



SIXTEENTH KERALAM LEGISLATIVE ASSEMBLY

COMMITTEE

ON

**PUBLIC UNDERTAKINGS
(2026-28)**

SIXTH REPORT

(Presented on ^{14th}.....October 2026)

**SECRETARIAT OF THE KERALAM LEGISLATURE
THIRUVANANTHAPURAM**

2026

SIXTEENTH KERALAM LEGISLATIVE ASSEMBLY

COMMITTEE

ON

**PUBLIC UNDERTAKINGS
(2026-2028)**

SIXTH REPORT

On

The Kerala State Civil Supplies Corporation Limited

**Based on the Audit para 4.1 contained in the Performance Audit Report of
the Comptroller and Auditor General of India for the year ended 31st March,
2018**

CONTENTS

	<i>Page</i>
Composition of the Committee ..	v
Introduction ..	vii
Report ..	1 - 49
Appendix I : Summary of main Conclusions/ Recommendations ..	50-57
Appendix II : Notes furnished by Government on the Audit Paragraph , ..	58-78
Appendices mentioned in Audit Paragraphs	
Appendix 4.2 ..	79
Appendix 4.10 ..	80

COMMITTEE ON PUBLIC UNDERTAKINGS (2026-2028)

COMPOSITION

Chairperson:

Prof.Abid Hussain Thangal

Members:

Shri G.R.Anil

Shri I.C.Balakrishnan

Shri Chandy Oommen

Shri Jyothikumar Chamakkala

Shri C.R.Mahesh

Shri P.Mammikutty

Shri A.C.Moideen

Shri Kurukkoli Moideen

Smt.Uma Thomas

Shri Vishnu Mohan

Legislature Secretariat:

Shri Shaji C. Baby, Secretary in charge

Smt.Reena V.R., Joint Secretary

Smt.Mable Antony, Deputy Secretary

Shri Ratheeshmon P., Under Secretary

INTRODUCTION

I, the Chairperson, Committee on Public Undertakings (2026-28) having been authorised by the Committee to present the Report on its behalf, present this 6th Report on The Kerala State Civil Supplies Corporation Limited Based on the Performance Audit Report of the Comptroller and Auditor General of India for the year ended 31st March, 2018 relating to the Public Sector Undertakings.

The aforesaid Report of the Comptroller and Auditor General of India was laid on the Table of the House on 24.08.2020. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings (2023-2026) at its meeting held 11.12.2024

This Report was considered and approved by the Committee(2026-28) at its meeting held on 07.10.2026.

The Committee places on record its appreciation for the assistance rendered to them 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 Food and Civil Supplies Department of the Secretariat and the Kerala State Civil Supplies Corporation for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government, Food and Civil Supplies and Finance Department and the officials of the Kerala State Civil Supplies Corporation who appeared for evidence and assisted the Committee by placing their views before the Committee.

Thiruvananthapuram,
14th.. October 2026


Prof. Abid Hussain Thangal
Chairperson,
Committee on Public Undertakings.

Report**on****The Kerala State Civil Supplies Corporation Limited****Audit Paragraph 4.1(2017-18)****Management of non-subsidised commodities in The Kerala State Civil Supplies Corporation Limited****Executive Summary****Introduction**

The Kerala State Civil Supplies Corporation Limited was setup with the main objective to purchase, store, process, transport, distribute and sell food grains and any other essential commodities for distribution at subsidised rates. The Company is also empowered to deal in non-subsidised commodities in order to enhance profitability. During 2013-14 to 2017-18, the Company procured FMCG, Sabari (Company's own brand) products and medicines for ₹4,698.11 crore.

Assessment of requirement

Absence of integrated software at outlets, depots and Head Office has resulted in improper assessment of requirement, accumulation of stock in outlets and issuance of multiple purchase orders in each month for same commodities at different rates resulting in extra expenditure of ₹7.94 crore.

Procurement in violation of the Stores Purchase Manual

All the 15 depots resorted to limited tenders for procurement above ₹5 lakh instead of e-tender. The procurement cost of rice and pulses through limited tender in 10 out of 15 depots were higher by ₹3.83 crore than the centralised e-tender procurement cost of same items for subsidised sale.

Procurement through negotiation

Negotiations were conducted with all the bidders in 2,749 out of 8,172 cases (33.60 per cent) instead of lowest bidder and purchase orders were issued to bidders other than the original lowest bidder in 1,108 cases.

Short supply of commodities by the suppliers

Short supply of commodities and delay in transferring commodities from the depots to the outlets resulted in potential loss of margin of ₹22.98 crore and loss of interest of ₹2.43 crore respectively.

Wrong fixation of selling price

The pricing policy of the Company was not reviewed periodically (last two revisions were in July 2008 and April 2015). The selling price for branded rice was fixed wrongly, resulting in loss of revenue of ₹11.26 crore. Incorrect implementation of the pricing circulars resulted in loss of ₹39.53 crore.

Fixation of higher selling price

Discounts (minimum five per cent) were not provided to the customers in line with the policy of the Company. There were instances of selling price offered by the Company being higher than the open market price.

Extension of unauthorised credit facility

Unauthorised credit facility of ₹5.74 crore was extended to customers, despite the non-clearance of previous bills in 39 out of 100 outlets resulting in loss of interest of ₹0.40 crore.

Irregular collection of quantity discounts from suppliers

There was no proper system for collecting discounts and incentives from suppliers resulting in loss of ₹4.02 crore.

Multiple GST registrations resulting in blocking up of input tax credit

Instead of taking only one GSTIN, the Company took 62 GSTINs for its depots, Regional Offices and Head Office. So, the input tax credit accumulated in the GSTINs of 56 depots and five Regional Offices amounting to ₹7.55 crore could not be utilised due to accounting of all sales in the Head Office GSTIN.

Violation of the Food Safety and Standards Act, 2006

Out of the 4,412 samples sent for testing, 383 were found unfit for human consumption. In 369 samples, there were delays in removal of these commodities.

Procurement of medicines for Supplyco Medical Stores

Neither monthly report in order to monitor the purchase, sales and stock holding of medical stores nor medicine-wise details were prepared. In the absence of this information, it was not possible to assess the efficiency of inventory management.

Performance of Supplyco Medical Stores

Performance of Medical Stores with turnover below the break-even sales (16 out of 106) were not periodically monitored.

Introduction

4.1 The Kerala State Civil Supplies Corporation Limited (Company) was setup (June 1974) as a fully owned State Government Company with the main objective to purchase, store, process, transport, distribute and sell food grains, food stuffs and any other commodities considered essential by Government of Kerala (GoK). Besides dealing in subsidised commodities, the Company is empowered to deal in non-subsidised commodities, the price of which is fixed with a profit motive. Non-subsidised commodities include Fast Moving Consumer Goods (FMCG), Sabari products (own brand of the Company), medicines and petroleum products. As of March 2018, the Company dealt in 42,405 FMCG commodities, 28 Sabari products and 12,370 medicines and 5

petroleum products. Percentage of turnover of non-subsidised commodities to the total turnover of the Company ranged between 32.16 and 35.26 during 2013-14 to 2017-18.

Organisational set up

4.2 The Company with its Registered Office at Kochi, Kerala is managed by the Board of Directors (BoD) with the Chairman and Managing Director (CMD) as the Chief Executive. As of April 2018, the overall administration of the Company is vested with the CMD who is assisted by one General Manager, two Additional General Managers, three Managers, five Regional Managers and a Company Secretary. The Company has 1,560 retail outlets as on 1 April 2018 under the control of 56 depots operating in five Regional Offices. A list of the supply chain is given in **Appendix 8**.

Scope of audit

4.3 The Performance Audit covered the performance of the non-subsidised segment comprising FMCG, Sabari products and medicines during 2013-14 to 2017-18. The Performance Audit covered various aspects such as assessment of the requirement, economical procurement, pricing, sales and marketing of the commodities.

Out of 56 depots in the Company, 15 depots were selected on the basis of stratified¹ random sampling for detailed audit along with 119 outlets out of 478 outlets in the selected 15 depots. During 2013-14 to 2017-18, the Company procured FMCG, Sabari products and medicines for ₹4,698.11 crore. Out of this, Audit examined procurement amounting to ₹1,913.79 crore (40.74 per cent) in 15 depots.

¹ Based on three strata of purchase value (more than ₹100 crore – 5 depots, between ₹50 crore to ₹100 crore – 8 depots and below ₹50 crore – 2 depots) and also on rural urban classification with at least two depots from each region as shown in Appendix 8.

Audit objective

4.4 The objective of the Performance Audit was to assess whether the profitability of the company increased because of sale of non-subsidised commodities.

Audit criteria

4.5 Audit criteria were derived from the following sources:

- Pricing Manual of the Company;
- Purchase Manual of the Company;
- Stores Purchase Manual of GoK;
- Guidelines issued by the Central Vigilance Commission;
- Minutes of Depot Management Committees;
- Annual accounts of the Company;
- Food Safety and Standards Act, 2006; and
- Central Goods and Services Tax Act, 2017.

Audit methodology

4.6 The methodology adopted consisted of review of records/files and documents maintained by the Company and analysis of data extracted from Depot Management System (DMS) of 15 depots.

Audit objectives, audit criteria and scope of Performance Audit were discussed with the Management and the Government in an Entry Conference held on 17 May 2018. Audit was conducted during May to September 2018.

The audit findings were discussed in an Exit Conference held on 25 February 2019 with the Government and the Management. Replies were received from the Government and the Management. The views expressed by them have been duly considered while finalising the Report.

Acknowledgement

4.7 Audit acknowledges the co-operation and assistance extended by the Management and staff of the Company and the Department of Food and Civil Supplies, GoK in the conduct of this Performance Audit.

Audit findings

4.8 The Company ventured into trading in non-subsidised commodities to enhance maximum possible returns. In the absence of segment-wise profitability analysis, Audit worked out the profitability² of the non-subsidised segment as in Table 4.1:

Table 4.1: Details of profitability of non-subsidised commodities

(₹ in crore)

Year	Net profit from subsidy segment	Profit from non-subsidised commodities					Net Profit of the Company
		FMCG	Sabari	Medicine	Petroleum	Total	
2013-14	-98.27	17.37	11.34	-8.63	-10.92	9.16	-89.11
2014-15	-106.68	10.91	8.36	-10.40	-9.62	-0.75	-107.43
2015-16	-125.77	86.55	30.88	-11.17	-7.18	99.08	-26.69
2016-17	-150.08	34.97	14.35	-14.96	-10.09	24.28	-125.80
2017-18	-164.67	39.49	16.88	-15.22	-11.54	29.61	-135.06

(Source: Annual accounts of the Company. Figures for 2015-16 to 2017-18 were taken from provisional accounts.)

As could be seen from the above table, the profit from the non-subsidised commodities decreased from ₹99.08 crore in 2015-16 to ₹29.61 crore in 2017-18. This was mainly due to lack of economy in procurement of commodities, improper fixation of selling price and ineffective marketing as discussed below.

Procurement of non-subsidised commodities

4.9 The Company procures branded FMCG products from the suppliers registered under the centrally consolidated indenting system (CCIS)³ and

² After apportioning the overhead expensed on the basis of turnover.

³ Vendors having monthly sales above ₹0.25 crore in 25 depots of the Company or monthly sales above ₹0.30 crore in 15 depots excluding the sale of rice and edible oil or annual turnover of ₹10 crore and above in Kerala market.

centrally listed companies (CLC)⁴. FMCG products and other products are also procured from the suppliers registered with the Depot Management Committees (DMC). The Head Office of the Company procures commodities from the CCIS registered suppliers while the depots procure commodities from the suppliers listed under CLC and DMC.

The Sabari products are procured by the Head Office of the Company through competitive tendering. Medicines are procured by the five Medical Wholesale Divisions (MWD) from the pharmaceutical companies registered with the MWD. During 2013-14 to 2017-18, the Company procured FMCG products, Sabari products and medicines valuing ₹3,962.01 crore, ₹441 crore and ₹295.10 crore respectively.

Assessment of requirement

4.9.1 Assessment of requirement is the first step in procurement. As per Rule 6.1 of the Stores Purchase Manual (SPM) issued by GoK, purchase of commodities for public service should be based on the assessment of requirements for the year so far as they can be foreseen. As per the guidelines issued by the Company, the requirement of commodities in an outlet shall be limited to 1.50 times the previous three months' average sales.

Audit observed that the procurement of non-subsidised commodities in the Company was managed by four independent software, namely, FMCG Indenting System, Sabari Indenting System, Depot Management System (DMS) and Outlet Management System (OMS). In the absence of an integrated software, the centralised assessment of requirement based on sales and stock data available in the OMS was not possible. The indents for FMCG commodities were instead prepared arbitrarily by the outlets. Out of 100 sample selected outlets⁵ examined,

⁴ Vendors with sales in 20 or more depots of the Company and sales turnover of ₹2 crore or sales in 10 or more depots of the Company and sales turnover of ₹5 crore including the Company or sales turnover of ₹8 crore in Kerala market.

⁵ Excluding 19 Supplyco Medical Stores.

it was noticed that in 30 outlets, fresh lot of the same commodities was purchased during 2017-18 and 2018-19 when sufficient stock was available at the outlets.

The Company replied (February 2019) that the new integrated software planned to be rolled out in April 2019 would enable the Company to ascertain the receipt and issue of commodities against the indents and sale of commodities to the ultimate customers.

However, the Company did not roll out any integrated software so far (July 2019).

Procurement of commodities by the Head Office

4.9.2 Audit observations on procurement of FMCG commodities and Sabari products are discussed below:

Registration of suppliers

4.9.2.1 According to Rule 1.2 of the SPM, public procurement activities should be conducted in a transparent manner ensuring competition, fairness and elimination of arbitrariness in the system. As per the provisions of the Kerala Financial Code and the SPM, all efforts should be taken to ensure that the procurement price of the commodities is at the minimum.

Audit observed that one of the conditions for the registration of suppliers under CCIS and CLC was the declaration by the suppliers that the margin offered to the Company was the highest in Kerala market. However, many commodities were sold by competitors at a price lower than that of Supplyco. The Company did not have a system to gather market intelligence to ensure that the suppliers complied with the declaration and that the commodities offered by the suppliers were at the lowest cost. Such a system was important since the selling prices were determined based on the margin obtained from the suppliers.

The Company replied (February 2019) that the market intelligence system would be strengthened.

Short procurement of Sabari products

4.9.2.2 Under the Sabari brand, the Company sells non-subsidised commodities like tea, coffee, coconut oil, curry powders, rice products, salt, notebooks etc. The Sabari products are available only in the Supplyco outlets and are in high demand. The substitutes for all the Sabari products are also available in the outlets. The Sabari products fetch higher margin to Supplyco than that of substitute products.

On an examination of procurement of 15 Sabari products⁶ in five depots⁷ during 2014-15 to 2017-18, it was noticed that against the actual requirement of 47,45,263 units, only 35,99,450 units (76 per cent) were received from the suppliers. This was due to short placement of orders by the Head Office and short supply by the suppliers. As a result, there was stock out of Sabari products in 33 out of 151 outlets under the five depots for periods ranging from 3 days to 313 days leading to loss of margin of ₹0.10 crore.

