



**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

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

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

**SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2006**

**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

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

**SECOND REPORT**

**On  
Kerala State Civil Supplies Corporation Ltd. based on  
the Report of the Comptroller and Auditor General of India  
for the year ended 31-3-2002 (Commercial)**

## CONTENTS

	<i>Page</i>
Composition of the Committee ..	v
Introduction ..	vii
Report ..	1
Appendix I	
Summary of main Conclusions/Recommendations ..	5
Appendix II	
Notes furnished by Government on the Audit Paragraph ..	7

## COMMITTEE ON PUBLIC UNDERTAKINGS (2006-2008)

### *Chairman :*

Shri Mankode Radhakrishnan.

### *Members :*

Shri P. K. Abdu Rabb

„ A. A. Azeez

„ M. Chandran

„ C. M. Dinesh Mani

„ K. T. Jaleel

„ K. K. Jayachandran

„ P. J. Joseph

„ K. Kunhiraman

„ K. Sudhakaran

„ K. C. Venugopal.

### *Legislature Secretariat :*

Dr. M. C. Valson, Secretary

Smt. T. S. Radhika, Additional Secretary

Shri G. Sudhakaran, Joint Secretary

„ P. C. Sudarsanan, Deputy Secretary

„ C. R. Reghunathan Pillai, Under Secretary.

---

## 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 Second Report on Kerala State Civil Supplies Corporation Ltd. based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2002 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended 31-3-2002 (Commercial), was laid on the Table of the House on 16-6-2003. 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 meeting 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 Food, Civil Supplies and Consumer Affairs Department of the Secretariat and Kerala State Civil Supplies Corporation 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, Food, Civil Supplies and Consumer Affairs Department and Finance Department and the officials of the Kerala State Civil Supplies Corporation Ltd. who appeared for evidence and assisted the Committee by Placing their considered views before the Committee.

Thiruvananthapuram,  
17th October, 2006.

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

## REPORT

### KERALA STATE CIVIL SUPPLIES CORPORATION LIMITED

#### AUDIT PARAGRAPH

#### *Unfruitful Capital Investment :*

The tea division of the Company engaged in the storage, blending and packing of tea was accommodated in a hired godown in Willingdon Island, owned by M/s. Jaison Trading Agencies (JTA) Kochi at a monthly rent of Rs. 16000. Since the owner of the building issued notice for vacating the building, the Company decided (September 1994) to construct an office-cum-godown complex for the tea division having an area of 11933 sq.ft. in Willingdon Island at an estimated cost of Rs. 33.29 lakh, though the financial viability of the project was considered by the Company as doubtful. Before tendering (June 1995) the construction work of the tea division complex, the tea blending, packing and storage operations, carried out by the Company till that date, were entrusted (April 1995) to JTA (the owner of the hired godown) on contract basis. As per contractual provisions the contractor was liable for arranging godown facility for the storage of tea which rendered the requirement of own godown complex for the Company redundant.

However, the Company proceeded with the construction of office-cum-godown complex for the tea division and awarded (August 1995) the contract to M/s Kurisingal Thomas & Company at 17.16 per cent above the estimate of Rs. 33.29 lakh. Since the contractor finished only 15 per cent of the work, the construction was completed (March 1999) by engaging another contractor M/s Manikath Constructions at a total cost of Rs. 0.54 crore.

In the meantime, the Company decided (May 1998) on the alternative use of space by converting 4200 sq.ft. area into a refrigerated chilly godown for seasonal procurement and storage of chilly. The conversion work was also completed (March 1999) at a cost of Rs. 33.10 lakh. The total cost of construction of the office-cum-godown complex including the cost of refrigeration of godown was Rs. 0.87 crore. The efforts made by the Company for the alternative use of the tea godown by converting it as a refrigerated chilly godown resulted in operational loss of Rs. 30.50 lakh (cash loss Rs. 10.43 lakh) during the period from April 1999 to June 2000 and hence this activity was also dispensed with. Company's efforts to hire out the godown did not materialize (September 2002).

Thus, investment of Rs. 0.54 crore on an ill-conceived construction for the office-cum-godown complex of the tea division which was ultimately rendered

redundant and further investment of Rs. 33.10 lakh on refrigeration of the godown to undertake the unviable alternate activity of seasonal storage of chilly, had turned the total investment of Rs. 0.87 crore to be unfruitful.

