





**REPORT OF THE  
COMPTROLLER AND AUDITOR GENERAL  
OF INDIA**

**FOR THE YEAR ENDED 31 MARCH 1987  
NO. 13 OF 1988**

**UNION GOVERNMENT  
(OTHER AUTONOMOUS BODIES)  
NATIONAL CO-OPERATIVE CONSUMERS' FEDERATION  
OF INDIA LIMITED**

RECEIVED FROM  
OFFICE OF THE DIRECTOR  
OF THE BUREAU OF REVENUE

FOR THE YEAR ENDING  
MARCH 31, 1910

AMOUNT PAID IN  
TAXES ON THE  
PROPERTY OF THE STATE



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## PREFATORY REMARKS

This Report of the Comptroller and Auditor General of India containing a review on 'National Co-operative Consumers' Federation of India Limited', has been prepared for submission to the President under Article 151 of the Constitution of India.

2. The points mentioned in the review are those which came to the notice in the course of test audit under the various provisions of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.





## OVERVIEW

This Audit Report contains a review on National Cooperative Consumers' Federation of India Limited. The significant Audit findings as a result of test check of records are summarised below :

The Federation was registered as a cooperative society in 1965 to act as an apex body to assist and counsel its member institutions and as a spokesman of consumers' cooperative movement in India. The objectives of the Federation include fostering cooperative movement in India, providing technical guidance to its member institutions, dealing in procurement and trading of essential consumer goods, holding the price line and maintaining quality control.

The Board of Directors was superseded in October 1987 for various lapses and the Secretary, Department of Civil Supplies assumed charge as Administrator.

The cumulative losses of the Federation amounted to Rs. 9.03 crores as against Rs. 6.24 crores of share capital and reserve at the end of June 1987. The mounting losses were mainly due to the inadequacies of management, uneconomic working of most of its branches, disproportionate increase in overhead expenses etc. Out of 23 branches in 1986-87, 16 were running in loss. Due to erosion of its own funds, the Federation has been dependent upon borrowed funds resulting in a surpluss in payment of interest charges from Rs. 95.87 lakhs in 1983-84 to Rs 194.52 lakhs in 1986-87.

Despite good potential for increasing their sales to consumer cooperatives in the country, the annual turnover of the Federation had been stagnating around Rs. 159 crores during 1985-86 and declined to Rs. 135 crores in 1986-87.

More than 50 per cent of the turnover was accounted for by controlled cloth and confiscated goods, making the Federation largely dependent upon Government patronage for business. Trade in imported goods, during 1983-86 resulted in a loss of Rs. 181.53 lakhs in dry dates and chick-peas. The Federation was debarred in January 1985 from import activity for five licensing periods on account of breach/irregularities under import control orders. The export quotas could not be fulfilled by the Federation.

The processing and manufacturing units established for production of consumer goods were not utilised to their full installed capacity. The Federation did not have a testing laboratory of its own nor employed quality control inspectors for ensuring the quality of goods purchased/sold by it.

Extension of credit facilities to private parties and extension beyond the prescribed limit to member cooperatives resulted in heavy outstandings under sundry debtors amounting to Rs. 9.88 crores at the end of June 1987. A sum of Rs. 1.74 crores was due for recovery from various suppliers on account of advance payments made to them.

Shortages of stock valuing Rs. 68.03 lakhs were noticed during 1983-84 to 1985-86. However, no responsibility was fixed by the Federation for the shortages in stock. The verification report of stock and stores also did not contain information on the slow moving/obsolete stock and their realisable value. The Federation did not obtain confirmation of the stock lying with the third parties.

The Federation utilised Rs. 160.78 lakhs relating to subsidy received for payment to National Textiles Corporation mills for other purposes.





## MINISTRY OF FOOD AND CIVIL SUPPLIES

(Department of Civil Supplies)

### NATIONAL COOPERATIVE CONSUMERS' FEDERATION OF INDIA LIMITED

#### 1. Introduction

The National Cooperative Consumers' Federation of India Limited, hereinafter referred to as the Federation was registered as a cooperative society in 1965 to act as an apex body to assist and counsel its member institutions to facilitate their working and generally to act as a spokesman of consumers' cooperative movement in India and to promote consumers' cooperative institutions in areas where the State Consumers' Federations or the existing wholesale stores are not doing so. The objectives, *inter alia*, include fostering co-operative movement in India, providing technical guidance to its member institutions, establishment of processing and manufacturing units for the production of consumer goods, import and export of consumer goods, acquiring of land, buildings and warehouses for its activities, holding the price line and maintaining quality control. The Federation has 5 Regional offices and 23 branches at various places in India with headquarters at New Delhi.

#### 2. Scope of Audit

The audit of the Federation (headquarters as well as branches) is being conducted by Chartered Accountants appointed by the Central Registrar of Cooperative Societies.

A review of the activities of the Federation for the period 1983-84 to 1985-86 was conducted under Section 14(2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 during February—July 1987. The review is also based on the Annual Reports of the Federation upto 1986-87.

#### 3. Organisational set up

The Federation is managed by a Board of Directors consisting of representatives of State-level Federations, whole sale/retail Consumer Cooperative Societies, nominees of the National Cooperative Development Corporation, National Cooperative Union of India, National Agricultural Cooperative Marketing Federation of India (NAFED) and the Government of India.

The Executive Committee constituted by the Board of Directors looks after the administrative functions of the Federation. The Business Committee constituted by the Board of Directors lays down the general policy about the overall business of the Federation and reviews the progress and also plans procurement of commodities, storage and

distribution thereof. These committees are required to meet at least once in a quarter. The Managing Director is the Chief Executive Officer of the Federation.

The Board of Directors was superseded under the orders (15th October, 1987) of the Central Registrar of Cooperative Societies, in view of various lapses and an Administrator had been appointed in lieu thereof. The Secretary, Department of Civil Supplies assumed charge as Administrator on the 16th October 1987. Consequently, the Business and Executive Committees had also ceased to exist.

#### 4. Highlights

The review brings out, *inter alia*,—

- The share capital and reserves of the Federation had been fully eroded due to sustained losses since 1983-84. The cumulative losses at the end of June 1987 amounted to Rs. 903.29 lakhs as against Rs. 624.09 lakhs of share capital and reserves.
- The mounting losses were mainly due to the inadequacies of management, uneconomic working of most of its branches, disproportionate increase in overhead expenses etc.
- Due to erosion of its funds, the Federation has been dependent upon borrowed funds for working capital resulting in spurt in payment of interest charges from Rs. 95.87 lakhs in 1983-84 to Rs. 194.52 lakhs in 1986-87.
- The annual turn over of the Federation stagnating around Rs. 159 crores during 1983-84 to 1985-86 declined to Rs. 135 crores in 1986-87 despite good potential for increasing sales to consumer cooperatives in the country.
- More than 50 per cent of the turn over was accounted for by controlled cloth and confiscated goods, making the Federation largely dependent upon Government patronage for business. The Federation will further face a serious crisis if the patronage is withdrawn by the Government. Though business in controlled cloth fetched only a nominal margin of 1-1.5 per cent, funds of the Federation amounting to Rs. 537 lakhs stood blocked (June



- 1986) in the business due to non-retirement of documents by client societies and bills pending for collection.
- The accounts relating to subsidy received for payment to National Textiles Corporation mills had not been settled, a sum of Rs. 160.78 lakhs payable to the mills was utilised for other purposes.
  - Supply of pulses to Army Purchase Organisation resulted in over charging in one case and supply of sub-standard pulses in another case.
  - Trade in imported goods during 1983-86 resulted in heavy losses viz., Rs. 10.49 lakhs in chick-peas and Rs. 171.04 lakhs in dry dates. The Federation was debarred in January 1985 from import activity for five licensing periods on account of breach/irregularities under import control orders.
  - The export quotas could not be fulfilled by the Federation. It paid a penalty of Rs. 2 lakhs in the export of wheat bran.
  - The processing and manufacturing units established for production of consumer goods were not utilised to their full installed capacity. There has been no perceptible growth.
  - The Federation did not have a testing laboratory of its own nor employed quality control inspectors for ensuring the quality of goods purchased/sold by it, resulting in rejection of goods supplied.
  - Eight industrial plots acquired at a cost of Rs. 18.38 lakhs for establishing processing units remained unutilised.
  - Shortages of stock valuing Rs. 68.03 lakhs were noticed during 1983-84 to 1985-86. However, no responsibility was fixed by the Federation for the shortages in stock. The verification report of stock and stores also did not contain information on the slow moving/obsolete stock and their realisable value. The Federation did not obtain confirmation of the stock lying with the third parties.
  - The working of the branches of the Federation was not satisfactory. Out of 23 branches in 1986-87, 16 were running in losses.
  - Extension of credit facilities beyond the prescribed limit to member cooperatives and extension thereof to private parties resulted in heavy outstandings under sundry debtors amounting to Rs. 987.59 lakhs at the end of June 1987 of which a sizable amount was outstanding for more than 3 years. Further, the Federation was paying heavy interest charges. At the end of June 1987, a sum of Rs. 173.62 lakhs was due for recovery from various suppliers on account of advance payments made to them from time to time.

### 5. Financial Position

The sources and utilisation of funds at the end of June 1984 to June 1987 were as under :—

1	(Rupees in lakhs)			
	June 1984	June 1985	June 1986	June 1987
2	3	4	5	
<i>Source</i>				
Share Capital . . . . .	474.94	475.24	500.24	520.24
Reserves and Surplus . . . . .	103.85	103.85	103.85	103.85
Loans . . . . .	1077.68	1539.21	1673.64	1570.26
Current Liabilities and provision . . . . .	2205.80	2287.85	2158.93	1916.16
	<u>3862.27</u>	<u>4406.15</u>	<u>4436.66</u>	<u>4110.51</u>
<i>Utilisation</i>				
Fixed Assets and Investments . . . . .	123.30	155.38	151.64	137.25
Stock . . . . .	1333.94	1595.24	1197.70	870.40
Debtors . . . . .	1108.53	1048.00	1058.27	987.59
Bills for collection . . . . .	366.20	283.53	263.92	287.38
Claims receivable . . . . .	224.59	220.66	209.53	216.65
Documents in hand . . . . .	159.61	74.27	273.37	74.98
Others . . . . .	325.40	525.33	544.90	531.92
Amount in Bank Accounts . . . . .	100.58	129.28	91.40	101.05
Cumulative losses . . . . .	120.12	374.46	645.93	903.29
	<u>3862.27</u>	<u>4406.15</u>	<u>4436.66</u>	<u>4110.51</u>



Of the paid up share capital of the Federation amounting to Rs. 520.24 lakhs as on 30th June 1987, Rs. 247.74 lakhs were of the Central Government and Rs. 272.50 lakhs contributed by State level Cooperative Federations and Cooperative Societies.

