



TWELFTH KERALA LEGISLATIVE ASSEMBLY

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

THIRTY NINTH REPORT

(Presented on 19th September, 2007)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2007

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**On
Kerala Transport Development Finance Corporation Limited based on the
Reports of the Comptroller and Auditor General of India for the
years ended 31-3-2004 and 31-3-2005 (Commercial).**

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2006-2008), having been authorised by the Committee to present the Report on their behalf, present this Thirty Ninth Report on Kerala Transport Development Finance Corporation Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March 2004 and 31st March 2005 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the years ended 31-3-2004 and 31-3-2005 (Commercial) were laid on the Table of the House on 5-7-2005 and 13-2-2006. 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 2006-2008.

This Report was considered and approved by the Committee at the meeting held on 17-9-2007.

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 Transport Department of the Secretariat and Kerala Transport Development Finance Corporation 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, Transport Department and Finance Department and the officials of Kerala Transport Development Finance Corporation, who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

Thiruvananthapuram,
19th September, 2007.

MANKODE RADHAKRISHNAN,
Chairman,
Committee on Public Undertakings.

REPORT

KERALA TRANSPORT DEVELOPMENT FINANCE CORPORATION LIMITED

AUDIT PARAGRAPH

Avoidable payment of interest

Failure to estimate income correctly for purpose of income tax resulted in avoidable payment of interest of Rs. 15.18 lakh.

As per Section 208 of the Income Tax Act, 1961, companies having taxable income had to pay advance tax every quarter (15th of June, September, December and March) @ 15, 45, 75 and 100 per cent on the estimated income failing which penal interest was payable under Section 234 C on the short paid amount. If the total advance tax so paid is less than 90 per cent of the assessed tax, penal interest is also payable under Section 234 B on the amount by which the advance tax paid fell short of the assessed tax.

The Company had a taxable income of Rs. 3.22 crore for the assessment year 2001-02 and the income tax payable thereon was Rs. 1.27 crore. The Company, however, did not reckon the entire interest accrued on loans to Kerala State Road Transport Corporation as income for purpose of payment of advance tax. Consequently the advance tax paid for all the quarters for the previous year 2000-01 fell short of the requirement by Rs. 61.83 lakh. The Company as such had to pay interest of Rs. 15.18 lakh under Section 234 B & C.

Thus, the failure of the Company to estimate the income for the year 2000-01 correctly, resulted in avoidable payment of interest of Rs. 15.18 lakh despite availability of surplus funds for payment of advance tax.

Government stated (July 2004) that there was uncertainty in realisation of income from Kerala State Road Transport Corporation due to which minimum advance tax was paid and revised return filed subsequently with penalty for deferment of tax.

The reply is not tenable since the short-fall of advance tax and resultant payment of penal interest was due to the hybrid system of accounting followed by the Company by recognizing the interest income alone on cash basis.

[Para 3.6 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2004, Commercial]

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

1170/07.

(1) The Committee pointed out that the income estimated for the purpose of income tax by the company was incorrect. The Committee wanted to know the system of accounting followed by the company for the purpose of estimating income tax. The witness stated that the company was following the accrual system of accounting and added that 80% of the income of the Company was from Kerala State Road Transport Corporation (KSRTC). K.S.R.T.C. had defaulted in repayment and when the default was continued the Board of Directors of the Company decided to change over to the cash system of accounting from December 1999. The witness further informed that as advised by the Department of Company Affairs, the company tried to get special permission from the Reserve Bank of India and Taxation Authorities, but it did not succeed. The Committee pointed out that the Company had lost Rs. 15.18 lakhs due to payment of interest on short paid advance tax even though surplus fund was available. Moreover if the advance tax by the company exceeded the actual amount to be paid, excess amount and interest on it would have been refunded. The witness stated that the Company had switched over to cash system of accounting in order to avoid NPA classification of the company and the resulting difficulty to generate funds. As per the IT Act accrual system had to be followed and the company is doing so from February, 2001. She added that at present the company is paying its dues correctly and in time.

