FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

THIRTY SEVENTH REPORT

(Presented on 18th May, 2017)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2017

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
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THIRTY SEVENTH REPORT

On

Paragraph 4.9 (2010-2011) of the Report of the Comptroller and Auditor General of India relating to Ten PSUs (Based on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2011)

930/2017.

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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 Seventh Report on paragraph 4.9 (2010-2011) of the Report of the Comptroller and Auditor General of India relating to Ten PSUs, based on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2011 relating to the Public Sector Undertakings of the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended on 31st March, 2011 was laid on the Table of the House on 23-3-2012. 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 places 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 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 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

PARAGRAPH 4.9 (2010-11) OF THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA RELATING TO TEN PSUs

AUDIT PARAGRAPH

Financial Management in four selected areas

We selected twenty Companies from six sectors based on risk analysis for assessing the effectiveness of performance in the following areas pertaining to the period 1st April 2006 to 31st March 2011:

- Deployment of surplus funds
- Disbursement of loans
- Borrowing of funds and
- Payment of taxes and duties

We noticed deficiencies and were of the opinion that they required urgent attention of the Managements of respective Public Sector Undertakings (PSUs).

Deployment of Funds

Incorrect selection of financial institutions for deployment of funds, inappropriate duration of term deposits and avoidable deployment of funds in Current Accounts resulted in loss of interest of ₹6.57 crore, as discussed further.

Time Deposits

Selection of institution

Incorrect selection of the institution for deployment of surplus funds in time deposits by the following nine PSUs ignoring the rates offered by State Treasury which were better than what they carried resulted in foregoing of possible revenue of ₹3.30 crore in 399 cases as tabulated below:

(₹ in lakh)

Name of Company	No of Fixed Deposits (FDs) Instances	Period involved	Range of FDs (₹ in lakh)	Range of Period of FDs (Days)	Rate of interest (ROI) received (%)	Alternative ROI available at State Treasury (%)	Interest foregone (₹ in lakh)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
TELK	31	Jan. 2009 to Oct. 2010	40 to 300	180 to 468	2.00 to 6.25	6.75 to 10.00	68.08
KSPIFCL	48	March 2009 to March 2011	25 to 500	365 to 730	7.00 to 8.80	7.50 to 10.00	64.35
KMML	40	Jan. 2009 to March 2011	15 to 261.93	365	6.50 to 9.00	7.50 to 10.00	63.18
KSIDC	163	Nov. 2007 to March 2011	1.00 to 380.14	180 to 365	6.00 to 8.00	6.75 to 10.00	55.72
TRKL	06	March 2009 to March 2011	9.50 to 556.31	365	5.00 to 8.00	7.50 to 10.00	29.50
KURDFC	49	April 2008 to March 2011	15.90 to 99.00	180 to 556	5.75 to 8.00	6.75 to 10.00	23.11
KSIE	17	Jan. 2009 to Nov. 2010	0.55 to 109.38	365	7.00 to 8.50	7.50 to 10.00	9.74

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
KELTRON	22	May 2006 to Feb. 2011	5.00 to 116.55	181 to 897	4.05 to 7.70	6.50 to 10.00	8.48
KFL	23	May 2009 to Feb. 2011	55.00 to 99.00	180	5.50 to 7.00	6.75 to 8.50	8.21
Total	**399**						**330.37**

Four Companies namely TELK (July 2011), KSPIFCL (August 2011), KSIDC (August 2011) and KMML (August 2011), stated that restrictions imposed by Government/Treasury, operational convenience and facilities for Overdraft(OD)/Cash Credit (CC)/ Letter of Credit (LC)/Working Capital Loan offered by Scheduled Commercial Banks(SCBs) etc. were the major reasons for the preference given to SCBs while depositing the funds.

The replies were not acceptable as Government/Treasury did not impose any restriction for withdrawal of Fixed Deposits(FDs) on maturity. Monetary ceiling for premature closure could be overcome by opening FDs of smaller denominations and also by adopting phased withdrawal. The State Treasury should have been preferred for investment over SCBs as it would have fetched better returns.