Central Government's contribution to total share capital which was 42.66 per cent till 1984-85 was augmented to 45.52 per cent in 1985-86 and 47.61 per cent in 1986-87.

The Central Government had also given loan assistance of Rs. 14.55 lakhs during the period 1976-77 to 1978-79 for setting up of processing industries. The balance of Central Government loan outstanding as on 30th June 1987 was Rs. 9.32 lakhs. Besides, the Central Government had been guaranting cash credit limits given by the bank in favour of the Federation for expansion of business activities. As on 30th June 1987, Central Government guarantee was for cash credit limit of Rs. 7.50 crores against hypothecation of goods of the Federation.

Assistance is also provided by Central Government for meeting 75 per cent of the total expenditure of the consultancy and promotion Cell of the Federation

established in 1972 for rendering technical guidance and assistance to the consumer cooperative institutions. Grant-in-aid released to the Federation on this account during the five years from 1982-83 amounted to Rs. 105.77 lakhs.

The owned funds of the Federation viz. share capital and reserves were completely wiped out by 1985-86 due to losses sustained since 1983-84. The Federation had been facing acute shortage of working capital since 1983-84 and had to depend on bank borrowings, which had risen from Rs 1073.00 lakhs in 1982-83 to Rs. 1560.94 lakhs in 1986-87. The debt equity ratio under-went an adverse trend, from 2.26:1 as at the end of 1983-84 to 3:1 at the end of 1986-87.

It was stated by the Ministry in January 1988 that due to erosion of the entire capital as a result of sustained losses, the Federation did not have any capital to maintain its present level of business.

## 6. Working results

6.1 The working results of the Federation are summarised below :

(Rs. in lakhs)

	1982-83	1983-84	1984-85	1985-86	1986-87
<i>Receipts</i>					
Sales . . . . .	14072.27	15671.10	15707.30	15831.42	13536.24
Gross profit . . . . .	299.18	382.53	318.07	424.23	421.71
Miscellaneous income . . . . .	257.57	150.63	107.30	100.69	99.98
Total income . . . . .	556.75	533.16	425.37	524.92	521.69
<i>Expenditure</i>					
Establishment . . . . .	192.79	234.94	303.87	316.08	328.36
Interest . . . . .	60.24	95.87	123.69	210.89	194.52
Selling and distribution expenses . . . . .	143.42	90.93	78.28	84.88	78.00
Administrative expenses . . . . .	107.77	132.57	131.46	135.45	117.21
Other expenses . . . . .	48.84	98.97	42.41	49.09	60.96
Total expenses . . . . .	553.06	653.28	679.71	796.79	779.05
Net profit or loss . . . . .	3.69	(-)120.12	(-)254.34	(-)271.47	(-)257.36

Increase in gross profit was mainly on account of larger share of confiscated goods in the overall trade.

The Federation, which had been showing profits till 1982-83, had been running in losses continuously thereafter.

6.2 An analysis of the working results revealed as follows :

- (i) The sales turnover did not show any marked improvement during 1980-81 to 1986-87. The sales stagnating around Rs. 157 crores during the three years, 1983-86 declined to Rs. 135 crores in 1986-87. While the percentage of gross profit to sales increased from 1.28 per cent in 1980-81 to 3.11 per cent in 1986-87, the

percentage of total expenses to sales registered a steeper increase from 2.6 per cent to 5.7 per cent during these years resulting in declining profitability.

- (ii) Miscellaneous income declined from 1983-84 onwards mainly due to the discontinuance of distribution of subsidy to National Textiles Corporation (NTC) Mills through the Federation for which it was being paid discounts.
- (iii) The major increase under the head 'Establishment expenses' was on salary and allowances which rose from Rs. 192.59 lakhs in 1983-84 to Rs. 274.84 lakhs in 1986-87. The sharp rise was due to the revision of pay scales, opening of new branches at



Bangalore, Hyderabad and Indore and the stationery unit at Hingna.

- (iv) Bank charges rose steadily from Rs. 95.87 lakhs in 1983-84 to Rs. 194.52 lakhs in 1986-87.

This increase was mainly due to :

- (a) larger dependence on bank borrowings for working capital due to erosion of capital and reserves;
- (b) over stocking as a result of injudicious purchases and of imports (especially relating to chick peas and dry-dates) by the Federation;
- (c) heavy closing stock which rose from Rs. 997.15 lakhs in 1982-83 to Rs. 1197.70 lakhs in 1985-86; and
- (d) unsound credit policy resulting in marked rise in sundry debtors, bills for collection and advances to suppliers.

The Ministry stated in January 1988 that several remedial economy measures had been taken to minimise the expenditure at various levels, but the sales turnover could not register any increase due to steep fall in the business of controlled cloth on account of Government policy as well as in the business of imported sugar. It was also stated that due to erosion of entire capital by sustained losses, the Federation did not have any capital to maintain its present level of business.

## 7. Business performance

The Federation deals in controlled cloth, confiscated goods, grocery, tea, general merchandise, non-controlled textiles, imports and exports of consumer goods. The commodities dealt with by the Federation fall under two categories viz. 'sheltered' comprising of controlled cloth and confiscated goods where the Federation has been nominated by the Central Government as a coordinating agency and 'non-sheltered' comprising other items. More than 50 per cent of the total turnover of the Federation was of sheltered goods as indicated below :

Year	Turnover (Rs. in lakhs)	Percentage share of	
		Sheltered	Non-sheltered
1983-84	15,671.10	54.3	45.7
1984-85	15,707.30	57.5	42.5
1985-86	15,831.42	51.9	48.1
1986-87	13,536.24	50.5	49.5

Sales, closing stock and percentage of gross margin to sales in respect of the commodities for the year 1982-83 to 1986-87 are given in Appendix.

While the turnover in confiscated goods constitutes only 8.8 per cent to 17.2 per cent of the total sales turnover during 1983-84 to 1986-87, the gross margin

earned on this item was between 19.69 per cent to 46.1 per cent of the total gross margin earned by the Federation. The Federation thus depended on this business to a large extent for its existence.

## 8. Controlled cloth

8.1 *Distribution of controlled cloth.*—The Federation is the nominated coordinating agency for distribution of controlled cloth in accordance with the quotas fixed by the Textile Commissioner. Eighty five per cent of the controlled cloth produced by the NTC mills is channelised through the Federation. The task of retail distribution of controlled cloth at the State level is performed by agencies nominated by the State Governments|Union Territories and the Federation acts as a guarantor on behalf of the State Federations to the NTC mills.

In the case of controlled variety of handloom cloth, the branches of the Federation were required to supply handloom products in the area of operation of their branches only after receiving written approval from the State Federations|Registrars of Cooperative Societies

Controlled cloth is despatched by NTC Mills to the consignee State Federation|Member Cooperatives as per despatch instructions from the Federation. Sales bills raised thereon are at cost, giving full particulars as per despatch instructions. Documents are drawn on the branches of the Federation by the NTC in whose jurisdiction the Mills are located and through whom the order has been received. The branches, in turn, are required to raise invoices against the State agency and release payment to the NTC within 30 days from the date of receipt of documents.

The Federation is entitled to 1 per cent service charges on the supply of controlled cloth out of the 15 per cent distribution margin. Cash discount of 1 per cent is also available, if payment is made to the NTC within 30 days; of this 1/2 per cent is passed on to the State agencies for releasing the payment within 15 days of delivery of documents to the branches of the Federation.

The share of sale of controlled cloth in the total sale of the Federation had declined from Rs. 7133.89 lakhs (45.52 per cent) in 1983-84 to Rs. 4498.62 lakhs (33.23 per cent) in 1986-87. The contribution of this business to the total gross margin of the Federation which was 24.5 per cent in 1982-83 declined to 16.5 per cent in 1986-87.

In the Administrator's report for the year 1986-87 submitted to the Board of Directors, some of the reasons for decline in the sales were stated to be :—

- (a) reduction in quantity of controlled cloth from 400 million sq. metres in 1980-81 to 200 million sq. metres in 1986-87;
- (b) Periodical revision of prices by the NTC;



- (c) availability of non-controlled cloth similar in texture to the controlled cloth at cheaper rates;
- (d) blocking of substantial payments of the Federation by some of the State agencies like Andhra Pradesh, Bihar, Kerala, Orissa and Tamil Nadu which resulted in suspension of supplies to these States temporarily; and
- (c) against pre-payment

The following irregularities were noticed in the distribution of controlled cloth :

- (i) The Indore branch supplied controlled cloth worth Rs. 60.05 lakhs to private parties instead of cooperatives during July 1983 to March 1984. The branch stated that the supply was made at the instance of the State Federation.

The Ministry stated in January 1988 that in pursuance of the release order issued by the Textile Commissioner due to accumulation of controlled cloth in the NTC mills in 1983-84, supply of controlled cloth to some private parties was made and that after getting reports of certain irregularities in Madhya Pradesh, Government had referred the case to the Central Bureau of Investigation (CBI) for investigation.

- (ii) The Calcutta branch sold 224 bales of Janta dhoties to a private cotton mill in 1983-84.
- (iii) During April 1984 to April 1985, the Textile Commissioner issued released orders for 1587 bales in favour of the Sikkim Consumers' Cooperative Society, Gangtok. The relevant documents were handed over by the Calcutta, Delhi and Indore branches of the Federation to the representatives of the society against payment. However, the society had received only 11 bales against 1587 bales.

The Ministry stated in January 1988 that the CBI had completed the investigation and none of the officials of the Federation had been found involved and that appropriate action was being taken on the CBI report against other persons.

- (iv) The Kanpur branch during June—September 1981 supplied 8000 bales of Janta dhoties which were selling at a premium in the open market, through the U.P. State Handloom Corporation, directly to a cooperative store at Delhi. Due to faulty Goods Transport Receipts (GTR), the cooperative store received door delivery of goods without first obtaining GTR from banks by making payments of the bills. This resulted in forced credit sale and blockage of funds to the extent of Rs. 22.46 lakhs as the cooperative store had not made the payment for the goods to the Federation (July 1987). A

CBI enquiry revealed negligence of the branch manager and collusion of the Assistant Manager, Kanpur with the cooperative store at Delhi.

The Ministry stated in January 1988 that the services of the officer concerned had been terminated, disciplinary action had been initiated by the parent State Government on the branch manager for his negligence and that the Federation had also filed an arbitration claim for recovery of the amount from the concerned cooperative store with the Registrar of Cooperative Societies, Delhi.

8.2 *Unretired documents.*—Controlled cloth was to be supplied to the State distributing agencies :

- (a) against bank guarantee or a letter of credit, or
- (b) against a State Government guarantee, or
- (c) against pre-payment.