The Company replied (February 2019) that the short placement was on account of various reasons including financial, subsidy element etc.

The reply of the Company was not acceptable as there was no subsidy element in the sale of Sabari products excluding coconut oil and, in fact, the Company earned margin on the sale of such commodities during 2013-14 to 2017-18.

Procurement of commodities by Depot Management Committee

4.9.3 As per the procurement practice of the Company, the DMC formed at each of the 56 depots was given authority to purchase commodities of suppliers listed in CLC and DMC based on indents received from the outlets. FMCG commodities registered under CLC and DMC are procured considering the

⁶ Free flow salt 1 kg, Black pepper, Chilly powder 100 gram (gm), Chilly powder 500 gm, Coriander powder 100 gm, Turmeric powder 100 gm, Asafoetida powder 50 gm, Asafoetida cake 50 gm, Asafoetida powder 100 gm, Asafoetida cake 100 gm, Meat masala, Chicken masala, Fish masala, Rasam powder, Sambar powder.

⁷ Kanhangad, Kottayam, Nedumangad, Thalasserry and Kanjirappally (The subject matter was not examined in the other 10 sample-selected depots due to non-availability of data in required format).

agreed margin on the purchase price. Other commodities viz., ordinary rice, jaggery, raw turmeric and pulses are procured on the basis of limited tenders received from the vendors registered with DMC.

During 2013-14 to 2017-18, the value of procurement of FMCG and other commodities was ₹3,962.01 crore. Out of this, value of purchase by DMCs through CLC and DMC amounted to ₹1,588.13 crore (40.08 per cent). Though the depot level purchases constituted 40.08 per cent of the total purchase of non-subsidised commodities, the Company did not have a transparent procurement procedure as discussed below:

Procurement of commodities in violation of the Stores Purchase Manual

4.9.3.1 The GoK directed (May 2015) that all Government Departments/Boards/Public Sector Undertakings shall follow e-procurement for all the tenders above ₹5 lakh.

Audit observed that:

- The 15 depots examined in audit issued 41,096 purchase orders (Pos) to procure commodities worth ₹767.78 crore during 2014-18. Out of this, 1,140 POs were to be e-procured as the value exceeded ₹5 lakh. Instead of e-procurement, the commodities valuing ₹150 crore were procured from the vendors registered with DMCs.
- The Head Office of the Company procured rice and pulses for subsidised sale through e-tenders during 2013-14 to 2017-18. On comparison of the e-tender rate with the procurement rate in 15 selected depots, it was noticed that the procurement rate of rice in ten depots was higher than the e-tender rate resulting in extra expenditure of ₹3.83 crore.

Thus, due to procurement of commodities through DMC, the Company lost the benefit of economies of large-scale centralised procurement.

The Company replied (February 2019) that the SPM was primarily intended for the purchase of stores. The procedures specified in the SPM were modified through the Purchase Manual of the Company approved by GoK to suit the purchase of its trading goods.

The reply of the Company was not acceptable as the GoK modified the SPM in June 2013 and made it applicable to all PSUs. Hence, the modified SPM prevailed over the Purchase Manual of the Company approved by GoK in May 2006.

Procurement through negotiation

4.9.3.2 As per Rule 1.2 (x) of the SPM, negotiations with the tenderers must be severely discouraged. The Central Vigilance Commission also clarified (January 2010) that there should normally be no post tender negotiations and if at all negotiations are warranted under exceptional circumstances, then they can be with the lowest tenderer only.

Audit observed that in 15 depots test checked, in 2,749 out of 8,172 cases, the DMC held negotiations with all the bidders. At the time of negotiation, the bidders quoted fresh lower rates and in 1,108 cases, the purchase orders were issued to the bidders other than the original lowest bidder. Though there was a marginal decrease in the cost of procurement, the negotiation process was against the guidelines issued by the GoK and the CVC.

The Company replied (February 2019) that directions were given to comply with the CVC guidelines on negotiation.

Procurement of commodities through issue of multiple POs

4.9.4 As per Rule 6.1 of the Stores Purchase Manual issued by GoK, purchase of commodities for the public service should be based on the assessment of requirement for the year so far as they can be foreseen. For the procurement of

commodities listed under DMC, the DMC was to approve the rate and quantity of procurement.

All the 15 depots examined in audit issued multiple POs in a month for DMC listed commodities during the years 2013-14 to 2017-18 due to faulty indenting system. The procurement rate as per the POs issued to the same supplier in respect of the same commodity was different, resulting in extra expenditure of ₹7.94 crore.

Short supply of commodities by the suppliers

4.9.5 In order to ensure due performance of the contracts, Rule 8.19 of SPM specified collection of security deposit equivalent to five per cent of the total value of the contract. Further, as per Rule 8.30 of SPM, the security deposit shall be forfeited in the event of breach of contract.

Audit observed that the Company did not collect any security deposit due to non-inclusion of such provisions in the POs. In all the 15 depots examined in audit, out of the total order value of ₹1,618.69 crore for FMCG, commodities valuing ₹187.61 crore were not supplied during 2013-14 to 2017-18. Thus, the non-supply of commodities by the suppliers may have led to potential loss of margin of ₹22.98 crore to the Company in addition to the dissatisfaction among the customers.

The Company replied (February 2019) that the suppliers would come to know about the ordered quantity only at the time of receipt of the POs and hence, may not be in a position to supply the entire quantity. As the Company released payment only against the quantity supplied, the Company did not incur any loss due to the non-supply of commodities.

The reply of the Company was not acceptable as the suppliers accepted POs with the condition to supply the entire quantity within the prescribed time. Delay/ non-

supply of ordered quantities may result in stock out position and consequent potential loss of margin.

Delay in transfer of commodities to outlets

4.9.6 As per the procedure in vogue, the suppliers deliver the commodities to the depots/outlets. The commodities received at the depots are transferred to the indented outlets. The depots need not hold the stock of these commodities beyond three days, a reasonable time for dispatching the commodities to outlets.

Audit observed that there were delays ranging up to 340 days in transferring FMCG and Sabari commodities to the outlets during 2013-14 to 2017-18 resulting in blocking up of funds of ₹455.94 crore and consequent loss of interest of ₹2.43 crore. Inefficient logistic management by the Company was the reason for delayed transfer of non-subsidised commodities to outlets.

The Company replied (February 2019) that while transporting items to outlets, importance would be given to subsidised commodities. As the transfer of the commodities to the outlets would depend on the number of outlets, distance to outlets and availability of storage space at outlets, the Company started promoting outlet delivery.

The reply of the Company was not acceptable as the delay in transfer of commodities to the outlets resulted in blocking up of funds and consequent loss of interest. The Company should have arranged the necessary logistic support to deliver the commodities which are margin earning to the outlets immediately on their arrival.

Fixation of selling price for commodities

4.10 As the sale of non-subsidised commodities is not intended to regulate prices in the market, the Company is free to fix suitable price for such commodities. During 2013-14 to 2017-18, pricing of the commodities in the Company was

regulated by two circulars issued in July 2008 and April 2015 as shown in **Appendix 9**.

Audit examined the impact of both the circulars in maximising profit of the Company and observed the following:

Wrong fixation of selling price

4.10.1 The pricing circular issued in July 2008 and in force till March 2015 aimed at sufficient profit for the Company from the sale of FMCG as well as lesser selling price than the open market price. The price was to be fixed as mentioned in the circular. In respect of Sabari products, selling price was arrived at by adding five per cent of the material cost as administration overhead and three per cent of the selling price as sales overhead.

Audit observed that:

- The pricing method in the July 2008 circular was adopted for FMCG on the assumption that direct and administrative cost was around 6.90 percent of the sales price. The Company continued the pricing policy till March 2015 during which, the overall direct and administrative costs increased from 9.32 per cent in 2013-14 to 9.89 per cent in 2014-15. The failure of the management to review the pricing policy periodically based on the increase in direct and administrative costs resulted in lesser recovery of margin than envisaged at the time of price fixation.
- In the case of Sabari products, the actual overheads during 2013-14 to 2017-18 increased from 9.49 to 11.03 per cent. The increase in the overhead rate was not considered while fixing the selling price. This resulted in lesser recovery of margin of ₹20.50 crore in respect of Sabari products.
- As per the July 2008 circular, considering the importance of rice, the Company fixed the selling price of non-branded rice at a margin of five per

cent on purchase price while the selling rate of branded rice was fixed at a margin of 10 per cent on the purchase price. Other varieties of branded rice such as Broken rice, Ghee rice, Biriyani rice, Basmathi rice, Jeeraka sala rice etc. were priced by adding margin up to 22.50 per cent on purchase price. According to the April 2015 circular, the Company re-fixed the selling price of all the varieties of rice including branded rice at purchase price plus four per cent (six per cent in case of depot delivery) instead of pricing at higher rate based on Maximum Retail Price (MRP). Fixation of selling price of branded rice by adding lesser margin resulted in loss of revenue of ₹11.26 crore during 2015-16 to 2017-18 in all the 15 depots examined in audit.

The Company replied (February 2019) that the fixation of selling price based on MRP for branded rice would result in higher selling price in the outlets of the Company. However, considering the observations of Audit, the Company revised the selling rate to purchase price plus nine *per cent* margin.

The reply of the Company was not acceptable as selling price of all commodities with MRP, except branded rice, was fixed with reference to the MRP.

- The two price circulars (July 2008 and April 2015) stipulated methods for fixing selling price of various commodities by adding certain margin to the purchase price. Due to the error in the implementation of the price circulars, there was short fixation of selling price in all the 15 depots examined, resulting in loss of ₹19.03 crore during 2013-14 to 2017-18.

Fixation of higher selling price

4.10.2 Besides ensuring assured margins to the Company, the pricing circular of April 2015 aimed at ensuring competitiveness of the selling price of the non-

subsidised commodities for attracting more customers. The revision of selling price was also necessitated by the complaints received from public regarding the higher rate of some popular branded products compared to the rate of other retail chains. As per the pricing circular of April 2015, the consumers were to be offered a minimum discount of five per cent on MRP.

Audit observed that:

- In all the 15 depots, the Company fixed higher selling rates in respect of some commodities than the rate stipulated by the circular resulting in excess realisation of ₹1.94 crore during 2015-16 to 2017-18.
- Similarly, in all the 15 depots examined, products valuing ₹ 93.33 crore were sold to customers without offering the stipulated minimum discount of five *per cent* on MRP as envisaged by the price circular.

The Company replied (February 2019) that on implementation of the integrated software, all the anomalies in the present system would be rectified.

Audit also observed that the Company did not have a mechanism to compare the selling price fixed by the Company vis-à-vis the price charged by the competitors on the same commodity. The competitor's pricing for similar products was not considered for the pricing decisions of the Company. A price comparison (September 2017) between the open market and the Company was as detailed in **Table 4.2:**

Table 4.2: Comparison of selling price of the Company and open market price

Sl. No.	Item	MRP (₹)	Selling price of the Company (₹)	Open market price (₹)
1	Total wash 1 kg	74.00	70.30	65.38
2	Every Day 400 gm	169.00	160.55	156.61
3	Colgate Strong Teeth 100 gm	52.00	48.50	44.18
4	Texma 1 ltr	39.00	37.05	34.89
5	Harpic Ordinary 500 ML	78.00	74.10	73.89

6	Sunlight Washing powder 500 gm	39.00	38.28	37.16
7	Kabani XL Washing soap	62.00	58.90	58.00
8	Dr.Wash 200 + 10 gm	25.00	23.75	23.35
9	Gold Bar 916 - 850 gm	67.50	64.12	63.76

(Source: Report of the Vigilance Officer of the Company)

Since the Company was competing with large supermarket chains, the competitive edge in respect of pricing was essential to sustain in the Kerala retail market. Therefore, the incidence of higher price being charged by the Company vis-à-vis the competitors would result in low sales volume in the Company.

The Company replied (February 2019) that the local super market chains would reduce their selling rates in certain areas where competition was more. The Company with around 1,600 outlets in the State adopted a uniform pricing policy and therefore, could not deviate from the selling rate based on local rates.

The reply of the Company was not acceptable as the present pricing policy of the Company was not realistic and dynamic because there was no periodical revision of the pricing method. Between 2008 and 2018, there was only one revision of the pricing method in April 2015.

Credit and incentive policy

Loss of interest due to unauthorised credit facility

4.11 In order to streamline the credit sales, the Company issued (December 2008) directions for credit sales to various Government departments and Public Sector Undertakings (PSUs). According to these directions, credit sales can be effected for a maximum period of 30 days subject to there being no pending bill against the customer.

Audit observed that:

- On an analysis of credit sales of 100 outlets⁸, in 39 outlets there were 214 customers with ₹0.94 crore outstanding against previous credit sales of

⁸ Total sample 119 outlets out of which 19 are medical stores.

commodities. In spite of non-clearance of the previous bills, subsequent credit sales of ₹5.74 crore were extended to 178 customers in violation of the credit policy. Due to this, an amount of ₹6.68 crore remained to be realised from 214 customers in these 39 outlets as of March 2018. Non-realisation of the amount from the customers resulted in loss of interest of ₹0.40 crore.

- The Company did not collect any security deposit against the credit sales of non-subsidised commodities as the credit policy/supply orders did not contain any provision for the collection of security deposit. As a result, though the credit period was offered for 30 days, dues could not be collected even after periods ranging up to 786 days.

The Company replied (February 2019) that curtailing further distribution of commodities to such organisations on the ground of delayed credits would attract queries from the Government and complaints from the public, adverse newspaper reports etc. Depot Managers were, however, asked to be prompt in liaising with the departments concerned to collect the arrears.

The fact, however, remained that despite liaising with the Government, an amount of ₹71.48 crore remained to be recovered from the Government departments and Public Sector Undertakings as of March 2018.

Irregular collection of quantity discounts from suppliers

4.11.1 Manufacturers of FMCG offer incentives to bulk consumers for placing annual POs above the pre-determined value. The Company procures commodities in bulk under FMCG category from manufacturers and is the largest dealer for many of the FMCG commodities in the Kerala retail market. Hence, the Company obtained volume/quantity incentive or discount from the suppliers based on the purchase turnover.

Audit examined the incentive scheme and observed that:

- The Company did not have complete and accurate data for claiming incentive and depended on the data given by the suppliers. The officers responsible for collecting the incentives were unaware of any official document for substantiating the incentive received from the suppliers. Hence, there was no standard policy for assessment and collection of the volume/quantity incentive.
- As per the existing practice, the Company collected quantity discounts at the rates ranging from 0.50 *per cent* to 4 *per cent* of the value of procurement from 20 out of 49 suppliers under CCIS list. There was no proposal from any level of management for collecting incentive from 29 suppliers registered under CCIS list. In the case of 17 out of 20 suppliers, there were omissions and errors in calculation of incentive resulting in loss of incentive of ₹4.02 crore.

Though the value of depot level purchases through CLC and DMC was 40.08 *per cent* of the total purchase, the Management did not, however, collect any incentive from these suppliers.

The Company replied (February 2019) that the payment to a supplier during a financial year was considered as a single payment for calculation of incentive by Audit whereas each PO was distinct.