The Management stated (July 2002) that they decided to start the refrigerated chilly godown with the intention of procuring chilly at lower rates during harvest season and selling the same during off season; but the prices remained steady and to avoid further losses, the storage in refrigerated godown was discontinued. It was further stated that the Management decided to make some alterations and lease out the godown. The reply is not tenable since even at the time of deciding the construction of tea godown the Corporation doubted the viability of the project and proceeded with the construction work after entrusting the tea blending, packing and storage work on contract basis in March 1995. The refrigerated godown was also started without reckoning the fact that the producers in Andhra Pradesh (from whom the company had mainly been procuring chilly) had also started storing chilly in refrigerated godowns during harvest season.

The matter was reported to Government in May 2002, their reply had not been received (September 2002).

[Audit Paragraph 4.1.3.1 contained in the Report of the Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March, 2002 (Commercial)].

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

1. The Committee enquired why the Company had decided to construct an office-cum-godown complex with an area of 11,933 sq.ft. in Willingdon Island at an estimated cost of Rs. 33.29 lakh, though the Company was doubtful of the financial viability of the project. The witness informed that in 1993 the Managing Director stated in a note put up to the Board meeting that the proposal was not financially viable. To a specific question, regarding the constitution of the Board, the witness replied that the Board was constituted by Government and it consisted of officials only. The officials may be an Additional Secretary or Joint Secretary each from the Finance and Law Departments. The Commissioner or the Secretary, Food and Civil Supplies Department was the Chairman of the Board and the Managing Director was an IAS officer. Besides, the Registrar, Co-operative Department was also a Member of the Board. The Committee wanted to know whether the then Chairman of the Board was still in service. The witness could not give a satisfactory reply. The Committee enquired about the responsibilities of the Chairman and Managing Director and members of the Board and desired to be

furnished with copies of the rules and regulations of the Board. The Committee expressed surprise that the Board consisting of officials decided to go ahead with the proposal even though the MD had expressed doubts about its viability. Replying to specific questions of the Committee, the witness stated that the godown was functioning in the new building and that no part of it had been let out on rent.

2. The Committee enquired about the payment made to M/s. Kurisingal Thomas and Company, who had completed only 15% of the construction work. The Managing Director, Civil Supplies Corporation informed that M/s. Kurisingal Thomas had presented 5 bills worth Rs.7,70,756 which was recommended by the architect Koshy Mathew, Pattom. Out of this, the Company had deducted the liability of Rs. 5,91,242 and paid the remaining amount. The witness was unable to reply to the Committee's question as to whether the risk and cost liabilities had been recovered, and why the Company had paid M/s. Kurisingal Thomas without realizing the risk and cost. The witness informed that the Company had filed a case in the High Court in April 2000 for realising the loss of Rs. 2,80,260 and interest @ 18% and that the case was still pending. The Committee enquired why the Company had decided to convert 4200 sq.ft. of the godown meant for the tea division into a refrigerated chilly godown. The witness answered that the decision for conversion was taken at a time when the off-season price of chilly was much higher than the price during the harvest season. But when the Andhra Pradesh Government started storing chilly in refrigerated godown, the price variation during harvest and off-season was considerably reduced and hence there was no need to store the chilly now. The Committee enquired whether the godown could be used by the tea division at present, the witness replied that it was practically difficult to use the refrigerated chilly godown for the tea division, as there were a number of pillars constructed inside the godown to enable storage facility and to maintain temperature and humidity under control. The Committee enquired whether any efforts had been made to lease out the building. The witness answered that advertisements had been given in the Malayala Manorama and Indian Express dailies, but there was no response. To another question, it was informed that the accounts for 2003 would be finalised soon.

#### **Conclusions/Recommendations**

3. The Committee expresses deep shock and displeasure at the careless method in which the company squandered Rs. 87 lakh of public money for the construction of an office cum-godown complex. The Committee finds that the Board decided to go ahead with the construction



of the office-cum-godown complex, even though the Managing Director had stated in the Agenda note for the Board meeting that the project was not financially viable. Moreover, the company had already entrusted the work of tea blending, packing and storage operations to the owner of the hired godown on contract basis. According to the agreement, the contractor was liable for arranging godown facility for the storage of tea and hence there was no need for constructing a godown at that time. The decision to convert 4200 square feet into a refrigerated chilly godown was again a wasteful expenditure as the decision was taken without considering the fluctuating market trends and ensuring viability. The refrigerating equipment installed at a cost of Rs. 33.10 lakh has made it difficult to use the godown for other purposes. The Committee therefore, recommends that responsibility should be fixed for squandering public funds to the tune of Rs. 87 lakh and action be taken against those who authorised this wasteful and uneconomic expenditure. The Committee also desires to be furnished with copies of the Articles of Association of the Company.