It was seen that documents of goods despatched were not retired and hence, documents were handed over to the State agencies against deferred payments resulting in defacto extension of credit and blocking of funds. At the end of June 1986, unretired documents for Rs. 273.37 lakhs were pending in various branches of the Federation. Year-wise and party-wise details of unretired documents and reasons thereof were not on record. A few instances, where the documents remained unretired, were as under :—

- (i) In the Delhi branch, documents pertaining to October 1981 for Rs. 0.26 lakh were said to have been lost. The issue had not been settled during the last three years with the result that the stock was lying in deteriorated condition. The Ministry stated that the documents were lost by the bank in transit and the Federation had taken up with the bank for realisation of the amount.
- (ii) In the Cochin branch, documents worth Rs. 12.46 lakhs in respect of controlled cloth supplied to cooperative consumer stores during 1981-82 were still pending in January 1987.
- (iii) In the Bombay branch, a transporter had neither delivered the controlled cloth to the consignee nor had returned the stock and, therefore, documents worth Rs. one lakh were pending. The Ministry stated that legal action against the transporter had been taken.

Similarly, documents for Rs. 0.98 lakh on account of supply of controlled cloth pertaining to 1980 were forwarded to the consignee through the bank but till July 1987 these documents remained untraced by the bank and the amount could not be credited to the account of the Federation. The Ministry stated that the bank had been



asked for giving credit of an amount equivalent to the value of documents.

- (iv) In the Madras branch, 26 bales of controlled cloth, valued at Rs. 1.25 lakhs booked between February 1982 and February 1984 for supply to the Tamil Nadu Cooperative Consumer Federation, were not cleared on time. The transport company claimed Rs. 0.38 lakh as demurrage charges and despatched the goods to the transporter's head office at Calcutta where these were still lying (July 1987).
- (v) In the Guwahati branch, documents worth Rs. 2.34 lakhs on account of supply of woollen/handloom clothes to Nagaland State Federation (NSF) in December 1983 were lying unretired. The delivery of goods had been taken by the NSF without retiring the documents and subsequently it was found that the goods were in damaged condition. These goods had not so far been disposed off (January 1988).

8.3 *Bills for collection.*—Bills on account of supply of controlled cloth and consumer items for Rs. 263.92 lakhs which were raised by the Federation against various parties were outstanding as on 30th June 1986 as the same were not acceptable to the parties. The year-wise and party-wise details of such outstanding bills and reasons thereof were not on record.

The Ministry stated in January 1988 that the details of bills had since been collected and realisation of the bills from the State Federation was being pursued vigorously.

8.4 *Distribution of subsidy on controlled cloth.*—Under the controlled cloth scheme, the Government of India started the scheme of payment of subsidy to the NTC mills who were required to supply specified varieties of cloth at subsidised rates through the Federation. The payment of subsidy was entrusted to the Federation in January, 1977 and discontinued in July 1983. Under this scheme, 35 per cent cost of cloth was subsidised by the Government. The Scheme was revised in October 1978 according to which the subsidy was fixed at Rs. 1.30 per sq. metre subsequently increased to Rs. 1.90 per sq. metre. The subsidy further underwent change w.e.f. July 1981 stipulating reduction for the controlled cloth varieties to dhotis, sarees and long cloth only. Government fixed subsidy at the rate of Rs. 2 per sq. metre on dhotis and sarees and Rs. 1.50 per sq. metre on long cloth. As per audited accounts for 1985-86, the Federation had to receive Rs. 180.73 lakhs from Government. The

Federation had diverted/utilised Government's subsidy amounting to Rs. 160.78 lakhs (as detailed below) for purposes other than for which it was released.

	Rs. in lakhs
Amount of subsidy received by the Federation but yet to be paid to NTC mills under new scheme of July 1981 . . . . .	330.55
Short payment of subsidy made to mills at a rate less than Rs. 1.90 per sq. metre under October 1978 scheme	190.82
	521.37
Excess payment of subsidy made to mills in excess of the rate of Rs. 1.90 per sq. metre under October 1978 scheme . . . . .	360.59
Net Amount of subsidy received from Government but yet to be paid to mills . . . . .	160.78

The Federation had not settled the subsidy account with Government and the NTC mills (April 1987) even after four years of the discontinuance of the scheme.

## 9. Confiscated goods

The Federation is the nominee for disposal of confiscated consumer luxury goods through cooperatives. Goods are to be lifted on offers by the authorities indicating details of the items and the prices fixed by them. Lifting of these goods is to be so arranged that they can be distributed simultaneously. As far as possible, lifting is to be done in association with the State Federations/member stores. Some quantity of these goods is sold through the retail outlets of the Federation.

The Federation is entitled to retain some discount (1 per cent to 2-1/2 per cent) out of the discount allowed by the Custom authorities and the balance to be passed on to the State Federations and member stores.

The sale of confiscated goods had increased from Rs. 636.21 lakhs (4.5 per cent of total turnover) in 1980-81 to Rs. 2344.63 lakhs (17.3 per cent) in 1986-87 registering an overall increase of 12.8 per cent. The percentage of gross margin earned on confiscated goods to the total gross margin of the Federation was to the extent of 41.74 per cent in 1986-87.

At the end of June 1986 the Federation had a closing stock of Rs. 105.43 lakhs of confiscated goods. The stock included damaged and obsolete items. The realisable value of the stock had not been ascertained.



## 10. Grocery

10.1 Trade in grocery is an important business of the Federation and comprises procurement and sale of pulses like arhar, gram, masoor, moong, urad, toor dal, rajmash and spices.

The branches of the Federation are required to formulate annual plans before the beginning of the Cooperative year/season. The plans specify the commodity, quantity, purchasing centres and stations to which the despatches are to be made. At the head office of the Federation, all the plans are consolidated with the approval of the Business Committee in branch-wise and commodity-wise work programme for the year.

Based on the approved procurement plan, and subject to firm indents and availability of funds, the

branches are required to commence purchases after getting the approval of the rates, quality and quantity from the indentors.

Procurement is to be made from the following sources in the order of priority mentioned below :—

- (a) dal mills of the Federation;
- (b) processing units on outright basis;
- (c) civil supplies corporations if available; and
- (d) private processing units/traders.

The grocery business of the Federation during 1983-84 to 1986-87 was as under and ranged between 21.3 and 27.4 per cent of the total turnover of the Federation.

	1983-84	1984-85	1985-86	1986-87
				(Rs. in lakhs)
Opening stock . . . . .	718.86	804.22	818.41	**555.75
Purchases . . . . .	3597.92	3262.52	3885.53	2901.16
Total . . . . .	4316.78	4366.74	4703.94	3456.91
Sales . . . . .	3725.47	3348.55	4339.78	3237.55
Closing stock . . . . .	804.22	818.41	555.33	362.89
Average monthly sale . . . . .	310.45	279.05	361.64	269.79
Gross margin earned . . . . .	130.48	32.90	128.61	90.51

\*\*Differs from the closing stock for 1985-86 due to adjustment in opening stock.

While gross margin to the sales in this business was less than one per cent in 1984-85, it ranged between 2.79 per cent and 3.50 per cent in other years.

The improvement in sales in 1985-86 was mainly due to the distribution of imported sugar entrusted to by Government. Grocery sales again fell sharply in 1986-87 to Rs. 3237.55 lakhs (25.4 per cent). This was attributed by the Federation to :

- (i) non-procurement of desired quantity of pulses due to non-availability of margin money for their procurement during harvest time; and
- (ii) reduction in the allotment of levy free sugar to 25 per cent of the quota allotted in earlier year.

A large share of the sale of grocery items pertained to the Delhi branch (between 19.6 per cent and 36.7 per cent). During 1983-84 to 1986-87, the Delhi branch alone supplied grocery on back to back contracts to the Army Purchase organisation, Tamil Nadu State Civil Supplies Corporation and Super Bazar, Delhi.

It was noticed that purchases were generally made without observing the prescribed procedure and without reference to demand.

The Ministry stated in January 1988 that the Federation had been following certain procedures

which were not proved to be foolproof in the past and on realising this, the sales procedure had been streamlined. It was also stated that being a national Federation, it was required to make some buffer stocking for meeting any exigency which might not always have a bearing on demand.

10.2 A few instances of purchases and sale of grocery items by various branches are discussed below :—

### (A) Delhi

(i) The major activity of the branch in respect of grocery items was to execute orders of Super Bazar, the Army Purchase Organisation and the Tamil Nadu Civil Supplies Corporation by placing orders on private parties of Delhi at prevailing rates for direct supply to the indentors on back to back basis (without routing through its godowns). The percentages of such back to back sales to the total sales of the branch worked out to 97.7 in 1984-85 and 92 in 1985-86.

(ii) It was noticed that the branch purchased grocery items from private parties worth Rs. 1,191.75 lakhs in 1984-85 and Rs. 691.14 lakhs in 1985-86 which worked out to 99.4 and 81.9 per cent of the total purchases during these years, although procurement of grocery from private parties was to be the last source. The Ministry, however, stated in January 1988 that processed pulses were generally available with private processing units.



(iii) In respect of supplies to Super Bazar, rates from local brokers for direct supply on credit of 45 to 60 days at prevailing rates which also included an element of interest were obtained. On supplies being accepted by the Super Bazar, the branch raised invoices on it after adding its profit margin. The Super Bazar sold goods to consumers after adding its own profit margin. Thus, purchases at prevailing market rates for Super Bazar did not achieve the objective of holding the price line.

A few instances are given below :—

Date	Commodity	Price in open market	Sale price to Super Bazar	Sale price of Super Bazar
(Rs. per quintal)				
3rd December 1985	Urad whole 150 bags	595	605	660
-do-	Urad washed 120 bags	688	698	765
26th December 1985	Malka masoor 200 bags	630	640	680
7th January 1986	Moong washed 320 bags	618	628	680
20th March 1986	Kabli channa 240 bags	670	688	750

(iv) For supply to a State Civil Supplies Corporation, the Delhi branch purchased 2000 bags of arhar dal in May-June 1984 at Rs. 530 to Rs. 535 per quintal; of which, 1035 bags were supplied to Super Bazar etc. at Delhi in July 1984. While the balance quantity of 965 bags remained stored in godowns, the branch purchased 4188 bags of arhar dal in June 1984 at Rs. 524 per quintal for supply to the same civil supplies corporation on a back to back contract. The balance stock in stores of 965 bags from the earlier purchase was sold to a private party in December 1984 at Rs. 410 per quintal incurring a loss of Rs. 1.73 lakhs inclusive of storage, interest and insurance.

(v) The branch during September 1983 to June 1984 sold zeera, almond and Saunf to private parties at rates below the cost price involving a loss of Rs. 1.34 lakhs.

(vi) During November 1983 to February 1984, the branch made supplies of gram dal, malka masoor and rajmash to a cooperative store as well as to private parties, the rates charged from the cooperative stores were higher by Rs. 24 per qtl. for gram dal, Rs. 9 per qtl. for malka masoor and Rs. 220/225 per qtl. for rajmash.

