

## Chapter 5 – Stores

The Stores Department is responsible for planning, procurement of various types of stores required for operations and maintenance of trains. These include supply of spare parts, components, fittings, sub-assemblies to production units, maintenance and manufacturing workshops. The Department is also responsible for total inventory management of all stores, their purchasing and distribution to consignees. Besides this, Stores Department also carries out disposal of scrap items through public auction and tenders (selected items).

The Stores Department at Railway Board is represented by Member Mechanical. However, Additional Member (Railway Stores) is the functional head of the Department and he is assisted by various Executive Directors and Directors. At the Zonal levels, Controller of Stores is the principal head of the Department who is assisted by Chief Material Managers and Deputy Chief Material Managers. The Division is headed by Senior Divisional Marketing Manager reporting to Divisional Railway Manager.

The total expenditure of the Stores Department during the year 2011-12 was ₹ 14,001 crore. During the year, apart from regular audit of vouchers and tenders etc., 466 offices of the Stores Department were inspected.

This chapter includes a Thematic Audit conducted across Zonal Railways on procurement of items under Proprietary Articles Certificate (PAC) over Indian Railways. In this theme, Audit has highlighted the deficiencies on the part of Zonal Railways/ Production Units in procurement of the PAC items which also cover the safety and vital items. Audit also commented on the variation of prices across Zones in procurement of these items.

## 5.1 Procurement of PAC items in Indian Railways

### Executive Summary

Stores procured for Railway's operation include the items purchased under Proprietary Article Certificate (PAC). These items are required to be purchased from a specified firm on single tender basis and include safety and vital items and also emergency purchases. Considering the high risk involved in procurement of PAC items, Zonal Railways/ Production Units were advised by Railway Board (May 1982) to carefully evaluate the merits of each item before issuing a certificate regarding proprietary articles. The vendors should be empanelled by Research Designs Standards Organization (RDSO), Chittaranjan Locomotive Works (CLW) and Diesel Locomotive Works (DLW) of Indian Railways.

A Thematic Audit was conducted during the year 2012-13 covering the period from 2007-08 to 2011-12 to assess the adequacy of the system of procurement of PAC items and utilization thereof by Zonal Railways/ Production Units.

The audit revealed that basic documentation for certifying items as PAC items were not maintained. It also indicated that no effort had been made by the certifying authority to examine the existence of acceptable substitutes. Audit observed a large number of variations in prices across Zones leading to extra expenditure in procurement. Zonal Railways/ Production Units failed to comply with the Railway Board's directives regarding publication of rates, holding meetings for exchanging information. Requisite steps were not taken for development of additional vendors. The audit also revealed delays in receipt of material even after extended delivery periods dates. Even in emergency purchases, delivery dates were extended and materials were received belatedly.

### 5.1.1 Introduction

Stores play a very important role in Railway's operations, maintenance and in-house production activities. Stores also include proprietary articles<sup>61</sup>, which are required to be purchased from a specified firm on single tender basis. These stores also include safety and vital items and also emergency purchases. Appropriate officer of the consuming department of the concerned Railway is required to issue Proprietary Article Certificate (PAC) during the procurement of proprietary articles. The vendors of PAC items should be empanelled by Research, Design and Standards Organization (RDSO), Chittaranjan Locomotive Works (CLW), and Diesel Locomotive Works (DLW).

<sup>61</sup> Proprietary articles are the articles for which some person/firm have exclusive right to manufacture or sell.

Proprietary certificate is to be issued in the proforma as prescribed in Railway Board's Circular of May 1982 and signed by the appropriate officer of the consuming department of the concerned Railway.

### 5.1.2 Audit Objectives

Audit focus has been on the adequacy of procedure adopted for procurement of PAC items and issuance of proprietary certificates. It also examined the compliance with Railway Board's directives/ instructions issues with regard to the procurement of PAC items on part of Zonal Railways/ Production Units.

### 5.1.3 Scope and Period of Audit

Audit has examined (August/ September 2012) the procurement of stock and non-stock<sup>62</sup> items through Proprietary Article Certificates. Audit covered five *per cent* of Purchase Orders (POs) issued for stock PAC items and two *per cent* of POs issued for non-stock items subject to a maximum of 25 POs issued during the period of 2007-08 to 2011-12.

In Indian Railways, procurement of store items (stock/ non-stock) are required to be made by quoting the price ledger (PL) number for each item. Material Management Information System (MMIS) implemented over Indian Railways envisaged adopting of a unique PL number for a particular item. However, the criteria used for adoption of PL numbers were not similar across the Zonal Railways. In the absence of unified/unique PL numbers, audit could not conduct a proper comparative study with regard to rates quoted for procurement of PAC items across all Zones. Comparative study was possible only in respect of six items procured by five Zonal Railways<sup>63</sup> where unified PL numbers were adopted. This limited the scope of the Audit.

