



FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)**

SIXTY FIFTH REPORT

(Presented on 22nd March, 2018)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2018

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)**

SIXTY FIFTH REPORT

On

KERALA STATE FINANCIAL ENTERPRISES LIMITED

**(Based on the Report of the Comptroller and Auditor General of India for
the year ended 31st March 2015)**

CONTENTS

	<i>Page</i>
Composition of the Committee ..	v
Introduction ..	vii
Report ..	1
Appendix I	
Summary of main Conclusions/Recommendations ..	9
Appendix II	
Notes furnished by Government on the Audit Paragraph ..	10
Appendices referred to in the Audit Report	
Appendix 8 ..	18
Appendix 9 ..	19
Appendix 10 ..	20

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

Shri S. Rajendran

Shri Thiruvanchoor Radhakrishnan

Shri P. T. A. Rahim

Shri Raju Abraham

Shri Sunny Joseph

Shri C. F. Thomas

Shri P. Unni.

Legislature Secretariat:

Shri V. K. Babu Prakash, Secretary

Shri Abdul Kharim A. , Additional Secretary

Shri Mathew Kutty G., 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 Sixty Fifth Report on Kerala State Financial Enterprises Limited, based on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2015 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 31st March, 2015 was laid on the Table of the House on 28-6-2016. 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 2016-2019 and its meeting held on 8-2-2017.

This Report was considered and approved by the Committee(2016-2019) at its meeting held on 12-3-2018.

The Committee place on record their appreciation for the assistance rendered to them 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 Taxes Department of the Government Secretariat and Kerala State Financial Enterprises 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 – Taxes and Finance Departments and the Officials of The Kerala State Financial Enterprises Limited who appeared for evidence and assisted the Committee by placing their views before it.

Thiruvananthapuram,
12th March, 2018.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

REPORT

ON

KERALA STATE FINANCIAL ENTERPRISES LIMITED

AUDIT PARAGRAPH

Compliance of Public Sector Undertakings to the provisions of Income Tax Act, 1961

Scrutiny of compliance of Public Sector Undertakings to the provisions of the Income Tax Act revealed instances of delay in submission of tax returns, non-payment of required amount of advance tax and consequent payment of interest, etc.

3.3 As per section 28 of Income Tax Act, 1961(Act), profits or gains arising out of any business or profession carried out by companies shall be chargeable to income tax. Such companies shall have to file annual return of tax within 30 September of the assessment year¹⁶ under Section 139 of the Act.

Public Sector Undertakings (PSUs) in the State carry on the business of manufacture, trading, financing activities, etc., and hence, are liable to pay tax on profits arising out of such business. A scrutiny of compliance of PSUs to the provisions of the Act was undertaken by Audit. Audit scrutiny revealed instances of avoidable expenditure on account of delay in submission of tax returns, non-payment of required amount of advance tax, etc., by eight¹⁷ PSUs as discussed in succeeding paragraphs.

Avoidable payment of interest due to delay in submission of tax return

Section 139 of the Act requires a company to furnish tax return in the prescribed form on or before the due date i.e. 30th day of September of the assessment year. The tax returns are to be filed after completion of audit of

16 Assessment year is the year immediately following the financial year (F.Y.) wherein the income of the F.Y. is assessed.

17 Kerala Transport Development Finance Corporation Limited, Kerala State Financial Enterprises Limited, Bekal Resorts Development Corporation Limited, Keltron Electro Ceramics Limited, Kerala State Beverages (Manufacturing & Marketing) Corporation Limited, Kerala State Maritime Development Corporation Limited, Kerala State Mineral Development Corporation Limited and Kerala State Civil Supplies Corporation Limited.

accounts of the respective years [Section 139 (6)]. As per Section 140(c), the return shall be verified by the Managing Director. In case of failure to file tax return on or before due date, interest is chargeable on the amount of tax at the rate of one per cent per month or part of the month for delay (Section 234 A of the Act).

Scrutiny of records revealed that in respect of five¹⁸ PSUs, there were delays ranging from one month to eighteen months in filing tax returns of seven assessment years due to delay in finalisation and audit of accounts. As a result, these PSUs had to pay penal interest of ₹ 70.07 lakh under Section 234 A of the Act as tabulated in **Appendix 8**.