Conclusions / Recommendations

(2) **The Committee finds that Kerala Transport Development Finance Corporation Ltd had lost Rs. 15.18 lakh due to payment of interest on short paid advance tax inspite of the fact that surplus fund was available and there exists provision for refund of excess tax paid with interest on it, by Income Tax Department. The Committee understands that Kerala Transport Development Finance Corporation Ltd had switched over to hybrid system of accounting even though accrual system of accounting is mandatory as per Income Tax Act and Companies Act. The Committee therefore recommends that the company should be more cautious and take necessary steps to avoid such instances in future.**

(3) **The Committe also recommends that the Company should forward the copy of the Agenda notes and minutes of the meetings of the Director Board to the Accountant General (Audit) without fail.**

AUDIT PARAGRAPH:

Avoidable expenditure

The Company procured thermal paper rolls without inviting tenders which resulted in extra expenditure of Rs. 21.82 lakh.

As a part of its advertisement campaign, the Company which is engaged in financing the Kerala State Road Transport Corporation (KSRTC), decided (July 2003) to advertise on the reverse side of the paper rolls used by KSRTC in their Electronic Ticketing Machines. As a consideration for allowing advertisement, the Company agreed (July 2003) to supply the thermal paper rolls with necessary advertisement free of cost for a period of six months up to November, 2003. The period of free supply was further extended (November 2003) for another six months up to July 2004.

The Company appointed (August 2003), Panchami Systems, Thiruvananthapuram (PS) as the supplier of thermal paper rolls with advertisement on the reverse side, at Rs. 19.50 per roll. The Company supplied two lakh paper rolls received from PS during the period August 2003 to July 2004 at a total cost of Rs. 39 lakh to KSRTC.

It was noticed during audit that the Company did not give adequate publicity while selecting (August 2003) PS as the supplier; the rate of Rs. 19.50 per roll was finalised without inviting formal tenders relying on the quotations received through KSRTC. When compared to the rate of Rs. 19.50 per roll at which orders were placed by the Company on PS, the rate offered by another firm (Gopsons papers, Noida) in response to the tenders invited (December 2003) by KSRTC was only Rs. 8.59 per roll inclusive of cost of printing advertisement. With reference to this the additional expenditure incurred by the Company on two lakh paper rolls at the rate of Rs. 10.91 per roll worked out to Rs. 21.82 lakh.

Thus, due to procurement of thermal paper rolls without inviting open tenders, the Company incurred avoidable extra expenditure of Rs. 21.82 lakh.

The Government stated (July 2005) that an immediate decision on procurement was required by the Company since Electronic Ticketing Machine was inaugurated in August 2003 which necessitated the supply of thermal paper rolls with advertisement immediately. Therefore, a decision was taken with available quotations at that point of time. The reply is not tenable since KSRTC decided to implement Electronic Ticketing Machine in February 2003; the Company had enough time to invite tenders and avail of the advantage of reduced rates in the procurement of paper rolls.

[Para 4.2. contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2005, Commercial]

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

(4) The Committee enquired why Kerala Transport Development Finance Corporation Ltd had procured thermal paper rolls for the use of Kerala State Road Transport Corporation in their Electronic Ticketing Machines without inviting tenders and without following the conditions laid down in the Store Purchase Manual.

(5) The witness explained that the decision for the purchase was taken by the Board as requested by Kerala State Road Transport Corporation and added that it was not an item of the Kerala Transport Development Finance Corporation. Kerala Transport Development Finance Corporation was asked to procure the item at a time when Kerala State Road Transport Corporation was introducing Electronic Ticketing Machines urgently. The witness further stated that Gopsons papers, Noida quoted Rs. 8.59 per roll for 72 lakh rolls while the Kerala Transport Development Finance Corporation ordered only 2 lakh rolls.

(6) The Committee observed that considering the urgency the company could have purchased the item for the first six months but the company had bought it for another six months also. The Committee enquired why Kerala Transport Development Finance Corporation had undertaken the work for which tenders were not invited by it. The Committee further wanted to know whether the company was aware of the fact that Kerala State Road Transport Corporation had not invited tenders for the purchase when the Board decided to buy the items for Kerala State Road Transport Corporation. The witness replied in the affirmative and added that since the Chairman cum-Managing Director of Kerala State Road Transport Corporation and Chairman, Kerala Transport Development Finance Corporation were one and the same person, the request for the purchase was given by him and approved by the Board. To a specific question, the witness informed the Committee that Shri Rajasekharan IAS, was the Managing Director of KSRTC at that time. The Committee opined that there was enough time to undertake the purchase in a transparent manner.