The reply of the Company was not acceptable as there was no agreement with the supplier in respect of the computation pattern of incentive. Further, computation based on each PO may absolve the supplier from the payment of incentive.

Multiple GST registration resulting in blocking up of input tax credit

4.12 According to Section 25 (2) of the Central Goods and Service Tax (GST) Act, 2017 (Act), a person seeking registration under the Act shall be granted a single registration in a State or Union territory. Provided that, a person having multiple business verticals in a State or Union territory may be granted a separate

registration for each business vertical. Section 25 (4) of the Act states that a person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act. Section 2 (62) of the Act states that “input tax” in relation to a registered person, means the central tax, State tax, integrated tax or Union territory tax charged on any supply of goods or services or both made to him.

Audit observed that the Company obtained (May 2017) 62 separate GST registrations for the Head Office, five regional offices and 56 depots, though it had only one business vertical and operations only in Kerala. This was done on the ground that separate registrations would make depots accountable for proper entry of purchases. However, the Company decided in August 2017 to retain the GSTIN of Head Office and surrender all the other GSTINs. The applications for cancelling the GSTINs were, however, made only during November 2018 to March 2019 and 60 GSTINs were cancelled (November 2018 to September 2019).

Meanwhile, the suppliers billed the supplies against GSTINs of the depots for the purchases made by them. The Company, however, accounted the sales of the depots under the GSTIN of the Head Office. As of October 2018, the cancelled GSTINs had accumulated input tax credit amounting to ₹7.55 crore. Since each GSTIN is treated as a distinct person as per the Act, the input tax credit in the GSTINs of regional offices/ depots could not be set off against the tax obligation under the GSTIN of the Head Office.

The Company replied (February 2019) that GST Return 3B was filed claiming the entire input tax credit on inward supply including those accumulated in depot GSTINs.

The reply was not acceptable as the Act does not permit setting off the input tax credit of a registered person against the tax obligation of another registered person.

Performance of Supplyco Medical Stores

4.13 As of March 2018, the Company operated 106 Supplyco Medical Stores (SMSs) under five Medical Wholesale Divisions (MWDs). For these 106 SMSs, the medicines are procured either through five MWDs or locally by the SMS when the required medicines are not made available by the MWDs.

Audit examined the performance of the SMSs and observed that:

- According to the Circular No.18/2008 dated 11 July 2008, if the monthly sales in a SMS are less than the stipulated break-even sales, the Regional Manager should make recommendation to close the SMS so that commercial/social loss could be avoided. Out of 106 SMSs, 16 SMSs did not attain the break-even sales in any of the five years. Despite non-achievement of break-even sales, the Regional Managers did not assess the feasibility of continuation or relocation or closure of these 16 SMSs.

The Company replied (February 2019) that steps like, shifting/ closure of SMSs having sales less than the break-even sales, appointment of pharmacists as officers in charge of SMSs etc., were taken to improve the performance of SMSs.

- As per the circular issued (November 2008) by the Company for ensuring higher margin, all MWDs should ensure that local purchases should be limited to 20 per cent of the value of medicines sold through medical stores to get the advantage of additional margin associated with bulk procurement.

Audit observed that the local purchase of medicines by the SMSs exceeded the 20 per cent limitation prescribed by the Company. The local purchase during 2013-14 to 2017-18 was ₹108.08 crore against the permissible value of ₹78.82 crore. The reasons for the excess local purchase was non-procurement of medicines from listed pharma companies in MWD as well as non-listing of those pharma companies whose medicines were being indented by outlets. Thus, due to excess local procurement of medicines during 2013-14 to 2017-18, the Company sustained loss of margin to the extent of ₹2.63 crore.

- Due to non-achievement of break-even sales by the SMSs, the fixed cost of ₹78.64 crore involved in the operation of SMSs during 2013-14 to 2017-18 was recovered to the extent of ₹18.27 crore only.
- The Company issued (December 2008/ March 2011) circular stipulating analysis of performance of medical stores on a monthly basis in order to monitor the purchase, sales and stock holding of medical stores. However, no such report was prepared on a monthly basis. Besides, medicine-wise stock details were also not prepared. Further, the software applications used in the Medical Wholesale Division and in the Medical Stores were neither similar nor integrated, because of which the Division's software was unable to fetch the inventory requirement of Stores. In the absence of this information, it was not possible to assess the efficiency of inventory management.

Thus, due to uneconomical procurement of medicines and non-achievement of break-even sales, the operation of SMSs became unviable.

Violation of the Food Safety and Standards Act, 2006

4.14 As per Section 31 of the Food Safety and Standards Act, 2006, any person carrying on any food business shall obtain a licence from the Designated Officer.

As per Section 28 of the Food Safety and Standards Act 2006, the products unsuitable for human consumption should immediately be withdrawn from the market.

Audit observed that:

- As indicative cases, the depots at Kollam, Alathur, Palakkad and Chengannur and its outlets examined by Audit did not obtain licenses for all the food products dealt by them.
- Out of 4,412 samples sent for testing to Food Quality Monitoring Laboratory at Council for Food Research and Development during 2013-14 to 2017-18, 383 samples tested unsuitable for human consumption as the samples contained 'Salmonella', 'E. coli' or 'Moulds'. However, in respect of 369 samples, there was delay up to 17 days in giving direction to the outlets for removing the products.

The audit observation was accepted (February 2019) by the Company while stating that instructions were issued to comply with the legal requirements.

Restriction on MIO claims affecting profitability

4.15 As per the directions of the GoK, the Company sells essential commodities to the public at prices fixed by the GoK as a part of the Market Intervention Operation (MIO). The reimbursement of the MIO loss by GoK was limited to actual loss as per the audited accounts.

Audit observed that the actual loss as per the annual accounts is the aggregate of the MIO loss and the profit from non-subsidised commodities. Hence, the profit of ₹1,222.25 crore generated from the non-subsidised segment was totally subsumed in the MIO loss and hence, was not available for its sustainability.

The Company admitted (February 2019) that limiting the reimbursement of MIO loss to the actual loss of the Company affected its profitability.

The Government of Kerala endorsed (June 2019) the reply furnished by the Company to all the audit observations.

Conclusion

Though the Company ventured into the trading in non-subsidised commodities to enhance the maximum possible returns, the profitability of the non-subsidised segment decreased from ₹99.09 crore in 2015-16 to ₹29.61 crore in 2017-18. Incorrect assessment of requirement of commodities, uneconomical procurement, ineffective inventory management, violation of provisions of the Stores Purchase Manual and wrong fixation of selling price etc. led to extra expenditure/ loss of revenue to the tune of ₹91.10 crore. Taking multiple GST registrations instead of a single GST registration led to non-utilisation of the input tax credit of ₹7.55 crore. Similarly, irregular collection of quantity discount from suppliers resulted in short collection of ₹4.02 crore towards trade incentive.

Recommendations

- The Company should adopt realistic assessment of requirement based on proper indenting. Procurement of commodities should be made economical by following proper tendering procedure.
- Inventory should be managed effectively for ensuring optimum stock holding.
- Fixation of selling price should be made more realistic and mechanism should be put in place to ensure that prices fixed are adopted strictly.
- Credit policy should be strictly adhered to while offering credit sales. The procedure for collection of incentive needs to be streamlined in order to bring in transparency in the present system.
- Monitoring mechanism of Supplyco Medical Stores should be adhered effectively for evaluating performance and course corrections.

- **Ensure effective compliance to the provisions of Food Safety and Standards Act, 2006.**
- **As the operation of schemes at the behest of the State Government affects profitability, the Company must approach State Government for providing adequate funds to compensate losses.**
- **Audit observation is based on our analysis on sample cases only. There is a possibility of more such cases occurring in the Company. The Company may identify such cases and take suitable action.**

[Audit paragraph 4.1 contained in the Report of the C&AG on Public Sector Undertakings for the year ended 31st March 2018]

The notes furnished by the Government on the audit paragraph are given in Appendix II

Discussion and findings of the Committee

Para 4.9.1 Assessment of requirement

The Committee enquired about the current status of ERP implementation in SUPPLYCO. The CMD replied that this audit report has been prepared on the basis of data available in 2019 but after that an integrated software was implemented but it has not become fully functional at present. He stated that the softwares mentioned in the audit report (FMCG indenting system, Sabari Indenting System, DMS, and OMS) are not in use and all activities are done through ERP system.

To a query of the Committee regarding the purchase of the same commodities when there was sufficient stock, the CMD replied that it was not possible to compile data and to assess the requirement through the software used earlier and hence a new software was introduced at the Headquarters for the centralised monitoring of all information related to commodities. The Committee also enquired whether there is any centralised monitoring system to trace out the

expiry date of medicines in Supplyco medical stores and the CMD replied that there was provision for entering batch number and expiry date of medicines earlier, but in the case of other commodities there was lack of such a system.

The Committee opined that the lack of a system to give information about the commodities may lead to loss and also enquired whether the updated details could be made available at headquarters. The Managing Director replied that the integrated software is in the testing stage and will be completely functional within five or six months. He added that the updations related to medicines will be available only after the implementation of the new software.

The Deputy Accountant General informed that as per the report furnished by Supplyco it is evident that there is no integrated software in the medical division and also for FMCG. The Managing Director replied that a provision for FMCG has been incorporated in ERP.

The Senior Audit Officer pointed out that in the 73rd report of PUC (2014-16) the Committee had recommended to complete computerisation in Supplyco as early as possible in a full fledged manner, but even now the computerization process has not been completed. He added that Supplyco had finalised its accounts only up to 2018-19, which in turn resulted in the withholding of Central Government grant.

The Committee expressed its dismay that the recommendation made in 2016 had not yet been implemented and doubted whether Supplyco can compete with other firms since computerization has been implemented even in small firms at present. The Additional Secretary, Finance replied that ₹ 3.75 crore has been allocated under the plan fund for ERP and the software would be implemented at the earliest.

The Managing Director admitted that there were flaws in submission of accounts and delays in implementing the software as mentioned in the audit report. Even though the ERP software had been implemented in 2019-20, only 80 percent of the work was completed at the end of December 2024. He added that

steps are being taken to complete it within the next two to three months and that Supplyco is also facing considerable financial burden due to this audit pendency. Due to non- finalization of accounts, there has been a delay in the release of funds from Central/State Governments. He added that the accounts for the year 2019-20 will be submitted before the Board of Directors on 13.12.2024 and in order to finalize the accounts of March 2021, 2022 and 2023, additional staff have been posted and the accounts will be completed by March - June 2025.

The Committee opined that it was evident from the CMD's reply that financial problems are hampering the day to day operations of Supplyco and if timely submission of accounts was done, financial assistance would have been received from the Government on time. The CMD informed the Committee that Supplyco can assess its position only after the complete implementation of ERP system and added that this delay would not have happened if competent agencies like Infosys, Wipro etc. were selected after a proper quality assessment at the time of tender invitation.

To a query of the Committee, the CMD replied that the tender for ERP implementation was awarded for a normal amount despite the fact that during the period 2013-2018, the transaction value of FMCG goods alone amounted to ₹4000 crore. For a Company with such large volume of transactions, even paying ₹50 crore or ₹100 crore for the software would not have been a loss. The main reason behind the delay was that a competent agency was not assigned for software implementation and also due to improper submission of the Company's requirements. Now the software is being modified according to the requirements of each section and efforts are being made by Supplyco to resolve the existing issues.

The Committee observed that it is essential that the products available in the market should be made available to the public at low price and there were reports blaming Government for not providing commodities at lower price due to shortage of funds. The Committee also opined that blaming the Central/State Government for the non-receipt of funds, without providing the

accounts for audit on time doesn't make any sense. The Committee criticized Supplyco for the vague reply and directed the concerned officials to handle the matter seriously.

The Deputy Accountant General opined that it would be advisable to fix milestones for the completion of ERP implementation and inquired about the software implementing agency, its capability and about the steps taken to avoid errors. The CMD explained that milestones were already fixed and in the case of accounts up to 2023, a time limit of March to June 2025 has already been given and once the software is fully functional, 90 percent of problems related to indent, purchase order issuance etc. could be solved and errors and additions can be rectified only after testing the software. He added that NdimensionZ is the software implementing agency and as they have completed almost 80 percent of work, they cannot be replaced and therefore Supplyco can only proceed with the existing software. The Committee recommended to complete the implementation of the software at the earliest, rectifying the defects.

Recommendations/ Conclusions of the Committee

- 1. The Committee observes that problems exist in the centralised monitoring of FMCG products which led to the purchase of same commodities when sufficient stock was available in the outlets. The Committee also observes that though the ERP system was introduced in 2019 at Supplyco, only 80 percent of the work has been completed so far. Therefore, the Committee recommends that the implementation of ERP system at the earliest, rectifying the existing defects.***
- 2. The Committee observes that the integrated software system in the medical division of Supplyco is in the testing stage. So the Committee recommends that the system be completed at the earliest.***
- 3. The Committee observes that the delay in ERP implementation occurred due to the inefficiency of the implementing agency. The Committee also observes that***

since 80 percent of the works has been completed by the implementing agency, they cannot be replaced. The Committee opines that improper submission of requirements for ERP implementation by the Company led to the flaws. So the Committee recommends that the Company must be more vigilant in selecting the implementing agencies and submitting the requirements while implementing such projects in future.

4. The Committee observes that Supplyco is facing financial burden due to audit pendency and noted that due to non finalisation of accounts, there has been a delay in the release of funds from Central/ State Governments. Even though financial problems are hampering the day to day operations of Supplyco, the Committee recommends that timely submission of accounts should be done with due diligence to ensure the financial assistance from the Governments on time and to inform the Committee about the current position of finalisation of accounts..

4.9.2 – Procurement of commodities by the Head Office

4.9.2.1 – Registration of Suppliers

The Senior Audit Officer informed the Committee that in the case of FMCG products, the suppliers should provide goods at low price to Supplyco and subsequently Supplyco can compete with other supermarkets which sells commodities at lower rate. He added that the Company did not have a market intelligence system at that time to know about the prices that were offered by the suppliers to other supermarkets.

The CMD admitted that the private supermarkets are selling products at a lower rate than Supplyco and the reason is that Supplyco is unable to pay for the products supplied by the distributors on time. Supplyco owes ₹ 480 crore to suppliers till date and hence they quote rates including the interest for the amount. He added that as a result Civil Supplies Corporation does not get bids at

competitive price even in bulk purchase and the same problem exists with subsidized items.

The CMD informed that most of the products supplied by the local suppliers had been stopped since Supplyco could not pay even ₹10 lakh to them. As of now Supplyco is distributing certain products like sugar, oil and medicines on priority basis. In the case of medicine outlets, the sales is around ₹4-5 crore and this money is guaranteed so that the medicine outlets may run regularly. In these circumstances payments for remaining items become due. FMCG goods are most profitable and sustaining factor for Supplyco and such huge pendency prevails in the payment for such products. During the Onam season, Supplyco by conducting a campaign and guaranteeing payment, sold almost 250 products at a discount of 30 to 40 percent.

