



**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

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

**TWENTY FOURTH REPORT**

(Presented on 21st March, 2007)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2007

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

**TWENTY FOURTH REPORT**

**On**

**The Action Taken by Government on the Recommendations contained  
in the Sixty Fourth Report of the Committee on Public  
Undertakings (1998-2000) relating to Kerala  
State Civil Supplies Corporation Limited  
Based on the Report of the Comptroller  
and Auditor General of India for the  
year ended 31st March 1997  
(Commercial)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2006-2008)

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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 Twenty Fourth Report on the action taken by the Government on the recommendations contained in the 64th Report of the Committee on Public Undertakings (1998-2000) on the Working of the Kerala State Civil Supplies Corporation Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31-3-1997 (Commercial).

The statement 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 15-3-2007.

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

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,  
21st March, 2007.

*Chairman,  
Committee on Public Undertakings.*

## **REPORT**

The 64<sup>th</sup> Report of the Committee on Public Undertakings (1998-2000) on the Kerala State Civil Supplies Corporation Limited (Food, Civil Supplies and Consumer Affairs Department) based on the Report of the Comptroller and Auditor General of India for the year ended 31<sup>st</sup> March, 1997 (Commercial) which was presented to the House on December 18, 2000.

The Report contained 18 recommendations. The Government have furnished replies to all these recommendations. The Committee (2006-2008) considered these replies at its meeting held on 23-8-2006.

The Committee accepted the replies to recommendation Nos. 15, 17, 38, 39, 40, 41, 51, 52, 63, 83, 94 and 106. These recommendations and their replies form Chapter I of this Report.

The replies to recommendation Nos. 16, 18, 64, 84, 95 and 105 was accepted by the Committee with remarks. These recommendations, their replies and remarks of the Committee form Chapter II of this Report.

## CHAPTER I

**The Recommendations in respect of which replies furnished by Government  
have been accepted by the Committee**

<i>Sl. No.</i>	<i>Para No. of the Report</i>	<i>Department Concerned</i>	<i>Recommendations/ Conclusions</i>	<i>Action taken by Government</i>
(1)	(2)	(3)	(4)	(5)
1	15	Food, Civil Supplies and Consumer Affairs	The Committee noticed that the very purpose of establishing the company was to provide commodities to the Common Man at reasonable prices and to check the increasing trend in the price of commodities to a certain extent.	The objectives of the Company is to provide commodities at reasonable price with a check to the increasing trend in the price of commodities as observed in the report.
3	17	„	The Committee noticed some upward trend in the sale of pulses and other commodities and urge the Company to take measure to maintain equilibrium in prices in the market for these commodities.	In this context it may be seen that the company is selling its commodities at prices lower than the market prices in order to arrest the price hike in the open market.
5	38	„	The Committee noticed that the setting up of Maveli Stores without proper assessment resulted in the closures of 41	At present the opening of new Maveli Stores are done only after assessing the viability and the scope for business in a particular area and

(1)	(2)	(3)	(4)	(5)
			unviable units. If the stores were set up after assessing the viability and demands of commodities in specific areas this loss could have been minimised to a large extent. Any how the steps taken by the company to tide over the difficulty are worth mentioning.	thereby minimized the loss to a large extent.
6	39	Food, Civil Supplies and Consumer Affairs	The Committee appreciate the steps taken by the company and urge the company to supply the commodities wherever necessary and to supply them at regular intervals to attract the customers.	Noted.
7	40	„	The Committee noticed that the loss incurred by the company could have been minimized to a large extent if they followed the guidelines in the Action plan. The pleas the storing of materials for the “noon-meal” is only	The present system where the Panchayaths select the building in consultation with local MLA and Company officials ensure involvement of the public. So, Govt. have decided to continue this procedure in selecting the location and the building in Panchayaths



(1)	(2)	(3)	(4)	(5)
			an after thought as that was not envisaged earlier. The system of advertising in the newspapers for selection and hiring of space for accommodation of Maveli Stores should be followed in future.	where there are no Maveli Stores at present. It is also informed that in such cases the rent of the building is borne by the Panchayaths for the first two years. However, when additional Maveli Store are allowed on important junctions the recommendations of the Committee will be followed as far as possible.
8	41	Food, Civil Supplies and Consumer Affairs	The further information required by the Committee regarding the action taken by the Company against the officials responsible for the losses for the last five years may be furnished at the earliest.	The Company initiated disciplinary action against the officials responsible for the shortage/losses and realized the loss from them with interest. Disciplinary actions were taken under service rules prevailing in the Civil Supplies Corporation in the case of direct staff and under Govt. rules in the case of deputationist from the Department. In addition to taking disciplinary action against the delinquents all the cases of criminal nature were referred to police/vigilance authorities recommending criminal proceedings against the responsible

