TWELFTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2008-2011)

SIXTY NINTH REPORT

(Presented on June 30, 2009)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2009

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SIXTY NINTH REPORT

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)

645/2009.

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* Resigned from KLA w.e.f 28-5-2009.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2008-2011), having been authorised by the Committee to present reports on their behalf, present this Sixty Ninth Report on Kera1a State Civil Supplies Corporation Limited based on the Reports of the Comptroller and Auditor General of India for the year ended 31March 2005 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller-and Auditor General of India for the year ended 31 March 2005, was laid on the Table of the House on 13-2-2006. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2006-08.

This Report was considered and approved by the Committee at its meeting held on 13-5-2009.

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

The Committee wish to express their thanks to the officials of the Food, Civil Supplies and Consumer Affairs Department of the Secretariat and the Kerala State Civil Supplies Corporation Limited for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Food, Civil Supplies and Consumer Affairs Department and Finance Department and the officials of Kerala State Civil Supplies Corporation Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
30-6-2009.

Chairman,
Committee on Public Undertakings.

REPORT

KERALA STATE CIVIL SUPPLIES CORPORATION LTD

AUDIT PARAGRAPH

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 Company was also engaged in distribution of petroleum products, tea, medicine, sugar etc. as well as public distribution of rice, levy sugar and wheat, distribution of rice and pulses to schools under the Mid Day Meal Scheme.

The company with its headquarters at Ernakulam has five Regional Offices, supported by 1,050 outlets (August 2005). There is a separate EDP section.

Computerisation

The Company in 1987 started computerisation of its applications and initiated in-house development of software for Payroll, Financial Accounting, Sales Accounting, Sugar Transportation Accounting and Purchase Accounting. Development of software for Depot Management, Super Market Billing and Stock Accounting was outsourced. While the in-house applications were developed using Oracle and Developer 2000, others were developed using FoxPro. The Company had so far spent Rs. 2.65 crore (2004) towards computerisation.

Objective of computerisation

Computerisation was taken up with the following objectives:

- To implement an effective database management system
- To increase efficiency in:
  - ➢ Sales accounting/analysis of outlets by producing accurate and timely reports on sale and stock ;
  - ➢ evaluation of stock by determining its age; and
  - ➢ installing a perfect Management Information System (MIS)

Scope of audit

The audit conducted during February-July 2004 covered the functioning of the Financial Accounting System (FAS) and Sales Accounting System (SAS) at Head Office and Two* Regional Offices, Depot Management System in three depots** and Supermarket Billing System in six Super Markets/Labham markets†.

Audit Objectives

Information Technology (IT) Audit was taken up to ascertain whether the system was designed to ensure data integrity, reliability of inputs and outputs, IT security and adequacy of controls.

Audit methodology

Data available in Head Office, Regional Offices, Depots, and Supermarkets were analysed using CAAT@ namely IDEA (Interactive Data Extraction and Analysis)

Audit findings

Audit findings are discussed in the succeeding paragraphs.

General IT Controls

A review of the general IT controls revealed that controls were weak in respect of IT access, software acquisition, development and maintenance. As can be seen from succeeding paragraphs, many controls were either inadequate or non-existent.

Non-achievement of intended IT benefits due to partial computerisation

The Company, initiated steps, in 1987, to computerise sales accounting of all retail outlets and depots, to produce accurate and timely reports on sales and stocks and to introduce scientific inventory management, but the progress of computerisation has been slow. As on Ist January 2004, 33 out of 60 depots, three out of 17 super market godowns, 41 out of 102 Labham markets, nine out of 10 Petrol Bunks and 23 out of 38 Maveli medical stores were still not

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* Ernakulam and Thiruvananthapuram

** Thrippunithura, Valiathura and Beypore

† Supermarkets at Sadanam Road, Panampally Nagar, East Fort, and Kozhikode Labham markets at Peroorkada and Thrippunithura

@ Computer Assisted Audit Technique

computerised (August 2005). Moreover computerisation has not so far been extended to any Maveli stores (858) and Sub-depots (10). Thus, due to partial computerisation, the Company could not fully achieve the objective of timely rendition of accounts for efficient management decisions and generation of accurate and timely reports, despite investing Rs. 2.65 crore.

The management stated (April 2005) that a proposal for strengthening the MIS wing of the Company has been approved by the Board of Directors (November 2004) and 56 depots would be computerized in the first phase with facility for daily transfer of data to Head office/Regional office. All Medical stores and Labham Markets would be computerized in the 2nd phase. No time frame has, however been fixed for the purpose.

Government replied (August 2005) that the Company had to ensure sufficient technical support for the computerisation process, the request for sanctioning support officers for computerisation was being examined and the Company had taken steps to identify its own staff to do system support activities.

Lack of systems development controls

Delay in development of software

Despite having an in-house software development team, all modules of FAS and SAS were yet to be developed. Thus, MIS reports on age-wise analysis of stock of commodities, sales analysis of retail outlets and commodity-wise analysis could not be generated as planned, and hence could not facilitate the decision making process. As the Company failed to set up a proper network, the transfer of data from retail outlets to Regional Offices and Head Office needed for timely generation of reports, was affected. A proposal (January 2004) to develop a network through CUSAT* also did not yield results hence was dropped.

The management stated (April 2005) that steps have been taken to develop software, for web enabled data transfer and that more technical persons would be recruited as System Support Officers. The Government also stated (August 2005) that computers had been provided in all 56 depots and the software for inventory maintenance was being implemented and the depots were using the internet facility.

Lack of systems development methodology

Organisations implementing IT Projects should decide upon a standard methodology to design and develop a system. There should be proper

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* Cochin University of Science & Technology

documentation on various processes involved in systems development, indicating, *inter alia*, personnel authorised and responsible to manage application development and its implementation. Audit scrutiny revealed that no such documentation existed in the Company. Further, documents such as User Requirement Specification, System Requirement Specification, User manual and logs of tests made and acceptance of software relating to the FAS and SAS developed in-house were not available with the Company.

In the absence of the above, management could not ensure that all requirements have been incorporated in the system developed in-house.

Government stated (August 2005) that these would be taken care of in the software being developed and implemented in depots and in the future software developments.

Instances of deficient system development process reflected in the functioning of the software noticed in audit are discussed in paragraphs 2.2.11 and 2.2.12 *infra*.

Improper design of retail outlets/depots codes

The company assigned 4-digit codes for outlets/depots, the first digit indicating the region, the second digit indicating the district and the next two digits identifying the outlets under a district. No uniform and scientific system of coding was, however, followed and there was a mix up of numerical codes and alphanumerical codes.

The system at Tea division, however, accepted the first four alphabets of the depots names as depot codes, which were entirely different from the codes adopted for the sales accounting system.

The Government stated (August 2005) that the 7-digit outlet code had been introduced in 56 depots and would be incorporated in other outlets, after re-designing/developing the software.

Absence of uniform commodity codes

The Commodities dealt with by the Company's outlets are broadly classified as Maveli items* and Non- Maveli items**. The non-Maveli items are procured centrally, regionally or locally. They may include consignment items, which are not taken to stock, but sales are billed.

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* Essential commodities and their product derivatives most of which are procured centrally and marketed in the company's brand

** All other items such as provisions, stationeries, bakery items, meat product, vegetables etc.

As per the system of coding for commodities, manager of an outlet could allot any code number below '9999' to any item including the consignment items. Thus, there was a mismatch of codes given by various outlets. While the Supermarket at Sadanam Road, Ernakulam classified the commodities into five categories of 65 groups, the Supermarket at Panampally Nagar, Ernakulam had 10 categories of 47 groups. The categorisation and grouping had no basis and there were cases of overlapping/duplication. The depots and supermarket godowns followed their own system of coding for the commodities.

The Regional offices conducted monthly consolidation and annual physical verification of commodities whereby the value of all the items other than Maveli items were consolidated and classified under one code '105- supermarket items'. As the coding for non Maveli commodities was not uniform it led to 20 per cent of sales, valuing Rs. 497.10 crore out of Rs. 2400.40 crore, escaping commodity-wise accounting for the five year period (April 1999- March 2003). The sale of supermarket items escaping commodity-wise accounting during 2003-04 was 33 per cent of total sales.

Absence of uniform codes, affected consolidation of the sale and stock of all commodities at Regional/Head Office necessitating re-entry of data at Regional Office. Thus, one of the main advantage of any computerisation project i.e transparent processing of transactions to serve as an MIS aid to management to effectively monitor procurement, pricing and storing materials, could not be derived by the Company.

Government stated (August 2005) that the 6-digit commodity codes were already in use in 56 depots, and would be introduced in other outlets after redesigning/developing the software.

Lack of segregation of duties and poor access controls in EDP section

In any major IT system, the duties of various IT staff are required to be properly defined and segregated, with clear responsibilities. Audit analysis, however, revealed (June 2004) that the IT staff in the Company did not have well defined job specifications and responsibilities with clear demarcation of duties.

Moreover, in order to control authorised access to data and systems, the duties and responsibility of the users of the system need to be decided by the management, based on which the required modules are provided to the individual users/sections. It was noticed in audit that though user level passwords were provided but these were common for the same group. Thus, the passwords were not unique and were shared by the staff. For example, to access the

Financial Accounting module, user name and the password were common for the finance clerk and the Managers. In effect, the sharing of login IDs and passwords defeat the very purpose of control as accountability, confidentiality and integrity of data and programs would be affected. Maintenance of a unique user id and password is required for the purpose of fixing responsibility for unauthorised access to data.