The Committee enquired whether non-submission of accounts to audit in time would be a reason for the pendency. The CMD replied that the Civil Supplies Corporation has sales of ₹25-30 crore per month for subsidized items alone under the Market Intervention Operation (MIO), but does not receive that amount regularly. Moreover NFSA costs about ₹22 crore per month to deliver rice and other commodities from mills to ration shops. The Civil Supplies Corporation has to pay ₹44 crore to NFSA contractor but Supplyco has to receive ₹280 crore in this regard. Supplyco has to pay the interest on the remaining ₹240 crore for the past few years. Supplyco is not liable for the expenditure under NFSA which has been entrusted by Food and Civil Supplies Department and ₹281 crore is currently receivable in this regard. Some other Departments also owe ₹131 crore to Supplyco. Only ₹55 crore has been received out of ₹150 crore for distributing goods under the Mid Day Meal Scheme (MDMS) and all the interest and compound interest for this amount has to be paid by Supplyco for the last four years. He added that unfortunately Supplyco is not a profit making PSU and this will lead to a huge financial crisis. He informed that non-submission of accounts to audit does not prevent Supplyco from getting this payment.

The Senior Audit Officer pointed out that as per the Government Order of 2013, the Government reimburses the lower amount after considering the actual MIO loss and the MIO loss shown in the audited accounts. He added that the audited accounts should also be submitted to the Government. The Manager (Accounts), Supplyco replied that in the above mentioned Government Order there is a clause that 95 percent of the loss may be treated as provisional loss, even if no audit has been conducted. The witness added that the Government had not reimbursed the loss in 2013, even after the completion of audit. The CMD reported that a total of ₹3110 crore is due from the Government as reimbursement and at present the total loan amount of Supplyco is ₹4150 crore.

The Additional Secretary, Finance Department informed the Committee that an additional authorisation for ₹275 crore was requested through the Subject Committee in connection with the MIO loss, but it was not granted. He added that it was requested to the Finance Department to release at least ₹500 crore out of the budget allocation of ₹1800 crore.

Recommendations/ Conclusions of the Committee

5. The Committee observes that the Civil Supplies Corporation was unable to procure commodities from companies/suppliers at prices lower than those offered to competitors due to the absence of a strong market intelligence system. Hence the Committee recommends that the market intelligence system should be strengthened by deploying officers to monitor the price trend and their demand in open market, thereby enabling the Company to obtain maximum margin.

6. The Committee observes that the distributors hesitate to supply products to Supplyco due to the arrears they owe to the distributors and hence they quote rates including the interest for the amount. The Committee also observes that a huge amount is pending to Supplyco in terms of the Mid Day Meal Scheme and that some other departments also owe huge amount to Supplyco. Hence the

Committee recommends that the departments concerned may pay off the pending amounts to Supplyco.

7. The Committee observes that there are arrears in terms of reimbursement for MIO loss to Supplyco by the Government. So the Committee recommends to take necessary actions to reimburse the MIO loss incurred.

4.9.2.2 Short procurement of Sabari products

To a query of the Committee regarding the audit reference, the CMD replied that in order to rectify the short supply of orders, Supplyco has been collecting and distributing the Sabari products directly from Raidco since 2018. However this issue of low procurement due to financial problems and subsidy factors still exists. In the case of coconut oil, payment of ₹35 crore is pending and hence an order for coconut oil has not been placed for the past two months. He added that problems exist in placing demand for other products from outlets also. So it has been instructed to review the placement of demand properly at the outlet/depot level and monitoring is done effectively.

To a query of the Deputy Accountant General, the Additional General Manager (Purchase) replied that the review of 56 depots has been completed on 07.12.2024 and the review of Ernakulam and Alappuzha Districts was done in the last week. He added that the orders are placed based on monthly requirement by evaluating the sale of two and a half months.

To a query regarding the placement of orders through ERP system, the CMD replied that there exists an issue in the placement of demand from outlets. Training is being given by Supplyco to Civil Supplies Outlet Managers for prioritizing and promoting the sale of Sabari products. The DAG said that there exists an issue with product display and marketing. The CMD admitted that the private suppliers displays their products at the outlets but it is not done in the

case of Sabari products. He added that an attitude change is needed in this regard and that Supplyco is trying for it.

Recommendations/ Conclusions of the Committee

8. The Committee observes that Sabari products which are available only at the Supplyco outlets fetch a higher margin to Supplyco and are in high demand. Short procurement of these products on account of financial constraints and subsidy elements can lead to a loss of margin to Supplyco. Hence the Committee recommends that stringent measures should be taken to incorporate changes in the indenting system to avoid consequent stock out conditions.

9. The Committee also recommends taking diligent efforts for the marketing of Sabari products and that instructions should be given to the Depot Managers for the proper prioritizing of Sabari products. The Committee also recommends that surprise inspections at regular intervals should be conducted in the outlets to ensure proper display and promotion of Sabari products.

4.9.3. Procurement of commodities by Depot Management Committee

4.9.3.1 Procurement of commodities in violation of the Stores Purchase Manual

The Senior Audit Officer informed the Committee that in Supplyco e-procurement procedures are not adopted for tenders above ₹5 lakh. Even though non-subsidized and subsidized varieties of rice were available through centralised distribution, rice was purchased at depot level resulting in a loss of ₹3.83 crore. The witness replied that after 2019, bulk purchase at the depots have been stopped and almost 12 essential items are now included in e- tender.

To a query of the Committee regarding the reason for the loss when commodities are bought at depot level, the witness replied that in order to increase sales, depots were allowed/instructed to procure and sell products having local

demand and in that way rice was procured in bulk in depots. The DAG added that non branded rice, jaggery, pulses etc were also procured as mentioned above. The witness informed that at present these items are procured through e-tender.

The Committee criticized Supplyco for procuring commodities based on local interests rather than procuring them directly through the Head Office and enquired whether this loss was due to misuse by the depots of the permission to procure locally. The CMD admitted that purchases above ₹5 lakh has been done at depot level.

The Committee enquired whether responsibility has been fixed against those who purchased commodities for above ₹5 lakh. The CMD replied that responsibility has been fixed in some reported cases and would check the rest of the cases. He added that these Depot Managers were deputed from Food Safety Department and hence Supplyco could not initiate disciplinary action against them. It had to be done by the parent department. The Civil Supplies Corporation can only furnish a report regarding this to Food Safety Department. He added that out of the 56 depots, managers of 53 depots are from food safety department.

The Committee vehemently criticized Supplyco for the loss of ₹3.83 crore incurred on procurement of commodities in violation of the Stores Purchase Manual and directed the company to identify the officials responsible for the loss and to fix responsibility on each official. The Committee observed that the Civil Supplies Corporation suffered loss and directed the Food and Civil Supplies Department to take necessary actions to recover the loss from the concerned officials including those who were on deputation from Food and Safety Department. The Committee further opined that Officers who were not under the control of the Corporation should not have been empowered to purchase goods locally without following e-procurement procedures. The Committee noting that CMD could not take a decision on action against officials on deputation,

recommended that the Government may look into the system of appointing officers on deputation basis to avoid such problems in future.

Then the CMD informed that similar problems existed in clerical cadre also. So they decided to reduce the number of clerical staff on deputation by 10 percent every year. The Committee suggested to implement the same method for Depot Managers also.

The Committee opined that since Supplyco could not take action against the staff appointed on deputation basis, the power given to Depot Managers to purchase products on depot basis became an opportunity for corruption. The DAG opined that there should be a provision to fix accountability on officers appointed on deputation basis.

To a query of the Committee, the CMD replied that the problem related to bulk purchase in depots has been solved as purchases above ₹5 lakh at depot level has been stopped and assured the Committee that they would ensure that the guidelines of the circular are being implemented strictly.

Recommendations/ Conclusions of the Committee

10. The Committee observes that as per the direction of GoK in 2015, all PSUs shall follow e-procurement for all the tenders above ₹5 lakh. But the Depot Managers procured commodities directly from the vendors, violating the SPM and the rate was higher than the e-tender rate resulting in extra expenditure of ₹3.83 crore. The Committee observes that responsibility has been fixed only in some reported cases and others are pending. So the Committee recommends to find out all the responsible officials of the depots including those who were deputed from the Food Safety Department and to recover the amount from them.

11. The Committee observes that currently, the problems related to bulk purchase in depots have been solved since purchase above ₹5 lakh at depot

level have been stopped. Nevertheless the Committee recommends to ensure that the guidelines of the SPM are being implemented strictly.

12. The Committee observes that most of the Depot Managers are deputed from the Food Safety Department and accordingly Supplyco could not initiate disciplinary action against them. The Committee also observes that Supplyco has decided to reduce the number of clerical staff on deputation by 10 percent every year. The Committee recommends to implement the same method in the case of Depot Managers and to fix accountability on officers appointed on deputation basis.

4.9.3.2 Procurement through negotiation

When the Committee enquired about the audit reference, the witness replied that it was a procedural lapse. Legally order can be given only to L1, as L2 cannot be negotiated down and as of now, this type of purchase has been stopped at depots. The Committee opined that if the officials responsible for issuing the purchase order to other bidders instead of L1 were identified and disciplinary actions were taken against them, it would have helped prevent repetition of such cases in future.

Recommendations/ Conclusions of the Committee

13. The Committee opined that if the officials responsible for issuing the purchase orders to bidders other than the L1 were identified and disciplinary action was taken against them, it would have helped prevent repetition of such cases in future.

4.9.4 Procurement of commodities through issue of multiple POs

The Committee enquired about the reason for placing purchase orders at different rates for the same product to the same supplier which led to an additional expenditure of ₹7.94 crore and whether any action had been taken

against the responsible officers. The witness replied that the orders were placed for meeting additional requirements.

The officials of AG's Office informed the Committee that there were no circulars/conditions controlling this and no proper monitoring of depots from the Head Office and that out of 56 depots only 15 had been audited.

To a query of the Committee, the CMD replied that the officials responsible for incurring additional expenditure of ₹7.94 crore by issuing multiple purchase orders would be identified and responsibility would be fixed and the details of actions taken against them would be reported to the Committee. The Committee pointed out that this had happened at those depots where depot managers were appointed on deputation basis from Food Safety Department.

Recommendations/ Conclusions of the Committee

14. The Committee recommends to identify and take expeditious action against the delinquent officers who were responsible for issuing multiple purchase orders at different rates for the same product to the same supplier and report to the Committee.

4.9.5 Short supply of commodities by the suppliers

The Committee enquired whether the audit reference that an amount equal to five percent of the total contract value as security deposit was not collected is correct. The CMD replied that even though it has been stipulated that security deposit should be collected at the time of placing orders and it shall be forfeited in case of breach of contract, it was not done at that time. But at present the collection of security deposit has been made mandatory for purchase orders.

The Committee observed that when the audit paras were examined it is evident that in 15 depots inspected by audit from 2013-2014 to 2017-18, the purchase orders were placed for FMCG products worth ₹1,618.69 crore. But

products worth ₹187.61 crore were not distributed and due to this, a loss of margin of ₹22.98 crore was incurred, apart from causing customer dissatisfaction.

The Deputy Accountant General informed the Committee that there was also a provision to purchase goods at risk and cost of the supplier in the contract. If the supplier does not supply the product, the difference in the cost price of that product can be recovered from him.

The Committee is of the view that the officers deputed from the Food Safety Department as Depot Manager are mainly responsible for the losses incurred by Civil Supplies Corporation and such appointments on deputation basis should be stopped and directed that a report in this regard be submitted.

Recommendations/ Conclusions of the Committee

15. The Committee observes that the depot managers made serious lapse by not collecting security deposit during the audit period. The Committee is of the view that the officers deputed from the Food Safety Department as Depot Managers are mainly responsible for the losses incurred by the Civil Supplies Corporation and recommends that such appointments on deputation basis should be stopped and directs to submit a report regarding the same.

4.9.6 Delay in transfer of commodities to outlets

When the Committee enquired about the audit reference, the CMD replied that the depot managers were responsible for the delay in the timely delivery of commodities to outlets. He also informed that during an inspection at Konni depot, eight loads of rice were found missing and due to this Supplyco incurred a loss of ₹32 lakh. In this case liability had been fixed and the officials responsible were suspended and a criminal case had been registered against them. He added that due to lack of scientific management system and stock maintenance, proper monitoring and modifications are required and a detailed report would be submitted after examining the shortcomings mentioned by audit.

The Committee observed that the lapses pointed out in the audit paras had occurred mainly on the part of Depot Managers who were appointed on deputation basis and hence suggested not to appoint officials on deputation basis.

The Senior Audit Officer suggested that if the products were distributed directly to retail outlets, logistic costs could be avoided. The CMD replied that at present some of them are supplied directly to depots so that all charges incurred through stock, rent, transportation, handling etc can be avoided. The Committee also directed the Company to supply the commodities directly to outlets and to specify the same in the purchase order so as to avoid such delay in future.

Recommendations/ Conclusions of the Committee

16. The Committee observes that the Depot Managers appointed on deputation basis are responsible for the delay in the timely delivery of commodities to outlets. The Committee directs the Company to supply the commodities directly to outlets and specify it in the purchase order so as to avoid such delay in future.

4.10 Fixation of selling price for commodities

4.10.1 Wrong fixation of selling price

The Committee expressed its displeasure at the response shown by the officials to circumvent the audit observation instead of admitting the fact that there was lapse on the part of Supplyco. The Committee criticized Supplyco for not following the guidelines to fix selling price.

The CMD replied that there was a practical difficulty as the overhead expenditure was increasing day by day and in every month the Company pays interest of ₹30 to ₹31 crore, in addition to the monthly expenditure incurred towards salary, rent, transportation etc which altogether amounted to about ₹70 to ₹75 crore per month. Out of ₹4000 crore due to Supplyco, ₹ 3000 crore was due from the Government but no interest was paid to Supplyco which eventually led to

an automatic increase in overhead expenditure. If this overhead expenditure was taken into account while fixing the selling price, the prices will be higher than the market rate. However, as this could not be done the sales diminished, resulting in losses. He also added that the selling prices needed to be revised at least once in a year and that they have decided to submit a proposal to the Board for the same.

The Committee understood that Supplyco was paying interest on the amount due from the Government. The Committee decided to recommend that there should be a system for the periodic review of selling price by comparing it with the market price and revising the price accordingly.

Recommendations/ Conclusions of the Committee

17. The Committee understands that a large amount is due to Supplyco from Government and that no interest is being received on it, while Supplyco is required to pay interest on the loans it has taken. The Committee also observes that failure to revise the prices of goods sold through Supplyco in line with market prices is leading the Company into loss. Hence, the Committee recommends that there should be a system for the periodic review of selling price by comparing it with the market price and to revise the price accordingly.

4.10.2 Fixation of higher selling price

When the Committee enquired about the audit paragraph, the CMD replied that this might have occurred due to fixation of a higher profit margin compared to private supermarkets. Then the Senior Audit Officer informed that this had arisen because Supplyco had fixed the prices violating the guidelines mentioned in the circular issued in 2008 and 2015.

The Committee observed that Supplyco had sold some items at ₹160 when its market price was ₹156. The Senior Audit Officer informed that Supplyco had to sell the non-subsidized items after deducting 5% from MRP, but found that Supplyco had sold the products worth ₹93 crore in 15 depots violating the said condition.

