



**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

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

**FIFTY FOURTH REPORT**

(Presented on 1st December, 2008)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2008

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**On**

**Kerala State Civil Supplies Corporation Limited based on the Report  
of the Comptroller and Auditor General of India for the year  
ended 31st March 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 Fifty Fourth Report on The Kerala State Civil Supplies Corporation Ltd. based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2005 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended 31-3-2005, was laid on the Table of the House on 13-2-2006. The consideration of the audit paragraphs included in the 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 19-11-2008.

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 Paragraph 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 the 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 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,  
1-12-2008.

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

## REPORT

### KERALA STATE CIVIL SUPPLIES CORPORATION LIMITED

AUDIT PARAGRAPH :

#### *Introduction*

The Company was incorporated in June 1974 with the objective of procurement and distribution of food grains and other essential commodities so as to ensure their easy availability to the public at reasonable prices. The activities of the Company were confined mainly to:

- Purchase and sale of 16 items\* of food grains and other essential commodities under the subsidised sales scheme, petroleum products, tea, medicine, sugar etc.;
- act as the authorised agent of the State Government for lifting, transporting and distribution of rice, levy sugar and wheat under Public Distribution System (PDS) ;
- blending of tea and conversion of wheat to atta;
- distribution of rice and pulses to schools under the Mid-day Meal Scheme (MDMS) ;
- procurement and distribution of vegetables during festival seasons like Onam, Christmas and Ramzan in order to control the price of such commodities.

The day to day affairs of the Company were being managed by the Chairman-cum-Managing Director who was assisted by one General Manager, six Additional General Managers (in charge of purchase, Tea & Business Promotion, Commerce, Marketing, Personnel & Administration and Finance), two Managers (in charge of Management Information System and Internal Audit) and a Company Secretary.

As on 31<sup>st</sup> March 2005, the Company had five Regional offices, 56 Depots, 1067 Maveli stores (including 43 Maveli Medical Stores), 10 Super markets, 10 Petrol Bunks, four LPG outlets, one Kerosene depot and 10 Sub-depots (for PDS).

The procurement and distribution of essential commodities covering the period from 1987-88 to 1992-93 was reviewed and included in the Audit Report (Commercial) for the year 1992-93. The Audit Report has not been discussed by the COPU so far (August 2005).

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\* Rice, Green gram, Green gram dhal, Black gram (Washed), Black gram (Split), Bengal gram (Bold), Bengal gram (Small), Toor dhal, Peas dhal, Lobia, Green Peas, Chilly, Coriander, Methi, Cumin seed and Mustard.

*Scope of audit :*

The present review conducted during the period from December 2004 to May 2005 covers the procurement and distribution of commodities during the five years ending 31<sup>st</sup> March 2004.

*Audit objectives :*

The performance audit of Procurement and Distribution of Commodities was conducted with a view to ascertaining whether:

- the company could achieve its main objective of ensuring availability of essential commodities at reasonable prices to the public;
- the Company had deviated from the policy and directions of the Government;
- the procurement system was economical, efficient and effective so that the Government subsidy was not mis-utilised;
- the commodities procured and distributed were of acceptable quality and standard; and
- the intervention of the Company in the distribution system acted as a control mechanism in stabilising the market prices.

*Audit criteria :*

The criteria used for assessment were to evaluate whether:

- procurement prices were lower than the open market whole sale prices or comparable with the cost of procurement from the sources of production of commodities;
- the Company had ensured that the commodities were supplied strictly as per the terms of purchase orders and suppliers were not favoured with undue benefits;
- the selling price fixed was competitive and not resulting in trading loss to the Company; and
- quality control measures were apt, and adequate and were properly implemented/executed.

*Audit methodology :*

The performance audit of the working of the purchase and distribution system with reference to the objectives of the Company and Government guidelines was conducted by a general review of the tender files, payment

vouchers, sales price statements, Management Information System Data and Annual Accounts. The audit team reviewed mainly the records of the Company's Head Office as procurement of essential commodities were arranged centrally and also visited one out of five Regional Offices, and collected sample data that were being transmitted to Head Office for MIS purposes.

*Audit findings :*

Audit findings as a result of rest check were reported to the Company/ Government in July 2005 and discussed in the meeting of the Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 29<sup>th</sup> July 2005, which was attended by the Joint Secretary, Civil Supplies Department, Government of Kerala and Chairman-cum-Managing Director of the Company. The views expressed by the members have been taken into consideration while finalising the review. Audit findings are discussed in the succeeding paragraphs.

*Procurement of Commodities :*

The procurement activities of the Company, previously confined to essential commodities only viz. rice, pulses and spices etc. expanded over the years to various other items like sugar, tea, medicines and petroleum products. Annexure 9 gives the details of purchases made by the Company during the five years ending 31<sup>st</sup> March 2004.

It would be seen from the Annexure that the purchase of essential commodities (pulses and spices), levy sugar and rice had declined in terms of quantity and value, during the five years up to 2003-04. This was due to poor sales performance despite subsidised sale of commodities to the public. The decline in sale of levy sugar and rice was due to the restriction of sale of levy sugar only to the people below poverty line and availability of the materials at lower prices in the open market.

**Essential Commodities**

*Purchase Policy and procedure*

A systematic procedure for the purchase of commodities by the Company was laid down by the State Government in August 1994 which envisaged a centralised system of purchase and invitation of tenders after assessing the requirement on the basis of indents received from the Depots and Sub-depots. It was to be ensured that the purchases of the commodities were effected during the crop season and that too directly from the production/procurement centres. While the purchases were to be effected at the lowest prices, it should not, in any case, be above the prevailing local market rates.



The Company had also to follow the general principles laid down in the Government's Stores Purchase Manual (SPM) since February 1995. The manual *inter-alia* mentioned that:

- requirements should be assessed correctly before inviting tenders;
- the purchases should be effected in harvest season and indents should be for the full year ;
- Public Sector Undertakings and Small Scale Industrial units should be given price preference, exemption from Earnest Money Deposit (EMD)/ Security Deposit (SD), etc.

The Company followed the system of centralised purchasing, for the procurement of essential commodities such as pulses and spices. The commodities were procured on the basis of monthly tenders and the quantum of purchases was decided with reference to the sales for corresponding three months in the previous year, sales for the immediately preceding three months, stock in transit, stock in hand, and requirement communicated by the Regional Offices.

It was noticed during audit that the system followed by the Company was in deviation from the Government's instructions and provisions of SPM, as discussed in paragraph 2.1.9 *infra*. The Company had sought (June 2000) Government approval for the system followed by it but the approval had not been received so far (August 2005).

The deficiencies noticed in the purchase procedure with reference to Government's instructions and the SPM are discussed below:

- As per the instructions issued (August 1994) by the Government, the procurement of commodities was to be effected in the crop season and that too directly from the production/procurement centres. Instead, procurement was made on the basis of monthly tenders giving wide publicity. A comparison of the rates, paid by the Company for various commodities during 2003-04, with prices prevailing in the important producing/procuring centres revealed that excess prices (Six to 260 *per cent*) were paid. Audit analysis further revealed that the purchase of pulses and spices were being made mainly from nine local traders at exorbitant rates.
- Clause 24 b (ii) of the SPM clearly provided that after inviting tenders the quantity should not be varied materially. Audit scrutiny revealed that the Company invited tenders for fixed quantities each month but that the actual procurement there against was very low and ranged only

between 20.95 and 65.12 *per cent* of the tendered quantities during the three years ended 31st March 2004. By procuring lower quantities against tenders for huge quantities, the Company was deprived of the benefit of competitive rates that could be offered by small tenderers.

- As per Clause 24 (d) of SPM, specifications of commodities should be carefully drawn up so as to avoid ambiguity in type, size, packing etc. The Company, however, was not specifying the variety/quality/grade of each commodity in the tender invited. Due to this, the Company could not ensure that the commodities offered conformed to the required specification. At the same time the Company used to reject tenders on grounds of deviation from specifications like discoloured pods, moisture content, etc. rather than variety, thereby reducing competitiveness in tenders.
- In deviation from Clauses 25 and 52 of SPM, fixing one *per cent* and five *per cent* respectively for EMD and SD, the Company had been accepting EMD of only Rs. 100/MT upto November 2002 and Rs. 150/MT thereafter and an SD of one *per cent* only. For the month of March 2004 alone the short collection on this account amounted to Rs. 1.29 crore. The purchases were, therefore, not adequately secured notwithstanding the interest loss on the short collected amount.
- During the five years ended 31st March 2004, the tenderers failed to supply commodities on 37 occasions and there was short supply in 63 cases. In five cases the Company resorted to alternate purchases resulting in aggregate loss of Rs. 40.98 lakh, which could not be recovered in the absence of adequate security.
- In violation of the directions of the Central Vigilance Commission to hold negotiation with the lowest tenderer only, the Company used to negotiate with all the tenderers. As a result, all the tenderers could amend the quoted rates through negotiation. A test check of 115 tenders relating to 10 items revealed that in 86 cases orders were not given to the lowest tenderers.

Audit analysis revealed that the Company incurred wasteful/extra expenditure due to the deficiencies in the purchase procedure, which are discussed in paragraphs 2.1.10 and 2.1.11 *infra*.

*Purchase of pulses at prices above market rates :*

The instructions issued (August 1994) by the State Government required that the purchases should be effected at the lowest price prevailing in the local market. It was noticed during audit that there was no system of comparing the

purchase rates quoted with the prevailing open market rates, taking into account the quality/variety of the item offered/ordered for supply. A comparison of the purchase prices of the Company with the whole sale market prices at Kochi revealed that, in most of the purchases, the price paid by the Company was higher than the average prevailing market prices. In nine items of pulses, involving a quantity of 1,80,944 MT relating to 507 purchases made during the five years ended 31st March 2004, 316 purchases for a quantity of 1,17,115 MT were made at rates above the market prices, involving extra expenditure of Rs. 42.04 crore.

Further analysis of these purchases revealed that :

- In 236 purchases, the prices paid exceeded the maximum markets rates, up to 70.09 *per cent* and the value of such excess was Rs. 26.44 crore.
- A comparison of the prices paid for pulses and spices with the then prevailing local market rates as reported by the Regional Managers of the Company revealed that the rates paid by the Company were higher. In respect of 10 items involving a quantity of 1,86,515 quintals, supplied at regional headquarters during 2003-04, the extra expenditure incurred amounted to Rs. 6.39 crore.
- The Company was procuring commodities even at prices higher than the average open market retail prices (AVOPMR). The extra expenditure on the purchase of 45,146 MT of pulses/spices during the three years 2001-04 amounted to Rs. 8.71 crore.

*Benefit to private traders at Government cost*

State Government prescribed (February 1994) that the prices of commodities in the Maveli Stores\* were to be fixed at 10 *per cent* below the retail market price. This loss was to be subsidised by Government by way of grant. The Company received government grant of Rs. 206.77 crore for the five years ended 31st March 2004; out of this only Rs. 72.38 crore was utilised for market intervention and the balance Rs. 134.39 crore was passed on to private traders by way of procurement at rates higher than the open market prices. Thus, the company not only failed in its role of market intervention to hold the level of prices but also acted as an intermediary for passing on Government grant of Rs. 134.39 crore to private traders.

*Quality Control :*

In order to procure only quality materials the company has prescribed several parameters in the tender itself. The quality Control Wing under the

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\* Maveli Stores function as the retail outlet of the Company for distribution of essential commodities at subsidised rates.

control of Manager –Quality Control (QC) was primarily responsible for ensuring that the commodity received conformed to the tender conditions and the variety as per the samples accepted.

It was, however, noticed during audit that the Company was frequently accepting goods by relaxing quality parameters, which resulted in acceptance of inferior quality goods from suppliers, as discussed below :

- as per Grade Specifications in the tender, the commodities should be wholesome, free from moulds and insects. The Company was however, regularly accepting infested commodities after collecting fumigation charges. The Company had accepted 4,79,664 bags (23,870.440 MT) of infested commodities during the five years 1999-2004. The acceptance of such commodities was against the tender conditions and resulted in sale of infested commodities to the public.
- Tender samples were being rejected on account of inferior variety, small variety, mixed variety, etc. The Company, however used to accept commodities even if it differed from the variety of the sample submitted at the time of tender by charging a penalty as decided by the Managing Director. Accordingly the Company accepted 18,027.1 quintals of lower variety pulses/spices during the five years 1999-04, imposing variety cut of 2.5 *per cent* of the value. The Company, however, has not assessed the price difference that existed between the tender sample variety and the actual variety supplied. This practice enabled suppliers to submit samples of better variety and make the bulk supply with a lower quality and to reap the benefit in price.
- During the five years up to 2003-04 the Company accepted 4,704.62 MT of defective commodities valued at Rs. 11.93 crore with quality cuts. There was also no mechanism for counter checking the quality of goods accepted by the Depots.
- The quality parameters of different commodities stipulated in Schedule I and II of the tender prescribed that the Bengal Gram (bold) and Bengal Gram (small) shall not be sulphur treated. While chemical treatment of commodities is harmful to health, the quality control wing of the Company did not have any facility to check such chemical contamination.
- The company had not been assessing the excess moisture content in respect of spices such as methi, cumin seed and mustard after fixing the minimum level. In the case of cumin seed, Company's depots did not

assess the actual moisture content but accepted 14,562 quintals during the five years up to 2003-04 after visual inspection.

- The tender specified rates of quality cut for spices like coriander, methi cumin seed and chilly for any deviation from parameters like discolouration, presence of other edible seeds etc. It was however, noticed that the percentage of quality cut applied in respect of four items during the period 1999-2004 was only at the rate of 50 *per cent* of specified rates resulting in excess payment of Rs. 40.56 lakh to the suppliers.

### **Other commodities**

#### *Purchase of sugar at higher rates :*

The company had not been following the practice of comparing the landed cost of sugar with the local market rates to assess the economy of purchases. As a result the cost incurred by the Company was often higher than the open market retail rates. Audit scrutiny revealed that in 27 out of 60 months during the five years up to 2003-04, landed cost of sugar was higher than the average open market retail prices, resulting in extra expenditure of Rs. 97.97 lakh. Sugar being an item not classified as essential commodity, purchase of sugar at higher cost lacked justification.

#### *Accumulation of Stock of free sale sugar :*

As per the State Government instructions (August 1994), the Company was to hold stock of two months' requirement of sugar as reserve stock. The details of purchases, sales and stock of free sale sugar during the three years up to 2002-03 are given in Annexure 10.

Details in the Annexure indicate that the actual stock held during the three years ranged between 4.2 months' and 14.9 months' sales resulting in blocking of borrowed working capital, ranging between Rs. 2.76 crore and Rs. 8.52 crore during the three years up to 2002-03. The loss of interest there on amounted to Rs. 1.78 crore at the rate of 12 *per cent* per annum.

The Management stated (August 2005) that on certain occasions when the open market rates were less, sale was poor resulting in accumulation of stock. The reply is not acceptable as it was noticed in audit that the Company was continuing the purchases irrespective of the stock accumulation and sold accumulated stock (48,249 MT) of sugar at prices less than open market prices and sustained a loss of Rs. 3.97 crore.

*Storage and handling operations :*

The deficiencies noticed in the storage and handling of commodities are discussed in succeeding paragraphs.

*Extra expenditure on transportation and storage of commodities*

As on 31st March 2004, the Company had 28 primary depots and 28 secondary depots. The suppliers had agreed to deliver the commodities at various depots in the State without any extra charge for transportation. Audit scrutiny revealed that as per the terms of the purchase orders, the commodities were being delivered by suppliers first at the primary depots and were then being transferred to secondary depots by the company itself. The distribution to the retail outlets was being done from all the depots under their distribution network.

The Company could have avoided the handling and transportation charges from the primary to secondary depots by issuing direction for delivery of the commodities at the secondary depots itself. Failure to manage the transportation of goods efficiently resulted in avoidable expenditure of Rs. 2.97 crore during the two years up to 2003-04.

It was further noticed in audit that the Company operated 17 hired godowns at two to four locations in seven towns\* and the number of buildings in a godown ranged from three to eight. The monthly utilisation was, however very low ranging from 15 to 51 *per cent* ; 13 godowns in the above seven towns having an aggregate capacity of 2645 MT, where no stock was being kept; could have been surrendered. Failure to surrender the excess storage facility resulted in avoidable expenditure of Rs. 29.70 lakh towards payment of rent during the five year period 1999-2004.

The Management stated (August 2005) that the surrendering/de-hiring was usually blocked by the head load workers on the plea that they lose jobs and efforts were on to increase the sales performance so as to increase the utilisation of godowns. The reply is not tenable since the excess capacity mentioned pertained to separate building where no stock was being kept. As such the question of resistance by labour did not arise.

*Distribution :*

As at the end of March 2004, there were 968 Maveli Stores, 10 Super markets 38 Maveli Medical Stores, 10 petrol Bunks, four LPG outlets, one Kerosene Depot and 10 Sub-depots (for public distribution). The Company acted

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\* Neyyattinkara, Nedumkandam, Cherthala, North Parur, Wadakkancherry, Ottappalam, Manjeri

as wholesale dealer of the State Government to Authorised Ration Dealers (ARDs) for levy sugar, rice, and wheat besides direct sale of rice and pulses. Government under the MDMS also entrusted the Company with distribution of commodities to schools.

*Sales performance :*

Commodity-wise details of sales made by the Company during the five years ending 2003-04 were as given in Annexure 11. Details in the Annexure indicate that:

- Total sales decreased by 39 *per cent* during the span of four years ending 2002-03.
- Sale of rice, pulses and spices, levy sugar, atta, sub-depot rice and wheat which constituted 76.20 per cent of the total sales during 1999-2000 decreased to 40.79 *per cent* during 2002-03.

Audit analysis revealed that the decline in sales was due to fixation of higher selling prices in the Company's outlets compared to the open market prices, frequent and prolonged stock out situations; availability of free sale sugar/rice at lower prices in open markets; inefficient management and structural weakness of the Company.

*Performance of Maveli Stores :*

The functioning of Maveli Stores, Supermarkets and other retail outlets were reviewed and included in the Report of the Comptroller and Auditor General of India for the year 1996-97. The Report was not discussed by COPU (August 2005).