Government stated (August 2005) that once MIS division was adequately strengthened, there would be clear definition of works handled by each staff. It further said that proper password maintenance and back up procedure had to be implemented by unit managers. Frequent changes of staff in each level was a bottleneck in this respect, which would be solved when system support officers were appointed. The reply clearly shows that the Government has not yet grasped the importance of segregation of duties and access controls in an automated system controlling a turnover of more than Rs. 400 crore per year. It is important for the Government to realise that in a computerised system segregation of duties is as important as defining duties and responsibilities in conventional system. As in a manual system it is inconceivable that a clerk will have the same financial powers and responsibilities as a manager, similarly in a computerised system appropriate differentiation has to be enforced albeit by technology enabled methods such as assigning privileges according to the user profile and access controls by passwords, etc.

Absence of Business Continuity Plan

The Company did not have documented procedures, operating manuals and a disaster recovery plan. Though daily backups were reportedly taken, absence of disaster recovery plan had the risk of potential data loss, with consequent disruption of business, in case of any disaster.

Application controls

Application controls are included in the IT systems to provide assurance that all transactions are valid, authorised, complete, accurate and properly recorded. Shortcomings in application control noticed during audit are discussed in the succeeding paragraphs.

Deficiencies in Sales Accounting System (SAS)

The system was installed in Regional Offices for consolidation of monthly sales at retail outlets, wherein credit sales to schools for noon feeding programmes and to ARDs* were also accounted. The Region-wise data so

* Authorised Ration Dealers

compiled is consolidated at Head Office using this application. A scrutiny of the application revealed the following:

Discrepancies in accounting short collection/short remittance

The Company's outlets are required to remit the daily sales realization into specified bank account the following day. Any shortage in remittance should be made good against the next remittance. Regional offices also work out independently the reported sales of outlets, based on rates on the day of sale. Any difference between sale value due and sale value actually reported would be shown as short collection.

A scrutiny of the database relating to the Regional office, Ernakulam, for 1999-2004 revealed large- scale variation between total sales (Rs. 356.98 crore) and total collection (Rs. 328.28 crore) as well as between total collection and total remittance (Rs. 306.55 crore). The system in the Regional office did not capture the short collection of Rs. 28.70 crore and short remittance of Rs. 21.73 crore, for appropriate follow up. On this being pointed out, it was stated that the daily shortage in outlet-wise collection was duly accounted in a different table in the database. It was, however, seen that the figures of short collection and short remittance in the said database table had no relation to the corresponding figures derived from the table earlier scrutinized by Audit or for that matter even the trial balance. Against a short collection and short remittance of Rs. 28.70 crore and Rs. 21.73 crore respectively as on 31 March 2003, the corresponding figures in the trial balance as on 31 March 2003 were only Rs. 1.70 lakh and 0.64 lakh respectively.

Further, cash balance of outlets recorded in the database showed a negative balance of Rs. 35.41 crore as on 31 March 2004, which did not tally with the figures of short collection/remittance in the database. This showed that the logical data flow was not maintained in the system to ensure integrity and reliability of the information processed through the application.

The Management stated (August 2005) that the problem would be addressed in the new software being developed for depots and that the sales accounting system would also become a part of the depot management system.

Absence of provision to adjust physical verification shortages

According to the instructions for stores verification, unit managers should declare items as per book stock as on 31 March. The Stock verification officer would verify whether the declared stock and actual stock are the same. Items verified as good stock will be carried over as opening stock as on 1st April. If there is any difference between declared and verified stock, disciplinary action will be taken against the unit manager. There is, however, no provision to generate MIS reports relating to outlet-wise shortage in stock, for top management follow up.

For example, the value of stores found short during 2002-03 in Regional Office, Ernakulam was Rs. 14 lakh. There was no evidence of any action taken against the officers in-charge of the outlets where shortages has been detected. The system also lacked provision to account for the cost of bad/inferior quantity and the sales realisation.

The Government stated (August 2005) that steps were being taken to develop new integrated software to overcome the deficiencies.

Defects in Supermarket Billing and Stock Accounting System

The system was developed to account for counter-wise collection, sales accounting and stock reports in Super Markets and Labham markets. It also provided for generation of counter-wise sales summary, month-wise collection report. periodical sales report, item-wise invoice details, item-wise indent, stock register, reconciliation of stock and stock valuation report. Audit scrutiny revealed the following deficiencies in the system.

Errors and Omissions in stock records

A test check of the computerised physical verification reports of the super markets at Sadanam Road, Ernakulam ; Panampally Nagar, Ernakulam and Indira Gandhi Road, Kozhikode (as on 31 March 2003) revealed that the stock declared by units based on the database was less than the physical stock in 26 per cent cases and was more than the physical stock in 39 per cent cases. Thus the system did not ensure complete accuracy in inventory management.

Government stated (August 2005) that steps would be taken to address the deficiencies pointed out.

Display of minus balance in stock

As per the existing billing system, bills are made, without reference to availability of stock notwithstanding any wrong product code, thus resulting in negative stock values. All the items declared as negative stock are treated as excess stock under the presumption that each accumulated negative stock is due to a billing error and compensating excess stock will be available somewhere in the shop. This indicates deficient software development whereby validation checks were not incorporated into the system.

Thus, the computerised system introduced to ensure accuracy in stores management ended up posing a risk to the operations and was unable to prevent possible covering up of theft, pilferage, inaccuracy and inefficiency, as no steps had been taken to prevent the printing of bills when the quantity as per stock becomes zero. Proper inbuilt controls are needed to prevent generation of bills for an item whose stock is nil.

Government stated (August 2005) that steps would be taken to address these problems.

Deficiencies in the Depot Management System

The system, functioning in 27 of the 60 depots enables recording of commodity transactions and had facilities to account purchase orders, allotment of materials and receipt of materials, It was also capable of generating stock register, daily transactions report, stock-cum-sales return and details of issues to outlets. A test check of the system, at the district depot at Beypore, Kozhikode and Pettah, Thrippunithura revealed the following.

- Initially, the materials received in depots were entered in temporary mode, in the system, so that quantity will not be included in the actual stock till the entry is made permanent. Only after inspection and approval by quality control wing, it would be made permanent. The depot stock statement displayed minus stock, as the materials were issued before making a permanent entry. This paved the way for issue of possible sub-standard materials against sale through retail outlets.

- Option for preparation of a category-wise consolidated sales statement for a specified period was not available in the software.

- Materials to Labham Markets and Maveli Stores were door delivered in depot vehicles but no provision existed in the software to generate a vehicle utilisation statement.

- At Head Office, due to lack of any module, reconciliation of receipts and issues at the depot was done manually.

- As 27 computerised depots were not networked to the Head Office, commodity-wise stock in depots could not be ascertained.

Government stated (August 2005) that the new software being developed would take care of these problems.

Conclusion

The Company started computerisation in 1987 in order to increase efficiency in sales accounting/analysis of outlets by processing accurate/timely reports on sale and stock, evaluation of stock by determining its age and installing a perfect MIS, but failed to fully achieve its objectives. Despite incurring substantial expenditure, it could computerise only 162 out of 1110 outlets/depots till January 2004. The present system has poor access controls and the database is plagued with inaccuracies. This leaves the system at a risk of being manipulated to cover up theft, pilferage and embezzlement.

In order to monitor speedy movement of commodities in the outlets and to evaluate the age of stock, it is essential to capture commodity-wise stock position in Outlets/Depots and plan procurement and distribution accordingly, but the Company could not ensure development of all modules of the software, networking of the outlets and installation of MIS to facilitate decision making, on the basis of sales analysis and market trends. As a result of non-uniformity in the coding of commodities generation of meaningful MIS reports, even if desired, is not feasible.

[Audit Paragraph 2.2 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 (Commercial)]

Notes furnished by the Govt. on Audit Paragraph is given in Appendix II

1. The Committee pointed out that the computerisation process initiated by the Company more than twenty years ago did not achieve its purpose and enquired about its present position. The witness stated that computerisation in the Company is a continuous process and added that most of the observations made by the Audit is right. The Company enquired why the Company had not achieved its objectives of timely rendition of accounts for efficient management decisions and generation of accurate and timely reports in spite of spending Rs. 2.65 crore on computerisation. The Secretary stated that if computerisation should be a success, there should be connectivity and hardware, and that connectivity among the depots is very important. He hoped that since the Government of Kerala had introduced Wide Area Net work, the problem of connectivity could be solved. He added that it was very difficult to operate about 56 depots and 1400 outlets in one server. There are some problems in the case of codes also. Since different depots have different codes, data have to be entered manually. He confessed that now computers in the Company are used instead of type writers and they do not serve any other purpose. The witness stated that due to this and because of the problem of connectivity, Computerisation in the Company did not achieve the desired result.

2. The Committee observed that Rs. 2.65 crore spend on computerisation was a waste since it was implemented without any standard methodology to design and develop a system. The Secretary, Food and Civil Supplies Department stated that the system purchased could be used, but it has to be networked. There should be a centralised software and the one now in use is decentralised and as a result of it the code used in different depots for a particular item are different. When the Committee enquired whether the system was outdated, the witness informed that the question of being outdated does not arise since softwares for consolidation are available in the market and they can be used without changing the existing software. The depot wise codes are to be made uniform, and there are about 10,000 items.

3. The Committee enquired whether the Company needed 20 years to locate this fault. The Secretary stated that connectivity was not available at the time of introducing the system in the Company and broadband has only recently been made available. The witness added that the system has been changed in 2005 replacing it with another system. The witness further stated that about 75% of the outlets are operated by last grade employees who do not have enough knowledge about the system. The Committee observed that the Company had decided on computerisation without ensuring the availability of skilled manpower needed for it or ensuring alternative arrangements and added that this is the general case in almost all public undertakings in the state.

4. The Committee found that shortage in stocks had occurred in the Company and there should not be shortage of stock in an organisation where computerisation has been implemented and enquired whether there was any means to finds the shortage. The witness informed that in Supply-Co decentralised cash purchase was allowed. This in turn resulted in corruption and an enquiry on it is in progress. There was no entry in the system whenever cash purchase was done and this facility allowed by the Company gave freedom to the employees in the lower grade but now it is not available. Now there is a Government order which lays down that for any software purchase or any project costing more than Rs. 10 lakhs, it should be done in consultation with the IT Department.