### 5.1.4 Audit Findings

#### 5.1.4.1 Documentation for treating item as PAC

In Indian Railways, proprietary articles are procured after issue of proprietary article certificate. For issuance of proprietary certificates, Railway Board issued a prescribed proforma vide its letter dated May 1982. In the certificate, the consuming department of the concerned Railway is required to certify that

- (a) No other make/brand will be suitable;
- (b) The firm is the only firm who is manufacturing/ stocking these items;
- (c) Similar article is not manufactured or sold by any other firm which could be used in lieu.

The Railway Administration was directed to indicate whether the certificate was issued under item (a) or (c).

<sup>62</sup> Stock items are items which are frequently and regularly required and whose unit cost justifies incurring inventory carrying cost associated with these items and these are kept in the custody of the Stores Department. All items other than 'stock' items are called 'Non-stock' items

<sup>63</sup> CR, NCR, SECR, SWR and WCR

Railway Board in its above directives (May 1982) also advised that consuming department should carefully evaluate the merits before issuing certificate for the proprietary articles. They should satisfy themselves before indenting proprietary articles that no acceptable substitutes are available.

Audit revealed that proprietary articles certificates were issued as 'A' or 'C' certificate on the basis of the above directives. 'C' certificate was issued for items where it was possible to certify that 'similar article' is not manufactured or sold by any other firm which could be used in lieu. 'A' certificate was issued for the items for which such certificate could not be issued. These practices are contrary to Rule 154 of General Financial Rules (2005). These rules prescribe that while issuing certificate regarding proprietary articles, only certification that 'no other make or model is acceptable' and the reasons thereof are required. Also, the certificate is required to be provided before procuring items from a single source under Single Tender System.

Audit reviewed 239 POs files pertaining to the review period and the following was observed -

- No documentation was available on record to treat the items as a PAC item except the PAC certificate in the PO file;
- The basis on which the item has been treated as PAC under 'A' or 'C' certificate was not available on record;
- There was no indication in the file to conclude that the list of vendors empanelled by RDSO was gone through before issue of the certificate. Specific reasons for choosing a particular vendor were also not recorded;
- PAC items were procured through Open/ Limited Tender System also. This by itself is contrary to what the consuming department had certified during procurement of PAC items. Review of 130 items procured in the same financial year over five Zonal Railways (NFR, SR, SER, SWR and WR) and ICF revealed that in 86 cases, rates of single tender purchases of the same items were higher than purchases made through open/limited tenders. This resulted in excess expenditure of ₹ 0.72 crore. This indicates that purchases were categorized as PAC without proper checking of records.

In view of the above findings, it may be concluded that the manner of issuance of the certificate is questionable. It also indicates that no effort was made by the certifying authority to examine the existence of acceptable substitutes. There is thus, no assurance that a transparent system of procurement was followed for the items purchased through the PAC system.

#### **5.1.4.2 Purchase of PAC items**

Procurement of PAC items made through single tender involves high risk perception due to lack of competition in ensuring reasonableness of rates and the process of selection of vendors. The following Table shows procurement of PAC items in 17 Zonal Railways and three production units (DLW, CLW and ICF) over the period from 2007-08 to 2011-12.

Table 5.1

Year	Total Procurement		Procurement of PAC items		Percentage of PAC item procured	
	No. of Pos	Value (₹ in crore)	No. of Pos	Value (₹ in crore)	No. of Pos	Value (₹ in crore)
2007-08	77605	11277.35	4195	223.47	5.41	1.98
2008-09	88365	18116.37	5183	415.53	5.87	2.29
2009-10	94688	16650.34	5293	302.00	5.59	1.81
2010-11	88009	15655.25	5126	459.91	5.82	2.94
2011-12	87549	20461.73	5590	485.48	6.38	2.37
<b>Total</b>	<b>436216</b>	<b>82161.04</b>	<b>25387</b>	<b>1886.39</b>	<b>5.82*</b>	<b>2.30*</b>

\*Represents percentage of total PAC items to total Procurement.

From the above Table, it was seen that PAC items constituted on an average 2.30 per cent (₹ 1886.39 crore) of total value of items procured (₹ 82160.06 crore) during the period from 2007-08 to 2011-12.