The Company had 968 Maveli Stores (MS) including Labham Stores (LS) as at the end of 2003-04; out of this 273 MS were opened during the five years ending 2003-04, at the instance of the State Government, without assessing the viability and necessity of these stores. Audit analysis of the working results of these MS revealed the following deficiencies.

As per the Government instructions (1994) the MS should be working on 'no profit no loss basis'. It was observed that 76 per cent of Maveli Stores were working below the Break Even Point. The percentage of MS with daily turnover of less than Rs. 5,000\* varied from 31 to 54.40. Large number of MS, ranging from 739 to 831 with very low sales volume during the period 1999-2004, indicated that MS were not opened and operated based on necessity. The Company had not (May 2005) chalked out a comprehensive programme to achieve daily minimum sales of Rs. 5,000 in respect of these MS.

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\* Fixed by the Company as minimum sales to meet operating expenses such as salary, rent, electricity and other incidentals

The total volume of sales through MS drastically declined from 38,790 tonnes in 1999-2000 to 27,243 tonnes in 2003-04, while the number of outlets increased from 778 (1999-2000) to 968 (2003-04) the volume of sales declined to 70 per cent in five years.

The Management attributed the decline in sales to:

- unattractive prices of commodities with reference to quality
- inefficient management and structural weakness in the company
- Frequent stock out of commodities
- Increased competition from Margin Free Markets, Triveni, Neethi stores, etc.

Audit noticed cases of extra/wasteful expenditure by the Company due to deficiencies in the system of distribution of commodities which are discussed below :

*Fixation of Maveli prices of pulses and spices :*

The standing instructions from the State Government, on fixation of Maveli price required that the prices of pulses and spices were to be fixed 10 *per cent* below the market price. Government had also directed that fixing the sale price at very low levels as compared to the open market prices was against the spirit of the Government Orders and encouraged black marketing, diversion, etc., of the essential commodities. Audit analysis of sale prices during the five years ended 31st March 2004 revealed that Maveli prices fixed were higher than or equal to open market retail prices in 133 out of 468 cases since June 2001. The Company, while fixing the Maveli price, failed to take into consideration the open market prices. The excess pricing had its negative impact in the sales performance of Maveli Stores, as more people opted out of Maveli Stores, leading to sharp decline in Maveli sales over the years. This negated the objective of the Company to provide essential items at reasonable prices to the public.

Audit further noticed that in 444 out of 792 cases, sale prices were fixed far below the 10 *per cent* prescription of Government with reference to market prices. During the five year period of 1999-2004, the percentage of subsidy effected in the sale prices of certain commodities ranged up to 55.56 *per cent*. The loss incurred by the Company consequent on the fixation of sale price below the prescribed 10 *per cent* amounted to Rs. 42.73 crore. The loss could have been minimised by following the norms fixed by Government.



*Short realisation of sale value of pulses/spices :*

The Company had been selling pulses/spices through MS at prices fixed and published every month. The selling price so fixed for each item was being communicated to all the outlets.

A review of the monthly statements of sales prepared by the Regional Offices of the Company for the five years up to 2003-04 revealed that the price adopted by Maveli Stores was lower than the price fixed by the Head office, resulting in short realisation of sale value. The amount short realised in 40 cases during the period 2000-2004 amounted to Rs. 28.44 lakh.

*Performance of Supermarkets :*

The Company operated 10 Supermarkets (SM) as on 31st March 2004 with the objective of reducing the trade deficit in the MS. The selling price of supermarket item was generally fixed at a profit margin of 8 *per cent*.

A review of the performance of existing ten super markets, indicated that four\* SMs were incurring heavy losses continuously over the past three years (2001-2004) aggregating Rs. 64.74 lakh. The reasons for loss were insufficient contribution and heavy overhead expenditure. In order to improve sales the Company during 2002-03 and 2003-04 converted six MS as Labham Stores. The Company, however, did not convert the above major loss making SMs as Labham Stores.

*Sale of pulses and spices through Supermarkets at lower prices :*

As per Government directions, sale of pulses and spices through supermarkets should be made on profit. The Company could earn profit in the sale of pulses and spices up to 2001-02 as the sale prices as well as open market retail prices were higher than the purchase prices. The purchase prices overtook sale prices gradually due to inefficient purchase and 27.6 *per cent* of the total sales in 2002-03 and 64.5 *per cent* of the total sales during 2003-04 were effected at a loss. As retail market prices were lower than the Company's purchase prices, the Company could not raise the selling prices. Out of 5117.07 MT of pulses/spices sold during the period 2000-2004, 1309.78 MT (25.6 *per cent*) was sold below the purchase price involving loss of Rs. 47.01 lakh.

*Payment of additional retail commission to Authorised Retail Dealers (ARDs) :*

The Company was acting as the authorised agency of the State Government for the purchase, transportation and wholesale distribution of levy sugar allotted to the State. The purchases were effected from sugar mills in

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\* Thiruvananthapuram, Ernakulam, Thrissur and Kozhikode.

Kerala and neighbouring States based on the orders issued by the Government of India and stored at taluk depots for sale to ARDs. While Government of India fixed the selling price of levy sugar to consumers, the Company, as Authorised Wholesale Distributor (AWD) was entitled for wholesale margin, which was also fixed by Government of India.

The MRP of levy sugar, as fixed by Government of India was Rs. 1,325 per quintal with effect from March 2001 and the corresponding sale price to ARDs was Rs. 1,319.50 per quintal. Deviating from the directive of Government of India, ARDs were allowed by the State Government to collect Rs. 1,335 per quintal as MRP at an extra margin of Rs.10 per quintal.

The Government of India further raised (March 2002) the MRP of levy sugar to Rs. 1,350 per quintal and the price of ARD was fixed at Rs. 1,344.50 per quintal. Since the Government of India did not allow deviation from the ARD price to consumers, the Company had to bear the extra burden of Rs. 10 per quintal allowed by State Government as additional margin.

The Company sold 24,623,06 MT of levy sugar during the period from March 2002 to March 2004 and had to bear the additional retail commission (at the rate of Rs. 10 per quintal) of Rs. 24.62 lakh allowed to ARDs by the State Governments. Thus, the Company acting as an intermediary for distribution of levy sugar had to bear avoidable additional expenditure of Rs. 24.62 lakh at the instance of the State Government.

#### *Mid Day Meal Scheme :*

The Government of India (GOI) introduced (August 1985) a scheme of National Programme for Nutritional Support to Primary Education (NP-NSPE) under which rice would be allotted by Government of India through Food Corporation of India (FCI) to the State Government free of cost for issue to school children. The Civil Supplies Department of the State Government had entrusted (July 1997) the Company the work of lifting of rice from the godowns of FCI and supply to schools under the Mid Day Meal Scheme (MDMS) of GOI and was paid handling and transportation charges by the Director of Public Instructions (DPI). The schools/ beneficiaries were identified by the DPI. Audit noticed cases of excess payments during the implementation of the scheme as discussed below:

#### *Purchase of rice :*

The GOI allotted rice to the State Government under Above Poverty Line (APL) and Below Poverty Line (BPL) quota. The price fixed for APL rice was Rs. 738.40 per quintal which was raised (July 2002) to Rs. 839.55 per quintal.

The BPL rice was priced at Rs. 571.50 per quintal and substantial quantity of this rice remained unlifted. The State Government, however, directed (July 2002) the Company to lift 3,200 MT of rice from the APL quota at higher rates for the supply of additional quantity of rice to the school children during festival season. The Company lifted (August 2002) 2,550 MT at an aggregate cost of Rs. 2.14 crore.

On realising the accumulation of stock under BPL quota at the lower rate of Rs. 571.50 per quintal, the State Government directed (August 2002) the Company to lift the rice (earlier directed to be lifted from APL) from BPL quota. Since the Company had already lifted 2,550 MT at higher rate, it could lift only the balance quantity at the lower rate under BPL. Though the Company lifted the rice at higher rates as directed by the Government involving extra expenditure of Rs. 68.35 lakh, the Company did not follow up the matter with the Director of Public Instruction to obtain refund.

*Excess procurement of MDMS rice :*

The Company took delivery of a total quantity of 195,700 quintals of rice from FCI at the rate of Rs. 959.50 to Rs. 1141.30 per quintal for distribution to school children during festival season of 2000-01. Out of this quantity, the total issue was 149,807.67 quintals leaving a balance of 45,892.33 quintals. The purchase price of rice was decreased to Rs. 838.80 per quintal during 2001-02. Out of the balance quantity of 45,892.33 quintals of rice lifted from FCI during 2000-01 at the rate of Rs. 1141.30 per quintal, 26,153.24 quintals of rice was issued during 2001-02 including 6,200 quintals of rice lifted from FCI during the year at the rate of Rs. 838.30 per quintal. The Company's claim for the excess cost of Rs. 303 per quintal paid on 26,153.24 quintals was not allowed by the Director of Public Instructions while settling (July 2003) the claims. The excess procurement of rice at higher rate during the year 2000-01, resulted in a loss of Rs. 79.24 lakh.

*Supply of pulses for MDMS at prices in excess of market prices :*

The Company supplied (1999-2004) pulses (Greengram, Bengalgram, Lobia etc.) to schools under MDMS as directed by the State Government. The Company fixed the sale price of pulses issued to MDMS taking into account purchase price of pulses including sales tax, loading and unloading charges, internal transporting charges, storage cost, interest on investment, etc. On a review of the selling prices of MDMS items, it was noticed in audit that the prices fixed were often much higher than even the open market retail prices. The details of total quantity of pulses and spices supplied, quantities supplied at prices higher than the retail prices, and the extra expenditure during the five years ended 2003-04 were as given in Annexure 12.

Details in the Annexure indicate that the Company could supply 19,241 MT of pulses during 1999-2001 at economic rates whereas about 80 to 99 *per cent* (26,274.3 MT) of the supplies made during 2001-2004 were at prices higher than the retail market prices. This was due to the high procurement cost of the Company especially since August 2002. Thus, due to the high procurement cost incurred by the Company, the Government had to incur extra expenditure of Rs. 10.43 crore in administering a social security scheme. The traders were ultimately benefited by the higher procurement rates.

*Operation of Sub-depots under Public Distribution System :*

The State Government directed (December 1996) the Company to take over the seven Sub-depots previously operated by FCI as wholesale dealer. Subsequently (1996-97) three more Sub-depots were taken over at the instance of the State Government.

While entrusting the Sub-depot operations to the Company, the Government agreed (November 1996 and March 1997) to reimburse the loss. The loss in the operation of nine Sub-depots during the four years ending 2000-01 amounted to Rs. 3.00 crore. There was no system of assessing periodically the working results of the Sub-depots. In the absence thereof, the Company could not claim from the State Government the loss in the operation of ten Sub-depots up to March 2005.

*Internal control system :*

Audit noticed the following major deficiencies in the internal control system of the Company:

- The company was not having manuals regulating/systemising the major areas of its functions in Internal Audit, purchases, sales, pricing, quality control etc.
- The Company was not following the system of depositing with the Bank the EMD received in the form of demand drafts as provided in the Accounting Manual. As the Company had been utilising borrowed funds for its working capital requirements, non-remittance resulted in loss of interest amounting to Rs. 24.34 lakh during the period from December 2002 to October 2004.
- Samples of commodities were accepted and purchase orders placed by the head office. The details of samples and purchase orders, were not

being intimated to the Depot Managers and they were not involved in quality assurance, though the stocks were actually accepted in the depots.

- Though the goods were received at depots and payments for supplies made at head office, the system of reconciling the quantity received as per the Head office records with the quantity received as per depot records was not in vogue. The Company was not ensuring that payments were made for quantities actually received by depots. Audit scrutiny revealed short accounting of receipt of 638.705 quintals of pulses and spices valued at Rs. 25.03 lakh at the depots for the five years 1999-2004.
- The Company did not have an adequate system of identifying, replacing and disposing of inferior/defective goods.
- Timely detection of the shortages and recovery of the loss was not being done promptly.
- A system of cross checking the data generated by different departments of the organisation was not in vogue and accuracy remained unascertained.
- There was absence of reconciliation of credit sales in the case of petroleum products and dues were not ascertained and got confirmed promptly.
- There did not exist an adequate system for ascertaining the liabilities from the staff for shortages or for its prompt recovery.
- None of the head office transactions was subjected to internal audit, though all major purchases, transportation etc., were made by the head office. The internal audit was conducted only at the regional office Depot/outlet level.
- There were heavy arrears (two years) in internal audit due to which prompt and timely action was not being taken against system deficiencies.

Government stated (August 2005) that the management has taken/proposes to take remedial measures to set right the deficiencies pointed out by Audit.

### Conclusion

The Company set up in June 1974 with the objective of making available food grains and other essential commodities to the public at reasonable prices failed to fulfill the objective as the prices of the commodities supplied were far higher than market prices. Procurement was being made regularly from nine Kerala traders, at prices far higher than the maximum market rates. The Company's specific quality parameters were often relaxed for accepting inferior/defective goods. Selling prices which were higher than or equal to the open market rates rendered the Company's products unattractive to the public and the Company's sales drastically came down over the period due to inefficient management and structural weaknesses in the Company. The Government grant meant to subsidise the selling price of essential commodities to the public, was being passed on to a few traders by way of high procurement cost. Internal control system was deficient in many areas viz. purchase, sales and inventory control.

## Annexures to the Audit Paragraphs

## ANNEXURE 9

(Referred to in Paragraph 2.1.7)

## Statement showing details of purchases made by The Kerala State Civil Supplies Corporation Limited for the five years up to 2003-04

*(Quantity in MT and value in Rs. crore)*

<i>Item</i>	<i>1999-2000</i>		<i>2000-2001</i>		<i>2001-2002</i>		<i>2002-2003</i>		<i>2003-2004*</i>	
	<i>Qty</i>	<i>Value</i>	<i>Qty</i>	<i>Value</i>	<i>Qty</i>	<i>Value</i>	<i>Qty</i>	<i>Value</i>	<i>Qty</i>	<i>Value</i>
Pulse and Spices	53755	134.01	44381	114.59	34627	100.00	38794	112.19	38106	120.78
Rice	76398	11.50	19708	22.09	632	0.52	4796	3.07	5815	5.96
Levy Sugar	164699	183.15	136867	166.74	60137	75.51	17205	19.31	1619	2.22
Freesale Sugar	5698	7.11	8402	11.80	9423	13.34	11269	14.12	23540	34.42
Sub depot rice	130678	96.53	55207	33.71	43961	27.96	38401	18.24	47801	25.49
Sub depot Wheat	23662	16.27	6297	5.42	8818	5.55	15915	9.10	18220	10.57
Petroleum Products	..	45.70	..	63.82	..	68.83	..	73.82	..	52.12
Tea	2367	15.29	2386	12.44	2089	10.80	2189	11.15	2243	12.86
Others	..	66.31	..	74.86	..	82.58	..	110.91	..	151.50
Atta	19069	13.12	8974	7.02	1300	79.42	3600	2.14	5131	4.80
Matta Rice	..	..	..	..	..	..	4460	5.16	5660	6.51
Total	..	588.99	..	512.49	..	464.51	..	379.21	..	427.23

\* Figures provisional as furnished by the Company.

ANNEXURE 10  
(Referred to in Paragraph 2.1.14)

**Statement showing details of purchase, sales and stock of free sale sugar by  
The Kerala State Civil Supplies Corporation Limited for the three years  
ending 2002-03**

<i>Particulars</i>	<i>(Quantity in MT)</i>		
	<i>Year</i>		
	<i>2000-2001</i>	<i>2001-2002</i>	<i>2002-2003</i>
Opening Balance	4360.58	4944.70*	4229.21*
Purchases	8399.11	9418.15	10214.30
Total	12759.69	14362.85	14443.54
Sales	7582.59	9608.98	11090.06
Closing Balance	5177.10*	4753.87*	3352.99
Average monthly sales	631.88	800.75	924.21
Maximum of excess stock held during the year	6333.00	5628.00	3798.00
Minimum of excess stock held during the year	3421.00	2765.00	2115.00
Range of stock held in terms of month's sales	6 to 14.9	5.9 to 12	4.2 to 6.5

\* The opening stock is different from closing stock of previous year due to deletion of shortages and inferior/damaged quantity.



ANNEXURE 11  
(Referred to in Paragraph 2.1.17)

**Statement showing details of sales made by The Kerala State Civil Supplies Corporation Limited for the five years ending 2003-04**

Commodity		1999-2000	2000-01	2001-02	2002-03	2003-04 <sup>#</sup>	Total
		(Quantity in MT and value in Rs. crore)					
Rice	Q**	72740	20340	4713	1481	296.3	99300
	V*	12.35	25.30	6.45	1.26	3.56	48.92
Pulses and Spices	Q	53295	45790	35902	35809	33610	204406
	V	122.41	116.08	101.02	94.25	106.50	540.26
Sugar—Free sale	Q	6862	7669	10065	12714	23380	60690
	V	10.10	11.28	14.78	15.17	31.87	83.20
Sugar—Levy	Q	169880	138661	58633	20041	1735	388950
	V	204.38	179.72	77.41	25.88	2.31	489.70
Tea	Q	2469	2411	2232	2345	2276	11733
	V	20.74	17.63	17.01	14.73	17.05	87.16
Atta	Q	19703	10700	1326	3342	5021	40092
	V	21.66	12.59	1.37	3.43	4.48	43.53
Sub depot Rice	Q	132557	57610	42405	39848	48552	320972
	V	101.70	36.87	26.55	21.63	20.25	207.00
Sub depot Wheat	Q	24526	6889	8707	15738	17971	73831
	V	17.54	6.08	5.68	9.60	10.53	49.43
Matta Rice	Q	..	..	..	4345	5478	9823
	V	..	..	..	5.32	7.14	12.46
Other Items	V	78.25	88.50	88.48	115.51	166.23	536.97
Petroleum Products	V	40.83	54.56	70.58	75.77	65.94	307.68
Total	V	629.96	548.61	409.33	382.55	435.86	2406.31

# Provisional as furnished by the Company

\*\* Quantity

♦ Value

ANNEXURE 12  
(Referred to in Paragraph 2.1.28)

**Statement showing extra expenditure in MDMS sale by The Kerala State  
Civil Supplies Corporation Limited for the five years ending 2003-04**

<i>Year</i>	<i>Total Quantity Supplied</i>	<i>Quantity supplied at higher rates</i>	<i>Quantity supplied at economic rates</i>	<i>Extra cost (Rupees)</i>	<i>Percentage (Quantity supplied at higher rates to total quantity supplied)</i>
	<i>(In MT)</i>				
1999-2000	10651.20	343.09	10308.11	630388	3.22
2000-2001	11001.70	2068.91	8932.79	463310	18.8
2001-2002	9369.30	8852.80	516.50	39134220	94.48
2002-2003	9514.10	7626.40	1887.70	23280261	80.16
2003-2004	9823.90	9795.12	28.78	40773821	99.71
Total	50360.20	28686.32	21673.88	104282000	..

