FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

THIRTIETH REPORT

(Presented on 18th May, 2017)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2017

FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

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On

KERALA STATE CIVIL SUPPLIES CORPORATION LIMITED

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2013)

889/2017.

CONTENTS

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the report on its behalf, present this Thirtieth Report on Kerala State Civil Supplies Corporation Limited, based on the report of the Comptroller and Auditor General of India for the year ended 31 March, 2013 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid report of the Comptroller and Auditor General of India were laid on the Table of the House on 10-6-2014. 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 2014-2016 at its meeting held on 30-9-2015.

This Report was considered and approved by the Committee (2016-19) at its meeting held on 26-4-2017.

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

The Committee wishes to express thanks to the officials of the Civil Supplies Department of the Government Secretariat and the Kerala State Civil Supplies Corporation Limited for placing the materials and information solicited in connection with examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government Civil Supplies and Finance Departments and the officials of the Kerala State Civil Supplies Corporation Limited who appeared for evidence and assisted the Committee by placing their views before it.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
26th April, 2017.

REPORT

ON

KERALA STATE CIVIL SUPPLIES CORPORATION LIMITED

AUDIT PARAGRAPH 4.3 (2012-13)

4.3 Centralised Procurement of Essential Commodities

4.3.1 Introduction

Kerala State Civil Supplies Corporation Limited (Company) was incorporated in June 1974 with the objective of procurement and distribution of essential commodities including food grains so as to ensure their easy availability to the public at reasonable prices. The Company sells these commodities at two different rates viz., subsidised rate fixed by the Government and higher rate fixed by the Company– 'free sale subsidy rate[46] The Company follows the same process for procurement of commodities meant for subsidised sale as well as free sale and the purchase price is the same.

The Government of Kerala (GoK) extends financial support in the form of grants-in-aid (GIA) to the Company to compensate the loss suffered due to sale of essential commodities at subsidised rate.

For distribution of essential commodities, the Company operated 1314 outlets[47] across the State (March 2013). The activities of these outlets are co-ordinated and controlled by 56 depots and five Regional Offices. Audit was conducted during February to June 2013 in selected seven Depots[48] and Head Office for scrutiny of records.

46 The retail price fixed by the Company for subsidised and non-subsidised commodities sold without quantity restriction.

47 906 Maveli stores, 370 Super Markets, 19 People's Bazaars, four Hyper Markets, one Apna Bazaar and 14 Mobile Maveli Stores.

48 Kannur, Kozhikode, Palakkad, Kochi, Kottayam, Alappuzha and Kollam depots.

889/2017.

4.3.2 Procurement Process

The Procurement process of the Company is governed by the Purchase Manual (2005) and the Purchase Policy (2010) approved by GoK. The Company procures essential commodities centrally at the Head Office through e-tender which is a web enabled tendering system.

The various steps involved in the procurement process are as under:

(i) Registration of vendors : The prospective bidders have to register their name with the Company for taking part in the e-tenders.

(ii) Issuance of tender notice : The purchase division starts the tender process by uploading of the tender documents[49] with indicative quantity requirements in the website which consists of two parts viz., technical bid and commercial bid.

(iii) Collection of Indents : All depots are required to submit their indents, in the electronic indent form created in the website, for the commodities included in the tender prior to opening of the e-tender.

(iv) The offer and its evaluation : The vendors have to indicate rates for each commodity for each depot and the total offered quantity. On an average, one e-tender covers 18 commodities for 56 depots. Generally the vendors quote different rates for different depots according to locations. To evaluate all the offers received, the Company uses specially designed software namely Least Cost Solution (LCS).

(v) Preparation of purchase plan : After opening the tender, considering the rate quoted, the quantity offered by the vendors and the requirements in depots as extracted from the e-tendering website, MIS division prepares a 'purchase plan' for each commodity by uploading the above details in LCS.

(vi) Finalisation of purchase plan : Head Office Management Committee[50] (HOMC) decides the quantity to be purchased for each depot and fianalises the purchase plan. The purchase decision is placed in the next meeting of Board of Directors (BoD) for ratification.

49 Tender notice, terms and conditions, schedules for quality specifications, offer sheet, declaration, form of warranty, etc.

50 Consists of functional heads of different divisions except Internal Audit.

Audit analysed procurement of 22[51] essential commodities through 43 e-tenders floated during the period from April 2010 to March 2013 from the point of view of objectivity, cost effectiveness and quality aspects and the findings are discussed in the succeeding paragraphs.

4.3.3 Audit Findings

Audit noticed that though the Company invited open tenders through electronic mode, finalisation of the tenders and selection of successful bidders lacked objectivity as discussed below:

4.3.3.1 Post tender negotiation without recording reasons

The tendering system in the Company envisaged complete transparency by avoiding scope for subjective decision making. Post tender negotiations and changing the price, quantity and depots offered vitiate transparency as the bidders get a chance to amend their bids and form cartels after knowing the rates quoted by other bidders. Hence the BoD had limited (March 2010) the post tender negotiations to certain specific situations like:

- when there is falling trend in the prices of a commodity in the market,
- when the variation in prices obtained in present tender compared with that of previous tender for a commodity is disproportionate to the corresponding change in prices reported in newspapers, etc., to the disadvantage of the Company,
- when there is wide gap in the range of prices in the LCS and
- when the total quantity offered by the suppliers is less than the requirement.

Further, Purchase Manual of the company also restricts the negotiations with the lowest bidders. Negotiations with other bidders are permitted only if the expected results are not achieved in negotiations with lowest suppliers.

51 Bengalgram bold, Blackgram washed (whole) Blackgram split (with husk), Blackgram dhal (washed), Lobia,Greengram, Greengram dhal, Peas dhal,Toordhal, Toordhal fatka quality. White lobia, chillies, Coriander, Cuminseed, Fenugreek, Mustard, Bodhana rice, Jaya rice, Kurwa rice, Matta rice, Raw/rice and sugar.

Audit, however, noticed that these restrictions were not followed by the HOMC. The Company followed a system of post tender negotiations which gave ample scope for arbitrariness and subjectivity at different stages.

Audit found that HOMC with respect to seven commodities in 43 e-tenders floated during the period covered in audit, finalised 60 per cent of tenders after negotiations with suppliers included in LCS, as detailed below:

Table 4.15 : Finalisation of tenders and negotiations conducted

Sl. No.	Commodity	No. of tenders covered for each commodity#	No. of times Negotiations conducted	Percentage
1	Bengal gram bold	39	22	56
2	Black gram whole (washed)	39	20	51
3	Chillies	40	31	78
4	Green gram	39	28	72
5	Matta rice unda sortex	40	22	55
6	Sugar	42	24	57
7	Toor dhal	39	20	51
	Total	**278**	**167**	**60**

 # Out of 43 e-tenders called for during the period 2010-2013, the number of times these seven commodities were included in tenders is shown against each commodity

Audit noticed that reasons for resorting to negotiations were not recorded in 55 cases out of 167 negotiations conducted.

