

## CHAPTER I: DEPARTMENT OF ATOMIC ENERGY

### Bharatiya Nabhikiya Vidyut Nigam Limited

#### **1.1 Procurement contracts**

##### **1.1.1 Introduction**

The Government of India (GOI) approved (September 2003) setting up of a Prototype Fast Breeder Reactor (PFBR) at Kalpakkam, Tamil Nadu at an estimated cost of ₹ 3492 crore. The GOI also approved (September 2003) formation of a Special Purpose Vehicle (SPV) under the Companies Act, 1956 for implementation of the PFBR project. Accordingly, Bharatiya Nabhikiya Vidyut Nigam Limited (BHAVINI) was formed (October 2003) by the Department of Atomic Energy (DAE) as a public limited company for constructing the PFBR with a capacity of 500 megawatt electrical (MWe).

##### **1.1.2 Procurement system in BHAVINI**

All the activities pertaining to purchase contracts, namely, processing of indents, tendering, commercial evaluation of the bids, finalisation and placement of purchase orders and all other matters pertaining to execution of purchase contracts had been entrusted by BHAVINI to Contract and Material Management unit of Nuclear Power Corporation of India Limited (CMM, NPCIL). The services of CMM, NPCIL for processing of all large value purchase contracts for PFBR had been availed on service charges at the rate of 1.75 *per cent* up to a cumulative total purchase order value of not more than ₹ 1,000 crore and at one *per cent* of the value thereafter, *plus* service tax and other statutory levies as applicable. The terms of payment of the service charges stipulated payment of 50 *per cent* of services charges upon placement of purchase order and that of remaining 50 *per cent* upon receipt of items.

##### **1.1.3 Audit scope, objectives and methodology**

The procurement activities of BHAVINI were reviewed to assess whether:

- BHAVINI was able to develop necessary expertise to carry out procurement activities independently;
- the procurement system had laid down appropriate timelines for completing various stages of procurement in order to ensure timely placement of purchase orders and receipt of materials; and
- the prescribed guidelines for tendering and procurement were duly adhered to by BHAVINI.

Out of a total of 4,647 purchase orders placed by BHAVINI up to 31 March 2013, 131 purchase orders valuing ₹ 2,259.99 crore were selected for audit which represented 73 *per cent* of the total purchase orders value (₹ 3,110.59 crore) up to March 2014. The audit

was conducted during July 2013 to September 2013 and covered the period up to 2012-13. Subsequently, audit observations were further updated during 2014.

#### ***1.1.4 Audit findings***

The PFBR project was to be completed within seven years of sanction i.e., by September 2010 at an estimated cost of ₹ 3,492 crore. However, the project could not be completed on time and therefore, the GOI approved (April 2012) extension of completion schedule of the project by four years up to September 2014 with date of commencement of commercial operations as 31 March 2015. Besides, the GOI also approved (April 2012) proposal (May 2009) of BHAVINI for revision in cost of the project to ₹ 5,677 crore. The reasons for time and cost overruns in the project were attributed by the Management to factors such as delay in obtaining Government sanctions, damages due to tsunami, significant increases in prices of raw materials and labour rates, changes in designs and specifications, impact of taxes and duties, etc. Audit, however, observed that in addition to the aforesaid factors, inability of BHAVINI to develop in-house expertise for undertaking procurement activities independently and deficiencies in the existing procurement system and procedures of BHAVINI were also responsible for delay in completion of the project and cost overruns. These deficiencies are discussed in the succeeding paragraphs.

##### ***1.1.4.1 Over-dependence on NPCIL for procurement***

###### ***(a) Outsourcing of procurement function to NPCIL***

BHAVINI had entrusted (December 2003) all the activities pertaining to its procurement contracts to the Contracts and Material Management (CMM) division of NPCIL. Further, BHAVINI approved (July 2004 and August 2005) a proposal for payment of service charges to CMM, NPCIL for processing of various purchase contracts for PFBR components at 1.75 per cent of the purchase order value up to a cumulative total value of ₹ 1,000 crore and one per cent of the purchase order value thereafter, exclusive of service tax and statutory levies, as applicable. BHAVINI had paid ₹ 46.07 crore to CMM, NPCIL till March 2014, as service charges excluding taxes, on purchase orders valuing ₹ 2,759.16 crore. Audit observed that though BHAVINI had set up its own CMM division in May 2004, the same had not yet taken over the activities from NPCIL due to lack of in-house expertise in the matter.

The Management stated (October 2013) that service contract was placed with NPCIL to process high value contracts as NPCIL had an established set up in the nuclear sector. All decisions of procurement were taken by competent authorities in BHAVINI and CMM, NPCIL was working only as an executing agency.

The fact, however, remains that by entrusting NPCIL with the entire gamut of activities relating to procurement such as processing of indents, tendering, evaluation of bids, price negotiations, placement of orders, etc., BHAVINI virtually transferred full control to NPCIL and decision-making by BHAVINI in procurement related matters became a mere formality.

DAE stated (December 2013) that BHAVINI had created its own CMM wing and all purchase orders were being placed internally which was evident from the fact that out of 4647 orders up to 31.03.2013, 4528 orders were placed by BHAVINI internally without taking assistance of NPCIL. Only 119 orders were placed by NPCIL.

The reply is not acceptable as out of total 4647 purchase orders valuing ₹ 3,110.59 crore placed by BHAVINI up to March 2013, 4528 orders amounting to ₹ 526.81 crore (17 per cent) only were processed by BHAVINI itself. This indicates that BHAVINI processed only small value orders and was entirely dependent on NPCIL for high value procurement.

**(b) Adoption of procurement manual of NPCIL**

BHAVINI has not formulated an independent procurement manual so far (November 2014). Instead, the procurement manual of NPCIL was followed by BHAVINI on the grounds that the same was found adequate and comprehensive. Audit, however, observed that as BHAVINI was formed as a Special Purpose Vehicle for fast breeder reactor projects, it needed to develop its own procurement manual.

DAE stated (December 2013) that a committee had already been constituted (June 2013) to review the procurement manual and BHAVINI would soon have its own manual for procurement. However, the Management confirmed (December 2014) that the manual was still under finalisation.

