CHAPTER – III

ECONOMIC SECTOR
(PUBLIC SECTOR UNDERTAKINGS)

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3.1 Introduction

3.1.1 The State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The SPSUs are established to carry out activities of commercial nature keeping in view the welfare of people. In Nagaland there were six SPSUs (all Government companies) of which, one SPSU was non-working[1]. The working SPSUs registered a turnover of ₹ 5.98 crore as per their latest finalised accounts as of September 2014. The turnover was 0.03 *per cent* of State (GDP)* for 2013-14. The working SPSUs made an overall profit of ₹ 0.50 crore in aggregate for 2013-14 as per their latest finalized accounts as on 30 September 2014. The five working SPSUs had 623 employees as on 31 March 2014. During 2013-14, neither any new SPSU was established nor any existing SPSU was 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. There was, however, 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 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 CAG as per the provisions of Section 619 of the Companies Act, 1956.

3.2.3 Government of India (Ministry/Department of Corporate Affairs) has notified (September 2013) the Companies Act, 2013. However, the provisions of the new Act shall be applicable on Government Companies from the next accounting year (viz. from the accounting periods commencing on or after 1 April 2014) and audit of the accounts of Government Companies pertaining to the periods prior to 1 April 2014 shall continued to be governed by the Companies Act, 1956.

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[1] The accounts of the non-working Company viz., Nagaland Sugar Mills Company Limited are in arrears for the last 36 years.

* The State GDP for 2013-14 was ₹ 17,749 crore.

3.3 Investment in SPSUs

3.3.1 As on 31 March 2014, the investment (Capital and long term loans) in six SPSUs was ₹ 102.49 crore as per details given below:

Table No. 3.1

(₹ in crore)

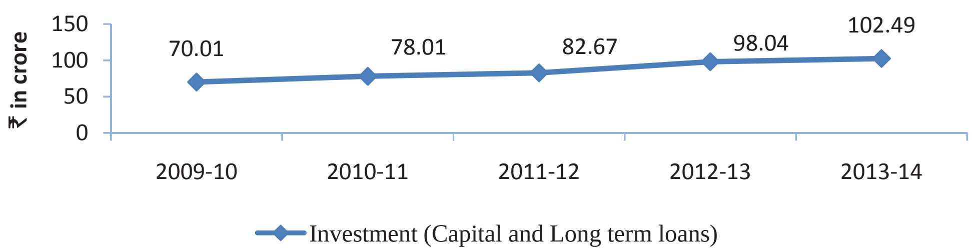
Type of SPSUs	Government Companies		
	Capital	Long term loans	Total
Working SPSUs	35.87	61.66	97.53
Non-working SPSUs	4.96	0	4.96
Total	40.83	61.66	102.49

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

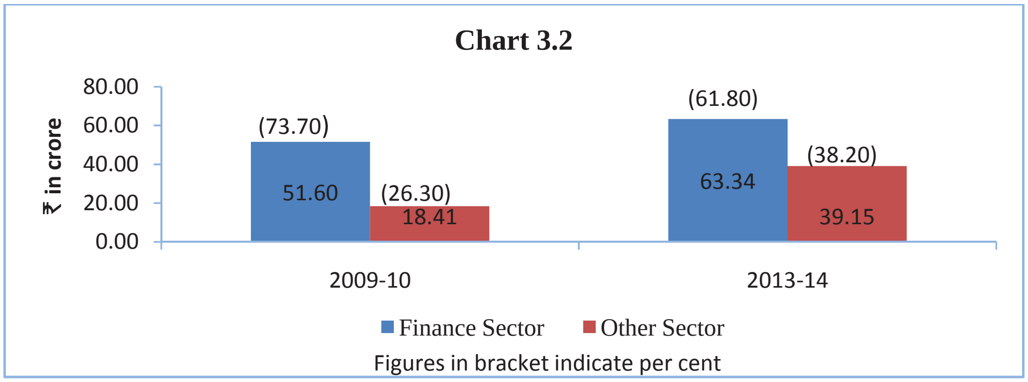
3.3.2 As on 31 March, 2014, 95 *per cent* of the total investment in SPSUs was in five working SPSUs and remaining 5 *per cent* was in one non-working SPSU. The total investment consisted of 40 *per cent* towards capital and 60 *per cent* in long term loans.