#### (B) Ahmedabad

(i) The branch purchased urad (whole), tilly, gram (whole) and toor (whole) during 1983-86 through a Sahakari Kharid Bechan Sangh and returned 39 to 100 per cent of the stock to the same Sangh and incurred an expenditure of Rs. 0.37 lakh towards commission on purchase and sale.

(ii) The branch purchased 702 quintals of toor (whole) in January 1985 for Rs. 2.66 lakhs without any demand through a Sahakari Sangh. The entire quantity was sold through the same Sangh in August 1985 for Rs. 2.53 lakhs while incurring an expenditure of Rs. 0.15 lakh on purchase and sale.

(iii) The branch purchased 3611 quintals of urad (whole) (value : Rs. 18.89 lakhs) during 1984-85; of which, 490 qtls. were sent to the Bombay branch and the balance quantity was resold in the open market through auction. The total sale price realised was Rs. 17.45 lakhs thereby incurring a loss of Rs. 1.44 lakhs.

#### (C) Kanpur

The Kanpur branch purchased 2057.60 qtls. of arhar dal in 1983-84 for Rs. 11.15 lakhs against indent of Varanasi (880 qtls.) and Cuttack (720 qtls) branches at an average price of Rs. 542 per qtls. A further quantity of 10159 qtls. (cost : Rs. 53.43 lakhs) was purchased at an average price of Rs. 526 per qtl. The branches, however, did not lift the dal and 2592 qtls. of dal were disposed of to private parties at an average price of Rs. 500.40 per qtl. thereby sustaining a loss of Rs. 0.99 lakh.

#### (D) Cuttack

The Cuttack branch procured 6407 qtls. of arhar dal costing Rs. 36.26 lakhs from Kanpur and Indore branches during May 1984 to June 1986; out of which, 6170 qtls. was disposed of for Rs. 33.66 lakhs by incurring a loss of Rs. 2.60 lakhs. The branch stated that the buffer stock was made on ad hoc basis and due to a declining trend, the branch lost in the deal.

#### (E) Patna

(i) The Patna branch sold 2811.46 qtls. of arhar dal during October 1984 to June 1985 to a private party at Rs. 333.33 to Rs. 557.15 per qtl. against the purchase price of Rs. 568 per qtl. which resulted in a loss of Rs. 2.12 lakhs. Similarly, 2983.87 qtls. of rise were sold during October-December 1984 at Rs. 290.48 to Rs. 323.81 per qtl. against the purchase price of Rs. 356 per qtl. which resulted in a loss of Rs. 1.48 lakhs.

(ii) The branch purchased 35.454 tonnes of mustard oil costing Rs. 28.57 lakhs during 1984-85 without obtaining the approval of Head Office. Stock worth Rs. 28.53 lakhs was sold during June-December 1985 for Rs. 26.84 lakhs resulting in a loss of Rs. 1.69 lakhs.

(iii) The branch entered into an agreement in May 1985 with the Bihar State Food and Civil Supply Corporation for supply of 2000 tonnes of masoor chati. The supply was to be made by 31st July 1985 at Rs. 539.50 per qtl. The branch negotiated with a Kanpur based firm on 20th June 1985 for 1500 qtls. at Rs. 460 per qtl. and on 27th June 1985 for another 1500 qtls. with the same firm at Rs. 473 per qtl.



However, no agreement was entered into with the supplying firm. By 30th June 1985, the firm supplied 1490 qtls. (value : Rs. 6.87 lakhs). The branch paid Rs. 6 lakhs to the supplier but withheld Rs. 0.87 lakh for payment after completion of the delivery of 3000 qtls. In the meantime, the prices of masoor chati had risen by Rs. 70 to Rs. 100 per qtl, and the firm refused to supply any further quantity on the ground that it was committed to supply 10 trucks (1500 qtls.) only and that the branch had not made the full payment. The branch had to procure 1500 qtls. of masoor chati from local market at the rate of Rs. 562 per qtl. and had to incur a loss of Rs. 1.34 lakhs in the deal due to non execution of an agreement with the Kanpur based firm.

(iv) The branch purchased 15032 qtls. of potatoes (April 1984) at a cost of Rs. 16.78 lakhs. The entire quantity was stocked in cold storage for which Rs. 4.15 lakhs were paid as rent. Sales of these potatoes were made by the cold storage authorities at rates lower than the purchase rate. The sale proceeds amounting to Rs. 13.16 lakhs were remitted to the branch. This resulted in a loss of Rs. 7.77 lakhs.

Again in 1984-85, a further quantity of 8769 qtls. of potatoes was purchased for Rs. 6.12 lakhs which also was sold at lower rates during October to December 1984 resulting in a loss of Rs. 1.42 lakhs. The procurement of potatoes was discontinued from 1985-86.

The Ministry stated in January 1988 that the Internal Audit Wing of the Federation had been asked to go through all the above transactions and fix responsibility.

### 10.3 Supply of pulses to Army Purchase Organisation.

The Federation was supplying pulses to the Army Purchase Organisation through the Food Corporation of India (FCI) primarily with a view to procuring quality goods at reasonable rates. Purchases through the Federation were discontinued from 1985-86 onwards.

In the following cases, the Federation either charged unreasonable rates from the Army Purchase Organisation or supplied sub-standard goods.

(a) In May 1983, the Federation was to supply 2315 tonnes of moong dal. The Federation offered to supply at Rs. 481 per quintal calculated on the basis of the cost of purchase of whole grain (moong whole) and its subsequent conversion to dal and included a 2 per cent profit margin for the Federation. The Federation, however, arranged direct supply of ground moong dal by local traders to the Army Purchase Organisation through a back to back contract at an average rate of Rs. 426 per qtl. The Federation, however, claimed Rs. 481 per quintal and earned a profit margin of 12-1/2 per cent (Rs. 12.73 lakhs) instead of the 2 per cent (Rs. 1.97 lakhs) envisaged in the cost estimates.

(b) The Federation purchased 1675 tonnes of gram dal from local traders at Rs. 308 per quintal

for supply to the Army Purchase Organisation at Rs. 315 per quintal between March and April 1983. The prevailing market rate for gram dal at that time ranged from Rs. 280 to Rs. 300 per quintal.

(c) In June-July 1984, the Federation finalised deals regarding purchase of gram dal, arhar dal, masoor whole and masoor dal from certain parties without giving proper justification and ignoring lower offers. In addition, the pulses were also found to be of sub-standard quality by the Army Purchase Organisation. The case is under investigation by the CBI.

The Ministry stated in January 1988 that the entire case of irregularities in the supply of pulses to the Army Purchase Organisation through the FCI was referred by Government to the CBI and that action against certain officers of the Federation, FCI and a number of private traders in pursuance of the CBI recommendation was under process by Government.

## 11. General Merchandise

The general merchandise business of the Federation during 1983-84 to 1985-86 was Rs. 981.31 lakhs, Rs. 1497.81 lakhs and Rs. 1001.01 lakhs respectively which ranged between 6.2 and 9.5 per cent of the total turnover. The decline in business has been attributed to erratic supply by manufacturers.

11.1 Some important points noticed in Audit in respect of the general merchandise business were as under :

### (A) Srinagar

(i) The Srinagar branch purchased jackets worth Rs. 1.07 lakhs from a local cooperative society in April 1984 without any requisition. The payment was made without inspection of goods. The goods were defective and a part of the same (cost : Rs. 0.37 lakh) was returned to the society in June 1984. This amount had not been recovered so far (March 1987). Goods worth Rs. 0.47 lakh were still lying unsold for the last three years.

(ii) The branch purchased 600 L.P.G. gas stoves in 1983-84 for Rs. 2.75 lakhs from a cooperative society without inviting quotations. Only 126 stoves could be sold up to March 1987 as they were not of a popular brand and 474 stoves (value : Rs. 2.18 lakhs) were lying in stock.

The Ministry stated in January 1988 that the concerned official had been placed under suspension and disciplinary action against him was in progress.

### (B) Guwahati

(i) The branch procured 356 bags of soda ash (cost : Rs. 0.91 lakhs) in August 1985 without assessing the demand, but could dispose of only 32 bags. The remaining 324 bags were sold to a local trader in February 1987 at lower rate resulting in a loss of Rs. 0.21 lakh.



(ii) The branch stocked 14.755 tonnes of rape-seed oil in August 1984 (value : Rs. 2.07 lakhs). The State nominee did not lift the stock and it was sold for Rs. 1.83 lakhs in May 1987 resulting in a loss of Rs. 0.24 lakh. In addition, Rs. 0.91 lakh was incurred on interest payment to the bank. Similarly, 22.32 tonnes of rape-seed oil, purchased in November 1983 and May 1985 for Rs. 2.12 lakhs, was disposed of in May 1987 for Rs. 2.90 lakhs after incurring Rs. 0.27 lakh as godown rent and Rs. 0.81 lakh as interest on blocked capital.

(iii) During January 1985 to October 1985, the branch arranged to supply Amul baby food to cooperative societies (value : Rs. 8.94 lakhs). The documents were, however, not retired by the consignees nor did the banks return the documents with the result that the consignees did not take delivery. The baby food was sold in May 1987 at a loss of Rs. 1.30 lakhs. Part of the quantity (value : Rs. 0.16 lakh) had to be destroyed as it could not be sold within the stipulated period of consumption.

(iv) The branch was appointed as the sole agent for supply of iodised salt to Mizoram in October 1984. The Mizoram Government, however, found foreign matter in the salt and did not lift 32335 bags (value : Rs. 15.81 lakhs) which were lying at Silchar since November 1985. The branch had incurred Rs. 6.85 lakhs on godown rent and interest payment upto May 1987. The stock had been badly affected by floods in October 1986 and stated to have lost its value upto 50 per cent.

The Ministry stated in January 1988 that the stock not lifted by the Government of Mizoram had been sold for industrial use as it had become unfit for human consumption and that a legal notice had also been served on the Government of Mizoram for payment of compensation.

## 12. Tea

Whole-sale purchase of tea is normally made at tea auctions. The Guwahati branch of the Federation, as a member of the Tea Committee makes bulk purchase of tea from auction market and blends it through contractors.

No clear-cut policy regarding sale of tea was available on record and delays in distribution of tea to the various branches of the Federation led to deterioration of tea and accumulation of stock despite tea being a perishable commodity. The trade in tea during 1983-84 to 1985-86 was as under :—

	1983-84	1984-85	1985-86
	(Rs. in lakhs)		
Opening stock	45	72	82
Demand/Target	500	600	568
Purchases	343	242	116
Sales	347	268	127
Closing stock	72	82	97
Percentage of closing stock to sale	20.7	30.5	76.3

It will be seen that the sale of tea had sharply declined but the percentage of closing stock to sale had increased from 20.7 per cent in 1983-84 to 76.3 per cent in 1985-86.