The CMD assured that this issue will be seriously reviewed and steps would be taken to resolve the issues related to fixing of selling price and will ensure that such lapses would not occur in future.

Recommendations/ Conclusions of the Committee

18. The Committee observes that as per the circulars issued in 2008 and 2015, Supplyco had to fix the price for non-subsidised commodities after deducting 5 percent from MRP. But Supplyco sold these items at higher rate compared to the rate charged by other retail chains. Hence the Committee recommends that a realistic and dynamic pricing policy should be adopted in a timely manner to avoid such lapses in future.

Credit and Incentive policy

4.11 Loss of interest due to unauthorized credit facility

When the Deputy Accountant General informed that ₹44.80 crore is still pending towards credit sales, the CMD replied that Government Departments like the Police, Prisons, ICDS, Kudumbasree etc and some PSUs purchase commodities without making the payment and if this practice prevailed Supplyco would have to adopt the same approach like KSEB and might have to curtail the supply. If there is no outstanding debts, the credit facility should be provided for a maximum of 30 days. He also added that if the Committee recommends that the products should not be supplied for the next month unless the dues are paid within 30 days, action could be taken accordingly. He added that from the mid-day meal scheme itself ₹95.50 crore is pending since 2020 and for the last four years Supplyco has been paying eight percent interest for the same.

The Deputy Accountant General opined that if such an issue persists Supplyco should demand interest also. The CMD replied that at least they should be given the Principal amount as Supplyco has to get ₹11 crore towards migrant labourer's kit in 2020-21, ₹16 crore towards the fishermen's kit in 2021, ₹2 crore for quarantine kit in 2020, ₹6 crore on account of Community kitchen in Attapadi

etc. The Senior Audit Officer acknowledged that Supplyco has improved its credit policy in petroleum sales significantly by following the strict direction that credit facilities should not be given for more than one month.

The Additional Secretary, Finance informed that the Food Minister and the Education Minister convened a meeting regarding the amount pending under the mid-day meal scheme of Education Department and it was decided to pay the amount later. He also added that, the then CMD assured to distribute the goods if advance amount was paid.

The CMD informed that there were other costs associated with the supply. For example in the case of mid-day meal scheme, the Central Government supplied more rice than required and the Corporation had to store this excess rice and ₹3 crore is paid as rent for the same which was to be borne by Supplyco. Supplyco was receiving the cost of rice only and interest in rent and transportation costs were not covered. Similarly ₹22 crore is payable to the contractors in connection with the distribution of rice from mills to ration shops. The Government had to pay ₹185 crore on supplies relating to previous years and the accruing interest on this amount is also an issue.

Recommendations/ Conclusions of the Committee

19. The Committee observes that Government Departments and Government agencies purchased commodities on credit and often failed to pay the amount within the stipulated period. The committee observed that Supplyco could not curtail the supply, for non-realisation of dues, as it will adversely affect the essential services, disrupting the activities of the Government. In this situation, the Committee recommends that strict instructions be given for the realisation of dues from the Department and if timely payment is not done, the Government should bear the interest liability incurred on such delayed payments.

4.11.1 Irregular collection of quantity discounts from suppliers

The Committee expressed its concern over the debts of Supplyco and opined that earnest measures should be taken by the Government to sustain this PSU. The CMD replied that a monthly interest of ₹33 crore was being added to the total loan amount of ₹4100 crore, therefore; the loan amount would increase substantially year by year.

The Senior Audit Officer opined that ordinary people depended on Maveli stores to buy subsidized items and if these items are not available, it would inturn affect the sale of non subsidized items. The CMD agreed to it and added that Supplyco did not receive incentive from suppliers as Supplyco was not able to pay them in time and also could not place the purchase orders properly. As of now Supplyco owed ₹480 crore to suppliers in this regard.

Recommendations/ Conclusions of the Committee

20. The Committee expressed its concern over the debts of Supplyco and opined that earnest measures should be taken by the Government to sustain this PSU. The Committee also recommends to follow a standard policy for assessment and collection of incentive and to ensure awareness among officials for claiming maximum incentives from all the FMCG suppliers accordingly.

4.12 Multiple GST registration resulting in blocking up of input tax credit

When the Committee enquired about the audit paragraph, the CMD replied that initially separate GSTIN was in use for each depots and Headquarters, but later decided to retain only one GSTIN for the Headquarters. They finally realized that each GSTIN is treated as a distinct person under the GST Act and the input tax credit in GSTIN of depots could not be set off against tax obligations under the GSTIN of the Head Office.

The Committee enquired whether the amount would be refunded to the depots if the GSTIN amount could not be transferred from one GSTIN to another. The CMD informed that they have received the amount and the accounts

had been closed. The witness added that they have completed the assessment upto 2019-20 and the assessment for 2019- 20 would be placed in the Board meeting.

When the Deputy Accountant General informed that they are not in receipt of the assessment order, the Committee directed Supplyco to furnish the assessment order to the Audit Department and that a decision can be taken after examining it. The witness replied that when GST was implemented, the total purchase of the Company was calculated by the GST Department based on the sales bill uploaded by the suppliers. But during the first year of implementation, GST returns were filed based on the purchase bill uploaded by each Company. Eventhough the total purchase bill came from multiple GSTINs, the return was filed and input tax credit claimed under the Company's single GSTIN number. When the Committee enquired about the amount recovered out of ₹7.55 crore, the witness informed that the reply would be furnished after verifying the accounts.

Recommendations/ Conclusions of the Committee

21. The Committee observed that the depots received the refunded GST amounts and the accounts were closed. The Committee recommends to furnish the assessment orders regarding the same to the Audit department. The Committee also recommends to furnish the details regarding the amount recovered out of ₹7.55 crore which had accumulated against the cancelled GSTINs.

4.13 Performance of Supplyco Medical Stores

The Committee enquired about the audit paragraph that the operation of Supplyco Medical Stores became non-viable due to the uneconomical procurement of medicine and non achievement of the break-even sales. The CMD replied that although there are strict instructions, they are not able to implement the same. He had inspected several outlets of Supplyco Medical Stores and the one situated inside Vytilla Mobility Hub had a daily sale of only ₹3000 which might be due to improper indent placing and non-availability of medicines. In

several outlets, the monthly expenses amounted to ₹1.5 lakh including the salary of two Pharmacists, rent etc. and the income was a less than ₹1 lakh. Although it has been decided that all outlets should be made profitable and that unprofitable outlets were to be closed after giving them a period of three months for improvement, the department has limitations in implementing it. Therefore he requested the Committee to give a recommendation to take necessary steps to close down the unprofitable outlets.

When the Committee enquired the reasons for low income, the CMD replied that the main reasons were improper placement of indents and improper distribution of medicines from outlets which might be due to non-payment of amount to the suppliers for the medicines distributed. Monthly sale of Supplyco Medical Stores was only up to ₹ 5 to 6 crore and if they can ensure this ₹ 6 crore, they would be able to meet the requirement and steps have been initiated to implement this at headquarters level. Also there is a provision to provide medicines at 25 percent subsidy to BPL cardholders but the Corporation did not have a system to check the eligible beneficiaries.

To a query of Deputy Accountant General, the CMD replied that even though the BPL card holders produce their card, Supplyco could not verify whether the outlets are selling medicines only to such people. The CMD added that this issue can be solved by installing e-pos machines in the outlets but Supplyco is not in a position to bear the financial burden of purchasing e-pos machines including monthly rent and maintenance charges. The Committee opined that e-pos machines can be installed in Supplyco Medical Stores which are working at break even level. The CMD added that it can be implemented at ease if Committee recommends the same.

The Committee opined that if such irregularities continue even after the installation of e-pos machines, steps can be taken at the Departmental level to close down such outlets.

The witness informed that at present many plans were being formulated to improve the total sales and individual sales. There were several customers who buy medicines regularly for more than ₹10,000 and if they can be identified, Supplyco could increase the individual sales.

The DAG opined that medical stores are generally profitable and if offers are given to customers and targets are fixed for Supplyco medical stores, the sales can be improved. The CMD replied that it has already been done at Headquarters level.

Recommendations/ Conclusions of the Committee

22. The Committee observed that the provision to provide medicines at 25 percent subsidy to BPL cardholders is being misused as the Corporation did not have a system to verify that the outlets are selling medicines only to eligible BPL card holders who produced their card. Hence the Committee recommends that e-pos machines should be installed in Supplyco Medical Stores working at break even point. The Committee also recommends that if such irregularities continue even after the installation of e-pos machines, steps should be taken at the Departmental level to close down such outlets.

4.14 Violation of the Food Safety and Standards Act, 2006

The Committee enquired whether food products contaminated with Salmonella, E-coli, Fungus etc. making them unfit for human consumption were sold at Supplyco outlets as stated in the Audit paragraph. The CMD replied that a reply would be furnished after studying the matter. He added that it is the responsibility of the concerned official to remove such products from the outlets in a timely manner. The Committee opined that the problems faced by the public due to the consumption of these inedible products should be viewed seriously.

Recommendations/ Conclusions of the Committee

23. The Committee opines that the problems faced by the public due to the consumption of products unfit for human consumption should be viewed

seriously and recommends that strict instructions should be given to ensure the immediate withdrawal of products unsuitable for human consumption, as per the Food Safety and Standards Act 2006.

4.15 Registration of MIO claims affecting profitability

The Committee observed that the profit of ₹1222.25 crore generated from the sale of non subsidised commodities was absorbed in the MIO loss and hence was not available for the sustainability of the Corporation. The Senior Audit Officer informed that Suplyco suffered a loss of ₹1222.25 crore due to Market Intervention operations and the Government has not reimbursed it. So the profit made from selling non subsidised products was being used to set off the MIO loss.

The CMD clarified that the Government will pay only the balance amount after deducting from the loss incurred while selling subsidized goods, the profit earned from selling non subsidized goods. The DAG stated that the amount will be paid only after the finalization of accounts which is essential to determine the actual loss incurred. The witness informed that as per the Government Order, 95 percent can be considered as provisional loss until the accounts are finalized. The Senior Audit Officer added that the Central Government won't provide the five percent grant if there is a delay of more than five years in finalizing the accounts.

The CMD assured that strict follow up measures would be taken in this regard and the accounts up to March 2023 will be finalised by June 2025. The Central Government owes ₹800 crore to Supplyco and currently the Corporation is giving priority for finalisation of accounts and audit since Central Government will withhold five percent grant if it takes more than five years to finalize the accounts.

The Senior Audit Officer informed that it was evident from the audit that Supplyco did not have necessary staff and infrastructure to verify the accounts of 56 depots and 1700 retail outlets and therefore finalisation of accounts

is possible only if proper infrastructure is provided. The CMD replied that 30 employees were additionally posted and an order was placed for the purchase of 15 computers. Due to delay in getting computers it has been decided to rent computers for one month so that audit could be completed on time. He added that the financial crisis has become a big problem such that they could not replace the different types of Boards displayed in outlets.

The CMD informed that even though he made a decision to transfer the total amount received from the sale of FMCG to a separate account so that payments can be made regularly, but the same could not be implemented. Supplyco is yet to receive ₹185 crore from the Government towards payment due to contractors and suppliers, and the entire amount has already been paid from Supplyco's account. The amount in this account mainly comes from selling FMCG, sabari, tea and petroleum. Therefore Supplyco is not in a position to procure FMCG products although they are non-subsidized.

To a query from DAG regarding a system to know the statement wise profitability, the CMD replied that currently an accurate dashboard of each vertical is not available. Efforts are being made to create a dashboard showing daily sales, profit and other information of the products. Similarly, if the entire amount received from the sale of FMCG products goes to an account and payment is made to the suppliers, it will be possible to buy goods in bulk quantity with good incentives. For example, the largest consumer of Jyothi Lab products in Kerala is Supplyco and currently their products are sold through Supplyco for ₹ 6 crore. The Corporation has proposed to increase the current sales upto ₹10 crore if the products are given at best offer price, additional incentives and bonuses. Similar conditions have been put forward with suppliers like Team Thai.

The Committee opined that even though there are issues of financial burden and non-payment of dues by the Government, the interest and initiative of the Managing Director play an important role in taking the Corporation forward.

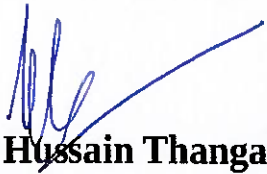
The CMD assured that he would try to bring about changes, possibilities and improvements at the top management level. He added that the financial crisis accounted for maximum 70 percent and only 25-30 percent of the proposed changes could be implemented. He assured that if some pending amount is allocated to the Corporation, it would make a positive difference.

Recommendations/ Conclusions of the Committee

24. The Committee observed that the profit of ₹1222.25 crore generated from the sale of non-subsidised commodities was totally subsumed in the MIO loss and hence was not available for maintaining the sustainability of the Corporation. The committee recommends that measures may be initiated to ensure regular payment to the suppliers enabling Supplyco to procure commodities in bulk quantity with good incentives.

25. The Committee recommends the Government to allocate the pending amount to Supplyco even though there are issues of financial burden.

Thiruvananthapuram,
07... October 2026


Prof. Abid Hussain Thangal,
Chairperson,
Committee on Public Undertakings.