**1.1.4.2 Deficiencies in procurement system**

**(a) Absence of timeframe for different procurement stages**

Audit observed that no timeline was prescribed for various stages of the procurement process such as for placement of purchase orders after receipt of indents and for receipt of materials after placement of purchase orders. As a result, there were undue delays in placement of orders and receipt of materials. In absence of any laid down timeline in NPCIL procurement manual for placement of orders, Audit made an assessment of delay in placement of purchase orders with reference to the time frame\* of 180 days, 90 days and 60 days in case of public, limited and single tenders respectively. The result of the audit assessment is summarised in the following table:

**Table 1  
Delay in placement of purchase orders**

Mode of tender	Total cases selected for audit	Number of cases where delay in placement of POs was observed	Percentage of cases where delay in placement of POs was observed	Range of delay (days)	Median delay (days)
Public	75	60	80	3 to 1092	213
Limited	33	26	79	1 to 826	115
Single	23	14	61	4 to 350	130
<b>Total</b>	<b>131</b>	<b>100</b>	<b>76</b>	<b>1 to 1092</b>	<b>158</b>

\*The time limits of 180 days, 90 days and 60 days for placement of purchase orders in case of public tender, limited tender and single tender respectively as prescribed in the purchase manual of Uranium Corporation of India Limited, which is also in the administrative control of the DAE, were adopted.

As may be seen from the above table, out of 131 purchase orders selected for audit, there was a delay in the placement of 100 purchase orders (76 per cent). The delay ranged from one day to 1092 days with a median delay of 158 days. The median delay in case of public, limited and single tenders worked out to 213 days, 115 days and 130 days respectively.

Audit observed that no uniform timeline had been prescribed for receipt of materials after placement of purchase orders. Instead, different delivery periods were fixed in different purchase orders. However, actual receipt of materials did not conform to the delivery period mentioned in the purchase orders. Test check of 25 purchase orders revealed that there was a delay ranging from 5 months to 55 months in receipt of ordered materials/components.

While accepting the audit observation, the Management stated (October 2013) that delays were taking place from tender to supply of material due to complexities involved in the first of its kind reactor, technical deliberations and price negotiations. DAE endorsed (December 2013) the reply of the Management.

**(b) Non-adherence to prescribed mode of tendering**

BHAVINI had outsourced (December 2003) its major procurement activities to NPCIL. Besides, BHAVINI had also developed its own CMM group and adopted procurement manual of NPCIL for undertaking procurement activities. Audit observed that norms laid down in the procurement manual of NPCIL with regard to mode of tendering were not strictly followed by BHAVINI. As per norms laid down in the procurement manual, in case of purchase order valuing more than ₹ 50 lakh, open/public tender was to be called. The mode could be changed with proper justification into limited tender with approval from competent authority. However, it was observed that even for high value purchases valuing more than ₹ 50 crore, public tenders were not called and instead limited tenders and even single tenders were invited. The mode of tendering adopted for procurement in the 131 cases selected for audit was as shown in table 2 below:

**Table 2**  
**Mode of tendering adopted by BHAVINI**

Value of purchase order	Public tender		Limited tender		Single tender		Total	
	No.	Value	No.	Value	No.	Value	No.	Value
Above ₹ 50 crore	6	882.55	2	162.26	3	411.31	11	1456.12
₹ 5 crore to ₹ 50 crore	22	339.96	13	237.70	7	90.65	42	668.31
₹1 crore to ₹5 crore	21	73.82	0	0	6	26.27	27	100.09
₹ 50 lakh to ₹ 1 crore	22	16.88	17	12.16	6	5.11	45	34.15
<b>Sub-total (A)</b>	<b>71</b>	<b>1313.21</b>	<b>32</b>	<b>412.12</b>	<b>22</b>	<b>533.34</b>	<b>125</b>	<b>2258.67</b>
Below ₹ 50 lakh (B)	4	0.78	1	0.11	1	0.43	6	1.32
<b>Grand total (A+B)</b>	<b>75</b>	<b>1313.99</b>	<b>33</b>	<b>412.23</b>	<b>23</b>	<b>533.77</b>	<b>131</b>	<b>2259.99</b>

As may be seen from the above table, out of 131 purchase orders, in 125 orders the value exceeded ₹ 50 lakh each for which only public tenders were to be called. However, public tenders were called only in 71 cases (57 per cent) and limited and single tenders were called in 54 cases (43 per cent). On the contrary, out of 6 purchase orders valuing less

than ₹ 50 lakh, public tenders were called in 4 cases (67 per cent) and limited and single tenders were called in 2 cases (33 per cent). This indicates that the tendering was done in an arbitrary manner without giving consideration to the guidelines laid down in the procurement manual. Thus, the tendering system failed to ensure transparency and effective competition.

The Management stated (October 2013) that limited tender was primarily followed for complex components owing to limited skilled industry available in the country. It was felt scientifically prudent to go with the time-tested experienced players as most of the nuclear and reactor components were being done for the first time. Public tender had been adopted for all components in the conventional system. Single tender was resorted to for specific jobs which could not be made in a competitive bidding method and where there was only single source.

The reply is not acceptable as the guidelines given in the procurement manual had classified the mode of tendering on the basis of value of purchase order and not on the type of items to be purchased. BHAVINI needed to carry out extensive market research to locate new vendors and to bring in competition instead of awarding the contracts to known suppliers only.

*While endorsing the reply of the Management, DAE stated (December 2013) that the decisions on mode of tender had been taken by the appropriate authority as defined in the manual. Public tender dispensation had been given in all the tenders wherever the estimated value of indent was more than ₹ 50 lakh, by the respective approving authority. Thereby, the guidelines of procurement manual were followed in all cases.*

The reply is not acceptable as deviations from the prescribed mode of tender on the basis of approval by the competent authority needed to be an exception and not common occurrences. However, the reply of DAE and the above audit analysis indicate that the guidelines given in the procurement manual on the mode of tendering were frequently violated.

## **Conclusion**

**NPCIL was associated with the construction, commissioning and operation of Fast Breeder Reactor Project at Kalpakkam on the directive of the Government of India. However, BHAVINI had outsourced all the activities pertaining to the procurement contracts to NPCIL against payment of service charges. Though BHAVINI had set-up its own CMM division in May 2004, the same had not yet taken over the activities from NPCIL due to lack of in-house expertise in the matter. Besides, BHAVINI did not formulate its own procurement manual and followed the manual of NPCIL. No timelines were prescribed in the procurement manual for various stages in the procurement process due to which there were delays ranging up to 1092 days in the placement of purchase orders after receipt of indents. The guidelines prescribed in the procurement manual in respect of the mode of tendering were not strictly adhered to which prevented BHAVINI from ensuring transparency and competition in the tendering process.**

### Audit recommendations and responses of DAE

<i>Recommendations of Audit</i>	<i>Response of DAE</i>
<i>In view of the aforesaid findings, it is recommended that BHAVINI may consider:</i>	<i>The recommendations given by Audit are solicited.</i>
➤ <i>developing in-house expertise for undertaking procurement activities independently in an efficient and cost-effective manner.</i>	➤ <i>In-house expertise has been developed to take up the future projects.</i>
➤ <i>formulating its own procurement manual and laying down norms for each stage of procurement.</i>	➤ <i>Separate procurement manual will be made for BHAVINI. A committee has been constituted for this purpose in June 2013 and working on it actively.</i>
➤ <i>adhering strictly to the guidelines framed in the procurement manual in order to minimise time and cost overruns.</i>	➤ <i>BHAVINI will continue to make all out efforts to adhere to the guidelines in the procurement manual.</i>

DAE has accepted the second and third recommendation made by Audit. In respect of the first recommendation, the response of DAE is not acceptable in view of the fact that BHAVINI processed only small value orders and was entirely dependent on NPCIL for high value procurement (refer para 4.1.1), which indicates that development of in-house expertise to carry out procurement activities independently was yet to be achieved.