Bekal Resorts Development Corporation Limited replied that they had not delayed the tax returns for the assessment year 2014-15.

The reply was incorrect since the Company had delayed filing of tax return for the assessment year 2014-15 by two months and paid interest of ₹ 0.54 lakh due to the delay.

Keltron Electro Ceramics Limited and its Administrative Department¹⁹ replied that it could not file tax return on time due to its inability to pay tax.

The reply was not acceptable since payment of income tax is mandatory and was not dependent on availability of fund.

Kerala Transport Development Finance Corporation Limited, Kerala State Maritime Development Corporation Limited and Kerala State Mineral Development Corporation Limited replied that they could not file tax return on or before due date due to shortage of skilled and trained staff. Administrative Departments²⁰ of these three PSUs endorsed the views of the PSUs.

The replies are not acceptable since the companies could have hired skilled staff for filing tax return in time.

18 Bekal Resorts Development Corporation Limited (2014-15), Keltron Electro Ceramics Limited (2013-14 and 2014-15), Kerala Transport Development Finance Corporation Limited (2012-13 and 2013-14), Kerala State Maritime Development Corporation Limited (2014-15) and Kerala State Mineral Development Corporation Limited (2011-12).

19 Industries Department

20 Administrative Departments of Kerala Transport Development Finance Corporation Limited, Kerala State Maritime Development Corporation Limited and Kerala State Mineral Development Corporation Limited are Transport Department, Fisheries & Ports Department and Industries Department respectively.

Avoidable payment of tax due to delay in submission of tax return of losses

As per Section 72 of the Act, loss under the head "Profits and gains of business or profession" could be carried forward²¹ for eight years and set off against future profit. Such set off is admissible only if the return of loss of the year in which loss is incurred is furnished on or before the due date (Section 80 of the Act).

It was noticed that Kerala State Maritime Development Corporation Limited (KSMDCL) had incurred accumulated loss of ₹ 9.38 crore during the period 2004-05 to 2007-08 which was eligible for carry forward and set off against future profits up to the year 2015-16. KSMDCL did not, however, file tax return for the period 2004-05 to 2007-08 on or before due dates due to delay in finalisation and audit of accounts.

Audit scrutiny further revealed that during the two years 2012-13 and 2013-14, KSMDCL had earned aggregate taxable profit of ₹ 1.43²² crore which was adjustable against loss of ₹ 9.38 crore incurred during the period 2004-05 to 2007-08. Since the tax returns for 2004-05 to 2007-08 were not filed on or before due dates, the benefits of set off could not be availed of and KSMDCL had to pay avoidable tax of ₹ 38.22 lakh²³.

KSMDCL stated (September 2015) that delay in filing of return was due to delay in finalisation of accounts.

The reply was not acceptable since KSMDCL had the option to appoint tax auditors for tax audit under Section 44 of the Act in case of delay in finalisation of accounts.

21 As per Section 72 of the Act, if loss of any business/profession (other than speculative business) cannot be fully adjusted in the year in which it is incurred, then the unadjusted loss can be carried forward for making adjustment in the next year against income charged to tax under the head "Profits and gains of business or profession".

22 ₹ 1.33 crore in Financial Year 2013-14 and ₹ 0.10 crore in Financial Year 2012-13.

23 Including interest of ₹ 4.74 lakh paid under Sections 234A, 234B and 234C of the Act.

Avoidable payment of interest due to failure/ defaults in payment of advance tax

Section 208 of the Act stipulates that every company shall pay advance tax during the financial year when amount of tax payable exceeds ₹ 10,000. Failure to pay at least 90 per cent of the tax in advance by March attracts interest at the rate of one per cent per month or part of a month (Section 234B of the Act).

Scrutiny of records revealed that there was shortage in payment of advance tax by seven PSUs in respect of 14 Assessment Years as these PSUs could remit advance tax ranging from 1.06 per cent to 76.58 per cent only within stipulated dates while one PSU²⁴ did not remit any advance tax at all. As a result, these eight PSUs had to pay interest of ₹ 15.98 crore under Section 234B as tabulated in **Appendix 9**.

