

CHAPTER-VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 Overview of Government companies

Introduction

7.1.1 As on 31 March 2008, there were six Government companies (five working companies and one non-working company¹) and nine departmentally managed Government commercial and Quasi-commercial undertakings as against the same number of companies and departmentally managed Government commercial and Quasi-commercial undertakings as on 31 March 2007 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 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)

Investment in working PSUs

7.1.2 As on 31 March 2008, the total investment in five working PSUs (all Government companies) was Rs.65.19² crore (equity: Rs.21.16 crore, share application money: Rs.3.74 crore and long term loans³:Rs.40.29 crore) as against equal number of working PSUs with a total investment of Rs.59.74 crore (equity Rs.21.05 crore, share application money Rs.2.34 crore and long term loans: Rs.36.35 crore) as on 31 March 2007. The analysis of investment in working PSUs is given in the following paragraphs:

Sector-wise investment in working Government companies

7.1.3 The investment (equity and long term loans) in working PSUs in various sectors and percentage thereof at the end of 31 March 2007 and 31 March 2008 are indicated in the pie charts as below:

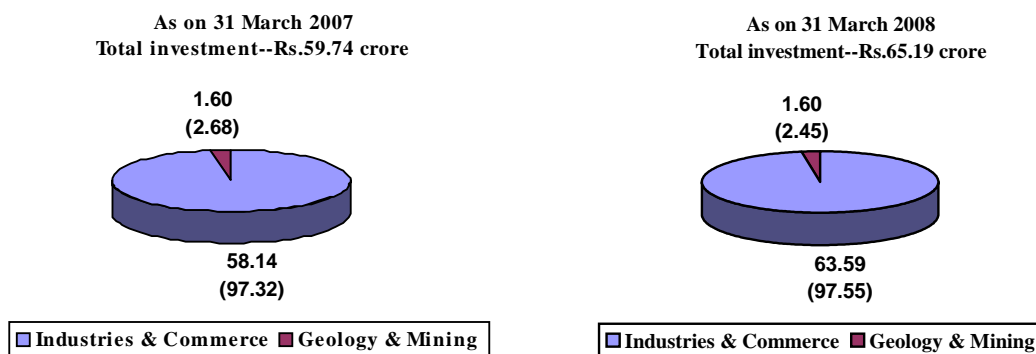
¹ Non-working companies are those that are in the process of liquidation/closure/ merger, etc.

² State Government investment was Rs.29.85 crore (others: Rs. 35.34 crore) whereas the figure as per finance account 2007-08 was Rs.59.66 crore. The difference is under reconciliation.

³ Long-term loans mentioned in paras 7.1.2 and 7.1.3 are excluding interest accrued and due on such loans.

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 2007 and 2008 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
2006-07	5	21.05	2.34	36.35	59.74
2007-08	5	21.16	3.74	40.29	65.19

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

As on 31 March 2008, the total investment in working Government companies comprised 38.20 *per cent* of equity capital and 61.80 *per cent* of loans as compared to 39.15 *per cent* and 60.85 *per cent* respectively as on 31 March 2007.

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

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

7.1.4 The details of budgetary outgo, grants/subsidies and 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 2007-08 are given below:

Table-7.2

(Rupees in crore)

	2005-06		2006-07		2007-08	
	Number of companies	Amount	Number of companies	Amount	Number of companies	Amount
Equity capital outgo from budget	2	0.50	2	0.45	2	0.47
Loans given from budget	1	4.34	--	--	1	7.15
Grants/Subsidy towards						
(i)Projects/Programmes/Schemes	3	3.34	3	5.34	4	9.80
(ii) Other subsidy	1	2.00	---	---	--	--
(iii) Total subsidy	3	5.34	3	5.34	4	9.80
Total outgo	3*	10.18	3*	5.79	4*	17.42

During the year 2007-08, the State Government guaranteed loans aggregating Rs.7.27 crore obtained by two working Government companies (viz., Nagaland Industrial Development Corporation Limited and Nagaland Industrial Raw Materials and Supply Corporation Limited). At the end of the year, no guarantees were outstanding against any PSU.

Finalisation of accounts by working Government companies

7.1.5 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 2007-08 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 2008, as detailed in **Table-7.3**.

* Actual number of companies which received budgetary support in the form of equity, loans, grants and subsidy from the State Government.