## Uranium Corporation of India Limited

### 1.2 Contract Management

#### 1.2.1 Introduction

Uranium Corporation of India Limited (UCIL/Company) was incorporated on 4 October 1967 as a public sector enterprise under the administrative control of the Department of Atomic Energy (DAE) with the objectives of mining ore and processing the same for production of Uranium concentrate. The entire production of Uranium concentrate by the Company is purchased by the DAE. The Company has its Corporate office at Jaduguda, District East Singbhum, Jharkhand. It has seven mines and two processing plants in Jharkhand State.

#### 1.2.2 Scope of audit

Audit examined the procedures governing finalization of works/procurement contracts by the Company, tendering process, placement of purchase orders and execution of contracts. A period of four years from 2010-11 to 2013-14 was covered in audit.

#### 1.2.3 Audit objectives

Audit was conducted to assess whether:

- the Company had a well-defined policy framework for managing different types of contracts and the same was duly adhered to;

- the tendering system was transparent and ensured efficiency, economy, effectiveness and fair competition; and
- the post-contract management was effective so as to ensure compliance to the agreed terms and conditions of the contracts.

#### ***1.2.4 Audit criteria***

Audit criteria were derived from the following:

- Purchase manual of the Company;
- Terms and conditions of the contracts/ purchase orders; and
- Minutes of the meetings of Board of Directors and its sub-committees.

#### ***1.2.5 Audit methodology and sample size***

Audit was conducted on the basis of examination of records relating to works/procurement contracts entered into by the Company, collection of information through questionnaires and audit requisitions, verification of replies of the Management to the preliminary audit enquiries and discussion with the Management. The purchase orders and works contracts finalised during 2010-11 to 2013-14 for the activities in Jharkhand State were selected for audit.

Out of the 18001 purchase orders (POs) and 1921 works contracts valuing ₹ 1308.63 crore finalized by the Company during the period 2010-11 to 2013-14, a sample of 160 POs/contracts (131 POs and 29 works contracts) with aggregate value of ₹ 494.81 crore was selected for audit. The sample was selected on the basis of stratified random sampling method and consisted of 18 contracts/POs valuing more than ₹ 5 crore, 46 contracts/POs from those valuing in the range of ₹1 crore to ₹ 5 crore and 96 contracts/POs from those valuing less than ₹ one crore. The selected sample thus represented 37.8 *per cent* of the total contract value.

#### ***1.2.6 Audit findings***

##### ***1.2.6.1 Policy framework for Contract Management***

###### ***(a) Absence of works contract manual***

The activities of the Company have increased manifold since its incorporation in 1967, yet no 'Works Contract Manual' was prepared to lay down the guidelines for contract finalisation and execution, delegation of powers, post-contract management, etc. in order to ensure that the best practices, system and procedures were followed uniformly by all the units of the Company.

While accepting the audit observation, the Management stated (May 2014/January 2015) that the review of the manual was at final stage and it was likely to be placed in the Board of Directors' meeting to be held during fourth quarter of 2014-15.

**(b) Delay in commencement of e-procurement**

The Ministry of Finance instructed (March 2012) that all the Ministries/ Departments of the Central Government, their attached and subordinate offices may commence e-procurement in respect of all procurements with estimated value of ₹ 10 lakh or more in a phased manner. As per the time schedule prescribed by the Ministry of Finance, the Department of Atomic Energy (DAE) and its attached subordinate offices were required to commence e-procurement from the month of December 2012 and May 2013 respectively. The Board of Directors (BOD) of the Company decided (December 2012) to float public tender for awarding the contract for implementation of e-procurement. The purchase department of the Company, however, issued (January 2013) limited tender enquiry to three vendors without making any assessment of the scope and specifications of work. Due to incomplete details, response to the limited tender enquiry was received only from one vendor. The Company, therefore, decided (July 2013) to cancel the limited tender and float public tender containing full details in order to ensure better participation. While the procedural formalities for public tendering were in progress, the Company decided (November 2013) to explore the possibility of adopting e-tendering and e-procurement services offered by another agency, namely, M/s ITI which was already offering its services to DAE. Accordingly, the Company assigned (April 2014) the job of implementation of e-procurement which was in progress (January 2015).

Audit observed that non-assessment of the requirements and specifications of work and issue of limited tender enquiry delayed the commencement of implementation of e-procurement besides violating the decision of the BOD to float public tender in the beginning itself.

While accepting the audit observation, Management stated (January 2015) that many of the units/ departments under DAE had availed services of ITI in implementing e-procurement to maintain uniformity.

The fact, however, remains that the Company went about the implementation of e-procurement in a haphazard manner with inadequate preparatory work leading to inordinate delay as against the targeted time of implementation i.e. May 2013.

**(c) Non-adherence to time schedule for finalising purchase orders**

Audit observed delays at various stages of purchase order finalisation process as compared to the time limits prescribed in its purchase manual. The following table depicts the time taken by the Company in issuing purchase enquiries and placing purchase orders after receipt of purchase requisitions during the period 2010-11 to 2013-14:

Stage of procurement	Mode of tender	Time limit (days)	No. of cases examined	No. of delayed cases	Percentage of delayed cases	Delay range (days)	Median Delay (days)
Time taken for placement of purchase orders after receipt of	Public tender	180	47	39	83	1 to 768	121
	Limited Tender	90	67	57	85	8 to 522	73



purchase requisition	Single Tender	60	17	10	59	11 to 116	54
Time taken for the issue of purchase enquiries after receipt of purchase requisition	Public tender	30	47	30	64	4 to 757	60
	Limited Tender	15	67	52	78	1 to 280	55

As may be seen from the table, there was a median delay of 60 days and 55 days in issue of purchase enquiries for public tender and limited tender respectively. Further, the median delay in placement of purchase orders in case of public, limited and single tender was 121 days, 73 days and 54 days respectively.

Thus, out of the sample of 131 purchase orders selected for audit, there was delay in placement of 106 purchase orders with a median delay of 80 days. Audit observed that the delays in consolidation of purchase requisition, deciding the mode of tender, opening of bids and negotiations with the suppliers contributed to the overall delay in the placement of purchase orders by the Company.

Management stated (May 2014/January 2015) that efforts were being made to achieve placement of purchase orders as per the time schedule prescribed in the purchase manual.