APPENDIX-I
SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl No.	Para No.	Department Concerned	Conclusions/Recommendations
1	1	Food & Civil Supplies	The Committee observes that problems exist in the centralised monitoring of FMCG products which led to the purchase of same commodities when sufficient stock was available in the outlets. The Committee also observes that though the ERP system was introduced in 2019 at Supplyco, only 80 percent of the work has been completed so far. Therefore, the Committee recommends that the implementation of ERP system at the earliest, rectifying the existing defects.
2	2	Food & Civil Supplies	The Committee observes that the integrated software system in the medical division of Supplyco is in the testing stage. So the Committee recommends that the system be completed at the earliest.
3	3	Food & Civil Supplies	The Committee observes that the delay in ERP implementation occurred due to the inefficiency of the implementing agency. The Committee also observes that since 80 percent of the works has been completed by the implementing agency, they cannot be replaced. The Committee opines that improper submission of requirements for ERP implementation by the Company led to the flaws. So the Committee

			recommends that the Company must be more vigilant in selecting the implementing agencies and submitting the requirements while implementing such projects in future.
4	4	Food & Civil Supplies	The Committee observes that Supplyco is facing financial burden due to audit pendency and noted that due to non finalisation of accounts, there has been a delay in the release of funds from Central/ State Governments. Even though financial problems are hampering the day to day operations of Supplyco, the Committee recommends that timely submission of accounts should be done with due diligence to ensure the financial assistance from the Governments on time and to inform the Committee about the current position of finalisation of accounts.
5	5	Food & Civil Supplies	The Committee observes that the Civil Supplies Corporation was unable to procure commodities from companies/suppliers at prices lower than those offered to competitors due to the absence of a strong market intelligence system. Hence the Committee recommends that the market intelligence system should be strengthened by deploying officers to monitor the price trend and their demand in open market, thereby enabling the Company to obtain maximum margin.
6	6	Food & Civil Supplies	The Committee observes that the distributors hesitate to supply products to Supplyco due to the arrears they owe to the distributors and hence they

			quote rates including the interest for the amount. The Committee also observes that a huge amount is pending to Supplyco in terms of the Mid Day Meal Scheme and that some other departments also owe huge amount to Supplyco. Hence the Committee recommends that the departments concerned may pay off the pending amounts to Supplyco.
7	7	Food & Civil Supplies	The Committee observes that there are arrears in terms of reimbursement for MIO loss to Supplyco by the Government. So the Committee recommends to take necessary actions to reimburse the MIO loss incurred.
8	8	Food & Civil Supplies	The Committee observes that Sabari products which are available only at the Supplyco outlets fetch a higher margin to Supplyco and are in high demand. Short procurement of these products on account of financial constraints and subsidy elements can lead to a loss of margin to Supplyco. Hence the Committee recommends that stringent measures should be taken to incorporate changes in the indenting system to avoid consequent stock out conditions.
9	9	Food & Civil Supplies	The Committee also recommends taking diligent efforts for the marketing of Sabari products and that instructions should be given to the Depot Managers for the proper prioritizing of Sabari products. The Committee also recommends that surprise inspections at regular intervals should be conducted

			in the outlets to ensure proper display and promotion of Sabari products.
10	10	Food & Civil Supplies	The Committee observes that as per the direction of GoK in 2015, all PSUs shall follow e-procurement for all the tenders above ₹5 lakh. But the Depot Managers procured commodities directly from the vendors, violating the SPM and the rate was higher than the e-tender rate resulting in extra expenditure of ₹3.83 crore. The Committee observes that responsibility has been fixed only in some reported cases and others are pending. So the Committee recommends to find out all the responsible officials of the depots including those who were deputed from the Food Safety Department and to recover the amount from them.
11	11	Food & Civil Supplies	The Committee observes that currently, the problems related to bulk purchase in depots have been solved since purchase above ₹5 lakh at depot level have been stopped. Nevertheless the Committee recommends to ensure that the guidelines of the SPM are being implemented strictly.
12	12	Food & Civil Supplies	The Committee observes that most of the Depot Managers are deputed from the Food Safety Department and accordingly Supplyco could not initiate disciplinary action against them. The Committee also observes that Supplyco has decided to reduce the number of clerical staff on deputation

			by 10 percent every year. The Committee recommends to implement the same method in the case of Depot Managers and to fix accountability on officers appointed on deputation basis.
13	13	Food & Civil Supplies	The Committee opined that if the officials responsible for issuing the purchase orders to bidders other than the L1 were identified and disciplinary action was taken against them, it would have helped prevent repetition of such cases in future.
14	14	Food & Civil Supplies	The Committee recommends to identify and take expeditious action against the delinquent officers who were responsible for issuing multiple purchase orders at different rates for the same product to the same supplier and report to the Committee.
15	15	Food & Civil Supplies	The Committee observes that the depot managers made serious lapse by not collecting security deposit during the audit period. The Committee is of the view that the officers deputed from the Food Safety Department as Depot Managers are mainly responsible for the losses incurred by the Civil Supplies Corporation and recommends that such appointments on deputation basis should be stopped and directs to submit a report regarding the same.
16	16	Food & Civil Supplies	The Committee observes that the Depot Managers appointed on deputation basis are responsible for the delay in the timely delivery of commodities to outlets. The Committee directs the Company to

			supply the commodities directly to outlets and specify it in the purchase order so as to avoid such delay in future.
17	17	Food & Civil Supplies	The Committee understands that a large amount is due to Supplyco from Government and that no interest is being received on it, while Supplyco is required to pay interest on the loans it has taken. The Committee also observes that failure to revise the prices of goods sold through Supplyco in line with market prices is leading the Company into loss. Hence, the Committee recommends that there should be a system for the periodic review of selling price by comparing it with the market price and to revise the price accordingly.
18	18	Food & Civil Supplies	The Committee observes that as per the circulars issued in 2008 and 2015, Supplyco had to fix the price for non-subsidised commodities after deducting 5 percent from MRP. But Supplyco sold these items at higher rate compared to the rate charged by other retail chains. Hence the Committee recommends that a realistic and dynamic pricing policy should be adopted in a timely manner to avoid such lapses in future.
19	19	Food & Civil Supplies	The Committee observes that Government Departments and Government agencies purchased commodities on credit and often failed to pay the amount within the stipulated period. The committee observed that Supplyco could not curtail the supply,

			for non-realisation of dues, as it will adversely affect the essential services, disrupting the activities of the Government. In this situation, the Committee recommends that strict instructions be given for the realisation of dues from the Department and if timely payment is not done, the Government should bear the interest liability incurred on such delayed payments.
20	20	Food & Civil Supplies	The Committee expressed its concern over the debts of Supplyco and opined that earnest measures should be taken by the Government to sustain this PSU. The Committee also recommends to follow a standard policy for assessment and collection of incentive and to ensure awareness among officials for claiming maximum incentives from all the FMCG suppliers accordingly.
21	21	Food & Civil Supplies	The Committee observed that the depots received the refunded GST amounts and the accounts were closed. The Committee recommends to furnish the assessment orders regarding the same to the Audit department. The Committee also recommends to furnish the details regarding the amount recovered out of ₹7.55 crore which had accumulated against the cancelled GSTINs.
22	22	Food & Civil Supplies	The Committee observed that the provision to provide medicines at 25 percent subsidy to BPL cardholders is being misused as the Corporation did not have a system to verify that the outlets are

			selling medicines only to eligible BPL card holders who produced their card. Hence the Committee recommends that e-pos machines should be installed in Supplyco Medical Stores working at break even point. The Committee also recommends that if such irregularities continue even after the installation of e-pos machines, steps should be taken at the Departmental level to close down such outlets.
23	23	Food & Civil Supplies	The Committee opines that the problems faced by the public due to the consumption of products unfit for human consumption should be viewed seriously and recommends that strict instructions should be given to ensure the immediate withdrawal of products unsuitable for human consumption, as per the Food Safety and Standards Act 2006.
24	24	Food & Civil Supplies	The Committee observed that the profit of ₹1222.25 crore generated from the sale of non-subsidised commodities was totally subsumed in the MIO loss and hence was not available for maintaining the sustainability of the Corporation. The committee recommends that measures may be initiated to ensure regular payment to the suppliers enabling Supplyco to procure commodities in bulk quantity with good incentives.
25	25	Food & Civil Supplies	The Committee recommends the Government to allocate the pending amount to Supplyco even though there are issues of financial burden.

**ACTION TAKEN REPORT ON AUDIT REPORT OF C&AG FOR THE YEAR ENDED 31st MARCH 2018 ON PARA
No. 4.1to 4.15 RELATED TO KERALA STATE CIVIL SUPPLIES CORPORATION LIMITED**

Sl. No.	Para No.	C & AG Report	Action Taken Report
1	4.9.1	<u>Assessment of requirement</u> Assessment of requirement is the first step in procurement. As per Rule 6.1 of the Store Purchase Manual (SPM) issued by GoK, Purchase of commodities for public service should be based on the assessment of requirement for the year so far as they can be foreseen. As per the guidelines issued by the company, the requirement of commodities in an outlet shall be limited to 1.50 times the previous three months average sales. Audit observed that the procurement of non-subsidised commodities in the Company was managed by four independent software, namely, FMCG Indenting System, Sabari Indenting System, Depot Management System (DMS) and Outlet Management System (OMS). In the absence of an integrated software, the centralised assessment of requirement based on sales and stock data available in the OMS was not possible. The indents for FMCG commodities were instead prepared arbitrarily by the outlets. Out of 100 sample selected outlets (excluding 19 Supplyco Medical stores) examined, it was noticed that in 30 outlets, fresh lot of the same commodities was purchased during 2017-18 and 2018-19 when sufficient stock was available at the outlets. The Company replied (February 2019) that the new integrated software planned to be rolled out in April 2019 would enable the Company to ascertain the receipt and issue of commodities against the indents and sale of commodities to the ultimate customers. However, the Company did not roll out any integrated software so far	Even though Company planned to implement new integrated software by February 2019, it was not fully materialized. Later, an ERP solution has been planned with the help of plan fund from the Government, which is in the final stage, and expected to be implemented soon. After commissioning ERP solution in full swing the Company can roll out the anomalies in respect of indenting and issue of purchase orders and related activities.

		(July 2019)	
2	4.9.2	<u>Procurement of commodities by the Head Officer</u> Audit observations on procurement of FMCG commodities and Sabari products are discussed below.	
3	4.9.2.1	<u>Registration of Suppliers</u> According to Rule 1.2 of the SPM, public procurement activities should be conducted in a transparent manner ensuring competition, fairness and elimination of arbitrariness in the system. As per the provisions of the Kerala Financial code and the SPM, all efforts should be taken to ensure that the procurement price of the commodities is at the minimum. Audit observed that one of the conditions for the registration of suppliers under CCIS and CLC was the declaration by the suppliers that the margin offered to the Company was the highest in Kerala market. However, many commodities were sold by competitors at a price lower than that of Supplyco. The Company did not have a system to gather market intelligence to ensure that the suppliers complied with the declaration that the commodities offered by the suppliers were at the lowest cost. Such system was important since the selling prices were determined based on the margin obtained from the suppliers. The Company replied (February 2019) that the market intelligence system would be strengthened.	At present collection of retail prices of different commodities are done through the Depot Managers and Junior Manager (M&I) for assessing price standards of selected commodities to verify the price offered by the enlisted suppliers compared to similar suppliers. Similarly company also demands an undertaking from the suppliers depicting that the supplier is offering maximum margin to the company. The Board of Directors has decided to post 5 officers for canvassing sales of Sabari Products. A proposal will be submitted to utilize the service of these officers in the fields of Market intelligence, i.e. to ascertain the price trend, demand in the open market.
4	4.9.2.2	<u>Short procurement of Sabari products</u> Under the Sabari brand, the Company sells non-subsidised commodities like tea, coffee, coconut oil, curry powders, rice products	As per the Tender condition and contract with Sabari Suppliers supply is affected against the

		salt, note books etc. The Sabari products are available only in the Supplyco outlets and are in high demand. The substitutes for all the Sabari products are also available in the outlets. The Sabari products fetch higher margin to Supplyco than that of substitute products. On an examination of procurement of 15 Sabari products in five depots during 2014-15 to 2017-18, it was noticed that against the actual requirement of 47,45,263 units, only 35,99,450 units (76 per cent) were received from the suppliers. This was due to short placement of orders by the Head Office and short supply by the suppliers. As a result, there was stock out of Sabari products in 33 out of 151 outlets under the five depots for ranging from 3 days to 313 days leading to loss of margin of Rs.0.10 crore. The company replied (February 2019) that the short placement was on account of various reasons including financial subsidy element etc. The reply of the Company was not acceptable as there was no subsidy element in the sale of Sabari products including coconut oil and, in fact, the Company earned margin on the sale of such commodities during 2013-14 to 2017-18.	purchase order. Action has taken to change the tender terms to ensure timely supply. Necessary amendment is being made in the tender terms. Measures have been taken for the improvement of Sabari indenting system incorporating purchase order value to enable suppliers to supply as per purchase order. If purchase order is for below case quantity, supplier will reduce to the supply quantity to the nearest case quantity (order placed in one unit but supplied in another unit) will come to have reduced the supply.
5	4.9.3	<u>Procurement of commodities by Depot Management Committee</u> As per the procurement practice of the Company, the DMC formed at each of the 56 depots was given authority to purchase commodities of suppliers listed in CLC and DMC based on indents received from the outlets. FMCG commodities registered under CLC and DMC are procured considering the agreed margin on the purchase price. Other commodities viz., ordinary rice, jaggery, raw turmeric and pulses are procured on the basis of limited tenders received from the vendors registered with DMC. During 2013-14 to 2017-18, the value of procurement of FMCG and	

		other commodities was Rs.3,962.01 crore. Out of this, value of purchase by DMCs through CLC and DMC amounted to Rs.1,588.13 crore (40.08 percent). Though the depot level purchases constituted 40.08 per cent of the total purchase of non-subsidised commodities, the Company did not have a transparent procurement procedure as discussed below:	
6	4.9.3.1	<u>Procurement of commodities in violation of the Stores Purchase Manual</u> The GoK directed (May 2015) that all Government Department/Boards/Public Sector Undertakings shall follow e-procurement for all the tenders above Rs. 5 lakh. Audit observed that: • The 15 depots examined in audit issued 41,096 purchase order (POs) to procure commodities worth Rs. 767.78 crore during 2014-18. Out of this, 1,140 POs were to be e-procured as the value exceeded Rs. 5 lakh. Instead of e-procurement, the commodities valuing Rs.150 crore were procured from the vendors registered with DMCs. • The Head Office of the Company procured rice and pulses for subsidised sale through e-tenders during 2013-14 to 2017-18. On comparison of the e- tender rate with the procurement rate in 15 selected depots, it was noticed that the procurement rate of rice in ten depots was higher than the e-tender rate resulting in extra expenditure of Rs. 3.83 crore. Thus, due to procurement of commodities through DMD, the Company lost the benefit of economies of large-scale centralised procurement. The Company replied (February 2019) that the SPM was primarily intended for the purchase of stores. The procedures specified in the SPM were modified through the Purchase Manual of the Company	The Company is doing the business of retailing essential items and FMCG items. The trading of FMCG items are done by company to attract customers by placing different branded products supplies/marketed by different companies within or outside the state. As they prefer to fix prices on their brands, evaluating common criteria could not be possible in the case of purchase of branded products, other than ensuring margin on MRP. The Company insists maximum margin from the suppliers. In the case of other items, E-tender procurement is followed in the company.