Default in payment of required amount of advance tax was due to noncompliance with provisions of the Act on computation of advance tax by estimating current income after giving due consideration to last assessment, last return, tax deducted at source, etc.

Avoidable payment of interest due to non-payment of quarterly instalments of advance tax

Section 211 of the Act stipulates that advance tax has to be paid in instalments. Companies are to pay advance tax in a staggered manner in four quarterly instalments²⁵ between June and March of the corresponding financial year. If any instalment is not paid or less paid, interest is chargeable²⁶ for non-payment or late payment of such instalment. Audit noticed 17 instances where the companies could not pay the required advance tax in four instalments on or before due dates prescribed. The interest paid due to deferment of advance tax worked out to ₹ 6.49 crore as tabulated in **Appendix 10**.

Kerala State Financial Enterprises Limited stated (August 2015) that the short payment was due to lack of availability of information from branches at the time of payment of advance tax which would be rectified by implementation of Core Solution Software connecting all branches.

²⁴ Kerala State Maritime Development Corporation Limited.

²⁵ 15 per cent by 15th June, 45 per cent by 15th September, 75 per cent by 15th December and 100 per cent by 15th March.

²⁶ At the rate of one per cent per month (Section 234C of the Act).

The reply was not acceptable as a similar assurance was given by the Management in June 2012 when similar issue was brought to their notice, which was not acted upon.

Bekal Resorts Development Corporation Limited stated that a refund claim was pending with Income Tax Department and hence, advance tax not paid. The fact, however, remains that Income Tax Department has not yet (September 2015) admitted the refund.

KSMDCCL stated (October 2015) that payment of interest under Sections 234 B and 234 C was due to erroneous accounting of loss incurred out of the project executed for Port Department.

The reply was not acceptable since the error in accounting had resulted in avoidable expenditure of ₹ 4.12 lakh.

Kerala State Beverages (Manufacturing & Marketing) Corporation Limited stated that they could not estimate its tax liability accurately due to wide variation in monthly sales and hence, could not avoid interest under Sections 234 B and 234 C of the Act.

The reply was not acceptable as the Company could have paid the required amount of advance income tax by estimating tax liability approximately using the management information system existing in the Company thereby avoiding payment of interest under Sections 234 B and 234 C of the Act.

Kerala State Civil Supplies Corporation Limited replied that writing off of accumulated interest on Government loan was only a book adjustment in the account of the Company without any inflow of cash, which ultimately resulted in payment of tax. The Company also replied that interest paid for non-remittance of income tax was not much, compared to the interest paid on cash credit.

The reply was not acceptable since payment of income tax was mandatory and the Company could have taken into account the waiver of interest while paying income tax.

Avoidable payment of tax due to failure to deduct tax at source

As per Section 194 C of the Act, companies are required to deduct two per cent income tax at source from payments made to contractors for carrying out any contractual work. Tax so deducted shall be paid to the credit of Government on or before seven days from the end of the month in which the deduction is made and before 30th day of April in the case of deductions made in March (Rule 30 of Income Tax Rules, 1962). Non-compliance with the above provisions would render expenditure on the contract work inadmissible in computing the income chargeable under the head Profits and Gains of business or profession as per Section 40(a) (ia) of the Act.

It was noticed that Kerala State Mineral Development Corporation Limited had failed to deduct and remit tax on payment of ₹ 3.13 crore made to contractors in 2010-11 as a result of which the expenditure was disallowed from computing the taxable income of the PSU. Hence, the Company became liable to pay income tax of ₹ 1.02 crore, which was avoidable.

The Company replied that the problem occurred due to its inability to meet the tax liability on account of acute shortage of fund and lack of qualified or experienced accounting personnel to handle the payment of TDS on or before the due date.

The reply was not acceptable since payment of income tax is mandatory and was not dependent on availability of fund. Further, the Company could have hired qualified or experienced accounting personnel to handle the payment of TDS.

The matter was reported (October 2015) to Government; their reply in respect of four PSUs²⁷ is awaited (December 2015).

Though the Administrative Departments concerned were invited (October 2015) for discussing the matter, they did not respond.

[Audit Paragraph 3.3 contained in the Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended on 31st March 2015]

²⁷ Kerala State Financial Enterprises Limited, Kerala State Civil Supplies Corporation Limited, Bekal Resorts Development Corporation Limited and Kerala State Beverages (Manufacturing and Marketing) Corporation Limited.