About TRKL, Government (October 2011) replied that they parked their deposits with banks for operational convenience. The management stated (August 2011) that they could not monitor their deposits due to shortage of manpower. The reason did not justify the loss of potential interest income of ₹ 29.50 lakh. KSIE stated (August 2011) that they had switched over to deployment of surplus funds in long term FDs with banks because of the OD facility offered to them while KFL replied (August 2011) that the Company could not estimate short term requirement of funds correctly and there were chances of premature closure. The Audit point that these Companies did not beneficially deploy their surplus funds stays, as the Treasury did not discourage premature withdrawals.

Optimal utilisation of increasing interest rates

Treasury periodically revised the rate of interest on Fixed Deposits. Regular monitoring coupled with comparative assessment of continued investment in existing FDs or switching over to new FDs, will help maximisation of interest on investment. No penalty is imposed by the Treasury for premature renewal of term deposits.

- Delay in renewal of term deposits by KSFE on 66 occasions in line with upward revision in interest rates (October 2008) by Treasury resulted in loss of potential earnings of ₹ 13.47 lakh.

The Company replied(August 2011) that the delay in foreclosure of FDs was due to the delay in getting approval from Board of Directors which took all major decisions. Thus, quick decision making was absent, and to overcome this, operational freedom should have been given to functional managers within specific guidelines laid down by the Board of Directors.

- The Company also erred in selection of term deposits for foreclosure which resulted in interest loss of ₹ 10.55 lakh. The Company assured to evolve appropriate methodology for foreclosures.
- Non-closure of existing FDs to redeploy funds when the Treasury had raised rates of interest resulted in loss of potential interest of ₹ 69.09 lakh in KLDB during the period from April 2005 to October 2008.

The Company replied (September 2011) that prior approval of Government was required for opening new Fixed Deposit Account as well as renewal of existing Treasury FD account.

The reply was not tenable since given the benefits involved, operational freedom should have been sought from the Government subject to specific guidelines from the Government.

Inappropriate duration of deposits

Due to lack of planning, the following companies failed to deploy funds in

FDs of longer durations instead of renewing and re-depositing in FDs of shorter durations resulting in foregoing of potential interest income of ₹ 1.31 crore:

(₹ in lakh)

Funds Deployed in	Period involved	Initial Investment	Actual duration of deposits	Alternative long term duration available	Rates of interest (actually earned in deposits) (%)	Rates of Interest for longer duration (%)	Interest Received	Interest that could have been received	Interest foregone
State Treasury	June 2005 to March 2011	2332.13	6 to 13 months	36 months	6 to 9	7.5 to 10	1278.70	1361.25	82.55
SCB	Feb. 2008 to March 2011	1985.85	12 Months	36 months	6.25 to 10	8 to 11	252.24	295.84	43.60
SCB	Jan. 2010 to March 2011	190.00	30 to 46 days	181 to 414 days	3 to 4	6.75 to 7.5	4.58	8.93	4.35
Total		**4507.98**					**1535.52**	**1666.02**	**130.50**

KAMCO replied (August 2011) that the Company was engaged in various diversification/expansion schemes and to ensure fund availability for the same at appropriate time short term FDs were resorted to.

The reply was not tenable since the facility of foreclosure of deposits in Treasury would have taken care of unanticipated cash outflows associated with diversification. As per the Government policy in vogue, there was no restriction /ban for withdrawal of FDs from Treasury.

SILK replied(August 2011) that absence of integrated information system contributed to the loss and it had plans of implementation of fund management techniques.

