Chapter II

Performance Audit relating to Power Sector Undertakings

Ajmer Vidyut Vitran Nigam Limited

Performance Audit on Procurement and Inventory Management

Executive Summary

This Performance Audit covers the procurement and management of inventory in Ajmer Vidyut Vitran Nigam Limited (Company) during the period from 2013-14 to 2017-18.

Rajasthan Transparency in Public Procurement (RTPP) Act 2012

The Government of Rajasthan enacted (May 2012) RTPP Act 2012 and notified (January 2013) the RTPP Act and Rules there under. The Act repealed all the prevailing rules and regulations relating to procurement of goods, services and works. The Company, however, did not revise the Purchase Manual and Standard Bid Document as per the Act/Rules.

Assessment of requirement of material

The Company did not follow the prescribed procedure for assessment of requirement of material. The circle offices and the sub-divisions did not send work wise/sub-division wise requirement of material to the Zonal office. The Chief Engineer (Material Management) therefore invited tenders for procurement according to the adhoc requirements projected by Zonal Chief Engineer, which were not indicative of the actual requirement of field offices.

Finalisation of tenders

Review of 69 selected tenders disclosed that the Company finalised 40 tenders beyond the stipulated period of 120 days. The finalisation of tenders was delayed upto 20 months. Further, the concerned authority violated the provisions of Purchase Manual by finalising these tenders without approval of the next higher authority.

Efficiency and effectiveness in procurement of material

The Company procured prepaid energy meters without online communication facility for recharging valuing ₹13.62 crore. The Company also violated the specifications prescribed under the Government of India (GoI) order/guidelines for procurement of transformers valuing ₹1.54 crore. Further, instances where the Company accepted material ahead of the prescribed delivery schedule without assessing proper requirement and availability of stock and placed orders for supply of material on higher rates for repeat orders were also noticed.

Inventory control

The Company did not fix critical levels of inventory and neither carried out value analysis nor movement analysis of material. The storage rate was not fixed on the basis of actual expenditure incurred on storage. The Assistant Controller of Stores (ACOS) and sub-divisional stores did not maintain the record of inventory in the prescribed format. The indents submitted by the sub-divisions at all selected ACOS did not have reference of the work identification memos and the material was issued without presentation of the estimate cards. The selected sub-divisional stores did not maintain job cards, transformer movement register and material estimate card as per norms laid down.

The Company did not conduct annual physical verification of inventory at the ACOS and sub-divisional stores. The period covered under physical verification of ACOS ranged

between one and four years. In 12 out of 15 test checked sub-divisions, physical verification of stores was not conducted during the last ten years.

Idle inventory, storage, excesses and shortages and theft, fire and embezzlement

The Company accepted surplus material of ₹10.47 crore from turnkey contractors without testing of material at Central Testing Laboratory (CTL) and utilised the material without proper approval. Further, surplus material worth ₹1.24 crore remained unutilised with the Stores. The Company procured material in excess of requirement and material valuing ₹ 9.11 crore at the ACOS and sub-divisional stores was not utilised due to lack of demand from the field offices.

The ACOS and sub-divisional stores neither maintained records nor stacked the inventory as per prescribed directions. The stock verifiers pointed out unadjusted shortages of ₹ 0.96 crore and excesses of ₹ 1.11 crore as on March 2017 in physical verification reports of all the ACOS. Non-maintenance of prescribed records, lack of inspection by the competent authorities and improper storage of inventory provided opportunities for embezzlement and loss of material due to occurrence of fire. Further, the Company did not insure the material at sub-divisional stores.

Recommendations

The Performance Audit contains eight recommendations viz. (i) revision of the Purchase Manual to conform to provisions of Rajasthan Transparency in Public Procurement Act 2012 and Rules there under, (ii) streamlining the assessment of requirement of material to ensure that procurement is done as per requirements, (iii) finalising the tenders within the prescribed time frame, ensure approval of the higher authorities in case of delay in finalisation and follow the procedures as prescribed for tendering and award of contracts, (iv) strengthen the inspection and testing procedures and ensure strict adherence to the technical specifications by the suppliers, (v) adoption of inventory control techniques for efficient management of inventory and proper maintenance of the prescribed records for better control and monitoring of inventory (vi) conduct physical verification of inventory at specified intervals and take corrective action on discrepancies reported in physical verification reports (vii) implement IT based inventory management system and (viii) dispose scrap promptly.

Introduction

2.1 The electricity distribution network in Rajasthan (State) is managed by three state owned distribution companies (DISCOMs) i.e. Jaipur Vidyut Vitran Nigam Limited (JVVNL), Ajmer Vidyut Vitran Nigam Limited (AVVNL) and Jodhpur Vidyut Vitran Nigam Limited (JdVVNL).

The distribution network needs continuous augmentation with growing demand of electricity and addition of new consumers. Maintaining a large and efficient electricity distribution network requires significant outlay of funds. Further, the existing system needs regular operation and maintenance (O&M) and replacement of old equipment. Economy, efficiency and effectiveness in procurement and management of inventory minimise unwarranted procurement of material, blockage of funds in idle inventory and inventory carrying cost.