(7) When the opinion of the Finance Department was sought, it was stated that the procedure followed for the purchase was illegal and provisions in the Store Purchase Manual were not followed in the deal. Kerala Transport Development Finance Corporation cannot act on the sole reason that the request had been brought by the Chairman and it had to be included in the Agenda of the Board meeting. The basic formalities like inspecting quantity and quality and examining the rates quoted by the probable suppliers were not done in this case. The Director Board should have examined all aspects before placing orders.

Conclusions/Recommendations

(8) The Committee understands that Kerala Transport Development Finance Corporation has procured thermal paper rolls for the use of KSRTC in the Electronic Ticketing Machines without following the conditions laid down in the Store Purchase Manual. The Committee further learns that the Kerala Transport Development Finance Corporation was aware that KSRTC had not invited tenders for the work and not observed the basic formalities of examining quantity, quality and the probable rates before placing purchase orders. The Committee is not satisfied with the explanation that the paper rolls were needed urgently, since the decision to implement Electronic Ticketing Machine was taken in February, 2003, though it was inaugurated only in August, 2003.

(9) The Committee opined that Kerala Transport Development Finance Corporation cannot act on the sole reason that the request for the purchase was brought by the Chairman, who was also the Chairman of KSRTC.

(10) The Committee finds no justification in the haste and unlawful purchase and therefore recommends that the matter should be seriously looked into and responsibility should be fixed and the action taken in this regard should be intimated to the Committee. The Committee desires to be furnished with the details of the system now being followed in the supply of thermal paper rolls.

Thiruvananthapuram,
19th September, 2007.

MANKODE RADHAKRISHNAN,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

<i>Sl.No.</i>	<i>Para No.</i>	<i>Department Concerned</i>	<i>Conclusions / Recommendations</i>
1	2	3	4
1	2	Transport Department	The Committee finds that Kerala Transport Development Finance Corporation Ltd had lost Rs. 15.18 lakh due to payment of interest on short paid advance tax inspite of the fact that surplus fund was available and there exists provision for refund of excess tax paid with interest on it, by Income Tax Department. The Committee understands that Kerala Transport Development Finance Corporation Ltd had switched over to hybrid system of accounting even though accrual system of accounting is mandatory as per Income Tax Act and Companies Act. The Committee therefore recommends that the company should be more cautious and take necessary steps to avoid such instances in future.
2	3	Transport Department	The Committee also recommends that the Company should forward the copy of the Agenda notes and Minutes of the meetings of the Director Board to the Accountant General (Audit) without fail.
3	8	„	The Committee understands that Kerala Transport Development Finance Corporation has procured thermal paper rolls for the use of KSRTC in the Electronic Ticketing Machines without following the conditions laid down in the Store Purchase Manual. The Committee further learns that the Kerala Transport Development Finance Corporation was aware that KSRTC had not invited tenders for the work and not observed the basic formalities of examining quantity, quality

1	2	3	4
			and the probable rates before placing purchase orders. The Committee is not satisfied with the explanation that the paper rolls were needed urgently, since the decision to implement Electronic Ticketing Machine was taken in February, 2003, though it was inaugurated only in August, 2003.
4	9	Transport Department	The Committee opined that Kerala Transport Development Finance Corporation cannot act on the sole reason that the request for the purchase was brought by the Chairman, who was also the Chairman of KSRTC.
5	10	„	The Committee finds no justification in the haste and unlawful purchase and therefore recommends that the matter should be seriously looked into and responsibility should be fixed and the action taken in this regard should be intimated to the Committee. The Committee desires to be furnished with the details of the system now being followed in the supply of thermal paper rolls.