Audit examined the type of items purchased through PAC. Results are given in the Table below:

Table 5.2

	Number	Value (₹ in crore)	Percentage	
			Number	Value
Total stock by PAC	12180	1215.32	-	-
Safety	933	417.79	7.66	34.37
Vital	1689	110.15	13.87	9.06
Other than safety and vital	9558	687.38	78.47	56.56
Emergency purchase	75	12.39	0.62	1.02

From the above Table, it can be seen that procurement of 'other than safety and vital items' constituted about 57 per cent (₹687.38 crore) of the total stock purchases. This indicates an area of concern as purchase of PAC items needs to be curtailed. Further, PAC purchase is being resorted to for areas where open tenders could be called for.

#### 5.1.4.3 Procurement of PAC items under emergency purchases

Railway Board vide its order dated April 2008 directed that PAC purchases on emergency cases require proper justification.

Test-check of 378 POs of stock PAC items pertaining to all Zonal Railways and three Production Units (DLW, CLW and ICF) revealed that 32 Pos were related to emergency purchase. A review of these 32 POs revealed the following:

Table 5.3

Railway	Cases where POs were issued after 30 days from indent date		Cases where material received after 60 days from indent date		Time taken from date of receipt to date of utilization (days)
	No of POs	Range of delay in days	No of POs	Range of delay in days	
CR	3	53 to 203	4	67 to 833	17 to 169
ECR	3	121 to 638	3	270 to 284	60 to 374
NFR	2	77 to 106	2	260 to 348	0 to 98
SR	8	43 to 257	10	72 to 526	7 to 249
SECR	2	48 to 100	2	126 to 139	20 to 387
SWR	4	35 to 91	3	65 to 174	3 to 131
WCR	2	95 to 107	1	170	18
ICF	2	147 to 268	2	148 to 275	Not available
<b>Total</b>	<b>26</b>		<b>27</b>		

- 26 POs were issued 30 days after the date of indent. Out of these, 13 POs were issued three to six months from the date of indent and five POs were issued six to 12 months from the date of indent. Moreover, one PO was issued (ECR) after 21 months (638 days) from the date of indent.
- In these emergency cases, materials were also received belatedly. In 27 cases, material was received after 60 days from the date of indent. Out of which, in six cases, items were received after one year of indent date.
- Time taken to utilize these emergency items also indicated that emergency purchase was not justifiable in these cases. In 11 cases, received materials were utilized after 30 days of receipt and in two cases; consuming department of ECR and SECR took more than one year to utilize the received materials.

Audit also observed that in four cases of CR (two) and SR (two), extension of delivery date was granted (45, 201, 203 and 285 days) even though the indents were placed under emergency category.

Thus, the delay in placement of POs, receipt of material and utilization of received materials defeated the very purpose of indenting PAC items in emergency cases. It further indicated that emergency purchase was not warranted in some of the cases.

#### **5.1.4.4 Delay/ short receipt of Stores involving Advance payment**

As per Railway Board's order of July 2008, Zonal Railways can make advance payment against proforma invoice with finance concurrence. Review of POs issued for PAC items over Zonal Railways involving 100 per cent advance payment revealed the following:

Table 5.4

(₹ in lakh)

Railway/PU	No. of Items	Value	Delay in receipt (days)
CR	2	65.98	28 to 270
ECoR	33	35.38	19 to 259
NCR	2	8.69	134 to 455
NFR	12	87.58	30 to 256
NWR	7	343.05	68 to 255
SCR	2	91.65	21 to 312
SECR	1	1.57	51
ICF	5	9.47	19 to 92
CLW	3	94.26	36 to 603
DLW	2	66.83	30 to 131
<b>Total</b>	<b>69</b>	<b>804.46</b>	
		<b>₹8.04 crore</b>	

From the above Table, it can be seen that in ten Railways/ Production Units, POs were issued with advance payment (₹8.04 crore) for 69 PAC items. These items were received with delays ranging between 19 to 603 days from the initial scheduled date of delivery.

- In 60 cases (87 per cent), delay in receipt of material was more than 60 days.
- In 10 cases, material was received after 180 days of scheduled delivery date.
- In two cases, there were delays of more than a year to deliver the material.

Audit also noticed cases (nine) of short supply of materials where advance payment was made. Details are tabulated as under:

Table 5.5

(₹ in lakh)

Railway/PU	No. of Cases	Advance Payment	Outstanding due to short supply
CR	1	12.89	1.40
NFR	5	26.23	26.23
SECR	1	24.51	3.50
CLW	1	51.48	7.95
DLW	1	2.04	2.04
<b>Total</b>	<b>9</b>	<b>117.15</b>	<b>41.12</b>
		<b>₹ in crore</b>	<b>0.41</b>

From the above Table, it is seen that material worth ₹ 0.41 crore was pending with the supplier (till March 2012) for periods ranging between 7 to 57 months. On this being pointed out by Audit, Central Railway Administration

agreed to recover the outstanding amount of ₹ 1.40 lakh. There was no response from the other Zones.