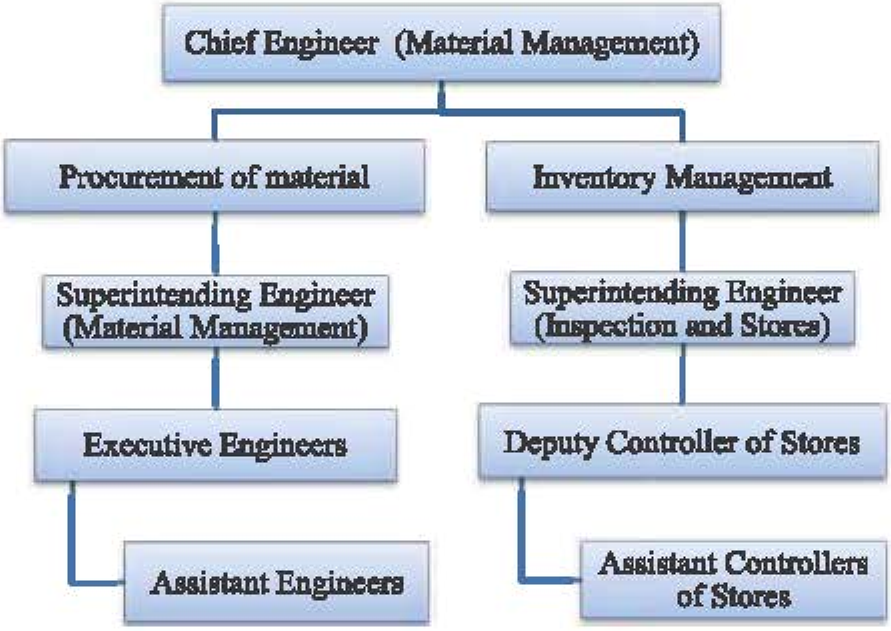
The Committee on Public Undertakings (COPU) of Rajasthan Vidhan Sabha in a meeting (14 July 2016) observed that the DISCOMs were incurring huge losses due to pilferage, theft and non-utilisation of material. The COPU suggested (25 July 2016) audit of the inventory management system of DISCOMs with emphasis on storage of material/equipment at the stores and sites, utilisation of material and disposal of scrap/obsolete material.

The present Performance Audit was conducted (November 2017 to May 2018) in respect of AVVNL (Company).

The Company incurred losses amounting to ₹ 11077.49 crore during the period 2013-18. The accumulated losses of the Company were to the tune of ₹ 29485.37 crore as on 31 March 2018. The Company incurred expenditure of ₹ 3134.14 crore on procurement of material during the period 2013-18. The closing stock of the Company on the last day of financial year ranged between ₹ 93.47 crore and ₹ 153.23 crore whereas the average inventory ranged between 1.18 and 2.70 months during the period 2013-18.

2.2 *Procurement and Inventory management functions*

The procurement and management of inventory in the Company are carried out by the Material Management (MM) Wing headed by the Chief Engineer. The MM Wing has two Circles *i.e.* Material Management (MM) Circle and Inspection and Stores (I&S) Circle. The MM Circle is entrusted with the task of finalisation of requirement and centralised procurement of material *viz.* transformers, conductors, energy meters, cable, sectionalisers *etc.* for the Company. The MM circle is headed by a Superintending Engineer (MM) and assisted by two Executive Engineers. The I&S Circle is engaged in the task of management of stores, testing of materials, inspection of stores and disposal of scrap through auction. The Deputy Controller of Stores (DCOS) was the head of the stores till July 2016. The Company created the post of Superintending Engineer (I&S) in August 2016 for supervision of stores management. The Assistant Controllers of Stores (ACOS) under the Superintending Engineer (I&S) are entrusted with the receipt and issue of material to field offices and collection and disposal of scrap material. The sub-division offices also maintain their own stores and obtain material from the ACOS. The sub-divisional stores are maintained by the Storekeepers who report to the Assistant Engineer of the sub-division. The following chart depicts the hierarchy of MM Wing of the Company:



The technical standards and commercial specifications of the items to be procured are common to the three DISCOMs and are finalised by a Technical and Commercial Specifications Committee[1]. Cases of purchase upto ₹ 50 lakh are decided by the Superintending Engineer (SE) Level Purchase Committee. Tenders having financial implication of more than ₹ 50 lakh and upto ₹ 1.50 crore are decided by the Chief Engineer (CE) Level Purchase Committee. Purchases valuing more than ₹ 1.50 crore are decided by the Corporate Level Purchase Committee[2] (CLPC) which is headed by the Managing Director of the Company. The three DISCOMs also followed a mechanism for common purchase which has been discontinued from 2017-18.

Scope of Audit

2.3 The Performance Audit covered the procurement and inventory management functions of the Company during the period from 2013-14 to 2017-18. Audit scrutiny involved detailed review of 69 tenders[3] selected out of 417 tenders finalised in the CE (MM) office on the basis of sampling. These high value tenders (₹ 1904.92 crore) comprised 60.78 *per cent* of the total purchases (₹ 3134.14 crore) made by the Company during 2013-18. The inventory management function was reviewed in four[4] out of 12 ACOS offices

1 CEs/Deputy CEs (Purchase Cell) of the three DISCOMs and CE (O&M)/ Zonal CE, Chief Accounts Officer (Internal Audit) and SE (MM/Procurement) of JVVNL.

2 The other members of the committee are Director (Finance), Director (Technical), CE (MM) and Zonal Chief Engineer (Ajmer Zone). The concerned SE (MM) and CAO (Accounts, Taxation and Budget) are also associated during discussion.

3 33 tenders valuing above ₹ 25 crore (100 *per cent* of total 33 tenders), 11 tenders valuing above ₹ 10 crore and upto ₹ 25 crore (20 *per cent* of total 54 tenders), 17 tenders valuing above ₹ 1 crore and upto ₹ 10 crore (10 *per cent* of total 173 tenders) and eight tenders valuing upto ₹ 1 crore (5 *per cent* of total 157 tenders).

4 Ajmer City, Udaipur, Chittorgarh and Sikar.

and 15 sub-division offices[5] thereunder which were selected on the basis of highest consumption of inventory during 2013-18.