4. The Committee finds that M/s. Kurisingal Thomas & Company had been paid an amount of Rs. 1,79,514 even though they did not complete the work. The Company was not sure whether the risk and cost had been recovered. The Committee is therefore, to be informed of the following details:

- (1) Why did not the company file a case in the High Court against M/s. Kurisingal Thomas and Company?
- (2) Have all the dues been recovered from M/s. Kurisingal Thomas and Company?

MANKODÉ RADHAKRISHNAN,

Thiruvananthapuram,  
17th October, 2006

*Chairman,  
Committee on Public Undertakings.*

## APPENDIX I

## Summary of main Conclusions/Recommendations

Sl. No.	Para No.	Department concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	3	Food, Civil Supplies and Consumer affairs	<p>The Committee express<sup>d</sup> deep shock and displeasure at the careless method in which the company squandered Rs. 87 lakh of public money for the construction of an office-cum-godown complex. The Committee finds that the Board decided to go ahead with the construction of the office-cum-godown complex, even though the Managing Director had stated in the Agenda note for the Board meeting that the project was not financially viable. Moreover, the company had already entrusted the work of tea blending, packing and storage operations to the owner of the hired godown on contract basis. According to the agreement, the contractor was liable for arranging godown facility for the storage of tea and hence there was no need for constructing a godown facility for the storage of tea and hence there was no need for constructing a godown at that time. The decision to convert 4200 square feet into a refrigerated chilly godown was again a wasteful expenditure as the decision was taken without considering the fluctuating market trends and ensuring viability. The refrigerating equipment installed at a cost of Rs. 33.10 lakh has made it difficult to use the godown for other purposes. The Committee therefore, recommends that responsibility should be fixed for squandering public funds to the tune of Rs.</p>

(1)	(2)	(3)	(4)
			87 lakh and action be taken against those who authorized this wasteful and uneconomic expenditure. The Committee also desires to be furnished with copies of the Articles of Association of the Company.
2	4	Food, Civil supplies and Consumer affairs	<p>The Committee finds that M/s. Kurisingal Thomas and Company had been paid an amount of Rs. 1,79,514 even though they did not complete the work. The company was not sure whether the risk and cost had been recovered. The Committee is therefore, to be informed of the following details.</p> <p>(1). Why didn't the company file a case in the High Court against M/s. Kurisingal Thomas and Company?</p> <p>(2) Have all the dues been recovered from M/s. Kurusingal Thomas and Company?</p>

## APPENDIX II

Government notes on Audit Para contained in the Report of Comptroller and Auditor General of India for the Year ended 31-3-2002 (Commercial), relating to the Kerala State Civil Supplies Corporation Limited.

Year	Para No.	Department	Recommendation	Action Taken	Statement
(1)	(2)	(3)	(4)	(5)	(6)
1	4.1.3.1	Food, Civil Supplies & Consumer Affairs Department	<p><i>Unfruitful Capital Investment</i></p> <p><i>Unnecessary construction of office-cum-godown complex for the tea division resulted in unfruitful investment of Rs. 0.87 crore</i></p> <p>The tea division of the Company engaged in the storage, blending and packing of tea was accommodated in a hired godown in Willingdon Island, owned by M/s. Jaison Trading Agencies (JTA), Kochi at a monthly rent of Rs. 16,000. Since the owner of the building issued notice for vacating the building, the Company decided (September 1994) to construct an office-cum-godown complex for the tea division having an area of 11933 sq.ft. in Willingdon Island at an estimated cost of Rs. 33.29 lakh, though the financial viability of the project was</p>	<p>As early as in 1990, the then Chairman and Managing Director, Kerala State Civil Supplies Corporation approached Govt. requesting to issue Administrative sanction for the construction of two godowns at Willingdon Island, one for the tea division of the Corporation and the other for the Regional Depot at Willingdon Island. Considering the special function of Kerala State Civil Supplies Corporation in the Public Distribution System, Govt. considered that the Corporation should have its own Godowns at important centres. Govt. therefore had accorded administrative sanction for the construction of two godowns by KSCSC in the Willingdon Island at an approximate cost of</p>	