Current Account Deposits

Avoidable deployment of funds in Current Accounts

In nine companies viz. KFL, TELK, KAMCO, KEPIP, TRKL, KSIE, KMML, KSIDC & KLDB, heavy accumulation of balance in Current Accounts for long durations was noticed. Companies with unpredictable cash flows can resort to Flexi Fixed Deposits (FFDs) so as to avoid idling of fund in Current Accounts and also to earn interest for periods ranging from seven days onwards. FFDs offer the twin advantage of liquidity as well as operational flexibility of Current Accounts coupled with interest returns of Fixed Deposits. All the banking facilities attached to a Current Account like fund transfer methods viz. Real Time Gross Settlement (RTGS)/National Electronic Funds Transfer (NEFT) and Internet banking features are also available to the FFD account holders without involving any extra charge.

The total amount blocked up in Current Accounts of the nine companies for various periods ranging upto 1823 days was equivalent to the idling of ₹ 54.42 crore for one year *(Annexure 18)*. The equated annual idling of funds ranged from ₹ 0.86 crore(KLDB) to ₹ 14.52 crore (KAMCO). This resulted in foregoing of interest income. In the light of the advantages of FFD account, there was a need for these companies to consider availing of this facility.

KAMCO and KSIDC replied (August 2011) that they had opened FFD accounts.

KFL(August 2011), KLDB and KEPIP appreciated (June 2011) the benefits of opening FFD Account and information relating to the progress thereon was awaited(November 2011). About KLDB, Government replied (September 2011) that the interest foregone was not considerable and about TRKL (October 2011), that efforts would be made to open FFDs in future.

KMML replied (August 2011) that they had requested the banks to provide FFD account facility.

KSIE(August 2011) replied that amounts accruing in Current Accounts of the Company at different locations were transferred to OD account and the balance in

Current Account was minimised leading to need of additional funds.

The Corrective actions taken by the Companies were appreciable.

➢ At KEPIP, four dormant Current Accounts in SCBs were observed during the period from April 2006 to February 2011 wherein balances ranging from ₹ 4.00 lakh to ₹ 18.00 lakh were persistently maintained which resulted in forgoing potential interest income of ₹ 7.51 lakh. The Company assured that short term surplus funds would be invested in interest bearing FDs in future (July 2011).

Maximisation of rate of interest

Daily sales collections in all the units of KSBC were transferred to its Current Accounts maintained with Canara Bank, Union Bank of India, Dhanalakshmi Bank Limited and Punjab National Bank in Thiruvananthapuram. After leaving a minimum daily balance of ₹ 2.50 lakh in the accounts, remaining funds were transferred to the Flexi Fixed Deposit Accounts maintained with the same bank. The agreements with the banks provided for re-deployment of funds to earn maximum revenue in the event of revision of rates of interest. The Company did not have a system to daily compare the rates of interest that existed across the banks and to redeploy funds whenever interest rate changes thereby forgoing interest of ₹ 95.50 lakh during 2006-2007 to 2010-2011.

KSBC replied (August 2011) that the loss was worked out by Audit without considering the period of seven days for generation of interest, number of transactions in a bank account and the higher interest earned by the Company by transferring fund from FFD account to Term Deposits with Treasury.

The Period of seven days mentioned in the reply was not relevant to the audit observation. Our comment was restricted to initial deployment of cash collections. The reply with regard to transferring of funds from FFD account to Treasury was not relevant as the calculation done by us pertained to the period when the funds remained with the banks. We were of the opinion that KSBC was providing low cost funds to banks.

Loan Disbursement

Of the selected PSUs we observed inconsistency in lending activity as under:

Non-synchronisation of due dates of loan repayment and bond redemption(KSPIFCL) and non-revision of interest rate linked to increase in cost of funds (KTDFC) resulted in avoidable extra expenditure on interest/short realisation of interest income amounting to₹ 56.24 lakh as discussed further:

- KSPIFCL issued(1 January 2003) redeemable 11.10 per cent bonds worth 200 crore for lending to Kerala State Electricity Board (KSEB) at the rate of 11.75 *per cent.* The bonds carried a put/call option exercisable on or after 1 January 2009. The loan given to KSEB had a repayment schedule of four half yearly installments starting from 30 June 2008. KSEB repaid the first installment of ₹ 50 crore on 30 June 2008. Though the Company offered to redeem bonds worth this amount immediately, only those holding bonds worth ₹ 1.57 crore accepted the Company's offer. Hence the Company could redeem the remaining bonds worth ₹ 48.43 crore (ie. 50 crore - 1.57 crore) only on 1 January 2009. During the intervening period of 184 days (from 30 June 2008 to 31 December 2008) the Company had to park ₹ 48.43 crore in FDs which earned interest at the rate of 9.85 per cent per annum. This resulted in interest loss of ₹ 30.52 lakh towards differential interest (11.10 *per cent* -9.85 *per cent*) payable to bond holders. Had the initial date of repayment of loan by KSEB been synchronised with the call/put option date, the interest loss could have been avoided.

The Company replied(April 2011) that several attempts were made (October 2005 onwards) with KSEB to get the repayment schedule of loan revised but in vain and that the above loss was absorbed in the overall profitability in the bond transaction.

- KTDFC decided in the Board meeting (June 2007) to revise the interest rates of loans under *Aiswarya Griha Scheme* sanctioned thereafter, in tune with the increased cost of borrowings. Loan disbursed (March to May 2006) by KTDFC to three parties- SK Hospital, Credence Hospital and Paramount Photographers provided for revision of interest rates based on the changes in the borrowing cost of the Company. The interest rates of these loans were revised in the Board meeting (November 2008) with effect from June 2008 after a delay of 11 months (for the period from July 2007 to May 2008) resulting in loss of interest income of ₹ 25.72 lakh.

Government replied (August 2011) that the above three loans were housing loans and were sanctioned with fixed interest rates. The loanees objected to the decision to have floating rates and to avoid litigation, it was decided to refix the interest rate and later on bring them under floating interest rate.

The reply was not tenable because the loan agreements clearly indicated that they were sanctioned as floating loans with clear provisions for revision of interest rates.

Borrowings

Ineffective management of loans

Ineffective management of loans resulted in avoidable interest payout of ₹ 94.01 lakh as discussed further:

Three Companies(TELK, UEIL and SILK) did not utilise the available funds in their FDs/Current Accounts for extinguishing the loans/CC/OD availed though the available funds were fetching lesser rates of interest compared to the carrying cost of loans/CC/OD availed. We worked out that this resulted in avoidable interest payout amounting to ₹ 37.93 lakh*(Annexure 19)* as detailed below:

- ➢ Despite having sufficient funds invested in FDs earning interest of 5 *per cent* to 5.25 *per cent* per annum, TELK availed LCs of 90 days duration carrying interest commitments of 12 *per cent* - 2.75 *per cent* during the period from November 2007 to August 2009 for purchases. This resulted in avoidable interest payout of ₹ 25.97 lakh.

TELK replied (August 2011) that the Company was forced to open usance LCs instead of sight LCs as the monopolistic suppliers insisted for the same. Further, the Company could persuade the suppliers to accept sight LCs from 2009 onwards and that lately the company was making advance payments through RGTS mode to avoid interest.

The corrective action taken by the company was appreciable.

- UEIL and SILK failed to transfer surplus funds lying in Current Accounts to Cash Credit Accounts which would have helped in avoiding extra interest expenditure of 11.96 lakh during the period 2007-2011.

About UEIL, Government (October 2011) stated that the funds parked in Current Accounts were received from Public Sector Restructuring and Internal Audit Board (RIAB) against specific undertaking that the same would not be diverted.

CC Account being a standing arrangement for Working Capital, utilisation of Working Capital assistance received from RIAB to mitigate interest burden on CC account did not amount to diversion.

SILK replied (August 2011) that their units were geographically and functionally scattered and that they could not integrate the fund position of its units with the fund requirements which attributed to the loss.

The reply was not tenable because the Company should have developed an integrated information system to ensure effective fund management.