**(d) Absence of norms for finalization of works contracts**

In order to avoid time and cost overrun, it is necessary that the contracts are finalized within reasonable time. To this end, a definite time schedule needs to be followed for completion of different stages in the finalisation of contracts. Audit observed that though the Company had prescribed a norm of 180 days in its purchase manual for finalising public tender, it did not lay down any timelines for finalisation of works contracts. Considering the norm of 180 days prescribed for finalising public tender, Audit observed that there was a delay ranging from 12 days to 541 days in finalisation of 16 out of 29 work contracts selected for Audit. The major reasons for the delay were revisions in cost estimates and scope of work, delayed provision of budget for works, refloating of tenders due to poor response, repeated changes in notice inviting tenders (NIT) before issue, etc.

Management stated (July 2013/May 2014 and January 2015) that the timelines for finalisation of the tender would be covered in the Works Contract Manual which was under draft stage and likely to be adopted soon.

**(e) Non-realisation of EPF dues from contractors**

As per Section 30(2) and (3) of the Employees Provident Fund Scheme, 1952, the contractors are required to pay to the principal employer (viz. Company) Employees Provident Fund (EPF) dues recovered from the employees engaged by him together with an equal amount of his contribution and administrative charges. Upon receipt of the EPF contributions from the contractors, the principal employer has to remit the same to the Regional Provident Fund Commissioner. Further, as per section 36-B of the Scheme, every contractor shall, within seven days of the close of every month, submit to the

principal employer a statement showing the recoveries of contributions in respect of employees employed by or through him. For ensuring necessary compliance in this regard, the work orders issued by the Company to the contractors also contained a clause to this effect.

A test check of the running account bills in case of 8 work orders revealed that the contractors did not remit the EPF dues amounting to ₹1.34 crore to the Company. However, the Company neither deducted the EPF dues from the contractors' bills nor obtained from them any proof of payment of EPF dues to the Regional Provident Fund Commissioner.

Management stated (May 2014) that instructions had been issued (May 2014) to the concerned officers for ensuring compliance to the statutory regulations. The Management further stated that in larger contracts, the Company was ensuring deposit of EPF with the statutory agency and was collecting the necessary documents.

The fact, however, remains that in case of the 8 works orders commented upon by Audit, the Company did not ensure deposit of EPF dues. Besides, compliance to statutory provisions was required in all cases of contracts irrespective of their value.

***(f) Redundant exercise of vendor rating***

The Company evaluated the performance of vendors on the basis of three parameters viz. right quality, right quantity and right delivery and accordingly assigned a numerical rating to the vendors. Based on the numerical ratings, the vendors were classified as Excellent, Very good and Good. Audit, however, observed that there was no 'Poor' rating for unsatisfactory performance and the vendors with zero numerical rating were also classified as 'Good'. Besides, the vendor ratings were done separately by each unit of the Company due to which vendors for the same item were evaluated differently by different units. Further, the entire exercise of vendor rating was futile as the ratings were not considered at the time of placement of purchase orders. Audit also observed that different vendors existed for the same items at different units due to absence of common codification in the vendor database of the Company.

Management stated (July 2013) that the vendor evaluation system developed by Tata Consultancy Services was adopted (April 2012) on trial and the system would be updated/corrected in due course of time based on the experience of this trial. Management further stated (January 2015) that the efforts to develop common codification of material were underway which would also effect vendor codification thereby improving the vendor rating system.

***1.2.6.2 Tendering system***

***(a) Non-monitoring of credentials of the bidders***

The Company issued (October 2010) a public tender for purchase of High carbon steel grinding rod. Only two bidders viz. M/s Chandi Steel Industries Limited and M/s Balaji Ispat Udyog submitted their offers. Audit observed that these two parties were associates of each other and were having their registered offices at the same place. As the two

bidders were inter-related parties, this was practically a single bidder submitting two bids and therefore the tender should have been cancelled and re-floated. However, the Company evaluated the bids separately which indicates that there was lack of monitoring in respect of the credentials of the bidders by the Company.

Management stated (May 2014/January 2015) that the procurement had been done from the lowest bidder through public tendering and as per the records available with the Company, the bidders were two different companies having separate registration and licences.

The reply is not acceptable as the financial statements of the bidders clearly indicated that the two bidders were inter-related. The Company, therefore, needed to exercise due diligence before awarding the contract.

***(b) Excess expenditure on advertisement at higher than prescribed rates***

As per clause 3 of the New Advertisement Policy (effective from 2 October 2007) of the Directorate of Advertising and Visual Publicity (DAVP), all Central Government Ministries/ Departments/attached and subordinate offices/field offices shall route their advertisements through DAVP. PSUs, Autonomous bodies and Societies of Government of India may issue all advertisements directly at DAVP rates to empanelled newspapers.

Audit, however, observed that the Company did not ask the newspaper publishers to accept DAVP rates for printing its advertisements/NITs. Instead, the Company violated the above directions and got its advertisements published through M/s Ridge Advertising and Marketing Consultants, Ranchi at commercial rates which were much higher than the DAVP rates. This resulted in extra expenditure of ₹ 6.22 crore on publishing of advertisements during the period February 2012 to October 2013.

Management stated (May 2014/January 2015) that clause 3 of the new Advertisement Policy of DAVP did not make it mandatory for the PSUs to rely solely on DAVP. Further, DAVP rates for advertisements were not made available to the PSUs by the Media House owners as the Indian Newspaper Society (INS) had issued (August 2005 and July 2006) circulars communicating that the advertisements from PSUs would be accepted only on commercial rates and not on DAVP rates.

The reply is not acceptable since it was mandatory, as per the new Advertisement Policy, for all PSUs to issue advertisements to the empanelled newspapers at DAVP rates. As the Advertisement Policy of DAVP did not mention about any exemption to the PSUs in this regard, the contention of Management is not tenable. Further, the New Advertisement Policy was effective from October 2007 i.e. after the issue of the above stated circulars by INS and therefore the policy had an overriding effect on these circulars. Moreover, the sixth Rate Structure Committee, taking cognizance of the non-compliance of new Advertisement Policy by many PSUs, recommended that the Government may issue a communication to all Ministries to advise PSUs, Autonomous Bodies and Societies under their administrative control to release their advertisements at the rate which is not higher than the DAVP rates.