5. The Committee observed that the IT Department of Government which is the nodal department relating to computerisation, was not consulted by the Company. Normally whenever computerisation or IT related matter is dealt with, the agencies under this Department should be depended upon. The Committee enquired why this was not done by the company. The witness informed that since the Civil Supplies Corporation had no skill in the matter, computerisation was entrusted with a Company called Software Excel. The witness stated that the

billing in KSCSC was manual before the introduction of computerisation. But now billing was computerised and long queues have been avoided. Therefore it cannot be said that computerisation was of no use.

6. The Committee suspected that in the name of computerisation almost all the public sector undertakings in Kerala have been wasting money by purchasing computers but not using them fruitfully and added that there should be serious concern on the part of the Government for not obtaining the benefits of information technology inspite of spending huge amounts. The Committee pointed out that a project which began twenty years ago could not be completed even today and therefore action should be taken against those responsible for the delay.

7. The Committee enquired whether the Company is imparting periodical training to its staff. The witness replied in the affirmative and added that now the Corporation is providing training to assistant salesmen who are graduates. The Committee enquired about the action taken by the Company to rectify the defects in the computerisation process. The witness informed that problems arose even when new computer software was introduced. Criminal action has been initiated against those who purposefully committed irregularities. Cash purchase had been allowed at that time but some were not accounting for the cash properly. The witness further informed that there is a guideline which provides that whenever computerisation is implemented, for 3 years the physical records should be kept intact. But the Company actually had no accounts and therefore struggled hard to make the accounts up to date up to 2006-07.

8. When the Committee asked how long the Company would take to complete computerisation, the Chairman and Managing Director expressed his inability to give an exact time span. The Committee pointed out that the Company had bought Computers without planning and without any knowledge about the process and even after 21 years nobody could rectify the mistakes committed and thereby the amount of Rs. 2.65 crore spent had not produced any result. The Committee wanted to know the persons responsible for the loss and sought an enquiry on it. The Committee concluded that computerisation in the Company was introduced without any planning, expertise or infrastructure and even the MD is not able to say whether or when it can be completed. The Committee observed that the Civil Supplies Corporation should be brought under IT network completely, since it is an important public distribution system and its result should be made available to the people. The witness stated that it is a continuous process and now it has been improved substantially.

9. The Committee pointed out that on January 2004, 33 out of 60 depots, 3 out of 17supermarket godowns, 41 out of 102 Labham Markets, 9 out of 10 petrol bunks and 23 out of 38 medical stores, 858 Maveli Stores and 10 sub depots were not computerised. On enquiry of the Committee whether computers were installed in the above outlets, the witness informed that now all the outlets have computer facility. The Chairman and MD, Kerala State Civil Supplies Corporation stated that now whenever a new outlet is opened, computers are installed.

10. The Committee enquired whether the benefits of computerisation is available in the different wings of the Company. The witness replied in the negative. The Committee wanted to know the reason why the Company was not able to use uniform codes in the different outlets under it. The witness stated that all the new commodities now have new codes which are centralised. But for the old commodities, if the Company changes the codes, the stock position might vary and therefore, the Company made a software which could list the different codes for the same commodity in to one. But in this case also there will be difference in opening stocks. The witness added that the Company had to be very careful not to disturb the earlier stock position and was now keeping a physical copy of the accounts for reference purpose.

11. When the Committee enquired why the Company was not using bar-coding in the system, the witness stated that there is an organisation of Government of India for bar coding and added that for implementing bar coding there should be a bar code reader which would cost around Rs. 25,000. Since the Company has more than 1000 outlets it will have to incur a huge expense for implementing the system in all the outlets. Over and above this, maintenance of the bar code reader is very difficult. Therefore the Company is entering data in the computer directly rather than doing it through bar coding. If bar coding is adopted, the suppliers should also have the same bar coding, otherwise it will be difficult to integrate the details.

12. When enquired about the responsibility of officials, the witness stated that it is the depots responsibility to collect the data from the outlets. Each depot is a profit centre and is linked to the head office. Since all the outlets have computers, the depots take the data in CDs and feed it in the depots computer. The account of each depot is audited by a Chartered Accountant’s firm.

13. The Committee enquired why the Company did not seek the service of an expert agency in the matter of computerisation and blamed the officials who could not rectify the defects in the system even after 20 years. The witness stated that there is a problem of connectivity and the software should be

developed separately. The Committee enquired whether the Company could rectify it within a given time span. The witness stated that network might be done in the current year and agreed to take further steps after studying whether the present software could be used. The Secretary added that the case of the Company was more complicated than that of KSRTC.

14. When the Committee enquired whether the problem has no solution, the Secretary stated that the problem arises when incapable employees are deputed to the Company without seeking their permission in order to provide promotion for the employees in the Civil Supplies Department and it may destroy the Public Sector Undertaking. He added that now there is a condition that only willing and capable persons be given deputation. He stated that human resources is very important and if the people in the organisation are not capable, competent and willing, whatever system is adopted, it will not work. Therefore connectivity, centralised data centre and capacity building of the staff should all be taken into consideration. The Committee wanted to know whether the computerisation process could be completed in the current year. The witness assured to complete the network in the current year. Regarding the centralised computerisation he stated that he would have to see whether it was cost effective and returns would be commensurate with the investment. Even today the decentralised system is working in the Company. The Company is collecting the figures from the depots and then finding the total figures. The Chairman and MD stated that even today the accounts of the depots are available through internet.

Conclusions/Recommendations

15. **The Committee finds that eventhough the Company initiated computerisation 20 years ago and spent Rs. 2.65 crore on it, it did not achieve its objective of timely rendition of accounts for efficient management decisions and generation of accurate and timely reports owing to partial computerisation and lack of connectivity. The Committee understands that computerisation in the Company was implemented without applying any standard methodology to design and develop a system. The Committee realises that the decentralised software used in the depots instead of a centralised one having uniform code is one of the reasons for the non materialisation of the benefit of the system. Hence the Committee recommends that urgent steps be taken to plan a standard methodology and suitably modify the existing system so that there is total connectivity and also to achieve the goals of computerisation towards efficient management and control over all aspects of functioning of the various units of the company.**

16. **The Committee finds that absence of a uniform code affected consolidation of sale and stock of all commodities at Regional/Head Offices and necessitated re-entry of data at the Regional offices. The Committee therefore recommends that a unified commodity code should be used in all outlets/depots/offices for various items and medicines sold by the company.**

17. **The Company had decided on computerisation without ensuring the availability of the personnel needed for it. So the main advantage of computerisation ie. transparent processing of transactions to serve as Management Information System (MIS) aid to management to effectively monitor procurement, pricing and storage of materials could not be derived by the Company. Hence the Committee recommends that the MIS division should be strengthened and urgent steps be taken by the company to identify persons from the available staff and to train them for system support activities.**

18. **To make the computer system in the Company effective and efficient, the Committee recommends that the company should define the job specifications and responsibilities of all staff dealing with the IT system and the duties of each person/level should be clearly demarcated.**

19. **In order to avoid unauthorised access and tampering of data, unique user ID and passwords should be maintained.**

20. **The Committee finds that the system now in use is unable to capture short collection, short remittance etc. and hence no action can be taken immediately to rectify the same. The Committee recommends that suitable software for sales accounting system at outlets be used as early as possible, after providing training to the available personnel in its use so that the sales and accounts of each day can be reconciled on that day itself.**

21. **The Committee finds that while dealing with IT related matters, the IT Department which is the nodal department relating to computerisation was not consulted by the Company. The Committee further observed that almost all Public Sector Undertakings in the State are wasting money by purchasing computers. The Committee remarked that the Government is doing nothing to ensure the benefit of information technology inspite of spending huge amounts on it. The Committee therefore recommends that Government should see that the amounts allotted for computerisation is not spent just on purchase of computers but is fruitfully used to improve efficiency and root out malpractices. The Committee may be informed of the steps taken by Government to make computerisation in the Company effective.**

Corporate Governance in State Government Companies

Introduction

Corporate Governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors are responsible for governance in State Government Companies.

The Companies Act, 1956 was amended in December 2000 by providing *inter alia*, for a Directors' Responsibility Statement (Section 217) to be attached to the Director's Report to the shareholders. According to Section 217(2AA) of the Act, the Board of Directors has to report to the shareholders that they have taken proper and sufficient care for the maintenance of the accounting records for safeguarding the assets of the company and for detecting and preventing fraud and other irregularities.

Further, in terms of section 292A of the Companies Act, 1956, notified in December 2000, every public limited company having paid up capital of not less than rupees five crore shall constitute an Audit Committee, at the Board level. The Act also provides that the Statutory Auditors, Internal Auditors, if any, and the Director in charge of Finance should attend and participate in the meetings of the Audit Committee.

The main components of Corporate Governance are :

- matters relating to the Board of Directors ;
- Director's Report ;
- Constitution of the Audit Committee.

Out of the 85 working state Government Companies, Audit reviewed 25 Companies (all unlisted) as detailed in Annexure 20. Audit findings are discussed in the succeeding paragraphs.

Board of Directors

The responsibility of good governance rests on the Corporate Board which has the primary duty of ensuring that principles of Corporate Governance both as imbibed in law and those expected by the stakeholders are scrupulously and voluntarily complied with and the stakeholders' interests are kept at the highest level. For this purpose, every company should hold the meetings of the Board of

Directors at regular intervals. Every Director should attend these meetings to share the expertise and knowledge and to guide the affairs of the Company.

Meeting of the Board of Directors

Section 285 of the Companies Act, 1956 requires that in the case of every Company, a meeting of the Board of Directors should be held every three months and at least four such meeting should be held every year. Audit scrutiny revealed that only three meetings of the Board of Directors were conducted by TCCL during the year 2002-03. In the case of KFDC only three meetings each of the Board were conducted during the years 2001-02 and 2003-04. Similarly the Board of Directors of KSCCL met only three times during the years 2001-02, 2003-04, and 2004-05. Thus, the managements of these Companies failed to comply with the legal provision.