*[Audit Paragraph 2.1 – Contained in the Report of Comptroller and Auditor General of India for the year ended 31-3-2005 (Commercial)]*

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

1. The Committee enquired the reason for the decline in the sales of essential commodities despite subsidised sales. The Chairman & Managing Director, KSCSC stated that suspicious attitude of the people regarding the quality of the goods sold through the store and the poor marketing strategy might have caused the decline in sales. The Committee enquired whether the Corporation had taken any steps to assess the reason for the decline in sales during 2001-2004. The witness failed to give a specific and satisfactory reply to this. The Committee wanted to know the reason for the increase in loss in the year 2005-2006 despite no addition in manpower and investment. The witness explained that the loss occurred not because of the sales of Maveli items but because of paddy procurement. The Committee opined that owing to the purchase of inferior quality goods the Corporation had made huge loss and enquired about the purchase system prevailing in the Corporation and wanted to know the steps taken to purchase quality goods. The Committee also enquired whether there was any mechanism to take action against those who purchased inferior quality goods.

2. The witness admitted that irregularities had occurred and the Quality Controller who was responsible for the irregularities had been dismissed from service. It was also stated that as CBI enquiry is in progress, personal liability can be fixed only after the enquiry. The Committee was not satisfied with the reply and enquired whether the department does not have the responsibility to find out the irregularities and take action against those responsible instead of waiting for CBI report. The witness explained that since it is a criminal offence, CBI has been authorized to conduct the preliminary enquiry. The witness informed the Committee that remedial action has been taken to prevent such irregularities in future.

3. The Committee expressed doubts whether the Corporation is extending its help to the CBI by providing the documents and files needed for the enquiry. The MD, KSCSC informed that all the files and documents relating to the purchase have been given to the CBI. Besides, the Corporation is also providing the infrastructural facilities needed for the investigation.

4. The Committee remarked that the officials who are responsible for ensuring quality control have themselves indulged in manipulation. The Committee enquired whether the Corporation had changed the purchase policy

and tender system to avoid the malpractices in future. The witness replied that the Corporation had introduced E-tendering to ensure transparency in its dealings. Inventory management was improved by working out requirement properly in order to avoid under stocking and excess stocking. The concept of economic order quantity was introduced and assessment of the space available with depots was being done. On the basis of the previous months' sale, requirement for the coming months was being arrived at and the tender rate is compared with the prevailing market rates as published in newspapers and that in local shops, big bazars, consumer fed etc.

5. On enquiring whether newspapers are the only mode for understanding the rates, the witness informed that internet is also used to understand rates. For purchasing items from Gujarat, Rajasthan etc., the transportation charges are also taken into consideration. The witness added that purchase through e-tender is a very transparent mechanism and that direct procurement involves risk for the person who undertakes the purchase as no tender or quotation is involved. The witness further stated that the Corporation had decided to enter into long term agreements with procurement agencies like Andhra Pradesh Market Fed and Rajasthan Market Fed for purchasing items like chilly. The Corporation is also going to introduce reforms in quality control aspects such as certification, use of sealed containers etc. If a complaint arises at the time of delivery at the Depot, a sample will be taken at once and sent for examination, and strong action including termination will be taken against the Depot Manager if he is found guilty. There is a Vigilance Squad which examines samples by visiting the various Depots. The witness added that the Corporation is also trying for ISO certification.

6. The Committee pointed out that the Corporation had deviated from Government instructions, provisions of the Stores Purchases Manual and the systematic procedure laid down by the State Government in August 1994 which envisaged centralised system of purchase, invitation of tenders, procurement during crop season etc. while effecting the purchase. It was also laid down by Government that the purchases were to be effected at the lowest prices but not above the prevailing market rates. The Committee found that the Corporation had formulated a separate manual and was following it. The Committee enquired whether the manual formulated by the Corporation had any special provision which the Government manual lacked. The witness informed that the manual also had its own limitations and added that Government has decided to constitute a Committee comprising of CMD, KSCSC, Secretary (Finance) and Secretary (Food and Civil Supplies) to revise and reform the manual.

7. On asking whether the purchase manual of 2005 is being followed by the Corporation, the witness replied in the affirmative. When asked if the purchase manual can be changed, the witness replied that technically the Board has the power to change the policy. The Committee remarked that tendering has been done against the norms of the purchase policy. To the Committee's question about the need for Government approval for changing purchase policy, the witness stated that it is subject to the ratification of the Government and Government is empowered to give any direction to the Corporation and the Corporation is obliged to follow it. The Committee wanted to know whether the Corporation has made any additional changes in purchase policy besides the Government instructions. The witness replied in the negative and stated that the Corporation has the power to take decision in purchase policy.

8. The Committee pointed out that the Corporation had purchased pulses and spices mainly from 9 local traders at exorbitant rates on the basis of monthly tenders giving wide publicity ignoring the Government instructions that procurement of commodities was to be effected in the crop season and that too directly from the production/ procurement centres. The Committee enquired whether any action has been taken by the Corporation against the officials involved in the purchase. The witness explained that when irregularities were found Charge Memos were issued against the quality Controllers and one of them was dismissed from service and explanation from others were received. Since it is a criminal offence and the case is being enquired by the CBI, the MD expressed his inability to reveal the domestic enquiry procedures.

9. On enquiring why the company was accepting EMD and Security deposits below the prescribed rates, deviating from Stores Purchase Manual, the MD explained that security deposit and EMD has been reduced for enabling participation of even small suppliers. On a question of the Committee whether security deposit was enhanced now, it was informed that a reasonable increase has been made.

10. The Committee noticed that as per the Government instructions, purchase should be effected at lowest price prevailing in the local market. But the Corporation purchased most of the items at prices higher than the average market price and even at prices higher than average open market retail prices incurring extra expenditure of Rs. 42.04 crore. The Committee enquired whether any action was initiated against the officials who were involved in the deal. The witness stated that memo of charges were issued against the officials who were in charge of the purchase division and their explanation was received. The service of the quality controller was terminated. One official had died. The witness stated that action against the remaining officials would be decided by

the Board. The Committee wanted to know the action taken by the Government to check this kind of manipulation. The Additional Secretary, (F&CS) informed the Committee that a revised purchase manual relating to purchase policy was forwarded to Government for approval and discussion on it is in progress with Government Secretaries on Finance, Food and Civil Supplies and MD, KSCSC.

11. The Committee was shocked to notice that out of the Government grant received to the tune of Rs. 206.77 crore by the Corporation for market intervention for the five years ended March 2004, only Rs. 72.38 crore was utilised for the purpose while Rs. 134.39 crore was passed on to private traders by way of procuring items at rates higher than the open market rates and the Corporation acted as intermediary for transferring Government funds to private traders.

12. The Committee wanted to know the steps taken by Government to recover the amount from the trading firms. The Additional Secretary, Food and Civil Supplies Department replied that final decision on this could be taken only after the completion of the CBI enquiry. The witness stated that the Corporation had issued notices to the 11 companies, to realise the money from them. Replying to a question of the Committee on how the manipulation had taken place, the witness stated that low quality goods were bought at rates higher than the prevailing market rates and then sold at Maveli prices. The Committee wanted to know the items purchased in this way and the rate at which they were purchased, and wanted to know why the Government nominee from Finance Department had not objected to the deals. The Committee found that in almost all items, for which the details were given, the purchase price was more than the maximum of the then prevailing market rates. The Committee found that the newspaper rate for chilli in April 2003 was Rs. 40 (minimum) and the maximum was Rs. 45. But the Corporation had bought 171 metric tons at Rs. 48.42 per kg leading to loss of lakhs of rupees each month on purchase of chilly alone. The Committee enquired whether the Finance Department and the Board were not aware of the manipulation. The witness informed the Committee that an Additional Secretary from Finance Department was on the Board and that the Board had approved all purchases. The Committee felt that the witness were reluctant to reply to the questions of the Committee regarding the persons who were responsible for the loss. The Committee asked whether the quality controller who was responsible for the malpractice was changed. The witness stated that a new quality control committee was formed. On a question of the Committee regarding the action taken by Government in the matter and the present position of the case, the witness could not give a satisfactory reply. The Committee enquired whether the Finance Department was not aware of the

receipt of subsidy by the Corporation. The Secretary, Finance stated that the subsidy should not exceed 10 percent and the purchase price of items should not exceed market rate and that the officials of the Corporation are responsible for paying more than the market rate. It was also informed that the rate of the market intervention scheme should be decided only after the approval of the Finance Department. The fixing of rates above 10% may cause diversion and black marketing. MIS rates cannot be fixed without the approval of the Finance Department. When asked the steps taken in this respect the Additional Secretary, F&CSD stated that items cannot be purchased above monthly published price index rate. Some times more than 10% subsidy is allowed but it is not fair to buy things above market rate.

13. The Committee pointed out that quality parameters were relaxed in accepting inferior quality and chemically contaminated goods. The Committee enquired whether the Corporation, has any device to find out sulphur treated items. The witness replied in the affirmative and stated that a three member Committee including the Depot Manager was formed in all depots and that they were provided with training.

14. The Committee pointed out that the Company had not been following the practice of comparing the landed cost of sugar with the local market rates to assess the economy of purchases which resulted in extra expenditure of Rs. 97.97 lakh during the five years upto 2003-04 and wanted to know the reason for it. The witness explained that at present purchases are made at lowest rates by comparing market prices. The Committee enquired who were responsible for the loss and wanted to know whether any action has been taken against them. The witness replied that the case is now under investigation by the CBI and only after the investigation the persons responsible could be identified. The witness added that though many enquiry commissions have conducted enquiries they could not find out the persons responsible for the loss. The witness stated that the Honourable High Court of Kerala has examined the case and ordered a CBI enquiry. The witness added that the Corporation is now taking remedial measures to check the malpractices.

15. The Committee enquired why the Corporation had held stock of sugar for 14 months despite the State Govt's instruction that the Company was to hold stock of only two months' requirement of sugar as reserve. The witness stated that since it also comes under the CBI enquiry, the Corporation is not able to take any action in the matter. The Committee pointed out that the Department had not taken any action even though it was a severe offence. The Committee added that in the light of news paper reports, Government has ordered the enquiry by itself and not based on the Report of the Accountant General.

The Committee wanted to know what action the Corporation had taken on the irregularities pointed out by the Accountant General.

16. The witness replied that the Corporation had written to Government and the irregularities were pointed out in the notification itself and no special case is highlighted in it. The witness added that measures have been taken to prevent such instances in future. When enquired who had sanctioned money for the purchase of sugar, the Committee was informed that even stock accounts system was not prevailing in the Corporation during the period. At present only one months' stock is being held as reserve. The witness declined to comment further on it since it was under CBI enquiry and the order pertaining to it was not received by him so far.

17. The Committee pointed out that even though the supplier had agreed to deliver the commodities at various depots of the Corporation without any extra charge for transportation, the company had not directed the suppliers to deliver the goods at the secondary depots or the retail outlets. Instead the Corporation was distributing the commodities to the secondary depots and retail outlets at its own expense thereby incurring loss of Rs. 2.97 crore on transportation and handling charges for the 2 years upto 2003-04. When the Committee enquired the reason for this, the witness replied that up to the period 2003-04, the system of delivering commodities at the primary depots was followed. Now commodities are being transported to the secondary depots by the suppliers itself. The Committee wanted to know whether the corporation had fixed responsibility for the loss. The witness replied that Muraleedharan Commission has been appointed and CBI enquiry is being done to examine whether there was any malafide intention on the part of those involved in the deals and that action would be taken against those involved in the deal after receiving the report of the enquiries. When asked whether tender is renewed yearly, the witness responded in the affirmative and added that it also comes under CBI enquiry. At present almost all items are transported to the godowns by railway wagon and the Corporation is not transporting anything. The witness stated sugar was purchased by inviting annual tenders. Item such as pulses should be delivered at the depot by the supplier as per contract. But sugar has to be lifted from the sugar mills and transportation cost has to be paid for it. The witness further stated that now an inventory management system has been introduced in the company taking into account 15 months' requirements in all depots of the Company. If any item is required in excess or in lesser quantities, the explanation for it should be provided by the depot manager of the particular depot. The Committee enquired about the mode of transport by which goods from other States come to the State. The witness



informed that pulses are generally brought in lorries and that levy sugar is usually transported to this State by wagon. It is delivered at the mills and the Corporation is liable to clear it at the mill itself. Concerned officials are sent to the mills to have it loaded in the wagons and when it reaches our State, the lorry contractors will take them to the concerned depots. When the Committee asked whether levy sugar is delivered through FCI godowns, the witness replied in the negative.

18. The Committee enquired why the corporation has not surrendered 13 godowns having an aggregate capacity of 2645 MT, even though no stock was being kept there. The witness stated that even if the Corporation finds that a particular godown is not viable, it cannot be closed down due to several factors such as labour problems of head load workers. The Committee expressed its dissatisfaction over the reply of the witness and stated that labour problems cannot arise in the case of godowns which have not been used even once. The Committee pointed out that in this case alone the company had lost Rs. 29.70 lakh. The CMD, KSCSC stated that even today the godown at Valiyathura cannot be closed by the Corporation because the local people have represented to Government against closing it.

19. The Committee wanted to know the action taken by the Corporation as per the G.O.42/2006 in which Government have ordered to dehire the godowns which were not in use. The witness stated that as per the Government Order many godowns such as the one at Kodungallor were closed down, but the situation in Valiyathura is different. The godown of Indian Oil Corporation at Valiyathura had to be closed down owing to undue demand by the head load workers. When enquired whether the Corporation was paying rent for the godowns that were shut down the witness replied in the negative. The witness stated that after 2006 all the godowns which haven't got at least 9 Maveli Stores under them have been dehired and the Corporation now stores its items in 56 godowns all over the State.

20. The Committee enquired whether the representative of the Finance Department was unaware of the irregularities taking place in the Corporation. The witness informed that there is a representative of the Finance Department in the Board. Now the Secretary (Expenditure) is the representative of the Finance Department in the Board and all the Board decisions were taken with the knowledge of the Finance Department. The Committee wanted to know why the Finance Department had not noticed the malpractices and irregularities taking place in the Corporation. The witness stated that the Finance Department had conducted inspection and pointed out some matters. He added that according to accounting expediency, the Accountant General interpreted it as unnecessary

expenditure only on the basis that there was no stock in the godown at that time, but in terms of business expediency, the Corporation's action cannot be blamed and it cannot be a loss.

21. The Committee wanted to know how the labour problem arises in places where no stock is kept. The witness explained that on some occasions, once a godown is hired, the Corporation can occupy it and make it operational only after one or two months due to non-availability of staff. The Committee pointed out that no goods were stored in the case of the 13 godowns pointed out by Audit. The witness informed that at the time of festivals more goods have to be stored and it is not practical to hire godowns for a particular period alone. Now the turnover is Rs. 200 crore and often godowns are hired with the aim of increasing sales.

22. The Committee enquired whether any problems involving head load workers had occurred when the Corporation tried to wind up any godown. The witness stated that a number of such incidents had occurred. He added that there is a verdict of the Honourable High Court of Kerala that wherever godowns of the Warehousing Corporation are available, Supply Co - should never hire private godowns. The witness stated that the rent charged by the godowns under Kerala State Warehousing Corporation is higher compared to the rent of the private godowns hired by the Corporation. When the Committee enquired whether the rate can be standardised by the two Departments, the witness informed that the rent of the Warehousing Corporation is fixed at a standard rate and it cannot be reduced. The witness further informed that as a result of discussion between the Managing Directors of the two Corporations, the Civil Supplies Corporation had decided to hire some godowns of the State Warehousing Corporation. But the Company is facing problems when they try to shift godowns and they are trying to solve the problems amicably.

23. When the Committee enquired about the IOC godown at Valiyathura the witness stated that the godown remains closed due to problems arising out of the unlawful demand by some labourers that they be given Rs.10 per cylinder even though the consumer himself takes the cylinder from the godown. The IOC objected to it as it was unlawful. Now the labourers will not allow the IOC to take away the cylinders from the godown. The Committee suggested that a decision should be reached through discussions by those involved. The witness stated that though discussions were held, no remedy could be taken owing to practical problems.

24. The Committee enquired the reason for the decrease in total sales and decrease in the sale of rice, pulses, spices, levy sugar, atta etc. during

2000-01, 2002-03. The witness stated that total sales had decreased, due to the declining sales of non-Maveli items. The sale of Maveli items had not fallen. It has no profit. The profit depends on the increase in sales of non-Maveli item.

25. When asked why the Chairman and Managing Director had ignored the report of the Vigilance wing and of the General Managers, the witness was reluctant to reply stating that the case is under CBI enquiry. The witness added that the present officials are not involved in the case and that they can only rely on the letters sent and received.

26. The Committee wanted to know the reason for the decline in sales in Maveli Stores. The witness replied that the sales turn-over shown in the audit report to be less than Rs. 5000 is not correct. The sales of non Maveli items is not less than Rs. 5000 and the increase in sales of Maveli items only brings loss to the Corporation.

27. To the question of the Committee whether Maveli Stores are viable, the witness replied that Maveli items are sold on loss and that is why the Government is providing subsidy to the Corporation. The Committee pointed out that still the prices in Maveli Stores are higher than open market prices. The witness stated that the average price of items are low in Maveli stores compared to other business outlets.

28. The Committee enquired about the quality of goods sold through Maveli stores. The witness replied that in the case of non Maveli items, the question of difference in quality does not arise because they are the items of Multinational Companies and all are of the same quality. The witness informed that the Corporation has introduced a new system by which any customer can replace the items purchased from the store if he is not satisfied with the quality of the item. With the introduction of this system, the sales has increased up to 20%.