Notes furnished by the Government on the Audit Paragraph is given in **Appendix-II.**

1. The Committee enquired about the non-payment of the required amount of advance tax and consequent payment of interest during the assessment year 2010-11 to 2013-14 due to non-compliance with the provisions of Income Tax Act, 1961. The witness admitted the default and revealed that some variations occurred while calculating the advance tax for the year 2012-13 and the accounts were prompt this year onwards.

2. The Committee sought explanation for the huge disparity that arose in the calculation of advance tax. The witness informed that the variation in the advance tax was due to the difference between actual taxable income and anticipated income, which were manually calculated. He explained that there was an exceptional income of ₹63.69 crore in the financial year 2011-12, which was not estimated at the time of payment of advance tax and that also caused the huge variation. The Committee was not convinced with the explanation and expressed its strong discontent over the exorbitant loss incurred by the Company and remarked that the statement submitted by KSFE was not satisfactory. The Committee also observed that the accounting and financial management system in KSFE were not proper.

3. When the Committee enquired about the progress of Core Banking System, the Managing Director informed that Core Banking System was implemented at around 400 branches among the 568 active branches of KSFE

4. To a query of the Committee on the Internal Audit Wing of the Company, the witness replied that there were 20 internal audit teams in its centres for auditing and field visit under the supervision of the Deputy General Manager.

5. The Committee opined that the performance of internal audit team was not satisfactory and expressed its displeasure on the inefficiency of the internal audit wing and remarked that there were 20 audit wings in KSFE throughout the State which has only 14 districts. The Committee observed that even though KSFE was a profit making Company and had better financial position at that time, the authorities did not remit required amount of advance tax in time thereby incurring exorbitant loss.

6. The Committee expressed its strong displeasure over the lethargic attitude of the authorities of KSFE in handling the matters of the company leniently without utilizing its better facilities.

Recommendations

7. The Committee wants to be furnished with an authentic explanation regarding the huge variation in the advance tax calculation in the years 2011-12 and 2012-13.

8. The Committee recommends to fix responsibility for the loss sustained by the KSFE and impose penalty from the erring officials for violating provisions of the Income Tax Act, 1961.

9. The Committee recommends to implement the Core Banking System in all branches of KSFE at the earliest and to submit the report to the Committee.

10. The Committee recommends that the KSFE authorities should not repeat the instances of non-payment of required amount of advance tax in due date and to avoid payment of interest due to default in payment of advance tax in future.

11. The Committee wants KSFE to furnish a detail report on the payment of defaulted amount of advance tax interest under section 234B&C of The Income Tax Act, 1961, and the details of progress made by the KSFE in implementing the rectification measures to avoid payment of interest on Advance Tax.

12. The Committee recommends that KSFE should maintain the accounts promptly in order to avoid penal interest for delayed tax payment.

13. The Committee recommends to improve the existing financial management in KSFE in more effective manner.

Thiruvananthapuram,
12th March, 2018.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSION/RECOMMENDATIONS

Sl. No.	Para No.	Department concerned	Conclusions/Recommendations
1	7	Taxes	The Committee wants to be furnished with an authentic explanation regarding the huge variation in the advance tax calculation in the years 2011-12 and 2012-13.
2	8	„	The Committee recommends to fix responsibility for the loss sustained by the KSFE and impose penalty from the erring officials for violating provisions of the Income Tax Act, 1961.
3	9	„	The Committee recommends to implement the Core Banking System in all branches of KSFE at the earliest and to submit the report to the Committee.
4	10	„	The Committee recommends that the KSFE authorities should not repeat the instances of non-payment of required amount of advance tax in due date and to avoid payment of interest due to default in payment of advance tax in future.
5	11	„	The Committee wants KSFE to furnish a detail report on the payment of defaulted amount of advance tax interest under section 234B&C of The Income Tax Act, 1961, and the details of progress made by the KSFE in implementing the rectification measures to avoid payment of interest on Advance Tax.
6	12	„	The Committee recommends that KSFE should maintain the accounts promptly in order to avoid penal interest for delayed tax payment.
7	13	„	The Committee recommends to improve the existing financial management in KSFE in more effective manner.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