4.3.3.2—*Revision of rates and offered quantity during negotiations*

Audit test checked 20 negotiations with 22 suppliers in 10 e-tenders for the seven commodities out of the 43 e-tenders to assess the negotiation process and its impact. Audit scrutiny revealed the following:

- Bidders got in to LCS by quoting lowest rate in any one of the 56 depots. HOMC permitted these suppliers to revise their rates, increase the offered quantity and number of depots during negotiations. Hence, the share of suppliers in the LCS was increased to 233 per cent, on average, in the final purchase plan and in one case offered quantity increased up to 550 percent in the final purchase plan. Consequently, a few suppliers cornered the entire purchase orders with the result that only 77 per cent of the suppliers appearing in the LCS could get purchase orders after negotiations.

- Though these negotiations were conducted for reducing the quoted rates of the commodities, the financial benefit was negligible and ranged from 0.09 per cent to 3.82 per cent of the total purchase order value. Thus, HOMC vitiated the objectivity of the e-tendering process for a meagre margin.

Government, endorsing the reply of the company stated (January 2014) that all the vendors who qualified in the tender and became L1 in any of the depots were invited for negotiations and allowed to quote for more depots. It claimed that the increase of 233 per cent (average) in the share of suppliers in the ordered quantity after negotiation and reducing of the number of suppliers to 77 per cent from the LCS to final purchase plan showed efficiency of negotiations. The fact, however, remained that the Company invited a supplier for negotiation, who was L1 in any one of the depots, and allowed to quote for depots where he was not L1. This tantamounted to manipulation and vitiation of entire tendering process.

4.3.3.3—Negotiation with bidders other than lowest

The Company, at the time of preparing of LCS, considered quantity indented and uploaded in the e-tendering website by depots. Audit noticed that, in many of the cases, this quantity was higher than the actual requirement assessed by HOMC during evaluation of tender. This has resulted in certain suppliers with higher rates but more quantity getting into LCS who otherwise would have been left out had the LCS been prepared based on actual requirement. For instance, Dharani Sugars and Chemicals Limited had quoted higher rates for procurement of sugar but entered into LCS due to higher quantity than required given for preparation of LCS and was invited for negotiation. During negotiation the supplier reduced meagre amount ranging from two to three paise per kilogram from the lowest quoted rate of other suppliers and bagged purchase orders valuing ₹ 4.86 crore in two e-tenders[52]

4.3.3.4—Negotiation with bidders not in LCS

Audit found that purchase orders were issued to bidders who were not selected by LCS, but through negotiations.

HOMC held negotiations with three bidders [53]who participated in the tender (8650/2011-5) but did not find a place in the LCS and were awarded Purchase Orders (Pos) valuing ₹1.22 crore for purchase of rice.

Government replied with regard to above deficiencies that regulations were followed by the Company in all the e-tenders floated during the audit period. It was also replied that all the suppliers who participated in the Tender No. 8650/2011-5) were called for negotiation for better result.

The reply was not acceptable. Inviting all the bidders for negotiation was gross violation of the sanctity of the tender procedure. The Company violated its own purchase manual and did not restrict negotiations with the lowest bidders.

4.3.3.5—Direct purchases from producing centres and local traders

Parallel to e-tendering, the Company used to depute officials to producing centres outside Kerala for collecting better offers which are also considered along with e-tenders. In addition, the Regional Managers (RMs) were also directed to collect offers from authentic local sources to compare rates received in e-tenders. This was envisaged as a means to curtail the unhealthy practices such as formation of cartels, systematic elimination of new suppliers and supply of low quality commodities at high rates, etc., by existing suppliers. However, Audit found that these checks were not at all effective as the same vendors who participated in the e-tender bagged the orders for direct purchase also. Thus, out

52 No.8650/2011(6)and 8650/2011(8)

53 St.Antonys Modern Rice Mill,Nihana Traders and Keerthi Nirmal Marketing Limited.

of 107 purchase orders valuing ₹42.19 crore issued as part of the initiative to procure commodities directly, 46 purchase orders valuing ₹11.56 crore were issued to suppliers who were already registered with the Company. Further, out of these 46 POs, suppliers who won 13 POs had also participated in the same tender through e-tendering route and obtained POs under two routes (e-tender route and direct procurement route).

As this resulted in submission of multi tenders by the same bidders, collection of offers for direct procurement should be from new suppliers only.

Government stated that the intention of the Company was to make more competition in the tender and to ensure comparison of the rates received with mandi rates. However, the Company should not have obtained offers from registered vendors.

4.3.3.6—Evaluation of Commercial bids of bidders who did not qualify in technical evaluation

The e-tender invited by the Company had two parts viz., technical bid and commercial bid. The duly filled up tender documents and Earnest Money Deposit (EMD) together with other documents constitute technical bid. The bidders are required to submit EMD separately for each commodity. Commercial bids of only technically qualified bidders are opened for further evaluation. Thus, a bid without EMD is technically invalid and cannot be considered for evaluation.

Out of total 2973 bidders participating in the 43 e-tenders floated during the review period the details of EMD were not recorded in respect of 683 bidders. The financial bids of these bidders were, however, opened, evaluated and even POs were issued. A detailed scrutiny of technical evaluation sheets for the month of March 2013[54] revealed that details of EMD were not available in 18 price bids evaluated and four[55] POs were placed with three such non-qualified bidders.

54 Tender No. 4675/2013

55 PO No.12744 issued to Royal Trade Links, Pos No. 12766 &12786 issued to KRM Ramadevi Enterprises Private Limited and PO No. 12794 issued to Kalpana Agro Mills

The Government accepted the above audit finding and stated that an EMD register has since been opened with details of all EMD given by various vendors. It was also stated that most of the suppliers would keep the EMD on a permanent basis and they only report the details of EMD submitted earlier and failed to record the same in the particular column. Government further stated that necessary steps would be taken up with the software providers to show the details of permanent EMD automatically in the technical bid sheet.

4.3.3.7—Undue favour to defaulted suppliers—waiver of penalty for short delayed supply

In order to ensure prompt supply of commodities, delivery schedules were clearly stipulated in each purchase order and penal clauses were incorporated in the tender conditions for delayed– short supply. Further, tender conditions specified that commodities should not be accepted after 40 days from the date of purchase order. Audit, however, noticed that the Company diluted these tender conditions and favoured two suppliers by not levying penalty amounting to ₹1.22 crore for delayed short supply as shown below:

Table 4.16:Details of penalty to be recovered

Name of supplier/PO No. & Date	Ordered quantity (in quintals)	Short supply (in quintals)	Delayed supply (in quintals)	Penalty to be recovered (₹ in crore)
Dharani Sugars and Chemicals Limited, Chennai (No. 9504/25-3-2011)	33500	18448	Nil	1.04
Ponni Sugars (Erode) Limited (No. 10509/25-10-2011)	11160	2702	3038	0.18
Total				**1.22**

In both the cases the Company issued fresh purchase orders directly to the defaulted suppliers for the short supplied quantity without imposing penalty.

