the companies audited by them in accordance with the directions issued by the CAG to them under section 619(3) (a) of the Companies Act, 1956.

⁵⁵ Capital employed represents net fixed assets (including capital work in progress) plus working capital except in finance Companies where it represents a mean of aggregate of opening and closing balances of paid up capital, free reserves, bonds deposit and borrowings (including re-finance).

⁵⁶ For calculating total return on capital employed interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

⁵⁷ Two companies viz., NHHDC Ltd. and NIRMSC Ltd. did not furnish the information.

⁵⁸ The company (Nagaland Sugar Mills Company Ltd., Dimapur) did not furnish any information since 1996-97 onwards.

The Statutory Auditors observed deficiencies in respect of internal audit system in case of five companies during the period upto 1995-96⁵⁹. The major recommendations/comments made by the Statutory Auditors were of the following nature:

- No internal control and internal audit system exists in PSUs.
- Maintenance of cost records are not satisfactory wherever necessary.

7.1.12 Response to inspection reports, draft paragraphs and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and departments concerned of the State Government through inspection reports. The Heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued upto September 2007 pertaining to six PSUs disclosed that 323 paragraphs relating to 34 inspection reports remained outstanding at the end of October 2007. Of these, six inspection reports containing 81 paragraphs had not been replied to for more than five years. Department wise break up of inspection reports and paras outstanding as on 30 October 2007, is given **Table 7.4**.

Table 7.4

| Sl. No. | Name of the Department | Number of PSUs | Number of outstanding Inspection Reports | Number of outstanding paragraphs | Year from which paragraphs outstanding |
|--------------|-------------------------|----------------|--|----------------------------------|--|
| 1 | Industries and Commerce | 5 | 26 | 239 | 1988-89 |
| 2 | Geology and Mining | 1 | 8 | 84 | 1987-88 |
| Total | | 6 | 34 | 323 | |

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports and Action Taken Notes for recommendations of COPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) the system of responding to audit observations is revamped.

7.1.13 Position of discussion of Commercial chapters of Audit Report by the Committee on Public Undertakings (COPU)

The following table indicates the details regarding number of reviews/paragraphs of commercial chapters of audit reports discussed by COPU at the end of 31 March 2007.

⁵⁹ Accounts were not submitted from 1994-95 onwards.

Table 7.5

| Period of Audit Report | Number of Reviews and Paragraphs | | | |
|------------------------|----------------------------------|-----------------|-----------|------------|
| | Appeared in Audit Report | | Discussed | |
| | Reviews | Paragraphs | Reviews | Paragraphs |
| 1 | 2 | 3 | 4 | 5 |
| 1994-1995 | --- | 1 ⁶⁰ | --- | 1 |
| 1995-1996 | 1 | 2 ⁶¹ | --- | 2 |
| 1996-1997 | 1 ⁶¹ | Nil | 1 | --- |
| 1997-1998 | 1 ⁶¹ | 1 ⁶¹ | 1 | 1 |
| 1998-1999 | 1 ⁶² | 1 ⁶² | 1 | 1 |
| 1999-2000 | --- | 1 ⁶³ | --- | 1 |
| 2000-2001 | --- | 1 ⁶⁴ | --- | 1 |
| 2001-2002 | 1 | 3 ⁶⁵ | --- | 3 |
| 2002-2003 | 1 | 1 | --- | --- |
| 2003-2004 | 1 | 1 | --- | --- |
| 2004-2005 | --- | 2 | --- | --- |
| 2005-2006 | -- | -- | -- | -- |
| Total | 7 | 14 | 3 | 10 |

Departmentally managed Government commercial/quasi-commercial undertakings

7.1.14 Proforma accounts of departmentally managed commercial/quasi-commercial undertakings

As on 31 March 2007, there were nine departmentally managed Government commercial and quasi-commercial undertakings.