Serial No.	Audit Paragraph	Reply furnished by Government												
1	2	3												
1	3.3	<p>Assessment Yearwise details for Shortage in payment of advance tax and payment of interest due to non payment of quarterly instalments of advance tax are given below.</p> <p>Assessment Year 2010-11</p> <p>Company has paid advance tax installments within the due date specified under Income Tax Act, 1961. Details of advance tax paid for the assessment year 2010 – 11 are as follows:</p> <table border="1" data-bbox="784 447 1136 648"> <thead> <tr> <th>Date of Payment</th> <th>Amount of Advance tax (Rs.)</th> </tr> </thead> <tbody> <tr> <td>10.06.2009</td> <td>20000000</td> </tr> <tr> <td>14.9.2009</td> <td>40000000</td> </tr> <tr> <td>15.12.2009</td> <td>40000000</td> </tr> <tr> <td>12.3.2010</td> <td>27500000</td> </tr> <tr> <td>Total</td> <td>127500000</td> </tr> </tbody> </table> <p>A provisional financial statement was prepared and based on that advance tax was paid. Since there were some variations between taxable income as per the provisional financial statement and audited financials, Company has paid interest u/s 234 B and 234 C. At the time of preparing the provisional statement some of the incomes such as Forman's commission and interest on loans, Valuation of employee terminal benefits, etc. cannot be estimated with 100% accuracy, Some of the information from branches was not available at the time of making payment of advance tax. It is to be mentioned that the shortfall in advance tax has been productively utilized by the Company and thereby the effect of interest payment is neutralized to a great extent.</p> <p>The Company has developed a Core Banking Solution (CASBA)</p>	Date of Payment	Amount of Advance tax (Rs.)	10.06.2009	20000000	14.9.2009	40000000	15.12.2009	40000000	12.3.2010	27500000	Total	127500000
Date of Payment	Amount of Advance tax (Rs.)													
10.06.2009	20000000													
14.9.2009	40000000													
15.12.2009	40000000													
12.3.2010	27500000													
Total	127500000													

which is currently implemented at around 200 Branches and the I.T.Department of the company is committed to roll-out the core solution to the entire branches by 31st March 2017. Once the Core Solution is implemented to all Branches, branch profits can be assessed and consolidated on a monthly basis and tax assessment and remittance can be done more accurately.

Presently preparation of financial statements is done manually by the branches. Consolidation of financial statements is also done manually and it takes much time for consolidation and audit of 600 branches by auditors. It is therefore submitted that the levy of interest u/s 234 B and 234 C is because of above factors which is beyond the control of the company.

Assessment Year 2011-12

The Kerala State Financial Enterprises Ltd has filed its return of income for the Assessment year 2011 -12 within the due date, that is on 28.09.2011. Statutory audit was not completed before the due date for filing the return of income and hence return of income was filed provisionally.

Company has paid advance tax installments within the due date specified under Income Tax Act, 1961. Details of advance tax paid for the assessment year 2010 - 11 are as follows:

Date of Payment	Amount of Advance tax (Rs.)
15.06.2010	20700000
14.9.2010	41300000
10.12.2010	41300000
15.3.2011	50000000
Total	153300000

Since there were some variations between taxable income as per the provisional financial statement and audited financials, company has paid interest u/s 234 B and 234 C. At the time of

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preparing the provisional statement some of the incomes such as Forman's commission and interest on loans, Valuation of employee terminal benefits, etc. cannot be estimated with 100% accuracy. Also some of the information from branches was not available at the time of making payment of advance tax. This has resulted in difference between Actual taxable income and Provisional income. This is the main reason for interest charged u/s 234 B and 234 C. But the shortfall in advance tax has been productively utilized by the Company and thereby the effect of interest payment is neutralized to a great extent.

Unlike private sector, PSUs cannot file return of income immediately on closing, since the company has to wait for various regulatory/Governmental audits before convening Annual General Meeting of each financial year. Hence, all these procedures are to be completed before taking up the audit of subsequent financial year and delay at any of the stages will cause for delay in subsequent financial years.