The investment has grown by 46.39 *per cent* from ₹ 70.01 crore in 2009-10 to ₹ 102.49 crore in 2013-14 as shown in graph below:-

Chart 3.1



3.3.3 The investments in various sectors at the end of March 2010 and March 2014 are indicated below in the bar chart.



It may be noticed that as compared to the investment in 2009-10, investment in 2013-14 has increased in Finance Sector by ₹ 11.74 crore (22.75 *per cent)* while the investment in Other Sectors had increased by ₹ 20.74 crore (112.66 *per cent)* during the said period.

3.4 Budgetary outgo, grants/subsidies, guarantees and loans

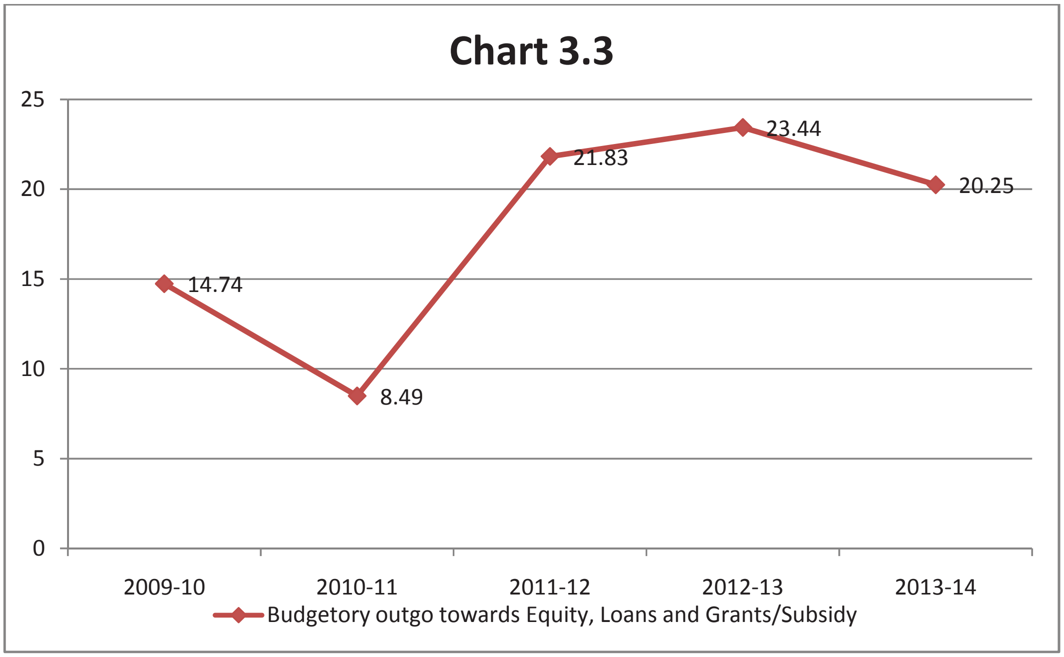
3.4.1 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in ***Appendix-3.2.*** The summarised details for three years ended 2013-14 are given below:

Table No. 3.2

(₹in crore)

Sl. No	Particulars	2011-12		2012-13		2013-14	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	2	1.60	2	2.40	1	4.25
2	Loans outgo from Budget	1	7.81	1	6.59	0	0
3	Grants/subsidy outgo	4	12.42	5	14.45	4	16.00
4	**Total outgo (1+2+3)**		**21.83**		**23.44**		**20.25**
5	Loans written off	--	--	--	--	--	--
6	**Total waiver (5 above)**	--	--	--	--	--	--
7	**Guarantees issued**	1	7.81	2	11.59	1	6.55

3.4.2 The details regarding budgetary outgo towards equity, loans and grants/subsidies for the last past five years from 2009-10 to 2013-14 are given in the following graph:



The chart above indicated that the year-wise budgetary outgo of the State Government towards equity, loans and grants had shown an increasing trend during 2011-12 and 2012-13. During 2013-14, however the budgetary support provided to SPSUs has marginally reduced and stood at ₹ 20.25 crore.

3.5 Reconciliation with Finance Accounts

3.5.1 The figures in respect of equity, loans and guarantees outstanding as per the records of SPSUs should agree with the corresponding figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned SPSUs and the Finance Department of the State Government should carry out reconciliation of the differences.