A mention was made in paragraph 6.1.19 of the Report of the Comptroller and Auditor General of India for the year 2004-05 about delay in preparation of proforma accounts of these undertakings. Despite this, accounts were in arrears for periods ranging from three to 36 years as on 30 September 2007 as detailed in **Table 7.6**.

⁶⁰ Discussed in September 2000 but recommendation of COPU is awaited.

⁶¹ Discussed in June 2001 but recommendation of COPU is awaited.

⁶² Discussed in February 2002 but recommendation of COPU is awaited.

⁶³ Introductory para only.

⁶⁴ Introductory para only.

⁶⁵ Draft paragraphs except reviews discussed in October 2004 but recommendation of COPU is awaited.

Table 7.6

| Sl. No. | Name of the Department/Undertaking | Extent of arrears |
|----------------|--|--------------------------|
| 1. | Organisation of the Director of Food and Civil Supplies Department | 1971-72 to 2006-07 |
| 2. | Nagaland State Transport Department | 2004-05 to 2006-07 |
| 3. | Nagaland Power Department | 2006-07 |
| 4. | Farms under Agriculture Department | |
| | (i) Potato Seed Farm, Kuthur | 1999-2000 to 2006-07 |
| | (ii) Medium size Seed farm, Merapani | 2001-02 to 2006-07 |
| | (iii) Seed Farm, Tizit | 2000-01 to 2006-07 |
| 5. | Changki Valley Fruit Preservation Factory | 1987-88 to 2006-07 |
| 6. | Timber Treatment and Seasoning Plant, Dimapur | 1998-99 to 2006-07 |
| 7. | Government Cottage Industries Emporia, Kohima | 1979-80 to 2006-07 |
| 8. | Farms under Veterinary and Animal Husbandry Department | |
| | (i) Cattle Breeding Farm, Medziphema | 1998-99 to 2006-07 |
| | (ii) Cattle Breeding farm, Tuensang | 1998-99 to 2006-07 |
| | (iii) Cattle Breeding Farm, Aliba | 1998-99 to 2006-07 |
| | (iv) State Cattle Breeding Farm, Lerie | 1993-94 to 2006-07 |
| | (v) Chick Rearing Centre (with Hatchery Unit), Mokokchung | 1998-99 to 2006-07 |
| | (vi) Chick Rearing Centre (with Hatchery Unit), Dimapur | 1998-99 to 2006-07 |
| | (vii) Chick Rearing Centre, Tuensang | 1985-86 to 2006-07 |
| | (viii) Chick Rearing Centre, Medziphema | 1985-86 to 2005-06 |
| | (ix) Pig Breeding Centre, Medziphema | 1997-98 to 2006-07 |
| | (x) Pig Breeding Centre, Tizit | 1997-98 to 2006-07 |
| | (xi) Pig Breeding Centre, Tuensang | 1985-86 to 2006-07 |
| | (xii) Pig Breeding Centre, Mokokchung | 1985-86 to 2006-07 |
| | (xiii) Pig Breeding Centre, Tuli (Mokokchung) | 1980-81 to 2006-07 |
| | (xiv) Regional Rabbit Breeding Farm, Jharnapani | 1998-99 to 2006-07 |
| | (xv) Pig Breeding Centre, Merangkong | 1998-99 to 2006-07 |
| | (xvi) Chick Rearing Centre, Kohima | 1998-99 to 2006-07 |
| | (xvii) Pig Breeding Centre, Sathuja | 1998-99 to 2006-07 |
| | (xviii) Cattle Breeding farm, Baghty | 1998-99 to 2006-07 |
| | (xix) Sheep Farm, Poilwa | 1998-99 to 2006-07 |
| | (xx) Buffalo Farm, Jalukie | 1998-99 to 2006-07 |
| | (xxi) Regional Broiler Centre, Kohima | 1998-99 to 2006-07 |
| 9. | Farm under Horticulture Department | |
| | Fruit Canning Factory, Longnak | 1993-94 to 2006-07 |

The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, Government's investment remains outside the scrutiny of the Audit/State Legislature. Consequently corrective measures, if any, required could not be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

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