



**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2006-2008)**

**SIXTH REPORT**

**(Presented on 17th October, 2006)**

**SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2006**

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**SIXTH REPORT**

**On**

**The Travancore Cements Limited based on the Report of the  
Comptroller and Auditor General of India  
for the year ended 31-3-2003 (Commercial)**

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## INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2006-2008), having been authorized by the Committee to present the Report on their behalf, present this Sixth Report on the Travancore Cements Limited based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended 31-3-2003, was laid on the Table of the House on 28-6-2004. 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 2004-2006.

This Report was considered and approved by the Committee at the meetings held on 9-10-2006.

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

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and The Travancore Cements Ltd. for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Industries Department and Finance Department and the officials of The Travancore Cements Ltd. who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,  
17th October, 2006.

*Chairman,  
Committee on Public Undertakings.*

## REPORT

### THE TRAVANCORE CEMENTS LIMITED

#### AUDIT PARAGRAPH

##### *Avoidable extra expenditure :*

Irregular accounting treatment of transfer of raw materials on job work as sales resulted in avoidable payment of sales tax of Rs. 18.96 lakh.

The Company, engaged in the production of white cement and cement paint, had entered into (November 1995) agreements with two co-operative societies for the manufacture of "Super Shalcem Cement Paint" on behalf of the Company on 'job work' basis. White cement, the raw material required for the purpose, was provided by the Company. The cement paint manufactured by the societies using the raw material was delivered to the Company for sale. In its books of accounts for the years 1993-94 to 1996-97, the Company showed the transfer of white cement as sale to the societies and paid concessional rate of tax under section 5(3) of the Kerala General Sales Tax Act @ 2.5 to 3 per cent plus 10 per cent surcharge on the ground that white cement was a raw material for the manufacture of cement paint. At the same time, the finished product received back and sold was also treated as sale necessitating payment of sales tax @ 18 to 24 per cent plus 10 per cent surcharge. In view of the fact that the issue of materials to the societies for job work did not involve any transfer of property in the goods for a consideration, such transfer actually did not attract payment of sales tax.

On completion (November 1999) of sales tax assessment for the said years, the assessing officer disallowed the claim for concessional rate of tax and assessed the transfer of white cement to the societies @ 20 per cent plus 10 per cent surcharge. The Company had remitted (June 2000 to February 2002) the tax assessed by the sales tax authorities for the purpose of filing appeal. The appeal filed by the Company against the demand for additional tax is pending (August 2003) with Sales tax Appellate Tribunal. Thus, failure on the part of the Company in ensuring proper accounting of the transfer of materials issued for job works resulted in avoidable payment of sales tax of Rs. 18.96 lakh.

Government stated (September 2003) that the Company had shown white cement issued to the societies for manufacture of cement paint on job work basis as sales in the accounts and due to the method of accounting, the sale of cement paint also was shown in the sales tax returns as sales. The Company also could not produce Form-18 declaration to claim concessional rate of sales

tax since the societies expressed inability to issue the forms. The reply is not tenable since the avoidable payment of sales tax was necessitated due to defective method of accounting of transfer of materials for job works as ultimate sale.

[Para 4.8--Contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2003]

The notes furnished by Government on the para is given in Appendix II.

1. The Committee expressed its dissatisfaction for the delay in furnishing Government reply to the audit paragraph. The Committee pointed out that it took more than two years for furnishing reply to the Committee and urged the Industries Department to respect the Legislature Committees and directed that top priority should be given for furnishing replies to Audit paragraphs in time.

2. The Committee pointed out that poor accounting system and improper treatment of transfer of raw materials issued for job work to two women co-operative societies resulted in the avoidable payment of Rs.18.96 lakhs as sales tax. The Committee wanted to know who was responsible for this and enquired whether any action has been initiated against him. The witness replied that the respective officers were not in service.

3. Replying to another question, the witness stated that a review petition had been filed to reopen the case. The Committee opined that inordinate delay had occurred in filing the case and enquired whether the Company had sought explanations from the internal auditors and chartered accountant who had audited the accounts of the Company, since they were also responsible for the loss sustained to the Company. The witness informed that on examination of records of the Company, it was found that no such steps had been taken in this regard. The Committee enquired whether the Company had made any contact with the statutory auditor/internal auditor who had audited the accounts of the Company to compensate the loss. The witness did not give a satisfactory reply. The Committee also enquired whether the Company had taken any concrete measures to avoid similar lapse in future, the witness replied in the negative and added that nothing had been done to fix responsibility in the matter.

4. The Committee pointed out that the statement of sales tax assessment of the Company was prepared by the internal auditors and chartered accountants and as such it was a serious lapse on the part of the auditors not to have pointed out the mistake in time. The Committee remarked that it revealed the incompetency and inefficiency of the management of the Company.

The Committee also observed that the Company was misleading, by giving erroneous reply and remarked that the financial management was extremely poor and ineffective.

5. The Principal Secretary, Industries Department stated that the company was promoting two women's societies who were converting cement into cement paints and the product was being sold to the Company itself. The transfer of cements to the societies for job work was treated as sales even though it did not involve any transfer of goods, it was only a conversion and therefore did not attract payment of sales tax. It was during the assessment of the women societies that the mistake was pointed out to the Societies and they stopped paying sales tax from 1997 onwards. The Company had, sought permission for filing fresh returns and if they got permission, they would also get refund of the amount. The Committee urged that the Company should explore the legal means for refunding the amount.