The position in this regard on 31 March 2014 is stated below:

Table No.3.3

(₹in crore)

State Government investment in SPSUs	Amount as per Finance Accounts	Amount as per the records of SPSUs	Difference
Share Capital	182.05	34.56	147.49
Loans *	Nil	0.73	0.73
Guarantees[2]*	59.53	15.00	44.53

* SPSU- wise figures of loan/guarantees not available in the Finance Accounts of the State.

3.5.2 Audit observed that the difference in equity investment occurred in respect of all SPSUs while the Guarantees figure in respect of two SPSUs[3] were pending reconciliation.

Considering the significant differences in the investment figures, efforts are needed on part of the Finance Department and the concerned SPSUs to ensure early reconciliation of difference between the figures of the Finance Accounts and that as per the record of SPSUs.

3.6 Performance of SPSUs

3.6.1 The financial results of SPSUs as per their latest finalized accounts as on 30 September 2014 are detailed in ***Appendix-3.3***. A ratio of SPSUs turnover to State GDP shows the extent of SPSUs activities in the State economy. Table below provides the details of working SPSUs turnover and State GDP for the period 2009-10 to 2013-14.

Table No. 3.4

(₹in crore)

Particulars	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Turnover[4]	4.06	18.06	5.36	6.75	5.98
State GDP	10527	11759	13859	15676	17749
Percentage of turnover to State GDP	0.04	0.15	0.04	0.04	0.03

(Source: Central Statistical Office (CSO) and Appendix3.3)

From the table, it may be noticed that excepting 2010-11, the percentage of SPSUs turnover to State GDP was stagnant at around 0.04 *per cent*. During 2010-11, the percentage of SPSUs turnover was exorbitantly high at 0.15 *per cent* mainly due to abnormal increase in the turnover of one SPSU (namely, Nagaland Industrial Raw Material Supply Corporation Limited). The increase in the turnover of the said SPSU was mainly because of the Government subsidy extended on supply of industrial raw material through Government agencies. The SPSU however, could not maintain the pace of the increased turnover in subsequent years due to presence of private entrepreneurs in the business. The percentage of turnover to State GDP had marginally decreased (by 0.01 *per cent*) during 2013-14 mainly due to decline in the turnover figures of two SPSUs (viz., Nagaland Industrial Development Corporation Limited and Nagaland State Mineral Development Corporation Limited).

3.6.2 Losses incurred/profits earned by working SPSUs during 2009-10 to 2013-14 are given below in a bar chart.

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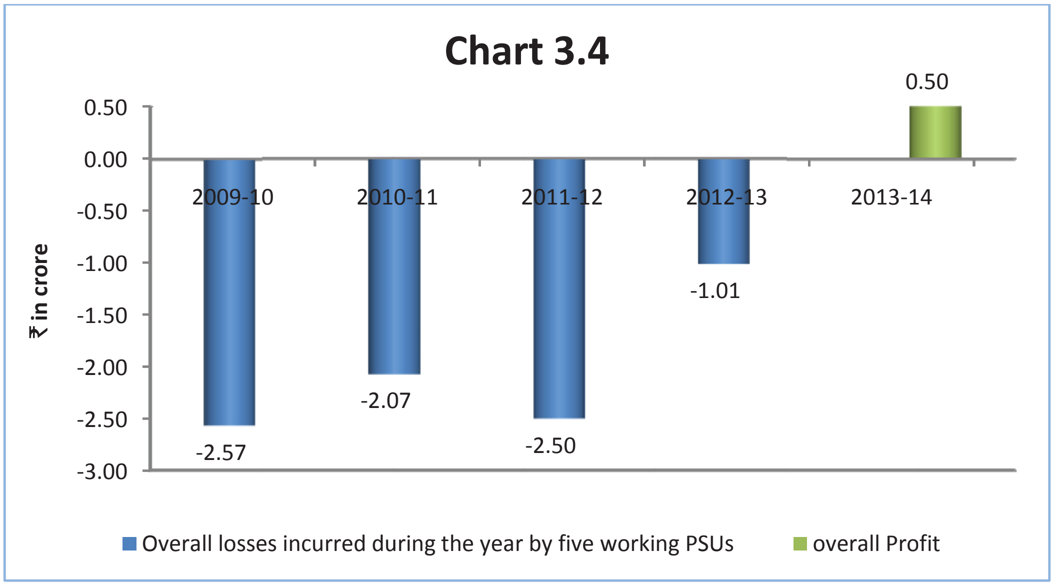
[3] Serial no. A-1 and A-4 of appendix 3.1

[4] Turnover of working SPSUs as per their latest finalized accounts as of September of the respective year.



