



**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2014-2016)**

**SIXTY FIRST REPORT**  
(Presented on 11th December, 2014)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM

2014

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**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
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**SIXTY FIRST REPORT**

**On**

**Kerala State Civil Supplies Corporation Limited based on the Report  
of the Comptroller and Auditor General of India for the  
years ended on 31st March 2004, 2010  
and 2011 (Commercial)**

77/2015.

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## INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2014-16) having been authorised by the Committee to present the Report on their behalf, present this Sixty First Report on Kerala State Civil Supplies Corporation Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2004, 2010 and 2011 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended on 31st March, 2004, 2010 and 2011 were laid on the Table of the House on 5-7-2005, 28-6-2011 and 23-3-2012 respectively. 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 2011-2014.

This Report was considered and approved by the Committee at the meeting held on 19-11-2014.

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

The Committee wish to express their thanks to the officials of the Food and Civil Supplies Department of the Secretariat and Kerala State Civil Supplies Corporation 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 and Civil Supplies 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.

Thiruvananthapuram,  
11th December, 2014.

K. N. A. KHADER,  
*Chairman,*  
*Committee on Public Undertakings.*

## **REPORT**

### **KERALA STATE CIVIL SUPPLIES CORPORATION LIMITED**

#### **AUDIT PARAGRAPH**

The Company had established depots, sub depots and retail outlets throughout the State for distribution of essential commodities. The collection from sale of commodities made by various centres were being remitted to designated branches of commercial banks and in turn transferred periodically to the Central Collection Account. The funds so collected were being transferred to cash credit account of the Company. Early transfer of the amounts facilitated reduction of interest in cash credit account.

Mention was made under paragraph 2E.3.4 of the Report of the Comptroller and Auditor General of India for the year ended 31st March, 1991, No.1 (Commercial) about the failure of the Company to detect the discrepancies in bank accounts like the delay in transfer of funds from collection accounts to cash credit accounts and absence of effective follow-up in tracing out missing credits.

Audit further observed that the Company had not been taking timely action either to reconcile the accounts or to follow-up the missing credits so as to avoid huge interest loss arising from delay in transfer of funds to cash credit account. Due to system deficiency in follow-up of transfer of funds, the remittances amounting to ` 1.69 crore made by the Company's sales depots in the designated banks during the period 1992-93 to 1999-2000 were actually accounted in the Central Collection Account only on 30th March, 2002. The Company, however, did not claim any interest on the delayed transfers. The loss by way of interest paid on cash credit account due to the delayed transfer worked out to be ` 1.22 crore.

Thus, the persistent system deficiency in reconciliation and follow-up of remittances to Central Collection Account resulted in avoidable interest loss of ` 1.22 crore.

Government stated (September 2004) that the claim for interest loss would be taken up with State Bank of Travancore immediately on settling the major portion of the unlinked/missing transfers. The fact, however, remained that the Company failed to detect discrepancies in bank accounts persisting since 1991 and the interest loss also remained to be made good.

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[Audit Paragraph 3.1 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2004 (Commercial).]

The notes furnished by Government on the Audit Paragraph is given in Appendix II.

1. The Committee sought explanation for the inordinate delay in transfer of funds from central collection accounts to cash credit accounts of the Corporation, which had resulted in avoidable interest loss of ₹ 1.22 crore. The witness informed that the shortfalls in accounting procedures followed by the Corporation had been corrected by introducing fortnightly transfer watching system and by opening separate operative accounts at the Depot level. The Committee was not satisfied by the reply and wanted to know the reasons for the undue delay in transfer of funds and the absence of effective follow-up in tracing out missing credits.

2. To a specific question of the Committee regarding the fixation of responsibility against the officers concerned for non-finalisation of accounts, the witness answered that the audit para was silent in this matter. The Committee expressed its discontent over the statement made by the witness and stated that the Committee was empowered to recommend for fixing responsibility and that the audit para was only the basic document upon which the Committee could take action. The witness thereupon admitted that there was failure on the part of the Corporation to detect the discrepancies in bank accounts pertaining to 1991 and substantial revenue loss incurred consequent thereto. It was further informed that the Corporation had already introduced a corrective system to streamline transfer of funds from collection accounts to cash credit accounts and bank reconciliation in the light of audit observation.

3. The Committee opined that it was one of the typical examples of financial indiscipline prevailing in the Corporation. The Committee remarked that non-finalisation of accounts in time was a grave lapse and officers concerned were responsible and accountable for the same. The Committee, therefore recommended that appropriate action should be taken against the officers concerned after fixing responsibility.

4. The witness stated that the documents pertaining to the issue were not readily available as it was a belated matter. He further informed that during the period considerable time lag had occurred in getting details of transfer of funds from collection accounts to head office's account owing to manual remittance. The witness further clarified that the problems faced by the Corporation in finalising accounts were redressed by using the auto speed facility of

core banking system which facilitated transfer of daily accounts of 1420 outlets of the Corporation into the accounts of headquarters and it was reconciled automatically. The witness assured that such loss would not happen in future as accounts and bank remittance were closely monitored in the present system.