### 1.2.6.3 Post-contract management

#### (a) Non-invoking of risk purchase clause

As per clause 11.3 of the purchase manual of the Company, any delay in effecting supplies by the supplier would call for invoking the penalty clause, procurement of those materials at the cost of the defaulting party and cancellation of the order ultimately with the approval of the competent authority. Audit, however, observed that in case of following two purchase orders where the supplier had defaulted in supplies of common salt at Jaduguda and Turamdih units of the Company, the aforesaid provisions were not adhered to by the Company:

Sl. No.	PO Number	PO Date	Name of the supplier	Quantity ordered (MT)	Quantity supplied (MT)
1.	2084	07.02.2012	M/s Mangalam Enterprises	2500	288.83
2.	9701	07.02.2012	M/s Mangalam Enterprises	2500	Nil

Audit further observed that the defaulted quantity of 4711.17 MT was procured from three other suppliers at an extra cost of ₹ 28.44 lakh. However, the cost was not recovered from the defaulting supplier in terms of the above clause of the purchase manual.

While accepting the audit observation, the Management stated (July 2013) that a proposal had been initiated for forfeiture of security deposit against order of Jaduguda which was likely to be finalized soon. As the party had neither deposited security deposit nor made any supply against order for Turamdih, the Company did not have any recovery measure against the default made by the supplier. An effective system to monitor purchase orders and implementation of post contract penalties would be kept in the revised version of purchase manual.

Though the Company forfeited (October 2013) security deposit of ₹ 3.41 lakh, however, no action was taken by the Management as per the risk purchase clause to recover balance amount of ₹ 25.03 lakh.

#### Conclusion

**The Company had not prepared a works contract manual even after 47 years of its formation to lay down the guidelines for contract finalisation and execution. There were delays with a median delay of 80 days in placement of purchase orders after receipt of purchase requisitions. The Company, though, had a system for assessing performance of vendors and rating them accordingly but this was not being done in a centralised manner leading to different ratings for the same item. Besides, vendor ratings were not considered at the time of placement of purchase orders. The clause in the purchase manual with regard to risk purchase was also not strictly followed by the Company.**

The implementation of the audit observations which have been accepted by the Management will be followed up in subsequent audit.

**Recommendations of audit and response of the Management**

In view of the aforesaid findings, it is recommended that the Company may consider:

<b>Recommendations of Audit</b>	<b>Reply of the Management (January 2015)</b>
➤ <i>Formulating a comprehensive works contract manual laying down guidelines and time schedule for various activities in contract finalisation and execution.</i>	➤ <i>The works contract manual has been formulated by the Company and is under finalisation for putting up before the Board of Directors.</i>
➤ <i>Developing a centralised vendor rating system for assessment of performance of vendors and utilizing such information for deciding on the award of future contracts.</i>	➤ <i>The vendor rating system is under trial stage and once the rationalization of uniform material coding is introduced, the assessment of performance of vendor will be done uniformly.</i>
➤ <i>Adhering strictly to the timelines prescribed for placement of purchase orders and other provisions of the purchase manual.</i>	➤ <i>Efforts are being made to adhere to the timeline prescribed in the purchase manual for placement of purchase order in most practicable manner.</i>

The matter was reported to the Department of Atomic Energy in December 2014; their reply was awaited (March 2015).

**Nuclear Power Corporation of India Limited**

**1.3 Procurement Contracts**

**1.3.1 Introduction**

Nuclear Power Corporation of India Limited (Company) is a wholly owned Central Government Company incorporated on 17 September 1987 under the administrative control of Department of Atomic Energy (DAE) with the objective of operating atomic power stations and implementing the atomic power projects for generation of electricity in pursuance of the schemes and programmes of the Government of India under the Atomic Energy Act, 1962. The Company is responsible for design, construction, commissioning and operation of nuclear power reactors. The mission of the Company is to develop nuclear power technology and to produce nuclear power as a safe, environmentally benign and economically viable source of electrical energy to meet the increasing electricity needs of the country. The Company is presently operating 20 nuclear power plants under seven atomic power stations with a total installed capacity of 5680 mega-watt electrical (MWe).

**1.3.2 Organisational set-up for procurement activities**

NPCIL has a separate unit under the control of Executive Director, Contract and Materials Management (C&MM) which is responsible for catering to the needs of

operating stations and also of ongoing projects in terms of procurement of machinery, materials and equipments based on requirements by sites/stations and Procurement Directorate. High value contracts (₹ 5 crore and above) for procurement including those for major power projects are entered into by C&MM, Mumbai unit. The C&MM units located at seven<sup>♦</sup> sites also enter into contracts as per financial powers delegated to them under NPCIL Headquarters instructions (July 2011). The Company does not have a manual on Contract Management. However, the codified instructions on procedures to be followed for entering into procurement contracts have been prescribed by NPCIL Headquarters through delegation of financial powers issued from time to time.

### 1.3.3 Audit Objectives

The audit was conducted during July 2013 to September 2013 to assess whether:

- the requirements were properly assessed before floating the tenders;
- tendering process ensured transparency, economy and competitiveness; and
- contractual terms and conditions were duly complied with and the contracts were executed within the schedule time.

### 1.3.4 Audit criteria

Audit criteria were derived from the following:

- Circulars/ instructions of NPCIL Headquarters on procurement of materials;
- Terms and conditions of tender documents and purchase orders/contracts;
- Delegation of financial powers;
- Milestones projected in the detailed project reports for major projects; and
- Policy/directions of Government of India on mega power projects.

### 1.3.5 Scope of Audit and sample size

Audit assessed the adequacy of the procurement systems and procedures in ensuring economy, transparency and competitiveness in procurement of materials. Audit also examined the extent of compliance to the instructions/guidelines laid down by the Company for procurement activities and fulfillment of contractual obligations by the Company. The records maintained by the CMM unit at Mumbai were examined in audit. Out of a total of 177 contracts entered into by the Company upto the year 2012-13, a sample of 33 contracts was selected on the basis of stratified random sampling method as detailed below:

Particulars	Range of value of contracts	Number of contracts		Money value of contracts (₹ in crore)		Percentage of Selection of contracts in terms of	
		Total	Selected	Total	Selected	Number	Value
Ongoing contracts including	Less than ₹ 30 crore	78	8	1173.79	181.46	10	15
	₹ 30 crore to	24	2	937.79	88.96	8	9

<sup>♦</sup> Tarapur (Maharashtra), Rawatbhata (Rajasthan), Kalpakkam (Tamil Nadu), Narora (Uttar Pradesh), Kakrapar (Gujarat), Kaiga (Karnataka) and Kudankulam (Tamil Nadu)

contracts entered into prior to 2010-11	₹ 50 crore						
	More than ₹ 50 crore	56	17	14969.70	6829.28	30	46
Contracts completed during 2010-11 to 2012-13	Less than ₹ 30 crore	14	1	221.56	12.47	7	6
	₹ 30 crore to ₹ 50 crore	1	1	30.00	30.00	100	100
	More than ₹ 50 crore	4	4	360.07	360.07	100	100
<b>Total</b>		<b>177</b>	<b>33</b>	<b>17692.91</b>	<b>7502.24</b>	<b>19</b>	<b>42</b>

The selection of contracts for audit was done with a view to ensure greater coverage of contracts having relatively high value and of those which were completed during the three years ended on 31 March 2013. The selected contracts were entered in respect of four ongoing projects viz. Kakrapar Atomic Power Project- units 3 and 4, Gujarat (KAPP 3 & 4) and Rajasthan Atomic Power Project-units 7 and 8, Rajasthan (RAPP 7 & 8); and four completed projects viz. Rajasthan Atomic Power Project- units 5 and 6, Rajasthan (RAPP 5 & 6) and Kaiga Atomic Power Project-units 3 and 4, Karnataka (Kaiga 3 & 4).

