

## CHAPTER III

### ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

#### 3.1 Introduction

**3.1.1** The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The state PSUs are established to carry out activities of commercial nature keeping in view the welfare of people. In Nagaland there were six State PSUs (all Government companies) of which, one Government company was non-working<sup>1</sup>. The state working PSUs registered a turnover of ₹ 5.36 crore as per their latest annual accounts finalised as on 31 October 2012. The turnover was 0.04 *per cent* of State Gross Domestic Product. The state working PSUs incurred an overall loss of ₹ 2.50 crore in the aggregate for 2011-12 as per their latest finalized accounts. The five working PSUs had 618 employees as on 31 March 2012. During 2011-12, neither any new PSU was established nor was any existing PSUs closed down.

#### 3.2 Audit Mandate

**3.2.1** Audit of Government Companies is governed by Section 619 of Companies Act, 1956. As per Section 617 of the Companies Act 1956, a Government company is one in which not less than 51 *per cent* of paid up capital is held by Government. A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government Companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act. However, there was no 619-B company in Nagaland.

**3.2.2** The accounts of the State Government companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditor, who is appointed by Comptroller and Auditor General of India (CAG) as per provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

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<sup>1</sup> The accounts of non-working Company viz., Nagaland Sugar Mills Company Limited are in arrears for the last 34 years.

### 3.3 Investment in State PSUs

**3.3.1** As on 31 March 2012, the investment of State and Central Government (Capital and long term loans) in six PSUs was ₹ 82.67 crore as per details given below:

**Table No. 3.1**

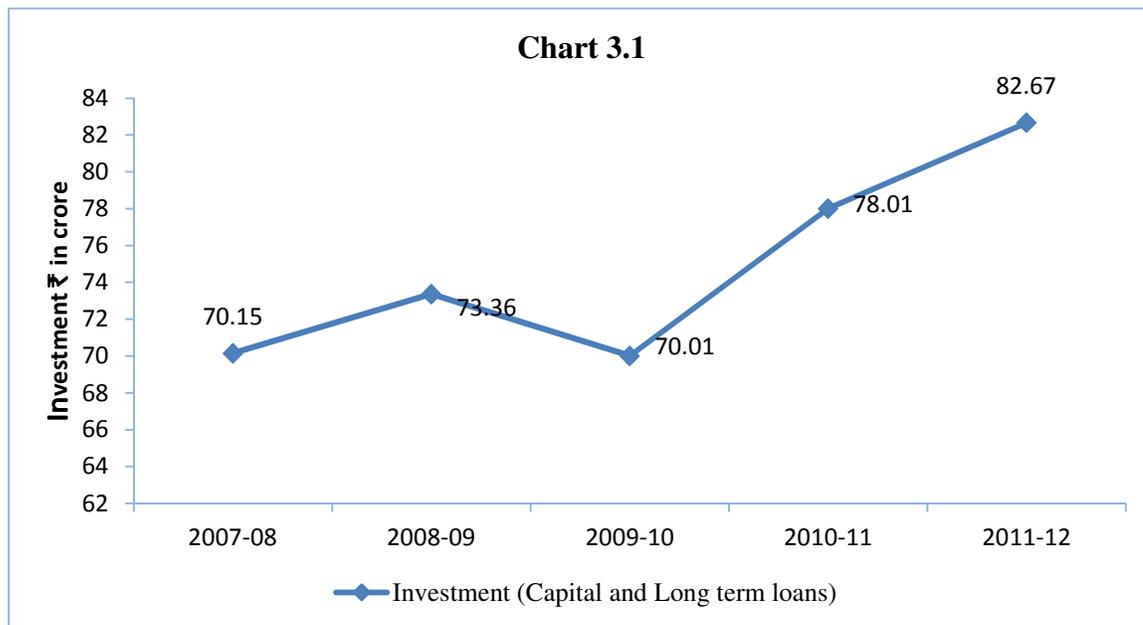
(₹ in crore)

Type of PSUs	Government Companies		
	Capital	Long term loans	Total
Working PSUs	30.02	47.69	77.71
Non-working PSUs	4.96	0	4.96
<b>Total</b>	<b>34.98</b>	<b>47.69</b>	<b>82.67</b>