The Company has developed a Core Banking Solution (CASBA) which is currently implemented at around 200 Branches and the I.T.Department of the company is committed to roll-out the core solution to the entire branches by 31st March 2017.

Presently, preparation of financial statements is done manually by the branches. Consolidation of financial statements is also done manually and it takes much time for consolidation and audit of 600 branches by auditors. All these factors have resulted in delay in completion of statutory audit within the time. Only after completion of statutory audit balance tax can be paid/settled and revised return can be filed.

Assessment Year 2012-13

The Kerala State Financial Enterprises Ltd has filed its return of income for the Assessment year 2012 -13 within the due date, that is on 28.09.2012. Statutory audit was not completed before

the due date for filing the return of income and hence return of income was filed provisionally.

Company has paid advance tax instalments within the due date specified under Income Tax Act, 1961. Details of advance tax paid for the assessment year 2010 - 11 are as follows:

Date of Payment	Amount of Advance tax (Rs.)
15.06.2011	24600000
15.09.2011	49200000
15.12.2011	49200000
15.3.2012	67000000
Total	190000000

Since there were some variations between taxable income as per the provisional financial statement and audited financials, company has paid interest u/s 234 B and 234 C. At the time of preparing the provisional statement some of the incomes such as Forman's commission and interest on loans, valuation of employees terminal benefits etc cannot be estimated with 100% accuracy. Also some of the information from branches was not available at the time of making payment of advance tax.

In addition to this, there were some exceptional incomes in the financial year 2011 -12 which was not estimated at the time of payment of advance tax. As per the audited financial statements, there is a Prior Period income of Rs.63.79 crores whereas in the financial year 2010 -11, it was only Rs.27.59 lakhs. The details of major items of Prior Period income are as given below:

Nature of item	31.03.2012 (Rs.)	31.03.2011 (Rs.)
Profit on chitty substituted	75423754	34870
Contribution to PF	41864908	0
Guarantee Commission	102631505	0
Salaries and Allowances	416107108	0
Total	636927275	34870

The exceptional income were occurred on account of the following reasons.

- a). The company had detected a serious irregularity/fraud in

			<p>the accounts of 2010-11. Accordingly in the Annual General Meeting conducted for the above year decided to seek the opinion of A.G. on the issues and decided to rectify the accounts in the immediate next financial year (2011-12).</p> <p>b) In consequence of the irregularity detected and as decided in AGM, the Company had to rectify the serious irregularity and accordingly the Company had to account the following amount as income under the head prior period income for the Financial year 2011-12.</p> <table border="0"> <tr> <td>Salaries and allowances(Pay revision)</td> <td>Rs. 41,61,07,108</td> </tr> <tr> <td>Profit on chitty substituted by the company</td> <td>Rs. 7,54,23,754</td> </tr> </table> <p>c) During the financial year 2011-12, the Company has also detected and reversed the excess guarantee commission of Rs.10,26,31,505/- shown as payable in the books. The reversal of excess guarantee commission is also confirmed by the Government, vide their letter No.14/PU-B3/2015/FIN dated 23.05.2015.</p> <p>d) The total of the above three items has made an impact to the extend of Rs.60 crores as income in the year 2011-12 which was beyond the control. Accordingly, the Company had incurred interest under 234 B and 234 C on the above amount of Rs. 60 crores.</p> <p>e) The impact of interest u/s 234 B on the above exceptional items(b) & (c) are worked out as below.</p> <table border="0"> <tr> <td>Total income on the item No.(b)&(c)</td> <td></td> </tr> <tr> <td>(Rs.416107108+75423754+102631505)</td> <td>= 59,41,62,367.</td> </tr> <tr> <td>Tax due on Rs. 594162367 @ 32.445%</td> <td>is Rs. 19,27,75,980.</td> </tr> </table> <p>Interest u/s. 234B on the above amount of Rs. 19.28 crores @ 1% from 01.04.2012 to the date of determination of total income u/s 143(1) and where a regular assessment is made, to the date of such regular assessment, which will works out to Rs. 6.0 crores. The regular assessment for the F.Y. 2011-12 is completed on 12.03.2015 and levied an interest of 6.12 crores.</p>	Salaries and allowances(Pay revision)	Rs. 41,61,07,108	Profit on chitty substituted by the company	Rs. 7,54,23,754	Total income on the item No.(b)&(c)		(Rs.416107108+75423754+102631505)	= 59,41,62,367.	Tax due on Rs. 594162367 @ 32.445%	is Rs. 19,27,75,980.
Salaries and allowances(Pay revision)	Rs. 41,61,07,108												
Profit on chitty substituted by the company	Rs. 7,54,23,754												
Total income on the item No.(b)&(c)													
(Rs.416107108+75423754+102631505)	= 59,41,62,367.												
Tax due on Rs. 594162367 @ 32.445%	is Rs. 19,27,75,980.												