APPENDIX II

NOTES FURNISHED BY GOVT. ON THE AUDIT PARAGRAPHS

TRANSPORT (A) DEPARTMENT

<i>Sl. No.</i>	<i>Audit Para No.</i>	<i>Action Taken</i>
(1)	(2)	(3)
1	3.6	<p>The Company's main object is to finance transport vehicles required or used by a person, firm and companies particularly by KSRTC and the company has been doing the same from the date of inception.</p> <p>Out of the total loans outstanding as on 31st March 2001, the loans to KSRTC constitute 83.41% and thereby the income from KSRTC loans constitutes to 78.84% of the total interest income of the company. During 2000-2001, KSRTC had defaulted in repaying the amounts due to Kerala Transport Development Finance Corporation on account of the difficult financial position of KSRTC. There was uncertainty in realization of income and hence the Board of Directors of Kerala Transport Development Finance Corporation in the 47th meeting held on 24-2-2001 had decided to follow accrual system of accounting and pay minimum advance tax of Rs. 35 lakhs and file revised return to the Income tax authorities with penalty for deferment of tax, if any.</p> <p>This shortfall in remittance of Advance Tax was not deliberate. KSRTC had defaulted in making loan repayments on account of the difficult financial position and due to the uncertainty as to when these amounts will be realized or whether these dues have to be written off fully or in part, the company was compelled to take these decisions so that unnecessary amounts would not paid as tax.</p> <p>Subsequently, KSRTC laons were rescheduled at a lower interest rate on 31-1-2002 and KSRTC had remitted certain amounts to clear off their dues upto</p>

(1)	(2)	(3)
		<p>the date of re-schedulement. Based on this reschedulement, the company had computed the income tax payable for the financial year 2000-2001 and the shortfall in advance tax payments was remitted alongwith penal interest.</p>
2	4.2	<p>The cost quoted for 2 lakh paper rolls and 72 lakh paper rolls cannot be compared. The rate quoted for 2 lakh paper rolls was for a piecemeal purchase for the purchase of huge quantities for a period of 2 years.</p> <p>There is only one other Transport Corporation where electronic ticketing machine has been introduced. The quotes given to KTDfC was at a point of time when this new system was introduced in KSRTC. After six months of successful functioning of the system, when KSRTC had invited tenders for 72 lakh rolls, then it is quite-apparent that new companies would give their offer and that too at a lower rate considering the huge quantum of business that could be obtained by them.</p> <p>Though a particular firm had quoted Rs. 8.59 per roll to KSRTC at a much later date, they have not ensured uninterrupted supply to KSRTC. Also the two other firms which had offered to supply free of cost to KSRTC have not yet started the supply.</p> <p>An immediate decision was required from both KSRTC and KTDfC since Electronic Ticketing Machines were inaugurated in August 2003 and this necessitated the supply of thermal paper rolls with advertisements immediately. Therefore a decision was taken, based on the available quotations received at that point of time.</p> <p>Under these circumstances the decision of the Board of Directors regarding supply of thermal paper roll to KSRTC with KTDfC advertisement was done in</p>

(1)	(2)	(3)
		<p>the best interest of the Corporation in order to get maximum advertisement benefits for Kerala Transport Development Finance Corporation through information that KSRTC had decided to implement Electronic Ticketing Machine in February 2003 itself. In July 2003 vide letter No. 493/2002 dated 4-7-2003 KSRTC had requested Kerala Transport Development Finance Corporation to supply 500 paper rolls per day with immediate effect. Only at that point of time the issue of supply of thermal paper roll came before KTDFC. The electronic ticketing machines were inaugurated in August 2003 and Kerala Transport Development Finance Corporation did not have adequate time for purchase of paper rolls after tender. An immediate decision for purchase of paper rolls was required since KSRTC Board had decided to implement the same immediately. Hence, a quick decision was taken based on the available quotations received at that point of time in order to ensure immediate supply of thermal paper rolls. Later, in November 2003, when the request of KSRTC was again received, the Kerala Transport Development Finance Corporation Board took a decision to continue the supply taking into consideration the immediate requirement of KSRTC and for ensuring uninterrupted supply. The total requirement was not specified by KSRTC during these times and therefore the total quantity of full supply could not be estimated. If adequate time and details were available from KSRTC and if it were a routine item of KTDFC, then tenders would have been invited.</p> <p>Hence it is requested that the above explanations may be accepted and further action in the matter may be dropped.</p>