The following cases reveal poor management in the procurement and sale of tea :

- (a) The Guwahati branch during January 1984 to January 1985 sent 28781 kgs. of tea valued at Rs. 8.49 lakhs to six other branches of the Federation against firm indents. The tea was returned by the branches in a damaged condition after a lapse of 1-1/2 years to 2-1/2 years. It was sold in February 1987 at a loss of Rs. 7.58 lakhs which included interest, freight, etc. and it was debited to the respective branches as per orders of the Federation.
- (b) During 1984-85, 25664 Kgs. of tea costing Rs. 30.46 per kg. was received by the Srinagar branch from the Guwahati branch for sale. Of this, 7000 kgs. were sent to the Chandigarh Branch in April 1986 which were yet to be disposed of (July 1987). Only 15,166 Kgs. of tea could be sold by the Srinagar branch during 1985-86 and 1986-87 at reduced rates and 159 Kgs. became unfit for human consumption. This resulted in a loss of Rs. 1.51 lakhs.
- (c) During 1984-85, 12000 Kgs. of Cheshm-shahi tea was purchased by the Srinagar branch from the local market though there was no demand for it from any cooperative society. The tea could not be sold due to its inferior quality with the result that the bulk of it had to be sold at reduced rate resulting in a loss of Rs. 1.11 lakhs.
- (d) 55723 Kgs. of tea, valued at Rs. 9.07 lakhs, were purchased during July and August 1984 at Siliguri and was transferred to the Guwahati branch between February and April 1986. This Siliguri tea was blended with Assam tea during February to April 1987 and subsequently disposed of. The extent of loss consequent on prolonged stocking had not been estimated. The loss of interest due to blocking of funds over 33 months alone is estimated at Rs. 4.12 lakhs.
- (e) The Varanasi branch purchased 373.70 qtls. of tea during 1984-85 at a total cost of Rs. 11.13 lakhs. Out of the unsold quantity of 214.53 qtls. of tea as on 1st July 1985, the branch transferred 92.81 qtls. to the Guwahati branch and sold 31.30 qtls. during 1985-86 at reduced rates. This had resulted in a loss of Rs. 0.55 lakh to the branch.



### 13. Non-controlled cloth

The Federation is supplying non-controlled textiles to cooperatives in order to make available quality goods at competitive rates to the common consumer. The Federation was charging 2 per cent of the value of goods as service charges in case of supply from its godowns and 1 per cent of value of the goods in the case of supply direct from the mills. The non-controlled cloth business of the Federation during 1983-84 to 1985-86 was Rs. 1853.88 lakhs, Rs. 1342.56 lakhs and Rs. 1944.27 lakhs respectively which ranged between 9.5 and 12.2 per cent of the total turnover. The contribution of this business to the total gross margin of the Federation which was 11.2 per cent in 1983-84, declined to 9.2 per cent in 1985-86.

(i) The Calcutta branch of the Federation entered into an agreement, in December 1981 with the NTC (WBABO) for supply of non-controlled textiles to Adarsh Bazar, Patna, against a specific despatch instruction from the Federation backed by payment. The supply of textiles by the NTC to the Adarsh Bazar was partly made on the basis of confirmed despatch instructions and partly without confirmation of despatch instructions from the Federation. Bills to the extent of Rs. 105.08 lakhs, which were covered by despatch instructions and bills to the tune of Rs. 93.87 lakhs which were not covered by despatch instructions had not been adjusted by the Calcutta branch. Adarsh Bazar refused having received any stock direct. In December 1985, the NTC filed a suit in Calcutta High Court against the Federation for an amount of Rs. 206.77 lakhs inclusive of interest of Rs. 63.40 lakhs for non-payment of their bills. The case is pending with the court. In the meantime, the Federation placed the concerned officer under suspension for negligence on his part.

The Ministry stated in January 1988 that the case of alleged irregularity in the supply of textiles to the Adarsh Bazar Consumers' Cooperative Society, Patna, had been referred to the CBI by Government and appropriate action would be taken on receipt of the CBI report.

(ii) The Ahmedabad branch supplied non-controlled cloth, valued at Rs. 6.34 lakhs to the Punjab State Federation of Consumer Cooperative Wholesale Stores Ltd., Chandigarh in 1979-80. However, Rs. 3.61 lakhs were still outstanding as value of un-retired documents while Rs. 2.73 lakhs stood debited to the account of the Punjab State Federation.

The Ministry stated in January 1988 that the entire stock had been accepted by the Punjab State Federation and the recovery of the amount was in progress.

### 14. Imports

One of the objectives of the Federation is to import consumer goods and such other articles as and when necessary. The import activities of the Federation were, however, confined to imports of

dry fruits, chick-peas and dry-dates. All proposals for imports are to be discussed by the import and export sub-Committee and Business Committee keeping in view the demands and availability of products within the country. At the behest of customers, the branch offices asked the Federation to import certain items. The Federation imported the items directly for supply to the customers without prior approval of the Business Committee. The Federation suffered losses in these imports. A few instances are discussed below :—

14.1 *Chick-peas*.—The Federation entered into an agreement, in November 1983, with a non-member cooperative society of Bombay for import of 3000 tonnes of chick-peas of Trukish origin (value : Rs. 1.5 crores) from a foreign firm selected by the Society. It was envisaged that the Federation would earn a margin of 1.5 per cent on the sale price. The Federation imported 2850 tonnes of chick-peas in March 1984 valued at Rs. 1.33 crores. However, 45 tonnes had been received short.

According to the agreement, a Bombay Society was required to furnish a bank guarantee for Rs. 6.11 lakhs (i.e. 5 per cent of C.I.F. value of goods) and, in addition, the society was required to open a revolving confirmed irrevocable local letter of credit in favour of the Federation for Rs. 20 lakhs. The Society, however, lifted only 475 tonnes of the stock. The balance-2330 tonnes was disposed of to individual private parties at Rs. 5200—5300 per tonnes (below the cost price of Rs. 5399 per tonne) without calling for quotations in October 1984.

The Federation could not recover the damages from the Society, at whose instance the imports were effected, as the letter of credit for Rs. 20 lakhs in favour of the Federation had not been enforced. The amount of bank guarantee had also been arbitrarily reduced from Rs. 6.11 lakhs to Rs. 4.24 lakhs against which only Rs. 0.44 lakh could be realised. Reasons for short recovery were not on record. There was also a short supply of 45 tonnes value (Rs. 2.10 lakhs) for which the Federation's claim was yet to be accepted by the shippers.

The Federation, thus, suffered a loss of Rs. 10.49 lakhs in the deal.

14.2 *Dry-dates*.—The Federation entered into an agreement with the Iraqi Dates Committee in August 1984 for import of 3000 tonnes of dry-dates of 1983-84 crop at US \$ 500 per tonne. The consignments were to reach India, through the transport agency nominated by the exporters in October 1984, for the festival season (September-November) and the winter season (December-March). The proposals were, however, brought before the Business Committee only on 19th November 1984, i.e. after entering into an agreement.

As the exporters delayed the nomination of the transport agency, the consignments reached India after the festival season in January 1985 (1500 tonnes-value : Rs. 2.57 crores) and June 1985 (1500 tonnes-value : Rs. 2.52 crores).



The Federation had contracted with two private parties in December 1984 for disposal of the dry dates at a cost plus 4 per cent margin. Only one party lifted 345 tonnes at Rs. 18035 per tonne ex-dock and the balance quantity of 1155 tonnes of the first consignment of 1500 tonnes was transferred to cold storage.

Before the second consignment could reach India, the Federation was debarred from import activity on 24th January 1985 for 5 licensing periods on account of violation of import licence regulations in earlier years. The Federation was, however, allowed to clear the consignment on the condition that the dry dates should be disposed of through cooperatives.

The Federation could dispose of 2095 tonnes of dry-dates till March 1987 to private parties at rates ranging from Rs. 15 to Rs. 17.75 per kg. The balance 905 tonnes of dry-dates was lying in cold storage (March 1987). The Federation reported a loss of Rs. 171.04 lakhs in this transaction upto February 1987.

Thus the economic viability of importing a huge quantity of dry-dates with reference to demand, local market trend, prevailing international market rates and the financial position of the Federation was not taken into consideration before finalising the deal specially when the import of dry dates was permitted to all under Open General Licence.

The Ministry stated in January 1988 that all the cases of irregularities or lapses in the import business of the Federation (i.e. of chick peas and dry-dates) had been referred to the CBI.

## 15. Exports

The Federation did not export any goods during 1983-86 but two cases of exports as mentioned below, where the Federation had incurred losses, were pending for action.

15.1 *Wheat bran and wheat products.*—The Federation obtained in April 1980 an export permit for exporting 57,600 tonnes of wheat bran and wheat products. It entered into an agreement with a Bombay firm for booking orders as associates in the name of the Federation and 2.5 per cent of the value of exports had to be paid by the Bombay firm to the Federation as service charges. The agreement contemplated that the Federation might claim business losses/damages or other financial liabilities from the

associates in the event of non-fulfilment of the contract as well as levies/fines imposed by Government for breach of any of the terms and conditions of the export licence. For fulfilment of export obligations, the associates provided the Federation a bank guarantee of Rs. 2 lakhs which was valid till 1st May 1981.

The associates could, however, export only 600 tonnes of wheat bran and 500 tonnes of wheat flour. Bound by the agreement, the Federation could neither export the goods itself nor negotiate with other parties for exports.

The anticipated profit of Rs. 20.71 lakhs (at 2.5 per cent of export price) thus did not materialise.

The Federation failed to invoke the bank guarantee within the validity period and could not realise even Rs. 2 lakhs from the associates as damage for which responsibility had yet to be fixed (April 1987). Since the Federation had failed in its export obligation, a penalty of Rs. 2 lakhs was imposed by Government and was paid by the Federation in February 1984.

The Ministry stated in January 1988 that cases of alleged irregularities in the export of wheat bran and wheat products has been referred to the CBI for investigation and a claim of compensation has been preferred to arbitration for recovery of Rs. 20.71 lakhs from the private party through which export deal was contracted by the Federation for execution.

15.2 *Export of rice.*—In 1980-81, the Federation was appointed as the canalising agency by Government for the export of rice from India. Rice was to be purchased from different places in India and was to reach various major ports in India including Kandla Port. The Federation stored 22538 tonnes (value : Rs. 562.08 lakhs) of rice at Kandla Port in July 1981 for shipment. A sizeable quantity of rice costing Rs. 164.93 lakhs was damaged by rain in July 1981. The Federation's claim, lodged with the insurance company, had been rejected on the ground that it was not insured against rain. The Federation had filed a case against the insurance company which was pending in a court of law.