The Government replied that the tender conditions were relaxed as sugar market was a seller's market and the Company found it difficult to get more vendor participation for supply of sugar. It was further stated that penalty was not imposed on Ponni Sugars (Erode) Limited as the delay in supply was due to labour problem in the Company's own depots. The reply was not acceptable as the Company has taken stringent measures such as blacklisting against other suppliers of sugar (Bannari Amman Sugars Limited and Jans Ventures) during the review period and in the case of Ponni Sugars reply was not justifiable as the labour problem in the Company referred to was due to failure of supplier to supply sugar in 50 Kg. bags as per the tender conditions.

It is recommended that the tender conditions should be adhered to and penalty imposed to ensure timely supply.

4.3.3.8— Cost effectiveness

To ensure cost effectiveness in purchase, the competitiveness of the rates obtained should be ensured by generating fair competition. The Company, however, failed to ensure this due to poor market intelligence, cartel formation by bidders, dependence on few suppliers and wrong assessment of requirements as discussed below:

Poor market intelligence

Available sources of market intelligence with the Company were mandi rates wholesale rates reported in newspapers, local market price reported by Regional Managers (RMs), etc. However, these were not tapped fully to get the lowest price while procuring commodities as illustrated below:—

- Mandi rates were not collected and compared by HOMC while finalising tenders. A test check of nine tenders[56] in respect of chillies and coriander revealed that the procurement rates were higher by five to thirty eight per cent and six to twenty one per cent respectively as compared to mandi rates inclusive of transportation and other charges[57]. Thus, the excess cost of ordered quantity worked out to ₹ 11.04 crore.

56 Tenders opened on 8-7-2010,4-8-2010, 22-2-2011, 5-7-2011, 28-7-2011, 18-8-2011, 4-7-2012, 20-7- 2012 and 9-8-2012.

57 Purchase cosst at mandi plus transportation, loading charges. CST and other miscellaneous expenses.

- None of the RMs collected and reported local wholesale rates regularly except the RM Ernakulam, that too for nine commodities as against 18 commodities.

- The Company compared newspaper reported rates of only nine out of 18 commodities.

The Government replied that mandi rates were compared for verifying the price trend but these were not comparable with tender rate since the mandi rates are spot rates, commodities available in mandi needs to be cleaned, graded and bagged for transportation which was highly expensive. The reply was not acceptable as the landed cost of commodities based on mandi rates was comparable as transportation cost could have been arrived at and reasonableness checked thereto, after that and purchase manual provides for cross checking with wholesale prices from various sources and locations. The mandi rates are available in the website of 'AGMARK' on daily basis and the landed cost of the same can be arrived at for comparison with tender rates. The Government also stated that RMs failed to report wholesale market rates due to non-availability of offers and now the Company had given a revised direction to RMs to report rates even in the absence of offers.

Audit recommends that the market intelligence system should be revamped so as to ensure competitiveness of offers received by utilising the wholesale price of different commodities prevailing in various markets available in the website of Department of Economics and Statistics, GoK on daily basis.

Unrealistic quantity requirements shown in tenders

The tenders were invited for supply of an "indicative quantity". Indicative quantity requirement published by the Company in e-tenders varied widely from actual requirement assessed by HOMC. In e-tenders invited for seven commodities,[58] in eight out of 14 cases the tendered quantity was higher than the actual requirement. In respect of seven cases the variation ranged from 113 per cent to 389 per cent and in one case[59] it was 1428 per cent. Further, tendered quantity published during July to December 2012 remained the same irrespective of variations in the assessed requirement. In the event of indicative requirement remaining lower than the assessed quantity the same led to avoidable negotiations with bidders for increasing the offered quantity and consequent delay in placing purchase orders.

While accepting the audit observations the Government stated that steps were being taken to ensure that the requirement published was more realistic.

Collusion among vendors restricting entry of new bidders

Section 3(3)(d) of the Competition Act, 2002 provides that any agreement entered into between or practice carried on or decision taken by bidders which directly or indirectly results in bid rigging or collusive bidding, shall be presumed to have adverse effect on competition. It explained the term 'bid rigging' as any agreement which has the effect of eliminating or reducing competition for bids or adversely affecting or manipulating the process of bidding.

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58 Black gram washed (whole), Chillies, Green gram, Lobia, Matta rice under sortex, sugar and Toordhal.

59 Tender No. 20258/2012 for Blackgram washed whole opened on 9-8-2012.

To check the extent of collusion, Audit reviewed the vendors' profile as well as the communications between the Company and the vendors. Thus, 75 vendors formed 26 subgroups consisting of two to six vendors having common email-ids, addresses, contact numbers, etc., as given below.

Table 4.17:Details of vendors profile

Item	No. of Suppliers	Remarks
Common E-mail Ids	42	42 vendors, who participated in bidding and received purchase orders, had common e-mail id. The Company was aware as they used to send messages to same e-mail ids for communicating with more than one supplier.
Common addresses, phone numbers and liaison officials	30	These suppliers shared common phone numbers or contact addresses and even same liaison officials for communication.
Disclosing rates to each other	3	Two suppliers[60] used to forward a copy of the e-mail containing their revised rates quoted during negotiations to the registered e-mail id of another supplier.
Total	**75**	

These evidenced collusion and cartel formation among bidders enabling bid rigging as well as impairing fair competition. The Company was aware of this unfair practice as evident from the minutes of 44th HOMC meeting held on 11th November 2009. The Company, however, failed to initiate any action by taking up the matter with the Competition Commission of India under the Competition Act, 2002 or blacklist such bidders.

All the above 75 vendors (26 groups) together bagged orders worth ₹1076.76 crore for supply of items other than sugar which constituted

60 Shree Banke Bihari Enterprises and Sreeji Enterprises

69 per cent [61]of total purchase order value. Further, out of the 26 groups, suppliers belonging to 10 groups, together bagged 48 percent of total purchase order value. It was also seen in audit that 71 suppliers were newly registered during the year 2012-13. Of these, 20 suppliers who got purchase orders during that period, seven were either sister concerns of old vendors/related with other vendors or previously registered vendors. The Company had placed 134 purchase orders for 1.41 lakh MTs of sugar valuing ₹ 434.42 crore during 2010-2011 to 2012-2013. Out of the total order value 76 percent was placed with three private sugar producers as depicted in the graph. The average number of participants in the tender process was also limited to six suppliers. As a result, the Company was not getting competitive rates and the procurement rate was even higher than the average open market wholesale prices.[62]The Company incurred additional expenditure of ₹3.23 crore during the period from 2010-2011 to 2012-2013 on account of procurement at rates higher than the average wholesale market price in the State.

