



SUPREME AUDIT INSTITUTION OF INDIA
लोकहितार्थं सत्यनिष्ठा
Dedicated to Truth in Public Interest



Case Study
On
Audit of Public Procurement
Avoidable expenditure
2022-23

REGIONAL TRAINING INSTITUTE,
RANCHI

Table of Contents

Sl. No	Topics	Pages No.
1	From Principal Director's Desk	3
Section 1 – Case Study for the participants		
2	Introduction	5
3	Background/Context	5-6
4	Main Story	6-8
5	Assignment Question	9
Section 2 – Teaching Notes for the Instructor		
6	Synopsis	9-11
7	Teaching and Learning Objectives	11
8	Target Audience	11
9	Relevant Readings	11
10	Assignment Questions	11-12
11	Teaching plan	12
12	Suggested/possible answers to assignment questions	12-13
13	Suggested Teaching Methods	13
14	What happened subsequently	13

From Principal Director's Desk

Regional Training Institute, Ranchi has been declared as Knowledge Centre for Audit of Public Procurement in August 2020. In pursuit of excellence in our assigned areas of knowledge centre, we attempt to bring out series of interesting cases on these area relating to deviation from rules and regulations etc. reported and reflected in the Report of Comptroller & Auditor General of India as case studies.

This case study has been prepared based on para No. 3.1.2 of chapter 3 of CAG's Audit Report on General, Social and Economic (Non-PSU) sectors for the year ended on 31.03.2013 Government of Jharkhand.

The focus of the case study is to impart training to civil audit officials with the objective of improving their skill sets on these area.

We look forward to valuable suggestions and feedback which will help us to the further improvise this.



(FAISAL IMAM)

**Principal Director
RTI, Ranchi**

Date: 09.05.2023

Place: Ranchi

Disclaimer

The case study has been designed as a story taking place during an audit of The Rajendra Institute of Medical Science, Ranchi and is meant to provide a glimpse of deviations from the rules and provisions laid down in respect of the tender processes. However, the characters' activities and attributes are primarily fictional. The instances detailed in the case study are meant to foster an appreciation of challenges that may be faced by officials in conducting such audits. This is only a guide to be used in training and should not be considered as being at par with audit reports or regulations or manuals or other instructions for audit.

Section 1 – Case Study for the Participants

1. Introduction

This case study has been prepared in the form of a fictional story that revolves around purchase of higher priced medical equipment without recording justification and ignoring the lowest priced technically approved equipment resulting in avoidable expenditure.

- a. As per rule 129* of Jharkhand Financial Rule (JFR), purchase must be made in the most economical manner in accordance with the definite requirements of the public service and
- b. Cabinet (Vigilance) Department Government of Jharkhand letter no. [नि.नि-01-17 त.प.को.\) 2005/99](#) dated 13 February 2010 read with Finance Department letter no. Finance -4-96/2001/4940/नि. dated 31 July 2002 provides for procurement of goods and services under two bid system according to which the technical bids are to be opened by the purchasing Department at the first instance and evaluated by competent authority. At the second stage the financial bids of technically qualified bidders are only to be opene for further evaluation for awarding the contract.

The Story is seen through the eyes of the protagonist Shri Mohan Bhargav, AAO of an audit party.

2. Background/Context

Rajendra Institute of Medical Sciences (RIMS) is the premier institute of the state of Jharkhand established by an Act of its Legislative Assembly. The establishment of this institute is an expression of the dream of the people of Jharkhand to develop a leading centre of excellence in the region dedicated to the mission of patient care, education, research, and community service of the highest order. Though in existence since 1959,

*Purchases must be made in the most economical manner in accordance with the definite requirements of the pubic service, Stores should not be purchased in small quantities, Periodical indents should be prepared and as many articles as possible obtained by means of such indents. At the same time care should be taken not to purchase stores much in advance of actual requirements, if such purchase is likely to prove unprofitable to Government.