(1)	(2)	(3)	(4)	(5)
				persons involved in the case. In the past five years, a total number of 15,513 cases were reported and out of these criminal proceedings have been initiated in 14,171 cases and 11,713 cases were settled. There are 3800 cases pending finalization.
9	51	Food, Civil Supplies and Consumer Affairs	The Committee suggest that there should be a proper monitoring system to appraise the performance of the super markets every month. This is essential for the proper functioning of the system and to stabilize the price or various commodities by comparing the prevalent market trend and the price is approved by the company for selling various items.	The Civil Supplies Corporation has 20 super markets. In most of the Super Markets where the sales are more than Rs. 5 lakhs. The Company has computerized billing and inventory management system. This system can generate all reports required for monitoring purpose. Further to ensure that proper monitoring is done at different levels, the company have issued detailed instructions on maintenance of the system, generating and filing reports and forwarding necessary report to the Regional Offices and Head Office. The Company also issued guidelines to Regional offices on how

(1)	(2)	(3)	(4)	(5)
				to monitor the activities of the Super Market. To bring out more efficiency in purchase items of Super Markets, the Company is introducing a system by which the purchase price of all important items in each of outlets/godowns is compared at Head Office level. The Company hopes that the above modifications in the system will help to increase the performance of Super Markets.
10	52	Food, Civil Supplies and Consumer Affairs	The Committee further recommend that an effective market study should be conducted to streamline the activities of the company in this sector. Sufficient supply of materials in time and minimizing the damage in stock would help to reduce the loss to the minimum and therefore the Committee recommend to the Company to initiate urgent steps in this direction. The Committee also	The Company has already taken steps to minimise damage to stock and thereby reduce the losses. We have also taken steps to reduce the establishment expenditure to a possible extent.

(1)	(2)	(3)	(4)	(5)
			recommend to the Company to take necessary measures to reduce the establishment expenditure.	
11	63	Food, Civil Supplies and Consumer Affairs	As a Govt. undertaking, it is difficult for the Company to adopt stringent measures in their dealings. The Committee are happy to note that the company had already started steps to revitalize the whole organization by the deployment of staff and by curtailment of establishment expenditure to a minimum. The steps taken by the Company may be intimated to the Committee.	The Company has initiated steps to revitalize the organisation by reducing the staff strength. For instance, for 30 Medical Stores started by the Corporation during the recent period, no post was sanctioned and the staff from the present strength has been redeployed for this purpose. In addition, out of 78 Maveli Stores started upto 3/2001 only 31 helpers were promoted to the cadre of junior Assistants. The remaining 47 Maveli Stores are now functioning by redeploying staff from offices and depots.
13	83	„	The witness failed to give a convincing reply to the question of the Committee about the shortage in stock. The steps	Shortage allowances are not permitted in the depots. Since the transactions are done in bulk quantities, there is no chances for any

(1)	(2)	(3)	(4)	(5)
			<p>taken by the company to check the shortage in outlets are noteworthy are noted as rather a healthy trend for the smooth functioning. But the Committee noticed shortage in some godowns, where such provisions is not allowed by the Company. Therefore, the Committee recommend to take necessary steps to identify the cases and the culprits be brought to book without further delay.</p>	<p>shortage. Whenever any case of shortage are detected in depots, immediate steps are being taken to identify the culprits and book them. There is yearly physical verification of stock besides periodic checking by the Internal Audit Wing and action is taken to realise the value of the shortage from the custodian of the stock whenever the shortage is more than normal.</p>
15	94	Food, Civil Supplies and Consumer Affairs	<p>The Committee urge the company to initiate urgent steps for the recovery of the amount. The tendency to sanction long periods of recovery involving ten to twenty years should be discouraged.</p>	<p>As far as possible minimum period is allowed to the individual for recovering the loss. But in some cases recovery will be extended to some more period due to the provisions contained in KFCI, therein it has been envisaged that the penalty should not be as such to compare the individuals future efficiency.</p>

(1)	(2)	(3)	(4)	(5)
18	106	Food, Civil Supplies and Consumer Affairs	The further information desired by the Committee may also be furnished.	<p>The further information required by the Committee in para 104 of the report is furnished below:</p> <p>In March 1993, the Company decided to enter into the purchase of wheat from open market, and purchased 1600 MTs @ Rs. 4.10 per kg. from M.P. Civil Supplies Corporation, which was quite reasonable considering the market price of wheat during that period. The average open market prize of wheat during 04/93 was Rs. 6.96 per Kg. as per the report of the Director of Economics and Statistics. So the purchase of wheat @ Rs. 410 quintal was not above the market price. However, Govt. had not given any direction for the purchase.</p> <p>(1) The purchase of the wheat was made on the basis of decision taken in the Budget Review meeting held on 17-3-2003 in connection with the diversification of activities of the Company</p>

(1)	(2)	(3)	(4)	(5)
				on the advice of an outside agency M/s. Tata Consultancy Service.
				(2) The purchase of the wheat was brought to the notice of Board and Government.
				(3) No other agency had given advice in this regard.