29. The Committee remarked that Maveli Stores compromises quality for low price. The witness stated that the quality of Maveli items are also ensured by the Company. The Committee suggested that there should be proper awareness among the poor people regarding the low price of commodities at the stores.

30. The Committee enquired whether the Corporation has implemented the instructions of the Muraleedharan Commission report for ensuring quality. The witness stated that there is a quality management for the Corporation and quality control measures were being taken on the basis of it. There is a Quality Committee and an Officer in the Corporation to ensure quality of the goods purchased. On enquiry on whether all the instructions of the Muraleedharan Commission were implemented, the witness replied in the

affirmative. When asked what other measures are being taken by the Corporation, the witness replied that there is a purchase manual and that as per the purchase manual all the purchase procedures were stated. E-tender system was introduced. All purchases are made through transparent system. The Company has taken steps for inventory management, quality management etc. The witness stated that all efforts are being taken for improving the functioning of the Corporation.

31. The Committee finds that the Company fixed Maveli prices higher than or equal to open market retail prices in 133 of the 468 cases since June 2001, inspite of the fact that standing instructions from the State Government on fixation of Maveli prices required that the prices of pulses and spices were to be fixed 10% below the market price. The Committee wanted to know the reason for this. The witness replied that the main reason was that the purchases were made on higher rates. The Committee pointed out that in 444 cases out of 792 cases, sales prices were fixed far below 10% of the market prices thus causing a loss of Rs. 42.73 crore to the Corporation and enquired whether this also comes under C B I enquiry. The witness replied in the negative and added that in some cases, price reduction is up to 30% and Government have agreed to it. If any loss occurs owing to the price fixed by the Government, it will be reimbursed by Government. The selling price is determined by the Government on the proposal of the Corporation, and in case of loss Government will provide subsidy. The witness stated that every month the average price to be fixed by Government is proposed by the CMD and after examining it the Government takes decision on it. To a question of the Committee it was informed that the price of rice is Rs. 14 and Rs. 13.50 for boiled and raw rice respectively and the Corporation is selling it by giving Rs. 3 per kg. as subsidy.

32. The Committee pointed out that in 444 cases the rate fixed by the Corporation is 10% below the rate fixed by the Government. But in the reply furnished it is not stated that Government itself agrees for the price reduction below 10%. The witness informed the Committee that the Government is providing subsidy only for the price of 13 items and the price of all the other items are fixed by taking into account the purchase price and overhead expenses. It was also stated that the price difference of its items from the margin free market is due to the high overhead charge in the Corporation. There should be no loss in the sale of non Maveli items. The witness stated that at present the Corporation is running on break even basis.

33. The Committee pointed out that while examining the Audit paragraphs in the previous meetings the witness declined to reply to several questions of the Committee stating that the cases relating to the audit paragraphs were

pending before the CBI and the Court. But the Committee realised that the CBI is enquiring only a limited number of cases and the list of these was given to the court. Therefore the Committee wanted to know the specific cases which are being enquired by the CBI. The Special Secretary, Food and Civil Supplies Department, stated that he has taken charge only in the previous week and therefore did not have the exact number of cases referred to CBI.

34. The Committee pointed out that the prices adopted by the Maveli Stores were lower than prices fixed by the Head office which resulted in short realisation of Rs. 28.44 lakh in 40 cases and wanted to know the action taken against those involved in it. The witness stated that action has been taken against the concerned employees for shortage in valuation. The Committee observed that the Accountant General had pointed out 40 specific cases and wanted to know the details of those employees against whom action has been taken. The General Manager stated that disciplinary action has been initiated against the delinquent employees. The Committee was suspicious of the reply and stated that the witness should not try to mislead the Committee with false information and added that the reply to the Committee should be furnished only after proper examination of the facts and verification. Pointing out the fact that the Secretary should have direct responsibility to the Committee for furnishing relevant materials, the Committee expressed its displeasure over the vague reply.

35. The Committee remarked that many years have elapsed after the objections were pointed out by the Accountant General and wanted to know the details of action taken against the delinquent employees. The witness assured the Committee that the list of employees against whom action was taken, would be provided. The witness stated that actually the case was closed but later reopened and the Chairman & Managing Director has been called for discussion. The Committee enquired how the file could be closed while the CBI enquiry was in progress. The Committee observed that the case belongs to 2005 and it is the failure on the part of the officers concerned to provide the Committee with the necessary facts while the Committee is examining the Audit paragraphs. The Committee observed that the reply furnished by the witness is without clarity and preparation. The Secretary assured that he would go through the files and inform the Committee regarding the action taken against the employees.

36. The Committee enquired the reason for the loss in four Super Markets. The witness admitted that the loss was due to high overhead expenditure, rent, location of the market and lack of service mentality of the employees. The witness added that purchase policy for the year 2003-04 and some disputes also

are other reasons for the loss. The Secretary Food & Civil Supplies stated that to enhance sales the employees working in sales and services need change of management. The Committee observed that the reason for the loss in different Super Markets might be different and that the Corporation should seek specific remedy for it. The witness informed that now the Corporation has reduced the number of loss making Super Markets from 4 to 1. Referring to the reply of the witness the Committee opined that if purchase policy was the reason for the loss it is applicable to all the Supermarkets and not four Supermarkets only. The Committee suspected that mismanagement and inefficiency might have been the real reasons for the loss. Replying to a question, the witness stated that as on December 2007 all the Super Markets are making profit except the one at Sadanam Road, Ernakulam. It was also informed that the three Super Markets became profitable due to the increase in sales. On enquiring about the number of Super Markets in Kerala, it was informed that there are 11 Super Markets in Kerala at present.

37. The Committee enquired about the change of name of Labham market as Super Market. The General Manager, KSCSC stated that Maveli Stores were converted to Labham markets to reduce the number of employees there and they are now called Labham super market. The Committee observed that as per the reply submitted by the Government, Super Market and Labham markets were converted as Supplyco Sabari Super Markets for maintaining uniform prices for products of the same quality. The witness explained that shops were classified as Labham market and Labham super market. In Labham markets the system of self service is followed. In Maveli Stores, the shopkeeper measures and gives the goods needed by the customer. When goods of the Corporation are sold through ration shops, it is called Sabari store. Neethi Stores are run by the Co-operative Department. The Committee wanted to know whether employees were being appointed on daily wage basis. The General Manager, KSCSC informed that temporary appointment were made in Labham market for packing on daily wages but not on regular basis. The managers are directed to appoint on daily basis on the basis of emergency requirement and turn over of the unit.

38. The Committee pointed out that the Company acting as an intermediary for distribution of levy sugar had to bear additional expenditure of Rs. 24.62 lakh at the instance of the State Government and wanted to know whether the Corporation had made any effort to make good the loss. Witness stated that the Corporation had written to Government several times and that the amount had not been reimbursed so far. The Committee enquired whether any official discussion had taken place regarding this and upto what period the amount was pending. The witness replied that the amount is pending from 2002 onwards and

the Corporation is selling levy sugar as per Government order. The Government has not taken any decision so far on the matters and urged the corporation to take up the matter with the Government of India for fixing the selling price. He added that there is a uniform policy applying all over the country and therefore the Central Government might not consider the matter. A policy has been worked out by the Government of Kerala for all the schemes relating to market intervention operations of the Civil Supplies Corporation and according to this policy a decision has been taken and Finance Department had agreed to reimburse the loss, based on a formal agreement. The Committee enquired the number of items included in the list to which Government is providing subsidy and why rice is not included in it. The witness informed that subsidy for rice is provided by the Central Government and Government of Kerala also has allowed Rs. 3 crore for providing subsidy for rice. The Committee enquired to what extent the Government had intervened in the market to check the price of rice. The witness stated that the Corporation is selling raw rice at Rs. 13 /kg and boiled rice at Rs. 14/kg. The Committee enquired why the Corporation was able to sell rice at Rs. 14 only even after it has taken maximum effort while the price of rice is Rs. 12 /kg. in the neighbouring States. The witness replied that in the neighbouring States also quality rice costs Rs. 17 to 18 /kg. and the Corporation is getting tenders for rice at Rs. 16.10 to 16.20/kg as the lowest quoted price. The Committee opined that market intervention worth Rs. 3 crore is insufficient to bring down the price of rice in the open market.

39. The Committee pointed out that the Civil Supplies Corporation which had lifted rice at higher rates as directed by Government for supply to schools under the Mid Day Meal Scheme (MDMS) and incurred extra expenditure of Rs. 68.35 lakhs on it, had not taken necessary follow up action to obtain refund of the amount from the Director of Public Instructions (DPI). The Witness stated that the Corporation received order to buy rice at Above Poverty Line (APL) rates as per the Government Order dated, 14-8-2002 and the next day Government requested to buy the rice at Below Poverty Line (BPL) rates on finding that there was accumulation of stocks under BPL quota at the lower rate of Rs. 571.50 per quintal. The witness informed that the DPI has been requested to reimburse the amount. The amount has not yet been reimbursed and communication with DPI is being made. The witness stated that besides rice, the Corporation supplies pulses to schools and there is some disagreement with the DPI over the price of items and due to this, the difference in the accounts are to be reconciled. The Committee was further informed that discussions are being held to solve the disagreement with the DPI. The Committee remarked that there is no use of having discussion after delivering the goods years ago.

The witness explained that Government pays to the Corporation intermittently and the Corporation is having discussions with DPI and Finance Department to solve the issue.

40. The Committee wanted to know the reasons for the high procurement cost incurred by the Corporation during 2001-02 in the supply of pulses to schools under the Mid Day Meal Scheme due to which Government had to incur extra expenditure of Rs. 10.43 crore in administering a social security scheme while the traders benefited from this higher rate of procurement. The witness stated that the case is part of the CBI enquiry. Whether the items were purchased at higher rates or not is being investigated by the CBI.

41. The Committee enquired about the steps taken by the Corporation to get the amount of Rs. 3 crore, being the loss incurred by the Corporation in the operation of the Sub depots which it took over at the instance of the State Government. The witness stated that now all depots were linked to the head office by means of computer and internet, and that accounts are verified every month. He further added that there were nine depots that dealt in wholesale business. In this business, the Company suffered loss and Government had promised to absorb the loss. Government wanted to conduct wholesale trade throughout Kerala through these depots. But the promise made by Government to reimburse the loss suffered by the Corporation on this account has not yet materialised. The Committee observes that the Corporation had failed to monitor the loss and to verify the accounts in time.

42. On an enquiry regarding the audit in the Corporation, the witness informed that instructions have been issued to conduct audit in each depot individually and independently. He added that there were some complications in the finalisation of accounts, for the year 2005-06 and remedial measures to rectify them was in progress. The witness expressed confidence to complete the audit for the year 2006-2007 within a short time. When asked whether audit was being conducted in the head office too, the witness informed that there was an audit division in the head office and that audit in sub depots is done by Chartered Accountants. Audit for the year 2005-06 was completed and for the year 2006-07 is progressing. It was informed that the audit in head office can be conducted only after completing audit in the 58 depots.

43. The Committee enquired about the purchase made by the Head Office. The witness stated that, when purchase is made by inviting tenders, if the purchase value exceeds Rs. 1 lakh it is checked by audit before purchase order is issued. To the Committee's enquiry regarding internal audit in the head office, the witness stated that previously, there was no internal audit and that led to the audit paragraphs. The new system of audit was introduced only in 2005.



44. The Committee wanted to know the reason why the company was not following the system of depositing with the bank the EMD received in the form of demand drafts, thereby making a loss of interest of Rs. 24.34 lakhs during the period from December 2002 to October 2004. The witness replied that now the amount is being deposited in the bank. The Committee pointed out that Audit had found out that the Corporation was continuing the old system. When asked about this, the Secretary F&CS Department assured to take steps to have the EMD deposited at once. The witness admitted that a delay of maximum 8 days was occurring for depositing the EMD. When the Committee enquired the time span within which the amount has to be deposited as per law, the witness did not give a satisfactory reply. The Committee pointed out that the EMD can be deposited on the same day itself or the next day. The Committee enquired about the action taken by the Government on the request of the Board of Directors to take action against those who did not deposit the EMD. The witness assured that the details regarding the EMD would be given to the Committee in the next meeting after verifying the files.

45. The Committee understands that detection of shortage of goods and recovery of the loss was not being taken promptly by the Corporation. The Committee wanted to know the action taken against those who are responsible for the shortage. The witness explained that in the Corporation most of the employees are on deputation basis and they return to their parent department when the deputation period is over. Government plans to empower the CMD to take disciplinary action for any fraud committed by officials in the Corporation and Government will ensure that Kerala Revenue Recovery Act is applicable in such cases. The witness stated that now the Corporation is procuring goods through E-tender system. Even though this system followed for purchasing, some amount of malpractices occur in the purchase without making any procedure defaults. The tenderers together decide to quote high rates. The Corporation has worked out economic order quantity and instructed to maintain it. According to Central Vigilance Commission's recommendations if the market rate is higher, the Corporation can have negotiation with the person who quotes the lowest rates.

46. The Committee enquired the action taken by the Corporation to ensure quality. The witness stated that there is a quality manual and the quality controller fixes quality on the basis of it. The Committee stated that the Accountant General had given some suggestion to the Corporation and wanted to know whether the Corporation has implemented them. The witness stated that as far as the purchase policy is concerned a purchase manual was prepared and

sent to Government for approval. Besides this the Corporation has also prepared quality manual and pricing manual.

47. When the Committee enquired whether there is any system prevailing in the Corporation to avoid middlemen, the Manager KSCSC stated that E-tendering system and EOQ had been introduced for it.

48. The witness further informed there are agents in the Corporation itself who receive commission for items supplied but the Corporation cannot buy goods directly after comparing market rates. He added that it has to adopt either tendering or direct purchase system on merit to ensure cost effectiveness. The Committee was informed that the Corporation is having a meeting with the officials of the Civil Supplies Corporation of Andhra Pradesh and Tamil Nadu to procure goods directly without middlemen.

### **Conclusions/Recommendations**

**49. The Committee finds that there was great laxity and indifference on the part of the management of the Kerala State Civil Supplies Corporation, thereby encouraging corruption and malpractice, and cheating the tax paying public, crores of rupees. An analysis of the dismal sales and whopping losses was never done by the top level management and no step was taken to prevent corruption and improve the functioning of the company. The Committee recommends that strong action be taken against those responsible for the losses and that steps be taken to recover the amount lost. The Committee further recommends that stringent steps be taken by Government to prevent such blatant misuse of public funds in future and the Committee be informed of the measures taken.**

**50. The Committee understands that though Government had laid down in August 1994, a systematic procedure for purchase of commodities by the company and though it was stipulated that the company should follow the general principles laid down in the Government's Stores Purchases Manual since February 1995, the Company was following its own procedures in violation of Government instructions and without obtaining Government approval or ratification even as late as August 2005 which incurred extra expenditure by the company and the company was deprived of the benefit of competitive rates. Such lawlessness on the part of the company is unpardonable. The Committee finds negligence on the part of the administrative department too in not taking any action against the company when Government rules and instructions were not adhered to. The Committee recommends that the administrative departments of Government should be more vigilant and initiate immediate action whenever the companies under them take unlawful actions.**

51. The Committee finds that the defective purchase system followed by the Corporation led to the purchase of inferior quality goods at higher prices and led to huge loss to the company. The Committee understands that those who are entrusted with the responsibility of ensuring quality have themselves indulged in manipulation and malpractices and the department hasn't done anything to check the irregularities that prevailed in the company. The Committee therefore recommends to take stringent action against those involved in the malpractices. The Committee also recommends to take urgent measures to restructure the purchase system to make it corruption free and to ensure quality.

52. The Committee realises that the company has formulated a separate manual and that it has its own limitations. The Committee recommends to modify the purchase manual to make it foolproof. The Committee desires to be informed whether the revised purchase manual has obtained approval of the Government.

53. The Committee finds that tendering has been done against the norms of the purchase policy. The company has not made the purchases from production / procuring centres which is in deviation from SPM principles and Government instruction. The Committee recommends to take action against those who have played role in violation of the Stores Purchases Manual and Government instructions.

54. The Committee understands that the company purchased pulses and spices from 9 local traders at exorbitant rates ignoring Government instruction. The Committee recommends that responsibility for the irregularities be fixed and steps should be taken to recover the loss from them.

55. The company was procuring very low quantities of goods against tenders for huge quantities depriving itself of the benefit of competitive rates that could be offered by small tenderers. The company was not specifying quality in grade and the short collection of EMD and SD was resulting in loss of interest in addition to the loss due to short supply and resulting alternate purchase, which could not be recovered in the absence of adequate security.

56. The Committee further finds that the company was making purchases of items at prices higher than the open market retail price. During the five years ended 31st March 2004 the company incurred a loss of Rs. 42.04 crore for purchase of 117,115 MT of items at rates above the market rates. The Committee recommends to take action against the officials who were responsible for the purchases, to recover the loss and to inform the Committee of the action taken in this regard.

57. The Committee finds that out of the Government grants received to the tune of Rs. 206.77 crore by the Company for market intervention for the five years ended March 2004, Rs. 134.39 crore was passed on to private traders by way of procuring items at rates higher than the open market rates.

The Committee understands that some officials of the company who had to work for market intervention to hold the level of price acted as intermediary for transferring Government funds to traders for personal gains, and that the Board had approved all the purchases. The Committee recommends to recover the amount from the trading firms and corrupt officials and to take action against those who were involved in the manipulations. The Committee wants to be informed the persons responsible for the loss, and the action taken against them and the amounts recovered so far.

58. The Committee noticed that in violation of the guidelines, the company was not specifying the quality/grade of each commodity when inviting tenders and was accepting inferior quality, infested and chemically contaminated food items. The Committee observe that being the single largest purchaser of many pulse items, the company should have got the leverage and advantage of a bulk purchaser with respect to purchase price and should have purchased items at lowest rates available in the market also. But the company made no sincere effort for getting the above concession. The Committee recommends that steps be taken to check the quality of the goods purchased by the company and that on no account should sub-standard goods be purchased by the company.

59. The Committee finds that the purchase of sugar by the Company without comparing the landed cost with the local market rates and without assessing the economy of purchase caused a loss of Rs. 97.97 lakh during the five years up to 2003-04. The Committee desires to be informed of the action taken against the persons responsible for it and whether the amount has been recovered.