Audit Objectives

2.4 The Performance Audit was conducted to assess whether:

- the system for assessing the requirement of materials was adequate;
- procurement of inventory was economical, efficient and effective;
- inventory management system of the Company was efficient and effective and
- system for physical verification of inventory was adequate and disposal of obsolete/scrap items was done promptly.

Audit Criteria

2.5 The criteria for the audit were drawn from the following sources:

- Purchase Manual, Stores Manual and office orders/circulars relating to procurement and management of inventory;
- general conditions of contracts, terms and conditions of tender agreement and work order/purchase orders;
- budget, agenda and minutes of various committees involved in procurement of material;
- Rajasthan Transparency in Public Procurement (RTPP) Act, 2012 and RTPP Rules, 2013 and
- Management information system (MIS) and other relevant records of the Company.

Audit Methodology

2.6 The methodology adopted for attaining audit objectives with reference to audit criteria consisted of:

- explaining audit objectives, scope of audit and audit criteria to the Government/Company during entry conference (February 2018);
- scrutiny of records at the Head Office of the Company, Material Management Wing, selected ACOS and sub-divisions,
- raising audit queries, seeking their replies and interaction with the management.
- discussion with the Government/Company on the audit findings during exit conference held on 6 July 2018 and

5 20 *per cent* sub-divisions out of total 76 sub-divisions under selected ACOS were selected.

- issue (September 2018) of draft Performance Audit Report to the Government/Company after incorporating the views/replies (July 2018) of the Government/Company on audit findings.

The replies furnished (October/November 2018) by the Company and Government have been duly considered in this Report.

Acknowledgement

2.7 We acknowledge the co-operation extended by the Company and its field offices and the Government of Rajasthan in conducting the audit.

Audit findings

2.8 The audit findings which broadly cover issues relating to implementation of RTPP Act 2012/Rules 2013, procurement of material and management of inventory at the level of ACOS and sub-divisional stores are discussed at subsequent paragraphs (Paragraph No. 2.9 to 2.22). These audit findings are based on our analysis of sample cases only and there is a possibility of more such cases occurring in the Company. Therefore, the Government/Company is expected to review all other cases having possibility of similar deficiencies/irregularities and required to take corrective action in those other cases also where similar deficiencies/irregularities are found.

Implementation of RTPP Act 2012/ Rules 2013

2.9 The Company followed the provisions of the Purchase and Stores Manuals of *erstwhile* Rajasthan State Electricity Board (RSEB) which was unbundled into five companies in July 2000 to regulate procurement and stores related functions. The Company amended the Purchase Manual from time to time.

Government of Rajasthan enacted (22 May 2012) RTPP Act, 2012 and notified (January 2013) the RTPP Act and the Rules 2013 to regulate public procurement which were to be effective from the date of notification. The RTPP Act, 2012 is applicable to all the Public Sector Enterprises owned or controlled by the State Government (Section 3 of the Act). Rule 86 of the RTPP Rules, 2013 repealed all the existing rules and regulations relating to procurement of goods, services or works from the date of commencement of Rules to the extent they were covered by the RTPP Rules. Section 56 of the RTPP Act 2012 allowed the Company to issue guidelines, procedures, general forms, standard specifications and manuals conforming to the provisions of the RTPP Act 2012/Rules 2013. Further, all the guidelines issued by a procuring entity under Section 56 were required to be laid before the State Legislature.

The DISCOMs Co-ordination Forum[6] (DCF) directed (February 2014) the three DISCOMs to review the Purchase Manual and to ensure that procedures stipulated therein were in consonance with the provisions/clauses of the RTPP Act 2012/Rules 2013. The DISCOMs instead of revising their respective Purchase Manuals in respect of 12 major provisions as per the RTPP Act 2012/ Rules 2013, decided (April 2016) to request the State Government to allow relaxation in six[7] of its provisions but no response was received from the State Government (May 2018). Subsequently, the Chairman DISCOMs constituted (8 August 2016) a committee to prepare/revise the Purchase and Stores Manual along with Standard Bid Document as per the RTPP Act 2012/Rules 2013. We observed that the Purchase Manual, Standard Bid Document and Stores Manual of the Company were, however, not revised (March 2018).

We further noticed that the Corporate Level Purchase Committee (CLPC) of the Company decided (April 2017) to selectively modify certain provisions[8] of the prevailing *Instructions to Bidders (ITB)* and *General Conditions of Contract (GCC)* as per the provisions of RTPP Rules 2013. The CLPC also decided that provisions specified in the RTPP Act 2012/Rules 2013, other than those specified in the ITB and GCC, would prevail as per the Act/ Rules. However, the Company did not place the matter before its Board of Directors (BOD) for required approval and in absence of ratification by the BOD, the decision of CLPC could not be implemented till March 2018. Meanwhile the Technical Specification Approval Committee (TSAC) of three DISCOMs decided (October 2017) to adopt provisions of bid security and performance security in consonance with the RTPP Act 2012/Rules 2013. The Company accordingly adopted (October 2017) the provisions of the RTPP Act/Rules in respect of bid security and performance security without seeking approval of the BOD.

Thus, the Company could not ensure revision of procurement process by adopting the twelve provisions in consonance with the RTPP Act/Rules till October 2017. Even afterwards the Company adopted selective approach to align the procurement process in consonance with the RTPP Act/Rules by adopting only two provisions. The deviations from the RTPP Act 2012/Rules 2013 are detailed in ***Annex-3.***

Government in reply stated that revision of the Purchase Manual/Store Manual/GCC along with Standard Bid Document as per the Act is under process and would be finalised shortly. Further, provisions of the Act would be adopted *in toto* after revision of these manuals/documents concerned. The Government during the exit conference (July 2018) also directed the Company that non-compliance of any provision of the Act/Rules may not be justified on the pretext of problems faced in its implementation.