It was also noticed that Government of India (GoI) directed (February 2010) all State Governments to advise their Civil Supplies Corporations to participate in bidding for sugar procurement directly from sugar mills located in their States/nearby States so that they could procure sugar at more economic rates. GoK, however, did not give any direction in this regard to the Company despite the availability of 103[63] sugar mills in Tamil Nadu (44 nos.) and Karnataka (59 nos.) including 42 mills in Government/Co-operative sectors during the year 2010-2011. The Company though aware of the direction of GoI did not participate in the bidding for sugar directly from mills but depended on private suppliers for the procurement of sugar.

The Government stated that out of the 26 groups, none of the groups received more than 10 percent of the total Purchase Order value and it was common practice that new firms were registered by the same persons for different purposes and appointing of same liaison officers by different firms. It was further stated that in respect of rice mills, many of the mills had two to six units under the same ownership.

61 69% of₹1565.67 crore=₹1076.76 crore

62 Source : www.agmarknet.nic.in

63 Source : Indian Institute of Sugarcane Research, Lucknow, research institute under the Indian Council of Agriculture, Research, Ministry of Agriculture, Government of India.

The reply was not acceptable as 10 dominant groups alone had bagged 48 percent of total purchase order value. The collusion and cartel formation among bidders was further evident from the boycott of tender by bidders in January 2011 and December 2013 (Tender No. 7360/2010(10) and 33434/2013 respectively).

It is recommended that the Company should streamline the vendor registration and tendering process to eliminate formation of cartels among bidders and to encourage new suppliers for increasing competitiveness in the tenders.

4.3.3.9— Quality Assurance Mechanism

The Company's Quality Manual prescribes a two stage quality assurance mechanism to ensure that the suppliers are delivering the commodities strictly as per the specifications prescribed in the tender.

- Primary examination[64] This is done by the Depot Manager and the Stock Custodian by collecting three random samples from the consignment received at the depot. The quality is also cross checked with email reports from other depots for rejection of the same lot.
- Quality Assurance Committee (QAC)[65] This is convened to decide on the acceptance of those with doubtful quality. In addition, QAC is required to meet fortnightly in each depot for reviewing the quality of all items in stock.

However, Audit found several deficiencies in the quality control mechanism as described below:

64 Tests saleability, appearance, colour, size, aroma, no obnoxious smell etc.
65 Junior Manager (QA), Depot Manager and Junior Manager (Marketing) are the members of QAC

Test check of the records of Kottayam and Kochi depots for three years ended March 2013 revealed that these depots had received 1841[66]consignments from various suppliers. There were no records to show the details of quality checks except in 66 cases. Out of this, 64 test reports were prepared against consignments that were rejected due to poor quality. In the absence of records, Audit is not able to comment on the quality of remaining consignments.

Audit also found that the consignments rejected due to poor quality by one depot were accepted by another as detailed below:

- Coriander supplied (February 2011) in same truck by one supplier [67]was accepted by Thalassery depot and rejected by Perinthalmanna depot due to poor quality.
- Palakkad depot accepted (7 February 2012) 111 bags of mustard supplied by Noble Distributors treating quality as 'Good' which was earlier rejected at Chavakkad and Wadakkanchery depots.

The Government replied that all the quality parameters of the accepted commodities were not entered in the Quality Assurance Register due to the difficulty in recording the parameters of large numbers of consignments. Since rejection is to be done carefully and justifiably and there is appeal provision against rejections, all the reasons for the rejections are recorded. It was also stated that there were possibilities of minor variations in quality analysis of same commodity done by two Junior Managers (QA).

The reply was not acceptable as consignments supplied in same vehicle accepted in one depot and rejected in another depot indicate wide variations in quality assessments done in depots.

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66 1203 and 638 Goods Received Sheet in Kottayam and Kochi respectively.

67 Ambica trading Company (PO No.9265 dated 2-2-2011

4.3.3.10— Other Related Issues

Audit found that there was " stock out" position of essential commodities during periods when the market prices were rising as shown below:—

Table 4.18:Details of stock out period vis a vis market price

Commodity	Stock out period		Retail price in open market (₹perKg)		Percentage of increase in rate	Maximum number of depots reporting stock out	Percentage of ordered quantity against requirement
	From	To	From	To			
Lobia	Feb-12	July-12	45.96	65.04	41.51	51	29
Chillies	Dec-10	Mar-11	75.70	108.66	43.54	31	52
Toor dhal	Dec-10	Mar-11	69.83	75.97	8.79	47	32
Coriander	Dec-10	Mar-11	51.09	68.70	34.47	47	65

It was also noticed that during 6th January to 15th March 2011, the Company had not purchased Green gram in four depots in spite of stock out position and where there was an aggregate requirement of 4200 quintals. The retail price of the commodity showed increasing trend in open market during this time period.

The Government replied that the Company cannot ensure unlimited quantity of the products due to its limitations and due to the complementary nature of the pulses to some extent. The reply was not acceptable as these pulses were included in the list of essential commodities by the Government and therefore had to be procured for distribution.

The procurement process of the Company had several lacunae and deficiencies. It invited tenders for indicative requirements but placed orders for quantities that were vastly different from the tendered quantities and through this process allowing only a few players to get purchase orders. Though the LCS technique envisaged bringing about objectivity, transparency and fair play, HOMC resorted to extensive negotiations leading to unhealthy competition, collusion and cartel formation making the entire purpose of removing subjectivity through electronic mode of tendering ineffective. Lots rejected by one depot due to poor quality were accepted by another depot facilitating the traders to market poor quality commodities. The Company failed to ensure cost effectiveness due to poor market intelligence, cartel formation by bidders, dependence on few suppliers and wrong assessment of requirements.

[The Audit Paragraph 4.3 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2013]

The Notes furnished by government on the Audit Paragraph are given in Appendix II.

1. The Committee wanted to know the details of the tender process followed by the Corporation. The Managing Director, Kerala State Civil Supplies Corporation informed that, Corporation was following e-tendering system for the procurement of commodities in a transparent and fair manner. He added that after quoting the tender, the Corporation negotiated with L1- the lowest quoted parties. If the tenders could not satisfy the required conditions, they were again called for negotiation. An average of 14 tenders are taken up daily and ₹ 50 lakh to ₹ 3 crore was being gained by the Corporation per day through price reduction brought about by negotiation with tenders.