#### **Conclusions/Recommendations**

5. The Committee is displeased to note that the inordinate delay in the transfer of funds from central collection accounts to cash credit accounts in Kerala State Civil Supplies Corporation Limited (SUPPLYCO) during 1992-93 to 1999-2000 and the absence of an effective monitoring system to follow-up missing credits has hindered the proper maintenance of accounts and which in turn has resulted in interest loss of ₹ 1.22 crore. The Committee observes that there has been a substantial revenue loss due to the failure of the Corporation to detect the discrepancies in bank accounts and retention of the funds in the banks without crediting it during the period from 1992-93 to 1999-2000. The Committee remarks that non-finalisation of accounts in time is a grave lapse and officers of SUPPLYCO are responsible and accountable for the same. The Committee is perturbed to note that no action has been initiated against the then officers who were responsible for the huge loss on the pretext that the audit para was silent in this matter. The Committee, therefore recommends to fix responsibility against those officers who are responsible for the lapses. The Committee expresses its concern over the system of accounting and monitoring which prevailed in the Corporation and recommends that timely action should be taken by the Corporation to establish an effective system to prepare bank reconciliation statement periodically and to finalise annual accounts of the Corporation as per the Companies Act. The Committee also directs to furnish a detailed report regarding the remedial measures taken by the Corporation to avoid such undesirable practices in future and wants to know about the steps taken to streamline transfer of funds from collection accounts to cash credit accounts, and the periodicity of bank reconciliation in the light of deficiencies noticed in the audit and the measures adopted by the Corporation to prevent such occurrence in the present system of core banking. The Committee further wants to be informed about the action taken by the Corporation to make good the interest loss sustained by the Corporation. The Committee recommends to devise a more professional and transparent system of cash and fund flow analysis to improve fund management.



## AUDIT PARAGRAPH

Government of India (GOI) released (October 2009) 40660 MT of wheat to Kerala under Open Market Sales Scheme (Domestic) for sale during November to December 2009 with a view to containing rise in food prices. The wheat was released to the State Government at the rate of ₹ 12957.40 per metric ton (MT) and the Government was to ensure that the retail prices did not exceed ₹ 14957.40 per MT (release price of ₹ 12957.40 per MT plus a maximum of ₹ 2,000 per MT towards handling and transportation cost). As per the allotment, State Government was to lift the allocated quantity of wheat from the godowns of Food Corporation of India (FCI) and distribute the same through Government or semi-Government organisations. Besides, the State Government was entitled to sell wheat to small processors (with monthly consumption of wheat up to 30 MT) of wheat.

Kerala State Civil Supplies Corporation Limited (Company) was entrusted with the responsibility of procurement of wheat from FCI. Even though, the Company expressed (11th November, 2009) reservations about the marketability of wheat, the entire quantity of 40660 MT was allotted (November 2009) to the Company for distribution. Following a meeting convened (November 2009) by Secretary, Food and Commissioner of Civil Supplies, the Company was directed (November 2009) to sell the wheat to willing merchants after charging 50 paise per kilogram towards administrative overheads. Accordingly, the Company invited (November 2009) expression of interest from private mills and based on response the entire wheat was allotted to 68 private mills in six districts at the rate of ₹ 13,592 per MT. The quantity of allotment ranged between 10 MT to 5500 MT. All the private mills remitted the full amount for the entire quantity allowed up front and the Company in turn remitted the price of 35550 MT wheat to the FCI. FCI began issue of wheat under OMSS from 30th November, 2009. The private mills lifted (November–December 2009) 23541 MT of wheat when the FCI stopped (9th December, 2009) further release of wheat on the ground that the Company had flouted the GOI directive by allotting OMSS wheat to bulk roller flour mills.

We noticed (December 2009) that the release of wheat under OMSS was primarily intended to be distributed among retail consumers. The Company, however, under the guise of allotment of OMSS wheat to 68 retail merchants, had allotted the entire quantity to bulk consumers (roller flour mills) at subsidised rate applicable to retail supply. As per GOI directives, allotment of wheat under OMSS (D) to bulk consumers ought to have been priced at ₹ 16,032.10 per MT instead of ₹ 13,457.40 per MT actually charged.

This act of the Company to allot OMSS wheat in bulk to roller flour mills in contravention of GOI directives deprived the targeted population of availability of wheat at ₹ 14.95 per kg. which resulted in undue benefit of ₹ 6.02 crore on 23380.67 MT of OMSS wheat sold to 42 private mills (excluding mills having milling capacity of 30 MT per day) in deviation from the declared objective of the Company.

Government stated (May 2010) that based on the proceedings of Commissioner of Civil Supplies, the Company allotted wheat to bulk consumers, subject to the condition that the wheat will be utilised in Kerala, resulting in increased availability at economical price and reduced cost of wheat to the consumers. The final retail price was to be fixed at issue price plus ₹ 1.50 per kg. and actual expenses of value addition. The mills were expected to file weekly returns to Director of Civil Supplies/Company giving quantity consumed/sold, selling rate etc. The returns filed by the millers suggest that the wheat has reached the end consumers of Kerala. It was also reported that the Chairman and Managing Director had been directed to recover the amount from those whom the wheat was allotted violating the Government of India guidelines.