It could be seen from the chart above that overall losses incurred by the working SPSUs had decreased from ₹ 2.57 crore in 2009-10 to ₹ 1.01 crore in 2012-13. During 2013-14 the working SPSUs had registered an overall profit of ₹ 0.50 crore mainly due to profits (₹ 0.62 crore) earned by one loss making SPSU[5] and increase of ₹ 0.68 crore in the profits of two SPSUs[6].As per the latest finalised accounts of five working SPSUs as of September 2014, two SPSUs incurred loss of ₹ 1.68 crore, while remaining three SPSUs earned profit of ₹ 2.18 crore. The major contributor to profit was Nagaland State Mineral Development Corporation Limited (₹ 1.04 crore). Earlier, the said SPSU had been incurring losses and had earned profits during the current year mainly due to receipt of grant (₹ 4.29 crore) from the State Government.

3.6.3 Some key parameters pertaining to SPSUs are given in the following table:

Table No. 3.5

(₹in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Return on capital employed (*per cent*)	*	*	*	0.63	5.02
Debt	39.09	45.64	47.69	61.46	61.66
Turnover	4.06	18.06	5.36	6.75	5.98
Debt/Turnover ratio	9.63:1	2.53:1	8.90:1	9.11:1	10.31:1
Accumulated losses	34.02	33.62	48.53	51.38	49.35

**Negative figures*

[5] Sl. No. A-5 of Appendix 3.3
[6] Sl. No. A-2 and A-3 of Appendix 3.3

From the above it can be noticed that the debt-equity ratio of SPSUs had increased consistently after 2010-11 due to increase in the long term borrowings of SPSUs. The debt-equity ratio of SPSUs was at all time low level during 2010-11 due to abnormal increase in the turnover figure of one SPSU (Nagaland Industrial Raw Material Supply Corporation Limited) on account of Government subsidy provided against its supplies as mentioned under **paragraph 3.6.1** *supra*. The accumulated losses of SPSUs had shown an increasing trend during 2009-13 (excepting 2010-11). The said losses, however had reduced marginally by ₹ 2.03 crore during 2013-14 on account of profits (₹ 1.04 crore) earned by one loss incurring SPSU (Nagaland State Mineral Development Corporation Limited) which was mainly due to receipt (₹ 4.29 crore) of Government Grants as mentioned in **paragraph 3.6.2**. This has also positively affected the return on capital employed during 2013-14. There was, however, no return on capital employed during 2009-10 to 2011-12. The losses of SPSUs are generally due to deficiencies in management, planning, running their operations and monitoring.

Thus, appropriate steps are needed to be taken for better management, operation and monitoring of the activities of the working SPSUs 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, 2014.

Table No.3.6

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14
1	No. of working SPSUs	5	5	5	5
2	No. of accounts finalized	15	34	21	17
3	No. of accounts in arrears	75	46	30	18
4	Average arrear per SPSU (3/1)	15	9.4	6	3.6
5	No. of working SPSUs with arrears in accounts	5	5	5	5
6	Extent of arrears (in years)	5 to 21	1 to 13	1 to 9	1 to 5

3.7.2 From the table above it would be evident that during 2010-14, backlog of accounts of working SPSUs had reduced significantly from 75 accounts (2010-11) to 18 accounts (2013-14) with corresponding reduction in average arrear per SPSU. None of the SPSUs, however, had made their accounts up-to-date as on 30 September 2014. Further, one out of five SPSUs (Nagaland Handloom & Handicrafts Development Corporation Limited) did not finalise any accounts during 2013-14.

All the SPSUs need to take effective measures for early clearance of the backlog and make their accounts up-to-date. SPSUs should ensure finalisation of at least one year accounts by 30 September each year so as to restrict further accumulation of accounts backlog.

3.7.3 In addition to above, the accounts of the only non-working SPSU in the State also had the arrears of accounts for 36 years.

3.7.4 The administrative departments have the responsibility to oversee the activities of these entities and ensure that the accounts are finalised and adopted by these SPSUs within the prescribed period. During the year 2013-14 the Accountant General has written (August 2013) to the Chief Secretary, Government of Nagaland for early finalisation of accounts of the SPSUs. The issue was also taken up (November 2013) with the Administrative Heads and the management of the respective SPSUs. The SPSUs, however, are still having significant backlog of accounts.