Non-compliance with terms and conditions of borrowings

- CC arrangements opened by KTDFC with two SCBs stipulated that periodical financial statements and statement of debtors shall be furnished by the borrower to the lender, failing which penal interest, limited to two per cent over and above the rate of interest would be levied. On persistent default by the Company (from 2007-08 onwards) in preparation and submission of statements agreed upon, the relevant penal clauses were invoked by the lenders which cost the Company ₹ 36.64 lakh by way of avoidable penal interest.

Government replied (August 2011) that the non-submission of financial statements to the banks was due to retrenchment of almost entire staff of the Company and also due to the delays associated with migration of data to new software. It was also stated that the cost of funds included penal interest charged by banks and the interest charged by the Company on loans were over and above the cost of funds.

Thus, the delay caused in submission of statement to banks resulted in the Company foregoing potential profit of ₹36.64 lakh.

Failure to minimise cost of borrowings

KTDFC had other issues of financial management also. It had CC arrangements with three banks but had no mechanism to ensure that CC limit of the bank offering lowest rate of interest was utilised first at any point of time. We worked out that the Company could have minimised their borrowings cost by ₹ 16.60 lakh by capitalising on the rate differentials, but failed to do so *(Annexure20).*

Similarly, surplus funds (credit balances) were maintained in CC accounts with certain banks while deficit (debit balance) existed in CC account with other banks during the corresponding period. Non- settlement of these deficits resulted in avoidable interest payment of ₹ 2.84 lakh.

Government replied (August 2011), that absence of qualified staff in its finance wing coupled with shortage of staff affected the financial arrangements of the Company adversely. It was further added that the Company did not incur any loss as it gives loans at a rate higher than the rate charged by its banks.

The reply was not tenable as the lapses pointed out persisted up to 2010-11 and staffing issues were sorted out by the Company in 2007-2008. Prudent financial management demanded minimisation of cost and not covering up the inefficiency by passing on the burden to the unsuspecting customers.

Payment of Taxes & Duties and Guarantee Commission

Payment of Advance Income Tax

As per the Section 234 B and C of the Income Tax (IT) Act, 1961, a corporate assessee was to pay 90 *per cent* of the tax in advance when the amount of Tax payable exceeds ten thousand rupees per annum. The Advance Tax was payable in four quarterly instalments between June and March of the corresponding financial year. Excess payment of Advance Tax earned an interest of 6.00 *per cent* per annum until refund was received .It was observed that refund of tax took one to two years to materialise. Similarly for failure to pay instalments of Advance Tax by specified dates, interest was chargeable at the rate of one per cent per month

(Section 234 C of the Act *ibid)* . However, any shortfall in payment of Advance Tax in earlier instalments could be offset by making additional payment during last installment due on 15 March, by which time, Tax liability for the year would be certain. The duration of penalty could thus be restricted to a period not exceeding nine months.

We observed nine instances of overpayment ranging from ₹ 0.10 crore to ₹ 15.57 crore in six companies due to assessment of tax based on budgeted profit rather than working out approximate income based on income of previous 11.5 months, a methodology which had already been recommended by the Committee on Public Undertakings (CoPU). We worked out the associated interest loss at ₹ 3.25 crore *(Annexure 21).*

To estimate the profit accurately, Projected Profit and Loss Account was to be prepared on quarterly basis taking into account Purchase and Sales budgets duly revised, ratio of expenditure to total sales and sales trend during the corresponding months in the previous years, if any. Absence of proper functional budgets or periodical revisions or non-preparation of projected Profit and Loss account on quarterly basis led to wrong estimation of profit resulting in excess payment of Advance Tax.

It was observed in KSFE that the Tax Deducted at Source by banks for each quarter was not considered while ascertaining the tax payable for that quarter thereby resulting in over payment of Advance Income Tax.

KSFE replied (August 2011) that the criteria adopted for computing the Advance Tax Liability was based on the estimated profits as per budgets for the year, profitability trend as well as the payment of Advance Tax for the previous years. However, absence of an integrated real time information system and non-synchronised operation of different wings of the Company hampered timely revision of estimates. Further, there was also demand from the Commissioner of Income Tax, Thrissur for remitting Tax at least equal to that which was remitted in the previous year(2006-07).

