FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

THIRTY SIXTH REPORT

(Presented on 18th May, 2017)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2017

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
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THIRTY SIXTH REPORT

On

Kerala Small Industries Development Corporation Limited
(Based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2008)

929/2017.

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

COMPOSITION OF THE COMMITTEE

Chairman :

Shri C. Divakaran.

Members :

Shri T. A. Ahammed Kabeer

Shri K. B. Ganesh Kumar

Shri C. Krishnan

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Shri Thiruvanchoor Radhakrishnan

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Shri Sunny Joseph

Shri C. F. Thomas

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Legislature Secretariat :

Shri V. K. Babu Prakash, Secretary

Smt. P. K. Girija, Additional Secretary

Shri P. B. Suresh Kumar, Deputy Secretary

Smt. Deepa V., Under Secretary.

INTRODUCTION

I. the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the Report on its behalf, present this Thirty Sixth Report on Kerala Small Industries Development Corporation Limited, based on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2008 relating to the Public Sector Undertakings of the State of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended on 31st March, 2008 was laid on the Table of the House on 23-6-2009. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2014-2016 at its meeting held on 6-1-2016.

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 26-4-2017.

The Committee place on record its appreciation for the assistance rendered by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wishes to thank the officials of the Industries Department of the Government Secretariat and Kerala Small Industries Development Corporation Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government-Industries and Finance Departments and the officials of the Kerala Small Industries Development Corporation Limited who appeared for evidence and assisted the Committee by placing their views before it

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
26th April, 2017.

REPORT

ON

KERALA SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED

AUDIT PARAGRAPH

Undue advantage

The Company, which had the objective of developing small scale industries in the State, overburdened the SSI units with ₹ 53 lakh.

The Company, engaged in the promotion of Small Scale Industrial (SSI) units in the State, had been distributing paraffin wax to all the candle manufacturing SSI units and tiny units for the last 30 years. In view of possible exploitation by private traders, the Company submitted (January 2005) a proposal to Government of India (GoI) for import of 1,000 MT of wax under the Japanese Debt Relief Grant Assistance Scheme for distributing the material at affordable price to members of the weaker sections of the society (beneficiaries) engaged in candle manufacturing. Under the Scheme, GoI sanctioned (October 2005) a grant of rupees two crore for the import of wax and the Company utilised (June 2007) ₹ 1.93 crore for the import of 450 MT availing full exemption of customs duty amounting to ₹ 68.96 lakh after execution of bond with customs authorities. During the period from June 2007 to January 2008 the Company distributed 450 MT of wax to SSI units at a price of ₹ 59,000 per MT. In connection with the distribution of wax the Company incurred ₹ 13.60 lakh as additional expenditure. Audit noticed (December 2007) that in respect of indigenous procurement and distribution of wax, the Company adopted the practice of distributing wax to SSI units at purchase cost plus ₹ 1,200 per MT as service charges.

In the instant case, the Company, however, added the exempted customs duty also to arrive at the selling price of ₹ 59,000 thereby overburdening SSI units with the expenditure of ₹ 68.96 lakh not actually incurred. The net gain accrued to the Company by overcharging the SSI units with exempted customs duty, after providing for margin of ₹ 1,200 per MT towards service charges, worked out to ₹ 53 lakh. Thus, under a scheme for distribution of wax, the Company which had the objective of developing small scale industries in the State overburdened the SSI units with exempted customs duty of ₹ 53 lakh. Management stated (July 2008) that they executed a bond for ₹ 81.72 lakh for release of wax without payment of customs duty and if the customs department raised a claim on the Company for customs duty it was bound to pay the duty as per bond executed. However, the Company could have obtained a counter guarantee from the SSI units for liability towards customs duty.

[Audit Paragraph 4.8 contained in the Report of the Comptroller and Auditor general of India for the year ended 31st March 2008]

The notes furnished by Government on Audit Paragraph are given in Appendix II.