60. The Committee finds that the company had held reserve stocks of sugar for upto 14 months' requirement inspite of the fact that Government instruction stipulates that stocks of only two months' requirement needs to be held as reserve. The Committee notes that neither the company nor the Department had taken any action inspite of the severity of the offence and objections of Audit. The Committee recommends to bring to book those responsible for the irregularity and to inform it of the action taken in this regard. The Committee also recommends to take immediate steps to maintain up to date stock accounts system.

61. The Committee understands that as per agreements with the suppliers, they had to deliver the goods at the secondary depots without any extra transportation charge. But the company did not avail this facility and thereby incurred a loss of Rs. 2.97 crore on transportation and handling charges during the two years upto 2003-04. The Committee recommends to fix responsibility for the loss and to inform the action taken in this regard to the Committee.

62. The Committee finds that the Chairman and Managing Director had ignored the reports of the vigilance wing and of the General Manager regarding the purchase and quality assurance system prevailing at that time. The Committee finds that the fixation of selling price higher than market rates, poor quality of the goods and inefficient management were responsible for the decline in sales. The Committee therefore recommends to revamp the management of the company so as to make it responsible and corruption free and the activities of the Chairman and Managing Director should also be scrutinized by Government.

63. The Committee suspects about the poor quality of goods sold through Maveli Stores and finds that the company compromises quality for low price. The Committee recommends to take measures to ensure quality and improve quality management system of the company.

64. The Committee finds that the company fixed Maveli prices higher than or equal to open market retail prices in 133 of the 468 cases since June 2001 despite standing instruction of Government required that the prices of pulses and spices be fixed 10% below the market prices. The Committee recommends to take action against those responsible for the loss and the action taken in this regard should be intimated to the Committee.

65. The Committee finds that Super Markets were making loss to the tune of Rs. 47.01 lakh during 2000 and 2004 in the sale of pulses and spices inspite of Government direction that sale on pulses and spices through Super Markets should be made on profit. The Committee understand that the reason for the loss is mainly owing to the exorbitant purchase price of pulses and spice items. The Committee recommends to fix responsibility on those who are responsible for the purchase at higher prices and to take action against them.

66. The Committee finds that the company acting as an intermediary for the distribution of levy sugar had to bear additional expenditure of Rs. 24.62 lakh at the instance of the State Government. The Committee recommends to take urgent action to reimburse the loss sustained to the company.

67. The Committee points out that rice, the staple food of the people is not included in the list of items to which Government provides subsidy.

The Committee opines that if the Government has to check the rise in price of rice, it should be included in the list. The Committee therefore recommends to include rice in the list of Maveli items.

68. The Committee realised that the company had lifted rice at higher rates as directed by Government from FCI for supply to schools under the mid day meal scheme (MDMS) in August 2002. The company incurred a loss of Rs. 68.35 lakhs and Government has not yet reimbursed the amount to the company. The Committee was informed that discussion with DPI was in progress. The Committee remarked that there was no use in having discussions after delivering goods years ago, and recommends that the company should follow up the matter urgently with the Director of Public Instruction and the Committee should be informed whether the amounts due to it has been recovered.

69. The Committee understands that due to higher procurement cost, Government had to bear extra expenditure of Rs. 10.43 crore in administering a social security scheme MDMS and that the traders benefited from the higher rate of procurement made by the company. The Committee desires to be informed of the findings of the CBI enquiry and recommends to take strong action against those who caused loss of crores of rupees to Government.

70. The Committee understands that the company had no system of assessing the working result of the sub depots taken over by the company from the FCI at Government direction and therefore it could not claim the loss sustained by it in their operation which Government had promised to reimburse. The Committee may be informed whether the claim has been settled by Government and recommends that up to date accounts of every depot should be maintained.

71. The Committee realises that the company did not have internal audit system before 2005. Thereafter that it was conducted only at the Regional Office, Depot/outlets. All major purchases and transportation were made at the head office. But none of these transactions was subjected to internal audit. The delay in completing audit in the depots leads to delay in audit of the head office. The Committee therefore recommends to take steps to make the internal audit system more effective and to complete audit in the depots and head office on time in future.

72. The Committee understands that the Company is not following the system of depositing with the bank the EMD received in the form of demand drafts, thereby making a loss of interest of Rs. 24.34 lakh during the period from December 2002 to October 2004. The Committee understands that EMD

can be deposited on the day it is received. The Committee desires to have the details of action taken against those who did not deposit the EMD in time.

73. The Committee understands that detection of shortage of goods and recovery of the loss is not being done promptly by the company. The Committee recommends that disciplinary action should be initiated at once for those responsible for shortage and desires to be informed of the action taken.

74. The Committee recommend that the company should examine the quality of goods proposed to be supplied to it at the time of tender and ensure it at the time of delivery.

75. The Committee recommends to increase the number of items for which Government provides subsidy from the existing 13 items by including rice and sugar in the list. The Committee also recommends to reduce the margin taken by the company from the sale of essential items.

76. The Committee finds that there was no mechanism either in the company or in the Civil Supplies Department to detect and take action when Government directions and standing instructions were violated and corrupt practices resorted to. Hence Government funds amounting to crores of rupees was misappropriated and the steps taken by Government to check the rise in price of essential commodities and to make available to the common people good quality food items at reasonable prices was completely defeated. Hence the Committee strongly recommends that responsibility of each individual in the corporation be fixed and adequate systems must be put in place to detect and take action against those who indulge in malpractices.

77. The Committee finds that the witness was unable to give complete information on a number of issues citing CBI enquiry. The same reason was attributed for not taking action on a number of issues relating to corruption and malpractice. The Committee deprecates over this and desires to be given a detailed report on the issues which come under CBI enquiry and of the action taken in those cases where CBI enquiry is not being done.

Thiruvananthapuram,  
1-12-2008.

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

## APPENDIX I

**Summary of Main Conclusions/Recommendations**

<i>Sl. No.</i>	<i>Paragraph No.</i>	<i>Department Concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	49	Food & Civil Supplies	The Committee finds that there was great laxity and indifference on the part of the management of the Kerala State Civil Supplies Corporation, thereby encouraging corruption and malpractice, and cheating the tax paying public, crores of rupees. An analysis of the dismal sales and whopping losses was never done by the top level management and no step was taken to prevent corruption and improve the functioning of the company. The Committee recommends that strong action be taken against those responsible for the losses and that steps be taken to recover the amount lost. The Committee further recommends that stringent steps be taken by Government to prevent such blatant misuse of public funds in future and the Committee be informed of the measures taken.
2	50	„	The Committee understands that though Government had laid down in August 1994, a systematic procedure for purchase of commodities by the company and though it was stipulated that the company should follow the general principles laid down in the Government's Stores Purchases Manual since February 1995, the Company was following its own procedures in violation of Government instructions and without obtaining Government approval or ratification even as late as August 2005



(1)	(2)	(3)	(4)
2	50	Food & Civil Supplies	which incurred extra expenditure by the company and the company was deprived of the benefit of competitive rates. Such lawlessness on the part of the company is unpardonable. The Committee finds negligence on the part of the administrative Department too in not taking any action against the company when Government rules and instructions were not adhered to. The Committee recommends that the administrative departments of Government should be more vigilant and initiate immediate action whenever the companies under them take unlawful actions.
3	51	„	The Committee finds that the defective purchase system followed by the Corporation led to the purchase of inferior quality goods at higher prices and led to huge loss to the company. The Committee understands that those who are entrusted with the responsibility of ensuring quality have themselves indulged in manipulation and malpractices and the department hasn't done anything to check the irregularities that prevailed in the company. The Committee therefore recommends to take stringent action against those involved in the malpractices. The Committee also recommends to take urgent measures to restructure the purchase system to make it corruption free and to ensure quality.
4	52	„	The Committee realises that the company has formulated a separate manual and that it has its own limitations. The Committee recommends to modify the purchase manual to make it foolproof. The Committee desires to be informed whether the revised purchase manual has obtained approval of the Government.

(1)	(2)	(3)	(4)
5	53	Food & Civil Supplies	The Committee finds that tendering has been done against the norms of the purchase policy. The company has not made the purchases from production / procuring centres which is in deviation from SPM principles and Government instruction. The Committee recommends to take action against those who have played role in violation of the Stores Purchases Manual and Government instructions.
6	54	„	The Committee understands that the company purchased pulses and spices from 9 local traders at exorbitant rates ignoring Government instruction. The Committee recommends that responsibility for the irregularities be fixed and steps should be taken to recover the loss from them.
7	55	„	The company was procuring very low quantities of goods against tenders for huge quantities depriving itself of the benefit of competitive rates that could be offered by small tenderers. The company was not specifying quality in grade and the short collection of EMD and SD was resulting in loss of interest in addition to the loss due to short supply and resulting alternate purchase, which could not be recovered in the absence of adequate security.
8	56	„	The Committee further finds that the company was making purchases of items at prices higher than the open market retail price. During the five years ended 31st March 2004 the company incurred a loss of Rs. 42.04 crore for purchase of

(1)	(2)	(3)	(4)
8	56	Food & Civil Supplies	1,17,115 MT of items at rates above the market rates. The Committee recommends to take action against the officials who were responsible for the purchases, to recover the loss and to inform the Committee of the action taken in this regard.
9	57	„	The Committee finds that out of the Government grants received to the tune of Rs. 206.77 crore by the Company for market intervention for the five years ended March 2004, Rs. 134.39 crore was passed on to private traders by way of procuring items at rates higher than the open market rates. The Committee understands that some officials of the company who had to work for market intervention to hold the level of rice acted as intermediary for transferring Government funds to traders for personal gains, and that the Board had approved all the purchases. The Committee recommends to recover the amount from the trading firms and corrupt officials and to take action against those who were involved in the manipulations. The Committee wants to be informed the persons responsible for the loss, and the action taken against them and the amounts recovered so far.
10	58	„	The Committee noticed that in violation of the guidelines, the company was not specifying the quality/grade of each commodity when inviting tenders and was accepting inferior quality, infested and chemically contaminated food items. The Committee observe that being the

(1)	(2)	(3)	(4)
10	58	Food & Civil Supplies	single largest purchaser of many pulse items, the company should have got the leverage and advantage of a bulk purchaser with respect to purchase price and should have purchased items at lowest rates available in the market also. But the company made no sincere effort for getting the above concession. The Committee recommends that steps be taken to check the quality of the goods purchased by the company and that on no account should sub-standard goods be purchased by the company.
11	59	„	The Committee finds that the purchase of sugar by the Company without comparing the landed cost with the local market rates and without assessing the economy of purchase caused a loss of Rs. 97.97 lakh during the five years up to 2003-04. The Committee desires to be informed of the action taken against the persons responsible for it and whether the amount has been recovered.
12	60	„	The Committee finds that the company had held reserve stocks of sugar for upto 14 months' requirement inspite of the fact that Government instruction stipulates that stocks of only two months' requirement needs to be held as reserve. The Committee notes that neither the company nor the Department had taken any action inspite of the severity of the offence and objections of Audit. The Committee recommends to bring to book those responsible for the irregularity and to inform it of the action taken in this regard. The Committee also

(1)	(2)	(3)	(4)
12	60	Food & Civil Supplies	recommends to take immediate steps to maintain up to date stock accounts system.
13	61	„	The Committee understands that as per agreements with the suppliers, they had to deliver the goods at the secondary depots without any extra transportation charge. But the company did not avail this facility and thereby incurred a loss of Rs. 2.97 crore on transportation and handling charges during the two years upto 2003-04. The Committee recommends to fix responsibility for the loss and to inform the action taken in this regard to the Committee.
14	62	„	The Committee finds that the Chairman and Managing Director had ignored the reports of the vigilance wing and of the General Manager regarding the purchase and quality assurance system prevailing at that time. The Committee finds that the fixation of selling price higher than market rates, poor quality of the goods and inefficient management were responsible for the decline in sales. The Committee therefore recommends to revamp the management of the company so as to make it responsible and corruption free and the activities of the Chairman and Managing Director should also be scrutinized by Government.
15	63	„	The Committee suspects about the poor quality of goods sold through Maveli Stores and finds that the company compromises quality for low price. The Committee recommends to take measures to ensure quality and improve quality management system of the company.

(1)	(2)	(3)	(4)
16	64	Food & Civil Supplies	The Committee finds that the company fixed Maveli prices higher than or equal to open market retail prices in 133 of the 468 cases since June 2001 despite standing instruction of Government required that the prices of pulses and spices be fixed 10% below the market prices. The Committee recommends to take action against those responsible for the loss and the action taken in this regard should be intimated to the Committee.
17	65	„	The Committee finds that Super Markets were making loss to the tune of Rs. 47.01 lakh during 2000 and 2004 in the sale of pulses and spices inspite of Government direction that sale on pulses and spices through Super Markets should be made on profit. The Committee understand that the reason for the loss is mainly owing to the exorbitant purchase price of pulses and spice items. The Committee recommends to fix responsibility on those who are responsible for the purchases at higher prices and to take action against them.
18	66	„	The Committee finds that the company acting as an intermediary for the distribution of levy sugar had to bear additional expenditure of Rs. 24.62 lakh at the instance of the State Government. The Committee recommends to take urgent action to reimburse the loss sustained to the company.
19	67	„	The Committee points out that rice, the staple food of the people is not included in the list of items to which Government

(1)	(2)	(3)	(4)
19	67	Food & Civil Supplies	provides subsidy. The Committee opines that if the Government has to check the rise in price of rice, it should be included in the list. The Committee therefore recommends to include rice in the list of Maveli items.
20	68	„	The Committee realised that the company had lifted rice at higher rates as directed by Government from FCI for supply to schools under the mid day meal scheme (MDMS) in August 2002. The company incurred a loss of Rs. 68.35 lakhs and Government has not yet reimbursed the amount to the company. The Committee was informed that discussion with DPI was in progress. The Committee remarked that there was no use in having discussions after delivering goods years ago, and recommends that the company should follow up the matter urgently with the Director of Public Instruction and the Committee should be informed whether the amounts due to it has been recovered.
21	69	„	The Committee understands that due to higher procurement cost, Government had to bear extra expenditure of Rs. 10.43 crore in administering a social security scheme MDMS and that the traders benefited from the higher rate of procurement made by the company. The Committee desires to be informed of the findings of the CBI enquiry and recommends to take strong action against those who caused loss of crores of rupees to Government.

(1)	(2)	(3)	(4)
22	70	Food & Civil Supplies	The Committee understands that the company had no system of assessing the working result of the sub depots taken over by the company from the FCI at Government direction and therefore it could not claim the loss sustained by it in their operation which Government had promised to reimburse. The Committee may be informed whether the claim has been settled by Government and recommends that up to date accounts of every depot should be maintained.
23	71	”	The Committee realises that the company did not have internal audit system before 2005. Thereafter that it was conducted only at the Regional Office, Depot/outlets. All major purchases and transportation were made at the head office. But none of these transactions was subjected to internal audit. The delay in completing audit in the depots leads to delay in audit of the head office. The Committee therefore recommends to take steps to make the internal audit system more effective and to complete audit in the depots and head office on time in future.
24	72	”	The Committee understands that the Company is not following the system of depositing with the bank the EMD received in the form of demand drafts, thereby making a loss of interest of Rs.24.34 lakh during the period from December 2002 to October 2004. The Committee understands that EMD can be deposited on the day it is received. The Committee desires to have the details of action taken against those who did not deposit the EMD in time.



(1)	(2)	(3)	(4)
25	73	Food & Civil Supplies	The Committee understands that detection of shortage of goods and recovery of the loss is not being done promptly by the company. The Committee recommends that disciplinary action should be initiated at once for those responsible for shortage and desires to be informed of the action taken.
26	74	„	The Committee recommend that the company should examine the quality of goods proposed to be supplied to it at the time of tender and ensure it at the time of delivery.
27	75	„	The Committee recommends to increase the number of items for which Government provides subsidy from the existing 13 items by including rice and sugar in the list. The Committee also recommends to reduce the margin taken by the company from the sale of essential items.
28	76	„	The Committee finds that there was no mechanism either in the company or in the Civil Supplies Department to detect and take action when Government directions and standing instructions were violated and corrupt practices resorted to. Hence Government funds amounting to crores of rupees was misappropriated and the steps taken by Government to check the rise in price of essential commodities and to make available to the common people good quality food items at reasonable prices was completely defeated. Hence the

(1)	(2)	(3)	(4)
28	76	Food & Civil Supplies	Committee strongly recommends that responsibility of each individual in the corporation be fixed and adequate systems must be put in place to detect and take action against those who indulge in malpractices.
29	77	„	The Committee finds that the witness was unable to give complete information on a number of issues citing CBI enquiry. The same reason was attributed for not taking action on a number of issues relating to corruption and malpractices. The Committee deprecates over this and desires to be given a detailed report on the issues which come under CBI enquiry and of the action taken in those cases where CBI enquiry is no being done.

## APPENDIX II

## NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPH

**Action Taken Statement on Audit Para 2.1 contained in the Report of the  
Comptroller and Auditor General of India for the year ended  
31-3-2005 (Commercial) related to Kerala State  
Civil Supplies Corporation Limited**

I (a) *Department*

Food, Civil Supplies and Consumer Affairs Department

(b) *Subject/Title of Review/Paragraph*

Procurement and distribution of commodities by the Kerala State  
Civil Supplies Corporation Ltd.

(c) *Paragraph Number*

2.1.

(d) *Report Number and year*

Report of Comptroller and Auditor General of India for the year  
ended 31-3-2005 (Commercial).

II (a) *Date of receipt of the Draft Paragraph Review in the Department*

21-7-2005

(b) *Date of Department's reply*

23-7-2005

III *Gist of Paragraph/Review*

The Kerala State Civil Supplies Corporation Limited incorporated with the objective of making available food grains and other essential commodities to the public at reasonable prices failed in fulfilling the objective as the prices of commodities supplied were far higher than market prices.

## IV (a) Does the Department agree with the facts and figures included in the Paragraph.

Yes

## (b) If not, please indicate the areas of disagreement and also attach copies of relevant documents in support.

N.A.

V (a) Does the Department agree with the Audit conclusions

Yes

- (b) If not, please indicate specific areas of disagreement with reasons for disagreement and also attach copies of relevant documents, where necessary.

N.A.