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6 It is a common forum of the three DISCOMs headed by the Chairman DISCOMs and consisting of Managing Directors and other representatives from each DISCOM to discuss and take mutual decisions on common/interrelated issues.

7 Bid security, performance security, distribution of quantity among bidders, trial orders, security deposits and comparisons of rates among Rajasthan based firms and firms located outside Rajasthan.

8 Bid security, mode of guarantee, security deposit, negotiation, repeat order etc.

Vendor development and evaluation policy

2.10 Vendor development is a technique of strategic sourcing and improves the quality of product a purchaser receives from the suppliers in terms of technical parameters, price and delivery schedule of the product. As the Company spends a substantial amount of resources on purchase of material, it is expected, as part of prudent business practice, to evolve a proper vendor development policy. The policy would have helped the company to increase its vendor database and enable it to involve new vendors in procurement process. Further, the Company is also expected to evaluate performance of vendors with a view to promote reliable vendors and control/blacklist those defaulting on their contract obligations.

We observed that the Company did not formulate a formal vendor development policy which would have helped it to enhance the competition and to develop manufacturing capacity for their customized needs. We noticed that *Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL)* involved in transmission of Electricity has adopted a vendor development policy to promote new suppliers where material of specified drawings and technical particulars is accepted from a new vendor. The vendor development policy of RRVPNL spells out the procedure to be followed for selection of new vendors not meeting pre-qualification requirement, the terms and conditions for supply, erection and payments as well as procedures for monitoring performance of equipment supplied before awarding trial orders. Though the Purchase Manual of the Company provided for allocation of 10 *per cent* of the total tendered quantity in favour of eligible new bidders, the fact remains that the Company has not adopted a formal vendor development policy. The Company also did not have a vendor evaluation system to evaluate performance of suppliers.

Government in reply stated that various vendor development techniques *viz.* granting 50 *per cent* relaxation in bid security to Rajasthan based sick units, charging only 25 *per cent* of applicable bid security from the SSI units, reserving 10 *per cent* of the total tendered quantity for Rajasthan based units *etc.* were being followed during procurement of material. Besides, before issue of supply orders, assessment of capacity and capabilities of new vendors and past performance of existing vendors were also being done for evaluation of the vendors. The reply of the Company however does not indicate that a formal vendor development policy and vendor evaluation system is in place and only relaxations in applicable bid security to Rajasthan based suppliers were being allowed in compliance with the RTPP Act 2012.

Procurement of material

2.11 The Company awarded 417 tenders (₹ 3134.14 crore) for procurement of various material/ equipment *viz.* power transformers, distribution transformers, cable, conductor, energy metres (single and three phase), poles *etc.* during the period 2013-18. During review of selected tenders and ACOS, we observed shortcomings in assessment of requirement of material and non-adherence to the procurement procedure prescribed in Purchase Manual, cases of purchase of material not conforming to specifications, uneconomical purchase of material, acceptance of material ahead of delivery schedule and procurement of material without proper testing and inspection. Audit scrutiny disclosed these shortcomings in 48 tenders (69.57 *per cent*) involving money value of ₹ 65.53 crore out of 69 selected tenders (₹ 1904.92 crore) as discussed below:

Assessment of requirement of material

2.12 The assessment of requirement of materials is guided by the provisions of Stores and Purchase Manual of the Company. The Stores Manual requires the Company to prepare firm annual estimates in respect of centrally procured items. The Purchase Manual provides that item-wise annual requirement is to be finalised by the Procurement Planning and Management (PPM) Committee[9] at the commencement of the financial year. It further provides that the PPM Committee is required to consider various parameters *viz.* physical targets, budget provisions, stock position, physical balance available in the stores and at site, quantity awaited against pending orders and part quantity for subsequent year based on normal procurement and lead time for assessing requirement of material for a financial year.

The Chairman DISCOMs issued (February 2014) detailed guidelines for assessment of requirement of materials. The directions *inter alia* provided for work wise and month wise assessment of requirement of materials at sub-divisional level, compilation and review of the sub-divisional requirement at circle level and further compilation of the circle wise requirement by the Zonal CE (Ajmer Zone) and informing the assessed requirement to the PPM Committee. The assessment was to be need based and driven by the available budget. The Chairman DISCOMs subsequently directed (August 2016) that for each financial year, the work plan is to be finalised at the level of CE (Headquarters) by first week of August and the exercise of finalising requirement of materials is to be completed by September of the preceding year. Besides, milestones for each activity commencing from assessment of requirement to finalisation of tender were also prescribed.

Review of records at four selected ACOS and test check at 15[10] sub-divisional stores under the selected ACOS disclosed that the prescribed procedure for assessment of requirement of material was not followed. The circle offices and the sub-divisions could not produce documents regarding work wise/sub-division wise requirement of materials sent to the Zonal CE.

In the absence of work wise/sub-division wise assessment sheets/documents, we could not obtain assurance on:

- the adequacy of requirement of material assessed by the Zonal CE for sub-division wise operation and maintenance works and
- whether the operation and maintenance works/augmentation of distribution network were hampered due to shortage of material.

9 The members of the committee were SE (Plan), SE (Meter & Protection), DCOS, SE (MM), CAO (Accounts, Taxation and Budget), Zonal CE (Ajmer Zone) and CE (MM).