About UEIL, Government (August 2011) stated that owing to the change over to new accounting platform, Enterprise Resource Planning, the work of finalising accounts for the year was delayed and they could not come out with accurate figures.

KSIE admitted (August 2011) that there was some excess payment of Advance Tax and stated that they would review and revise budgets periodically to minimise the Advance Tax payments to be made before 15th of March every year.

KSBC replied (August 2011) that, a higher income was estimated at the beginning of the year to avoid the penal interest of 12 *per cent* charged by IT Department for incorrect assessment. It was also stated that the rate of interest on excess Advance Tax offered by IT department was higher than the average interest earned by the company from Flexi Fixed Deposit Accounts. The reply was not acceptable as the rate offered by IT department (six *per cent*) should have been compared with the FD rates offered by Treasury/Banks. The reply with regard to penal interest did not hold good as discussed earlier.

About KTDFC; Government replied (August 2011) that due to heavy arrears in finalisation of accounts coupled with unreliability of the accounting package, the Company had been unable to make a reasonable estimation of the Advance Tax payments, but the Company admitted system lapses as the cause of excess payment of Advance Income Tax.

KMML while admitting (August 2011) the audit observation stated that the Company had changed to a daily profit monitoring system at present which reduces the chances of excess/short payments.

Payment of Income Tax

Income Tax Act does not admit all the expenses unless they comply with the provisions of the Act. Any payment of expense over and above ₹ 20,000 by way of cash rather than by bank would render those expenses inadmissible. The Act also provides for deduction of Tax at Source from expenses in case of consultancies, technical fee, etc., failing which the party liable to collect the Tax at source would have to bear Tax burden. The following companies did not exercise due diligence resulting in avoidable Tax burden to the tune of ₹ 44.69 lakh:

Name of Company	Particulars	Provisions of IT Act	Avoidable payment of Income Tax (₹ in lakh)
KSBC	Due to non-claiming of allowable expenses such as interest/ commission/professional fee etc., paid by the company for which TDS was deducted	Section 40(ia)	15.26
KSBC	Due to payment of expenses above ₹20,000 in cash	Section 40 A(3)	11.99
KTDFC	Due to recognition of fictitious interest income during 2006-2007	NA	14.44
KAMCO	Due to non-deduction of Tax at source from interest/commission/ professional fee etc., paid by the Company	Section 40(ia)	2.21
KMML	Due to payment of expenses above ₹ 20,000 in cash	Section 40 A(3)	0.79
	Total		**44.69**

KSBC, KAMCO and KMML admitted their lapses and assured to ensure avoidance of such lapses in future.

About KTDFC, Government replied (August 2011) that recognition of interest on the amount spent on BOT[10] project was in order and that the Company was entitled to operate the asset over a period of time to recoup the total expenditure incurred with return on investment through user charges namely rent.

The reply was not acceptable as there was no payment of interest by Government. The Company could earn return on investment in the form of rent.

10 Build Operate Transfer.

Payment of Service Tax/Excise Duty

- Though the services rendered by KSIE (Airport Services) were taxable as per the relevant Finance Act, the Company failed to collect/remit Service Tax from the customers resulting in a liability of ₹10.24 lakh.

The Company replied (August 2011) that the Service Tax facilitation charges (₹ 1.05 lakh) was receivable from the airlines. The uncollected Service Tax on unaccompanied baggage (₹ 9.20 lakh) was borne by the Company.

- As per the Rule 3 of the CENVAT Credit Rules 2004, a manufacturer could utilise CENVAT credit against the payment of excise duty. But KMML did not utilise the entire CENVAT available to its credit during the period from April 2006 to February 2011 resulting in an interest loss of ₹ 44.33 lakh.

KMML replied (August 2011) that it had a dispute regarding eligibility of certain input credit with Excise Department and hence the CENVAT credit had been kept unutilised deliberately so as to avoid interest liability in the event of losing the dispute. The reply was not tenable. As per rules, interest liability existed even if the wrongly availed credit had not been utilised.