		approved by GoK to suit the purchase of its trading goods. The reply of the Company was not acceptable as the GoK modified the SPM in June 2013 and made it applicable to all PSUs. Hence, the modified SPM prevailed over the purchase Manual of the Company approved by GoK in May 2006.	
7	4.9.3.2	<u>Procurement through negotiation</u> As per Rule 1.2(x) of the SPM, negotiations with the tenderers must be severely discouraged. The Central Vigilance Commission also clarified (January 2010) that there should normally be no post tender negotiations and if at all negotiations are warranted under exceptional circumstances, then they can be with the lowest tenderer only. Audit observed that in 15 depots test checked, in 2,749 out of 8,172 cases, the DMC held negotiations with all the bidders. At the time of negotiation, the bidders quoted fresh lower rates and in 1,108 cases, the purchase orders were issued to the bidders other than the original lowest bidder. Though there was a marginal decrease in the cost of procurement, the negotiation process was against the guidelines issued by the GoK and the CVC. The Company replied (February 2019) that directions were given to comply with the CVC guidelines on negotiation.	From 09/2019 onwards the depot level purchase is stopped and new category for enlisting these suppliers was created. The appointment of companies and approval of prices/margin is done at Head Office supervision itself. Only perishable items are allowed to purchase through DMC.
8	4.9.4	<u>Procurement of commodities through issue of multiple POs</u> As per Rule 6.1 of the Stores Purchase Manual issued by GoK, purchase of commodities for the public service should be based on the assessment of requirement for the year so far as they can be foreseen. For the procurement of commodities list under DMC, the DMC was to approve the rate and quantity of procurement. All the 15 depots examined in audit issued multiple POs in a month for DMC listed commodities during the years 2013-14 to 2017-18 due	In respect of tender purchase CVC guidelines issued is followed by the Company. Regarding DMC Purchase, the Company had given instruction to continue limited items only, such as local vegetables, Egg, Milk, Bread, Jaggery, Pappadam, any other items having less than seven days shelf life. All these items are highly perishable or having less shelf life. After

		to faulty indenting system. The procurement rate as per the POs issued to the same supplier in respect of the same commodity was different, resulting in extra expenditure of Rs. 7.94 crore.	stopping the DMC purchase, a new category of suppliers that is locally listed companies are enlisted and the price of items and margin on each category of items are approved from Head Office level.
9	4.9.5	<u>Short Supply of Commodities by the Suppliers</u> In order to ensure due performance of the contracts, Rule 8.19 of SPM specified collection of security deposit equivalent to five per cent of the total value of the contract. Further, as per Rule 8.30 of SPM, the security deposit shall be forfeited in the event of breach of contract. Audit observed that the Company did not collect any security deposit due to non-inclusion of such provisions in the POs. In all the 15 depots examined in audit, out of the total order value of Rs.1,618.69 crore for FMCG, commodities valuing Rs.187.61 crore were not supplied during 2013-14 to 2017-18. Thus, the non supply of commodities by the suppliers may have led to potential loss of margin of Rs. 22.98 crore to the Company in addition to the dissatisfaction among the customers. The Company replied (February 2019) that the suppliers would come to know about the ordered quantity only at the time of receipt of the POs and hence, may not be in a position to supply the entire quantity. As the Company released payment only against the quantity supplied, the Company did not incur any loss due to the non-supply of commodities. The reply of the Company was not acceptable as the suppliers accepted POs with the condition to supply the entire quantity within the prescribed time. Delay/non-supply of ordered quantities may result in stock out position and consequent potential loss of margin.	As the indenting is done manually, even though strict direction were given, to the OICs to indent based on 3 months sales, there are chances of errors. These can be completely wiped off by implementing ERP Solution in the coming financial year. The company issues Purchase orders to the enlisted vendors under different category every month based on the indent generated from the depots/outlets. It is a continuous process and the payment of the items supplied is effected in subsequent month only. This is done in a time gap of 30-45 days. Hence if any liability arises, it can be recovered from their bills pending at that time. Thus, even though the company does not insists Security Deposit on Purchase orders issued in respect of FMCG items the liability if any, arises can be met from the future bills of the supplier. As the indenting is done based on 1.5 months sales, there is less chance of stock out of any items since the fresh stock will come on issuing new purchase orders. More than that, Company purchases different brands with price variation. Thus the customer has the option to choose his items in accordance with his preferences. If a

			particular item is not available they may go for another one with same price or vice-versa. Thus non supply or delay in supply will not affect the sale or margin to the Company but affect the sales of the supplier only, since payments are effected to the supplied quantity only that too. in a later period. In the case of Sabari branded products penalty is being imposed on supplier for the short supply of the commodities. Measures also have taken to avoid stock out in outlets.
10	4.9.6	<u>Delay in transfer of commodities to outlets</u> As per the procedure in vogue, the suppliers deliver the commodities to the depots/outlets. The commodities received at the depots are transferred to the indented outlets. The depots need not hold the stock of these commodities beyond three days, a reasonable time for dispatching the commodities to outlets. Audit observed that there were delays ranging up to 340 days in transferring FMCG and Sabari commodities to the outlets during 2013-14 to 2017-18 resulting in blocking up of funds of Rs. 455.94 crore and consequent loss of interest of Rs. 2.34 crore. Inefficient logistic management by the Company was the reason for delayed transfer of non- subsidised commodities to outlets. The Company replied (February 2019) that while transporting items to outlets, importance would be given to subsidised commodities. As the transfer of the commodities to the outlets would depend on the number of outlets, distance to outlets and availability of storage space at outlets, the Company started promoting outlet delivery. The reply of the Company was not acceptable as the delay in transfer of commodities to the outlets resulted in blocking up of funds and	Based on the logistic convenience of the distributors, companies are supplying items at depots and outlets. As suggested in the audit, suitable directions will be issued for immediate transfer of stock which was supplied at the depots to the outlets who have indented the items. A modification of direct supply to the outlets are also planned to introduce soon, and this will help to minimize delay in receipt of stock in the outlets. This will also promote the direct outlet supply by the suppliers.

		consequent loss of interest. The Company should have arranged the necessary logistic support to deliver the commodities which are margin earning to the outlets immediately on their arrival.	
11	4.10	<u>Fixation of selling price for commodities</u> As the sale of non -subsidised commodities is not intended to regulate prices in the market, the Company is free to fix suitable price for such commodities. During 2013-14 to 2017-18, pricing of the commodities in the Company was regulated by two circulars issued in July 2008 and April 2015 as shown in Appendix 9 Audit examined the impact of both the circulars in maximising profit of the Company and observed the following:	
12	4.10.1	<u>Wrong fixation of selling price</u> The pricing circular issued in July 2008 and in force till March 2015 aimed at sufficient profit for the Company from the sale of FMCG as well as lesser selling price than the open market price. The price was to be fixed as mentioned in the circular. In respect of Sabari products, selling price was arrived at by adding five per cent of the material cost as administration overhead and three per cent of the selling price as sales overhead. Audit observed that: The pricing method in the July 2008 circular was adopted for FMCG on the assumption that direct and administrative cost was around 6.90 per cent of the sales price. The Company continued the pricing policy till March 2015 during which, the overall direct and administrative costs increased from 9.32 percent in 2013-14 to 9.89 percent in 2014-15. The failure of the management to review the pricing policy periodically based on the increase in direct and administrative costs	The selling price of items were fixed taking into account the MRP and margin on purchase price except edible oil and rice etc. If the prices are fixed considering the competitor's price locally, a uniform pattern could not be ensured. However, pricing policy based on margin offered by the suppliers, purchase price etc, will be proposed. In the case of Sabari products the actual overheads during 2013-2014 to 2017-18 increased from 10 to 13% including incentive. Supplyco motto is to curb the price hike in the market. Exorbitant increase in the price of sabari items will adversely affect the market rice. However considering the increased overheads, the percentage of overhead expenditure has

	resulted in lesser recovery of margin than envisaged at the time of price fixation. • In the case of Sabari products, the actual overheads during 2013-14 to 2017-18 increased from 9.49 to 11.03 percent. The increase in the overhead rate was not considered while fixing the selling price. This resulted in lesser recovery of margin of Rs.20.50 crore in respect of Sabari products. • As per the July 2008 circular, considering the importance of rice, the Company fixed the selling price of non-branded rice at a margin of five percent on purchase price while the selling rate of branded rice was fixed at a margin of 10 per cent on the purchase price. Other varieties of branded rice such as Broken rice, Ghee rice, Biriyan rice, Basmathi rice, Jeeraka sala rice etc. were priced by adding margin up to 22.50 percent on purchase price. According to the April 2015 circular, the Company refixed the selling price of all the varieties of rice including branded rice at purchase price plus four percent (six percent in case of depot delivery) instead of pricing at higher rate based on Maximum Retail Price (MRP). Fixation of selling price of branded rice by adding lesser margin resulted in loss of revenue of Rs. 11.26 crore during 2015-16 to 2017-18 in all the 15 depots examined in audit. The Company replied (February 2019) that the fixation of selling price based on MRP for branded rice would result in higher selling price in the outlets of the Company. However, considering the observations of Audit, the Company revised the selling rate to purchase price plus nine percent margin. The reply of the Company was not acceptable as selling price of all commodities with MRP, except branded rice, was fixed with reference to the MRP.	increased while fixing the Selling price. Hence pricing is done to ensure that Supplyco price remaining lower comparative in the market.
--	---	---

		The two price circulars (July 2008 and April 2015) stipulated methods for fixing selling price of various commodities by adding certain margin to the purchase price. Due to the error in the implementation of the price circulars, there was short fixation of selling price in all the 15 depots examined, resulting in loss of Rs. 19.03 crore during 2013-14 to 2017-18.	
13	4.10.2	<u>Fixation of higher selling price</u> Besides ensuring assured margins to the Company, the pricing circular of April 2015 aimed at ensuring competitiveness of the selling price of the non-subsidised commodities for attracting more customers. The revision of selling price was also necessitated by the complaints received from public regarding the higher rate of some popular banded products compared to the rate of other retail chains. As per the pricing circular of April 2015, the consumers were to be offered a minimum discount of five per cent on MRP. Audit observed that: - In all the 15 depots, the Company fixed higher selling rates in respect of some commodities than the rate stipulated by the circular resulting in excess realisation of Rs. 1.94 crore during 2015-16 to 2017-18. - Similarly, in all the 15 depots examined, products valuing Rs.93.33 crore were sold to customers without offering the stipulated minimum discount of five percent on MRP as envisaged by the price circular. The company replied (February 2019) that on implementation of the integrated software, all the anomalies in the present system would be rectified. Audit also observed that the Company did not have a mechanism to compare the selling price fixed by the Company vis-a-vis the price	

charged by the competitors on the same commodity. The competitor's pricing for similar products was not considered for the pricing decisions of the Company. A price comparison (September 2017) between the open market and the Company was as detailed in Table 4.2

Sl. No	Item	MRP	Selling price of the company (Rs.)	Open Market Price (Rs)
1	Total wash 1 kg	74.00	70.30	65.38
2	Every day 400 gm	169.00	160.55	156.61
3	Colgate Strong Teeth 100 gm	52.00	48.00	44.18
4	Texima 1Lr	39.00	37.00	34.89
5	Harpic Ordinary 500 ML	78.00	74.00	73.89
6	Sunlight Washing powder 500 gm	39.00	38.00	37.16
7.	Kabani XL Washing soap	62.00	58.00	58.00
8	Dr.Wash 200 +10 gm	25.00	23.75	23.35
9	Gold Bar 916 -850 gm.	67.00	64.12	63.76

		Since the Company was competing with large supermarket chains, the competitive edge in respect of pricing was essential to sustain in the Kerala retail market. Therefore, the incidence of higher price being charged by the Company vis-a-vis the competitors would result in low sales volume in the company. The company replied (February 2019) that the local super market chains would reduce their selling rate in certain areas where competition was more. The Company with around 1,600 outlets in the State adopted a uniform pricing policy and therefore, could not deviate from the selling rate base on local rates. The reply of the Company was not acceptable as the present pricing policy of the Company was not realistic and dynamic because there was no periodical revision of the pricing method. Between 2008 and 2018, there was only one revision of the pricing method in April 2015.	
14	4.11	<u>Credit and incentives policy</u> <u>Loss of interest due to unauthorised credit facility</u> In order to streamline the credit sales, the Company issued (December 2008) directions for credit sales to various Government departments and Public Sector Undertakings (PSUs). According to these directions, credit sales can be effected for a maximum period of 30 days subject to there being no pending bill against the customer. Audit observed that On an analysis of credit sales of 100 outlets in 39 outlets there were 214 customers with Rs.0.94 crore outstanding against previous credit sales of commodities. In spite of non-clearance	Credit sale from the outlets of the Corporation is allowed only to Government departments and Government agencies. The arrears are mainly due to delay in sanctioning of funds to cover interest on the delaying payments and that we cannot charge interest on delayed realizations from these institutions on the delay in getting funds to these departments/agencies by the Government. However, the Regional Managers were directed not to allow credit sales unless

		of the previous bills, subsequent credit sales of Rs. 5.74 crore were extended to 178 customers in violation of the credit policy. Due to this, an amount of Rs.6.68 crore remained to be realised from 214 customers in these 39 outlets as of March 2018. Non- realisation of the amount from the customers resulted in loss of interest of Rs.0.40 crore. The Company did not collect any security deposit against the credit sales of non-subsidised commodities as the credit policy/supply orders did not contain any provision for the collection of security deposit. As a result, though the credit period was offered for 30 days, dues could not be collected even after periods ranging upto 786 days. The Company replied (February 2019) that curtailing further distribution of commodities to such organisations on the ground of delayed credits would attract queries from the Government and complaints from the Public, adverse newspaper reports etc. Depot Managers were, however, asked to be prompt in liaising with the departments concerned to collect the arrears. The fact, however, remained that despite liaising with the Government, an amount of Rs.71.48 crore remained to be recovered from the Government departments and Public Sector Undertakings as of March 2018.	over dues are settled. However, fuelling of the vehicles of the police, health or other essential services and for the sale of goods to other social welfare institutions on credit could not be blocked for non realization of dues because it will amount to obstructing the activities of the Government. Out of the amount of Rs.71.48 crore recorded as arrears for 03/2018, the details of the outstanding amount for the year 2018 including the amount due for the financial years 2018-19, 2019-20 and 2020 -21 will be submitted shortly.
15	4.11.1	<u>Irregular collection of quantity discounts from suppliers.</u> Manufacturers of FMCG offer incentives to bulk consumers for placing annual POs above the pre-determined value. The Company procures commodities in bulk under FMCG category from manufacturers and is the largest dealer for many of the FMCG commodities in the Kerala retail market. Hence, the Company obtained	At present there is no agreement between the supplier and the Company on incentive based on hike in their turnover. Hence, a uniform criteria can be developed on implementation of ERP as the turnover of each supplier can be assessed easily, and request them to allow certain percentage of turn over as incentive.

		volume/quantity incentive or discount from the suppliers based on the purchase turnover. Audit examined the incentive scheme and observed that: • The Company did not have complete and accurate data for claiming incentive and depended on the data given by the suppliers. The officers responsible for collecting the incentives were unaware of any official document for substantiating the incentive received from the suppliers. Hence, there was no standard policy for assessment and collection of the volume/quantity incentive. • As per the existing practice, the Company collected quantity discounts at the rates ranging from 0.50 per cent to 4 per cent of the value of procurement from 20 out of 49 suppliers under CCIS list. In the case of 17 out of 20 suppliers, there were omissions and errors in calculation of incentive resulting in loss of incentive of Rs.4.02 crore. Though the value of depot level purchases through CLC and DMC was 40.08 percent of the total purchase, the Management did not collect any incentive from these suppliers. The Company replied (February 2019) that the payment to a supplier during a financial year was considered as a single payment for calculation of incentive by audit whereas each PO was distinct. The reply of the Company was not acceptable as there was no agreement with the supplier in respect of the computation pattern of incentive. Further computation based on each PO may absolve the supplier from the payment of incentive.	
16	4.12	<u>Multiple GST registration resulting in Blocking up of Input tax credit</u> According to Section 25 (2) of the Central Goods and Service Tax	