## 16. Processing Units

16.1 The Federation was running processing and manufacturing units for the production of pulses, spices and exercise note books at Bhiwani, Guwahati, Hingna, Nagpur and Unjha. The manufacturing and processing activities have not registered perceptible



growth. The following table shows the performance of these units :

Unit	Year	Installed capacity	Utilisation	Percentage of utilisation	Profit (+) Loss(—)
		(Qtls.)	(Qtls.)		(Rs. in Lakhs)
Gram Dall Mill, Bhiwani (Haryana)	1983-84	60,000	23,517	39.20	(+)2.44
	1984-85	60,000	21,764	36.25	(—)7.84
	1985-86	60,000	21,409	35.70	(+)0.12
Toor Dall Mill, Nagpur (Maharashtra)	1983-84	30,000	22,523	75.00	(—)0.05
	1984-85	30,000	23,386	77.95	(—)20.48
	1985-86	30,000	23,641	78.80	(—)0.05
Spices Unit, Unjha (Gujarat)	1983-84	13,200	7,499	56.80	(—)1.60
	1984-85	13,200	7,194	54.50	(—)1.20
	1985-86	13,200	1,127	8.50	(—)0.58
Stationery Unit Hingna, (Maharashtra)	1983-84	390	413	105.90	(—)0.25
	1984-85	390	507	130.00	(—)4.66
	1985-86	390	370	94.85	(—)4.78
Stationery Unit, Guwahati (Assam)	1983-84	Trial basis	—	—	(—)3.53
	1984-85	390	293	77.50	(+)0.79
	1985-86	600	310	51.60	(+)1.15

The reasons for shortfall in utilisation of the installed capacity of mills were attributed to (a) lower purchase of gram due to insufficient funds (b) acute shortage of power and (c) labour problems.

16.2 *Spices Unit, Unjha*.—The Unjha Unit attributed the shortfall in capacity utilisation to keen competition in the market for getting sufficient material for processing.

The Ministry stated in January 1988 that the spices Unit at Unjha had since been closed down.

16.3 *Bhiwani Dall Mill*.—Purchase of gram in the required quantity was not made during the peak seasons (March-June) of 1984-85 and 1985-86. Off-season purchases (July-February) resulted in an extra expenditure of Rs. 6.63 lakhs. Shortfall in purchases was attributed to insufficient funds and non-receipt of amount from other branches to whom sales were made on credit. During 1984-85, 2448.20 qtls. of gram dal were sold at rates lower than those fixed by the branch which were also lower than those prevailing in the market, resulting in a loss of Rs. 1.08 lakhs.

16.4 *Guwahati Stationery Unit*.—The consumption of paper and cover paper for the number of exercise note books produced was much in excess of the norms laid down by Government. The paper consumed was higher by 2.7 per cent in 1983-84, 8.6 per cent in 1984-85 and 3.9 per cent in 1985-86. The excess consumption of paper was 38.96 tonnes (value : Rs. 2.99 lakhs) during 1983-86. There was also excess consumption of cover paper of 20 tonnes (value Rs. 1.06 lakhs) during these years.

The following other irregularities were also noticed :

- College registers valued at Rs. 0.68 lakhs and supplied to M/s Durgapur Steel Plant Employees Cooperative Society in February 1986 through a local transporter had not been delivered nor the value thereof recovered so far (January 1988).
- The unit had deposited Rs. 5.34 lakhs during May 1985 to December 1986 with a Calcutta Paper Mill for supply of paper. The firm failed to supply the paper and the money was refunded in May 1987. The Federation incurred in the meantime Rs. 0.94 lakh as interest charges.
- A sewing machine was purchased for Rs. 0.64 lakh in September 1984, but kept idle till January 1986 when it was transferred to the Hingna Branch.
- The branch was unable to dispose off exercise note books produced by it and 1.29 lakh exercise books (value : Rs. 2.03 lakhs) were lying in stock in June 1986.

## 17. Quality Control

In order to supply quality goods to the consumers, the Federation was required to establish laboratories for testing of consumer goods and also making such services available for consumer's cooperatives. Similarly, for testing of samples of tea, the Federation was required to establish a tea testing laboratory. The Federation had, however, not established any testing laboratory nor had quality control inspectors been



employed. The samples were visually screened before placing orders with the result that the goods purchased by the Federation were sometimes rejected by the purchasers.

In the case of pulses purchased by the Federation for supply to Super Bazar, some of the supplies were rejected after test in the laboratories engaged by the Super Bazar. For instance, in July 1984, 250 bags of arhar dal purchased at Rs. 574 per quintal were rejected by Super Bazar after the laboratory test. 445 bags of masoor dal purchased by the Delhi branch through the Indore branch during May 1985 and supplied to the Super Bazar were rejected on account of failure in the laboratory test.

The quality of tea in a large number of cases (discussed in sub-paragraph 12) was found sub-standard and was, therefore, rejected by consumers. These were ultimately returned to the procuring branch viz. Guwahati or sold at a loss by various branches.

Similarly, a large number of salt bags were rejected as there was foreign matter in the salt in the case of supply to the consumers in Mizoram. The Federation incurred heavy losses on this deal (as stated in paragraph 11).

### 18. Consultancy and Promotional Cell

The Consultancy and Promotional (C&P) Cell was set up in 1972 as a Division of the Federation at the behest of the Government of India.

The functions of the C&P Cell were to render technical guidance to consumer cooperatives in accounting, retailing, wholesaling, rehabilitation, training and architectural assistance.

Though the C&P Cell was an integral part of the Federation and was in existence for the last 15 years, the Federation did not avail of the benefits of its expertise in prescribing procedure for various trading operations. Various trading manuals and costing, budgeting and management information system were got prepared from a firm a Chartered Accountants at a cost of Rs. 2.5 lakhs in December 1983.

### 19. Hiring of office accommodation/godowns

The Federation had hired a number of premises/godowns in various cities to accommodate its offices and to keep buffer stock of commodities. In the cases mentioned below, the Federation had hired accommodation at uneconomical rates and some of the godowns had remained unutilised.

- (i) The Delhi Branch had reserved space in two godowns at New Delhi. In one of the godowns, the percentage of utilisation during July 1984 to January 1986 remained between 1 and 20 per cent for seven months, 21 and 40 per cent for five months. 41 and

60 per cent for four months and 61 and 75 per cent for three months and it remained vacant from February 1986 to September 1986 resulting in avoidable expenditure of Rs. 0.76 lakh.

Besides, 1050 sq. ft. space reserved in another godown remained unutilised from July 1979 till date (February 1988) resulting in a wasteful expenditure of Rs. 1.64 lakhs.

- (ii) To start a liason-cum-retail office, the Indore branch of the Federation had hired an office accommodation at Bhopal in August 1983 on a monthly rent of Rs. 3000. Later, the office was shifted to a cheaper accommodation on a monthly rent of Rs. 650 from November 1985.
- (iii) The Bombay branch of the Federation had hired space from the Central Ware-housing Corporation in June 1985 for storing 1000 bags against the requirement of space for storing 500 bags. This resulted in an avoidable expenditure of Rs. 0.10 lakh.
- (iv) The Kanpur branch had hired a godown in Kanpur for buffer stocking of pulses. The Federation had issued instructions in March 1985 not to keep any buffer stock of pulses. The accommodation had remained unutilised from April 1985 till date (March 1987) resulting in an avoidable expenditure of Rs. 0.58 lakh.
- (v) Office accommodation for the Varanasi branch had been taken on a monthly rent of Rs. 4602.50 with effect from 20th April 1983 under the orders of its Head Office for which advance rent of Rs. 0.63 lakh was paid without entering into a formal agreement with the landlord.
- (vi) In the Calcutta branch, a godown of 20534 sq. ft. was hired against the requirement of 5000 sq. ft. Additional floor space was also hired by it for office accommodation although space was available in the building in which the office was previously accommodated which remained unutilised. Besides, claim for increase in rent was admitted ignoring the legal advice obtained by the branch which did not favour such increased payment of rent. The total amount of additional payment of rent was Rs. 4.64 lakhs.
- (vii) A building was hired at Patna in October 1982 at a monthly rent of Rs. 5500 with the approval of the President and the Managing Director but the approval of the Executive Committee which alone was empowered to sanction the hiring of the building was not obtained. The building belonged



to the family members of the then President of the Federation. Besides the rent, the landlord was given a lump sum payment of Rs. 1.32 lakhs to be adjusted in 24 equal monthly instalments.

The Ministry stated in January 1988 that the Federation had already surrendered hired godowns as well as rented space which had been found sur-

plus. Surrender of further accommodation, which was not required for the business of the Federation was under examination of the Management.

## 20. Industrial plots

The Federation had acquired eight industrial plots as indicated below at a total cost of Rs. 18.38 lakhs at :

Place (State)	Area of land	Rate per sq. mt./ Sq. yd.	Cost (Rs. in lakhs)	Date of purchase	Proposed activity
Bhiwani (Haryana)	33681 Sq. yds.	7.40	2.50	1974	Not identified
Okhla (Delhi)	5634 Sq. yds.	55.90	3.15	March 1976	Office-cum-godown
Mohali (Punjab)	1034 Sq. yds.	5.00	0.52	January 1982	Exercise Note Book
Noida (U.P.)	1712 Sq. mts.	189.80	3.25	March 1983	Not identified
Kota (Rajasthan)	16342 Sq. mts.	16.50	2.70	June 1984	Gram Dal Mill
Bilaspur (M.P.)	4185 Sq. mts.	5.50	0.23	August 1984	Exercise Note Book
Akola (Maharashtra)	6900 Sq. mts.	10.00	0.69	November 1984	Toor Dall Mill
Udaipur (Rajasthan)	17800 Sq. yds.	30.00	5.34	April 1985	Not identified
			18.38		

It will be seen that in three cases, the proposed activity remained to be identified. Of these, in one case, the plot had been acquired as early as in 1974. In the remaining five cases, no activity had been commenced.

In Okhla (Delhi), the Federation had started construction for an office-cum-godown building in July 1984 which was stopped in March 1985 due to paucity of funds. The Federation had incurred Rs. 26.43 lakhs towards construction of the godown building. An amount of Rs. 0.80 lakh was paid to the contractor as damages for stopping the work. The Federation also paid Rs. 0.99 lakh to the Delhi Development Authority for extending the date of completion of the building from March 1980 to January 1986. The Federation was incurring Rs. 1.60 lakhs per year as rental charges for the godowns in Delhi besides incurring a recurring expenditure of Rs. 0.27 lakh per annum on pay and allowances of watchman and ground rent of the plot. As the Federation had borrowed money, it had lost Rs. 13.08 lakhs on account of interest at 16.5 per cent for three years (April 1985 to March 1988) on the amount blocked.

In Bilaspur, an expenditure of Rs. 1.77 lakhs was incurred on the construction of a boundary wall (November 1984). One Project Officer and eight other employees were engaged on ad hoc basis during September 1984 to May 1985 for construction of industrial shed, though no work was done. An amount of Rs. 0.60 lakh was incurred on their salary. Besides, residential accommodation on a monthly rent of Rs. 1250 was hired from October 1984 to November 1985.