Attendance of Directors in the Board meetings

Audit noticed that nine Directors of four Companies (TELK, KTDC, KSCSC and KSCCL) did not attend any of the meetings conducted during the year 2001-02 while eight Directors of five companies (MCL, RBDCK, KTDFC, KSCSC and KSCCL) failed to attend any meeting during the year 2002-03. Similarly eight directors of four companies (KAMCO, KSIDC, TCC and KSEDC) absented themselves from all the meetings conducted during the year 2003-04 while seven Directors of four companies (KTDC, KSCCL, KSIDC and KSEDC) did not attend any of the meetings conducted during 2004-05. This indicated that the Directors did not actively participate in the management of the affairs of the Companies and in the decision making process to safeguard the interest of the companies.

Preparation of the Minutes of the meetings of the Board of Directors

Section 193 of the Companies Act, 1956, stipulates that every company shall prepare the minutes of proceedings of all general meetings and the meetings of the Board of Directors within thirty days of such meeting. The record of proceedings of a meeting is required to be recorded in the minutes book. It was observed that in two companies (TCCL and KAL) the minutes of the meeting of Board of Directors were not prepared within thirty days of the meeting,

Directors Report to shareholders

The Companies Act, 1956 [section 217 (2AA)] requires that a report of the Board of Directors including a Director's Responsibility Statement (DRS) is to be attached to every balance sheet laid before the shareholders at the Annual

General Meeting. Audit scrutiny revealed that the Director's Report of KAL for the year 2002-03 did not include the DRS. The DRS regarding the application of Accounting Standards in the case of KTDFC had been given although the company had been consistently flouting the Accounting Standard-15, i.e., accounting for retirement benefits of employees in its financial statements.

Addendum to the Director's Report

As per section 217(3) of the Companies Act, 1956 the Board is bound to give the fullest information and explanation in an addendum to the Board's report on every reservation, qualification or adverse remark contained in the Auditor's report. Audit scrutiny disclosed that the Board of Directors of four companies (KTDC, KSBC, OPL and KTDFC} failed in complying with this statutory requirement. Even though the Statutory Auditors of KEL made a number of qualifications /adverse remarks in their Audit Report on the accounts of the company for the financial year 2001-02, the Directors of the company replied only selectively to a few qualifications.

Audit Committee

Role and functions

The main functions of the Audit Committee are to assess and review the financial reporting system, to ensure that the financial statements are correct, sufficient and credible. It follows up on all issues and interacts with the Statutory Auditors before finalisation of the annual accounts. The committee also reviews the adequacy of the internal Control System and holds discussion with Internal Auditors on any significant findings and follow up action thereon. It also reviews the financial and risk management policies and evaluates the findings of internal investigation where there are any suspected frauds or irregularities or failure of the Internal Control System of a material nature and reports to the Board.

Nine public limited companies were selected by audit for review; of these in two companies (TTP and KAMCO) the paid up capital was less than Rupees five crore and hence they were not required to constitute the Audit Committees. In respect of the remaining seven companies, the position is given the succeeding paragraphs.

Terms of reference

The Board of three Companies (MCL, KFL and TCCL) failed to specify the terms of reference of Audit Committees in writing. The terms of reference proposed by the Board of Directors of RBDCK did not give its Audit Committee the mandate to deal with fraud or fraud related risks.

Meetings of the Audit Committees

The following were noticed :

- The Audit Committee was constituted by TCCL only in March 2002 and hence no meeting was conducted during the year 2001-02. The Company did not hold even one meeting of the Audit Committee during the year 2004-05.
- Even though the Audit Committee was constituted (August 2001) no meeting was conducted by TELK during the years 2001-02 and 2002-03. Only one meeting was conducted during the year 2003-04.
- The Audit Committee of MCL met only once during the years 2002-03 and 2004-05.
- Only one Audit Committee meeting was conducted by KSHDC during the years 2001-02 and 2002-03.
- The Audit Committee of RBDCK has been meeting only once in a year since its formation in June 2001.
- KSHDC and TELK had not ensured the attendance of the Statutory Auditors and Internal Auditors in any of the meetings of the Audit Committee, in violation of subsection 5 of section 292 A of the Companies Act, 1956.
- As per orders (August 2001) of the Government, the Cost Auditors are required to attend the meetings of the Audit Committee. The Cost Auditors of TCCL, however, did not attend any of the meetings of the Audit Committee.

Discussion by the Audit Committees

Section 292A(6) of the Companies Act, 1956, requires that the Audit Committee should have discussions with the auditors periodically about the internal control systems, the scope of audit including the observations of the auditors and review the half- yearly and annual financial statements before submission to the Board and also ensure compliance of the internal control systems.

Audit Scrutiny revealed the following :

- The adequacy of the internal control measures and internal audit were not being reviewed by the Audit Committees of KFL, TCCL, MCL, KSHDC, RBDCK and TELK.

- Even though the terms of reference of the Audit Committee of RBDCK required half yearly review of seven items of internal control, the Audit Committee had only one discussion in respect of two items.
- The Government had asked (May 2004) KFL to take action against some of the officials found guilty by the Inspection Wing of the Government and report compliance. The matter was not discussed by the Audit Committee of the Company.
- The Audit Committees of TCCL, MCL, KSHDC, RBDCK and TELK have not reviewed the financial and risk management policies of the company.
- The first Audit Committee meeting of KFL directed the Managing Director to convene a meeting of all divisional heads to discuss about the internal control techniques to be implemented in the company and also place the item for discussion during the next meeting of the Committee. The matter, however, was not discussed by the committee in any of the subsequent meetings.
- The Audit Committee of MCL had given a recommendation for the disposal of obsolete stores which was not implemented by the Board. No reasons were, however communicated to the shareholders for non-implementation of the said recommendations by MCL as required under subsection -9 of the 292 A of the Companies Act, 1956.

Attendance of Chairman of Audit Committee at the Annual General Meeting (AGM).

Sub Section 10 of section 292 A of the Companies Act, 1956, requires the Chairman of the Audit Committee to attend the AGM of the Company and provide any clarification on matters relating to Audit. The Chairmen of the Audit Committees of four companies (TCCL, KSHDC, RBDCK and TELK) had never attended any AGM during the period under review. The Chairman of MCL did not attend the AGMs for the years 2001-02 and 2002-03.

General

As per Section 383 (A) of the Companies Act, 1956, all companies having paid up capital of not less than 2 crore shall have a whole time Company Secretary. Five companies (KFL, KAL, KTDFC, KSCSCL and KEL), however, did not comply with this provision.

Attendance of the Directors in the AGMs

In the absence of any compelling provision in the Companies Act, 1956, the attendance of directors in the AGMs was found to be minimal. Scrutiny in audit revealed that out of the twenty five companies selected by audit, in thirteen companies none of the Directors other than the Managing Directors and Chairmen of the Board of Directors attended any of the AGMs conducted during the period from April 2001 to March 2005.

To sum up

- **The attendance of Directors in the Board meetings as well as in the AGMs was found to be not regular.**
- **Some Companies have violated provisions of the Companies Act, 1956, regarding the minimum number of Board meetings, preparations of Board minutes and Directors' Report.**
- **The frequency of Audit Committee Meetings was found to be low. The audit Committees of most of the companies have not discussed the effectiveness of the internal control system. Further the Audit Committees of most of the companies did not have any meaningful discussions on matters having serious bearing on finance and audit.**

Audit Paragraph

Delay in placement of Annual Reports of Government Companies before State Legislature

As per section 619 A (3) of the Companies Act, 1956, where State Government is a member of a Company, the State Government shall cause an Annual Report on the working and affairs of the company along with audit report and comments or supplement of the Comptroller and Auditor General of India to be placed before State Legislature within three months from the date of Annual General Meeting (AGM) in which the accounts have been adopted. The Annual Report consists of report by the Board of Directors on the working of company as required in Section 217 of the Companies Act, 1956, annual financial statements for the year and Auditors' Report thereon with the comments/ supplementary report of Comptroller and Auditor General of India. The placing of the Annual Report before the State Legislature gives it an opportunity to have important information regarding the performance of a Government company, in which the State Government is the major share holder.

Audit scrutiny of related records revealed that the Annual Reports of most of the companies have either not been placed or been placed belatedly, mainly due to delay in conducting AGMs. As a consequence it delayed finalisation of accounts and delay in placing the Report even after conducting the AGM. Out of 108 Government companies, 16 companies placed their Annual Reports for 2003-04 before the State Legislature during the period up to March 2005 and out of this only five* companies placed the Annual Reports within the prescribed time.

Audit further noticed that :

- There were delays ranging from three to eleven years in placing the Reports in respect of ten companies as shown in **Annexure 21** mainly on account of delay in finalisation of accounts. Even after holding the AGM, delay ranging from two to eight months was observed in placing these Reports before the legislature.
- Travancore Cements Limited and Pharmaceutical Corporation (IM) Kerala Limited have placed their Annual Report for the years 2001-02 and 2000-01 respectively after a delay of one year after conducting the AGM even though the accounts related to old periods.
- Though the accounts of Kerala Minerals and Metals Limited (KMML), Malabar Cements Limited (MCL), Kerala Feeds Limited (KFL) and Transformers and Electricals Kerala Limited (TELK) were finalised up to 2003-04, Annual Reports for the period up to 1999-2000 (TELK), 2000-01 (KMML) and 2001-02 (MCL, KFL) only had been placed.
- 57 companies as mentioned in **Annexure 22** had finalised accounts relating to different periods during 2004-05. The Annual Reports pertaining to these periods had not been placed in the Legislature till date (May 2005).
- The Committee on Papers Laid Before the Table (2001-04) in its Sixth Report dated 3 February 2004 noted that there was serious lapse on the part of administrative departments in ensuring timely presentation of Annual Reports to the Legislature.