	(GST) Act, 2017 (Act), a person seeking registration under the Act shall be granted a single registration in a State or Union territory. Provided that, a person having multiple business verticals in a State or Union territory may be granted a separate registration for each business vertical. Section 25(4) of the Act states that a person who has obtained or is required to obtain more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct persons for the purposes of this Act. Section 2 (62) of the Act states that "input tax" in relation to a registered person, means the central tax, State tax, integrated tax or Union territory tax charged on any supply of goods or services or both made to him. Audit observed that the Company obtained (May 2017) 62 separate GST registrations for the Head Office, five regional offices and 56 depots, though it had only one business vertical and operations only in Kerala. This was done on the ground that separate registrations would make depots accountable for proper entry of purchases. However, the Company decided in August 2017 to retain the GSTIN of Head Office and surrender all the other GSTINs. The applications for cancelling the GSTINs were, however, made only during November 2018 to March 2019 and 60 GSTINs were cancelled (November 2018 to September 2019). Meanwhile, the suppliers billed the supplies against GSTINs of the depots for the purchases made by them. The Company, however, accounted the sales of the depots under the GSTIN of the Head Office. As of October 2018, the cancelled GSTINs had accumulated input tax credit amounting to Rs.7.55 crore. Since each GSTIN is treated as a distinct person as per the Act, the input tax credit in the GSTINs of regional offices/depots could not be set off against the tax obligation under the GSTIN of the Head Office. The Company replied (February 2019) that GST Return 3B was filed	The observation of the audit party that Supplyco obtained 62 separate GST registration, though it had only one business vertical and operations only in Kerala is untenable on the following grounds: The first and foremost step for the introduction of GST Law in the country was the incorporation of Transition provisions in CGST Act 2017 with Rules, being one time provision which shall be applicable to those who were registered under any of the existing law and have PAN to migrate into GST Law. These provisions may be said as most crucial because of migration of existing law in to GST. In order to comply with the provisions of the Act, supplyco has migrated all the existing TIN into GSTIN. Supplyco is a single entity having chain of sales units all over Kerala registered in a single PAN under the Income Tax Act. Even though PAN was the pre-requisite for obtaining registration under GST Act and the Act allows only one registration under single PAN, GSTIN was granted to multiple registrations under single PAN to Supplyco. This was termed as one of the implementation phase challenge by the department. Besides, we have approached the Department for getting the ITC held up in branches to the single GSTIN through which Supplyco has been filing returns from the very first due date since 2017 without any delay. However, the
--	---	--

	claiming the entire input tax credit on inward supply including those accumulated in depot GSTINs. The reply was not acceptable as the Act does not permit setting off the input tax credit of a registered person against the tax obligation of another registered person.	Department opined that the ITC held up in migrated GSTINs, if transferred would cause duplication in ITC claimed as Supplyco has already claimed the eligible ITC in the return filed on due date. The only remedy suggested avoiding the mismatch of ITC as per GSTR 1A & 3B was to get the same amended by the suppliers themselves. This was also not properly worked for some of the suppliers due to technical glitches and lack of awareness in the GST Network. However, 95% of the suppliers have amended their GSTR 1 as per the direction of Supplyco. It is also noted that the ITC claimed by Supplyco in any case, does not exceed the amount as reflected in GSTR 2B. Supplyco has no intention to operate under 62 registrations as related person or distinct person as envisaged under the Act for the purpose of establishing supply made without consideration (Schedule 1 r.w. Sec 7 of the CGST Act, 2017). 62 branches of Supplyco are neither related nor distinct person for the purpose of the Act: this was happened only due to the mandatory compliance of procedural aspect of GST Law. Therefore, it is clarified that Supplyco has not taken any IRC of some other registered person to setting off Supplyco's tax liability. In the light of the above explanation it is requested to drop the paragraph.
--	---	--

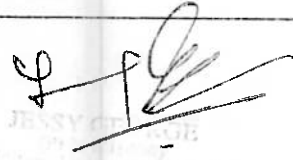
17	4.13	<u>Performance of Supplyco Medical Stores.</u> As of March 2018, the Company operated 106 Supplyco Medical Stores (SMSs) under five Medical Wholesale Divisions (MWDs). For these 106 SMSs, the medicines are procured either through five MWDs or locally by the SMS when the required medicines are not made available by the MWDs. Audit examined the performance of the SMSs and observed that: - According to the Circular No.18/2008 dated 11 July 2008, if the monthly sales in a SMS are less than the stipulated break -even sales, the Regional Manager should make recommendation to close the SMS so that commercial/social loss could be avoided. Out of 106 SMSs, 16 SMSs did not attain the break-even sales, the Regional Managers did not assess achievement of break-even sales, the Regional Managers did not assess the feasibility of continuation or relocation or closure of these 16 SMSs. The Company replied (February 2019) that steps like, shifting/closure of SMSs having sales less than the break-even sales, appointment of pharmacists as officers in charge of SMSs etc., were taken to improve the performance of SMSs. - As per the circular issued (November 2008) by the company for ensuring higher margin, all MWDs should ensure that local purchases should be limited to 20 percent of the value of medicines sold through medical stores to get the advantage of additional margin associated with bulk procurement. Audit observed that the local purchase of medicines by the SMSs exceeded the 20 per cent limitation prescribed the Company. The local purchase during 2013-14 to 2017-18 was Rs.108.08 crore against the permissible value of Rs. 78.82 crore. The reasons for the excess local purchase was on-procurement of medicines from listed pharma companies in MWD as well as non-listing of these pharma companies	(a) Out of 106 medical stores 11 medical stores were closed due to sales below the Break Even Point continuously. These medical stores were closed after giving sufficient time for developing the medical business. As decided by the Board in their 426th meeting, contract pharmacists were appointed as the officers in charge of Medical stores replacing the permanent staff of the Corporation/staff on deputation from Civil Supplies department. Thus expenditure towards salary is reduced to crores of rupees and to that extent the loss of medical business is reduced. Now PSC appointed Pharmacist or contract pharmacist are working as OICs of medical stores and thus the orders as per Pharmacy Act is adhered with. (b) A ceiling on local purchase ie, 20% of the local requirement of the medical stores, have been fixed vide Circular No. 29/08 dated 26.11.2008. It was reported by Regional Manager and OIC of medical stores, that the ceiling of 20% fixed for local purchase of medicines had adversely affected the sales of medical stores due to non availability of various medicines. Hence in view of the promotion of sales and to extend maximum benefits to the public, the ceiling of 20% of local purchase was increased from 20 % to 30% on a trial basis for 6 months from 01.11.15. The various reasons for increased local
----	------	---	---

	whose medicines were being indented by outlets. Thus due to excess local procurement of medicines during 2013-14 to 2017-18, the Company sustained loss of margin to the extent of Rs.2.63 crore. • Due to non-achievement of break-even sales by the SMSs, the fixed cost of Rs.78.64 crore involved in the operation of SMSs during 2013-14 to 2017-18 was recovered to the extent of Rs.18.27 crore monthly. • The Company issued (December 2008/March 2011) circular stipulating analysis of performance of medical stores on a monthly basis in order to monitor the purchase, sales and stock holding of medical stores. However, no such report was prepared on a monthly basis. Besides, medicines-wise stock details were also not prepared. Further, the software applications used in the Medical Wholesale Division and in the Medical Stores were neither similar nor integrated, because of which the Division's software was unable to fetch the inventory requirement of Stores. In the absence of this information, it was not possible to assess the efficiency of inventory management. Thus, due to uneconomical procurement of medicine and non-achievement of break-even sales, the operation of SMSs became unviable.	purchase during the audit report 2013-14 : 2017-18 are given below. (1) In 2015 National Pharmaceutical Pricing Authority implemented price control order for 383 medicines and due to the reduced price, MWDs had to return the medicines to companies. Due to price control order, companies had reduced the margin and MWDs availed reduced margin. This had created non availability of medicines in MWDs In the above circumstances local purchase were allowed to ensure availability of medicines to the public especially when the shortage of medicine prevailed in the open market due to implementation of price control order by National Pharmaceutical Pricing Authority. (2) Goods and Service Tax is implemented in July 2017 till then for medicine tax is charged on MRP of medicine and after implementation of GST tax is charged in MRP of medicines and after implementation of GST tax is charged on purchase price. GST Rule had necessitated receiving of invoices and receipt of medicine in a time bond manner. Many medical companies were supplying medicine against payment for which invoice had submitted in advance for processing payment. After GST implementation major medical companies such as Sun Pharmaceutical Laboratories, Sun Pharmaceutical Industries, Cipla Ltd insisted to immediate payment on delivery without
--	---	--

			submitting the invoice in advance or giving sufficient time for processing payment. The issue was resolved after providing Bank Guarantee during the above period also local purchase of medicines were allowed to ensure availability of medicines to the public. Hence there were no loss to Corporation and very purpose of running medical store by the corporation is achieved by making available the medicine to the public even at a time when the medical companies stopped supply to MWDs due to GST implementations. (c) Supplyco is operating Medical stores in order to make available the medicine to the public at affordable price and through its operation subsequent years to come, fixed cost can be recovered. (d) Since the software used in MWSs and Medical Store are not similar nor integrated the indenting of the medical store/MWDs are not available at Head Office. Hence proposal has submitted to make provision for the same.
18	4.14	<u>Violation of the Food safety and Standards Act, 2006</u> As per Section 31 of the Food Safety and Standards Act, 2006, any person carrying on any food business shall obtain a license from the Designated Officer. As per Section 28 of the Food Safety and Standards Act 2006, the products unsuitable for human consumption should immediately be withdrawn from the market. Audit observed that:	Presently the direction to withdraw the stock in which quality deviation is reported, is issued on the day of receipt of test report or on the very next working day itself. It is mandatory for a food business operator to have valid FSSAI license for all the food items handled by it. Efforts have been done from QA

		- As indicative cases, the depots of Kollam, Alathur, Palakkad and Chengannur and its outlets examined by Audit did not obtain licenses for all the food products dealt by them. - Out of 4,412 samples sent for testing to Food Quality Monitoring Laboratory at Council for Food Research and Development during 2013-14 to 2017-18, 383 samples tested unsuitable for human consumption as the samples contained "Salmonella", 'E.Coli' or 'Moulds'. However in respect of 369 samples, there was delay up to 17 days in giving direction to the outlets for removing the products. The Audit observation was accepted (February 2019) by the Company while stating that instructions were issued to comply with the legal requirements.	section to ensure a valid FSSAI license for all the undertakings of Supplyco. For Supplyco outlets license under the category Retailer is obtained by OIC by submitting the application to the food authority. Generally license is issued for all the items as requested in the application form. More items can be included by enlisting all the items dealt by the outlet in the application form at the time of submission of the application. Direction has been issued from QA section to get the FSSAI licenses of each and every establishment checked for validity and inclusion of all the categories of food (as per the food categorisation code) dealt by the outlet/godown. If any non compliance is found in the present licenses it can be corrected either at the time of renewal of the license or by submission of a request for modification of the license.
19	4.15	Registration on MIO claims affecting profitability As per the directions of the Government of Kerala, the Company sells essential commodities to the public at price fixed by the GoK as a part of the Market Intervention Operation (MIO). The reimbursement of the MIO loss by GoK was limited to actual loss as per the audited accounts. Audit observed that the actual loss as per the annual accounts is the aggregate of the MIO loss and profit from non-subsidised commodities. Hence, the profit of Rs.1,222.25 crore generated from the non-subsidised segment was totally subsumed in the MIO loss and hence, was not available for its sustainability.	As per G.O (Rt) No. 276/13/F&CSD dated 27.08.2013, the Government had limited the reimbursement of MIO loss to actual loss as per the audited accounts or the provisional MIO loss claimed by Supplyco, whichever is lower. It is a fact that the limit imposed by the Government affects the profitability of Supplyco. While following the G.O. entire profit earned in the non subsidy scale is absorbed in the actual loss as per audited accounts. This hinders the infrastructural development of the Corporation

		The Company admitted (February 2019) that limiting the reimbursement of MIO loss to the actual loss of the Company affected its profitability. The Government of Kerala endorsed (June 2019) the reply furnished by the Company to all the audit observations.	and in turn stagnate its customer reach. Though government have imposed restriction on the reimbursement of MIO claim, it is to be noted that the Government have released funds amounting Rs.12.02 crores to Corporation for the revamping of outlets under plan fund since 2018-19 Financial Year.
--	--	--	---


 JESSY G. J. J.
 Assistant Secretary to Govt.
 Food and Civil Supplies &
 Consumer Affairs Dept.
 Govt. Secretariat
 Thiruvananthapuram

Appendix 8

(Referred to in Paragraph 4.2)

a. List of the supply chain in The Kerala State Civil Supplies Corporation Limited as on 01/04/2018

Sl. No.	Name of the Outlet	Total No. of outlets
1	Subsidised Store	967
2	Super Markets	416
3	Peoples Bazar	28
4	Hyper Market	5
5	Apna Bazar	1
6	Maveli Superstore	1
7	Medical Stores	106
8	Petrol Bunk	12
9	Mobile Maveli Store	21
10	LPG Outlet	3
11	Kerosene Depot	-
Total		1,560

b. List of Regional Offices

Sl. No.	Name of Regional Office	Revenue Districts covered	Number of Depots under the Region	Depots selected for detailed audit scrutiny	Value of procurement (₹ in crore)
1	Thiruvananthapuram Region	Thiruvananthapuram	4	Thiruvananthapuram	Above 100
				Nedumangad	Above 100
				Attingal	Between 50-100
		Kollam	4	Kottarakkara	Between 50-100
2	Kottayam Region	Kottayam	5	Kollam	Above 100
				Kottayam	Above 100
		Pathanamthitta	4	Kanjirappally	Between 50-100
		Idukki	3	...	...
		...	...	...	...
3	Ernakulam Region	Ernakulam	5	North Paravur	Between 50-100
		Alappuzha	5	Chengannur	Below 50
		...	...	...	...
4	Palakkad Region	Palakkad	4	Palakkad	Between 50-100
		Thrissur	4	Alathur	Between 50-100
		Malappuram	6	...	
		...	...	...	...
5	Kozhikode Region	Kozhikode	4	Nilambur	Below 50
		Kannur	3	Kozhikkode	Between 50-100
		Kasaragode	2	Thalassery	Above 100
		Wayanad	3	Kanhangad	Between 50-100
		...	...	...	...

Appendix 9

Statement showing circulars issued in 2008 and 2015 for fixation of price of commodities in
The Kerala State Civil Supplies Corporation Limited

(Referred to in Paragraph 4.10)

Circular number 20/2008

Items	Selling Rate if delivery at outlets		Selling rate if delivery at depots
Rice other than branded rice	Minimum margin of 5 <i>per cent</i> on Purchase Price		Minimum margin of 8 <i>per cent</i> if delivery at depots Selling Price to be increased by 2 <i>per cent</i> from the selling Rate, for delivery at depot.
Edible Oil and Branded Rice	Minimum margin of 10 <i>per cent</i> on Purchase Price		
Tea, Coffee, Curry Powder and Salt	Minimum margin of 15 <i>per cent</i> of Purchase Price		
Other Non-subsidised commodities	Percentage of margin * on Purchase Price (PP)	Selling Price= Highest of the following :	
		PP + x % on PP	MRP - x % of margin
	Less than 20	11%	20%
	Between 20 - 30	16%	25%
	More than 30	22.50%	30%

Circular number 07/2015

Margin on Purchase Price (per cent)	Discount on Maximum Retail Price (per cent)
Less than 30	5
Between 30- 35	7
Between 35- 40	8
Between 40-45	9
Between 45-50	10
Between 50-75	15
Above 75	25