(1)	(2)	(3)	(4)	(5)
			<p>considered by the Company as doubtful. Before tendering (June 1995) the construction work of the tea division complex, the tea blending packing and storage operations, carried out by the Company till that date, were entrusted (April 1995) to JTA (the owner of the hired godown) on contract basis. As per contractual provisions the contractor was liable for arranging godown facility for the storage of tea, which rendered the requirement of own godown complex for the Company redundant.</p>	<p>Rs. 50 lakhs as per G.O. (Rt)No.372/90/F&amp;CSD dated 19-11-1990 in consultation with Finance Department. But the sanctioned construction was not taken up and a tea godown-cum-office complex of 11933 sq.ft. was constructed. Later it was reported that it would be an added advantage to the Corporation if the part of Godown proposed for tea blending operations was converted into cold storage for chilly so as to procure the same in harvest season at cheaper rate instead of effecting purchase at higher price in the off season. As the proposal was intended to benefit the Kerala State Civil Supplies Corporation as well as the public, Government also agreed to the proposal of Chairman &amp; Managing Director for the construction of the cold storage as per Government letter No.5352/C3/98/F, CS&amp;CAD dated 27-7-1998.</p>
			<p>However, the Company proceeded with the construction of office-cum-godown complex for the tea division and awarded (August 1995) the contract to M/s. Kurisingal Thomas and company at 17.16 per cent above the estimate of Rs. 33.29 lakh. Since the contractor finished only 15 per cent of the work, the construction was completed (March 1999) by engaging another contractor M/s Manikath Constructions at a total cost of Rs. 0.54 crore.</p>	<p>The Management Committee held on 31-1-2001 considered the future mode of utilization of Cold Storage of the chilly</p>

(1)	(2)	(3)	(4)	(5)
			<p>1998) on the alternative use of space by converting 4200 sq.ft. area into a refrigerated chilly godown for seasonal procurement and storage of chilly. The conversion work was also completed (March 1999) at a cost of Rs. 33.10 lakh. The total cost of construction of the office-cum-godown complex including the cost of refrigeration of godown was Rs. 0.87 crore. the efforts made by the Company for the alternative use of the tea godown by converting it as a refrigerated chilly godown resulted in operational loss of Rs. 30.50 lakh (Cash loss Rs.10.43 lakh) during the period from April 1999 to June 2000 and hence this activity was also dispensed with Company's efforts to hire out the godown did not materialise (September 2002.)</p> <p>Thus, investment of Rs. 054 crore on an ill-conceived construction for the office-cum-godown complex of the tea division which was ultimately rendered redundant and further investment of Rs.33.10 lakh on refrigeration of the godown to undertake the unviable alternate activity of seasonal storage of chilly, had turned the total investment of Rs. 0.87 crore to be unfruitful.</p>	<p>godown at Willingdon Island. The possibilities of renting out the Godown to Private Sector/ Public Sector Companies were explored by advertising in leading dailies on 14-6-2001. In response though two offers were received nobody has turned up for a negotiation. The Cochin Port Trust was also contacted, but they have informed that they are not interested to take over the Godown. Besides, Addl. General Manager (Tea) was also directed to contact Private parties to let out the Godown. Again the matter was published in dailies on 5-12-2003. But no response received. The above facts were also submitted before the Board of Directors on 27-4-2004.</p> <p>However, the detailed investigation into the whole irregularity in the construction as pointed out in the audit report could not be pursued</p>

(4)	(2)	(3)	(4)	(5)
			<p>The Management stated (July 2002) that they decided to start the refrigerated chilly godown with the intention of procuring chilly at lower rates during harvest season and selling the same during off season: but the prices remained steady and to avoid further losses, the storage in refrigerated godown was discontinued. It was further stated that the Management decided to make some alterations and lease out the godown. The reply is not tenable since even at the time of deciding the construction of tea godown the Corporation doubted the viability of the project and proceeded with the construction work after entrusting the tea blending, packing and storage work on contract basis in March 1995. The refrigerated godown was also started without reckoning the fact that the producers in Andhra Pradesh (from whom the company had mainly been procuring chilly) had also stated storing chilly in refrigerated godowns during harvest season.</p> <p>The matter was reported to Government in May 2002, their reply had not been received (September 2002.)</p>	<p>further as the Vigilance and Anti Corruption Bureau have seized the relevant files on 7-1-2004 in connection with the enquiry.</p>