1. The Committee observed that the Company under the scheme for distribution of wax to SSI units over charged the units by adding the exempted customs duty of ₹ 53 lakh. The committee pointed out that the over burden of ₹ 53 lakhs upon SSI units could have been avoided if the Company had obtained a counter guarantee from the SSI units.

Conclusion/Recommendations

2. It is with grave concern that the Committee observed that the Company had over burdened the SSI Units with the customs duty that was exempted by adding expenditure that was not actually incurred. The Committee remarks that the Company's action defeats the very objective of developing SSI units for which it was constituted. The Committee points out that the Company could have

avoided the over burden on SSI units by obtaining a counter guarantee from SSI units for any liability of the Company towards customs duty. The Committee directs the Company to be more vigilant in taking decisions that affect SSI units adversely.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
26th April, 2017.

APPENDIX I

SUMMARY OF MAIN CONCLUSION/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations
1	2	3	4
1	2	Industries	It is with grave concern that the Committee observed that the Company had over burdened the SSI Units with the customs duty that was exempted by adding expenditure that was not actually incurred. The Committee remarks that the Company's action defeats the very objective of developing SSI units for which it was constituted. The Committee points out that the Company could have avoided the over burden on SSI units by obtaining a counter guarantee from SSI units for any liability of the Company towards customs duty. The Committee directs the Company to be more vigilant in taking decisions that affect SSI units adversely.

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APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

	Action Taken Statement
	SIDCO had imported 450 MT of Paraffin Wax from China under "Japanese Debt Relief Grant Assistance Scheme" during the Financial Year 2007-08 with an estimated cost of ₹ 193.13 lakh. The import was completed by complying all formalities contained in the Sanction Order No.F25/2001-Jap II dated 13.10.2005 of Government of India, Ministry of Finance & company Affairs, Department of Economic Affairs, japan-II Section. In the sanction letter, there is not any clause for fixing the selling price_of imported Paraffin wax. so all probable expenses were included while fixing the selling price of imported wax and avoiding probable loss to the exchequer and thereby avoiding audit objection. Therefore SIDCO had included ₹ 68.96 lakh payable as customs duty by exemption claimed by executing bond of the Company had not included Customs duty exemption availed by executing bond, and subsequently they would have been liable to pay customs duty the audit party will would have raised query regarding loss incurred to the exchequer. Since the pricing is made within the period of Bond and SIDCO had neither got any orders for sanctioning exemption from Customs Department, nor any alternative was there in front of them other than to include the same also on price fixation and avoid probable loss to the Corporation they had fixed the price for the imported wax without charging service tax and allowed

	₹ 7,360/-per MT as discount to SSI units. Import of paraffin wax might also helped the SSI unit holders and poor labourer depending these units by getting good profit and employment. The sale proceeds of wax had been utilized for procuring and distributing paraffin wax from CPCL, thereby ensured uninterrupted supply of Paraffin wax to SSI units from 2007-08 onwards and guaranteed their jobs. This is also a social cost of import of paraffin wax under JDRGA Scheme. Even though SIDCO had passed subsidy of ₹ 7,360/- per MT to SSI unit holders and not claimed service charge ₹ 1,200 MT, the SSI units had reduced a single paise in the selling price of candles, manufactured by using imported wax. The candle manufacturers had got an advantage of ₹ 7,360+1,200 X 450 =₹38.52 lakhs by purchasing imported paraffin wax. The SSI units had already sold candles on the basis of purchases including custom's duty and the unit holders had not incurred any loss in this deal. The import of paraffin wax was not only beneficial to the candle manufacturing SSI units and the labourers depending these units but also to SIDCO, a Public Sector Undertaking running with an accumulated loss ₹ 44.20 crores up to 31.03.2007, especially the Raw material Division incurring continuous loss and not purposefully gained any undue advantage by including customs duty while fixing selling price, but only reduced the burden of the Thiruvananthapuram Division to that extent. In the above stated position, the Audit objection raised in Para 4.8 may kindly be dropped.

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