10 (i) Pushkar, (ii) Saradhana, (iii) Madhuvan, (iv) Jhadol, (v) Mavli, (vi) Bhinder, (vii) AEN (RAPDRP), (viii) Bhadesar, (ix) Dungla , (x) Badisadri, (xi) Reengus, (xii) Srimadhopur, (xiii) Laxmangarh, (xiv) Piprali and (xv) Palsana

Thus, the tenders finalised by the CE (MM) were not based on the actual requirement of field offices.

Government in their reply stated that the annual requirement of material is first compiled at circle level, then at Zonal level which is finalised at the level of Corporate office of the Company on the basis of targets for releasing new connections and construction of sub-stations and lines, balance of stock, pending supplies *etc.* Besides, consumption of material and work in progress during previous years have also been considered. However, the management of the Company during the exit conference stated that no requirement of material was obtained from the sub-divisional offices as it would not serve the purpose. Thus, the reply is not acceptable as the guidelines/directions issued (February 2014 and August 2016) by the Chairman DISCOMs were not adhered to. Further, obtaining requirement from the sub-divisional offices would enhance the reliability and accuracy of the requirement assessed.

Improper approval of requirement of material

2.12.1 The Stores Manual provides for maintenance of buffer stock to cater to emergent requirements and to guard against late delivery of materials. Further, the Purchase Manual provided that part quantity for the first quarter of the subsequent year based on normal procurement and lead time of supply should be added while approving the requirement. The Company normally added 25 *per cent* quantity for the first quarter of the next financial year and 15 *per cent* quantity for pending works. The Company while determining the final requirement of material for the next financial year, also considered the quantity of tender floated but not finalised in the current financial year.

During scrutiny of the records relating to assessment and finalisation of requirement of material, we noticed that:

- while finalising the requirement, the MM Wing considered only the balance of stock with the ACOS and did not obtain and consider the balance of stock with the sub divisions.

Thus, the Company did not adhere to the prescribed guidelines while assessing the requirement of material during the period 2013-18.

During exit conference, the Management accepted the facts and assured to consider the stock of the sub-divisions while assessing requirement of material. Government in its reply again accepted (November 2018) the facts that balance of stock at sub divisions were not considered and stated that the Company did not have much inventory at sub divisional level. The reply is not acceptable as the Company has neither developed any system nor maintained any database to assess the overall quantum of stock lying with the sub divisions in the absence of which the actual availability of stock lying with the sub divisions cannot be ascertained.

Finalisation of requirement of material

2.12.2 We noticed that annual quantitative requirement of material for the period 2013-18 was finalised by the PPM Committee in accordance with the Purchase Manual.

As per Purchase Manual the PPM Committee was to finalise the requirement keeping in view the budget provisions. Further, the Chairman DISCOMs also directed (February 2014) that the assessment and finalisation of requirement of material should be driven by budget. At the time of assessment of requirement each and every material for the sanctioned projects/ works/ operation and maintenance activities, the budget provisions (for material content) allotted for the same to the circle was to be kept in view. We, however, observed that budget of the Company was finalised after approval of the annual requirement by the PPM Committee during 2013-18 (Except for the year 2015-16). We further observed that the Company did not introduce any system to assess financial requirement for procurement of material and the budgets were approved without providing specific budget for procurement of material. Resultantly, the PPM Committee finalised only quantitative requirement and did not assess and finalise the financial requirement for procurement of the required quantity for the period 2013-17. Thus, the system of assessing requirement and preparing the budget without financial provision for material was deficient.

Government accepted the facts that the Company did not assess and finalise the financial requirement for procurement of material for the period 2013-17 and stated that the Company had started to finalize the financial requirement and allocate budget for procurement of material from the year 2017-18.

During scrutiny of records, following deficiencies which resulted in excess procurement were noticed:

- The Company issued purchase orders for procurement of different quantities of seven items during the period August 2014 to January 2016. We observed that the Company could not ensure utilisation of these items despite lapse of period upto two years (March 2018) which indicates that the assessment by the PPM committee was not realistic and resulted in blockage of ₹ 5.97 crore (March 2018) as detailed in ***Annex-4.*** Further, in several cases the guarantee period provided in respect of MCCBs lapsed before their installation.

Government accepted the facts and stated that the material was procured against the requirement finalised for various construction works for the year 2015-16 but the same could not be utilised due to implementation of most of the works through turnkey contracts. It further stated (November 2018) that most of the quantity of MCCBs procured under TN-970, had been utilized in the field and in view of consumption of previous year, quantity of MCCBs which remained unutilised was very less. However, this points to the fact that excess procurement without proper planning resulted in blockage of funds.

- The Company intimated (January 2014) JVVNL to include its share of 25150 kilometre armoured cable in procurement order for the year 2014-15 under common tender though this requirement was not assessed/finalised by the PPM Committee. After finalisation of the tender, the Company placed (August 2014) purchase orders for procurement of armoured cable and supply was to be completed by June 2015. However, after issuing purchase orders, the Company realised (August 2014) that the ordered monthly quantity was higher in comparison to the monthly field requirement and extended (June 2015) the supply period from nine months to 18 months (*i.e.* upto March 2016). Despite extending the overall supply period, the Company deferred (September 2015, August 2016 and March 2017) the supplies from time to time and imposed deferment even beyond the extended period (*i.e.* upto 26 May 2017) as requirement of cable was lesser than the stock of cable available with the Company. Thereafter, the deferment was lifted and the Company received supply of 22062 kilometre armoured cable upto June 2017. The supplier did not supply the remaining quantity (3088 kilometre) till March 2018. We observed that the Company did not seek requirement of armoured cable from its field offices, incorrectly assessed its requirement and thus ordered excessive quantity of material resulting in deferment of supply schedule by almost two years.