			<p>From the above it is evident there was an exceptional income of Rs.63. 69 crores in the financial year 2011- 12. These items cannot estimate at the time payment of advance tax which is normally done based on the available information in hand at that time. This is the sole reason for payment interest u/s 234 B and 234 C in the assessment year 2012 – 13.</p> <p>Moreover, the delay in respect of completion of Statutory Audit which is due to many reasons. Unlike private sector, PSUs cannot file return of income immediately on closing, since the company has to wait for various regulatory/governmental audits before convening Annual General Meeting of each financial year.</p> <p>The Company has developed a Core Banking Solution (CASBA) which is currently implemented at around 200 Branches and the I.T.Department of the company is committed to roll-out the core solution to the entire branches by 31st March 2017.</p> <p>Presently preparation of financial statements is done manually by the branches. Consolidation of financial statements is also done manually and it takes much time for consolidation and audit of 600 branches by auditors.</p> <p>Only after completion of statutory audit balance tax can be paid/settled and revised return can be filed. It is therefore submitted that the levy of interest u/s 234 B and 234 C is because of above factors which is beyond the control of the company.</p> <p>Assessment Year 2013-14</p> <p>The Kerala State Financial Enterprises Ltd has filed its return of income for the Assessment year 2013 -14 within the due date, that is on 30.09.2013. Statutory audit was not completed before the due date for filing the return of income and hence return of income was filed provisionally. Therefore no interest is levied u/s 234 A for the Assessment Year 2013 -14.</p>	
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Company has paid advance tax instalments within the due date specified under Income Tax Act, 1961. Details of advance tax paid for the assessment year 2010 - 11 are as follows:

Date of Payment	Amount of Advance tax (Rs.)
15.06.2012	30000000
14.9.2012	87000000
15.12.2012	10800000
15.3.2013	164500000
Total	389500000

Since there were some variations between taxable income as per the provisional financial statement and audited financials, company has paid interest u/s 234 B and 234 C. At the time of preparing the provisional statement some of the incomes such as Forman's commission and interest on loans, Valuation of employee terminal benefits, etc. cannot be estimated with 100% accuracy. Also some of the information from branches was not available at the time of making payment of advance tax. This has resulted in difference between Actual taxable income and Provisional income. This is the main reason for interest charged u/s 234 B and 234 C. it is to be mentioned that the shortfall in advance tax has been productively utilized by the company thereby the effect of interest payment is neutralized to a great extent.

The delay in respect of completion of Statutory Audit which is due to many reasons. Unlike private sector, PSUs cannot file return of income immediately on closing, since the company has to wait for various regulatory/governmental audits before convening Annual General Meeting of each financial year. Hence, all these procedures are to be completed before taking up the audit of subsequent financial year and delay at any of the stages will cause for delay in subsequent financial years.

The Company has developed a Core Banking Solution (CASBA) which is currently implemented at around 200 Branches and the

			<p>I.T.Department of the company is committed to roll-out the core solution to the entire branches by 31st March 2017. Once the Core Solution is implemented to all Branches, branch profits can be assessed and consolidated on a monthly basis and tax assessment and remittance can be done more accurately.</p> <p>Presently, preparation of financial statements is done manually by the branches. Consolidation of financial statements is also done manually and it takes much time for consolidation and audit of 600 branches by auditors.</p> <p>Only after completion of statutory audit balance tax can be paid/settled and revised return can be filed. It is therefore submitted that the levy of interest u/s 234 B and 234 C is because of above factors which is beyond the control of the company.</p> <p>The Company is also now taking all precautions and steps to speed up the audit at various levels and the statutory audit of 2015-16 is currently progressing well at Regional level and Regional consolidation will be completed on or before 10th October 2016 and H.O. level audit and consolidation will be completed within 60 days from the date of completion of Regional level consolidation.</p> <p>In view of action plan and road map of implementation of I.T. Core solution at all branches by 31st March 2017, we request you to kindly close the audit para on the subject.</p>
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Appendix 8
Statement showing interest paid due to delay in filing tax return