2. To a query regarding the non recording of reasons for resorting to negotiations, the witness replied that it had happened only in few cases and in all other cases, reasons were properly recorded. The Committee was not satisfied with the reply of the witness and remarked that the Corporation on the pretext of negotiation was unduly helping interested bidders to amend their bids. The Committee further pointed out that through such a collusion, the Corporation defeated the very purpose of the restrictions imposed by the Board of Directors to conduct the post tender negotiations in a transparent manner.

3. When the Committee enquired the reason for permitting the revision of rates and an increase in offered quantity during negotiations, the witness replied that, once the Corporation followed e-tendering system, it could attain 100% transparency in the process and by allowing the revision of rates and increasing the offered quantity

through negotiation, the Corporation gained profit only. But the Committee strongly disapproves with the reply and opined that even though the Corporation conducted the e-tender process in a cent percent transparent manner, the positive recommendations of the Accountant General are to be considered by the Corporation.

4. Besides the Committee was aggrieved to note that the Corporation revised the quantity of commodities during negotiation. The Committee enquired about the steps taken by the Corporation to have realistic quantity requirements in tender. Then the witness affirmed his earlier reply that the Corporation conducted the e- tender process in a cent percent transparent and fair manner.

5. The Committee observed that the Corporation violated the prescribed norms of e-tendering by allowing negotiations with bidders other than the lowest bidder. But the witness denied the accusation.

6. The Committee enquired why the quantity other than actual requirement was uploaded in the e-tendering website by depots. The witness replied that no malpractices had happened there and the e-tendering process was very accurate and transparent and the audit observation was not correct.

7. The Committee pointed out that the Corporation deliberately gave a chance for the supplier to reduce a meagre 2 to 3 paise per kg from the lowest quoted rate of other suppliers so that M/s Dharani Sugars and Chemicals Ltd. technically became the L1 party. The Committee suspected a nexus between the officials of the Corporation and the bidders to change the quantity in order to take in the interested tenders as L1.

8. The Committee enquired why the bidders who were not included in Least Cost Solution were called for negotiation and awarded purchase order valuing ₹1.22 crore for the purchase of rice. The witness replied that if the expected results were not achieved in the first negotiation, second negotiation would be conducted as per rules. He added that eventhough the Corporation allowed to quote new rates, no one was selected at that time. The Committee pointed out that the Corporation lacked Market Intelligence. The Committee further enquired why the Corporation acted

against the direction of the Central Government to purchase commodities from nearby places. The witness replied that the direction of Central Government was that sugar might be purchased from sugar mills through auction process. Hence, it was found very difficult to purchase sugar from Karnataka and Andhra Pradesh, in its own risk of the Corporation, they were allowed to participate in tender through agents. The Committee pointed out that by inviting all the bidders for negotiation the Corporation had violated the sanctity of the tender procedure and its own purchase manual.

9. The Committee enquired why the financial bids of bidders who were not technically qualified were opened for evaluation. The witness answered that they usually participate in the tender and was prompt in paying the EMD. The Committee was not satisfied with the reply and pointed out that instead of rejecting the bid, the Corporation even issued Purchase Orders also. The Committee remarked that non maintenance of EMD register forced the Corporation to perceive information given by the supplier only. The witness admitted the fault and stated that now EMD register is being properly maintained.

10. The Committee enquired the reason for not taking any action against the Sugar Manufacturers like M/s. Ponni and M/s. Dharani for their default in supply of sugar. The witness responded that, Sugar industry was not a buyers market, but it depends only on the interests of the manufacturers.

11. The Committee remarked that the Corporation did not take any stringent action against them eventhough penal clauses were incorporated in the tender conditions for delayed/short supply and by not imposing penalty from defaulted suppliers, the Corporation unduly favoured the suppliers which resulted in a loss of ₹ 1.22 crore.

12. The Committee observed that the main reason for the failure of the Corporation to ensure cost effectiveness in purchase was poor market intelligence.

The Committee pointed out that if the Corporation showed a little interest in mandi rates, wholesale rates reported in newspapers, local market price reported by Regional Managers etc., the Corporation could have procured the commodities at the lowest price.

13. The Committee was astounded to note that 75 vendors formed 26 sub groups consisting of 2 to 6 vendors having common e-mail ids, addresses, contact numbers etc. The witness stated that pulses and cereals could be purchased only from firms of other States and for convenience they had appointed some agents who do liaison work for conducting their business. In such situations e-mail ids, addresses, contact numbers etc. become common for different firms if they appointed the same agent for their liaison work.

14. Regarding the Quality Assurance Mechanism in the Corporation and about the absence of records to show the details of quality checks of 1775 consignments from various suppliers, the witness explained that the audit objection was not for recording the details of quality checks. He added that at the time of unloading only the commodities having moisture above 12% was recorded and those with moisture of 10% or below need not to be recorded. After the audit objection it was insisted that all details should be recorded properly and they had taken steps to develop software in this regard. The Committee enquired how the commodities rejected in one depot was accepted in another depot. The witness replied that at the time of unloading, the Depot Manager and Custodians were permitted to unload the commodity by collecting and verifying 3 random samples. It was only a manual verification and not a scientific test and if the commodities were of poor quality, it was sent to the consent of Quality Assurance Committee. Now, the Corporation insisted on sending information via e-mail to all other depots in case of rejection of any of the commodities in any of the depots so that a rejected commodity is not further selected.

15. The Committee enquired whether any steps had been taken by the Corporation to rectify the objections pointed out by the Accountant General. The witness informed that the Corporation had always gained profit since 1974 and the Corporation conducted the tender process in a very fair and transparent manner. The Committee was not satisfied with the reply and the manner in which the

things are explained and directed to conduct a detailed enquiry with regard to purchase, quality, quantity and distribution of commodities in the cases pointed out by Accountant General.

Conclusions/Recommendations

16. The Committee strongly disapproves with the reply of the witness which affirms that the Corporation had always gained profit since 1974 and that the Corporation conducted the tender process fairly and properly. Though the Corporation invited tender through electronic media the Committee finds that the finalisation and selection of tenders lacked objectivity and post negotiations were followed in most of the Purchase Orders.

17. Besides, the Committee is very much displeased with the flaws in procurement procedure adopted by the Corporation. Though e-tender system is being followed to make procurement more fair and transparent, the Committee has observed several lapses. Unhealthy practices like opening of financial bids whose technical bid has been rejected, inviting all tenderers besides L1 for negotiations, revising rates and increasing offered quantity during negotiation etc. were prevalent in most of its purchase. Bidders resort to extensive negotiations leading to unhealthy competition like collusion and Cartel formation. It is found that in the case of defaulted sugar suppliers, the Corporation did not take any action against them even though the penal provisions are there in the tender conditions. Violating the tender conditions and awarding purchase order worth ₹ 1.22 crore for the purchase of rice was another glaring example of an unfair purchase plan that makes a substantial pay out of the Corporation.