On verification of reply of the Government, we observed that the mills were submitting weekly returns indicating quantity of wheat in stock, sold, balance, average selling price of wheat products, viz. maida, sooji, atta, bran flakes, bran fine, etc. Even though, the Department was collecting the returns from the mills regularly, there was no mechanism to watch, whether the wheat products are sold within Kerala. As per stock statements made available by Director of Civil Supplies, in respect of ESSEM Traders, Perinthalmanna to whom 100 MT of wheat was issued, 57.270 MT was seen to be issued to two mills/traders in Coimbatore (Tamil Nadu). Similarly, in respect of PKR Modern Rice Mill, Thenkurrissi, who lifted 1000 MT of wheat, 516.92 MT was sold to Mills outside the State in December 2009. Similar details in respect of other Mills were not available. Further FCI reported (April 2010) to the Secretary, Food and Civil Supplies that as per the daily market prices reported by the State Government there was not much reduction in wholesale/retail price of wheat in Kerala. Therefore, the reply of the Government will not hold good.

Out of the amount deposited by the Company FCI adjusted (July 2010) ₹ 7.73 crore towards the difference in price in respect of mills who had not lifted allotted quantity in full and ₹ 7.80 crore was refunded. The differential amount of OMSS (D) amounting to ₹ 3.07 crore was due from 31 mills which had already lifted entire quantity allotted.

As the differential balance amount due from mills has been adjusted by FCI from the advance, the Company is contractually liable to the mills for reimbursing the amount as per the binding agreement by way of expression of interest. The lifting of wheat quota, therefore, did not serve the intended purpose of containing the retail price of wheat in the State and distributed wheat did not reach the intended consumers/retailers.

We suggest that in future when wheat intended for distribution to retail consumers under the OMSS or other GOI Scheme is given to Government/semi-Government agencies for ultimate distribution, it should be ensured that it is actually reaching the ultimate consumers. The Orders of Governments should be followed in right spirit.

[Audit Paragraph 4.3 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2010 (Commercial).]

The notes furnished by Government on the Audit Paragraph is given in Appendix II.

6. To a question of the Committee pertaining to the said para, the witness replied that Government of India had allocated 40660 MT of wheat to Kerala under Open Market Sales Scheme (Domestic) for distribution, out of which the Corporation had lifted only 23633 MT of wheat after remitting advance cost of ₹ 46.5 crore to Food Corporation of India (FCI) for 35000 MT and leaving a balance of 11867 MTs valuing ₹ 15.53 crore. The witness further stated that the Corporation had procured special category wheat under the scheme which was primarily intended to be distributed to charitable institutions. However, the State Government was entitled to sell special category wheat to small millers with monthly consumption of wheat up to 30 MT. Therefore, the Corporation had invited expression of interest from private mills and based on the response the entire wheat was allotted to private mills. The Committee was not satisfied with the explanations of the witness and pointed out that the Corporation had failed to take any earnest effort to distribute the wheat to the public with a view to check the hike in food prices.

7. Accountant General pointed out that FCI had reported that Government of India had stopped further release of wheat under the scheme on the ground that the Company had allotted the entire quantity of wheat to bulk roller flour mills at subsidised rate applicable to retail supply. Therefore, FCI finally charged ₹ 160,32.40 per MT i.e. the reserve price instead of ₹ 13,457.40 per MT i.e. OMSS(D) Special Category Price actually charged. Based on the recalculation FCI refunded only ₹ 7.78 crore out of ₹ 15.53 crore after adjusting the differential amount.

8. The Committee enquired the circumstances in which the Corporation had taken such an unscrupulous decision to distribute the wheat to bulk roller flour mills who in turn sold the same to Tamil Nadu, defeating the very purpose of the scheme. The Committee also enquired why the Corporation had not lifted the entire quantity of wheat allotted to Kerala under the scheme. The Committee pointed out that the Corporation did not have a system to monitor whether the wheat allotted to millers was sold within Kerala. The Committee expressed its grave concern over the fact that officials of the Corporation had provided an opportunity to encourage malpractice and enquired whether any action had been taken to fix responsibility against the officers concerned who had deviated from the declared objective of the scheme. The witness informed the Committee that the Corporation did not go further with the scheme since Food Corporation of India had unilaterally stopped further allotment of wheat under OMSS Scheme and had enhanced the price of wheat already lifted. Replying to a specific question of the Committee regarding realisation of additional amount incurred to the Corporation, the witness stated that the Corporation had taken earnest effort to recover the amount from FCI and the matter was brought to the notice of Central Government through the Minister, Food and Civil Supplies. Moreover, the matter was taken up with Prime Minister through Chief Minister of Kerala, but a fruitful result has not come out yet.

9. The Committee enquired whether any steps had been taken to recover the amount from the mill owners who had availed undue benefit of the scheme, the witness replied that while Corporation had initiated revenue recovery proceedings against the millers to recover the amount, they had approached the Hon'ble High Court citing that they were contractually not liable to pay the extra amount charged by FCI. The witness further stated that the Hon'ble High Court had directed the State of Kerala to take up the matter with the Government of India for an out of court settlement to recoup the amount from FCI. The Committee was doubtful whether the Corporation had stood for protecting its interest while Hon'ble High Court considered the case.

