TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2006-2008)

EIGHTH REPORT

(Presented on 17th October, 2006)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2006

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EIGHTH REPORT

On

Kerala State Civil Supplies Corporation Ltd.
based on the Report of the *Comptroller* and Auditor General of India for the year ended 31-3-2003

984/2006.

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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 8th Report on Kerala State Civil Supplies Corporation Ltd. based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year 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 2006–2008.

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 and Civil Supplies 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 and Civil Supplies Department and Finance Department and the officials of Kerala State Civil Supplies Corporation Ltd. who appeared for evidence and assisted the Committee by Placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
17th October, 2006.

REPORT

THE KERALA STATE CIVIL SUPPLIES CORPORATION LIMITED

4.5 *Avoidable expenditure:*

Failure of the Company to protect its financial interest in procurement of cumin seed resulted in avoidable expenditure of Rs. 19.16 lakh.

The Company, engaged in public distribution of essential commodities, had been procuring cumin seed from the market based on open tender system. The landed cost of the commodity procured by the Company used to have only marginal variations from the open market rates and the maximum sale was during the Onam Festival season of August and September of each year.

During April–September maximum market rate of cumin seed ranged between Rs. 10,000 and Rs. 11,000 per quintal against which the actual procurement rate ranged between Rs. 9,799 and Rs.11,921 per quintal. The average sale of cumin seed during lean season of January to July 2000 was only 228 quintals per months and there was a stock of 580 quintals available as at the beginning of October 2000 which was sufficient to meet more than two months' requirement. However, the Company invited (October and November 2000) open tenders for the procurement of cumin seed against which the lowest quoted rate of Sree Lakshmi Enterprises (SLE) was Rs. 17,350 and Rs. 17,000 per quintal respectively. Ignoring the lead time of seven to fifteen days required for replenshipment of stock and the then prevailing market rate of Rs. 10,200 per quintal the Company placed orders on SLE for the supply of a total quantity of 485 quintals of cumin seed and procured 486.07 quintals actually supplied against the above orders, 195.37 quintals were received in December 2000 only. There was a balance of 493 quintals in stock at the end of November 2000 indicating that the placing of orders in October and November 2000 was only Rs. 13,200 per quintal. Taking into account the same position of stock of cumin seed in October 2000 and the exorbitant rate of Rs. 17,350 per quintal quoted by SLE, the Company could have judiciously deferred the procurement decision and avoided the extra expenditure of Rs. 19.16 lakh on purchase of 486.07 quintal of cumin seed during October/November 2000, with reference to the rate of Rs. 13,200 per quintal for December 2000.

Thus, the failure of the Company to protect its financial interest in procurement of cumin seed resulted in avoidable expenditure of Rs. 19.16 lakh.

Government stated (September 2003) that guidelines prescribed by Government in August 1994 allowed keeping a stock of three months' sales and changes in market price cannot be shown as a good reason to deviate from guidelines. It was also stated that the Company's tender rates and market rates are not directly comparable and purchase price and market price will not have a direct co-relation on a month to month basis. The reply is not tenable since the Company's actual procurement rate has always been comparable with the market rates but in the instant case the Company procured cumin seed at exorbitant rates from private traders, after the Onam Festival season, disregarding the safe stock position of the commodity. Moreover, the Company as a public distribution agency had to intervene in market and supply commodity below market rates. Hence the Company should have procured cumin seed rates comparable to market rates so as to avoid undue benefit to private traders at the cost of Government.

[Para No. 4.5—Contained in the Report of Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial)].

Notes on Audit paragraph received from Government is given in Appendix II.

1. The Committee pointed out that the failure of the Kerala State Civil Supplies Corporation to protect its financial interest in the procurement of Cumin Seed resulted in an avoidable expenditure of Rs. 19.16 lakhs and wanted an explanation in this regard. The witness informed that the issue was associated with the purchase of cumin seed at a high rate when there was sufficient stock and thereby incurring much loss to the Company. The Company should keep three months' stock of commodities in advance to avoid 'stock out' position and the purchase of cumin seed was made as per guideline from Government. The purchase was also made at a competitive rate and further added that a stock out position of a commodity would invite criticism from the general public.