Government stated that the requirement of the material was initially assessed for releasing connections to consumers under '*Mukhyamantri Sabke Liye Vidyut Yojna (MMSLVY)*' and other categories to ensure implementation of the '*Sixty Days Programme*' of the State Government. It further stated that the number of targeted connections under MMSLVY however increased substantially upto March 2014 which resulted in corresponding increase in requirement and awarding of purchase orders for procurement of more cable during 2014-15 as the concerned works were planned to be executed through CLRC[11]. However, the intended quantity of cable could not be procured due to implementing the concerned works under DDUGJY [12] through turnkey contracts and resultantly several deferments were imposed. The reply is not acceptable as the requirement was initially assessed for Feeder Maintenance Program and reasons cited for the procurement that it was for implementing the MMSLVY is an afterthought. The fact thus remains that the prescribed procedure for assessing requirements was not adopted. Besides, the assessment for procurement of cable was made without proper planning and ascertaining the method of implementing the concerned works.

Finalisation of tenders

2.13 Audit scrutiny revealed that 40 tenders out of the 69 selected tenders, were not finalised in time whereas in five cases violation of norms laid down were noticed. The violations included placement of supply orders on defaulting/ ineligible suppliers (two tender cases), allocation of excess quantities against actual eligible quantity (two tender cases) and acceptance of supplies from one defaulting supplier instead of imposing debarment. The details are discussed below:

Delay in finalisation of tenders

2.13.1 Clause 22.8 of the Purchase Manual provides maximum period of 120 days from the date of opening of tenders till placement of letter of intent/purchase order for finalisation of purchase proposals. An additional period of 20 days could be allowed in cases requiring site inspection for assessing firms capabilit y and sample testing by Meter and Protection Wing. If any tender is not finalised by the concerned authority within the prescribed period then the same would have to be approved by the next higher authority.

11 Central Labour Rate Contract
12 Deen Dayal Upadhyaya Gram Jyoti Yojna

The concerned authority has to mention reasons for non-finalisation of tender within the stipulated time period while recommending tender to the next higher authority.

Review of 69 selected tenders disclosed that the Company finalised 40 tenders beyond the stipulated time period of 120 days as detailed under:

Range of Delay	**Number of tenders finalised with delay**
Upto one month	11
From one month to two months	6
From two months to three months	8
From three months to six months	9
From six months to 20 months	6
Total	**40**

Further analysis of 15 tenders with delay exceeding three months revealed that eight tenders were finalised by the Company itself whereas in remaining seven tenders, the assessed requirement was communicated to other DISCOM (JVVNL or JdVVNL) for procurement under common purchase. During review of records relating to these 15 tenders, we observed that:

- In case of eight tenders finalised by the Company, the delay was mainly due to delay in evaluation of technical bid, delay in opening of price bids and its evaluation, time taken for negotiations and issue of repetitive counter offers, time allowed for removal of deficiencies in tender documents and submission of pending documents *etc.*
- In remaining seven cases finalised by other state DISCOM, the tendering process was completed with delays ranging from three months to 20 months. We observed that despite abnormal delay, the Company did not pursue the matter with these DISCOMs to finalise the tenders on time.
- The concerned authority violated the Purchase Manual by finalising these tenders beyond stipulated schedule of 120 days without approval of the next higher authority.

Government accepted that finalisation of tenders was abnormally delayed upto 2016-17 due to shortcomings in documents submitted by bidders and lengthy process of giving repetitive counter offers. It further stated that the best practices had been adopted for ensuring timely finalisation of tenders from 2017-18 onwards and resultantly, most of the tenders were finalised in time during 2017-18. However, the reply was silent on the issue of not obtaining requisite approval from the next higher authority in cases where the tendering procedure could not be finalised within the prescribed time period.

Award of contract/ excess quantities to defaulting/ ineligible suppliers

2.13.2 Clause 1.24 of the General Conditions of Contract (GCC) provides that the time and date of delivery specified is the essence of the contract and supplies are required to be completed within the specified schedule. Further, the delay in delivery and non-supply of material is to be regulated/ dealt as under:

- in cases where the vendor complied with the contractual formalities but did not commence supplies on the date of opening of technical bid of the subsequent tender and schedule delivery period of the old order had already expired, the Company is entitled to levy maximum recovery on account of delay in delivery along with severing the business relations for a period of two years from the date of issue of order or in next two bids whichever is later.

- in cases where the successful bidder entered into contract and commenced supplies but could supply upto 50 *per cent* of the ordered quantity on the date of opening of technical bid of subsequent tender, the bid of such bidder in next bid is not to be opened for that particular item and/ or the concerned firm can be debarred for one year/ next tender for that particular item.
- in cases where the successful bidder failed in supplying complete ordered quantities although it had supplied more than 50 *per cent* of the ordered quantities on the date of opening of technical bid of subsequent tender, bid of such bidder is to be considered responsive in subsequent tender for the same rating and accordingly processed further. In case, the bidder is found eligible for quantity allocation, then the quantity equal to the pending quantity in previous tender for that item is to be deducted in the subsequent tender.