10. In order to clear the ambiguity relating to the allotment of wheat to private mills the witness elaborated that it had been decided in a high level meeting attended by Secretary, Food and Civil Supplies and representatives of Food Corporation of India and in the light of the decision of the meeting, the Corporation had taken steps to allot the wheat to private mills by inviting expression of interest giving wide publicity. When the Committee desired to be furnished with a copy of the minutes of the said meeting, the witness disclosed

that no documentary evidence was available to prove the representation of FCI in the meeting. The Committee sought details of action taken by the Corporation against the millers who sold the wheat outside Kerala violating the norms of the agreement. The witness informed that formal written agreement binding the millers to sell the finished products within Kerala had not been entered into between the millers and Corporation. The Committee observed that it was totally unjustifiable and a classic example of sheer negligence on the part of concerned officials who allotted the entire quantity of wheat to roller flour mills without executing a binding legal agreement and thereby the Corporation had provided an opportunity to millers to sell the wheat wherever they like. Moreover, in the absence of valid agreement with price variation clause, the Corporation was not able to initiate action against the millers to recover extra expenditure incurred to the Corporation.

11. The Committee opined that it was crystal clear that the Corporation had violated the guidelines of Government of India and defeated the very purpose of the scheme. As a nodal agency of Government, the Corporation was entrusted with the responsibility of implementation of the scheme, but Corporation had cut a sorry figure to materialise its objective of checking price rise of essential commodities through market intervention. The wheat allotted to institutions engaging in social welfare did not reach the ultimate consumers and could not contain the retail price of wheat in Kerala. The Committee pointed out that it was unfortunate to learn that the laxity on the part of the officials of the Corporation was the sole reason for the failure of the Government of India scheme. Therefore, the Committee recommended that appropriate action should be taken against the officers concerned after fixing responsibility. The Committee also recommended that additional expenditure incurred by the Corporation on this account should be made good from owners of private mills who gained huge profit at the expense of the Corporation. The Committee expressed its discontent over the sorry state of affairs that prevailed in the Corporation.

#### **Conclusions/Recommendations**

**12. The Committee finds that Kerala State Civil Supplies Corporation Limited has flouted the norms in implementing the Open Market Sales Scheme (Domestic) as proposed by Government of India, which envisaged to make available wheat at ₹ 14.95 per kg. to public with a view to check the hike in food prices in the State. The Committee understands that the Corporation has not taken any earnest effort to lift the entire quantity of wheat allotted to Kerala under the Scheme, but finds that large quantities**

of wheat intended to be distributed among retail consumers has been siphoned off to bulk roller flour mills who in turn sold the same in Tamil Nadu and thereby defeated the very purpose of the scheme.

13. The Committee remarks that it is totally unjustifiable and cites this as a classic example of sheer negligence on the part of the responsible officers who wilfully violated the Government Order in this regard. In doing so the declared objective of the Scheme has been defeated. By distributing the entire quantity of wheat to bulk consumers at subsidised rate the Corporation has to suffer a loss to the tune of ₹ 3.07 crore. The laxity on the part of the officials of the Corporations to enter into an agreement with price variation clauses deferred the bulk consumers from remitting the extra cost incurred by the Corporation. The Committee expresses its grave concern over the fact that as a nodal agency of Government, the Corporation has failed to fulfill its obligations and has cut a sorry figure in materialising its objective of containing the price hike of essential commodities through market intervention.

14. The Committee remarks that a Central Government Scheme envisaged to contain the food price hike in the State proved to be nugatory due to the lethargic attitude of the concerned officials of the Corporation. Therefore, the Committee recommends that the Corporation should tighten the screws on all erring officers after fixing responsibility. The Committee further recommends that additional expenditure incurred by the Corporation on this account should be made good from the owners of private mills who gained huge profit at the expense of the Corporation. The Committee also recommends that while implementing such schemes due diligence should be exercised by the responsible officers of the Corporation, so that the interest of the Corporation is not put at stake. Further, guidelines stipulated by Government should be followed in right spirit and made sure that the benefits envisaged in schemes actually reached the ultimate consumers.

#### AUDIT PARAGRAPH

State Trading Corporation (STC), a Government of India PSU, sent (17th January, 2009) a communication to the Company, through E-mail, offering to supply 20000 Quintals of green gram under the scheme of stabilizing prices of pulses and distribution through State Government at the rate of ₹ 19.77/kg. plus freight ex-Mumbai Port (Total ₹ 23,014 per MT). The Company was asked to confirm the acceptance by 20th January, 2009. Audit noticed (April 2011) that the Company failed to respond within the period prescribed and consequently

the pulses were sold in the open market by STC. The Company, however, procured green gram from other sources which was more expensive than the rate which STC would have charged resulting in avoidable extra expenditure of ₹ 2.93 crore.

The Company stated (June 2011) that the consumers were not deprived of subsidised green gram and assured to enquire into the matter so as to take necessary action against the concerned. It was also stated (May 2011) that the communication from STC being through E-mail could not be acted upon as it was not received. The fact remained that the Company resorted to procurement from alternative open market and expensive sources. Moreover, the Company was very well aware of the scheme offered by Government of India. Had the Company acted in right earnest it would have procured at least 2000 MT of green gram less from the open market with its attached additional cost of ₹ 2.93 crore. The matter was reported (May 2011) to Government; their reply was awaited (November 2011).