18. The Committee is of the opinion that all these malpractices had led to severe losses for Corporation and the Committee strongly voices its protest against such malpractices which blatantly violate

the norms of purchase manual and tender procedures and recommends that norms should be scrupulously followed, and any violation in this regard shall be seriously viewed. Therefore the Committee recommends to carryout a detailed enquiry regarding purchase, quality, quantity and distribution of commodities in cases pointed out by Accountant General.

19. The Committee also observes that it was poor market intelligence which rendered the Corporation a failure in ensuring cost effectiveness in purchase. Therefore, the committee recommends the rejuvenation of the market intelligence system for ensuring competitiveness. Offers may be thoroughly negotiated with details received on the wholesale price of different commodities from various sources and locations available in the website of department of Economics and Statistics, GoK on a daily basis.

C. DIVAKARAN
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
26th April, 2017.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS /RECOMMENDATIONS

Sl. No.	Para. No.	Department Concerned	Conclusions/Recommendations
1	2	3	4
1	16	Food and Civil Supplies Department	The Committee strongly disapproves with the reply of the witness which affirms that the Corporation had always gained profit since 1974 and that the Corporation conducted the tender process fairly and properly. Though the Corporation invited tender through electronic media the Committee finds that the finalisation and selection of tenders lacked objectivity and post negotiations were followed in most of the Purchase Orders.
2	17	Food and Civil Supplies Department	Besides, the Committee is very much displeased with the flaws in procurement procedure adopted by the Corporation. Though e-tender system is being followed to make procurement more fair and transparent, the Committee has observed several lapses. Unhealthy practices like opening of financial bids whose technical bid has been rejected, inviting all tenderers besides L1 for negotiations, revising rates and increasing offered quantity during negotiation etc. were prevalent in most of its purchase. Bidders resort to extensive negotiations leading to unhealthy competition like collusion and Cartel formation. It is found that in the case of defaulted sugar suppliers, the Corporation did not take any action against them even though the penal provisions are there in the tender conditions. Violating the tender conditions

			and awarding purchase order worth ₹ 1.22 crore for the purchase of rice was another glaring example of an unfair purchase plan that makes a substantial pay out of the Corporation.
3	18	Food and Civil Supplies Department	The Committee is of the opinion that all these malpractices had led to severe losses for Corporation and the Committee strongly voices its protest against such malpractices which blatantly violate the norms of purchase manual and tender procedures and recommends that norms should be scrupulously followed, and any violation in this regard shall be seriously viewed. Therefore the Committee recommends to carryout a detailed enquiry regarding purchase, quality, quantity and distribution of commodities in the cases pointed out by Accountant General.
4	19	Food and Civil Supplies Department	The Committee also observes that it was poor market intelligence which rendered the Corporation a failure in ensuring cost effectiveness in purchase. Therefore, the committee recommends the rejuvenation of the market intelligence system for ensuring competitiveness. Offers may be thoroughly negotiated with details received on the wholesale price of different commodities from various sources and locations available in the website of department of Economics and Statistics, GoK on daily basis.

889/2017.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS.

Sl.No	Audit Paragraph		Reply furnished by Government
1	2		3
1	4.3.1		No remarks
2	4.3.2		No remarks
3	4.3.3.1		Supplyco has a well defined negotiation policy and the circumstances under which negotiation is to be conducted are clearly laid down. In Supplyco, negotiation does not involve face to face negotiation with suppliers. Since there was no provision in the e-tender platform for conducting negotiation online, Supplyco had been conducting negotiation by asking the suppliers to email their revised rates to a separate email ID, the password of which was available with the Manager(Audit) only. After the scheduled time for closing of negotiation, the Manager (Audit) will take a print out and forward it to the Purchase Section. During 2011-12 it was done in Purchase section itself. In all the cases negotiations were conducted for specific reasons and only under circumstances in which negotiation is permitted by the Board of Directors. It may be further noted that as per the requirement of Supplyco, our service provider has made necessary provisions in the e-tender software for conducting negotiation online. From 2012 onwards negotiations are conducted online in a manner similar to e-tender. The observations of the Audit regarding non recording of reasons for negotiation in a few cases is noted and at present care is taken to record the reasons without fail.
4	4.3.3.2		In negotiation, suppliers are requested to (a) reduce the rates, (b) increase the offered quantity and (c) increase the number of destinations. As already stated there is no face to face negotiation and revised offers were received through mail. (presently this process is done online) Negotiation is conducted only

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			with suppliers in the least cost solution (LCS) who is L1 in at least one depot. In the negotiation all such suppliers have an equal chance to reduce the rate, increase the quantity and increase the destination. This process is equally fair to all the suppliers and the apprehension of the Audit on the vitiation of the tendering process is totally misplaced.
5	4.3.3.3		As per the the tendering system followed by the Company, at the time of calling for e- tender, neither the quantity to be supplied to various Depots nor the total quantity of various items proposed to be purchased are indicated. The suppliers are directed to quote their lowest rate for supply to each Depot indicating the maximum quantity that can be supplied at the quoted rate. Subsequent to calling for tender but before opening, the requirements of various Depots are compiled. In order to get the quantity required for each Depot at the lowest possible rates, during negotiation the suppliers are directed to quote their lowest rates for supply to each Depot indicating the maximum quantity that can be supplied. The lowest rates for each Depot and the quantity to be ordered for supply on each tenderer are generated in the system automatically and decided by the System software at least cost. The quantity ordered on each supplier may therefore vary from the originally offered quantity and the excess percentage of ordered quantity over the originally offered quantity projected by Audit has no relevance, as our aim is to purchase the required quantity from the lowest possible sources. As per the present system the suppliers who offer the lowest rates for each Depot will get supply order for the maximum quantity required for that Depot. Audit criticism would have been relevant if we had specified our requirement for each Depot before tendering and enhanced the quantity subsequent to opening of tender. The formulae used by Supplyco for calculating the requirement of each item is as follows. ***Requirement = 2.5 *Monthly Average Sale for last 3 months – Stock in Hand – Stock in Transit*** The requirement so calculated by 56 Depots is uploaded by the 56 Depot Managers in the e-tender platform and this quantity will be known to all including Supplyco only after opening of tender.