### 1.3.6 Audit findings

The audit findings have been classified under three major heads viz. Pre-tendering requirements, tendering and award of contracts, and execution of contracts, as discussed in succeeding paragraphs.

#### 1.3.6.1 Pre-tendering requirements

##### (a) Improper estimation of requirement of materials

The Company placed (March 2009) purchase orders on M/s Larsen & Toubro Limited (L&T) and Bharat Heavy Electricals Limited (BHEL) for manufacture and supply of four steam generators each for KAPP 3 and KAPP 4 respectively. The value of purchase orders for each of the two manufacturers was ₹ 345 crore. Besides, the Company also supplied free issue material (FIM<sup>♥</sup>) valuing ₹ 16.65 crore to each of them.

Both the manufacturers expressed (March 2010) difficulties in procuring certain materials and welding consumables required for fabrication of the steam generators and they had requested the Company to issue those items so that the work could be expedited. Accordingly, the CMM wing forwarded (March 2010) the list of 75 items that could be issued as additional FIM from its stores to the manufacturers and requested them to intimate their requirements. The Contractors, M/s L&T and M/s BHEL intimated (March/April 2010) the requirement of 40 items and 26 items respectively to the Company and requested for issue of these items as additional FIM. However, the wing eventually decided (July 2010) to issue only three items to each of them and the remaining material valuing ₹ 17.51 crore was retained by the Company in its stores. The

<sup>♥</sup> Free issue material (FIM) is the surplus material remaining in the inventory of NPCIL from the previous procurements and is issued to the contractors in the subsequent purchase orders by adjusting their cost in the value of purchase orders.

reasons for issue of only three items each to the two manufacturers against their requirements of 40 and 26 items were not found on record.

Audit observed that as per the Company's instructions (July 2004) the indenting officer should refer to the list of usable surplus stock items for their possible use before raising an indent. Though the Company had issued certain items as FIM while placing the purchase orders on the parties, the aforesaid instructions were not followed scrupulously as significant quantity of certain other items were also available with the Company which were neither included in the list of original FIM nor were given as additional FIM even after being demanded by the manufacturers. This resulted in unwarranted blocking of material worth ₹17.51 crore in the inventory which also entailed increased carrying cost.

The Management stated (October 2013) that as the tender was divided between BHEL and L&T, it was a considered decision that the items/materials that could be issued equally to both the manufacturers were included in the list of FIM while preparing the estimates for the tender. As majority of the items pointed out by Audit were not sufficient to be divided equally between the two manufacturers, the same were not included in the list of FIM.

The reply of the Management is not acceptable as it was evident from the list of surplus items not included in the tender, that these were available in sufficient numbers and could have been divided between the two bidders. Moreover, the instructions of the Company's Headquarters (about referring to the list of surplus items before raising indent) did not put any restrictions in case of division of order. Thus, it was not binding on the Company to divide the surplus items equally between the two manufacturers.

The Management further stated (January 2015) that though the Company's instructions did not put any restrictions in case of division of order, the indenting officer while deciding the items to be issued as FIM at tender stage considered equal availability of items for Steam Generator before giving it to the manufacturers. Further, additional FIM demanded by the manufacturers could not be issued as it was not feasible to ascertain the market prices of these materials. These materials would be considered for issue as FIM in future projects with due consideration to economy.

The reply confirms the audit observation that whole of the surplus material was not considered for FIM at the tender stage in contravention to the Company's instructions (July 2004). Further, the contention of the Management that additional FIM could not be issued due to non-feasibility of ascertaining their market price is not acceptable since cost of additional FIM was fixed by the Company after considering the market price and the same was duly intimated to the parties at the time of offering (March 2010) the list of additional FIM.

### ***1.3.6.2 Tendering and award of contracts***

#### ***(a) Non-consideration of tax element during evaluation of bids***

The Company floated (July 2009) a two-part public tender for manufacture and supply of End shield assemblies and components for KAPP 3 & 4 and RAPP 7. In respect of KAPP-4, two bidders, viz. M/s Larsen & Toubro Limited (L&T) and M/s Walchandnagar Industries Limited (WIL) were found (December 2009) to be qualified after techno-



commercial evaluation. After evaluation of price bids, the Company placed (March 2010) the purchase order on L&T who had been found to be the L1 bidder.

Audit observed that of the two technically qualified bidders, L&T was subject to higher Value Added Tax rate of 12.5 *per cent* as both the KAPP site as well as L&T's unit at Hazira were situated in Gujarat, whereas WIL was subject to a lower rate of 2 *per cent* on account of Central Sales Tax. Audit further observed that though the basic price inclusive of transportation (₹ 60.25 crore) quoted by L&T was lesser than that quoted by WIL (₹ 62.50 crore), the price inclusive of taxes quoted by L&T (₹ 68.36 crore) was higher than that quoted by WIL (₹ 63.84 crore). However, while evaluating the price bids of the two bidders, the Company did not consider tax element for comparison of prices. The non-inclusion of tax element in price bid evaluation resulted in selection of L&T as L1 bidder and consequent placement of purchase order with additional commitment of ₹ 4.52 crore (₹ 68.36 crore minus ₹ 63.84 crore).

The Management stated (February 2012) that in case of project procurement, where fiscal concessions are applicable, bid evaluation criteria were indicated in tender documents which provided that the price bid evaluation would be done on the total of summary prices (i.e., ex-works price, transportation and transit insurance). The Management also added (May 2012) that as per instructions (May 1999) of the Ministry of Power, sales tax, local levies and octroi shall not be considered for the purpose of evaluation of bids for capital goods supplied to Mega Power Projects under deemed export status.

The Management further stated (January 2015) that in case of nuclear power projects, the deemed export benefits are available in case of competitive bidding as opposed to International competitive bidding (ICB) vide paras 8.2(j) and 8.4.7 of Foreign Trade Policy 2009-14.