[Audit Paragraph 4.2 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2011 (Commercial).]

The notes furnished by Government on the Audit Paragraph is given in Appendix II.

15. The Committee wanted to be given an explanation regarding the failure of the Corporation to procure subsidised green gram offered by STC, the Government of India Public Sector Undertaking and subsequent purchase of green gram at higher rate from other sources resulting in avoidable extra expenditure of ₹ 2.93 crore. The witness replied that the problem occurred mainly due to miscommunication. He further explained that the Corporation was unaware of the offer from STC due to the fact that E-mail from STC was received in the 'spam box' instead of 'inbox' for technical reason. The Committee wanted to know the details of the officers responsible for checking E-mails. Without giving a specific answer the witness disclosed the helplessness of the officials of the Corporation to detect how the message sent to the E-mail address of Public Information Officer, had been received in the spam box.

16. Accountant General pointed out that such a grave crisis occurred on account of the imprudent decision of the responsible officials of the Corporation to give specific command for filtering the mails with header containing ".in". The Committee agreed with the findings of the Accountant General and remarked that it was a serious lapse and disciplinary action should be taken against the officials who was involved in the issue. The witness informed that

there was no deliberate attempt on the part of the officials of the Corporation to filter the legitimate correspondence through E-mail as stated by the Accountant General. He further informed that spam filter might be used as protective system against corrupted executable files which may corrupt other programmes of computer. The Committee was not at all convinced with the reply of the witness and remarked that the overall performance of the Corporation was not satisfactory.

#### **Conclusions/Recommendations**

17. The Committee is not convinced with the reasons submitted by the witness regarding the failure of the Corporation to procure subsidised green gram offered by STC through E-mail and subsequent purchase of green gram at higher rate from other sources resulting in avoidable extra expenditure of ` 2.93 crore. The Committee understands that such a grave issue has occurred on account of the imprudent decision of the responsible officials of the Corporation to give specific command for filtering the mails with header containing '.in'. The Committee suspects some mala fide intentions on the part of the officers to ignore the offer which was intended to stabilize the prices of pulses. The Committee, therefore recommends that an enquiry should be conducted in the matter and disciplinary action should be taken against the officials who decided to filter the legitimate correspondence through E-mail. The Committee has raised suspicion about the credibility of the actions taken by the Corporation in this regard.

18. The Committee is aghast at the deplorable situation prevailing in the Corporation. The Committee expresses its discontent over the callous attitude of the officials of the Corporation in executing the schemes offered by Government. The Committee further recommends that as a nodal agency of the Government, the Corporation should adhere to the directions contained in the Government Order in its right spirit. The Corporation should act in a responsible manner to check the hike in food price through market intervention. While implementing Government of India schemes the Corporation should exercise due care to ensure that the benefits envisaged in such schemes did reach the targeted consumers for whom it was intended.

Thiruvananthapuram,  
11th December, 2014.

K. N. A. KHADER,  
*Chairman,*  
*Committee on Public Undertakings.*



## APPENDIX I

## SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

| <i>Sl. No.</i> | <i>Para No.</i> | <i>Department concerned</i> | <i>Conclusions/Recommendations</i>   |
|----------------|-----------------|-----------------------------|--|
| (1)            | (2)             | (3)                         | (4)  |
| 1              | 5               | Food and Civil Supplies     | The Committee is displeased to note that the inordinate delay in the transfer of funds from central collection accounts to cash credit accounts in Kerala State Civil Supplies Corporation Limited (SUPPLYCO) during 1992-93 to 1999-2000 and the absence of an effective monitoring system to follow-up missing credits has hindered the proper maintenance of accounts and which in turn has resulted in interest loss of ₹ 1.22 crore. The Committee observes that there has been a substantial revenue loss due to the failure of the Corporation to detect the discrepancies in bank accounts and retention of the funds in the banks without crediting it during the period from 1992-93 to 1999-2000. The Committee remarks that non-finalisation of accounts in time is a grave lapse and officers of SUPPLYCO are responsible and accountable for the same. The Committee is perturbed to note that no action has been initiated against the then officers who were responsible for the huge loss on the pretext that the audit para was silent in this matter. The Committee, therefore recommends to fix responsibility against those officers who are responsible for the lapses. The Committee expresses its concern over the system of accounting and monitoring which prevailed in the Corporation and recommends that timely action should be taken by the Corporation to establish an effective system to prepare bank reconciliation statement periodically and to finalise annual accounts of the Corporation as per the Companies Act. The Committee also directs to |

