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**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2008-2011)**

**SEVENTY FOURTH REPORT**

(Presented on 30th June, 2009)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2009

TWELFTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2008-2011)**

**SEVENTY FOURTH REPORT**

**On**

**[The action taken by Government on the Recommendations contained in the  
Fifty Fifth Report of the Committee on Public Undertakings  
(2001-2004) relating to Kerala State Beverages  
Corporation Ltd. based on the Report of the  
Comptroller and Auditor General of India  
for the years ended 31st March 2000 & 2001  
(Commercial)]**

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## COMMITTEE ON PUBLIC UNDERTAKINGS (2008-2011)

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Smt. D. Kumari Girija, Joint Secretary

Shri J. Unnikrishnan Nair, Deputy Secretary

Smt. L. Sailaja, Under Secretary.

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\* Resigned from K. L. A. w.e.f. 28-5-2009.

## INTRODUCTION

I, Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Seventy Fourth Report on the action taken by Government on the recommendations contained in the Fifty Fifth Report of the Committee on Public Undertakings (2001-2004) on the working of the Kerala State Beverages Corporation Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31<sup>st</sup> March 2000 & 2001(Commercial)

The Statements of action taken by the Government included in this Report were considered by the Committee constituted for the year 2006-2008.

This Report was considered and approved by the Committee at the meeting held on 20-5-2009.

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

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,  
30-6-2009.

*Chairman,  
Committee on Public Undertakings.*

## **REPORT**

This Report deals with the action taken by Government on the recommendations contained in the Fifty Fifth Report of the Committee on Public Undertakings (2001-2004) relating to the Kerala State Beverages Corporation Limited, based on the Reports of the Comptroller and Auditor General of India for the years ended 31<sup>st</sup> March 2000 and 31<sup>st</sup> March 2001 (Commercial) which was presented to the House on 20<sup>th</sup> January, 2004.

The Report contained eight recommendations. Government furnished replies to seven recommendations. The Committee (2006-2008) considered the replies received from the Government at its meeting held on 3-10-2008.

The Committee accepted the replies to the recommendations 1 (35), 2 (36), 4 (38), 5 (39), 6 (40) and 8 (42) without any remarks. These recommendations and their replies form Chapter I of the Report.

The reply to the recommendation No.3 (37) was accepted by the Committee with remarks. Chapter II contains this recommendation, its reply, its remarks, and also the recommendation No.7 (41) and the remarks of the Committee.

## CHAPTER I

**Replies furnished by Government on the recommendations of the Committee which have been accepted by the Committee without remarks**

<i>Sl. No.</i>	<i>Para. No.</i>	<i>Department Concerned</i>	<i>Conclusions/ Recommendations</i>	<i>Action Taken By Government</i>
(1)	(2)	(3)	(4)	(5)
1	35	Taxes	The Committee understands that the Kerala State Beverages Corporation is working on a very high profit when compared to other PSUs in the State. The contribution of the Company to the State exchequer in 2001-02 has been increased by 28% to 1310 crores from Rs.1023 crores during the previous year. The Company has also opened 245 new retail outlets and is on the path of further expansion. The Committee appreciates the Company for presenting such a bright picture.	The observation have been noted by the Company.
2	36	„	The Committee finds that as per the general decision Kist was to be levied in a particular year at 25% above the average kist of the previous year. But it is seen that the Kist paid by the retail outlets of the Kerala State Beverages	Surcharge on Sales Tax has been reduced from 10% to 5%. Hence there is difficulty for considering the proposal for rationalisation of Kist.



(1)	(2)	(3)	(4)	(5)
			<p>Corporation was more than the prescribed rate and in some cases it has gone up to 216% of the average rental paid by other private shops. The Committee points out that this kind of fixation of rental would finally land the Company in trouble and the Company may run into huge loss ultimately. The Committee therefore, recommends that Kist should be levied only according to the norms fixed so that any loss to the Company by the operation of the rental outlets due to the high rate of Kist is reduced to the minimum.</p>	
4	38	Taxes	<p>The Committee understands that when the turnover tax and duty was high the sales was less but sales had gone up in 1999 when the duty was reduced. This shows that sales would increase if duty is decreased. From the evidence given by the Company representatives, it is clear that if duty is decreased, sales of seconds could also be curbed. The Committee therefore</p>	<p>A Comparative study of tax rate and sale of IMFL would reveal that inspite of the increased tax rate on IMFL from time to time the sales had gone up marginally. Even though the tax rate on IMFL had gone from 75% to 90% during 2003-04, the quantitative sale of IMFL during 2003-04 was 105.98 lakh cases compared with that of 64.51 lakh cases during 1999-2000.</p>

(1)	(2)	(3)	(4)	(5)
			recommends that some arrangements should be made in the turnover tax to curb sales of seconds and to augment the profit of the Company.	Tax collection on IMFL and beer during 1999-2000 was Rs. 676.26 crores whereas during 2003-04 it had boosted to Rs. 1164.18 crores. As a general principle high rate of taxation and duty will lead to evasion of tax and decrease in turnover. But in the case of IMFL the scenario and context is entirely different.
5	39	Taxes	The Committee finds that the financial management now prevailing in the Company needs immediate correction. The surplus funds/reserve funds of the Company should be deposited in term deposits as far as possible. Loans from the term deposits should be avoided and only money in current account should be charged against cheques issued. So also when treasury transactions were available in the State Bank of Travancore, availing of DD from Canara Bank should have been avoided and the commission paid to the	The observations are taken note of. It is clarified that surplus funds/reserve funds as and when available was deposited only with Treasury. During the audit review period the average daily cash in flow was approx. Rs.2.5 to Rs.3.5 crores. These amounts lie in the current accounts of the Corporation with the bankers until the due dates on which the taxes/duties are payable without fetching interest. Commercial Banks gave 11% interest on fixed deposits (applicable in 1997-98) for a period of one year and above and