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			However sometimes Supplyco is forced to reduce the purchase quantity due to fund shortage, heavy loss on account of subsidized sale which is not fully reimbursed by the Government, seasonal quality o f the commodity due to climatic conditions etc. Further the tenders floated by Supplyco for the purchase of pulses and spices is for anticipated requirement and hence variation from projected requirement is inevitable. As stated in the previous Para the initial requirement is calculated consistently using multiplication factor of 2.5 and list of suppliers selected for negotiation is also based on the requirement using multiplication factor of 2.5. Again as stated in the previous Para during negotiation all the suppliers get an equal and fair opportunity to improve their initial offers. During negotiation some of the suppliers may reduce their rates while other may choose not to reduce the rates. It is quite natural and fair that suppliers whose revised rates are cheaper get purchase orders.
6	4.3.3.4:		As per Purchase Manual of the Corporation, which is duly approved by the Government, negotiation is permitted with other bidders when expected results are not achieved. Audit highlighted three cases in which negotiations were conducted with all the suppliers and purchase orders were issued with the vendors selected after negotiations. The Least Cost Solution is prepared each time after negotiations and vendors are selected only on the basis of Least Cost Solution. The negotiations are done with a view to get more benefits to the Corporation. As it is not possible to calculate the benefit that will be achieved during negotiation the same is not considered while taking decision for negotiation. Audit has pointed out three cases in which purchase orders are issued to the lowest vendors who were appeared in Least Cost Solution prepared after negotiations. When negotiation is done and Least Cost Solution is prepared which shows the list of suppliers who were selected and Corporation issues purchase orders to them. On verification of the concerned files it was noticed that in the tender no.8650/2011(6) Dharani Sugars

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			and Chemicals Limited were included in Least Cost Solution. (Annexure I) Similarly in Tender No.8650/2011(8) also Dharani Sugars and Chemicals Limited were included in Least Cost Solution. (Annexure II) On verification of the files of Tender No.8650/2011 (5) it is seen that all the suppliers who participated in the tender were called for negotiation for better result on negotiation.
7	4.3.3.5		The Audit observation is noted. For the last 2 years, Corporation has not been making purchase from production centers directly in view of the directions of the Government that all purchase having a value of more than Rs.25 lakhs should be made through e-tender only.
8	4.3.3.6		The technical bid and commercial bids were opened within a small time gap so that the commercial data is available immediately for preparation of the least cost solution and draft purchase plan for presentation before the HOMC to take decision. In a tender normally 80 to 140 vendors participate and we are tendering 22 to 26 items in each tender. Verification of all bids for EMD is a time consuming process. We are verifying the EMD after opening of the tender but before finalization of the tender. The Corporation had allowed the suppliers to keep their EMD on a permanent basis. Most of the suppliers keep the EMD on a permanent basis and they only report the details of EMD submitted earlier on the technical bid sheet. Some of the suppliers fail to report the same in the column provided for the same. Since the EMD is given as permanent EMD many suppliers do not bother to enter the details in the technical bids. Due to the above, the technical evaluation sheets when taken will show the particulars of EMD as blank in the case of many suppliers. We are taking necessary steps with the software providers to account permanent EMD so that the details are shown in the technical bid sheet automatically. As suggested by Audit for easily verifying the EMD details we also started an EMD register in manual form in which details of all EMD given by various vendors are recorded.

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9	4.3.3.7	t s	The corporation is procuring 4000 MT of sugar in each month. To meet this huge requirement participation of Sugar mills are required. Sugar business is a seller,s market rather than a buyer,s market as in the case of other commodities. Sugar mills sells the sugar at their door step without credit or through auction conducted by them. When supplyco insisted the terms and conditions for the supply of other commodities to sugar mills none of them were ready to participate in the e-tender and offer the required quantity. The purchase rates quoted were also increased by those who participated. To meet this contingency and for getting more participation from Sugar mills the terms and conditions for sugar purchase is changed to include advance payment for sugar mills for direct participation. Further, they are exempted from remittance of EMD ,Security deposit and bank guarantee applicable to other tenderers. As per tender condition of Kerala State Civil Supplies Corporation, the delivery of 1st phase quantity is to be completed within 15 days from the date of purchase order and that of 2nd phase to be completed in 23 days from the date of Purchase order. Based on this, the Accountant General has calculated the penalty for sugar millers. As per Clause 10 of tender condition, in the case of sugar mills, payment may be released along with Purchase Order and usually the same is released in 3 or 4 installments. Hence the responsibility of sugar mills to supply sugar starts only when Supplyco release advance payment. However AG has not considered this fact while calculating delay and penalty. It is not fair to impose penalty for delay occurred on the part of the Corporation in releasing advance. In normal case the supply period is calculated from the date of PO but in the case of sugar where payment is to be released in advance, penalty can be calculated only from the date of release of advance. For any recovery of penalty made from subsequent payments, sugar will be short supplied from that purchase order to the extent of short payment. AG reported that penalty for short / delayed supply has been waived off in the case of following two suppliers:- <u>Dharani Sugars & Chemicals Ltd</u> Purchase Order No.9504 dated 25.3.11 was issued to M/s.Dharani Sugars & Chemicals Ltd. for supply of 33,500 qtls. of sugar valuing Rs.9,44,03,000/-. Out of this they have supplied 15302

qtls in time. Supply was delayed due to Public Holidays and Assembly election and in the mean time the next tender commenced thereby changing depot wise requirement. In this circumstance in order to meet the changed requirement of depots, revised PO No.9714 dated 6.5.11 for 18300 qtls was issued at the average rate of next tender which was lower at Rs.2792 after cancelling the existing PO. Accordingly they have supplied 18298.91 qtls of sugar out of the ordered quantity of 18300 quintals. It may be noted that there is no actual short supply/non supply when both these Purchase orders are taken together.

Corporation decided to issue new PO on the ground of changed demand of the commodity by Supplyco depots and also considering the commercial interest of the Corporation rather than to favour the supplier. The rate of revised PO was lower than that of the original tender and payment was released only after completion of supply.Hence there was no loss to corporation.

An amount of Rs.4 crore was released on 31.3.11 as 1st installment of advance payment against PO no.9504. As on 25.4.11 they have supplied sugar worth Rs.4.23 crores. Since there was delay in supply, the cost of sugar against the revised PO Rs.5.44 crores was not released along with the PO, but was released only on completion of entire supply.The rate of revised PO was lower than that of the original tender and moreover the payment was released only after completion of entire supply. Hence Corporation has not incurred any loss.

<u>Ponni Sugar (Erode) Ltd</u>

PO No.10509 was issued to M/s.Ponni Sugar for supply of 11160 qtls of sugar, of which they have supplied 10734 qtls without any issue. The initial short supply was of only 426 qtls (supplied later on).