## CHAPTER II

**The Recommendations in respect of which replies furnished by Government  
have been accepted by the Committee with remarks**

<i>Sl. No.</i>	<i>Para No. of the Report</i>	<i>Department Concerned</i>	<i>Recommendations/ Conclusions</i>	<i>Action taken by Government</i>
(1)	(2)	(3)	(4)	(5)
2	16	Food, Civil Supplies and Consumer Affairs	In this endeavour the Company was entitled to go ahead with some innovative steps without taking into account the business aspects involved in such deals. The Committee also noticed that the cumulative loss of the Company as at the end of March 1996 was about Rs. 88 crores. Although many reasons were attributed by the witness for the loss, one of the reasons for the loss was the change in the policy at the Government by giving funds as loans, which would affect the financial status of the Company, since the Company would have to pay a huge sum as interest. The	The Chairman & Managing Director, Kerala State Civil Supplies Corporation Limited has submitted a detailed proposal for the conversion of Government loan given to the Company into equity capital. The proposal is being examined in detail in consultation with Finance Department.



(1)	(2)	(3)	(4)	(5)
			Committee recommend to the Government to take urgent steps to convert the loans already given to the Company as, grant to tide over the present financial stringency faced by the Company.	

*Remarks of the Committee:*

The Committee desires to know the present position of the proposal submitted by the Kerala State Civil Supplies Corporation Limited for the conversion of Government loan given to the Company into equity capital.

4	18	Food, Civil Supplies and Consumer Affairs	The Committee also urge the Company to take steps to reduce the establishment expenditure to the minimum and to take measures for avoiding the loss while handling and storing of materials.	The Company is taking necessary steps to reduce the establishment expenditure and also to avoid the loss in handling and storage.
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*Remarks of the Committee:*

The Committee expressed its strong dissatisfaction over the non convincing reply furnished by the Government. The Committee opines that the answer is not clear and desire to know what are the necessary steps taken by Government to reduce the establishment expenditure and also to avoid the loss in handling and storage.

(1)	(2)	(3)	(4)	(5)
12	64	Food, Civil Supplies and Consumer Affairs	It may be difficult to reduce the credit sale of petrol to different departments. However, the Committee recommend the company to take stringent measures to realise the outstanding amount early and at regular intervals. The steps taken in this regard may also be intimated to the Committee.	The Regional Managers have been directed to realise the outstanding amount due to company for the credit supply of fuels to Government Department and other undertakings immediately. Further we have increased the SD if each vehicles from Rs. 6000 to Rs. 10,000 as per GO (Rt) No. 167/99/F&CSD dated 16-6-1999. The Company has been giving instructions to the Regional Managers to review the outstanding amount against the vehicles attached to each department for stopping further credit issues wherever the outstanding amount exceeds the SD.

*Remarks of the Committee:*

The Committee recommend to take steps to collect the dues from departments due to the credit sale of petrol and to forward a detailed department wise list of such dues outstanding.

14	84	do	The steps taken by the Company to minimise the damage in stock may be intimated. The reason for sanctioning a shortage allowance of	Shortage allowance was allowed in the Company for the retail handling of commodities dealt in the depots, godowns and outlets upto 1994-95, since then the shortage
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(1)	(2)	(3)	(4)	(5)
			Rs. 60 lakhs may also be intimated to the Committee.	allowance was limited to retail outlets for retail distribution only as per the decision of the Board of Directors in the Board meeting dated 8-12-95. As referred in the audit para, during the three years upto 1995-96 the value of shortage allowed in respect of major items in the depots and godowns amounted to Rs. 60.01 lakhs. The total transactions and the quantity handled during the above said period, both in depots and retail outlets was very high. The percentage of shortage is meagre when compared to the quantity handled. In the case of retail outlets where piece meal distribution is necessary, it is impractical to run the operation without allowing shortage allowance. In the practical situation of retail sale there would be some excess outflow in each and every transaction. Considering the above aspect the Company has fixed a