Thus, delay/short receipt of material as per scheduled delivery period led to blocking of funds with the supplier.

#### **5.1.4.5 Promoting transparency in procurement of PAC items**

For uniformity of rates for procurement of PAC items and to avoid quotation of different rates to different Railways by the same firm, Railway Board directed (November 1985 and March 1987) Zonal Railways/ Productions units that

- PAC items purchased should be published in Railways Stores Bulletin/ Indian Trade Journal once in every six months.
- There should be a quarterly meeting of Railways where information regarding firms approved during the previous quarter for various items should be exchanged.

Audit, however, observed that that with the exception of NCR, none of the Railways/Production Units had taken action for publication of rates in Trade Journals. Further, quarterly meetings were not held regularly by the Railways. Only in NCR and WCR, these meetings were held as and when required.

Non-compliance of these directives caused procurement of similar PAC items at different rates in different Railways. Examination of procurement of similar items in the same financial year among Railways/ Production Units revealed the following:

- For comparison of rates over Zonal Railways, 39 items procured during 2007-08 to 2011-12 by CR were selected out of the sample selection of 171 stock items. However, comparison could not be made on an all-India basis for all 39 items due to absence of unified Priced Ledger (PL) numbers adopted over Zonal Railways/ Productions Units. Thus, comparison was limited to six items with unified PL number adopted by five Zonal Railways (CR, NCR, SECR, SWR and WCR).
- The comparison revealed that rates of four items were higher in NCR and WCR resulting in extra expenditure of ₹0.03 crore. Rates of two items were higher in CR in comparison to the rates in SECR and SWR causing extra expenditure of ₹0.42 crore.
- Audit also observed that in respect of other six items, where different PL number was adopted for the same item, rates were higher in four Railways (SECR, SR, SCR and NFR) than the rates in CR resulting in extra expenditure of ₹ 2.05 crore.
- On SER, WR and ICF, ten PAC items were purchased through PAC. These items were purchased through PAC despite availability of additional RDSO approved vendors.

Thus, even a very limited comparison conducted by Audit by taking a sample of 39 stock items indicated that prices of PAC items varied across Zones, resulting in excess expenditure.

#### **5.1.4.6 Vendor Development Cell and Vendor rating**

Procurement of stores on proprietary basis completely eliminates competition and could lead to higher prices. Considering these facts, Railway Board advised (September 1999) Zonal Railways/ Production Units

- (i) To establish Vendor Development Cell to develop suitable vendor firms and to carry out vendor rating for assessing the technical and financial capability among the firms at the time of finalization of tender.
- (ii) A quality file should be maintained containing the basic information of description, specification, approved sources, records of quality and delivery performance of the sources and other relevant information.

During examination of records of Zonal Railways/ Production units by Audit revealed that-

- The Vendor development cell was not established by Zonal Railways/ Production units with the exception of three Zonal Railways (ECR, NER, WCR) and two Production Units (ICF and DLW);
- A Vendor rating system was available only in WCR, ICF, DLW and RDSO whereas in other Zonal Railways/ Production units, the same was not adopted;
- The requisite quality file was not maintained in Zonal Railways. However, in WCR, ICF and DLW the quality file was maintained. No records in this regard were, however, made available to Audit by NR;
- On Metro Railway/ Kolkata, 24 PAC items were procured (January 2011) by single tender system from a firm which also supplied similar items earlier. Rate quoted in respect of two items were much higher (56 per cent and 341 per cent) than the last purchase rate (December 2007) of the same firm. Audit observed that no offer was received in response to the open tender invited (November 2010) for procurement of these items. As Metro Railway could not develop alternative source for procurement of these items, they were forced to purchase from the single available vendor at higher rates.

Lack of adequate effort to develop new vendors resulted in dependency on the existing vendor for procurement of PAC items. This led to monopoly of a number of existing vendors and deprived the Railways of the possibility of obtaining lower rates.

#### **5.1.5 Conclusions**

Considering the high risk involved in procurement of items under proprietary certificate through single tender, Zonal Railways/ Productions units were advised by Railway Board (May 1982) to carefully evaluate the merits of

items before signing such a certificate. However, the basic documentation for certifying an item as a PAC item was not maintained. Further, it was observed that some PAC items were being procured through open/ limited tender.

Zonal Railways/ Productions units failed to comply with the Board's directives regarding publication of rates, holding meeting for exchanging information. Requisite steps were not taken for development of more vendors. This led to monopoly of existing vendors and procurement of items on higher rates. Audit also noticed significant lead time was involved in issue of POs and receipt of PAC materials in emergency cases.

The matter was brought to the notice of Railway Board in May 2013; their reply has not been received (July 2013).

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**Dated:**

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**Dated:**