The short supply of 426 qtls occurred due to the protest of head load workers of some depots to unload the 100 kg bags supplied by the mills. This issue was solved and the remaining quantity of 426 qtls was supplied to various depots considering the stock position and requirement of depots. As per clause 12 of tender condition, in case the short supply is more than 10 % of ordered quantity, 20% of the purchase order value shall be imposed as penalty. Short supply in PO No.10509 is only 4% and the same was

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			supplied later. Hence this PO does not attract short supply penalty. The 402nd Board meeting held on 20.9.2014has decided to impose delay penalty from the date of advance payment and not to exempt sugar mills from remittance of EMD..
10	4.3.3.8		a)Poor market intelligence In the e-tender conducted by Supplyco, suppliers are bound to remit EMD and SD (5% of the P.O.value). The SD will be released only after the expiry of warrantee period(60 days from the date of supply of last consignment). Besides they are bound to replace the stock in case deterioration of quantity occur during the warrantee period of 60 days. In case the stock supplied by the supplier is not as per the specifications the same will be rejected and the supplier is duty bound to take it back and supply stock as per specifications. In the case of non-supply, short supply and delayed supply there will be penalty. Normally it takes 2-3 weeks from the date of supply for the supplier to get payment. Normally suppliers consider all these risks and costs factors in their costing. Besides they also add their margin. The Audit has not considered these risks and cost while comparing the purchase cost with the mandi rates. The rates reported from the mandi are not comparable for the following reasons: • The mandi rates are spot rates at which the commodity is to be purchased in as is wherein condition at the mandi by paying ready cash. • The commodities traded or made available at the mandi needs to be cleaned, graded and rebagged for transporation. • Once the goods are sold to Supplyco in the mandi, the responsibility of the seller is over and Supplyco has to make arrangements for cleaning / grading/ rebagging at the mandi itself and transport the same to Kerala. Supplyco does not have the logistic capability for this task. • Rebagging is highly expensive and to be done locally.

- In tender the suppliers quote the rate for depot delivery and on credit.
- The goods delivered at depots by the suppliers also have warranty for 60 days.
- The Corporation doesn't have the manpower and expertise for mandi purchase.
- The system of Mandi purchase is not transparent as the present e-tender system.
- The rates vary from one lot to another lot in mandi and the rate reported is the average rate.
- It is not possible for verification of each and every bag while procuring. However if there is any damage/poor quality in a single bag we may request the supplier to replace the same.
- Security deposit and EMD is collected from all the suppliers. Besides there are several varieties / qualities of the same items having different prices.

All the above adds to the cost of the product. Audit has not considered these facts. Comparing the total cost and benefit, Corporation is of the opinion that the mandi rate is not comparable to the tender rate. However mandi rates are compared for verifying the price trends.

Regarding the comment that the Company compared the newspaper reported rates of only 9 out of 18 items, it may be noted that newspapers report rates of important items only. Supplyco has compared the newspaper report rates of all items which are available in the newspapers. The news paper reported rates of the remaining items were not compared for the sole reason that news papers do not report the rates of these items.

<u>Collusion among vendors restricting entry of new vendors</u>

The Audit observation is noted. But unfortunately Audit has failed to identify the collusion or cartelization of the bidders in any item in any of the tenders conducted during the audit period. The audit report in a table specifies that "42 vendors, who participated in bidding and received purchase orders, had common email id. The company was aware as they used to send messages to same email ids for communicating with more than one supplier". The annexure – 6 however explains that only 6 suppliers had common e-mail id. The Audit has identified 26 groups from 75 vendors. Apart from the value of Sugar the percentage of purchase order awarded to each group is also identified by the audit. From the table it is evident that not a single group has received more than 10% of the PO value even after removing the value of Sugar which constitutes 22% of the total value of PO. The 26 groups together had bagged only 68.77 % of the total PO value excluding sugar. The biggest group identified by the Audit is group number 24 having 6 vendors. The percentage of PO value received by them is 0.56 % of the 78 % of the total PO value. This shows that the observation made by Audit was not factually correct.

It is a common practice that when business grows, new firms are registered for various purposes by the same persons. The corporation could not stop that practice. There are more than 500 registrations in the tender wizard for participation in our tender. When a firm is registered for participating in the e-tender of the Corporation they also engage a contact person for various purposes. There are several contact persons who do liaison work for different firms especially for firms from outside the State. They help these firms for making enquiries at depots and head office for payments and forwarding bills. Matta rice is dealt by rice mills located at Kalady and many of these mills have more than one Unit (even up to 6) under the same ownership. They all had taken registration under different names either with same liaison official or with same e-mail id.

Audit has further observed that the above group of suppliers restricted entry of new prospective bidders. The Audit identified 71 vendors registered during the year 2012-13 and only 20 vendors were successful in getting purchase orders. It is unfortunate that Audit had not verified how many of them participated in the tender for pulses and spices. Supplyco also conducts various other tenders for curry powder, note book, packing materials and various other sabari products through e-tender. The vendors who want to participate in those tenders also required registration. Regarding the 51 vendors whom the audit

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			identified as victims of the formation of groups of suppliers, the following points had not been noted by Audit. 1. 26 Firms were registered for participating in tenders for Sabari products and packing materials. They had not received any order since they had not participated in any tender for pulses and spices. It is unfortunate that audit made the statement without verifying whether the party had participated in the tender or not. 2. From the remaining, 12 firms were not participated in any of the tenders during this financial year. It is not possible for them to get purchase orders without participating in the tender. 3. In the case of remaining firms, 4 firms had participated only once, 5 firms had participated only twice, 2 firms had participated only thrice and only 2 firms had participated four times in the tender and remained unsuccessful. Purchase orders are issued to only successful bidders who quote lowest rate. On an average 50% bidders only get orders due to high competition in the tender.
11	4.3.3.9		The comments on the rejection of stocks were based on 2011 & 2012 year operation. We have methods to communicate the details of rejected lots to all depots and such acceptance were restricted. Moreover, stocks are now being referred to NABL accredited analytical labs regularly on random basis for specific report on microbiological and chemical parameters. The variation in physical analysis by individual officers may be to the tune of around 5% to 10% on value of refractions obtained. This is however tolerated/ anticipated while analysis. The lots rejected in the depot can be viewed from our website/ e- mail. There is also a register in each depot to make note of the truck load of items received in the depot with GRS/ GTN issued and status of the stocks accepted/ rejected.
12	4.3.3.10		During 2010-11 the total claim for market intervention subsidy from Government is 118.81 Crores against which Government released 76.31 Crores leaving a balance of 42.50 Crores. Corporation will not be able to purchase the entire requirement unless the loss suffered by it on selling essential items at

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		heavily discounted rate is reimbursed by the Government. The contention of the Audit that the increase in the retail price is due to the non availability of the same in Supplyco outlets is totally erroneous. The open market rates depends on a range of reasons like supply and demand, import, climatic conditions, policies of Government, changes in consumption pattern, festivals, changes in the price in international market, market sentiments etc etc. The Audit observation suggesting to make available all the essential items throughout the year is noted and all efforts will be made to do so subject to financial and logistic constraints and direction of Government in this regard.

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