Where scales of consumption or limits of stores have been laid down by competent authority, the Government servant ordering a supply should certify on the purchase order that the prescribed scales or limits are not exceeded.

the transformation of RIMS in 2002 from a College cum Hospital to an Institute emphasized the grand vision of the state to upgrade science, scholarship, and innovation to improve health of the people of this region.

Rajendra Institute of Medical Sciences (RIMS) procured medical equipment viz Neurosurgical operation microscope, Neurosurgical High Speed Pneumatic Drill System, Diathermy machine for giving better treatment to the patient. These equipment should be purchased as per the following rules and instructions governing the purchase of stores.

- a. Purchase must be made in the most economical manner in accordance with the definite requirements of the public service. Stores should not be purchased in a small quantity. Periodical indents should be prepared and as many articles as possible of obtained by means of such indents. At the same time care should be taken not to purchase stores much in advance of actual requirements, if such purchases likely to prove unprofitable to government.
- b. Purchase order should not be split-up to avoid necessity for obtaining the sanction of higher authority required with reference to the total amount of orders.

In spite of the above provisions, the purchase committee approved purchase of high quality equipment which were not the lowest price though the lowest price equipment were also technically approved.

This case study is based on this para for sensitization of participants about such irregularities.

3. Main Story of the case

While scrutinizing files under the plan head some invoices relating to purchase of equipment were found by protagonist Shri Mohan Bhargav, AAO pertaining to the month October, 2012.

It revealed that two equipment relating to neurosurgical department and two diathermy machines respectively were purchased. These purchases intrigued him:

1. Whether RIMS invited tender for supply of equipment or not.

2. What are the terms and condition of the tender?
3. Whether tender was notified through major newspapers or not.
4. Whether rules and regulation of Jharkhand Financial Rules were followed or not.

On examination, AAO found that

RIMS invited (July 2011) tenders for supply of medical equipment (including neurosurgical operation microscope, neurosurgical high speed pneumatic drill system and diathermy machine) under two bid system through major newspapers viz. Prabhat Khabar and Hindustan.

The Purchase Committee*² of RIMS opened (August 2011) the technical bids and decided to constitute a Technical Evaluation Committee (TEC)*³ for evaluating the technical bids received. Director, RIMS constituted the TEC on October 2011 for examination of technical bids. The TEC submitted

² Head of the Department (HOD) of Pathology , HOD of Skin, HOD of Neuro, HOD of Microbio, Deputy Director RIMS, Medical Superintendent of RIMS, HOD, (FMT)

³ Head of the Department (HOD) of Pathology , HOD of Microbio, Medical Superintendent of RIMS, HOD, (FMT), HOD (Ortho), HOD(Medicine), HOD(Radiology), HOD(Biochemistry), HOD(Pharmacology), HOD(Related dept.), HOD (Surgery)

its evaluation report to Director, RIMS on 25 January 2012, approving the technically suitable equipment. TEC also mentioned “Q-1” for some of the technically approved equipment which were stated to be of high quality. TEC awarded Q-1 to Indian Instruments Manufacturing Co., Medilab and Vishal surgical. Shri Bharagav noticed that reasons for determining high quality (Q-1) were not recorded by TEC.

<i>₹ in Lakh</i>				
Sl. No.	Name of equipment	Name of Technically approved bidders	Rate quoted	Remarks of Purchase Committee
1	Neurosurgical operation microscope	1. Indian Instruments Manufacturing Co.	170.00	Approved
		2. Sciemed Overseas Inc.	120.00	Approved
2	Neurosurgical High Speed Pneumatic Drill System	1. Kailash Surgicals	30.07	Approved
		2. Medilab	50.68	Approved
		3. Sciemed Overseas Inc.	34.93	Approved
		4. Shree Yash	11.34	Approved
3	Diathermy machine	1. Medilab	25.00	Approved
		2. Sciemed Overseas	7.49	Approved
		3. Vishal Surgical	9.00	Approved

Financial bids of technically approved bidders were opened in January 2012. The Purchase Committee of RIMS recommended (March 2012) equipment marked of high quality (Q-1) by TEC which were not the lowest in terms of price and the recommendation was placed (March 2012) before the Chairman, Governing Body, RIMS for direction. The Chairman directed the Purchase Committee to purchase high quality equipment adhering to the conditions of [NIT](#), recommendations of TEC, guidelines and circulars of the Finance and other Departments. The Purchase Committee approved purchase of high quality equipment (Q1) which, were not the lowest in price though the lowest priced equipment were also technically approved by TEC. However, it was noticed in audit that reasons for determining Q1 were not recorded in TEC minutes. These equipment were supplied between July, 2012 and October, 2012.