*Remedial Action Taken :*

*Para 2.1.7*

There was in fact a decline in sales performance during 2001-02, 2002-03 and 2003-2004 compared to the previous years but the sales surpassed the level of 1998-99, 1999-2000 and 2000-2001 onwards during 2005-06 and now the sales performance has reached an all time high of Rs. 701 Crore (provisional) with no additional manpower or new investments.

The month wise increase/variation in sales performance from 1995-96 till 2005-06 is given below in Table No. 1, which shows the improvement now.

Table 1: TURNOVER MONTHWISE AND YEARWISE FOR THE LAST 11 YEARS

Month	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97	1995-96
	(Rs. in Lakhs)										
April	4171	3928	2990.5	2295	2688.5	3979	4701	4393	2811	2042	1455
May	4296	4042	2976.5	2779	2826.5	4634	4614	4009	2787	1724	1527
June*	4599	4902	3552.5	3205	3467.5	4815	5129	4630	3748	2229	1871
July*	5247	5101	3902.5	3616	3606.5	4571	5897	4809	3686	2326	1955
August*	5686	6665	4807.5	4600	6522.5	5421	7269	6518	3972	3976	2975
September	7650	4120	4338.5	2944	3084.5	5618	4662	4382	5067	2335	2102
October	5890	4733	3771.5	3295	3555.5	4289	4970	4885	3853	2510	1777
November	6645	4465	3737.5	3311	3579.5	5100	5272	5331	3796	2278	1861
December	6600	5065	3984.5	3279	4180.5	5628	5901	6507	4650	2749	2166
January	6376	4964	4296.5	3306	3464.5	4594	5333	5289	5145	3874	1849
February	6383	4582	3642.5	2874	1915.5	3106	4609	4912	4142	2816	2227
March	6598	4892	3884.5	2755	2041.5	3106	4639	4630	4374	3660	1592
Total	70141	57459	45885	38255	40933	54861	62996	60295	48031	32519	23357

The Board of Directors by Resolution No. 7/309, dt.16-6-2005, now directly passes on the subsidies to the general public in the form of reduction of selling price from the open market price from 16-6-2005 onwards with the adoption of the revised Market Intervention Scheme. The Corporation as reimbursement every month now claims subsidy from the Government. Hence the Government grant is now clearly pegged on to the open market selling price of the essential commodities and not to purchase price as was done previously enabling consumers/general public to receive the benefit of the Government subsidy and not a cartel of private commission agents/traders.

*Paras No. 2.1.8. & 2.1.9*

1. Kerala State Civil Supplies Corporation is now following 'E- tender' system for central purchase of pulses, spices, sugar and rice since February 2005 onwards in pursuance of Judgment in WP (C) No.35103/04 on 3-12-2004. It ensures complete transparency in purchase procedures. Tenderers from anywhere can participate in the e-tender without the necessity to come to Kochi and getting subjected to any barriers in tender participation. Purchase orders are now being sent through Internet. They can arrange despatch of items directly to the depots as per the detailed written down and specific quality specifications mentioned in the tender form. Payments to the suppliers for the accepted loads are now being sent by way of DD drawn in their favour from depots by Courier service as far as possible, within 24 hours of delivery as a norm so that the genuine suppliers from the production centers in other States need not come here to collect the payments. A Committee called Quality Assurance Committee of the depot assesses the quality of the products in case of any doubt felt by the Depot Manager or the custodian of stock, about quality of the product supplied by the suppliers. Complete transparency is thereby ensured in the present purchase procedures. No individual alone is empowered to take a decision on acceptance or rejection of any tenderers sample or bid or commodity, but has to follow detailed written down processes.

2. Corporation has formulated a 'Purchase Manual' of its own after taking into consideration of all existing/previous procedures followed in the Corporation, lessons learnt from past mistakes and the principles contained in the Stores Purchase Manual of the Govt. The Kerala State Civil Supplies Corporation as per Circular No.103/05 dated 24-8-2005 published the Purchase Manual which has the approval of Government. This Purchase Manual has the guiding principles and procedures for all purchases to be made in the Corporation. Thus a specific system of purchase for the Corporation is now established very clearly.

3. Corporation has been deputing skilled officers to outside States to motivate genuine suppliers from production/procurement centres and farmers organisations to participate in the e-tender. This system enabled to enhance the competition among the tenderers and to re-establish real competitive tendering in the Corporation from 2005 onwards. The active participation of the outside State suppliers resulted in the decrease of purchase price by healthy competition and also helped to avoid formation of cartel by the local commission agents.

4. Besides Corporation through its Officers, conducted detailed study for improving the purchase system.

5. To ensure more transparency, competition and correct communication among the suppliers, Corporation had started vendor education circulars and meeting of suppliers from the production centres. This enabled to sort out the problems and difficulties now being experienced by the suppliers in the Corporation from the production/procurement centers and to attract more genuine suppliers from the production centers to the e-tender by demonstrating the existence of a fair, transparent and professional systems in place in the Corporation.

6. Various Committees at different levels are formulated to ensure participatory management and to take group decisions and to avoid biased individual based decisions. The important Committees taking decisions are Head Office Management Committee (HOMC) at Head Office, Depot Management Committee (DMC) at Depot level, Regional Management Committee (RMC) at Regional Office level.

7. It has been decided to enter into long term agreement with Andhra Pradesh Market Fed and Rajasthan Market Fed who are the procuring agency of agricultural products of their States of items like Chilly, Coriander, UD washed etc. which are procured directly from farmers. This will help to eliminate the intermediary commission agents. Govt. has accorded sanction for the procedure of price structure to be fixed by a four-member committee consisting of two officers each from Andhra Pradesh and Kerala. The tele meeting by the Committee could not agree so far on the price fixation formulae. Moreover this year Andhra Pradesh Market Fed could not procure adequate Chillies from farmers due to shortages and high price.

8. Before purchasing through tender, requirements of each item are being directly collected from depots through the software. The local market rate reported in six news papers, open market rate reported by the Regional Managers in a specific format, Mandi rate, purchase rates of *M/s* Consumer Fed, Spices Board price, purchase efficiency factor of the Corporation developed through a

historical analysis of past 10 year comparison of purchase price with news paper price etc. are used before taking a decision on Purchase by the HOMC and the Board of Directors of the Corporation.

9. Internal Audit Wing and Vigilance Officer in the Corporation are entrusted from 2005 onwards to verify the quantity, purchase price and procedure of purchase by the HOMC before issuing purchase order to the suppliers. This will enable to detect mistakes if any occurred in purchase decisions before issuing the Purchase Order.

10. For the purchase of Non-maveli items (FMCG) from the reputed companies, HOMC has conducted direct negotiation with major companies and purchase orders are being issued from Head Office in order to get the benefit of bulk purchase and thus reduced purchase price after ascertaining its requirement from depots.

11. At present godown facilities like State Warehousing Corporation or other agencies have space constraints or labour issues or cost issues to keep huge quantity of pulses/spices which in case is procured in crop season for the entire requirements throughout the year. Unless the pulses/spices are kept safely and scientifically, the bulk purchase will lead to loss rather than profit. Now production centers have scientific storage facilities created out of Government of India grant and from these, commodities come to the market steadily throughout the year. But the Board of Directors recently decided to purchase and keep buffer stock in every district in case the purchase price is lower during crop seasons and safe free storage facilities are available in the districts.

12. PSUs' & reputed sugar mills are exempted from remitting EMD while submitting tender. The EMD has been reduced considerably for enabling fair and more participation of even small suppliers. EMD is needed only to compel a tender to reach the stage of Security Deposit only. The EMD are now being returned to the suppliers within 20 days.

13. The GRS in depots are now being monitored through the software and the Security Deposit is released to the suppliers soon on the completion of supply. Security Deposit is raised to 5% of the value of the order to prevent non-supply. Payments of the stock delivered are now being effected within 24 hours of receipt of the stock in the depots.

14. Now no negotiation is conducted with the suppliers as a norm. However when the quoted rate is observed to be on the higher side compared to the open market rate, the L1 is requested whether it can reduce the rate. When the requirement is high and the offered quantity is low, L1 is requested to

increase the offered quantity to meet the entire requirements. (Requirements of the Corporation is not announced before tender opening to prevent demand push related price hike). If quantity required is announced before hand, there could be a tendency of all traders having different quantities to gang up to reach the announced quantity and thus a cartel formation.

15. The Corporation is now resorting to frequent lenders (often two times in one month) if the rate received in the tender is higher than the lowest market rate or the quoted quantity is insufficient to meet the requirement of all the depots.

16. Corporation has also taken required legal steps against unhealthy purchase systems and malpractices, which happened up to September 2004 from 2001.

17. The various Vigilance Reports and Committee Reports which studied the Purchase System and made suggestions for improvement were followed up with definitive action.

18. Presently the Corporation is not specifying the intended quantity to be purchased in the invitation to the tender or in the tender document in order to avoid a demand push aided price rise. On implementation of the confidence building steps and transparent purchase procedures in the open tender, competition among the participants in the tender has increased. Now about 30 to 35 suppliers are participating in each tender. There were no complaints from them on transparency and objectivity in the tender procedures. The purchase order is now being awarded in such a way that the required quantity in respect of each depot is ordered to the suppliers who quoted the lowest rates in respect of that depot after taking into consideration of the least cost option. Hence about 15 to 20 suppliers are getting purchase orders in every tender and the number of suppliers getting the purchase orders from the production Centres are going up steadily which shows the confidence and trust the suppliers are gaining in the fairness and transparency of the purchase system now in vogue.

19. In order to provide necessary help to the outside State suppliers, there are special facilities such as Help Desk & nominating co-ordinating officers. The co-ordinating officer allotted to a newcomer from the production centre from outside the State, follows up the arrival /acceptance/payment of the commodity and ensure that no harassment is experienced by the new comer from any corner. This officer shall watch and report the supply/problems etc. if any experienced by the outside suppliers and facilitates language barriers etc. whenever necessary, He sends periodical reports to the General Manager who coordinates the purchase. The transparency, objectivity, and fairness in the tender procedures promoted the participation of outside State suppliers and the purchase rate has



come down and now healthy competition prevails among the sellers and a transparent seller—buyer relationship.

*Para 2.1.10*

The comparative statement of the purchase price with the newspaper reported wholesale price (average of a few main newspapers) for' each tender during 2003-04, 2004-05 and 2005-06 is given below in Table with six months break up and deviation from open market rate for 4 major commodities purchased. Toordhal, Green gram, UD Washed and Chillies. The change in the purchase price can be clearly seen from October 2004 onwards.

**Avoidable Loss Statement in Purchase Price of Pulses and Spices by Supplyco  
comparing with Lowest News Paper Price from April 2003 to May 2006**

Greengram			News paper Rate		Difference/ Qtls from lowest (in Rs.)	% increase from lowest	Avoidable Loss to the Corporation (In lakhs)
Month	Qty [in MTs]	Rate [in MTs]	Lowest	Highest			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Apr-03	970.0	28302.60	2350.00	2850.00	480.26	20.44	46.59
May-03	1500.0	27723.30	2350.00	2750.00	422.33	17.97	63.35
Jun-03	1500.0	27177.30	2350.00	2550.00	367.73	15.65	55.16
Jul-03	1680.0	27500.00	2350.00	2700.00	400.00	17.02	67.20
Aug-03	1040.0	27500.00	2350.00	2700.00	400.00	17.02	41.60
Aug-03	1550.0	26430.30	2250.00	2700.00	393.03	17.47	60.92
Avoidable Loss for 1st half year 2003-2004							334.81
Oct-03	610.0	26933.80	1900.00	2600.00	793.38	41.76	48.40
Nov-03	1490.0	26973.20	2000.00	2500.00	697.32	34.87	103.90
Dec-03	640.0	26860.00	1950.00	2400.00	736.00	37.74	47.10
Jan-04	520.0	27190.00	1950.00	2450.00	769.00	39.44	39.99
Feb-04	470.0	27480.00	1950.00	2400.00	798.00	40.92	37.51
Mar-04	310.0	27290.00	1950.00	2350.00	779.00	39.95	24.15
Avoidable Loss for 2nd half year 2003-2004							301.04

[illegible]

[illegible]

[illegible]

[illegible]

<i>Toordhal</i>			<i>News paper Rate</i>		<i>Difference/</i>	<i>%</i>	<i>Avoidable</i>
<i>Month</i>	<i>Qty. [in MTs]</i>	<i>Rate [in MTs]</i>	<i>Lowest</i>	<i>Highest</i>	<i>Qtls. from lowest (in Rs.)</i>	<i>increase from lowest</i>	<i>Loss to the Corporation (In lakhs)</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Apr-03	80.0	30420.00	2550.00	2750.00	492.00	19.29	3.94
May-03	320.0	29927.50	2550.00	2775.00	442.75	17.36	14.17
Jun-03	350.0	30022.60	2500.00	2750.00	502.26	20.09	17.58
Jul-03	430.0	30984.20	2500.00	2750.00	598.42	23.94	25.73
Aug-03	340.0	30488.20	2500.00	2750.00	548.82	21.95	18.66
Aug-03	130.0	29970.00	2450.00	2750.00	547.00	22.33	7.11
Avoidable Loss for 1st half year 2003-2004							87.19
Oct-03	340.0	34893.50	2450.00	2950.00	1039.35	42.42	35.34
Nov-03	320.0	33972.50	2700.00	3300.00	697.25	25.82	22.31
Dec-03	240.0	33670.00	2700.00	3200.00	667.00	24.70	16.01
Jan-04	220.0	34690.00	2700.00	3200.00	769.00	28.48	16.92
Feb-04	380.0	34234.70	2700.00	3200.00	723.47	26.80	27.49
Mar-04	360.0	31790.00	2700.00	3000.00	479.00	17.74	17.24
Avoidable Loss for 2nd half year 2003-2004							135.31
Apr-04	380.0	32150.00	2600.00	2900.00	615.00	23.65	23.37
May-04	480.0	33950.00	2650.00	2950.00	745.00	28.11	35.76
Jun-04	330.0	33530.00	2650.00	3100.00	703.00	26.53	23.20
July-04	460.0	33860.00	2700.00	3100.00	686.00	25.41	31.56
Aug-04	280.0	34390.00	2775.00	3250.00	664.00	23.93	18.59
Sep-04	370.0	32570.00	2950.00	3475.00	307.00	10.41	11.36
Avoidable Loss for 1st half year 2004-2005							143.84

[illegible]

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Apr-06	152.5	28326.70	2900.00	3100.00	-67.33	-2.32	-1.03
May-06	357.5	26648.90	2900.00	3050.00	-235.11	-8.11	-8.41
Avoidable Loss for Apr-2006 to May-2006							-9.43

Chillies			News paper Rate		Difference/ Qtls. from lowest (in Rs.)	% increase from lowest	Avoidable Loss to the Corporation (In lakhs)
Month	Qty. [in MTs]	Rate [in MTs]	Lowest	Highest			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Apr-03	171.0	48424.70	4000.00	4500.00	842.47	21.06	14.41
May-03	297.0	49684.70	4000.00	4600.00	968.47	24.21	28.76
Jun-03	405.0	54291.80	4400.00	4800.00	1029.18	23.39	41.68
Jul-03	369.0	53982.20	4000.00	5500.00	1398.22	34.96	51.59
Aug-03	342.0	53467.40	4600.00	5500.00	746.74	16.23	25.54
Aug-03	243.0	53428.90	4500.00	5500.00	842.89	18.73	20.48
Avoidable Loss for 1st half year 2003-2004							182.47

[illegible]



[illegible]

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Oct-05	..	..	2800.00	3500.00	-2800.00	-100.00	0.00
Oct-05	100.0	32000.00	2800.00	3500.00	400.00	14.29	4.00
Nov-05	181.0	35651.30	3200.00	3700.00	365.13	11.41	6.61
Dec-05	366.0	33960.00	3200.00	3700.00	196.00	6.13	7.17
Dec-05	193.5	33364.20	3200.00	3700.00	136.42	4.26	2.64
Jan-06	94.5	32248.10	3300.00	3500.00	-75.19	-2.28	-0.71
Jan-06	76.5	32109.40	3300.0	3500.00	-89.06	-2.70	-0.68
Feb-06	85.5	31814.70	3200.00	3500.00	-18.53	-0.58	-0.16
Feb-06	256.5	28750.00	3200.00	3500.00	-325.00	-10.16	-8.34
Mar-06	212.0	39199.50	4000.00	4300.00	-80.05	-2.00	-1.70
Avoidable Loss for Oct-2005 to Mar-2006							8.84
Apr-06	216.0	38461.50	4400.00	4700.00	-553.85	-12.59	-11.96
May-06	240.0	39900.00	4500.00	5000.00	-510.00	-11.33	-12.24
Avoidable Loss for Apr-2006 to May-2006							-24.20

2. The quality specification of each item has been made in accordance with the provisions contained in PFA, Bureau of Indian Standards, Agmark specifications and Spices Grading and Marking Rules 2004, and ambiguities in size and colour specifications are removed from January 2005 onwards, as per the recommendation of an expert Quality Committee constituted on 15-12-2004. The stock arrivals at depots are checked and analyzed in accordance with the quality specifications and only after ascertaining each and every aspect, the QAC, which is a group of officers, will take decision to accept/reject the stock arrived. Now the practice of taking decision by one individual has been discontinued and the powers have been entrusted to group of officers in DMC, RMC, and HOMC. Moreover, Retailers Watch Committees, a team of shop Managers who have to actually sell the items, come every fortnight to each depot and check the quality of items.

3. After opening the e-tender, HOMC evaluate the rate quoted by the tenderers with reference to the requirement of depots, the purchase efficiency

factor, open market rates reported in news papers, Mandi rates etc. and decides the quantity and rate at which purchases can be made. If the rate obtained in the tender is higher than the open market, Corporation resort to alternate ways such as deputing officers to the production centers/call next tender/auction purchase from Mandis or mills etc.

4. The tenderers are asked to quote the quantity available with each one so that ganging up by a group of suppliers in order to aggregate the asked for quantity is avoided and real competition happen in the tender. Then the procurement is done depending on the quantity offered by different suppliers, the price quoted by each of them against the written quality specifications given in the tender, requirement of each depot, stock available/in transit, special needs like festivals, etc. If quantity offered in one tender is less, another tender is conducted in the next 15 days to get more quantity on offer through the e-tender.