(Referred to in paragraph 3.3)

Sl. No.	Name of PSU	Assessment Year	Due date	Filed on	Delay (days)	Interest paid under section 234(A) (₹ in lakh)	Total (₹ in lakh)
1	Bekal Resorts Development Corporation Limited	2014-15	30.09.14	29.11.14	60	0.54	0.54
2	Keltron Electro Ceramics Limited	2013-14	30.09.13	20.11.14	416	3.44	4.55
		2014-15	30.09.13	23.06.15	266	1.11	
3	Kerala Transport Development Finance Corporation Limited	2012-13	30.09.12	29.03.13	180	41.95	44.10
		2013-14	30.09.13	30.10.13	30	2.15	
4	Kerala State Maritime Development Corporation Limited	2014-15	30.09.14	29.11.14	60	0.63	0.63
5	Kerala State Mineral Development Corporation	2011-12	30.09.11	30.03.13	547	20.25	20.25
Total							70.07

Appendix 9

Statement showing interest paid due to shortage in payment of advance tax

(Referred to in paragraph 3.3)

Sl. No.	Name of PSU	Assessment Year	Amount of tax due (₹ in lakh)	Percentage of advance tax/TDS paid to total tax liability	Interest paid under section 234B (₹ in lakh)	Total (₹ in lakh)
1	Kerala Transport Development Finance Corporation Limited	2012-13	714.62	2.16	83.90	98.97
		2013-14	663.13	67.54	15.07	
2	Kerala State Financial Enterprises Limited	2010-11	1708.14	76.58	51.60	831.84
		2011-12	2325.23	66.92	73.31	
		2012-13	4824.58	38.84	612.47	
		2013-14	5473.33	71.24	94.46	
3	Bekal Resorts Development Corporation Limited	2012-13	27.63	29.81	1.50	6.10
		2013-14	45.96	23.88	2.45	
		2014-15	64.78	58.59	2.15	
4	Keltron Electro Ceramics Limited	2013-14	26.98	2.01	3.10	4.48
		2014-15	14.40	14.35	1.38	
5	Kerala State Beverages (Manufacturing & Marketing) Corporation Limited	2013-14	2425.04	63.66	52.87	52.87
6	Kerala State Maritime Development Corporation Limited	2014-15	31.48	0.00	2.53	2.53
7	Kerala State Mineral Development Corporation	2011-12	102.59	1.06	40.50	40.50
8	Kerala State Civil Supplies Corporation Limited	2010-11	1487.16	1.17	560.39	560.39
Grand Total						1597.68

Appendix 10

Statement showing payment of interest due to non-payment of quarterly instalments of advance tax

(Referred to in paragraph 3.3)

Sl. No.	Name of PSU	Assessment Year	Interest Paid (₹ in lakh)	Total (₹ in lakh)
1	Kerala Transport Development Finance Corporation Limited	2012-13	35.29	63.24
		2013-14	27.95	
2	Kerala State Financial Enterprises Limited	2010-11	11.55	455.59
		2011-12	45.13	
		2012-13	156.29	
		2013-14	125.65	
		2014-15	116.97	
3	Bekal Resorts Development Corporation Limited	2012-13	0.98	4.10
		2013-14	1.77	
		2014-15	1.35	
4	Keltron Electro Ceramics Limited	2013-14	1.34	1.96
		2014-15	0.62	
5	Kerala State Beverages (Manufacturing & Marketing) Corporation Limited	2013-14	19.64	46.39
		2014-15	26.75	
6	Kerala State Maritime Development Corporation Limited	2014-15	1.59	1.59
7	Kerala State Mineral Development Corporation	2011-12	1.46	1.46
8	Kerala State Civil Supplies Corporation Limited	2010-11	74.22	74.22
Grand Total				648.55

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