At Mohali, an amount of Rs. 0.75 lakh was incurred up to June 1986 on construction of a boundary

wall and Rs. 2.25 lakhs on the staff deployed (July 1983 to April 1984) for the proposed exercise note book unit. As the unit was not established, the services of the staff were stated to be utilised elsewhere.

The Ministry stated in January 1988 that the question of disposal of industrial plots, which were not in use and had no potential for use, was under consideration of the Management of the Federation.

## 21. Defalcation

The following cases of defalcation occurred in the branches :

(i) In Srinagar branch, an embezzlement of Rs. 0.20 lakh was committed by a salesman by fraudulently charging stocks from stock book against bogus sale invoices (Rs. 0.04 lakh) and tampering with sale invoices thereby charging off excess stock (Rs. 0.10 lakh) and short delivery of stock at Jammu depot (Rs. 0.06 lakh). This was facilitated by lack of control over stock.

The Ministry stated in January 1988 that departmental proceedings had been initiated against the concerned official.

(ii) An Accountant of Siliguri depot of Calcutta branch during 1982-83 and 1983-84 defalcated Rs. 0.24 lakh by fabricating or producing false pay-in-slips against deposits made in bank. In addition, shortage of cash balance of Rs. 10,283 was also detected on 20th March 1984. This was possible due to non-reconciliation of accounts with the banks and periodical check of cash balance.

The Ministry stated that the services of the concerned officer had been terminated after departmental enquiry.



## 22. Physical verification of stock and stores

22.1 Though the physical verification of inventory was being conducted annually by the staff of the Federation, the verification reports for the years 1983-84 to 1985-86 did not contain information regarding slow-moving/obsolete stock and their realisable value. Stocks lying with the third parties were also subject to confirmation. Shortages of various stock detected during 1983-84 (Rs. 21.10 lakhs), 1984-85 (Rs. 11.34 lakhs) and 1985-86 (Rs. 35.59 lakhs) were absorbed in the accounts by reducing the value of closing stock. No steps were taken by the Federation to fix responsibility for the shortages.

22.2 In the case of confiscated goods, prices of articles were reduced without investigating the reasons for damages and without giving full justification of reduction in prices. Owing to reduction in prices of such goods, losses incurred were to the tune of Rs. 0.73 lakh in Cochin (1983-84), Rs. 3.05 lakhs at Delhi (1984-85), Rs. 1.82 lakhs at Chandigarh (1985-86), Rs. 1.84 lakhs at Ahmedabad and Rs. 0.48 lakh at Hyderabad (1985-86).

22.3 Confiscated goods worth Rs. 6.91 lakhs were lying in a damaged condition at Delhi, Indore, Jaipur and Varanasi branches of the Federation of which damaged goods of Rs. 5.15 lakhs pertained to the Delhi branch alone.

22.4 At the head office of the Federation, shortage of fixed assets valuing Rs. 0.27 lakh came to notice in June 1986, but action to regularise the shortages by recovery/write off was yet to be taken (March 1988).

The Ministry stated in January 1988 that the system of fixing personal responsibility on the employees responsible for stock shortages had been introduced in the Federation and that for disposal of damaged and old stock, detailed guidelines had been issued to the branches for strict compliance.

## 23. Working results of the branches

23.1 The Federation had at the end of June 1987, 23 branches under its control against 18 in 1980-81. The branches have been entrusted with the responsibility of sale and purchase of consumer goods. Finances are provided to the branches by the Federation as per their requirements from time to time. The branches have also been allowed/authorised cash limits locally upto limits laid down by the Federation from time to time.

23.2 A review of the working of the branches during the period 1980-81 to 1986-87 revealed the following :—

- (a) The number of branches which were running in loss had increased from 7 in 1980-81 to 16 in 1986-87.
- (b) Five branches had not made profit in any of the years of which three branches had been running in loss since their opening.

- (c) Out of the five branches opened during 1981-82 to 1983-84, with the specific objective of enlarging business in grocery, general merchandise, textiles, etc., four had not made any profit.

- (d) There was a marked decline in the profit of branches at Ahmedabad, Bombay, Delhi, Kanpur and Madras. The major reasons for the decline in the profitability of these branches were due to increase in establishment and administrative expenditure, financing charges and blocking of working capital in sundry debtors and closing stocks.

- (e) The closing stocks in the branches formed a high percentage of sales. It varied from 50 per cent in Srinagar branch to 209 per cent in Nagpur Branch in 1986-87. The average percentage of closing stock to sale in respect of the Federation as a whole was 6.4 per cent in 1986-87.

- (f) Sundry debtors in terms of sales had markedly risen in the branches as a whole from 4.8 per cent in 1980-81 to 6.6 per cent in 1986-87. The position of sundry debtors was particularly bad in respect of Bombay, Calcutta, Chandigarh, Cuttack, Delhi and Kanpur branches.

- (g) It was also observed that unrealistic targets were fixed for the branches from year to year and the attainment of sales fell short by 33.8 per cent in 1986-87 for the branches as a whole. It was short by 34 per cent in Calcutta, 35 per cent in Hyderabad and 63 per cent in Patna.

23.2 The Internal Audit Wing of the Federation had reported for the year 1984-85 that :—

- (a) A review of the branches which had incurred losses should be carried out and in case they were not in public interest, immediate decision should be taken for closure of these branches;
- (b) There was need for rationalising the staff structure by curtailing the staff strength in order to minimise the losses of the Federation.

There was no documentary evidence to indicate that any such evaluation/review had been carried out by the Federation. No staff had also been retrenched. In January 1988, the Ministry indicated that the Federation would consider closure of un-economical branches.

## 24. Sundry debtors and other advances

### 24.1 Sundry debtors

Sundry debtors amounting to Rs. 1058.27 lakhs were outstanding as on 30th June 1986 against State



Federations, Cooperative Stores and Private parties, the agewise break-up of which was as under :

(Rs. in lakhs)			
3 years and above	1 to 3 years	Upto 1 year	Total
204.52	167.39	691.50	1063.41
	Less patronage rebate		5.14
			1058.27

The sundry debtors had marginally come down to Rs. 987.59 lakhs as on 30th June 1987, break-up of which was not available.

Out of the total debtors, Rs. 512.28 lakhs was due from 18 State Federations, 2 Super Bazars and 25 member stores to whom the facility was extended in excess of the credit limit available to them. Besides, an amount of Rs. 206.94 lakhs was outstanding from non-member stores and private parties to whom no credit facility should have been extended.

In addition, Rs. 344.19 lakhs were outstanding against members/non-members on account of credit sale of controlled cloth though credit facility was not permitted on this item. The outstanding balances had neither been reconciled nor had confirmation been obtained from all the debtors.

The Federation had not yet categorised the debtors as bad and doubtful. The accounts for 1983-84 showed a meagre provision of Rs. 60 lakhs towards bad and doubtful debts/advances which had been retained till 1986-87.

According to the decision of the Federation (March 1977), credit facility was to be extended to the members on the following pattern :—

- Upto 15 days for non-controlled cloth and groceries. Credit to be restricted to 50 per cent of the shareholding of each member.
- Where the payment was not received within 15 days, interest at the prevailing bank rate was to be charged.
- In the case of default, facility was to be withdrawn from the members concerned.

The Federation, however, extended credit facility to members without imposing any of the above limits which adversely affected the liquidity position.

**24.2 Outstanding claims and advances (A) claims receivable** (i) Claims amounting to Rs. 209.53 lakhs were pending on 30th June 1986 for realisation from various parties. The Federation had not compiled agewise details of the claims.

(ii) Claims as mentioned below, preferred during 1981-82 to 1985-86 and pending in various branches, were yet to be decided.

- (a) **Bangalore** : Claims worth Rs. 0.41 lakh relating to period 1981-86 were outstanding as on 31st March 1986 with Railways on account of goods damaged/lost in transport.
- (b) **Delhi** : Eight claims worth Rs. 10.36 lakhs were pending against Dal Mills, railways and transporters on account of short delivery of goods; of these Rs. 10.35 lakhs were outstanding since 1978.
- (c) **Guwahati** : Out of the 711 claims amounting to Rs. 20.08 lakhs preferred during 1984-85 with railways, insurance companies and other agencies, 296 claims amounting to Rs. 14.46 lakhs were outstanding as on 30th April 1987. Besides, 207 claims worth Rs. 3.18 lakhs stood rejected by the agencies.
- (d) **Hyderabad** : Claim for Rs. 0.40 lakh preferred against railways towards transit losses as on 30th June 1985 was absorbed in the accounts for 1985-86 by debiting the profit and loss account under the head of account "Expenses relating to the previous year" without assigning any reason, i.e. whether claims were rejected or for any other particular reason.
- (e) **Jaipur** : Three claims worth Rs. 0.46 lakh were pending with transporters/railways. Of these, one claim of Rs. 0.23 lakh lodged in 1980 with a transporter was pending in a Court of Law. The second claim of Rs. 0.15 lakh, which was lodged in 1983-84 with another transporter and a third claim of Rs. 0.08 lakh lodged with the railways in 1985-86 were yet to be settled.
- (f) **Kanpur** : A claim of Rs. 0.42 lakh had been lodged in June 1983 with an insurance company for shortages/damages of Janta sarees despatched to Guwahati, but there was no follow up action (April 1987).

**(B) Other advances and receivables**

An amount of Rs. 72 lakhs had been shown in accounts of the Federation (as on 30th June 1986) as "Other advances and receivables". This amount included Rs. 8.75 lakhs paid to the employees of the Federation during the year 1984-85 as Festival Advances, which should have been recovered by now. Other items included Rs. 2 lakhs paid to Samachar Bharati in March 1983 towards its share capital for which no share certificates were received by the Federation. As per the decision of the Executive Committee in December 1985, the amount of Rs. 2 lakhs paid towards share capital was to be recovered. In addition, Rs. 2 lakhs paid as penalty for non-fulfilment of export obligations in the year 1981-82 was shown as receivable from the firm associated with the Federation for exports. There has, however, been no progress in the clearance of these items.



**(C) Advances to suppliers**

At the end of June 1986, an amount of Rs. 194.14 lakhs was due for recovery from various suppliers on account of advance payments made to them from time to time. This amount included advances made to various manufacturing companies and Cooperative Marketing Federations for supply of grocery/general merchandise goods. The year-wise and party-wise details of outstanding advances were not available with the Federation. At the end of June 1987, the amount due was Rs. 173.62 lakhs.

A major portion of the advances was pending in Bombay (Rs. 47.91 lakhs), Calcutta (Rs. 88.52 lakhs) and Patna (Rs. 10.04 lakhs) branches of the Federation.