2. The Committee pointed out that there was a difference of Rs. 6,800 to Rs. 7,150 per quintal in the purchase compared to market price. The Committee, however observed that the procurement rate in December 2000 was only Rs. 13,200 per quintal compared to the market rate of Rs. 15,000 per quintal and in March 2001, Rs. 9277 per quintal compared to the marke rate of Rs. 14,000 per quintal. The witness informed that the Company could buy only at the lowest tender rate and as per store purchase rule, no negotiation was permitted with the tenderer. To a pertinent question, the witness informed that the purchase was approved by the Company's Board.

3. The Committee observed that cumin seed was not a highly essential commodity and as such there was no justification in purchasing it at a high rate urgently. The witness added that even though there was a shortage of 27 tonnes, only 19 metric *tonnes* were purchased by the Company. The Committee suggested that the Company might have resorted to re-tender with short durations like 7 or 15 days and even after that if the quoted price remained the same the company could purchase the commodity from open market. The Committee also observed that the company should try to obtain prior sanction from Government if there existed wide variation with market price. The witness disclosed that there was no malafide intention in buying 19 MTs of cumin seed, since the same management had later purchased cumin seed at a price lower than the market price during the months of November/December.

4. To a specific question, the witness informed that cumin seed was purchased from Gujarat and Rajasthan and the whole process would take around one month to start supply. To this, the Committee opined that the purchase could be made from open market. The Committee was informed that normally, the Company did not make any purchase from open market, but ~~and~~ the system had changed from last year onwards.

5. The Committee wanted to know whether there was any vigilance enquiry about the above purchase. The witness replied in the negative. The Committee pointed out that eventhough the purchase procedure was correct and Hon'ble High Court had commanded that the system prevailing was satisfactory and that the Open Market rate the Company's purchase rate are not directly comparable, the above purchase made at a very high rate than the market price could not be accepted. If this particular system was approved, Government would have to incur heavy loss. The Committee rejected the contention of the witness that high price was due to re-packing of cumin seed into bags of 25 Kg. to ensure good quality.

Conclusion/Recommendation

6. **The Committee is shocked to learn that the company incurred a heavy loss amounting Rs. 19.16 lakh in the purchase of cumin seed due to financial mismanagement of the officials. It is amazing to note that the company placed orders for 484 quintals of cumin seed @ Rs. 17,350 and Rs. 17,000 per quintal in October when the prevailing market price ~~only~~ was just Rs. 10,200 putting a difference of Rs. 6,800 to 7,150 for quintal. The entire episode assuming another dimension as the company possessed sufficient stock for the next two months at the time of placing orders. The Committee is of the view that if the Company deferred the *procurement* for**

sometime, such a heavy loss could have been avoided as the price came down to Rs. 13,200 in the month of December. The Committee reminds vehemently that it is their prime duty to purchase and supply commodities at a reasonably low price than the market rate and not vice versa. The Committee opines that there is culpable negligence and slackness on the part of the responsible officials incurring heavy loss to the Company and recommends that the above purchase may be brought under vigilance enquiry and responsible officials should be brought to book and facts intimated to the Committee at the earliest.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
October 17, 2006.

Chairman,
Committee on Public Undertakings.

APPENDIX I

Summary of main Conclusion/Recommendation

Para No.	*Department concerned*	*Conclusion/Recommendation*
(1)	(2)	(3)
6	Food and Civil Supplies Department	The Committee is shocked to learn that the company incurred a heavy loss amounting Rs. 19.16 lakh in the purchase of cumin seed due to financial mismanagement of the Officials. It is amazing to note that the Company placed orders for 484 quintals of cumin seed @ Rs. 17,350 and Rs. 17,000 per quintal in October when the prevailing market price was ~~only~~ just Rs. 10,200 putting a difference of Rs. 6,800 to 7,150 per quintal. The entire episode assuming another dimension as the company possessed sufficient stock for the next two months at the time of placing orders. The Committee is of the view that if the company deferred the procurement for some time, such a heavy loss could have been avoided as the price came down to Rs. 13,200 in the month of December. The Committee reminds vehemently that it is their prime duty to purchase and supply commodities at a reasonably low price than the market rate and not vice versa. The Committee opines that there is culpable negligence and slackness on the part of the responsible officials incurring heavy loss to the company and recommends that the above purchase may be brought under vigilance enquiry and responsible officials should be brought to book and facts intimated to the committee at the earliest.