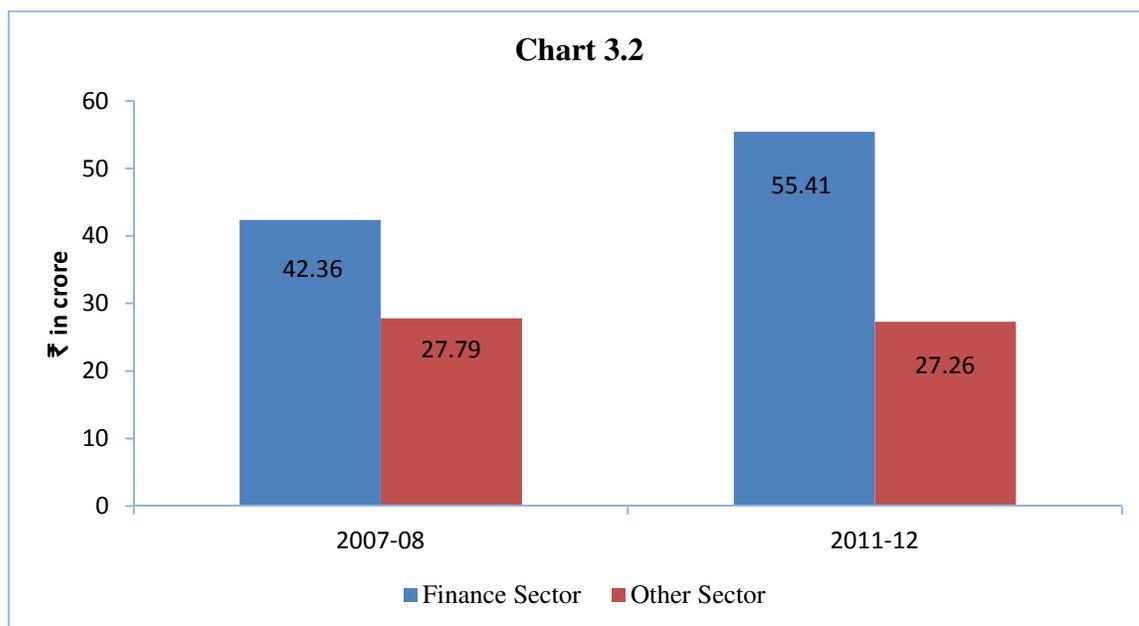
A summarised position of Government investment in State PSUs is detailed, in **Appendix 3.1**.

**3.3.2** As on 31 March, 2012 of the total investment in State PSUs, 94 per cent was in five working PSUs and remaining 6 per cent was in one non-working PSU. The total investment consisted of 42 per cent towards capital and 58 per cent in long term loans.

The investment has grown by 17.84 per cent from ₹ 70.15 crore in 2007-08 to ₹ 82.67 crore in 2011-12 as shown in graph below:-



3.3.3 The investments in various sectors at the end of 31<sup>st</sup> March 2008 and 31<sup>st</sup> March 2012 are indicated below in the bar chart.



### 3.4 Budgetary outgo, grants/subsidies, guarantees and loans

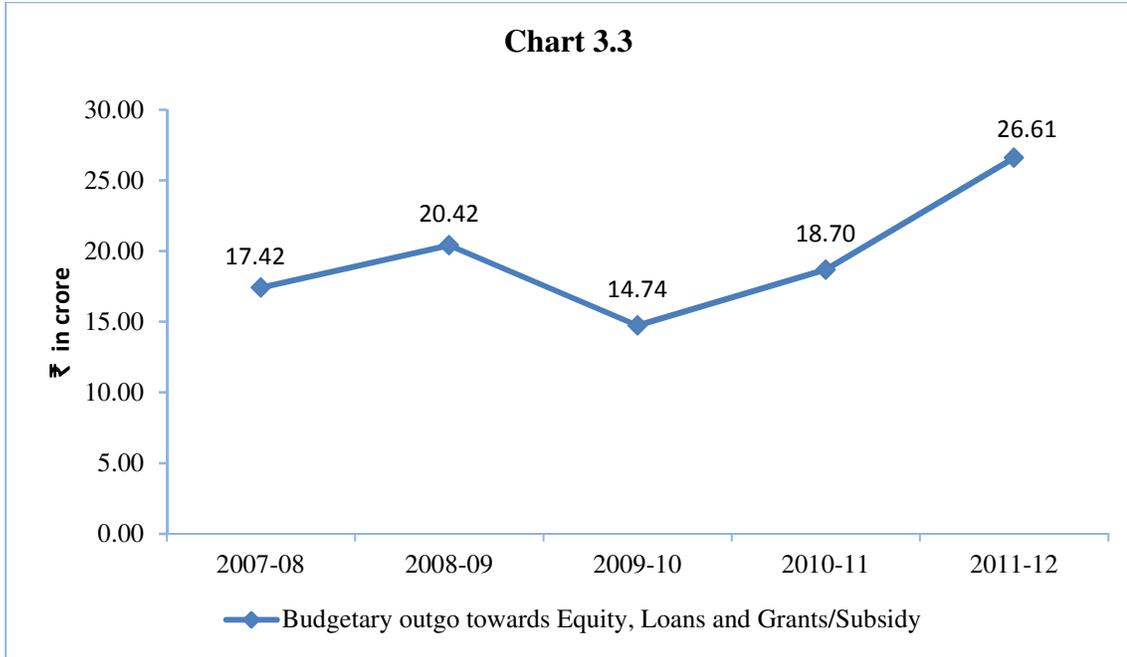
3.4.1 The details regarding budgetary outgo towards equity, loans grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in *Appendix-3.2*. The summarised details for three years ended 2011-12 are given below:

Table No. 3.2

( ₹ in crore)

Sl. No	Particulars	2009-10		2010-11		2011-12	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	02	1.75	03	1.45	02	1.60
2	Loans outgo from Budget	--	--	--	--	01	7.81
3	Grants/subsidy outgo	04	12.99	04	17.25	05	17.20
<b>4</b>	<b>Total outgo (1+2+3)</b>		<b>14.74</b>		<b>18.70</b>		<b>26.61</b>
5	Loans written off	--	--	--	--	--	--
6	<b>Total waiver (5 above)</b>	--	--	--	--	--	--
7	<b>Guarantees issued</b>	--	--	2	46.24	01	7.81

3.4.2 The details regarding budgetary outgo towards equity, loans and grants/subsidies for past five years are given in the following graph:



### 3.5 Reconciliation with Finance Accounts

**3.5.1** The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of figures appearing in the Finance Accounts of the State. In case, the figures do not agree, the concerned PSUs and the Finance department should carry out reconciliation and adjust the differences.

The position in this regard as at 31<sup>st</sup> March 2012 is stated below:

**Table No.3.3**

(₹ in crore)

Investment in respect of Government of Nagaland	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Share Capital & debentures	160.19	33.84	(+) 126.35
Outstanding Loans & Guarantees	Not Available	47.69	(-) 47.69
<b>Total</b>	<b>160.19</b>	<b>81.53</b>	<b>78.66</b>

**3.5.2** Since the accounts of the working companies are in arrears for the period ranging between one to thirteen years, actual amount invested by the State Government is taken on the basis of information provided by the PSUs.

The difference seen above is pending reconciliation for many years. Efforts are needed to be taken to clear the arrears in accounts and ensure reconciliation between Finance Accounts and the accounts/record of PSUs as there is a huge difference in figures of Finance Accounts and records of PSUs.

### 3.6 Performance of PSUs

**3.6.1** The financial results of PSUs, financial position and the working results of PSUs are detailed in *Appendix-3.3*. A ratio of PSUs turnover to State GDP shows the extent of PSUs activities in the State economy. Table below provides the details of working PSUs turnover and State GDP for the period 2007-08 to 2011-12