The reply of the management is not acceptable as the Foreign Trade Policy 2009-14 extended the status of Deemed Exports to the supply of goods to nuclear power projects through competitive bidding also as opposed to ICB provided the goods were manufactured in India. Benefits listed under the Foreign Trade Policy 2009-14 to be extended under the deemed exports were (a) Advance Authorization, (b) Deemed Export Drawback, and (c) Exemption from terminal excise duty. Further, as per the Ministry of Power's instructions (May 1999) read with DPE guidelines (August 1997), sales tax, local levies and octroi shall not be considered for the purpose of evaluation of bids only in respect of international competitive bidding. Since the tender was floated for manufacture and supply of End Shield assemblies inviting domestic manufacturers to bid, extending benefits under the Ministry of Power's Office Memorandum of May 1999 applicable to international competitive bidding was not justified.

**(b) Failure to place purchase order within price validity period**

The Company floated (May 2010) a two part public tender for procurement of 2000 modules of Phosphor Bronze Wire Mesh<sup>♦</sup> for use in KAPP 3 & 4 and RAPP 7 & 8

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<sup>♦</sup> *Phosphor Bronze Wire Mesh is used as internal packing material for distillation columns in nuclear power projects. Distillation columns are required for upgradation of isotopic purity of heavy water (used in nuclear reactor) from the downgraded heavy water.*

projects. In response to the tender, the Company received bids from five bidders. Based on the technical evaluation (July 2010), all the five bidders were found technically qualified, but they were capable of meeting only part of the requirement of the above projects. Therefore, based on the recommendations of the evaluation committee, all the five bidders were technically approved (July 2010) to deliver the quantity as per their assessed capacities, as shown below:

<b>Sl. No.</b>	<b>Name of the Bidders</b>	<b>Price per module quoted by the bidder (₹)</b>	<b>Position of the bidder</b>	<b>Number of modules recommended to be ordered</b>
1	M/s Haver Standard India Private. Limited (HSIL)	80,000	L1	1000
2	M/s Evergreen Technologies Private. Limited, Mumbai (ETPL)	1,00,884	L2	500
3	M/s Paper Machine Wire Industries (PAMWI)	1,02,500	L3	600
4	M/s Three Gee Engineers Private. Limited	1,33,525	L4	250
5	M/s Champion Manufacturing Company, Hyderabad	2,10,000	L5	250

It was further decided that the order would be placed on L1 bidder for their maximum proposed quantity followed by L2 and so on till the total requirement was met. During price bid evaluation (September 2010), M/s HSIL which had quoted the price of ₹ 80,000 per module emerged as L1 bidder. As L1 was eligible for only 1000 modules against the total requirement of 2000 modules, the Company asked L2 and L3 bidders to match the price of L1. M/s ETPL (L2) expressed their inability to match L1 price but agreed to reduce their quoted price of ₹ 1,00,884 per module to ₹ 90,796 per module. M/s PAMWI (L3) agreed to match L1 price of ₹ 80,000 per module. A committee meeting was held (September 2010) wherein it was recommended to place the purchase orders (PO) for the first 1500 modules on M/s HSIL (L1) and M/s PAMWI (L3) at L1 price and to include an option in their purchase orders for increasing the PO quantity by the remaining quantity (500 modules) after one year on the same unit rate and other commercial terms and conditions prevailing in their POs, if their performance was found satisfactory during one year. Further, if the above condition was not acceptable to the parties, order would be placed on M/s ETPL for the remaining 500 Modules at their negotiated price.

Accordingly, POs were placed (October 2010) on M/s HSIL (1000 modules) and M/s PAMWI (500 modules) at a price of ₹ 80,000 per module. Subsequent to the placement of POs, the Company requested (25 October 2010) the bidders to inform whether they agreed for supplying additional quantity of 500 modules after one year at the price of ₹ 80,000 per module. The replies from the parties were received by the Company on 8 November 2010 wherein they had expressed their inability to supply additional quantities at the same rate. On 30 November 2010, the Company requested M/s ETPL to extend the validity of their offer upto 20 December 2010, though the same had already expired on 29 November 2010. However, M/s ETPL refused (2 December 2010) to extend the validity of their offer. The Company, therefore, issued (January 2011) a single part limited tender to the above five bidders and based on the evaluation of bids, placed (May 2011) an order

on M/s Three Gee Engineers (L1) for supply of the balance 500 modules at a price of ₹ 1,06,525 per module.

Audit observed that though the Company had received intimations from M/s HSIL and M/s PAMWI on 8 November 2010 regarding their inability to supply additional 500 modules, the Company did not place the PO on M/s ETPL within the price validity period viz., upto 29 November 2010 at their negotiated price of ₹ 90,796 per module. Thus, the non-placement of PO within the price validity period at the lower price of ₹ 90,796 per module and subsequent placement at a higher price of ₹ 1,06,525 per module resulted in additional expenditure to the extent of ₹ 1.49 crore (including taxes, duties and transportation).

The Management stated (October 2013/January 2015) that the time taken was only for correspondence with M/s HSIL and M/s PAMWI to get additional supplies at the same price. Upon refusal by both the parties, option to place the order for balance quantity on M/s ETPL was exercised and letter dated 30 November 2010 was sent seeking extension of the validity of their offers at the negotiated price to which they did not agree.

The reply was not tenable as M/s HSIL and M/s PAMWI had conveyed their inability to supply the additional quantity at the same rate on 8 November 2010. Therefore, considering the fact that the offer of M/s ETPL was valid only up to 29 November 2010, timely action should have been taken to place the order for the balance 500 modules on M/s ETPL instead of placing it at a higher rate on M/s Three Gee Engineers.

***(c) Time limit for completion of tendering procedure not laid down***

Audit observed that the Company did not prescribe any time limit for completion of tendering procedure and placement of purchase order after receipt of an indent. A review of the time taken in finalisation of contracts revealed that the time gap from the date of indent to the date of award of contract ranged between 3 months to 20 months due to which the completion dates stipulated in the contracts awarded did not conform to the desired dates of delivery as given in the indents.

The Management stated (January 2015) that recommendations for time limits of different activities involved from receipt of indent to placement of purchase order had been submitted to competent authority and were under process for approval.

***(d) High variance between cost estimates and actual value of contracts***

As per NPCIL instructions (July 2011) on 'Delegation of Financial Powers', while working out the estimated cost of an item all prevailing cost elements thereof as well as market conditions such as inflation, recession, competition etc. as on the date of indent should be taken into consideration so that the estimated cost so worked out is comparable with the market price, with the given specification/quality of product.

A review of the 33 contracts selected for audit revealed that there was wide variation in estimates made and the final values of the contracts entered into by the Company. The variance of actual values as against the estimates ranged from 0.28 per cent to 78 per cent

on the lower side and 6 per cent to 71 per cent on the higher side. Thus, the purpose of the estimation of costs was not fully achieved.

The Management stated (November 2013) that estimates were made on the basis of engineering judgment, variation in the market, segment bidders, type of industry and many other factors. Due to those factors, a variation of 10 per cent to 20 per cent was expected with respect to estimated cost.