5. The penalties such as quality cut, deaning permission when any supplier delivers inferior quality, deviation from the true representative sample given & fumigation cut etc. has been discontinued, which were subjective decisions used in the past to harass suppliers outside a favoured cartel. Only good quality of stock as per our quality specification is accepted at the discretion of the QAC. The QAC has a PFA nominee of the district as its member. If any member of the QAC has dissented from the decision in acceptance/rejection of stock, he can file appeal before the Appellate Authority constituted for reconsideration. The supplier also can file appeal before the Appellate Authority.

6. From January 2005 onwards, the size, type/trade name, packing and labeling norms and quality specification of the Pulses/Spices have been included in the tender form as clause 7 in the text of the tender and as an annexure in schedule I, ABC. All ambiguities and incompleteness are addressed for defining quality as per the values in the Government Rules and standards.

7. In any case of non-supply/penalty or harassment informed by the direct supplier from outside State, the GM of the Corporation is authorized to conduct case study in the matter and take appropriate remedial measures to overcome such situations in future, so that competition in the tender is maintained and purchase occurs from the production centers.

8. To watch the arrival of stock, the destination for issue of first load is specifically noted in the Purchase Order, so that in case of non-supply, alternate arrangements can be made without loss of time.

*Para 2.1.11*

As per the Market Intervention Scheme norms communicated by Government, the Supplyco sell commodities at a discount of up to 10% lower than the open market rate, thus passing on the subsidy to the consumers directly as price difference from the open market rate.

The Corporation is fixing the selling price of Maveli items on the basis of Open Market prices collected from 15th & 20th of every month after considering the Maveli price of previous month, price trend, purchase price, wholesale open market rate and retail open market rate and communicate to all retail outlets spread all over Kerala and public through news paper advertisement on the 1st day of every month. The prices are stable for a period of one month, with a view to ensure price stability.

It is not practicable to re-fix the selling price according to the variation in the Open Market price because it would take time for reaching the communication to all the outlets, which are in Panchayats in all Taluks of the State and not yet connected through telephone. However, in the case of wide variation of the Open Market prices, Supplyco has been making necessary changes in its selling price of that item, which have variation.

However during the period from 2001 till October 2004 the Corporation did not ensure whether the items are purchased at the lowest price available in the market. Many times, the purchase price of the Corporation was in excess of the market prices prevailing at that time. It would have been cheaper for the Government to ask the consumers who depend on the Maveli Stores to purchase from the open market than depend on the Corporation. Being the single largest purchaser of many pulses items, the Corporation should have got the leverage and advantage of a bulk purchaser with respect to purchase price and should have purchased items at lowest rates available in the market. Unfortunately, it did not happen. All the distorted contentions and manipulative logic put forth for the high purchase price in the reply to VE 2/03 dated 17-3-2003 by the then Chairman & Managing Director are countered by the Vigilance Wing in their analysis in the report VE 2/03 dated 31-5-2003.

#### **1. Details of steps taken for recovery of loss from Suppliers**

Based on the Report of Vigilance Officer, and as resolved by the Board of Directors, Demand Notices have been issued to the following 11 Suppliers demanding to remit the loss sustained to the Corporation in the Purchase of Commodities during the period 2001-04. By violating clause 6 and 9 of the then tender conditions these commission agents in Kerala caused a loss of about 90

crore of rupees after securing the purchase order by showing a 1 kg. good true representative sample supposedly drawn from the bulk stock, they propose to deliver on getting the purchase order. Through an order the power to accept or reject the quality was limited to just six quality controllers and these six persons were coerced/influenced to accept inferior quality commodities even when as per clause 9 of the tender, the discretionary power was with the Managing Director. The practice of informing the purchase price of such inferior quality items in the purchase order was also stopped for secrecy. These commission agents were not specialized in any particular commodity, nor belong to any production centre, but quote different items in different tenders and were consistently getting purchase orders aided by negotiation with L1, L2 and L3.

1. M/s A.V.K. Traders, Kochi
2. M/s Leksmi & Co; Kochi
3. M/s Nayana Traders, Kochi
4. M/s Nirmala Traders, Thiruvananthapuram
5. M/s P.P. Traders, Kochi
6. K.B. Radhkrishnan. Thrissur
7. M/s Sabari & Co; Ernakulam
8. M/s Sai Ram & Co; Kochi
9. M/s STCL, Kochi
10. M/s Sree Sesha Sayee & Co; Kochi
11. M/s Vetrivel Trading Co; Kochi

From February 2005, the Supplyco has introduced e-tender system whereby the suppliers from any part of the country can participate in the tender without coming all the way to Kochi. Now at the time of purchase, the Corporation ensures that they buy all the items at the lowest market prices after comparing it with the newspaper prices and open market prices from the prominent wholesale markets, mandis, etc. The purchase rates are also communicated to the Depots now as part of the purchase order to the supplier and the depots can purchase any commodity of the same quality below the rate approved in the E-Tender. This is another mechanism to ensure that the purchase of commodities is made at the lowest market rates. So the chances of Corporation acting as an intermediary for passing on Government grant to the private traders is not there from October 2004.

2. The Board of Directors after detailed discussion and verifying reports, resolved to have CBI investigation into the conspiracy, manipulation and corruption which happened during the period vide Resolution No. 4/312 dt. 22-8-2005, 6/312 dt. 22-8-2005, 7/312 dt. 22-8-2005 and 19/310 dt. 11-7-2005. In pursuance to that Corporation wrote to the Government for CBI investigation. Govt. as per Notification No. 15999/SSA2/05/Home dated 17-5-2005 appointed Shri. E. K. Muraleedharan, Rtd. District Judge as Commission of Inquiry to enquire into the irregularities and corruption in the procurement of various commodities in KSCSC, requesting to submit its report within six months from the date of publishing of this notification. Govt. has further extended the term of the Commn. of Enquiry for a period of 12 months vide Notifications No. 15999/SSA2/05/Home dated 14-11-2005 and No. 19268/SSA2/06/Home dated 15-5-2006. The terms of reference of the Commn. are as follows:—

To inquire into and report

- (i) What are the purchase policies and procedures followed by the Corpn. during the period from 16-3-1995 to 15-3-2005 ? 'Whether there were any deviation from the said purchase policy and procedure ?
- (ii) Whether any financial irregularities were committed in the purchase of commodities by the Corpn. during the said period. Whether any effective and timely actions were taken against such irregularities. Whether there any extraneous influences in the purchase made.
- (iii) What action are to be taken for the efficient, effective and transparent functioning of the Corpn. ?
- (iv) What are the remedial measures, if any, to be taken to prevent recurrence of such irregularities in future ?

3. Corporation has filed criminal cases also for cheating, conspiracy etc. against the cartel of private traders who masterminded siphoning away Government grant by making the Corporation as an intermediary for passing on the Government grant. They are under investigation and Corporation's request for investigation by CBI on the criminal cases is under consideration of Government.

4. Now the Corporation has implemented a scheme of Market Intervention Scheme as detailed below :—

The motto behind the incorporation of Kerala State Civil Supplies Corporation (Supplyco) is to regulate the rise in price of essential commodities in the open market by effective Market Intervention Operations.

A revised scheme of Market Intervention based on the discussion with

the Principal Secretary (Finance) held on 25-5-2005 forwarded by the Corporation is under consideration of Government which includes a list of items mainly : (1) Green gram (2) Lobia (3) Toordal (4) Black Gram Washed (5) Black gram split (6) Bengal gram Bold (7) Coriander (8) Chillies (9) Peas dhal (10) Mustard (11) Methi and (12) Cummin seed.

The expenses covered under Government Grant under Market Intervention Scheme are—

(a) The actual loss to the Corporation due to the price reduction of 12 numbers of (MIS) Maveli commodities from the average open market wholesale price to the Maveli retail selling price fixed by the Govt.

(b) Proportionate administrative overheads calculated as percentage of the sales value of MIS items.

(c) Overhead expenses of all loss making Maveli Stores, which are started at the rate of one per Panchayats as a Government policy.

(d) Advertisement expenditure on price information disseminated to all the people of Kerala through advertisement in newspapers on the first of every month (This is a mechanism to empower consumers to demand items at such prices and to act as a price benchmark for items in the open market and thus a market intervention tool).

(e) Operational loss on festival markets like Onam, Ramzan and Christmas, which are designed to prevent price hike in the festival season.

On the above parameters, Corporation shall forward reimbursement claim to the Govt. on a monthly basis on the Market Intervention Scheme operations.

##### 5. Price fixation of Market Intervention Scheme items.

It is decided now vide Board Resolution No. 7/309 on 17-6-2005 to fix the selling price of Market Intervention Scheme items by considering the following three variables.

(a) Open Market wholesale Price—Average of the lowest and highest price of 2 leading Malayalam Dailies, 2 leading English dailies and 3 leading English business dailies where open market price of the items are regularly reported while fixing prices.

(b) Open Market retail price—The average of the lowest and highest of actual selling prices collected from margin free markets at 5 cities, of Kerala, Supermarket chains like Varkeys, Triveni and Neethi at District Head Quarters.

(c) Purchase price of Kerala State Civil Supplies Corporation—Purchase price of the related month or immediate preceding tender rate.

The selling price fixed for a month will be up to 5 to 10% lower than the newspaper reported average market rate, but ensuring that this is not lower than 10% to 20% of the retail open market price in order to prevent large scale diversion in bulk which may benefit a few traders only. The price fixed on the first of every month will be continued for a quarter if possible to maintain price stability. As far as possible the price so fixed will not be lower than the purchase price of any item in the immediate preceding tender or purchase order of the related month.

*Para 2.1.12*

It is true that the definitions of the quality of pulses in the Pulses Grading and Marking Rules published in the Govt. of India Gazette dated 7-4-2004 prohibits sale of pulses with dead or live insects. Bureau of Indian Standard definition of quality also prohibits dead or live insects infested commodities. The tender conditions in schedule 1 also specify that commodities shall be free from insects and moulds and shall be wholesome etc. But Corporation accepted commodities up to October 2004, which were violating the above Govt. Rules, quality standards. All this happened after showing 1 kg. good true representative sample to secure purchase order and then Managing Director using his discretionary powers as per clause 9 of tender to accept commodities which are inferior to the true representative sample but paying high price.

1. Show Cause Notices were issued to all Junior Managers (Q.A.). Two Junior Managers (Q.A.) were dismissed from Service vide order No. D22-12.77/05 dt.14-10-2005, D25-26306/04 dt. 14-10-2005 and the Manager (QA) was also dismissed from Service vide order No. D22-17424/05 dt. 27-4-2006.

2. Changes are made in the values of Quality Specification and made them equivalent to BIS/PF A, Agmark specification and Pulses Grading and Marking Rules 2004. The Quality Specification based on Colour, appearance, uniformity and saleability were made. The specifications of commodities are dearly drawn up by appointing various committees of Quality Experts to avoid ambiguity of size, packing etc. The following expert committees gave their reports and these committees' recommendations were implemented.

- a. Committee constituted vide Proceeding No. QCI-25716/2004, dt. 15-12-2004.
- b. Committee constituted vide Proceeding No. QC 1-736/05, dt. 9-2-2005.
- c. Committee constituted vide Proceeding No. QCI-25716/04, dt. 11-8-2005.
- d. Committee constituted vide Proceeding No. QCI-25716/04. dt. 26-9-2005.



3. To maintain quality of the products supplied by the tenderers, a 7-tier quality assurance system has been formulated vide Circular No. 109/05 dated 20-9-2005. Now the commodities are accepted without any compromise on Quality Parameters. Any genuine supplier from any corner of the country can participate in the e-tender and participation of genuine/direct suppliers is ensured.

The provision of Packing and Marking Act is included in the tender, which was discontinued in 2001. The stock will be accepted by the QAC after ascertaining whether packing and marking of the supply are as per the provisions of this Act by the supplier and certifying it in the newly introduced Quality Monitoring Register (QMR) along with the other specifications for acceptance of stock. A printed Quality Monitoring Register is started in all the Depots to record stock acceptance details to ensure transparency and documentation. A stock acceptance flow chart is also documented and circulated vide circular 103/2005.

4. The specifications are being made in other vernacular languages also, which includes Malayalam, Tamil, Kannada, Telugu and Hindi to make more participation of suppliers from those States and for them to understand the quality specifications. The responsibility of the quality inspection, which was vested with one person, is changed to a Quality Assurance Committee consisting of three members. The arrival/acceptance/rejection of commodities at depot has to be posted in a Quality Monitoring Register (QMR) to ensure transparency and uniformity of procedure which is recorded. Provision of quality cut and variety cut are removed, there by the discretionary powers for acceptance and the chances of subjectivity and corruption on these two counts in acceptance are also removed. Infested lots are rejected then and there and not accepted after fumigation as was done in the past. Commodities violating PFA limits are rejected.

5. PFA nominees are appointed for every district as per Rules and PFA licenses are being taken for the Depots and Outlets. Also Government is requested to send one Senior Officer from PFA Authority at the level of Chief Food Inspector/District Food Inspector to head the Quality Wing in the Corporation on deputation basis.

6. An appellate authority is formulated with General Manager as Convener with an external expert for verifying the appeals from suppliers for unreasonable/willful rejection.

7. The practice of giving same quality specification for different commodities in the list of items in the tender to aid manipulation is stopped now.

Earlier Bengal gram Bold and Bengal gram small had similar quality specification. Similarly Green gram imported and Green gram indigenous even though they were considered separate items in the tender with separate prices.

8. Now Moisture Meters, and other essential quality testing gadgets are purchased and given to all the 56 Depots and all Depot Managers are trained to test moisture, and other quality parameters. Staff are also trained to find out even hidden infestation through sample tests. A draft Quality Manual is also prepared.

9. The deficiencies and ambiguities in the definitions of quality of spices like Methi, Coriander, Cummin seed and Chillies are addressed. There was no specification of total sound grains for pulses in the tender prior to January 2005, and the sound grain specification for Pulses given in the tender was erroneous which is also rectified now.

*Para 2.1.13*

The system of purchase of Free Sale Sugar and its transportation from the Sugar Mills up to the Depots of Supplyco were also with malpractices and Vigilance Enquiry conducted found a sham tender system for transportation of sugar at very high rates. Vigilance Report No. VE 49/05, dated 8-8-2005 revealed the malpractices, and notices were issued vide Notice No. S2-12435/05 dated 5-10-2005, 20-10-2005 & 29-12-2005 to these benami transporters for recovery of excess rates paid. The General Manager also studied the issue and reported that the transportation rates were much above the an India Trucks Rates published in News Papers for every week and Corporation lost money.

Now free Sale Sugar is also included in the e-tender along with, other commodities with specific quality definition also. So far during the past one year, this experiment has succeeded compared to the previous practice of sending DD as full payment to Sugar Mills as advance before purchase after getting price quotes from a few Sugar Mills through Fax/Phone. Even though the price of sugar is highly volatile, frequency in floating tender enables to effect purchase of sugar at reduced rates than the market rate. Payment to sugar mills for the purchase of Free sale sugar are now being made after supplying the sugar in depots as against the previous system of remitting advance payment to sugar mills. Sugar being an item that attracts consumers to our outlets and being an essential commodity it becomes inevitable in our outlets.

*Para 2.1.14*

Now Sugar is held in stock only for 1½ months requirement as part of the just in time inventory management introduced in 2005, so that money is not locked up in stock. Probably in the past, the purchases above the requirement

were driven/motivated by the interests of the transporters or Sugar Mills as they were gaining when Corporation was suffering. However Sugar as a commodity required in every household is purchased by all and when FMCG items (Non Maveli) are also sold from Supplyco Outlets, often price of Sugar is fixed deliberately at a low level as a bait to attract consumers, who then are expected to pick up a few FMCG items along with Sugar and other Maveli Items and Corporation thus makes overall gains, by sale of more FMCG (Non Maveli Items).

*Para 2.1.15*

Upto March 2005, the Company had 66 godowns. Out of these 56 were depot godowns-cum-office which deals in receipt and issue of pulses, spices and Sabari brand items and 10 were Super Market Godowns which were dealing in receipt and issue of Non-Maveli (FMCG) items. Out of the 56 depots, only 28 were receiving depots and from these 28 depots, the internal transportation to other 28 depots was taking place. Thus in the past, the 28 Depots which were receiving stock from the other 28 Depots were made helpless in rejecting the stock even if they were inferior quality and probably hand picked pliable Officers were posted to 28 Receiving Depots. So, that the inferior quality commodities are also accepted /fumigated and distributed. In the case of 10 Super Markets Godowns where Non-Maveli items are received and stored, issues were made to Maveli Stores directly. So in the case of pulses and spices, there were two transportation involved earlier, before reaching it to the ultimate selling point namely, Maveli Stores, Labham Markets and Super Markets. From April 2005 onwards the Company made all the 56 depots as Receiving Depots for all Maveli items, all Sabari Brand items and also all Non-Maveli items, so that all the items of an Outlet are transported together from one depot. With this, the Company could reduce the internal transportation and handling charges to a great extent.

1

*Para 2.1.16*

The reason for low monthly utilization was primarily due to the drastic reduction in sales turn over from the value of above Rs. 600 Crore, in 1998-99 and 1999-2000 to about Rs. 400 Crores in 2002-03 and 2001-02, while no active dehiring of buildings occur commensurate with low sales volume.

2

Up to March 2005, the Company was having 56 depots for storing pulses, spices and Sabari Brand items and 10 godowns for storing Non-Maveli items. From April 2005 onwards the Corporation started storing the entire stock, namely pulses, spices and Sabari Brand items and Non-Maveli items in the 56 depots/godowns situated in 56 taluks in Kerala, in a decentralized governance structure. The value of stock sold and stored in these 56 Depots rose to Rs. 701 Crores as on 31-3-2006 (Provisional) compared to Rs. 455 Crores as on 31-3-2004, which

shows that more quantity of items were stored per Godown now. With this the Corporation could optimize the utilization of the godowns. Moreover, Circular No. 42/06, dt. 2-5-2006 is issued to further optimize the utilization of godowns and dehire excess space, if any at any Depot.