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* Kerala State Industrial Enterprises Limited, Travancore Titanium Products Limited, Tourist Resorts Kerala Limited, Oil Palm India Limited and Kerala Agro Machinery Corporation Limited.

The matter was reported to Government in July 2005, reply was awaited (September 2005).

[Audit Paragraph 4.20 and 4.21 contained in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 (Commercial)]

Notes furnished by Government on the Audit paragraph are given in Appendix II.

22. The Committee enquired whether the Director Board of Kerala State Civil Supplies Corporation is meeting once in three months. The Secretary Food and Civil Supplies Department answered in the affirmative and added that the members are not attending regularly in the meeting in spite of repeated request. The witness stated that representative from Finance Department to the Board is not attending the meeting owing to fear of financial liability. The witness stated that if the Committee gives a direction to the effect that all Directors should attend the Director Board meeting, it would be fruitful. The Secretary stated that there was an audit paragraph containing remarks that the Directors should attend the Board meetings so that they could give their suggestions to the Board itself. The Chairman and MD, KSCSC stated that there should be provision which should stipulate that even though the members do not attend the meetings, they will have to bear responsibility. The Committee enquired whether any action is being taken against those members who are not attending the meeting continuously. The witness stated that the members who are not attending three meeting consecutively are disqualified.

23. When asked about the number of Audit Committees that have met so far, the witness stated that Audit Committees are not compulsory for Kerala State Civil Supplies Corporation since the Corporation is a private limited Company as per Section 292 (a) of the Companies Act and Audit Committees are applicable to a public Company. The witness informed that as there is board meeting every month in the company in which all issues are discussed, there is no need for Audit Committees in the organisation. When the Committee enquired whether annual accounts are given, the witness stated that it is given to the Board. When enquired whether the Board meeting is equal to Audit Committee meeting, the witness replied in the affirmative and informed that it is more important than Audit Committee meeting.

24. The Senior Audit Officer stated that many frauds pointed out by Audit including internal audit and statutory audit can be discussed in the Audit Committee meeting and effective decisions can be taken in the meeting. The

Chairman and MD, KSCSC has stated that the suggestion of the Audit is right and added that since the Company is having Board meeting every month any big fraud committed can be discussed in the Board meeting itself. The Board had decided to suspend one Assistant General Manager and to start vigilance enquiry. But the Board was not discussing small frauds involving shortage cases.

25. The Committee observed that in a big organisation like KSCSC if the Director Board members are not attending the Board meeting, stringent action should be taken to discourage the practice. The witness stated that disqualification of members would be taken as a boon by them. The Committee sought the name of the Board Members who were not attending the meetings for a long time. The witness stated that from 2007 onwards. Government has upgraded the Board and all the members are above the level of Secretary and therefore there should be effective discussion. The witness added that annual reports have to be placed in the Board and it has to be approved by the Board. Replying to a question of the Committee it was informed that Annual Reports up to 2004-05 were placed before the Assembly and Audit of accounts of 2005-06 and 2006-07 has been completed. On enquiry on the existing Members of the Director Board, it was informed that the Secretary, Finance (Expenditure) Secretary (Food and Civil Supplies) MD, KSCSC, Director (KSCSC), Commissioner KSCSC and DPI are the existing members of the Director Board. The Committee pointed out that except the DPI, all the other members are directly connected with the Department and even then they are not attending the meetings. The witness informed that the Director of Civil Supplies, Commissioners and Secretary are attending all the meetings. The Committee directed to take speedy steps to submit the annual reports. The witness stated that the annual reports up to 2006-07 have been completed and reconciliation for 2005-06 has already been approved by the Board. The Board will shortly approve the annual accounts for 2006-07 and the accounts of 2007-08 will be finalised this year itself. The Committee directed that the Minutes of all the Board meetings should be forwarded to the Accountant General as early as possible.

Conclusions/Recommendations

26. **The Committee understands that members of the Director Board of Kerala State Civil Supplies Corporation are not attending the meeting of the Board regularly inspite of repeated requests. The Committee finds that even the representative of the Finance Department to the Board is not attending the meeting due to fear of financial liability. The Committee therefore recommends that all members of the Director Board should be**

made liable and responsible for the decisions of the Board irrespective of whether they are attending the meetings or not.

27. **The Committee suggests that Audit Committee meeting attended by internal and statutory auditors also should be held periodically for effective decision taking. The Committee recommends that stringent action should be taken to discourage the practice of non- attendance by the members of the Director Board of an important public undertaking. The Committee strongly recommends to take urgent necessary steps to submit the annual reports of the Company to the House and to forward the Minutes of all the Board meetings to the Accountant General as early as possible.**

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
30-6-2009.

Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl.No.	*Para No.*	*Department Concerned*	*Conclusions/Recommendations*
(1)	(2)	(3)	(4)
1	15	Food and Civil Supplies	The Committee finds that even though the Company initiated computerisation 20 years ago and spent Rs. 2.65 crore on it, it did not achieve its objective of timely rendition of accounts for efficient management decisions and generation of accurate and timely reports owing to partial computerisation and lack of connectivity. The Committee understands that computerisation in the Company was implemented without applying any standard methodology to design and develop a system. The Committee realises that the decentralised software used in the depots instead of a centralised one having uniform code is one of the reasons for the non materialisation of the benefit of the system. Hence the Committee recommends that urgent steps be taken to plan a standard methodology and suitably modify the existing system so that there is total connectivity and also to achieve the goals of computerisation towards efficient management and control over all aspects of functioning of the various units of the company.
2	16	,,	The Committee finds that absence of a uniform code affected consolidation of sale and stock of all commodities at Regional/Head Offices and necessitated re-entry of data at the Regional Offices.

(1)	(2)	(3)	(4)
			The Committee therefore recommends that a unified commodity code should be used in all outlets/depots/offices for various items and medicines sold by the company
3	17	Food and Civil Supplies	The Company had decided on computerisation without ensuring the availability of the personnel needed for it. So the main advantage of computerisation ie. transparent processing of transactions to serve as Management Information System (MIS) aid to management to effectively monitor procurement, pricing and storage of materials could not be derived by the Company. Hence the Committee recommends that the MIS division should be strengthened and urgent steps be taken by the company to identify persons from the available staff and to train them for system support activities.
4	18	,,	To make the computer system in the Company effective and efficient, the Committee recommends that the company should define the job specifications and responsibilities of all staff dealing with the IT system and the duties of each person/level should be clearly demarcated.
5	19	,,	In order to avoid unauthorised access and tampering of data, unique user ID and passwords should be maintained.
6	20	,,	The Committee finds that the system now in use is unable to capture short collection, short remittance etc. and hence no action can be taken immediately to

(1)	(2)	(3)	(4)
			rectify the same. The Committee recommends that suitable software for sales accounting system at outlets be used as early as possible, after providing training to the available personnel in its use so that the sales and accounts of each day can be reconciled on that day itself.
7	21	Food and Civil Supplies	The Committee finds that while dealing with IT related matters, the IT Department which is the nodal department relating to computerisation was not consulted by the Company. The Committee further observes that almost all Public Sector Undertakings in the State are wasting money by purchasing computers. The Committee remarked that the Government is doing nothing to ensure the benefit of information technology inspite of spending huge amounts on it. The Committee therefore recommends that Government should see that the amounts allotted for computerisation is not spent just on purchase of computers but is fruitfully used to improve efficiency and root out malpractices. The Committee may be informed of the steps taken by Government to make computerisation in the Company effective.
8	26	,,	The Committee understands that members of the Director Board of Kerala State Civil Supplies Corporation are not attending the meeting of the Board regularly inspite of repeated requests. The Committee finds that even the representative of the Finance Department

(1)	(2)	(3)	(4)
			to the Board is not attending the meeting due to fear of financial liability. The Committee therefore recommends that all members of the Director Board should be made liable and responsible for the decisions of the Board irrespective of whether they are attending the meetings or not.
9	27	Food and Civil Supplies	The Committee suggests that Audit Committee meeting attended by internal and statutory auditors also should be held periodically for effective decision taking. The Committee recommends that stringent action should be taken to discourage the practice of non-attendance by the members of the Director Board of an important public undertaking. The Committee strongly recommends to take urgent necessary steps to submit the annual reports of the Company to the House and to forward the Minutes of all the Board Meetings to the Accountant General as early as possible.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON AUDIT PARAGRAPH

Action Taken Statement on Audit Para 2.2 contained in the Report of the Comptroller and Auditor General of India for the year ended 3l-3-2005 (Commercial) related to Kerala State Civil Supplies Corporation Ltd.

I (a) **Department**

Food, Civil Supplies and Consumer Affairs Department

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

Information Technology Systems in the Kerala State Civil Supplies Corporation Ltd.

(c) **Paragraph Number**

2.2

(d) **Report Number and Year**

Report of the 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**

1-7-2005

(b) **Date of Department's reply**

8-8-2005

III **Gist of Paragraph/Review**

The Kerala State Civil Supplies Corporation Limited introduced computerisation of sales accounting at all retail outlets/depots in 1987 but could not fully computerise the retail outlets/depots even after a lapse of more than 17 years despite incurring substantial expenditure.

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 2.2.8

Even though KSCSC started its computerization activities in 1987, the absence of a clear implementation plan with time limits affected the computerization activities adversely. The computerization started on a disjointed. piece-by-piece basis without a holistic strategy and this resulted in non-achievement of the expected results of computerization. For example instead of computerizing all the activities or selected activities of a particular user group like office, depot or outlet the Corporation computerized outlets and offices from different user groups resulting in partial achievements in the goals of computerization.