3.7.5 In view of above state of affairs, it is recommended that the Government should monitor and ensure timely finalisation of accounts in conformity with the provisions of the Companies Act, 1956.

3.8 Accounts Comments and Internal Audit

3.8.1 Four working SPSUs forwarded their 17 audited accounts to the Accountant General during the period October 2013 to September 2014. Of these five accounts were selected for supplementary audit and 12 accounts were issued "Non Review Certificates".

3.8.2 During the year, out of 17 accounts, only four accounts received unqualified certificates from the statutory auditors while remaining 13 accounts received qualified certificates.

The details of aggregate money value of comments of statutory auditors and CAG in respect of accounts finalized during 2012-13 and 2013-14 are given below:

Table No. 3.7

(₹ in crore)

Sl. No.	Particulars	2012-13		2013-14	
		No. of Accounts	Amount	No. of Accounts	Amount
1	Increase in loss	1	3.43	4	0.30
2	Increase in profit	2	0.38	1	0.39
3	Decrease in loss	2	1.80	3	1.59
4	Decrease in profit	1	0.26	1	0.01
5	Errors of classification	--	--	4	14.12
Total		**6**	**5.87**	**13**	**16.41**

3.8.2.1 Some of the important comments in respect of accounts of the SPSUs audited during 2013-14 are detailed below:

Nagaland Industrial Raw Materials & Supply Corporation Limited. (2008-09)

- Non-provisioning against the sundry debtors pending realisation for more than 10 years has resulted in understatement of 'loss for the year' by ₹ 1.05 crore.
- Non-provisioning against purchase advances remaining unadjusted since 1999-2000 resulted in understatement of 'loss for the year' by ₹ 0.33 crore.

Nagaland State Mineral Development Corporation Limited. (2009-10)

- Non capitalisation of the assets resulted in overstatement of Advance to Supplier by ₹ 0.58 crore with corresponding understatement of Fixed Assets by ₹ 0.33 crore and understatement of accumulated depreciation and losses by ₹ 0.25 crore each.
- Incorrect booking of the sale proceeds of the trial run product under 'sales' instead of adjusting the same against 'Expenditure during Construction' of the Plant (Mini Cement Plant, Wazeho) has resulted in overstatement of profit for the year by ₹ 0.15 crore.

ECONOMIC SECTOR (PUBLIC SECTOR UNDERTAKINGS)

Nagaland State Mineral Development Corporation Limited

3.9 Excess expenditure

Nagaland State Mineral Development Corporation Limited (Corporation) incurred an expenditure of ₹ 22.75 crore on execution of works not included in the approved DPR. Besides, the Corporation also paid ₹ 6.14 crore against unexecuted items of work.

With a view to have access to the natural mineral resources and accelerate exploration, Nagaland State Mineral Development Corporation Limited (Corporation) undertook (May 2008) construction of three mineral deposit link roads[7]. Government of India, Ministry of DoNER, sanctioned (May 2008) the project under Non Lapsable Central Pool of Resources at an estimated cost of ₹ 26.54 crore. The cost of the project was to be shared between the Government of India (GoI) and Government of Nagaland (GoN) in the ratio of 90:10 (₹ 23.89 crore and ₹ 2.65 crore).

GoI and GoN released ₹ 23.42[8]crore and ₹ 2.60[9]crore respectively in three instalments for the implementation of the project. Out of the said three mineral deposit link roads, the Corporation awarded (August 2008) two projects (Wazeho to Satuza and Nimi to Laluri) to the contractors and one project (Zipu to Moke road) was taken up by the Corporation departmentally. After achieving the physical progress of 80 *per cent*, all three works were stopped (2010) due to paucity of funds. As of March 2013, the

[7]Zipu-Moke (9 Km)- ₹ 571.02 lakh, Wazeho-Satuza (8 KM)- ₹ 547.45 lakh &Nimi-Laluri (20 Km)-₹ 1535.44 lakh
[8]₹ 820 lakh (June 2008), ₹ 820 lakh (March 2009), ₹ 701.71 lakh (November 2009)
[9]₹ 91.11 lakh(November 2008), ₹ 91.11 lakh (June 2009), ₹ 77.97 lakh (March 2010)

Corporation had released a total amount of ₹ 24.92 crore[10] against the said works. Meanwhile, the Department forwarded (April 2011) a revised Project Report increasing the project cost to ₹ 54.59 crore on account of cost escalation as well as enhancement in the work scope of three projects. The project cost was subsequently revised downward to ₹ 45.29 crore and the revised proposal was submitted to the GoI (November 2013). Sanction of the GoI to the revised project proposal was awaited (November 2014).