#### **Conclusions/Recommendations**

6. The Committee finds that defective method of accounting of the materials transferred to two women Co-operative Societies resulted in avoidable payment of Rs. 18.96 lakhs as sales tax. The Committee opines that management of the Company especially the financial management is ineffective. The Committee learns that no corrective measures had been taken by the Company to avoid similar lapses in future. The Committee understands that inordinate delay had occurred in filing the case to get the amount refunded and no explanation was sought from the auditor for not claiming the compensation. The Committee, therefore, recommends that stern action should be taken against those who were responsible for the heavy loss.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,  
17-10-2006.

*Chairman,  
Committee on Public Undertakings.*



## APPENDIX I

## Summary of Main Conclusions/Recommendations

<i>Para No.</i>	<i>Department Concerned</i>	<i>Conclusion/Recommendation</i>
6	Industries	<p>The Committee find that defective method of accounting of the materials transferred to two women Co-operative Societies resulted in avoidable payment of Rs. 18.96 lakhs as sales tax. The Committee opines that management of the company especially the financial management is ineffective. The Committee learns that no corrective measures had been taken by the company to avoid similar lapses in future. The Committee understands that inordinate delay had occurred in filing the case to get the amount refunded and no explanation was sought from the auditor for not claiming the compensation. The Committee, therefore, recommends that stern action should be taken against those who were responsible for the heavy loss.</p>

## APPENDIX II

## NOTES FURNISHED BY GOVERNMENT ON AUDIT PARA

**Report of the Comptroller and Auditor General of India for the year  
Ended 31-3-2003 (Commercial) Relating to Travancore  
Cements Ltd.—Action Taken Statement**

<i>Para No.</i>	<i>Recommendations</i>	<i>Action Taken</i>
(1)	(2)	(3)
48	<p>The Company, engaged in the production of white cement and cement paint, had entered into (November 1995) agreements with two co-operative societies for the manufacture of 'Super Shelcem Cement Paint' on behalf of the Company on 'job work' basis. White cement, the raw material required for the purpose, was provided by the Company. The cement paint manufactured by the societies using the raw material was delivered to the Company for sale. In its books of accounts for the years 1993-94 to 1996-97, the Company showed the transfer of white cement as sale to the societies and paid concessional rate of tax under section 5 (3) of the Kerala General Sales Tax Act @ 2.5 per cent to 3 per cent plus 10 per cent surcharge on the ground that white cement was a raw material for the manufacture of cement paint. At the same time, the finished product received back and sold was also treated as sale necessitating payment of sales tax @ 18 per</p>	<p>The Travancore Cements Ltd. had appointed the Thiruvananthapuram Vanitha Paint Nirmana Vyavasaya Sahakarana Sangham, B4 Industrial Estate, Pappanamcode, Thiruvananthapuram and Cement Paint Manufacturing Vanitha Industrial Co-operative Society Ltd., Kadakkarappally Industrial Estate, Cherthala to manufacture cement paint, viz. "Super Shelcem" on behalf of the Company from 1991-92 onwards. Agreements were also executed for it. This was a job work given to the Co-operative Societies according to which the raw materials including white cement from the Company were supplied to the Societies and the finished products viz. "Super Shelcem" cement paint are collected back and marketed by the Company. This process is being continued.</p> <p>During the beginning two years the Company supplied white cement to the Societies as sales at a concessional sales tax rate of 2.5 to 3% (as applicable for respective years) and the society gave Form-18 treating it as sales. From 1993-94</p>

(1)	(2)	(3)
<p>cent to 24 per cent plus 10 per cent surcharge. In view of the fact that the issue of materials to the societies for job work did not involve any transfer of property in the goods for a consideration, such transfer actually did not attract payment of sales tax.</p>	<p>On completion (November 1999) of sales tax assessment for the said years, the assessing officer disallowed the claim for concessional rate of tax and assessed the transfer of white cement to the societies @ 20 per cent plus 10 per cent surcharge. The Company had remitted (June 2000 to February 2002) the tax assessed by the sales tax authorities for the purpose of filing appeal. The appeal filed by the Company against the demand for additional tax is pending (August 2003) with Sales Tax Appellate Tribunal.</p>	<p>onwards, the societies did not issue the Form 18 because of the directions in their sales tax assessment. Since then, the Societies did not treat the supply of white cement by the Company as purchase or return of the "Super Shclcem" as sales considering it as job work. Hence the total amount of arrears of sales tax for non-submission of Form 18 for the period from 1993-94 to 1996-97 comes to Rs. 18,96,425 as per the assessment made by the sales tax authorities.</p>
<p>Thus, failure on the part of the Company in ensuring proper accounting of the transfer of materials issued for job works resulted in avoidable payment of sales tax of Rs. 18.96 lakh.</p>	<p>Government stated (September 2003) that the Company had shown white cement issued to the societies for manufacture of cement paint on job work basis as sales in the accounts and due to</p>	<p>In the circumstances, the Company modified and corrected the accounting system from 1-4-1997 immediately on the receipt of the assessment orders of the Sales Tax authorities treating the transactions as stock transfer for job works. Since then the societies are not required to submit Form 18 and that the additional payment of sales tax on this account as pointed out in the para has been avoided. The Company has also filed review petitions before Sales Tax authorities to reopen this issue for the period from 1993-94 to 1996-97 and to make revised assessment to correct the transactions as stock transfer for job works as pointed out in the report of the Comptroller and Auditor General of India.</p>

(1)	(2)	(3)
	<p>the method of accounting, the sale of cement paint also was shown in the sales tax returns as sales. The Company also could not produce Form-18 declaration to claim concessional rate of sales tax since the societies expressed inability to issue the forms. The reply is not tenable since the avoidable payment of sales tax was necessitated due to defective method of accounting of transfer of materials for job works as ultimate sale.</p>	