Corporation initiated a comprehensive plan for computerizing all the depots in November 2004 with sub plans for training of staff on computer use, Software use Software Development, installations, data transfer etc. The software for depot computerization was developed by an outside agency and the pilot/trial run was started in July 2005. At present all the depots are using computers for their daily activities including inventory management and finance management. Even though so many strategic policy changes took place in the year 2005-2006 we could make the software useful in dealing all such activities by incorporating the required flexibility to absorb the market led changes in the organization structure and functions. As a result of converting the depots as individual profit/ accounting centers lot of features were incorporated in the Software, and KSCSC could manage to implement the software solution in all depots with electronic data transferring capability. Head Office is using the data received from the depots, through internet, for decision making, internal control and co-ordination purposes. The statutory audit of 2005-2006 is also now made based on the computerised database available in the Depot Management Software and the data at MIS in Head Office.

Corporation has already initiated the development of a new software for its outlets with a strategic plan to computerize all its Outlets in the year 2006-07.

The first phase of Outlet computerization started in two districts and will be completed in June 2006.

The software to be developed for the outlets will be in tune with the Software being used in depots and the new software will have daily data transferring capability to depots and head office.

For tackling the requirement of technical man power deficiency for providing support to the computerized outlets corporation is in the process of identifying candidates with aptitude in computers from its own pool of Assistant Sales Men who were recruited through PSC and has got higher qualification. Corporation has already selected 8 such candidates and they are in the job of providing support at Depots on computer installations and maintenance.

The Corporation made a policy shift towards decentralized governance and participatory management from January 2005. Now the 56 depots have become the main information hub of the corporation. The depot management now requires all the information related to the depots and other outlets under its territory at the depot level. As all the stock delivery, stock acceptance, storage, payments, issue of items to Outlets and Sales activities are done either at depots or Outlets under the depot, it is very essential that all information regarding the stock and sales of all outlets be available at the depot level. At present three user groups are in force in Supplyco. They are

Outlets	Operational Group
Depots	Operational and Decision making group
Head Office	Monitoring and Co-ordinating Group.

The present computerization plan of the corporation is concentrating to deliver the MIS at these levels with the data transfer from outlets to depots and from depots to head office, through electronic mode.

1. **Corporations main objectives and goals of computerization are**

   (a) To automate the routine jobs at HO, depots and outlets with a view to free the human resources for managerial, customer relationship management and business growth oriented activities at Depot, Outlets and HO levels.

   (b) To ensure availability of all sales, stock, accounts, customer related information at operational, decision making and monitoring levels in a well integrated, accurate, reliable and fast MIS and FIS.

(c) To aid in constant monitoring of the Socio-economic relevance of Supplyco to the local community by data collection and data analysis at service delivery points.

(d) To achieve transparency in all the activities throughout the organization and thus serve as an internal control tool.

(e) To provide speedier and error free service to the consumers by the use of modern retail technology in just in time inventory management, billing, stock monitoring quality assurance etc.

2. **To achieve the goals and targets Corporation has taken the following steps**

- To Computerize all the Depots and Outlets in a project mode.
- To provide data communication/transfer facility in the software using the internet.
- Provide web based communication facility for all the outlets and staff of the Corporation.
- To use computer for all activities in depots and outlets, so that data/ transaction done by them are easily traceable without loss of time.
- To use computerized billing system at Outlets with proper information of items transacted by the consumer.

3. **In the Year 2005-06 Corporation achieved the following**

- Computerized all the 56 depots with a custom made Depot Management Software. Computerization in depots provided transparency and accuracy in the operations.
- Provided web based facility for communication between depots, Regional Offices and Head Office. The facility saved a lot of time in transferring the data and information between offices and depots.
- Software is facility is added in depots to transfer data related to all the Depot transactions to the Head Office. This enabled head office to analyse the various activities at depots and resulted in better control over the activities in depots and potential for better coordination between Depots.
- Decided to computerize the Personnel Information, Administration and file movement. This will provide access to personal information to the individual. staff members and their grievances on account of delay in getting information can be solved.

- The data received from depots through internet are stored in a database and provision is given for different divisions/units in Head Office to view the information for their monitoring purpose. No manual work is required in the data collection and distribution of this information to the different divisions in head office.

Para 2.2.9

The present strength of software development team in MIS division is Two Programmers and one Assistant Manager with two Senior Computer Operators having some capabilities in Software due to experience. Since the strength of development team is inadequate all major software development work has been out sourced from November 2004 for the sake of speedy implementation of the Computerization plan. KSCSC is using all MIS staff (Three Computer operators, Two Programmers and One Assistant Manager) for providing necessary support and training to the staff in offices, depots and outlets. The training of staff at a Depot level at Head Office was a huge effort first to familiarise with the basic computer use related skills, demystify the machine, and then to build up attitude towards the use of Software and gradually dissociate from the paper based systems.

Para 2.2.10

The depot software is developed after making discussions with different level of staff and different user groups in order to understand the requirements. The software development was started only after approving the Software Requirement Specification (SRS). Deviations from SRS are natural in a retailing organization where competitive market environment dictates changes in operational strategies. In our case also there were deviations from the initially approved SRS due to policy changes and also there was no model for Kerala State Civil Supplies Corporation to rely upon, since all other State Civil Supplies Corporation were having unique organization structure and processes.

Para 2.2.11

The redesigned 7 character outlet codes are in effect now. The significance of the character positions of the outlet codes are given below.

1-2	District
3-4	Depot in district
5-5	Outlet group/Category
6-7	Serial number of the Outlet

Para 2.2.12

New 6 digit code has been implemented in depots. When the new Depot Management Software was installed in the depots the common items were coded and installed in all depots. For the purpose of using common codes for items subsequently added in depots, a code generator software was provided in the web site www.supplycokerala.com. Even though the Company have provided all such facilities for using common coding in all the depots, some of the depots coded some items by themselves due to the non-availability of internet connections at certain periods of time. One more effort is required for unifying all the codes being used in the depots and this will be done during April 2006 to June 2006.

New software development for the outlets is underway, and this software will be using the common codes designed for all outlets, from the very beginning.

Para 2.2.13

At present the main responsibility of the MIS staff is to make sure that the software installed in depots and the staff without problems uses outlets. Each MIS staff (Programmers and Computer Operators) is attached with a group of depots for providing support and training at the computer installations under these depots. The training of all staff is a huge effort especially considering the structural weakness of the organization that half of the staff come and goes on deputation and training and retraining is to be continuous effort.

Provision for separate user IDs and passwords for each user of the system are already incorporated in the new software being used in the depots. The Administrator of the depot (Depot Manager) has the facility to add new users and assign rights for individual software modules. More over a log for all-important transaction is also kept in the Depot software. However frequent changes in the Depot Management, staff owing to dual control from the present department is a bottleneck. The request for posting 56 permanent Junior Managers (Financial Management) at Depot level is under consideration of Government. When there is a permanent management level staff having qualification/competence in financial accounting and computer in each Depot, the data security in the computer software can be fully ensured.

The new software to be developed for the retail outlets will also have these features.

Para 2.2.14 & 2.2.15

User manual is provided for the Depot Software. The present software keeps the log of all-important transaction carried out using the software. Requisite circulars are issued to all users as set of procedures to ensure business continuity and to minimize disasters. Moreover several training sessions are conducted to Depot level users on the procedure of minimizing risk and data security.

Para 2.2.17

The collections from outlets are now transferred to the respective Depots. The collection remittance reconciliation is done at the outlet level and Depot level. Each Depot has operative accounts, which are monitored by Finance Division in Head Office. The collection remittance reconciliation will be done at depot level, and mistakes and irregularities can be rectified immediately because of geographical proximity. Head Office started monitoring various activities at depot and outlet level through designated monitoring cells.

Para 2.2.18

Annual physical stock verification is done as per a systematic plan. If there is any variations in the stock, first demand notice is given to the Depot/Outlet Manager for explanation and thus proceeded with disciplinary action. In the new Software, Physical stock and shortage will be recorded at the Depot level correctly and mistakes can be rectified immediately.

Para 2.2.19 & 2.2.20

The new Outlet Software being developed will ensure accurate inventory management. The software is common for all categories of Outlets with flexibility options to cater to special needs of a particular category of Outlets. Moreover, all types of Outlets are now brought under the management control of the Depot in the Taluk and information flow and financial control is also under the Depot Management.

Para 2.2.21

The new Outlet Software under development and installation will address the issues of accurate Stores Management, Accurate billing against stock and will have security features to prevent theft, pilferage, inaccuracy and inefficiency. The old Super Market Software which was pointed out as deficient in audit will be decommissioned possibly by July-August 2006 when new Outlet Software is made fully operational after field testing.

Para 2.2.22

The new Depot Management Software already addressed all the deficiencies pointed out in this paragraph. Corporation has also started implementing **IS 22000** system of quality assurance at two Depots as a pilot project. The inventory management and quality assurance processes will be updated in the Depot Management Software after reviewing the applicability and suitability of **IS 22000** systems and processes for Supplyco business environment and customer base.

Action Taken Statement on Audit Para 4.20 contained in the Report of the Comptroller and Auditor General of India for the year ended 3l-3-2005 (Commercial) related to Kerala State Civil Supplies Corporation Ltd.

I (a) **Department**

Food, Civil Supplies and Consumer Affairs Department

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

Corporate Governance in State Government Companies

(c) **Paragraph Number**

4.20

(d) **Report Number and Year**

Report of the 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**

6-7-2005

(b) **Date of Department's reply**

27-7-2005

III **Gist of Paragraph/Review**

Corporate Governance is the system by which companies are directed and controlled by the Management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors is responsible for governance in State Government Companies

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 4.20.1

The Management of the Corporation has taken several measures to bring greater transparency in the management of the affairs of the Corporation. For eg. E-tendering, decentralized governance and participatory management, systems started as per Circular 20/05, starting Consumer grievance Cell Monthly Depot Managers Workshop, Monthly Forum of Staff, Induction Training Programme for all staff, defining key result area of major field staff categories etc. A clear mission. Statement is defined and communicated to all staff to guide in their everyday actions. Financial reporting is made up-to-date and the statutory audit of the financial results of 2005-06 is in progress. Already the financial results of 2004-05 are reported to the shareholders in the Annual General Meeting held on 28-7-2006. The Directors of the Company are participating in the Annual shareholders meeting also.