Conclusion

4. Assignment Questions:

- a) What are the various processes of purchases?
- b) What is the objective behind the tender process?
- c) Was the recommendation of the TEC in grading the technically qualified bids into Q1, Q2 regular? If yes, under which rule?
- d) Is ignoring the L1 bid regular? Is it mandatory to consider only the L1 bid?
- e) Was there any loss? If yes, how much loss had to sustain.
- f) Give a suitable title to above-mentioned story.

Section 2 – Teaching Notes for the Instructor

1. Synopsis

During scrutiny (May 2013) of records of Rajendra Institute of Medical Science (RIMS), Ranchi, we observed that RIMS invited (July 2011) tenders for supply of medical equipment including neurosurgical operation microscope, neurosurgical high speed pneumatic drill system and diathermy machine) under two bid system with the condition that the price bids of technically successful bidders whose equipment are of required quality would only be considered. The Purchase Committee of RIMS opened (August 2011) the technical bids and decided to constitute a Technical Evaluation Committee (TEC) for evaluating the technical bids received.

Director, RIMS constituted the TEC in October 2011 for examination of technical bids. The TEC submitted its evaluation report to Director, RIMS on 25 January 2012, approving the technically suitable equipment. TEC also mentioned “Q-1” for some of the technically approved equipment which were stated to be of high quality. We noticed in audit that reasons for determining Q-1 were not recorded by TEC.

Financial bids of technically approved bidders were opened in January 2012. The Purchase Committee of RIMS recommended (March 2012) equipment marked of high quality (Q-1) by TEC which were not the lowest in terms of price and the recommendation was placed (March 2012) before the Chairman, Governing Body, RIMS for direction. The Chairman

directed the Purchase Committee to purchase high quality equipment adhering to the conditions of NIT, recommendations of TEC, guidelines and circulars of the Finance and other Departments. The Purchase Committee approved purchase of high quality equipment (Q1) which, were not the lowest in price though the lowest priced equipment were also technically approved by TEC. As a result, RIMS had to incur avoidable expenditure to the tune of ₹92.36 lakh as detailed in the table below:

(₹ In lakh)						
Sl. No.	Name of equipment	Name of Technically approved bidders	Rate quoted	Approval of Purchase Committee	Quantity purchased (No.)	Avoidable Expenditure (approved rate-lowest rate)
1	Neurosurgical operation microscope	1. Indian Instruments Manufacturing Co.	170	Approved	1	50
		2. Sciemed Overseas Inc.	120	Lowest-1		
2	Neurosurgical High Speed Pneumatic Drill System	1. Kailash Surgicals	30.07			
		2. Medilab	50.68	Approved	1	39.34
		3. Sciemed Overseas Inc.	34.93			
		4. Shree Yash	11.34	Lowest-1		
3	Diathermy machine	1. Medilab	25			
		2. Sciemed Overseas	7.49	Lowest-1		
		3. Vishal Surgical	9	Approved	2	3.02
Total Avoidable Expenditure						92.36

Thus, due to purchase of higher priced equipment instead of technically approved lowest priced equipment, the State exchequer had to bear avoidable expenditure of ₹92.36 lakh, in violation of Rule 129 of JFR.

On being referred (May 2013), the Government, replied (June 2013) that Purchase Committee approved the purchase in accordance with the directives that quality equipment from reputed company was to be procured and in consonance with the approval of the Minister, Health, Medical Education and Family Welfare cum Chairman, Governing Body, purchases were made.