However, as the variation in 16 cases was more than 20 per cent, Audit is of the view that the cost estimation needs to be more realistic.

In response, the Management further stated (January 2015) that the concerned sections had been advised to take due care while preparing estimates.

### 1.3.6.3 Execution of contracts

#### (a) Avoidable payment of compensation due to non-release of work front

The Company placed (September 2002) four purchase orders on the erstwhile M/s BSES (now M/s Reliance Infrastructure Limited (RIL)) for supply, erection and commissioning of electrical system package for KAIGA 3 & 4 and RAPP 5 & 6 as per the following details:

Sl. No.	PO No	Project	Item	Value (₹)	Contractual date of completion
1	6043	KAIGA- 3&4	Supply	95,34,48,652	KAIGA-3 - 30.06.2006
2	6044	KAIGA- 3&4	Erection & Commissioning	10,19,13,173	KAIGA-4 - 31.12.2006
3	6039	RAPP- 5&6	Supply	86,17,42,223	RAPP-5 - 30.03.2007
4	6040	RAPP- 5&6	Erection & Commissioning	9,54,82,289	RAPP-6 - 30.09.2007

The work in respect of all the four projects was delayed as the Company could not release the work front to M/s RIL on time. Besides, the delay was also caused by non-availability of adequate manpower and other inputs by the Company. As the delay was entirely attributable to the Company, the Board of Directors (BOD) decided (March 2009) to extend the delivery dates in respect of KAIGA-3 and KAIGA-4 upto 6 May 2007 and 31 October 2008 respectively without levy of liquidated damages. Further, the BOD also approved (March 2009) payment of ₹ 1.60 crore to M/s RIL as compensation towards extended stay at work site for a period of 10 months and bank commission charges and insurance premium for the same period. Similarly, the BOD approved (February 2011) extension in delivery period for RAPP 5 and RAPP 6 upto 15 January 2009 and 12 October 2009 without levy of liquidated damages and also approved payment of ₹ 1.75 crore to M/s RIL as compensation for extended stay, bank charges and insurance premium. Thus, due to non-release of work front in time and non-supply of adequate manpower and other inputs, the Company incurred avoidable expenditure of ₹ 3.35 crore towards compensation paid to M/s RIL.

While accepting the audit observation, the Management stated (November 2013) that delay in release of the work fronts was due to delay in civil works. As the delays were

attributable to the Company, the review committee recommended the compensation payable to M/s RIL. The Management further stated (January 2015) that the concerned sections had been advised to take appropriate action in this regard in future.

**(b) Delay in execution of contracts and consequential effect on completion of projects**

The detailed project reports (DPRs) approved for RAPP 7 & 8 (December 2008) and KAPP 3 & 4 (January 2009) projected the milestones for completion of various stages of the projects. As against the milestones projected, the actual/expected time for completion of significant stages of the projects was as follows:

Milestone	Completion date as per DPR				Actual/ expected date of completion*			
	KAPP3	KAPP4#	RAPP7	RAPP8^	KAPP3	KAPP4#	RAPP7	RAPP8^
First pour of concrete	December 2009	June 2010	December 2010	June 2011	November 2010	March 2011	July 2011	September 2011
Reactor first criticality	December 2014	June 2015	December 2015	June 2016	November 2015	March 2016	July 2016	September 2016
Commence ment of commercial operation	June 2015	December 2015	June 2016	December 2016	May 2016	September 2016	January 2017	March 2017

\* Date of first pour of concrete is the actual date. Dates for subsequent stages are expected dates worked out on the basis of date of first pour of concrete.

# As per DPR, the activities of KAPP 4 would follow with a phasing of six months from those of KAPP 3.

^ As per DPR, the activities of RAPP 8 would follow with a phasing of six months from those of RAPP 7.

A review of 27 ongoing procurement contracts pertaining to the under-construction KAPP 3 & 4 and RAPP 7 & 8 projects revealed that in respect of 17 contracts, there was a delay ranging from 2 months to 24 months as compared to the contractual dates of completion. The delay in execution of the contracts would adversely affect the completion of the project with resultant loss of revenue.

The Management furnished (October 2013) the purchase order-wise reasons for the delay. It was observed from the reply that the project schedule of KAPP 3 & 4 would be delayed by 18 to 23 months and that of RAPP 7 & 8 by 15 to 20 months on account of delay in supply of End shields with reference to the contractual delivery dates (CDD) and the Master Control Network (MCN). It was also observed that in some cases, the Management justified the delay by stating that the delays in case of individual POs were expected to be lesser than project delay.

Audit, however, is of the view that as the delays in completion of the contracts would result in not only cost overrun but delayed generation of electricity and also loss of revenue. Vigorous efforts are required to be made by the Management to analyse the reasons for the delays and take remedial action promptly to ensure timely completion of the projects.

In response, the Management stated (January 2015) that the concerned sections had been advised to take appropriate action in this matter for future.

The Department of Atomic Energy endorsed (February 2015) the views of the Management.

### Conclusion

The Company did not make proper assessment of available material before floating tenders for manufacture of steam generators for KAPP 3&4 projects. As a result, material valuing ₹17.51 crore, which could be issued to the suppliers as free issue material (FIM), remained unutilised in the inventory with consequential increased carrying cost. The Company did not ensure economy in the tendering process as it did not take into consideration the impact of local taxes during evaluation of bids which resulted in additional expenditure of ₹4.52 crore. Further, non-placement of purchase order on a supplier within the validity period of price bid and subsequent release of order on a different supplier at a higher price resulted in extra expenditure of ₹ 1.49 crore. The Company had not prescribed any time frame for completion of tendering procedure after receipt of an indent which led to mis-match between the desired dates of delivery given in the indents and the completion dates stipulated in the contracts. Besides, delays ranging from 2 months to 24 months were noticed in the execution of 27 ongoing procurement contracts selected for audit.

### Recommendations of Audit and response of the Management

In view of the aforesaid audit findings, the recommendations made by Audit and the response received from the Management are as follows:

<i>Audit Recommendations</i>	<i>Response of the Management</i>
<i>➤ The Company should make proper assessments of materials available in the inventory before floating the tenders and supply such materials to the contractors with due consideration to economy.</i>	<i>➤ The usable materials will be considered for issue as fresh issue material in future projects with due consideration to economy.</i>
<i>➤ The Company should lay down a specific time frame for completion of each stage in the tendering process after receipt of an indent.</i>	<i>➤ The recommendations for time limits of different activities involved from receipt of indent to placement of purchase order have been submitted to competent authority and are under the process of approval.</i>
<i>➤ The Company should ensure strict compliance to the terms and conditions of the contracts.</i>	<i>➤ The concerned sections in NPCIL have been advised to take appropriate action in this matter in future.</i>