Payment of Guarantee Commission

KSPIFCL was liable to pay Guarantee Commission (GC) to the Sate Government at the rate of 0.75 *per cent* on the amount guaranteed by the State Government on loans raised by the company. Any default in payment of GC would attract penalty at the rate of 12 *per cent* per annum on amount defaulted. The delayed discharge of liability ranging from ₹ 1.02 crore to ₹ 5.64 crore for periods extending up to 600 days by the Company despite having sufficient funds resulted in avoidable liability of ₹ 1.03 crore as penal interest. Considering the interest realised from investment in FD, which was lower than the GC payable by 4 *per cent* to 8 *per cent,* the Company suffered interest loss of ₹ 41.33 lakh.

The Company admitted the situation and replied (April 2011) that they had approached Government to get the GC payable converted into equity participation of Government in the Company but was rejected (March 2010). A further proposal by the Company for waiver of penal interest was pending with the Government (June 2011).

Reply of Government on Companies except UEIL, KSFDC, KFL, KURDFC, TRKL, KTDFC and KLDB was awaited (November 2011).

[Audit Paragraph 4.9 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2011.]

1. The Committee directed that recommendations made earlier during the consideration of the audit paras of same anomalies should be made applicable to all other PSUs.

2. Based on the above decision of the Committee, the following recommendations of the Committee should be made applicable to the following PSUs :

i) KSEDC

ii) Kerala Live Stock Development Corporation.

iii) Kerala State Film Development Corporation Limited

iv) Kerala Urban and Rural Development Finance Corporation.

v) Kerala State Power & Infrastructure Finance Corporation Limited

vi) KINFRA Export Promotion Industrial Park.

vii) Steel Industries Kerala Limited

viii) Steel & Industrial Forgings Limited

ix) United Electrical Industries Limited

x) Kerala State Industrial Enterprises Limited.

Conclusion/Recommendations

3. The Committee is of the opinion that the failure of the Management in taking appropriate decisions in time and lack of planning has led to the delay in the renewal of term deposits and thereby loss of potential earnings. The Committee further elucidates that the Company could have gained more profit if there was a system which would have enabled to take immediate decisions accurately without waiting for the decision of the Board. The Committee, therefore, recommends that the Company should evolve a suitable alternative mechanism, like formation of a subcommittee of Board, for taking quick decisions in time in order to avoid loss incurred due to the delay in getting approval from the Board of Directors.

4. The Committee is dissatisfied to note many instances of overpayment/short payment of advance Taxes due to the flaws in the system of accounting and absence of an integrated accounting system for different wings of the Corporation. Therefore the Committee directs to introduce a well-regulated mechanism for assessing the Income Tax to minimise the instances of excess payment and also to avoid the payment of penal interest on advance tax.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
26th April, 2017.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations
1	2	3	4
1	3	Industries	The Committee is of the opinion that the failure of the Management in taking appropriate decisions in time and lack of planning has led to the delay in the renewal of term deposits and thereby loss of potential earnings. The Committee further elucidates that the Company could have gained more profit if there was a system which would have enabled to take immediate decisions accurately without waiting for the decision of the Board. The Committee, therefore, recommends that the Company should evolve a suitable alternative mechanism, like formation of a subcommittee of Board, for taking quick decisions in time in order to avoid loss incurred due to the delay in getting approval from the Board of Directors.
2	4	Industries	The Committee is dissatisfied to note many instances of overpayment/short payment of advance Taxes due to the flaws in the system of accounting and absence of an integrated accounting system for different wings of the Corporation. Therefore the Committee directs to introduce a well-regulated mechanism for assessing the Income Tax to minimise the instances of excess payment and also to avoid the payment of penal interest on advance tax.