(1)	(2)	(3)	(4)	(5)
				<p>maximum limit that can be allowed as shortage allowance. It is allowed only after considering the merit of each case and analyzing the genuineness of the case. It may kindly be noted that the shortage allowance of Rs. 60 lakhs for three years accounts to only 08% of the turn over of these period. In the case of depots and outlets except Maveli Stores, disciplinary actions for the recovery of cost of excess shortages are, being initiate either from Head Office or from Regional Offices on the basis of internal audit reports. In the case of Maveli Stores, disciplinary action are being taken at Regional Office level on the basis of periodical inspections conducted by Junior Managers (1).</p>

*Remarks of the Committee:*

The reply furnished by Government in this case is not satisfactory. The reply that shortage allowance of Rs. 60 Lakhs in depot and godowns was sanctioned after analyzing the genuineness of each case is not a convincing one. The committee wants to know how the corporation ascertained the genuineness of the cases and the methodology adopted.

(1)	(2)	(3)	(4)	(5)
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The Committee also opines that the complaints about the quality of goods supplied by the Company are increasing and the measures taken to rectify the complaints are not effective. The Committee desires to know the districtwise details about the functioning of the quality control wing of the company.

16	95	Food, Civil Supplies and Consumer Affairs	The action taken by the Company against the outstanding cases may be intimated. The instances of deputation from Civil Supplies Department should be minimised and officials may be appointed by giving free option to them.	The total amount involved in outstanding cases covered under the 64 <sup>th</sup> report works out to Rs. 46,00,311.74. Out of this an amount of Rs. 14,52,737.32 has been recovered from incumbents concerned as on 23-2-2001. The deputation from Civil Supplies Department to the Company has been in existence from the very inception of the Company ie. for about 30 years and any change in the system requires detailed study and remedial action has to be taken to off set the impact of the changes. As of now Government does not consider it fit to change the existing staff pattern of the Company. The recommendation that the officers may be given free option for deputation is also not workable as all employees are not willing to go on deputation.
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*Remarks of the Committee:*

The Committee is not satisfied with the reply furnished by government. The committee is astonished to note that only of Rs. 14,52,737.32 has

(1)	(2)	(3)	(4)	(5)
so far been recovered out of a total amount of Rs. 46,00,311.74. The Committee strongly recommends that effective action should be taken to recover the balance amount from the officers concerned, in a time bound manner, and the recovery particulars should be intimated to the committee urgently				
The Committee also suggests that the deputation of employees to the Civil Supplies Corporation should be fixed to a maximum period of 3 years.				
17	105	Food, Civil Supplies and Consumer Affairs	The witness failed to give a convincing reply to the enquiry of the Committee. They took the decision to purchase wheat above the market price (i.e. Rs. 4.50). So from the very beginning of the deal, it could be presumed that the business would be a loss to the Company. The argument by the witness that they purchased the wheat when there was non-availability of the same in the PDS does not hold good. The Committee are distressed over the action of the Company and urge Government to take necessary steps to find out persons responsible for this deal and action taken in this regard may be intimated.	The Vigilance Officer of Kerala State Civil Supplies Corporation Limited conducted enquiry in the purchase of wheat from Madhya Pradesh Civil Supplies Corporation. According to the report of Vigilance Officer, the purchase of wheat from Madhya Pradesh Civil Supplies Corporation was for the benefit of the Kerala State Civil Supplies Corporation Ltd., as well as consumers in Kerala. But during the period, the Food Corporation of India distributed sufficient quantity of wheat to the ARDs at lower price. Hence the Company could not sell the entire quantity of wheat, and the same was sold out to the flour mills and the damaged wheat was sold to Milma for cattle feed. The Vigilance Officer also stated that the loss sustained to the

(1)	(2)	(3)	(4)	(5)
				<p>Company was due to the supply of wheat under PDS through ARDs (throughout the State) during the time of purchase of wheat by Company and purchases made without the study of market trend of wheat and the future market prices for the sales through their outlets. Other than this, no malafide is seen from the part of Company in the purchase of wheat from Madhya Pradesh Civil Supplies Corporation and hence the Government expresses its inability to proceed against any officers without any conclusive proof to show otherwise.</p>

*Remarks of the Committee:*

The Committee strongly suggested to take stringent action against the officers responsible for purchase of wheat from Madhya Pradesh Civil Supplies Corporation at a higher price even though quality wheat was available at cheaper rate from Food Corporation of India Godowns. The Vigilance enquiry conducted by the Vigilance Officer of the Corporation was not satisfactory to the Committee. Therefore the Committee recommends to conduct a fresh enquiry in this matter, with another agency.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,  
21st March, 2007.

*Chairman,  
Committee on Public Undertakings.*

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