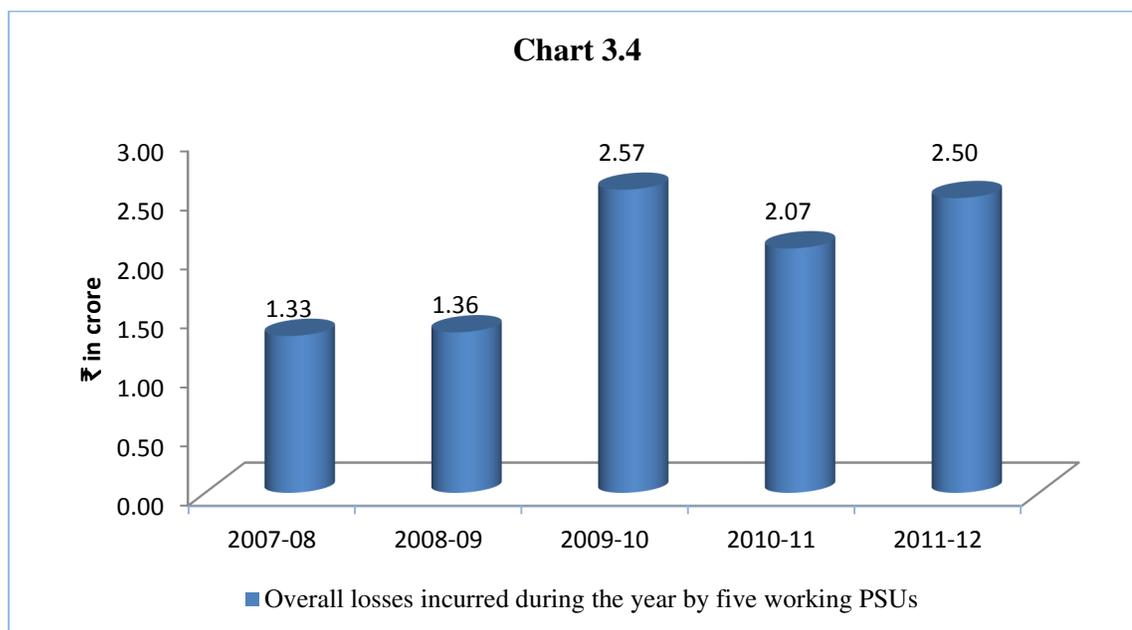
**Table No. 3.4**

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover	3.70	3.51	4.06	18.06	5.36
State GDP	8075.27	9436.07	10272.88 (P) <sup>2</sup>	11121.00 (Q) <sup>3</sup>	12064.53 (A) <sup>4</sup>
Percentage of turnover to State GDP	0.05	0.04	0.04	0.16	0.04

(Source: Information furnished by the Directorate of Economics and Statistics and statements furnished by the companies)

**3.6.2** Losses incurred by State working PSUs during 2007-08 to 2011-12 are given below in a bar chart.



**3.6.3** Some key parameters pertaining to State PSUs are given in the following table:

<sup>2</sup> P = Provisional Estimate

<sup>3</sup> Q = Quick Estimate

<sup>4</sup> A = Advance Estimate

**Table No. 3.5**

Particulars	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Return on capital employed (per cent)	3.65	-	-	--	-
Debt	40.29	44.11	39.09	45.64	47.69
Turnover	3.70	3.51	4.06	18.06	5.36
Debt/Turnover ratio	10.89:1	12.57:1	9.63:1	2.53:1	8.90:1
Accumulated losses	26.95	28.63	34.02	33.62	48.53

From the above it is clear that the accumulated losses are increasing every year. The Government is not getting any return on capital employed. The losses of PSUs are generally attributable to deficiencies in management, planning, running their operations and monitoring.

Thus, steps are needed to be taken for better management, operation and monitoring of the activities of the working State PSUs to arrest the gradual deterioration of their financial results.

### **3.7 Arrears in finalisation of Accounts**

**3.7.1** The accounts of the companies for every financial year are required to be finalized within six months from the close of the relevant financial year under section 166, 210, 240, 619 and 619-B of Companies Act, 1956. The table below provides details of progress made by working PSUs in finalisation of accounts by September, 2012.

**Table No.3.6**

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12
1	No. of working PSUs	5	5	5	5
2	No. of accounts finalized	3	12	15	30
3	No. of accounts in arrears	92	85	75	46
4	Average arrear per PSU (3/1)	18.4	17.0	15	9.4
5	No. of working PSUs with arrears in accounts	5	5	5	5
6	Extent of arrears (in years)	9 to 26	6 to 26	5 to 21	1 to 13

**3.7.1** The average number of accounts in arrears per working PSU has decreased from 15 in 2010-11 to 9.4 in 2011-12 which shows a marginal increase in finalisation of accounts but the progress is still at slow pace. All the PSUs need to take effective measures for early finalisation of backlog accounts and make the accounts up-to-date. The PSUs should ensure that the accounts of each year are finalised by 30<sup>th</sup> September so as to restrict further accumulation of arrears. In the absence of finalisation of accounts and their subsequent audit, it cannot be ensured whether the investment and expenditure incurred have been properly accounted for and the purpose for which the amount was

invested has been achieved or not and the Government investment in state PSUs remain outside the scrutiny of the state Legislature.

