



FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

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

SIXTEENTH REPORT
(Presented on 9th March, 2017)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2017

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

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

SIXTEENTH REPORT

On

**Kerala Agro Machinery Corporation Limited
(Based on the Report of the Comptroller and
Auditor General of India for the year ended
31 March, 2011)**

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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

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

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 Sixteenth Report on Kerala Agro Machinery Corporation Limited, 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 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 were made by the Committee on Public Undertakings constituted for the years 2014-2016.

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 2-3-2017.

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 express thanks to the officials of the Agriculture Department of the Government Secretariat and the Kerala Agro Machinery 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-Agriculture and Finance Departments and the officials of the Kerala Agro Machinery Corporation Limited who appeared for evidence and assisted the Committee by placing their views before it.

Thiruvananthapuram,
9th March, 2017.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

REPORT
ON
KERALA AGRO MACHINERY CORPORATION
LIMITED (KAMCO)

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 1 April 2006 to 31 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

Inappropriate duration of deposits

Due to lack of planning, the company 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 ₹ 82.55 lakh:

Name of the company	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
KAMCO	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

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.

Current Account Deposits

Avoidable deployment of funds in Current Accounts

Heavy accumulation of balance in Current Accounts for long durations was noticed in the Company. 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 Company for various periods ranging from 7 to 1729 days was equivalent to the idling of ₹ 14.52 crore (*Annexure 18*). 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 replied (August 2011) that they had opened FFD accounts.

The corrective actions taken by the Companies were appreciable.

Payment of Taxes and Duties and Guarantee Commission

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 Company did not exercise due diligence resulting in avoidable Tax burden.

Name of Company	Particulars	Provisions of IT Act	Avoidable payment of Income Tax (in lakh)
KAMCO	Due to non-deduction of Tax at source from interest/commission/professional fee etc. paid by the Company	Section 40 (i a)	2.21

KAMCO admitted its lapses and assured to ensure avoidance of such lapses in future.

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

Notes on Audit Paragraph furnished by the Government are given in Appendix II.

1. The Committee sought explanation from the witness regarding the deposit of surplus fund of KAMCO in the State Treasury for shorter duration of 6 to 13 months and subsequently renewing it every time instead of long term deposit for 36 months which resulted in an interest loss of ₹ 82.55 lakh. The witness replied that the Corporation being a manufacturing Company, the fund requirements are met from the Company's resources itself and the Company is punctilious in settling the bills of the suppliers. He added that if the funds were deposited in the treasury for long periods, the company could not withdraw the amount in time. Since withdrawal of ₹ 50 lakh & above need consent from the treasury as well as the Finance Department, in order to ensure the fund availability for business in time, the Company deployed funds in fixed deposit of shorter duration and based on the recommendation of A.G. the Company started FFD accounts to ensure increased rate of interest on funds.

2. The Committee enquired why the Company did not deduct TDS which resulted in an avoidable payment of Income Tax of ₹ 2.21 lakh. The witness replied that such a lapse occurred due to ambiguity in the orders and lack of awareness among the staff. The witness also informed that the amount was recovered from the responsible persons and exact amount of tax has been deducted for the time being.

Conclusions/Recommendations

3. The Committee takes stock of the Government reply with regard to the unscrupulous deposit of surplus fund in State Treasury for shorter duration instead of longer durations. The Committee grudgingly admits the reply and warns the

corporation that in future it should be more judicious and vigilant while depositing surplus funds to avoid interest loss.

4. The Committee shows its displeasure towards the laxity shown by the Corporation in exercising due diligence in deducting TDS in time and thereby inviting extra tax burden. The Committee insists that such negligence should not be repeated and advises to take precautions to avoid these types of lapses in future.

Thiruvananthapuram,
9th March, 2017.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

APPENDIX - 1

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No	Para. No.	Department Concerned	CONCLUSIONS/ RECOMMENDATIONS
(1)	(2)	(3)	(4)
1	3	Agriculture Department	The Committee takes stock of the Government reply with regard to the unscrupulous deposit of surplus fund in State Treasury for shorter duration instead of longer durations. The Committee grudgingly admits the reply and warns the corporation that in future it should be more judicious and vigilant while depositing surplus funds to avoid interest loss.
2	4	Agriculture Department	The Committee shows its displeasure towards the laxity shown by the Corporation in exercising due diligence in deducting TDS in time and thereby inviting extra tax burden. The committee insists that such negligence should not be repeated and advises to take precautions to avoid these types of lapses in future.

APPENDIX - II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPH

Sl. No.	Audit Paragraph	Reply Furnished by Government
1	4.9 (2010-11)	<p>In the audit paragraph, mention has been made about the duration of deposits in which it has been stated that due to non investment in higher interest bearing Term Deposit with Treasury there was a loss of interest to the tune of Rs. 82.55 lakhs. In this connection, it may kindly be noted that KAMCO is engaged in various Diversification/expansion activity for which urgent fund requirements are met from own resources of the company and with a view to ensure availability of fund at the needy point, deposits were made for shorter durations. KAMCO is a manufacturing company whose purchase of raw material's made at very competitive rates. Suppliers are willing to supply the material at such competitive rates due to the fact that their bills are settled without any inordinate delay. Prompt payments to suppliers, ensuring due liquidity is possible when deposits do not carry long durations. KAMCO is a government company and they have to keep their excess reserves in Government Treasury only. Otherwise, the funds could have been invested in alternate channels where more returns vis-a-vis liquidity are ensured. It may also kindly be noted that based on the recommendation by AG. KAMCO have already started flexi-deposit scheme in current account to ensure increased rate of interests on funds.</p> <p>2. Disbursement of loans – Not applicable to KAMCO as no loans are availed or disbursed by KAMCO.</p> <p>3. Borrowing of funds - KAMCO have no borrowings. Hence not applicable.</p>

		<p>Payment of taxes and duties:- With regard to payment of income tax to the tune of 2.21 lakhs, all necessary precautions are being made to recover the TDS from payments being made as per rules laid down. In certain instances, there had been alternate interpretations of relevant sections which resulted in recovery being made at lower rates. However, Government will ensure that no such instances are occurring in future. Further, all statutory taxes and duties are being remitted promptly by KAMCO except in cases of pending appeals/stays etc from competent authorities.</p>
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Annexure 18
Statement showing company-wise details of investible surplus in Current Accounts
(Referred to in paragraph 4.9)

<i>(₹ in lakh)</i>				
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

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