**(D) Advances, outstanding with Ex-directors/ex-employees**

(i) The Federation had advanced Rs. 1.03 lakhs to Ex-directors of the Board towards travelling expenses. Some of the advances had been outstanding since 1981-82 but no efforts were made to adjust the advances.

Similarly, advances amounting to Rs. 1.04 lakhs were recoverable on 30th June 1986 from seven ex-employees on account of pay, travelling allowance, vehicle advance, etc. of this, Rs. 0.46 lakh was recoverable from an ex-employee on account of motor car advance; this amount together with interest thereon was recoverable from an officer of the Federation who stood surety for the advance, but no action had been taken (March 1987).

The Ministry stated in January 1988 that Rs. 0.61 lakh had been recovered from Ex-directors and recovery of the remaining amount was being pursued vigorously.

(ii) An amount of Rs. 1.03 lakhs was recoverable on account of overpayment of pay and travelling allowance from the officers who were on deputation with the Federation. The matter was stated to have been taken up with the respective State Governments, but there had been no progress (January 1988).

**25. Internal Audit**

An Internal Audit wing of the Federation has been functioning since December 1978. The wing was managed by the Manager, Internal Audit at Head Office under the control of Controller of Accounts and Finance who was also coordinating the activities

of the Regional Cells in four zones located at Bombay, Calcutta, Delhi and Madras. In Regional Cells, the Internal Audit wings are working under the supervision and control of respective Regional Managers.

While the Federation has no Internal Audit Manual, bye-laws 29(iii) of the Federation require a quarterly audit of each branch. Audit was generally conducted on quarterly basis. Regional Cells were sending reports to concerned branch for obtaining compliance reports from them and copy of the report was also received by the Manager (IA).

On a scrutiny of a few inspection reports for the year 1985-86, it was observed that the Internal Audit had pointed out instances of over-valuation of stock, non-reconciliation of customers' and suppliers' accounts, non-utilisation of cash credit limits, extending credit facilities without following the norms fixed by the head office, sale of goods below cost price, lifting of confiscated goods in excess of powers delegated, delay in settlement of inter-unit accounts, credit sales without approval of head office and other inaccuracies in the maintenance of stock accounts.

It was observed that the submission of compliance reports were generally delayed by the branches, and in many cases, rectifications/corrections had not been carried out as per reports. Against 116 Inspection Reports, compliance of 82 Inspection Reports for 1983-84, 76 Inspection Reports for 1984-85 and 71 Inspection Reports for 1985-86 was awaited (March 1988).

The statutory auditors while conducting the audit of the Federation for 1983-84 and 1986-87 had observed that internal audit system prevailing in the Federation was ineffective being not commensurate with the size and the nature of business of the Federation and required to be considerably strengthened and streamlined. They had pointed out inadequacy of internal control in the following areas and had stressed the need for introducing a proper system to strengthen the same viz.

- (a) Transfer of stocks from main godown to retail shops.
- (b) Goods purchased and directly supplied to the customers.
- (c) Credit control.
- (d) Claims recoverable.
- (e) Verification of cash, cheques in hand and other securities, documents in hand, etc.
- (f) Deposit of cash by the retail shops/other cashiers to the main cashier.



The Ministry stated in January 1988 that to make the Internal Audit more effective, the question of making it independent and directly responsible to the

Managing Director was under consideration of the Federation.

*D.S.Iyer*

(D. S. IYER)

Director of Audit, Commerce, Works & Miscellaneous-I

New Delhi

The

7 0 NOV 1988

Countersigned

New Delhi

The

22 NOV 1988

*T.N. Chaturvedi*

(T. N. CHATURVEDI)

Comptroller and Auditor General of India



(Referred in Para 7)

APPENDIX

Statement showing sales, closing stock and percentage of gross margin to sales.

Commodity	1982-83				1983-84			
	Sales	Gross Margin	Percentage of gross margin to sales (including service charges)	Closing stock	Sales	Gross Margin	Percentage of gross margin to sales (including service charges)	Closing stock
1	2	3	4	5	6	7	8	9
(Rs. in lakhs)								
<b>A. Sheltered</b>								
Controlled Cloth	5734.47	73.38	1.28	..	7133.89	80.50	2.32	..
Confiscated goods	829.63	48.42	5.84	37.10	1386.47	74.95	5.41	94.58
Total 'A'	6564.10	121.80	1.85	37.10	8520.36	155.45	1.82	94.58
<b>B. Non-sheltered</b>								
Groceries	3314.25	72.39	2.18	721.80	3725.47	130.48	3.50	804.22
Textiles	2257.99	46.96	2.08	104.87	1853.88	43.02	3.56	129.58
General Merchandise	1424.79	33.53	2.35	37.32	981.31	34.92	1.13	124.85
Tea	260.80	16.49	6.32	44.73	346.99	17.52	5.05	72.33
Export	..	..	..	..	..	..	..	..
Cotton	..	..	..	..	163.98	3.69	2.25	..
Imported goods	250.35	8.01	3.20	51.33	79.11	(-)2.54	3.21	108.38
Total 'B'	7508.18	177.38	2.36	960.05	7150.74	227.09	3.17	1239.36
Total A+B	14072.28	299.18	2.13	997.15	15671.10	382.54	2.44	1333.94

Commodity	1984-85				1985-86			
	Sales	Gross Margin	Percentage of gross margin to sales (including service charges)	Closing stock	Sales	Gross Margin	Percentage of gross margin to sales (including service charges)	Closing Stock
1	2	3	4	5	6	7	8	9
<b>A. Sheltered</b>								
Controlled Cloth	7045.79	91.61	1.30	..	6401.79	91.28	1.43	8.10
Confiscated Goods	1988.47	146.65	7.38	67.52	1821.48	124.83	6.85	105.43
Total 'A'	9034.26	238.26	2.63	67.52	8223.27	216.11	2.62	113.53



1	2	3	4	5	6	7	8	9
<i>B. Non-Sheltered</i>								
Groceries	3348.55	32.90	0.98	818.41	4339.78	128.61	2.96	555.33
Textiles	1342.56	33.06	2.46	84.06	1944.27	39.08	2.01	102.88
General Merchandise	1497.81	40.33	2.69	140.14	1001.01	39.40	3.94	118.86
Tea	268.04	21.80	8.13	81.66	127.32	4.66	3.66	97.22
Export	..	..	..	..	..	..	..	..
Cotton	35.92	0.94	2.62	..	..	..	..	..
Imported Goods	180.16	(-49.22)	..	403.34	195.77	(-3.63)	..	209.88
<b>Total 'B'</b>	<b>6673.04</b>	<b>79.81</b>	<b>1.19</b>	<b>1527.61</b>	<b>7608.15</b>	<b>208.12</b>	<b>2.73</b>	<b>1084.17</b>
<b>Total A+B</b>	<b>15707.30</b>	<b>318.07</b>	<b>2.02</b>	<b>1595.13</b>	<b>15831.42</b>	<b>424.23</b>	<b>2.68</b>	<b>1197.70</b>

1986-87

(Rs. in lakhs)

Commodity	Sales	Gross margin	Percentage of gross margin to sales (including service charges)	Closing stock
<i>A. Sheltered</i>				
Controlled cloth	4498.62	69.63	1.55	..
Confiscated goods	2344.63	176.02	7.51	145.84
<b>Total 'A'</b>	<b>6843.25</b>	<b>245.65</b>	<b>3.58</b>	<b>145.84</b>
<i>B. Non-sheltered</i>				
Groceries	3237.55	90.51	2.79	362.89
Textiles	1851.92	41.10	2.28	82.17
General Merchandise	1339.73	34.49	2.57	102.21
Tea	181.53	9.21	5.07	48.91
Export	..	..	..	..
Cotton	..	..	..	..
Imported goods	82.26	0.76	0.92	128.38
<b>Total 'B'</b>	<b>6692.99</b>	<b>176.07</b>	<b>2.63</b>	<b>724.56</b>
<b>Total A+B</b>	<b>13536.24</b>	<b>421.72</b>	<b>3.11</b>	<b>870.40</b>







## ERRATA

<i>Page</i>	<i>Column</i>	<i>Line</i>	<i>For</i>	<i>Read</i>
(iii)	—	4 from top	Unde	Under
(V)	1	28 from top	Supurt	Spurt
4	2	4 from top	Extnet	extent
5	1	10 from top	(c) against pre-payment	(e) reduction in the distribution margin.
8	2	40 from top	rise	rice
9	2	14 from top	thorough	through
10	1	first line	207	20.7
		from bottom	763	76.3
10	2	27 from top	unit	unfit
10	2	32 from top	hough	though
15	2	7 from top	at :	at various places :
16	2	21 from bottom	23.2	23.3
17	1	1st from bottom	decided	settled



Year	Month	Day	Time	Location	Remarks
1910	Jan	1	10:00	St. Paul	Left for St. Paul
1910	Jan	2	10:00	St. Paul	Left for St. Paul
1910	Jan	3	10:00	St. Paul	Left for St. Paul
1910	Jan	4	10:00	St. Paul	Left for St. Paul
1910	Jan	5	10:00	St. Paul	Left for St. Paul
1910	Jan	6	10:00	St. Paul	Left for St. Paul
1910	Jan	7	10:00	St. Paul	Left for St. Paul
1910	Jan	8	10:00	St. Paul	Left for St. Paul
1910	Jan	9	10:00	St. Paul	Left for St. Paul
1910	Jan	10	10:00	St. Paul	Left for St. Paul
1910	Jan	11	10:00	St. Paul	Left for St. Paul
1910	Jan	12	10:00	St. Paul	Left for St. Paul
1910	Jan	13	10:00	St. Paul	Left for St. Paul
1910	Jan	14	10:00	St. Paul	Left for St. Paul
1910	Jan	15	10:00	St. Paul	Left for St. Paul
1910	Jan	16	10:00	St. Paul	Left for St. Paul
1910	Jan	17	10:00	St. Paul	Left for St. Paul
1910	Jan	18	10:00	St. Paul	Left for St. Paul
1910	Jan	19	10:00	St. Paul	Left for St. Paul
1910	Jan	20	10:00	St. Paul	Left for St. Paul
1910	Jan	21	10:00	St. Paul	Left for St. Paul
1910	Jan	22	10:00	St. Paul	Left for St. Paul
1910	Jan	23	10:00	St. Paul	Left for St. Paul
1910	Jan	24	10:00	St. Paul	Left for St. Paul
1910	Jan	25	10:00	St. Paul	Left for St. Paul
1910	Jan	26	10:00	St. Paul	Left for St. Paul
1910	Jan	27	10:00	St. Paul	Left for St. Paul
1910	Jan	28	10:00	St. Paul	Left for St. Paul
1910	Jan	29	10:00	St. Paul	Left for St. Paul
1910	Jan	30	10:00	St. Paul	Left for St. Paul
1910	Jan	31	10:00	St. Paul	Left for St. Paul