APPENDIX II

Government Notes on Audit Paragraphs contained in the Report of Comptroller and Auditor General of India

I.	(a)	Department Food, Civil Supplies and Consumer Affairs Dept.
	(b)	Subject/Title of the Review/Paragraph Avoidable Expenditure
	(c)	Paragrpah No. 4.5
	(d)	Report No. and year Report of C&AG of India for the year ended 31st March 2003 (Commercial)
II.	(a)	Date of receipt of the draft paragraph/Review in the Deaprtment 7-8-2003
	(b)	Date of Department's reply 15-9-2003
III.		Gist of Paragraph/Review Failure of the Company to protect its financial interest in procurement of Cumin seed resulted in Avoidable Expenditure of Rs. 19.16 lakhs.
IV.	(a)	Does the Department agree with the facts an figures included in paragraph ? Yes.
	(b)	If not, please indicates the areas of disagreement and also attach copies of relevant documents in support. ---
V.	(a)	Does the Deaprtment agree with the Audit conclusions. No
	(b)	If not, please indicate specific areas of disagree ment with reasons, for disagreement and also attach copies of relevant documents, where necessary.

Kerala State Civil Supplies Corporation, engaged in the distribution of essential commodities, is purchasing around 15 items of provisions and spices. Tenders are invited every month by newspaper publication in important dailies of the Producing Centers. Thus vide publicity is given about Corporation's tenders in all producing centers of Northern and Southern India.

It may also be noted that tenders are to be submitted by the parties complying with the tender conditions specified by the Corporation. As per Clause No. 7 of the Tender form the prices are to be quoted for supply of material at Corporation's depot. Due to this all expenses of the cost of material, packing charges, Sales Tax, Transport charges and all handling charges upto Corporation's depot is to be included in the rate quoted. However in the case of open market price reported in newspaper or in other media, the rates are the price for delivery at godown of the seller. In addition to this the Corporation will have to pay Sales Tax, Handling charges, transport charges etc. until it reaches its depots. Hence the open market price and Corporation's price are not directly comparable.

As per Clause No. 8 the Cumin seed is to be packed in 25 Kg. bags of uniform size. However in the case of normal trade cumin seed will be packed in gunnies with varying weights of 40 Kg. 50Kg. Due to this the supplier will have to rebag material so that it can conform to Corporation's a specification of packing.

As per Clause No. 8, the Corporation is insisting that, the packing should be done in new/sound second hand sugar gunnies. In the case of Open Market trade they use old gunnies. This add to the cost of material.

As per Clause No. 7 the Corporation is insisting that the rate noted should be for net weight. this is because the Audit Party had once remarked that when the Corporation pay at the gross weight it is paying for a 1 kg. gunny bag at the rate of the cost of the material. The Corporation have incorporated this clause in the tender. But in the normal trade the price are quoted for gross weight only.

As per Clause No. 11 the Corporation is requring the tenderer to supply material as per the qualify specification indicated in the tender form. These parameters are specified for each commodity and the non compliance of the same will result in the rejection of the material. When quotations are given the tenderers normally build in small percentage of cost to meet such eventualities.

As per Clause No. 10 of the Tender form payment will be released only after delivery of material, inspection of it by the Corporation's Quality Control Officers and on production of Goods Received Sheet (GRS) and the supplier's invoice at the Head Office. The party will have to effect the payment when they purchase the material. So their interest upto the receipt of payment will have to be included in their price. In the Open Market transaction, the Corporation will have to release cash to the trader/supplier before the handover the material to the Corporation.

The Hon'ble High Court of Kerala in the O.P. No. 14879/03 has gone deep into the purchase procedure and commended that the system prevailing is satisfactory and that the Open Market rate and the Corporation's purchase rates are not directly comparable.

In addition to this it may be noted that the price quoted in the tender are dependent on the price in the producing centre. There will always be a time lag between the variation of price in the producing centre and the variation of price in the consuming centre. The agricultural commodity prices fall drastically based on phychological feel good factor about the availability of material. Open market price and the Corporation's purchase rate as given in the Audit query itself is given below :

Month	*Open Market Price*	*Corporation's Purchase Price*
12/2000	Rs. 15,000	Rs. 13,200
1/2001	Rs. 15,000	Rs. 12,240
2/2001	Rs. 14,000	Not purchased
3/2001	Rs. 14,000	Rs. 9,277

These figures compiled by the Audit team itself proves that the Open Market price and the Corporation's purchase price will not correspond on a month to month basis.