Examination of records revealed that while approval of GoI to the revised project proposals was pending, the Corporation had already executed excess quantities of work not provided in the approved DPR involving total cost of ₹ 22.74 crore. It was also seen from records that Corporation, while incurring expenditure did not obtain prior approval of GoI/GoN for execution of works/quantities in excess of that provided in the DPR.

Hence, the Corporation had incurred total expenditure of ₹ 22.74 crore on the works not provided under DPR of the project, which was irregular.

With a view to verify the actual status of works executed under the project, Audit conducted joint physical verification (April 2013) of the above three works along with the officers of Corporation. Joint physical verification revealed that the under mentioned items of works valuing ₹ 6.14 crore recorded to have executed in the Measurement Book (MB) were lying incomplete:

- **Wazeho to Satuza Road (8 Km)-** The Contractor was paid (April 2012) an amount of ₹ 4.57 crore which *inter alia* included ₹ 1.40 crore against the works relating to Culverts, Retaining Walls & Breast walls and ₹ 1.10 crore towards sub base work (Grade II and III). During joint verification, however it was seen that Culverts, Retaining Walls & Breast walls were not constructed and sub base work was done only with Grade I on the entire stretch of the road. This has resulted in overpayments of ₹ 2.50 crore to the Contractor against unexecuted items of work.

- **Nimi-Laluri Road (20 Km)-**The Corporation released (September 2011) ₹ 14.75 crore to the Contractor against six Running Account Bills. The payment included an amount of ₹ 2.33 crore against Grade II and Grade III works for the entire stretch of 20 Kms and ₹ 0.14 crore towards side drain works. During physical verification, it was noticed that sub base work in Grade II and III was done only in 5.4 Km length and no side drain was present. Hence, there was an excess payment of ₹ 1.84 crore (Grade II & III- ₹ 1.70 crore and Drain-₹ 0.14 crore) to the Contractor against unexecuted items of work.

- **Zipu-Moke Road (9 Km)** – The Corporation incurred ₹ 11.22 crore against construction of the entire stretch of 9 Km road which *inter alia* included an expenditure of ₹ 1.97 crore for sub-base work (Grade II & III) and ₹ 0.80 crore for 27 culverts. During physical verification of the works, it was seen that sub-base

[10] Zipu- Moke Road ₹559.58 lakh , Wazeho – Satuza road- ₹ 456.69 lakh and Nimi-Laluri Road-₹ 1475.24 lakh

work in Grade II & III was done only upto 2.8 Km and for the remaining length of 6.2 Km sub-base work in Grade I only was done. Further, out of 27 culverts recorded to have been completed only 10 culverts were actually completed till the date of the physical inspection (April 2013). Hence, the Corporation released ₹ 1.86 crore[11] against the works pending for execution.

Thus, the Corporation had irregularly incurred an expenditure of ₹ 22.75 crore on execution of quantities of works not included in the approved DPR. Besides, the Corporation also made payments of ₹ 6.14 crore against the unexecuted items of work by falsely recording the measurement of said works without actual execution.

In reply (July 2014) the Management stated that execution of excess quantities of works became necessary due to the extremely difficult site conditions requiring extensive drilling and blasting works. As regards the payments made against unexecuted items of work the Management accepted the mistake and stated that during the course of execution of works it had become necessary to execute additional items not provided in the DPR and in order to avoid recording of payment against unsanctioned items, measurements were recorded against unexecuted items of work. It was further stated that the irregularities would be regularized once the revised DPR is approved. The reply of the Corporation was also endorsed by the Government.

The reply regarding taking up of additional works due to unseen/difficult project site conditions highlighted deficiencies in preparation of the DPR by the Corporation. Moreover, the Corporation should have obtained prior approval of competent authority before taking up such additional works.

Further, fabrication of the works measurement by the Corporation to accommodate the additional/unsanctioned works was not an acceptable practice as it provided space for possibilities of frauds in future.

[11] Grade II & III (6.2 Km)- ₹ 1.36 crore & 17 Nos of Culverts-₹ 0.50crore.