| (1) | (2) | (3)                     | (4)  |
|-----|-----|-------------------------|--|
|     |     |                         | furnish a detailed report regarding the remedial measures taken by the Corporation to avoid such undesirable practices in future and wants to know about the steps taken to streamline transfer of funds from collection accounts to cash credit accounts, and the periodicity of bank reconciliation in the light of deficiencies noticed in the audit and the measures adopted by the Corporation to prevent such occurrence in the present system of core banking. The Committee further wants to be informed about the action taken by the Corporation to make good the interest loss sustained by the Corporation. The Committee recommends to devise a more professional and transparent system of cash and fund flow analysis to improve fund management. |
| 2   | 12  | Food and Civil Supplies | The Committee finds that Kerala State Civil Supplies Corporation Limited has flouted the norms in implementing the Open Market Sales Scheme (Domestic) as proposed by Government of India, which envisaged to make available wheat at ₹ 14.95 per kg. to public with a view to check the hike in food prices in the State. The Committee understands that the Corporation has not taken any earnest effort to lift the entire quantity of wheat allotted to Kerala under the Scheme, but finds that large quantities of wheat intended to be distributed among retail consumers has been siphoned off to bulk roller flour mills who in turn sold the same in Tamil Nadu and thereby defeated the very purpose of the scheme.                                    |
| 3   | 13  | ,,                      | The Committee remarks that it is totally unjustifiable and cites this as a classic example of sheer negligence on the part of the responsible officers who wilfully violated the Government Order in this regard. In doing so the declared objective of the Scheme has been defeated. By distributing the entire   |

| (1) | (2) | (3)                     | (4)   |
|-----|-----|-------------------------|---|
|     |     |                         | <p>quantity of wheat to bulk consumers at subsidised rate the Corporation has to suffer a loss to the tune of ₹ 3.07 crore. The laxity on the part of the officials of the Corporations to enter into an agreement with price variation clauses deferred the bulk consumers from remitting the extra cost incurred by the Corporation. The Committee expresses its grave concern over the fact that as a nodal agency of Government, the Corporation has failed to fulfill its obligations and has cut a sorry figure in materialising its objective of containing the price hike of essential commodities through market intervention.</p>   |
| 4   | 14  | Food and Civil Supplies | <p>The Committee remarks that a Central Government Scheme envisaged to contain the food price hike in the State proved to be nugatory due to the lethargic attitude of the concerned officials of the Corporation. Therefore, the Committee recommends that the Corporation should tighten the screws on all erring officers after fixing responsibility. The Committee further recommends that additional expenditure incurred by the Corporation on this account should be made good from the owners of private mills who gained huge profit at the expense of the Corporation. The Committee also recommends that while implementing such schemes due diligence should be exercised by the responsible officers of the Corporation, so that the interest of the Corporation is not put at stake. Further, guidelines stipulated by Government should be followed in right spirit and made sure that the benefits envisaged in schemes actually reached the ultimate consumers.</p> |
| 5   | 17  | „                       | <p>The Committee is not convinced with the reasons submitted by the witness regarding the failure of the Corporation to procure subsidised green gram offered by STC through E-mail and subsequent purchase of</p>  |

| (1) | (2)                        | (3) | (4)   |
|-----|----------------------------|-----|---|
|     |                            |     | <p>green gram at higher rate from other sources resulting in avoidable extra expenditure of ₹ 2.93 crore. The Committee understands that such a grave issue has occurred on account of the imprudent decision of the responsible officials of the Corporation to give specific command for filtering the mails with header containing 'in'. The Committee suspects some mala fide intentions on the part of the officers to ignore the offer which was intended to stabilize the prices of pulses. The Committee, therefore recommends that an enquiry should be conducted in the matter and disciplinary action should be taken against the officials who decided to filter the legitimate correspondence through E-mail. The Committee has raised suspicion about the credibility of the actions taken by the Corporation in this regard.</p> |
| 6   | 18 Food and Civil Supplies |     | <p>The Committee is aghast at the deplorable situation prevailing in the Corporation. The Committee expresses its discontent over the callous attitude of the officials of the Corporation in executing the schemes offered by Government. The Committee further recommends that as a nodal agency of the Government, the Corporation should adhere to the directions contained in the Government Order in its right spirit. The Corporation should act in a responsible manner to check the hike in food price through market intervention. While implementing Government of India Schemes the Corporation should exercise due care to ensure that the benefits envisaged in such schemes did reach the targeted consumers for whom it was intended.</p>   |

## APPENDIX II

## NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

| <i>Sl. No.</i> | <i>Paragraph No.</i> | <i>Action Taken</i>  |
|----------------|----------------------|--|
| (1)            | (2)                  | (3)  |
| 1              | 3.1<br>(2003-2004)   | <p>The point raised by the Audit is noticed. It may please be noted that the main task faced by the Kerala State Civil Supplies Corporation Ltd., during those period was the finalisation of Accounts and Audit. The finalisation of Accounts and Audit of Kerala State Civil Supplies Corporation were in arrears for a long period. The finalisation of accounts for the period 1990-91 to 1998-99 were completed within a period of three years i.e. during 1998-99 to 2000-01. Due to delay in filing the annual accounts, the Registrar of Companies had initiated action against Corporation and the Chief Officers and a time schedule was fixed by the Company Law Board for filing the annual accounts up to 1998-99. Thus the Kerala State Civil Supplies Corporation Ltd., mainly focused on accounts finalisation within the time schedule fixed by the Company Law Board for filing the annual accounts up to 1998-99. Thus the Kerala State Civil Supplies Corporation Ltd., mainly focused on accounts finalisation within the time schedule fixed by the Company Law Board. The time allowed was hardly sufficient considering the volume of transactions. The process of settlement of this issue of the Kerala State Civil Supplies Corporation have already been started and the Corporation has already taken up the issue with all the Banks connected with the unaccounted items. However interest loss for delay in transfer for the earlier period was not claimed since the matter would discourage the bank authorities to settle the issue at the earliest. The interest loss for the delayed credit shall be claimed soon on settlement of the issue.</p> <p>As considerable delay was noticed in getting the details of transfer of funds from collection accounts to Head Office's Bank Accounts in the present system of sales and</p> |