(1)	(2)	(3)	(4)	(5)
			<p>Canara Bank would have been saved. The Committee recommends that hereafter such instances should not be repeated</p>	<p>for the overdrafts availed from such deposits the interest charge was 14.5%. It was in the interest of the Corporation if amounts from the current accounts are transferred and put in fixed deposit accounts (for a period of one year and above) and withdrawn as loan for the minimum periods necessary to accommodate the cheques issued. As there is a regular and continuous inflow it was possible to settle the loan availed within a very short period. The arrangement ensured that the Corporation's funds which are kept idle at the disposal of the bankers would earn @11% interest as FD's and loose only 14.5% for the loan availed for very short periods. Considering the financial benefit that additionally accrued to the Corporation as above the Corporation has been depositing funds in maximum interest earning deposits and was availing overdrafts for the shorter periods. The</p>

(1)	(2)	(3)	(4)	(5)								
				interest earned in the three financial years are as under:—								
				<table><tr><th>Financial Year</th><th>Interest earned</th></tr><tr><td>1996-1997</td><td>18,57,341</td></tr><tr><td>1997-1998</td><td>58,77,075</td></tr><tr><td>1998-1999</td><td>246,54,130</td></tr></table>	Financial Year	Interest earned	1996-1997	18,57,341	1997-1998	58,77,075	1998-1999	246,54,130
Financial Year	Interest earned											
1996-1997	18,57,341											
1997-1998	58,77,075											
1998-1999	246,54,130											
				Treasuries give interest only if it is deposited for specific periods. The Corporation is not in a position to spare its funds indefinitely and keep in Treasuries, as most of the taxes and duties are to be paid on scheduled dates.								
				The above would show that the Corporation had earned substantial income which would not have been earned had the funds been retained in current accounts with commercial banks bearing no interest.								
				In the subsequent period due to paucity of funds to the Government KSBC has been compelled to divert available funds to Government and hence there was no fund to								

(1)	(2)	(3)	(4)	(5)
				manage for earning interest. Regarding availing of D.D. from Canara Bank, wherever Treasury transactions are available in branches of State Bank of Travancore the transactions were routed through the SBT only. However, the observation is noted.
6	40	Taxes	The Committee is surprised to note that in a Company, which had a turn over of Rs.1,337 crores annually, there was practically no internal audit system. The Committee recommends that a full-fledged independent internal audit wing should be introduced in the Company and the reports of the internal audit wing should be placed before the Board Meeting and also in the annual general body meeting of the Company.	The Corporation had strengthened the existing audit function and set up 14 District audit teams by using deputationist from public sector companies and State Government Departments. The present total staff complement of the internal audit Department is 55. During the year 2003-04 (April to January) the audit staff have conducted 1463 general Inspections, 782 surprise checks, 33 enquiries and detected instances of shortage in stock and cash, incurring of unauthorized/excess expenditure, non adherence to prescribed procedures etc. Based on

(1)	(2)	(3)	(4)	(5)
				these the liability on account of shortage in stock/cash was fixed and is being recovered. Disciplinary action for other misconducts based on inspection and enquiries conducted have also been taken. Arrangement to place Audit reports before the Board of Directors is also being made.
8	42	Taxes	The Company could have worked out the approximate income expected based on the income of the previous 11.5 months and paid the income tax. Any amount paid in excess as tax could have been adjusted against the future dues. The Committee, therefore, recommends that such instances should not be repeated in future.	As the gallanage fee is notified by the Government only on 30 <sup>th</sup> or 31 <sup>st</sup> March of each financial year, assessment of profits based on 11.5 months performance could only be on estimates. The observation is however noted for future guidance.

## CHAPTER II

**Reply furnished by Government on the recommendation of the Committee  
which has been accepted by the Committee with remarks**

<i>Sl. No.</i>	<i>Para. No.</i>	<i>Department Concerned</i>	<i>Recommendation of the Committee</i>	<i>Action Taken By the Government</i>
(1)	(2)	(3)	(4)	(5)
3	37	Taxes	The Committee finds that the Kerala State Beverages Corporation is extending the validity period of goods transport permit to ten days from seven days when the rules state that only one day is permissible for a distance of 200 km even if it is to other states. The contention of the Company is that the period of seven days is inadequate for the suppliers to make the supply due to some practical difficulties in obtaining interstate permits. The Committee therefore is of the opinion that the Company should examine the matter in detail and take action to bring about necessary amendments in the rules to legalize the action of the Company in extending the validity period of goods transport permits.	The report of the high level committee appointed to modify the existing Abkari Laws has been submitted and is under consideration of Government.

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(1)	(2)	(3)	(4)	(5)
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***Remarks of the Committee:***

The Committee wants to know the present Stage of the report submitted by the high level Committee appointed to modify the existing Abkari laws.

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7	41	Taxes	The Committee recommends that the Company should abide by the instructions issued by Government in carrying out their banking business. Any surplus funds/reserve funds of the Company should invariably be deposited as term deposits in the Treasury savings Bank only. The Committee does not accept the explanation given by the Company with regard to belated filing of income tax returns and payment of interest amounting to Rs. 38.46 lakh.	Reply not yet received.
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***Remarks of the Committee:***

The Committee views this seriously and strongly recommends to take action against those responsible for the inordinate delay in furnishing the reply and inform the Committee.

Thiruvananthapuram,  
30-6-2009.

MANKODE RADHAKRISHNAN,  
*Chairman,*  
*Committee on Public Undertakings.*

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