**3.7.2** In addition to above, the accounts of the only non-working PSU in the state were also in arrears for 34 years. As no purpose is served by keeping this non-working company in existence, Government needs to expedite closing down of this company.

**3.7.3** The Administrative departments have responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. During the year 2011-12 the audit office convened meeting with the concerned administrative departments and officials of the Government regarding arrears in finalisation of accounts. However, adequate measures had not been taken by the Government and as a result the present net worth of these PSUs could not be assessed in audit.

### **3.8 Accounts Comments and Internal Audit**

**3.8.1** Five working companies forwarded their 41 audited accounts to the Accountant General as on 31<sup>st</sup> October 2012. Of these 30 accounts were finalized as on 31 October, remaining 11 accounts are pending for selection for supplementary audit/ issue of Non-Review certificate.

**3.8.2** Out of 41 accounts received during the year, the Statutory Auditor had given qualified certificates to 8 accounts and 33 accounts received unqualified certificates.

## **INDUSTRIES AND COMMERCE DEPARTMENT**

### **NAGALAND INDUSTRIAL RAW MATERIALS & SUPPLY CORPORATION LIMITED**

#### **3.9 Loss due to non filing of execution petition**

**Failure on the part of Nagaland Industrial Raw Materials & Supply Corporation Limited, Dimapur to pursue the decree of court verdict resulted in non-recovery and possible loss of ₹ 30.72 lakh.**

Nagaland Industrial Raw Materials and Supply Corporation Limited, (NIRMSC-Company engaged (May 1985) M/S ICB and Company (ICBC), Kolkata as agent for supply mining timber (material) to Eastern Coalfields Limited (ECL) and Bharat Coking Coal Limited (BCCL). As per the agreement between the Company and ICBC, ICBC was to sell material on behalf of the Company to the purchaser (ECL/BCCL).The agreement also provided that in case of rejection of any material by the purchaser, the cost of rejected materials shall be borne by ICBC.

During the period from 1985-86 to 1995-96, the company, on the basis of details of sale furnished to it by ICBC, had made a payment of ₹ 296.25 lakh (including sales tax) to ICBC on account of material sold to ECL. However, after reconciliation (August 1996), it was found that the actual value of sale of material to the purchaser amounted to ₹ 277.99 lakh only (net value of rejected material amounting to ₹ 33.83 lakh). Thus, the Company had made an excess payment of ₹ 18.26 lakh to the ICBC which was not refunded by ICBC. ICBC had also not refunded an amount of ₹ 6.76 lakh on account of material rejected by the purchaser viz ECL.

Similarly, the Company had made advance payments to ICBC for supplying mining timber to BCCL during 1985-86 to 1988-89. However, while closing the business with BCCL in 1989, an amount of ₹ 5.70 lakh, being advance payment made to ICBC, remained un-adjusted.

Thus, the amount of ₹ 30.72 lakh remained outstanding against ICBC on account of excess advance payments and material(s) rejected by the purchasers.

The Company requested (July –August 1996), ICBC to settle the outstanding dues but ICBC did not repay the outstanding amount.

For recovery of the outstanding dues, the Company filed suits No28/1997 and 29/1997 against ICBC, in the Court of the Additional Deputy Commissioner (Judicial), Dimapur. The court while disposing of the two money petitions, decreed (4.12.2007) that an amount of ₹ 30.72 lakh be paid by ICBC to the Company within 60 days from the date of the order.

During audit (April 2012), it was observed that the Company had not pursued the Court order to ensure recovery of its dues from the defaulting party, as it had neither recovered outstanding amount within 60 days of the date of the Court order nor had filed execution petition in the Court of Additional Deputy Commissioner (Judicial) so far (January 2013). The reasons for not filing execution petition for recovery of outstanding dues were neither found on record nor explained by the management. The Management confirmed (October 2012) that no petition was made for execution of the decree.

Moreover, inaction by the management in pursuing its outstanding claim, despite court verdict in its favour, tantamounted to giving undue favour to the defaulting party. Further delay in taking appropriate action may lead to the claim becoming time barred resulting in the loss of the claim.

The Management confirmed (October 2012) that no petition been made for execution of the decree.

Thus, failure of the Company to pursue the decree of Court verdict has resulted in no-recovery and possible loss of ₹ 30.72 lakh.