| (1) | (2)                | (3)   |
|-----|--------------------|---|
| 2   | 4.3<br>(2009-2010) | <p>bank reconciliation (There are about 360 collection accounts from where transfers of funds are effected to Head Office), the Corporation has introduced fortnightly transfer watching system with effect from 1-11-2003 and separate operative accounts are opened in the Depot level itself. Now fund transfer details and fund position are reviewed every week to avoid such lapse in future.</p> <p>Presently as part of decentralization and Participatory Management Operative Bank Accounts have been opened for all the Depots and steps are also taken to route the collection of the outlets coming under the jurisdiction of the Depot to the operative bank accounts of the Depot and hence such losses will not happen in future as accounts and bank remittance are closely monitored now.</p> <p>The Government of India has allocated a quantity of 40660 MT of wheat to the State of Kerala at a rate of ₹ 1,295.74 per Qtl. under open market sale scheme (D) for the month of November, December 2009.</p> <p>As a prelude to implementation of the scheme a meeting was convened by the Secretary to Government, F &amp; CSD on 19-11-2009 with officials and representatives of merchants association etc., in which it was stated that the scheme is intended for Retail Merchants, and SUPPLYCO was instructed to lift the entire stock of wheat without lapsing the allotted quantity. Accordingly the Director of Civil Supplies vide proceedings No. CS. A3.26492/09(2), dated 25-11-2009 allotted 40660 MT of wheat to SUPPLYCO. The whole process was kept fair and transparent and Release Orders of wheat to millers/ dealers on first come first basis were issued after collecting from them the cost in advance. It was also insisted to ensure that end price to end consumers is not more than ₹ 2 over the Food Corporation of India issue price excluding value addition.</p> |

| (1) | (2) | (3)   |
|-----|-----|---|
|     |     | <p>The Kerala State Civil Supplies Corporation remitted advance cost of ₹ 46.5 crore to Food Corporation of India for 35500 MT and lifted 23633 MTs leaving a balance of 11867 MTs valuing 15.53 crore. Afterwards Food Corporation of India unilaterally stopped issue of further stock released by entirely retaining the balance cost and by letter No. S&amp;S 4(2)/09-10/OMMS (D)/GoK, dated., 4-12-2009 stated that terms and conditions of the scheme was violated. Following this a high level meeting was convened in the chamber of the then Hon'ble Food Minister of Government of Kerala, including the representatives of Food Corporation of India and discussed various aspect on this matter. In that meeting it was decided that in case the Government of India do not have any objections to the procedure adopted by Government of Kerala to implement the sale of wheat under OMSS(D), the State Government is ready to take the balance quantity of 16000 MT also. Otherwise the amount deposited by SUPPLYCO may be refunded. However, Food Corporation of India kept the matter pending till September 2010 and finally decided to recover cost @ 1620.17/qntl. + VAT for the cost of wheat already lifted. Based on the calculation they also refunded only ₹ 7.78 crore out of ₹ 15.53 crore and remaining is pending with them.</p> <p>In this regard an amount of ₹ 7.75 crore is to be received from Food Corporation of India. The due amount to the millers can be paid only after receipt of the pending amount from FCI. In the amid Hon'ble High Court of Kerala, directed the State of Kerala to move the Government of India for an out of Court settlement of the dispute on the realization of higher charges by the Food Corporation of India for the wheat allotted to the State of Kerala under the Open Market Sales Scheme.</p> <p>As directed by this Honourable Court, the Secretary (Food, Civil Supplies and Consumer Affairs) heard the</p> |

| (1) | (2)                | (3)  |
|-----|--------------------|--|
|     |                    | <p>affected parties and then took up the issue with Government of India; vide letter No. 137/C2/11/F&amp;CSD dated, 22-1-2011 requesting directions to Food Corporation of India to release ₹ 7.75 crore to SUPPLYCO. But Government of India, vide letter No. 1-11/2009-py.IV (pt) dated 10-2-2011, reiterated their earlier stand and informed that any reconsideration is not possible. The issue was also taken up by the former Minister (Food and Civil Supplies) with Honourable Union Minister of State for Food (independent charge) for Food, Public Distribution and Consumer Affairs for favourable consideration. The Honourable Union Minister also informed that any reconsideration of the earlier decision taken by Government of India is not possible. Thereafter on 24-8-2011 the matter have once again taken up with the Hon'ble Prime Minister through the Chief Minister for his intervention to direct the Food Corporation of India to release ₹ 7.7 crore to SUPPLYCO. Thus earnest efforts have been taken to settle the matter amicably out of court in compliance with the orders of the Honourable Court. Strict instruction to follow orders of Government in right spirit in future business has given to CMD SUPPLYCO as suggested by the Committee.</p> |
| 3   | 4.2<br>(2010-2011) | <p>Kerala State Civil Supplies Corporation Ltd. had conveyed to all the 4 Central Public Sector Undertakings its requirement of pulses and quality specifications. Kerala State Civil Supplies Corporation Ltd. was unaware of the offer from, M/s STC for the supply of green gram @ ₹ 19.77 per kg. due to the fact that E-mail from M/s STC was received in the 'Spam box' instead of 'Inbox' for technical reason.</p> <p>The letter from M/s STC was only a preliminary communication. The offer can be accepted only if the stock is found to be of acceptable quality. During the last 2 years in many instances Kerala State Civil Supplies Corporation Ltd. could not purchase the stock offered by Central Public Sector Undertakings due to quality issues.</p>   |