During scrutiny of records, following instances were noticed where the Company awarded contract/excess quantities to defaulting/ ineligible suppliers in violation of above mentioned norms:

Awarding of supply contract to defaulting supplier

The Company severed (August 2015) business relations with M/s Fatehpuria Transformers and Switchgears Private Limited (Supplier) for a period of two years due to non-supply of ordered quantity of transformers under TN-2119. While considering the recommendations of Techno-commercial Bid Evaluation Committee for subsequent tender (TN-966), the CLPC decided not to open the price bid submitted by the supplier and opened (2 September 2015) price bids of other bidders found eligible by CLPC. Later, the Company realised that the severment order was issued to the supplier without issuing show cause notice to him. Therefore, the Company withdrew the severment order and issued show cause notice to the supplier. After following the due procedure the CLPC decided (2 December 2015) to continue the severment of the supplier. However, in the meantime the Company had also opened (6 October 2015) the price bid of the supplier. The Company placed (12 December 2015) purchase orders on other eligible suppliers. On the request of the supplier, the Board of Directors (BOD) decided (February 2016) to restore the business relations considering that severing of business relations would be a harsh penalty as the supplier had earlier expressed (January 2014) its willingness to supply the quantity of the previous order. As per decision of the BOD, the Company issued (April 2016) letter of intent to the supplier for supply of 100 power transformers (3.15 MVA) under TN-966.

We observed that price bids of the supplier were separately opened in October 2015 by withdrawing the severment order. However, price bids of all the eligible bidders for a tender are required to be opened simultaneously and there was no provision regarding opening of price bids on two different dates. Further, the BOD restored business relations with the supplier despite the fact that the supplier had not commenced supply and expressed (January 2014) its willingness to supply the ordered quantity after lapse of more than one year from expiry of original schedule (November 2012). The matter was placed before BOD with further delay of more than two years which made the willingness of supplier to supply the material under the old tender (TN-2119) irrelevant. Thus, decision to revoke the severment order was not justified. Further, undue restoration of business relations resulted in placement of supply order of ₹ 19.50 crore in favour of the supplier.

Government accepted the facts and stated that the price bid of the supplier was opened in view of decision of the CLPC for withdrawing the order of severing business relations as those orders were issued without ensuring proper procedure. It further stated that the BOD restored business relations with the supplier considering severement as a harsh penalty as the supplier was willing to supply the ordered material.

The reply is not acceptable as the initial severment order was withdrawn only to ensure severment of business relations through proper laid down procedure. Further, while opening the bid, the Company was well aware that the supplier was technically disqualified due to poor performance in previous tender and opened the price bid separately without any provision of opening price bids on two different dates. Besides, the decision of restoring business relations with the supplier was not in order in view of the fact that the supplier expressed its willingness to supply the ordered quantity after more than one year from expiry of the prescribed schedule.

Awarding of excess quantities to defaulting suppliers

Two suppliers (M/s Fatehpuria Transformers and Switchgears and M/s Nucon Switchgears) did not supply complete ordered quantity of 3.15 MVA power transformers under TN-2196 as the supply of 20 and 10 transformers respectively were pending at the time of opening (3 June 2015) of technical bids of subsequent tender (TN-966). Similarly, two other suppliers (M/s Rajasthan Metals and Chemicals Industries and M/s Rajasthan Metals Industries) did not complete the supply of the ordered quantity of 16 kVA distribution transformers under TN-2217 as supply of 300 and 200 transformers respectively were pending at the time of opening (12 May 2016) of technical bids of subsequent tender (TN-1052). We observed that in both the cases, the Company did not consider reduction of quantity for placement of order under subsequent tender to the extent of pending supplies towards earlier tenders and placed orders on the defaulting suppliers for excess quantity in subsequent tenders in violation of provisions of Clause 1.24 of GCC. Thus, the supply orders of ₹ 7.80 crore[13] were placed on these four suppliers in excess of actual eligible quantity.

Government in reply accepted that in case of two[14] suppliers, the allocated quantity had not been reduced to the extent of pending quantities against previous tender (TN-2196) due to non-availability of suppliers with sufficient offered quantities. It further stated that in case of another two[15] suppliers, allocation of quantities was made considering the previous tender (TN-981) where bidders had not defaulted on the supplies ordered. The reply was not acceptable as the pending quantities under another previous tender (TN-2217) were also to be considered for deduction in the subsequent tender which was not done.

Awarding of supply contract to ineligible supplier

M/s Fatehpuria Transformers and Switchgears Private Limited (Supplier) defaulted in supply of 5 kVA distribution transformers under two tenders as the supplier supplied only 117 transformers against ordered quantity of 1000 transformers under first tender (TN-1192) and did not commence supply under second tender (TN-1203). Considering the defaults, the supplier was designated (11 September 2017) as non-responsive for opening of price bids for 5 kVA transformers under subsequent tender (TN-1147) due to part/non-supply of ordered quantity despite expiry of delivery schedule on the date of opening of technical bid of subsequent tender. We noticed that the supplier was however considered as responsive bidder for opening of price bids for 10 kVA transformers under the subsequent tender (TN-1147) and 16 and 25 kVA transformers under the subsequent tender (TN-1149). The Company placed (October 2017) orders for supply of 10 and 25 kVA transformers for ₹ 0.89 crore and ₹ 1.48 crore respectively.

We observed that default in supplying one type of transformer by the supplier was not considered and instead of severing business relations with the supplier for a period of two years, the Company extended undue advantage to the supplier by placing supply orders worth ₹ 2.37 crore under subsequent orders for other categories of transformers[16] in violation of laid down norms. We also observed that the delivery schedule of both the supply orders (10 and 25 kVA transformers) placed in October 2017 expired in April 2018. Despite this, the supplier

13 Supply order of ₹ 5.85 crore towards 30 power transformers (3.15 MVA) @ ₹ 19.50 lakh per transformer and Supply order of ₹ 1.95 crore towards 500 distribution transformers (16 kVA) @ ₹ 39000 per transformer.