Para 4.20.2

The Directors' Responsibility statement is included in the Directors' Report and the same is discussed and approved in the Annual General Meeting. This is published in the Annual Report. With regard to reporting to the shareholders that the Board has taken proper and sufficient care for safeguarding the assets of the Company and for detecting and preventing fraud and other irregularities, the actions as mentioned below may be noted.

(a) This was reported specifically in para F (iii) in the Director's report to the shareholders in the Annual General Meeting held on 7-3-2006 for the *financial year 2003-04.* The report is extracted below:

> "That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956. However various enquiry reports disclose that for safeguarding the assets of the Company and for *preventing and detecting fraud and. other irregularities proper and sufficient care are not taken by the Directors"*.

Moreover, the Statutory Auditors have reported about the fraud informed by the Management in Para 16 and in the Annexure to their report that took place in the Company, and the loss suffered on account of the same. Relevant portion of Para 16 of the statutory auditors report and their annexure approved by the Board and presented to the Shareholders in the Annual General Meeting held on 7-3-2006, is extracted below.

Para 16

"As per the information and explanation provided to us by the management the Company has suffered a loss to the tune of Rs. 5738.36 lakhs and Rs. 336.31 lakhs on account of fraud relating to the purchase of Pulses and Spices and purchase of Curry Powder. A fraud in the transportation of sugar by one contractor in three benami names has been detected resulting in an estimated loss of Rs. 215.03 lakhs. Eleven vigilance cases involving officials of the Company resulting in a loss of Rs. 43.63 lakhs has also been reported. As the Company has not made any provision for the above said amounts, we are not in a position to quantify the impact of the same on the accounts of the Company".

Clause (xxi) of the Annexure to the Auditor's Report

We have been informed by the management regarding the following frauds on the Company:

1. For the period from April 2001 to September 2004, purchase of Pulses and spices were made at a rate higher than the market rate and infested stock was also purchased, due to which a loss of Rs. 5738.36 lakhs has been assessed by the Company. (Refer to Point No. 16 of our Audit Report) .

2 Corporation had made an agreement with STCL for supply for curry powders for one-year up to 31-3-1998. On expiry of this agreement, fresh one was entered with the same company without resorting to tendering. On comparing the STCL rates with lowest rates in the tender of March 2005, the loss from April 1998 to December 2004 is assessed, at Rs. 336.31 Lakhs. (Refer to Point No. 16 of our Audit Report)

3. A fraud in the transportation of Sugar from the sugar mills by one transport contractor in three benami names was also detected for the period from May 2002 to December 2004. The loss on account of this transaction amounts to Rs. 215.03 lakhs (Refer Point No. 16 of our Audit Report)

4. Eleven vigilance cases during the year 2003-04 involving officials of the Corporation are under investigation. The total amount involved is Rs. 43.63 Lakhs. (Refer to Point No. 16 of our Audit Report)

5. A misappropriation in the transportation of sugar by transporting contractors was detected for the months of July, August & September 1999. The loss on account of this amounts to Rs. 100.91 Lakhs. (Refer Point No. 3 © of our Audit Report and Note No. 14 of Notes on accounts.
6. During the year 2004-05 centralized purchase of medicines was made violating board resolutions. A loss of Rs. 33.62 Lakhs has been assessed in relation to this fraud.

Besides, in the Adjourned *Annual general meeting of 2002-03* held on 13-5-2005 also, the fraud and irregularities are observed as per Para 9 of the Minutes of the Annual General Meeting held on 13-5-2005. This is extracted below:

"Shareholders also noted that in the Director's Report it is stated that Directors have taken proper and sufficient care for the maintenance of adequate record in accordance with the Companies Act, 1956 for safeguarding the assets of the corporation and for preventing and detecting fraud and other irregularities. *But shareholders expressed their serious doubt about the action taken by the Directors in prevention of fraud and irregularities in the corporation during the period 2002-03* as understood from the higher purchase price, the market rate compared to 2000-01 and 2001-02 *and the use of Government grant not for making available the Maveli items at about 10% less than the market rate but instead cover the increased purchase price*".

An Audit committee is constituted vide circular No. 22/05 on 14-2-2005. The Audit committee met for the first time on 29-10-2005 and discussed the following agenda items.

1. Internal Control System
2. Review of Financial Statements
3. Compliance of Internal Control System
4. Compliance with the suggestions in Accountant General's Audit Report/Finance Inspection Wing's Report
5. Financial Management Systems
6. Utilisation of Government Grant and justification
7. Efficiency Ratios.

Second meeting of the Audit Committee was held on 21-1-2006. Director, Finance Department of the Government, Manager, and Internal Audit are also participating in the meetings of the Audit Committee.

The extract of the minutes of the Audit Committee on fraud and irregularity are as follows :

Agenda No. 04/01—Compliance with the suggestions in Accountant General's Audit. Report/ Finance Inspection Wing's Report

Members enquired about the steps taken in accordance with the inspection by Finance Inspection Wing early this year. Chairman and Managing Director replied that the report had not been received so far. He added that suggestions made by Finance Inspection Wing informally during discussion had been implemented.

The audit enquiry notes numbering about 44 given by the audit party in 2005 was also taken into consideration and appropriate changes were made in systems and procedures to prevent recurrence of malpractice and corruption as pointed out in the audit enquiries.

Agenda No. 06/01—Utilisation of Government Grant and Justification

Committee noted the steps taken to recover the losses on account of excess payment released to suppliers earlier.

Agenda No. 04/02—Purchase Efficiency

Committee members perused the enclosed data on the number of participants in the tender during the last one year and expressed happiness that more and more suppliers from production centers in other states are participating in the tender and now real competitive tendering is taking place in the Corporation in the purchase of pulses and spices. The committee also discussed in detail the avoidable loss statement in the purchase price of pulses and spices by Supplyco comparing with the lowest newspaper price from April 2000 to December 2005 and noted the net gains due to efficient purchase system from October 2004 onwards.

Para 4.20.3

The main three components of the Corporate Governance are being complied with.

Para 4.20.4

Noted

Para 4.20.5

The Board of Directors are meeting at least once in a month for reviewing all the major activities of the corporation and matters involving major policy changes are decided only on the basis of the Board decisions. Presently the

Board of Directors consist of Officers from Food & Civil Supplies Department, Finance Department, Law Department, Education Department, Registrar of Co-operative Society of the Government of Kerala, who share their expertise in the Board Meetings. The practices of good governance initiated in Supplyco from the end of 2004 in eight components of good governance are briefly described below.

THE PREMISE AND COMPONENTS OF GOOD GOVERNANCE IN SUPPLYCO FROM OCTOBER 2004

In this modern era of fast changes, Supplyco also cannot remain dormant and cling on to the outdated processes of governance. Governance describes the process of decision-making and the process by which decisions are implemented (or not implemented). Public institutions, with just governance alone may easily fall prey to the dark hands of cartels, organized crime syndicates, lobbies with vested interest and influence. Whereas the institutions, which conduct public affairs and manage public resources through "good corporate governance" can accomplish its goal in a manner essentially free of abuse, corruption and with due regard to the rule of law. Realizing the bitter past, Supplyco resorted to implement "good governance" to attain its goal during the last 1½ years starting from the end of 2004. To ensure due regard for the rule of law Supplyco boldly went forward with system reforms ensuring "good governance". Being a public sector unit and socially responsible organization, supplyco upheld the values of good governance and is using them in its transformation, to a professionally managed, transparent organisation eliminating the root cause of corruption at all levels. The efforts of Supplyco ensuring that principles of good corporate governance as imbibed in law and those expected by the stakeholders are scrupulously and voluntarily complied with and the primary Stakeholders interests are kept at the highest level as given below:

1. *Participatory Management in Supplyco from 2005*

1. The mission and vision of Supplyco is reformulated by end of 2004 by taking into account the suggestions, opinion and views of all staff and the mission in internalised by all staff guiding their actions and act as a corporate glue.

2. Through divisional meetings, Staff are encouraged to contribute novel ideas, suggestions, with positive/proactive approach.

3. Monthly shop managers meetings and participation of shop level staff on rotation basis in the depot level Management Committees with freedom to express their views on issues and creative suggestions ensures participation right from the out let level.

4. Healthy competition is encouraged for better participation in the management among all the staff by entrusting responsibilities on rotation basis among various units.

5. District level interaction among the staff and its representation in the monthly fourm at Head Office by each category of employees turn by turn.

6. A monthly workshop of depot managers is held to collectively discuss dominant issues for the month and to take decisions acceptable to all depots.

7. Feedback is actively collected from the customers, vendors and other well-wishers which are given due importance and taken as input for future growth.

8. Indenting of commodities and planning process in Supplyco starts from customer requirement at outlet level which indicates the customer focus in planning and operations.

2. *Rule of law in corporate governance*

    1. The law is the king in Supplyco and the king is not the law after 2004.

    2. PFA act is implemented in Toto with due importance as part of quality assurance and quality awareness.

    3. Correct weight and measures are ensured in the outlets for all items by periodic checking.

    4. Packing and Marking Act of commodities is strictly followed.

    5. Right to Information Act is implemented effectively through Public Information Officer.

    6. All procedures and formalities of the Companies Act are complied with.

    7. Agmark certification, warranty certificate etc. are insisted in the outlets and depots.

    8. HOMC members conduct corrective periodical inspection at outlets and depots.

    9. Internal audit and Internal vigilance ensures the effective implementation of prevention of Corruption Act.

    10. Shop and establishments Act is strictly followed.

11. Professional tax, Sales tax, Income tax etc. are punctually remitted to the authorities.
12. Natural Justice is observed in all disciplinary proceedings and cases with fast and fair action.
13. Equal status and consideration are extended to all Suppliers and participants in the tenders held from time to time.
14. Various circulars and manuals of the Corporation created an organisational culture and developed due process based systems and procedures.