| (1) | (2) | (3)   |
|-----|-----|---|
|     |     | <p>The communication received subsequently says that M/s STC can tentatively offer 2000 MT at Nhava Sheva by end of January 2009@ 19.77. It also mention about detention charges etc. meaning that stock was not readily available with them and rate was only tentative. In any case, the phone numbers and fax numbers, website addresses of SUPPLYCO, address of Secretary, Government of Kerala were available with them, but they chose to send spam mail itself shows they did not respond to the request properly. Subsequently SUPPLYCO reminded M/s STC on 1-12-2008, 17-12-2008 and 22-12-2008 respectively. The fact that SUPPLYCO had sent 3 reminders within one month shows that SUPPLYCO was serious and genuinely interested in purchasing pulses from STC under the scheme. Further SUPPLYCO had again clearly communicated on 17th February, 2009 regarding confirmation but STC chose to sell it in the open market as such no avoidable lapse can be attributed to Kerala State Civil Supplies Corporation Ltd.</p> |
|     |     | <p>Further it can be seen that M/s STC has always been dilly dallying on making supplies which is clear from correspondence subsequently made and every time the deal has not materialize. Therefore calculating a notional loss on a tentative offer, in a spam mail, is improper.</p>   |
|     |     | <p>Apart from Ex-Mumbai price elements like transportation charges, detention and other port related charges, cost relating to the weight of gunny bags, higher wastage (since the stock is ungraded and uncleaned), interest cost on advance payment etc. also need to be considered to arrive at the landed cost. In the audit para alleged loss is calculated on the entire offered quantity of 2000 MT. The purchase sale of green gram during February 2009 and March 2009 were 1463 MT and 991 MT respectively out of 893 MT and 243 MT were issued for Noon Feeding and the balance quantity of 570 MT and 748 MT only were sold by SUPPLYCO. It may be noted that the stock</p>   |

| (1) | (2) | (3)   |
|-----|-----|---|
|     |     | <p>received under this scheme can be used only for retail sale through PDS. Hence calculating alleged loss on 2000 MT is incorrect. It may be further noted that green gram cannot be stored for more than 2 months.</p>  |
|     |     | <p>In the para it is mentioned that company did not produce any documentary evidence to prove that the message was not received in the inbox. The Public Information Officer after verifying the inbox clarified that E-mail was not received in their inbox. This was independently checked with the help of MIS Division staff, who found that message was received in the spam box.</p>  |
|     |     | <p>From the above facts, it is clear that no avoidable lapse can be attributed to Kerala State Civil Supplies Corporation Ltd. whatsoever. It will be totally unjustifiable to calculate a notional loss on a tentative offer with a tentative rate for an unknown quality and without considering correct aspects of costing and above facts.</p>  |
|     |     | <p>It may not be correct to say that consumers were deprived of green gram at subsidy rate. The rate fixed by Kerala State Civil Supplies Corporation is only ₹ 28 per kg. which will be below the cost of sales after procuring green gram from STC ex-godown price of ₹ 19.77 per kg. and considering Transportation cost, Rejection cost CST, VAT, Storage cost, handling charges, packing cost and apportioning other establishment costs etc. them to.</p> |
|     |     | <p>Besides good quality green gram was made available to the consumers, when the corresponding open market price for the quality of green gram provided by Kerala State Civil Supplies Corporation Limited was ₹ 55.88 per kg. Thus Corporation provided ₹ 27.88 per kg. benefit to consumers.</p>  |
|     |     | <p>The presumption in the para that there was a firm offer for supplying 2000 MTs @ 19.77 per kg. by STC itself is fallacious. They have mentioned that the rate and quantity</p>   |

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| (1) | (2) | (3)   |
|-----|-----|---|
|     |     | <p>was tentative. STC was requested to ascertain the rate at which it was finally sold and whether it was imported from Australia (which is considered good comparable to out quality) or some other Country like Burma, Kenya.</p> |
|     |     | <p>The buyer or manner of disposal of green gram imported by STC also be ascertained to be able to make any basic observation.</p>  |
|     |     | <p>It is also stated that no other State in the country could provide green gram @ ` 28 per kg. except Kerala and therefore to say that consumers were deprived of subsidized green gram will not be correct.</p>                   |

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