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	1999-00 to 2007-08	9	A1
2.	Nagaland Industrial Raw Materials & Supply Corporation Ltd., Dimapur	1982-83 to 2007-08	26	A3
3.	Nagaland Handloom & Handicrafts Development Corporation Ltd., Dimapur	1984-85 to 2007-08	24	A2
4.	Nagaland Hotel Ltd	1988-89 to 2007-08	20	A4
5	Nagaland State Mineral Development Corporation Ltd., Kohima	1997-98 to 2007-08	11	A5

The Administrative Departments have the responsibility to oversee the activities of these entities and to 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, adequate measures had not been taken by the Government and as a result, the net worth of these PSUs could not be assessed in Audit.

However, during meetings held between the Accountant General, Nagaland and the Chief Secretary and other State Government officers, the latter agreed that since past records were not maintained systematically, now genuine co-ordinated efforts should be exerted to back trace the long pending accounts of PSUs with the help of experts and reasonably acceptable documentation process should start.

Financial position and working results of working PSUs

7.1.6 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, four companies had incurred an aggregate loss of Rs.1.33 crore.

Loss incurring companies

7.1.7 Despite poor performance, the State Government continued to provide financial support to four⁴ loss making companies in the form of equity, loans, grants and subsidy, etc. According to available information, the total financial support so provided by the State Government by way of equity, loans, grants and subsidy during 2007-08 to these companies amounted to Rs.17.42 crore (***Appendices-7.1 and 7.3***).

⁴ Nagaland Industrial Development Corporation Ltd., Nagaland Industrial Raw Materials and Supply Corporation Ltd. Nagaland Handloom and Handicrafts Corporation Ltd. and Nagaland State Mineral Development Corporation Ltd.

Return on capital employed

7.1.8 As per the latest finalised accounts, the capital employed⁵ worked out to Rs.34.63 crore in four companies and total return⁶ thereon amounted to Rs.1.33 crore⁷. 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)

Investment in non-working PSU

7.1.9 As on 31 March 1996⁸ the paid-up capital in the only non-working PSU viz., Nagaland Sugar Mills Company Ltd. 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 of accounts of PSUs

7.1.10 None of the five working Government companies had finalised their accounts within the stipulated period. Some of the major errors and omissions noticed in the course of audit of annual accounts of three companies as per the latest finalised accounts are given below:

Important comments of Statutory Auditors

Nagaland Industrial Development Corporation Limited (1998-99)

7.1.11 Freehold land worth Rs.23.70 lakh on which roads and buildings were constructed was without title deed.

7.1.12 Share application money amounting to Rs.7.93 lakh was still pending for allotment.

7.1.13 Revenue recognition was done on cash basis instead of accrual basis as against the mandate of the Companies Act, 1956 and also against AS-9 on Revenue Recognition.

Nagaland Industrial Raw Materials & Supply Corporation Limited (1981-82)

7.1.14 Closing stock was overstated by Rs.6.36 lakh.

⁵ 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).

⁶ 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.

⁷ One company viz. Nagaland Hotels Ltd. did not furnish the information.

⁸ The company (Nagaland Sugar Mills Company Ltd., Dimapur) did not furnish any information since 1996-97 onwards.

Persistent irregularities and system deficiencies in financial matters of PSUs

7.1.15 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.

Internal Audit/Internal Control

7.1.16 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.

The Statutory Auditors observed deficiencies in respect of internal audit system in case of five companies during the period upto 1998-99⁹. The major recommendations/comments made by the Statutory Auditors were of the following nature:

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

Response to inspection reports, draft paragraphs and reviews

7.1.17 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 2008 pertaining to six PSUs disclosed that 352 paragraphs relating to 37 inspection reports remained outstanding at the end of September 2008. Of these, seven inspection reports containing 94 paragraphs had not been replied to for more than five years. Department wise break up of inspection reports and paras outstanding as on 30 September 2008, is given in **Table 7.4**.

⁹ Accounts were not submitted since 1999-2000 onwards.

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	28	255	1988-89
2	Geology and Mining	1	9	97	1987-88
Total		6	37	352	

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 Committee on Public Undertakings 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.

Position of discussion of Commercial chapters of Audit Reports by the Committee on Public Undertakings

7.1.18 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 2008.