3. *Transparency in Supplyco governance :*

1. Transparency right from invitation of electronic tender to release of payment to suppliers is maintained
2. Decision making at all levels are not be individuals but by committees, (HOMC, RMC, DMC, RWC & QAC, DMW, Monthly forum) with proper recording of proceedings.
3. HOMC minutes and Monthly Forum minutes circulated among the staff and depots.
4. Tender forms and conditions are published in official web site and are free.
5. Negotiation system in purchases is not practiced now as a norm.
6. Retail Price of major commodities is published in leading dailies in the beginning of every month and Supplyco price is regularly published in Market News.
7. Major reforms and decisions are published through various mass media for the information of the general public/the primary stakeholders of this PSU. The number of newspaper reportage during 2005-06 compared to any previous year in a proof of effort to ensure transparency by informing the public.
8. The fresh hands are given training regarding the importance of Transparency in their official duty.
9. Delegation of Powers to officers is transparent and specific.
10. To ensure transparency the all senior Officers declare openly their objectives, targets, projects and priorities that are being performed in the ensuing month before the Open Forum.

11. Functioning of a customer relation cell and empowerment of customers through service charter together with public information through press releases makes the activities of Supplyco more transparent.

12. Freedom to make enquiries and expresses ideas in various meetings and on the spot clarification of doubts reflects the extent of transparency.

13. Specially designed Depot Management Software (DMS) and Out let Management Software (OMS) captures the details of every transaction points and disseminates to the various Head Office monitoring cells.

4. *Responsiveness* :

   1. In the monthly forum, lectures and classes are conducted to develop and improve responsiveness.

   2. Identification of training needs and HRD efforts to improve responsiveness became a continuous process.

   3. Implementation of new system created responsiveness towards the consumers (-both internal customer and external customer-) among the staff members.

   4. Individual letters are written to MLA's and M.Ps' who sent any petition to Supplyco by giving full details within 3 days as a norm.

   5. With the changed good governance the staff members are very responsive to the time bound duties entrusted to them.

   6. The public appreciation, good service entry and mementos are awarded to the officers who proved their dedication to Supplyco.

   7. Consumers' grievances are responded to immediately with positive action and feed back.

5. *Consensus oriented governance system* :

   1. Policy decisions and operational level decisions are taken through consensus of the members of the Board and committees at different tiers.

   2. Follow-up of Consensus decision is the most sensitive part of good governance. To a great extent this has been ensured in Supplyco through periodical performance reporting and decentralised governance set up.

3. Agreement of opinion on the part of all concerned is taken into account, which makes its implementation easier.

4. Effective resolution of conflicts with customers, suppliers and employees Improvement in employee level conflict resolution can be observed in drastic reduction of disciplinary cases in the recent past.

6. *Equity of Benefits* :

1. Equal opportunity and consideration to all staff are given to develop and acquire good quality at official and personal level.

2. Any staff in Supplyco is allowed to visit the higher official without prior appointment, which enabled them to have the confidence and feeling that each and every one is part and parcel of the organization.

3. Supplyco ensures that all who have a stake in it feels that they are integral part of the organization. (Role congruence).

4. Customers, vendors etc. are educated through vendor education and customer awareness programs and their grievances are redressed with equality.

7. *Effectiveness and efficiency* :

1. Focus on result-oriented activities has increased both Efficiency and Effectiveness, which is evident from the financial results, sales turnover, and number of customers.

2. Evolution from time oriented work culture to task oriented work culture is indicated by voluntary working extra hours by employees.

3. Modern infrastructures like network connection and advanced communication system provided to enhance effective monitoring and quick reviews which in turn results in over all efficiency and effectiveness.

4. Setting of targets and Time schedule to achieve it with proper guidance and training.

5. Performance monitoring along with various rewards, awards and other reinforcements have played its role in improving efficiency and effectiveness.

8. *Accountability*

1. Accountability of Supplyco extends both in upward and downward directions. Supplyco incorporates this focus in all its decisions that it is accountable to the Government and to the Public.

2. Every employee of the organization is accountable with respect to the duties and responsibilities entrusted to them.

3. Role clarity has been brought by describing the duties and responsibilities of every staff from CMD up to security through circular 20/05 (participatory Management & Decentralised Corporate Governance).

Para 4.20.6

The Board meeting of the Corporation is being held generally at least once in a month and a minimum of twelve such meetings are held in a year. The Directors attending in the meeting are sharing their expertise and knowledge for guiding the corporation.

Para 4.20.7

The Directors of the Corporation normally are regular in attending the Board meetings. It may be noted that the Directors of the Corporation are Senior Officers from the Government Department and due to some exigencies in their department they may not be able to attend some of the meetings. Besides some of the Directors due to their holding of a particular post in the Government department for a very short period may become directors of the Corporation for a short period and thus may not be able to attend Board meeting.

Para 4.20.8

The Corporation is complying with the directions with regard to the preparation of the minutes of the meetings of the directors.

Para 4.20.9

The Directors' Responsibility statement is included in the Directors' Report and the same is discussed and approved in the Annual General Meeting. This is published in the Annual Report.

Para 4.20.10

The Board of Directors of the Corporation has been replying to each of the qualifications in the statutory report and the same is published in the Annual Accounts.

Para 4.20.11

Corporation has constituted an Audit Committee as per section 292 A of the Companies Act on 7-2-2005 in the Board Meeting held on 7-2-2005 as out side Agenda item No. 2/304. The audit Committee consist of 3 members i.e., Director from Finance Department of Government of Kerala, Secretary, Food, Civil Supplies and Consumer Affairs, Government of Kerala and Chairman and Managing Director as members. The Manager, Internal audit is the Convener of the Audit committee and attends all its meetings. The minutes of the meeting of the Audit committee is drawn up and follow up action is taken.

Para 4.20.12

Noted

Para 4.20.13

The terms of reference of the Audit Committee as per proceedings No. 22/05 dated 14-2-2005, are as follows:

(a) Conduct periodic discussion and review of the Internal Control Systems in the Corporation and their effectiveness.

(b) Review the half yearly and annual financial statements of the Corporation and explore causes of losses, if any.

(c) Ensure compliance of Internal Control Systems.

(d) Ensure compliance of the suggestions contained in the Accountant General's Audit Reports and Finance Inspection Reports of Finance Department.

(e) Develop and update sound and efficient financial management procedures and systems in the Corporation.

(f) Monitor and justify Government's grant/ subsidy/plan or non-plan fund utilization.

(g) Monitor efficiency ratios including staff expenses as a percentage of total turn over.

The Audit Committee in its meeting dated 29-10-2005 discussed in detail the fraud and irregularities as agenda items No. 04/01 and 06/01.

Para 4.20.14

The first meeting of the Audit Committee was held on 29-10-2005 and the 2nd meeting was held on 21-1-2006. The Audit committee member and Manager internal audit are participating in formal discussions with the statutory Auditors for 2005-06.

Para 4.20.15

Presently the Chairman and Managing Director of the Corporation and Manager internal audit who is the Convener of the Audit Committee is discussing with the statutory auditors regularly in formal meetings about the internal control system, audit observations etc. and the decisions are followed up. Statutory auditors for 2005-06 will be invited to the next Audit committee meetings for participation.

Para 4.20.16

The Corporation is conducting the meeting of the Audit Committee as per the terms of reference. The follow up action taken by the Board on the recommendations of the audit committee will be reported to the shareholders in the Annual General meeting. The Audit committee reviews 27 items of internal control as per the Agenda No. 01/03.

Para 4.20.17

The Chairman and Managing Director and the Secretary, Food, Civil Supplies and Consumer Affairs both being the members of the Audit committee are also the shareholders of the Corporation and hence they are attending the Annual General Meeting of the Corporation.

Para 4.20.18

Corporation had taken steps for appointing whole time Company Secretary by inviting applications twice through Newspaper advertisement on 29-4-2005 and on 28-9-2005. However nobody turned up for the post. Hence the proposal for modifying the qualification prescribed for the post in Managerial Service Rules 2005 is under consideration of Government.

Para 4.20.19

Corporation will take steps for ensuring the attendance of directors in the Annual General meeting. In the last Annual General Meeting held at its registered office on 20-3-2006, three Directors of the Company attended the Annual General Meeting. In the Annual General Meeting held on 28-7-2006, four directors attended the meeting apart from other shareholders.

Action Taken Statement on Audit Para 4.21 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 Ltd.

I (a) **Department**

Food, Civil Supplies and Consumer Affairs Department

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

Delay in placement of Annual Reports of Government Companies before State Legislature

(c) **Paragraph Number**

4.21

(d) **Report Number and Year**

Report of the 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**

4-10-2005

(b) **Date of Department's reply**

No reply furnished, on the advice from the AG's Office, since when the communication enclosing the Draft Paragraph was received, the final report of C & AG was on final stage.

III **Gist of Paragraph/Review**

Annual Reports of most of the companies have either not been placed or been placed belatedly before State Legislature, mainly due to delay in conducting Annual General Meeting.

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

Government has already forwarded the Annual Accounts of the financial years 2002-03 and 2003-04 to the Secretary, Kerala Legislature Secretariat for placing in the State Legislature.

The Statutory Audit and AG Audit of the account of the financial year 2004-05 is already over and the same is placed in the AGM held on 28th of July 2006. The printed copies of the Annual Accounts of 2004-05 shall be forwarded to the Kerala Legislature Secretariat for placing in the State Legislature.