Annexure 18

Statement showing company-wise details of investible surplus in Current Accounts

(Referred to in paragraph 4.9)

(₹ in lakh)

Sl. No.	Company	Amount accumulated	Period of accumulation (days)	Equivalent annual accumulation
1	KFL	0.01 to 826.80	7 to 1361	674.25
2	TELK	0.04 to 1229.27	7 to 761	641.07
3	KAMCO	0.05 to 1093.99	7 to 1729	1452.31
4	KEPIP	0.01 to 313.07	7 to 1729	555.61
5	TRKL	0.01 to 228.52	7 to 1823	165.51
6	KSIE	0.05 to 122.49	7 to 1752	425.71
7	KMML	0.04 to 2195.84	7 to 923	951.67
8	KSIDC	0.01 to 826.80	7 to 1727	490.83
9	KLDB	0.01 to 87.45	7 to 1823	85.56
	Total			**5442.52**

930/2017.

Annexure 19

Statement showing company-wise details of simultaneous maintenance of loan and idle fund

(Referred to in paragraph 4.9)

(₹ in lakh)

	Average rate of Interest (%)		Avoidable Interest
	Loan/CC/OD/ LC	FD/Current Account	
TELK	12.00 to 12.25	5.00 to 5.25	25.97
UEIL	12.50 to 14.00	0.00 (CA)	6.02
SILK	12.50 to 14.50	0.00 (CA)	5.94
Total			**37.93**

Annexure 20

Statement showing loss due to inefficient utilisation of Cash Credit account facilities by Kerala Transport Development Finance Corporation Limited

(Referred to in paragraph 4.9)

(₹ in lakh)

Period	Rate of advantage forgone (%)	Lowest interest offering Bank	CC availed from	Avoidable interest payment
Feb '10 – Jan '11	1.00 to 2.50	SBH	SBT	10.52
July '06 – Jan '10	0.25 to 1.50	SBT & DBL	SBH	4.46
April'06–June '06	0.50	SBT & SBH	DBL	1.62
			Interest loss	16.60

Annexure 21
Statement showing interest loss due to excess payment of Advance Income Tax
(Referred to in paragraph 4.9)

(₹ in lakh)

Company	Financial year	Total tax payable as per Assessment order/ return	TDS deducted	Total tax paid	Total tax paid including TDS	Excess paid	Percentage of excess	Differential interest rate (FD rate - 6%)	Date of refund/ Status of assessment	Loss of interest till the date of refund/ November 2011
1	2	3	4	5	6 (4+5)	7 (6-3)	8 (7/3*100)	9	10	11
KSBC	2007-08	2305.74	251.08	2653	2904.08	598.34	25.95	4	31.03.2010	47.87
KSBC	2008-09	5728.75	426.3	6523	6949.3	1220.55	21.30	5	Assessment not completed	118.91
KSBC	2009-10	7964.45	417.07	9104.75	9521.82	1557.37	19.55	2	Assessment not completed	30.98
KSFE	2007-08	559.75	13.82	1648	1661.82	1102.07	196.89	4	24.03.2010	88.17
KTDFC	2006-07	24.24	1.71	73.35	75.06	50.82	209.65	4.25	01.10.10	7.65
KMML	2006-07	701.95	341.17	720	1061.17	359.22	51.17	3	30.11.2008 & 30.11.2010	24.39
KSIE	2008-09	184.15	23.3	201	224.3	40.15	21.80	5	Assessment not completed	4.02
UEIL	2007-08	6.9	4.45	16	20.45	13.55	196.38	7	01.03.2010	1.82
UEIL	2008-09	4.43	2.73	12	14.73	10.30	232.51	7	30.11.2010	1.20
Total										325.01

Note: Interest rates adopted for interest loss computation

1) UEIL - Borrowing rate of 13% was considered for the calculation of interest Loss
2) KTDFC - Borrowing rate of 10.25% was considered for the calculation of interest Loss
3) In other cases FD interest rate in Treasury was considered - 9% (w.e.f. 01.04.2007), 10% (w.e.f. 01.04.2008), 11% (w.e.f.01.04.2009) and 8% (w.e.f. 01.04.2010)

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