*Para 2.1.17 & 2.1.19*

The reasons for the poor sales performance can be clearly understood from the two reports namely VE-2/03, dt. 31-5-2003 of the Vigilance Wing and report of the General Manager dated 7-5-2003 analysing the purchase and quality assurance system prevailing at that time. The above two SOS type reports were also ignored by the then Chairman and Managing Director even though the request was from the 2nd in command in the Management which could possibly point where the real management was at that time. Possibly the interest of the private traders were the priority than the best interest of the Corporation at that time which resulted in poor performance of the Corporation.

The sales from 1999-2000 to 2004-05 are given below in Table with the number of outlets of the respective years.

OUTLETS DETAILS AND SALES COLLECTION <span style="float: right;">(Rs. in Lakhs)</span>													
Sl. No.	Outlets	1999-2000		2000-2001		2001-2002		2002-2003		2003-2004		2004-2005	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	Maveli Stores & Labham Markets/ Sabari Super Markets	822	15640	854	15941	882	14919	919	17552	948	23253	1024	29256
2	Super Markets	19	2410	19	1943	19	1902	15	1940	10	2287	10	2847
3	Petrol Bunk	9	3972	9	5144	9	5430	9	5815	10	6354	10	6727
4	LPG Outlet	4	622	4	1226	4	1198	4	1291	4	1339	4	1526
5	Medical Store	17	260	26	644	30	960	34	1325	38	1911	43	2480
6	Total	871	22904	912	24898	944	24409	981	27923	1010	35144	1091	42836
7	Sales/ Outlets		26.30		27.30		25.86		28.46		34.80		39.26

It may be seen that there has been an increase in 'sales per Outlets' with respect to the number of outlets opened from 2003-04. Regarding opening of Maveli Stores, it is a policy that in every Panchayath, there shall be a Maveli Store and for the first 2 years the Panchayath pays the full rent. While opening Sabari Super Markets (Labham Markets), the Company assesses the profitability before sanctioning the same. The criteria for opening of any Supplyco Outlets are redefined and issued as a Circular No. 60/2004, dt.16-10-2004 and followed up with Circular No. 19/2006, dt.14-2-2006 and 44/2006, dt. 8-5-2006.

The declining sales volume is effectively arrested by creating of effective decentralized governance structures like Depot Management Committee and by adoption of participatory management practices from January 2005. Monthly monitoring of number of Maveli Stores under each Depot Management Committee making net profit, total sales per Outlet, etc. are done in a monthly Depot Managers workshop held on the 26th of every month and Depot Managers make a Power Point presentation on predefined Key Result Areas (KRA). KRA are also defined for Regional Managers and issued as Circular and monitored. Rewards for good performance are given as "Hero of the Month", "Stars of the year" awards, etc. in order to motivate for system performance.

*Para 2.1.20*

Upto September 2004, there had been instances of fixing the selling price above the open market prices. The main reason for this is that the purchase prices were on the higher side. Now since the Company is purchasing commodities at the lower price in the market, we are able to sell the commodity upto 10% lower than the market price.

The Corporation has also taken many steps to improve the sale and attract more customers to the outlets.

1. Sale and Profit based incentives to staff and sales promotion allowances to improve the sales as well as increasing the profit.
2. Fixation of Monthly targets and review of the targets at the Monthly Depot Managers' Meeting held at Head Office.
3. Induction training and ongoing training to staff.

*Para 2.1.21*

Maveli Store prices are announced on the first of every month through News Papers and Maveli Stores are not expected to vary the prices except in emergency cases where the market price is declining by mid month and stock quality is not good for prolonged storage and then it would be prudent to sell of the poor quality stock at lower prices.

*Para 2.1.22 & 2.1.23*

The reason for the loss in the Super Markets is mainly because of the exorbitant purchase price of pulses and spices items during the period upto September 2004. In the case of Non-Maveli items also since the purchase prices were not monitored efficiently, Corporation was not able to buy at their lowest price for many of the items.

Now in the case of pulses and spices items, the Company ensures that the purchase is being made at the lowest open market price. In the case of Non-Maveli items, direct purchase has been started from major FMCG companies with higher margins. The Company can earn more margins and while fixing the selling price low thereby attracting and retaining consumers.

Since the objectives of the Corporation is to make available all the commodities to the consumers, more FMCG (Non-Maveli) items are being made available through Super Markets. Besides, by increasing the proportion of sale of FMCG items through the Super Markets, the overall margin is increased. Corporation is taking effective steps in this direction considering that a consumer would like to pick all his/her requirement from one shop in purchase visit and the consumer preferences existing at various places are to be analyzed and stock maintained accordingly in the Super Markets. Thus periodically the essential requirements are analysed.

Vide the Board's decision dated 23-3-2005, all Super Markets and Labham Markets have been converted as Supplyco Sabari Super Markets maintaining uniform prices for products of the same quality, thereby the classification as Super Markets and Labham Markets have become non-existent. Labham Markets and Super Markets operated by Supplyco are Outlets where the lower middle class and middle class consumers usually come to make their purchases and the higher class go to higher end Super Markets in urban centres. Thus the benefit of the price reduction of Pulses and Spices are passed on to the lower middle class consumers who come to Labham Markets and Super Markets of Supplyco also.

*Para 2.1.24*

The retail price of levy sugar fixed by the Central Government was Rs. 13.25/kg. Till 29-2-2002 and the whole sale price was Rs. 13.195/kg. i.e. the price at which levy sugar is sold to ARD's/ AWD. Thus the ARD were eligible for a commission Rs. 0.055/kg, or Rs. 5.5/Qtls. However the retail price of levy sugar fixed for Kerala was Rs. 13.35/Kg, against Rs. 13.25 kg. fixed by the Central Government. The additional Rs. 0.10 kg. collected from the consumers was retained by the ARD's thus the margin earned by ARD's in Kerala was

Rs. 0.155/kg against Rs. 0.055/kg fixed by the Central Government. From 1-3-2002 Central Government increased the retail price of levy sugar by 0.25/ kg (from Rs. 13.25/ kg to Rs.13.50/ kg) and the whole sale price to Rs.13.445/ kg. The State Government directed the Corporation to issue levy sugar to ARD's in such a way that the selling price to consumers should not exceed Rs. 13.50/kg fixed by the Central Government and ARD's get existing commission of Rs. 0.155/ kg. It was further directed that the Corporation need not reduce its own commission (whole sale margin commission) and to take up the matter with the FCI to ensure that Corporation gets existing wholesale margin.

Corporation had taken up the matter with FCI through Chief Account Officer of the Commissionerate of Civil Supplies for fixing the selling price to ARD's at Rs.13.345/ kg. Instead of 13.445 read by the Government of India and FCI informed to the Director of Civil Supplies that the Government of India is the only authority to take a decision in this regard. This was already taken up with the Government of India. But no reply was received by the Government of India so far. The Corporation is taking steps to convene a meeting of the concerned at Government level to sort out the issue.

*Para 2.1.25 & Para 2.1.26*

During 2002-03, as per the GO No. (Rt) 207/02 F & C SD dated 26-7-2002, Government of Kerala allotted 3200 MT of rice @ APL rate, for issue to the school children in connection with Onam 2002. Subsequently Government as per GO (Rt) 224/02 Food & Civil supplies dated 14-8-2002, issued orders of re-allotting the stock at BPL Rate. But Corporation lifted only 2550 MT of Rice in connection with Onam 2002 @ Rs. 839.55 per quintal by paying Rs. 2,14,08,445 before getting the order-dated 14-8-2002. This has been claimed with the DPI during 2003-04 at APL Rate of Rs. 839.55 per quintal, as it was utilized for issuing special rice during 2003-04. The Corporation is following up with the DPI for the reimbursement of the amount.

*Para 2.1.27*

During 2001-02, the Corporation has lifted only 6200 Qtls of rice from the PDS pool @ Rs. 838.30 per quintal.

During X'Mas '01 and Ramzan '01, the rice has not been lifted from PDS pool. It is noticed that a quantity of 26153.24 Qtl. of rice was utilised from the stock of rice of KSCSC in the year 2001-02 for smooth renning of noon feeding programme, which was procured during 2000-01 allotment @ Rs. 1141.30/Qtl.

During 2000-01, the closing balance of rice is 45892.33 Qtls. The stock of rice was lifted from PDS pool @ Rs. 1141.30/Qtl. which was converted into Corporation account. Out of this quantity, the Company utilized 26153.24 Qtl of rice for noon feeding issue for 2001-02 year in order to avoid interruption in the issue of 5 Kg rice to school children. The cost of 26153.24 Qtls of rice utilized was claimed with DPI @ Rs. 1141.30/Qtl, as per Lr.No. A9-1371/01 dated 6-1-2003 & 13-5-2003. But the DPI sanctioned the cost of 26153.24 Qtls of rice @ Rs. 838.30 per quintal only. The shortage in sanctioning the dues has already been intimated to the DPI as per Lr. No. A19-1371/01 dated 23-2-2004 for revising the order. The Company has been following up with the DPI for getting the balance cost of rice utilized from the Corporation account.

*Para 2.1.28*

The Corporation supplies pulses to schools under MDMS at sale price fixed, by considering the purchase price inclusive of tax, loading and unloading charges, internal transporting charges, storage cost, etc. Since Greengram was mostly used for MDMS as a pulse, more quantity of Greengram was purchased and the comparison of purchase price of Greengram with Open Market Rate is given in Table below explain the reasons.

**Avoidable Loss Statement in Purchase Price of Greengram by Supplyco  
Comparing with Lowest News Paper price from April 2000 to May 2006**

Greengram			News paper Rate		Difference/ Qtls from lowest (in Rs.)	% increase from lowest	Avoidable Loss to the Corporation (In lakhs)
Month	Qty [in MTs]	Rate [in MTs]	Lowest	Highest			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Apr-00	1391.5	25013.40	2100.00	2800.00	401.34	19.11	55.85
May-00	2393.0	23434.40	2150.00	2900.00	193.44	9.00	46.29
Jun-00	1896.0	25048.20	2150.00	2900.00	354.82	16.50	67.27
Jul-00	1770.0	22611.20	2150.00	2900.00	111.12	5.17	19.67
Aug-00	1040.0	19398.40	2350.00	2900.00	- 410.16	-17.45	- 42.66
Sep-00	1495.5	19364.40	2100.00	2300.00	-163.56	-7.79	-24.46
Avoidable Loss for 1st half year 2000-2001							121.96



[illegible]

[illegible]

[illegible]

[illegible]

Currently, the price fixed by the Corporation is reasonable, as the prices at which the pulses are purchased are below the open market price. The reduction in MDMS price of pulses during 2003-2004, 2004-2005 & 2005-2006 is given below in Table, which shows a drop in prices now.

**Comparison of Noon Feeding Price & Maveli Price from  
March 2003 to March 2006**

<i>Sl. No</i>	<i>Month &amp; Year</i>	<i>Greengram</i>		<i>B. G. Bold</i>		<i>Lobia</i>		<i>Toordhal</i>	
		<i>M.Price</i>	<i>NF Price</i>	<i>M.Price</i>	<i>NF Price</i>	<i>M.Price</i>	<i>NF Price</i>	<i>M.Price</i>	<i>NF Price</i>
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>	<i>(8)</i>	<i>(9)</i>	<i>(10)</i>
<b><i>Year 2003-2004</i></b>									
1	Mar-03	24.00	3365.00	23.00	3021.00	25.00	3431.00	24.00	3626.00
2	Apr-03	23.00	3367.00	23.00	3168.00	25.00	3423.00	25.00	3581.00
3	May-03	25.00	3352.00	23.00	3122.00	24.00	3371.00	26.00	3591.00
4	June-03	25.00	3306.00	23.00	2952.00	24.00	3182.00	26.00	3551.00
5	Jul-03	25.00	3237.00	23.00	2983.00	24.00	3167.00	26.00	3545.00
6	Aug-03	25.00	3251.00	22.00	3075.00	21.00	3168.00	26.00	3657.00
7	Sep-03	25.00	3251.00	20.00	3075.00	21.00	3072.00	24.00	3628.00
8	Oct-03	23.00	3182.00	21.00	3069.00	21.00	2937.00	24.00	3579.00
9	Nov-03	23.00	3186.00	21.00	3288.00	20.00	2852.00	24.00	4111.00
10	Dec-03	22.00	3190.00	21.00	3289.00	19.00	2805.00	24.00	4047.00
11	Jan-04	22.00	3186.00	21.00	3264.00	18.00	2772.00	25.00	3986.00
12	Feb-04	22.00	3215.00	21.00	3293.00	18.00	2848.00	25.00	4088.00

**Year 2004-2005**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Mar-04	23.00	3249.00	21.00	3169.00	16.00	2802.00	27.00	4045.00
2	Apr-04	23.00	3236.00	22.00	3082.00	15.00	2668.00	27.00	3835.00
3	May-04	22.00	3307.00	23.00	3103.00	17.00	2687.00	27.00	3792.00
4	June-04	22.00	3321.00	22.00	3124.00	17.00	2729.00	27.00	4002.00
5	July-04	22.00	3325.00	22.00	31.20	16.00	2735.00	27.00	3983.00
6	Aug-04	22.00	3314.00	22.00	3127.00	14.00	2690.00	27.00	3991.00
7	Sep-04	24.00	3292.00	22.00	3336.00	15.00	2625.00	30.00	4053.00
8	Oct-04	22.00	3039.00	20.00	3148.00	13.00	2106.00	29.00	3928.00
9	Nov-04	..	2734.00	..	3007.00	..	1874.00	..	3684.00
10	Dec-04	22.00	2674.00	22.50	2932.00	13.50	1724.00	29.50	3388.00
11	Jan-05	23.50	2643.00	24.00	2873.00	16.00	1859.00	29.50	3500.00
12	Feb-05	25.50	2635.00	25.50	2767.00	15.50	1650.00	29.50	3046.00

**Year 2005-2006**

1	Mar-05	26.00	2788.00	25.00	2636.00	15.50	1619.00	26.50	2762.00
2	Apr-05	26.00	2790.00	24.00	2600.00	17.50	1950.00	26.00	2750.00
3	May-05	28.50	3050.00	24.00	2550.00	19.00	2050.00	27.00	2750.00
4	June-05	27.50	3070.00	24.00	2460.00	19.00	2050.00	27.00	2810.00
5	July-05	27.50	3220.00	24.00	2590.00	18.50	2060.00	27.00	3230.00
6	Aug-05	27.00	3110.00	23.00	2685.00	17.50	1960.00	27.00	3130.00
7	Sep-05	24.00	2790.00	23.00	2650.00	17.50	1980.00	27.00	3120.00
8	Oct-05	25.00	2700.00	23.00	2650.00	17.50	1980.00	28.00	3040.00
9	Nov-05	28.00	3350.00	25.00	2830.00	19.00	2580.00	28.00	3100.00
10	Dec-05	29.00	3560.00	27.00	3100.00	22.00	3200.00	28.00	2950.00
11	Jan-06	30.00	3550.00	27.00	3050.00	23.00	2650.00	26.00	2750.00
12	Feb-06	30.00	3600.00	23.00	2700.00	20.00	2180.00	25.00	2710.00
13	Mar-06	30.00	3630.00	22.00	2420.00	19.00	2210.00	25.00	2810.00

*Para 2.1.29*

The Profit and Loss Statements of all the Sub Depots for the Financial Years 2002-2003, 2003-2004 and 2004-2005 is being collected and consolidated for Claiming the loss from the Government. With the available details Corporation has already claimed an amount of Rs. 3.69 crores from the Government being the claim for the period from 1996-97 to 2004-05. vide letter No.AI-1058/06, dt. 3-5-2006. Now the operational details of Sub Depots are fed into the Depot Management Software every month and monitored. Moreover the Management of the Sub Depot is also brought under the control of the Depot Management Committee for better communication and efficient Management.

*Para 2.1.30*

The following steps are taken for making Internal Audit more effective.

1. Pre-audit was introduced in Head office for all purchase/work order above Rs. 1 lakh. Before the release of purchase orders audit section verify the market price, quality, technical specification, compliance with terms and conditions of tender, purchase quantity etc. Purchase order is placed after taking into consideration all audit objections. Similar procedures are followed in Depots also.
2. In Head Office pre-payment audit is done in all payments if the value of transaction exceeds Rs. 5 lakhs. For depots the limit is Rs. 2 lakhs.
3. Apart from outlets selected at random outlets suggested by Junior Manager (Marketing) are also audited on a concurrent basis. This ensures an element of surprise.
4. An Audit sub committee of the Board of Directors comprising 3 Board Members had been constituted as per Companies Act and the committee met on 29-10-2005 and 21-1-2006 and reviewed internal audit and internal control procedures.
5. For the non remittance of the EMD into the Bank Account, when Overdraft was existing, the Board of Directors requested to Government for action vide letter No. D22-11485/05, dt. 4-4-2006, as per Board Resolution No.8/318 & 13/323.
6. Commodity which are aged more than 45 days in stock at Depots are monitored every month in the Depot Managers Workshop, now with a view to understand existence of any defective/inferior/unsaleable goods.

7. For Petroleum products money receipt on credit sales, a system of sending bills vehicle wise and on a monthly basis is introduced in all Petrol Bunks vide Circular No. 28/2006, dt. 10-3-2006.
  8. For LPG Consumers, a LPG Consumers citizen's charter was published vide P10-22242/04 dt. 3-2-2006, among consumers for consumer empowerment and to prevent malpractices at the LPG Outlets.
  9. A consumer grievance cell is started in Head Office to get feedback from consumers and complaints are addressed.
  10. Introduced month-end self-reporting of stock thereby taking the staff into confidence.
  11. Audit of account of Onam Market/Fairs were outsourced to local Chartered Accountants by outsourcing for speedy finalization of accounts.
  12. A system under which MIS is used as an audit tool is being developed.
  13. Assessment of liability of staff has been made concurrent and LC/NLC certificate, based on existing liabilities is issued at the time of relief of the employee.
  14. Audit procedures have been made transparent which reduced dispute and consequently disciplinary cases.
  15. Corporation has shifted its decision making process from individual based to group based. Committees have been formed at Head Office, Regional Office and Depot with necessary powers to make decision on various matters. It also enhances co-ordination among various sections and enhanced participation in decision making.
  16. Procedures and manuals were prepared on most of the functional area like pricing, purchase, quality assurance etc. which has reduced subjectivity and enhanced objectivity. Registers for recording various parameters effecting quality has been introduced.
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