The wild rumours initiated by certain vested interest in the trade also unnerves the market. The rates will drastically fall when it is proved that rumours are unfounded. This is evident from the open market price compiled by the Audit team itself. For example in the month of 11/2000 the Open Market price quoted by the Audit team is Rs. 10,200 while the Open Market price in 12/2000 as reported by the Audit team is Rs. 15,000. This shows that there is a jump of 50% in the price of agricultural commodities in a matter of just about 20 days. The Corporation is making purchase every month so that this vide fluctuation in the price is evened out over a period of time.

The Audit team has observed that in view of the exorbitant rate in October 2000 the Corporation should have deffered the purchase. This observation is on post-mortem basis, if the price had gone up even further during the following months the Corporation would have been accused of not purchasing the material when the price were comparatively lower. As indicated earlier since price of agricultural commodities cannot be predicted it would be difficult to make conjectures about future price and take a present decision. The Corporation is making monthly purchase so that it does not have to buy a very large quantity when the price is at the peak. Since the purchase is effected every month the average purchase price in the year will remain reasonable.

It may be noted that during the month of October 2000 and November 2000 a total of 8 parties had participated in the tender. The purchase orders are placed on the lowest rates received in the tender. Hence there has been no flaw in the purchase procedure followed for purchase of the commodities.

As regards the objection in regard to safe stock of commodities as a matter of policy the Company considered the requirement of 3 months, based on the sales of corresponding months of last year and the existing stock is reduced from this requirement and the net quantity to be purchased is arrived at For eg. the following was the calculations for the purchase of stock in October 2000.

Sales during October 1999	-	26 MT
November 1999	-	30 MT
December 1999	-	29 MT
Total	-	85 MT
Less stock as on 30-9-2000	-	58 MT
Net requirement	-	27 MT

From the above it may be seen that the quantity to be purchased as per the above calculations is 27 MT and the requirement collected from the field officers (Regional Managers) is 80 MT. As against this the Corporation have purchased 19.76 MT during October 2000.

Similarly for the month of 11/2000 the figures are as under :

Sales in November, December and January 1999	-	84 MT
Less Stock in hand + Transit	-	54 MT
Balance required	-	30 MT
Quantity requested by Regional Managers	-	74 MT

The Government have instructed that 3 months stock has to be maintained as under :

(a)	Pipeline stock	-	One month
(b)	District/Receipt Depot stock	-	One month
(c)	Taluk Depot Stock	-	15 days
(d)	Maveli Stock	-	15 days

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However, the Corporation have tried to limit the stock to the minimum possible without causing any disruption in the availability.

It may be seen that sales of Cumin seed is showing a downward trend due to insufficient stock. For example the sales in 1999 & 2000 are as under :

	1999	2000
June	25 MT	19 MT
July	26 MT	24 MT
August	68 MT	44 MT
September	22 MT	43 MT
October	26 MT	22 MT
November	31 MT	26 MT
December	29 MT	23 MT

Therefore Regional Managers have been requesting for purchase of more quantity than the requirement calculated by the Corporation. The Regional Managers being the field officers are able to assess the requirement more closely. Hence if Corporation continue to reduce the quantity of purchase its sales will also proportionally fall.

The contention of the Audit that it takes a lead time of one week only for procurement of material is not correct, since cumin seed is produced in Gujarath and Rajasthan only. Even after placing the order, the material procured from the field will have to be sent by the supplier to the Mill for cleaning & packing into gunnies of Corporation's specification and transported from there to Corporation's depot etc. This will take time and as per the Corporation's tender condition for delivery of stock (Pipeline stock) 30 days time is allowed. Hence the Corporation have to keep stock to cover this period also.

Therefore considering the fact that the Corporation has well set system of purchase and since its tender rates and open market rates are not directly comparable as explained earlier and since the purchases are effected without any bias or favouritism since orders are given at the lowest rate quoted in the tender invited on the national basis and since the price of agricultural products are not predictable and since Corporation's purchase price and open market price will not have a direct correlation on month to month basis, the Audit para may please be dropped.