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 ¹⁰	---	1
1995-1996	1	2 ¹¹	---	2
1996-1997	1 ¹¹	Nil	1	---
1997-1998	1 ¹¹	1 ¹¹	1	1
1998-1999	1 ¹²	1 ¹²	1	1
1999-2000	---	1 ¹³	---	1
2000-2001	---	1 ¹⁴	---	1
2001-2002	1	3 ¹⁵	---	3
2002-2003	1	1	---	---
2003-2004	1	1	---	---
2004-2005	---	2	---	---
2005-2006	--	--	--	--
2006-2007	--	--	--	--
Total	7	14	3	10

¹⁰ Discussed in September 2000 but recommendation of COPU is awaited.

¹¹ Discussed in June 2001 but recommendation of COPU is awaited.

¹² Discussed in February 2002 but recommendation of COPU is awaited.

¹³ Introductory para only.

¹⁴ Introductory para only.

¹⁵ Draft paragraphs except reviews discussed in October 2004 but recommendation of COPU is awaited.

Departmentally managed Government commercial/quasi-commercial undertakings

Proforma accounts of departmentally managed commercial/quasi-commercial undertakings

7.1.19 As on 31 March 2008, there were nine departmentally managed Government commercial and quasi-commercial undertakings.

A mention was made in paragraph 7.1.14 of the Report of the Comptroller and Auditor General of India for the year 2006-07 about delay in preparation of proforma accounts of these undertakings. Despite this, accounts were in arrears for periods ranging from two to 37 years as on 30 September 2008 as detailed in **Table 7.6**.

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 2007-08
2.	Nagaland State Transport Department	2005-06 to 2007-08
3.	Nagaland Power Department	2006-07 to 2007-08
4.	Farms under Agriculture Department	
	(i) Potato Seed Farm, Kuthur	1999-2000 to 2007-08
	(ii) Medium size Seed farm, Merapani	2001-02 to 2007-08
	(iii) Seed Farm, Tizit	2000-01 to 2007-08
5.	Changki Valley Fruit Preservation Factory	1987-88 to 2007-08
6.	Timber Treatment and Seasoning Plant, Dimapur	1998-99 to 2007-08
7.	Government Cottage Industries Emporia, Kohima	1979-80 to 2007-08
8.	Farms under Veterinary and Animal Husbandry Department	
	(i) Cattle Breeding Farm, Medziphema	1998-99 to 2007-08
	(ii) Cattle Breeding farm, Tuensang	1998-99 to 2007-08
	(iii) Cattle Breeding Farm, Aliba	1998-99 to 2007-08
	(iv) State Cattle Breeding Farm, Lerie	1993-94 to 2006-07
	(v) Chick Rearing Centre (with Hatchery Unit), Mokokchung	1998-99 to 2007-08
	(vi) Chick Rearing Centre (with Hatchery Unit), Dimapur	1998-99 to 2007-08
	(vii) Chick Rearing Centre, Tuensang	1985-86 to 2007-08
	(viii) Chick Rearing Centre, Medziphema	1985-86 to 2007-08
	(ix) Pig Breeding Centre, Medziphema	1997-98 to 2007-08
	(x) Pig Breeding Centre, Tizit	1997-98 to 2007-08
	(xi) Pig Breeding Centre, Tuensang	1985-86 to 2007-08
	(xii) Pig Breeding Centre, Mokokchung	1985-86 to 2007-08
	(xiii) Pig Breeding Centre, Tuli (Mokokchung)	1980-81 to 2007-08
	(xiv) Regional Rabbit Breeding Farm, Jharnapani	1998-99 to 2007-08
	(xv) Pig Breeding Centre, Merangkong	1998-99 to 2007-08
	(xvi) Chick Rearing Centre, Kohima	1998-99 to 2007-08
	(xvii) Pig Breeding Centre, Sathuja	1998-99 to 2007-08
	(xviii) Cattle Breeding farm, Baghty	1998-99 to 2007-08
	(xix) Sheep Farm, Poilwa	1998-99 to 2007-08
	(xx) Buffalo Farm, Jalukie	1998-99 to 2007-08
	(xxi) Regional Broiler Centre, Kohima	1998-99 to 2007-08
9.	Farm under Horticulture Department	
	Fruit Canning Factory, Longnak	1993-94 to 2007-08

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 exposes the system to risk of fraud and leakage of public money.

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