The reply is not acceptable, as the tender conditions did not specify that the quality would be graded and preference would be given to best quality equipment. In case certain quality parameters were necessary, these should have been included in the tender conditions for technical qualification. If higher quality (Q-1) bidders were to be awarded the contract, then there was no need to technically approve and open the price bid of other bidders. Moreover, the basis for determination of higher quality was also not recorded in TEC minutes. As such after opening of the price bids of technically approved bidders, the lowest price bids should have been accepted.

2. Teaching and learning objective

- The participants will be able to gain knowledge about tender process, role of technical evaluation committee and purchase committee thereto.
- The participants will be able to correctly apply the relevant provisions of the Jharkhand Financial Rules and GFRs in such types of audit of procurement.

3. Target audience:

This case study has been prepared for use in training on “Audit of Public Procurement” and other General Training Courses on Financial and Compliance Audit.

4. Relevant Readings

- i) Jharkhand Financial Rules
- ii) General Financial Rules
- iii) MSO(Audit)
- iv) Regulation on Audit & Accounts
- v) DPC Act

5. Assignment Questions

1. What are the various processes of purchases?
2. What is the objective behind the tender process?
3. Was the recommendation of the TEC in grading the technically qualified bids into Q1, Q2 regular? If yes, under which rule?

4. Is ignoring the L1 bid regular? Is it mandatory to consider only the L1 bid?
5. Was there any loss? If yes how much loss had to sustain.
6. Give a suitable title to above-mentioned story.

6. Teaching plan

Time plan for the session – 75 minutes

Sl. No.	Teaching Plan	Time Allotted
		(in min)
1	Introduction and setting up the situation	15
2	Discussion on background	15
3	Evaluating the alternatives	15
4	Discussion of “What Happened”	10
5	Case wrap-up/takeaways	10

7. Suggested/possible answers to assignment questions

a) What are the various processes of purchases?

Followings are the purchase processes prescribed in General Financial Rules:

- i) Purchase of goods without quotation
- ii) Purchase of goods by Purchase Committee
- iii) Purchase of goods by obtaining bids through (a) advertised tender enquiry (b) Limited Tender Enquiry (c) Two Stage Bidding (d) Single Tender Enquiry and (e) Electronic Reverse Auction

b) What is the objective behind the tender process?

The objective of tender process is to promote competitiveness for securing best value of money.

c) Was the recommendation of the TEC in grading the technically qualified bids into Q1, Q2 regular? If yes, under which rule?

The Technical Evaluation Committee should be aware of the requirement of the department. The committee should assess the bids based on the requirements. Only those bids should be declared qualified which meet the requirements. Grading of bids into the category Q1, Q2

signifies that the only the bid declared as Q1 provides the complete solution. In the absence of specific parameters/benchmark standards, declaring Q2 as disqualified needs justification. Further there is no rule which requires the committee to grade technical bids into Q1 and Q2

d) Is ignoring the L1 bid regular? Is it mandatory to consider only the L1 bid?

Ordinarily, the L1 price bid should be considered for award of tender. However, consideration of L1 bid is not mandatory. Bid other than the L1 bid may be considered with proper with recording of detailed justification for ignoring the L1 bid.

e) Was there any loss? If yes, how much loss had to sustain?

Yes, ₹92.36 lakhs

f) Give a suitable title to above-mentioned story.

Avoidable expenditure of ₹92.36 lakhs.

8. Suggested teaching methods

- a) Efforts would be made to stimulate a lively discussion amongst the participants after dividing them into various groups. They will be required to put forth some points to be seconded or countered by other groups on the basis of their justification.
- b) Idea on e-tendering may be discussed to participants.
- c) Brief introduction of principal of financial propriety.
- d) One session may be given to expert faculty of procurement.

9. What happened subsequently

In spite of the assurance of improvement by the RIMS administration, no significant improvement has been observed as per the gathered information.

The result of the audit was published as para No. 3.1.2 of chapter 3 of CAG's Audit Report on General, Social and Economic (Non-PSU) sectors for the year ended on 31.03.2013 Government of Jharkhand.