14 M/s Fatehpuria Transformers and Switchgears and M/s Nucon Switchgears

15 M/s Rajasthan Metals and Chemicals Industries and M/s Rajasthan Metals Industries

16 10 kVA, 16 kVA and 25 kVA

did not commence supply against these supply orders till May 2018.

Government in reply stated that instead of taking instant action against the defaulting supplier, it was considered appropriate to wait for availing the supplies with delay in view of time taking process of severment and limited number of suppliers. It further stated that due to supplying only 384 transformers under TN-1203, the supplier has been debarred (July 2018) for one year or next tender whichever is later. The fact thus remains that the defaulting supplier was extended undue advantage in violation of the laid down norms by placing supply orders worth ₹ 2.37 crore under subsequent tenders (TN-1147 and 1149).

Efficiency and effectiveness of procurement process

2.14 According to the procedures laid down the technical committee finalises technical parameters/ specifications of the material suitable for the existing distribution network. The technical specifications of various types of material are included in the tender documents and purchase orders. Both the supplier and the Company are required to ensure that the material conforms to the prescribed specifications. The Company conducts inspection and testing of material for ensuring supply of material as per prescribed specifications.

Procurement of material not conforming to the specifications

2.14.1 During review of records, following instances were noticed where the Company procured material without required facility and violated the specifications prescribed under the GoI order/guidelines for procurement of transformers as discussed below:

Procurement of energy meters of obsolete technology

The Financial Restructuring Programme 2012 (FRP) of the GoI required the DISCOMs to ensure prepaid metering[17] of all the Government and large consumers who have not paid their dues by March 2013. JVVNL invited (February 2015) common tender (TN-2297) for procurement of prepaid energy meters (three phase) and placed (August 2015) order for supply of 14334[18] prepaid energy meters (three phase) for ₹ 13.62 crore on Secure Meters (supplier) at the rate of ₹ 9500 per meter. The Company had also placed (August 2014) supply orders for purchase of 11639 single phase meters under TN-2193.

We noticed that these meters were required for Government connections (including Public Health and Engineering Department (PHED)) however, these meters could not be installed due to several[19] constraints. The meters also did not have online communication feature for re-charging. This resulted in automatic disconnection of electricity supply which caused unrest among the public. Therefore, the State Government decided (February 2016) not to install these prepaid energy meters at PHED connections.

The supplier had delivered 8752 meters upto April 2016 against the reassessed requirement of 5576 meters[20] in May 2016 and 2000 meters in June 2016 subject to imposing deferment on remaining supplies. Later, the CLPC (July 2016) decided to install these meters for domestic, non-domestic and temporary connections also and lifted deferment imposed on supply of remaining 3582 meters[21] and allowed supply of remaining meters. Thus, the Company accepted supply of entire ordered quantity upto November 2016. Meanwhile, a Committee was also formed (July 2016) by JVVNL to examine the justification and methodology for

17 It stands for a system of installing prepaid meter at the premise of consumer which will allow supply of energy to the premise of consumer to the extent of prepayment made on account of the energy to be consumed by the consumer.

18 This indicates the quantity allocated by JVVNL for the Company.

19 PHED connections were installed in super transformers having welded box, lack of requisite direction regarding installation of customer interface units and space constraints in PHED meter boxes.

20 This depicts requirement of prepaid energy meters for the Government connections (excluding for drinking water and Public Street Lights).

21 Total ordered quantity (14334 meters) – Already supplied quantity of 10752 meters (8752 meters + 2000 meters).

installing prepaid meters. The Committee observed (August 2016) that the prepaid meters were of obsolete technology.

We noticed that as per initial proposal, the prepaid energy meters were to be installed for connections to the Government and large consumer only. In view of the State Government decision (February 2016) to exclude PHED from the scope, the Company should not have accepted further supplies as it had already accepted supply of 8752 meters against revised requirement of 5576 meters. However, the Company ignored these facts and accepted supply of entire ordered quantity. We also observed that the Company could install 10276 meters whereas remaining 4058 meters valuing ₹ 3.86 crore were lying in the Stores as on January 2019. Thus, the Company could not ensure utilization of these meters which were based on obsolete technology.

Similarly, the Company procured 11639 single phase meters from the supplier at the rate of ₹ 4832 per meter under another tender (TN-2193) upto December 2015. The Company however, could install only 7264 single phase meters whereas remaining 4375 meters valuing ₹ 2.11 crore were lying in the Stores as on January 2019. We also observed that the Company incurred unfruitful expenditure of ₹ 42.76 lakh by installing 829 of these meters[22] at its own premises in violation of provisions of the FRP 2012.

Government in reply accepted the facts that these prepaid meters were procured under FRP 2012 as per specifications however, only 50 *per cent* of the prepaid meters could be utilised as it was decided (February 2016) not to install these prepaid meters at government offices/buildings. It further stated that the decision of installing these prepaid meters at other category of consumers could not be implemented due to resistance by them. The Government further stated that easy procedure for online recharge of such meters has been commenced from May 2018. The reply was however silent on the issue of obtaining supplies despite taking decision for non-installation of these prepaid meters on various government offices/buildings. The reply was also silent on the issue of utilising such meters at the premises owned by the Company.

Procurement of transformers in violation of the GoI order/guidelines

The Electrical Transformers (Quality Control) Order, 2015 issued (May 2015) by the GoI provided for manufacturing of transformers only after obtaining a valid license from the Bureau of Indian Standard (BIS). It also provided for categorization of transformers into different levels (i.e. level-1 to 5) of energy efficiency which were to be determined on the basis of adherence to the prescribed limits of maximum permissible total losses at 50 *per cent* and 100 *per cent* loading levels of transformer. This order was applicable for all cases where the supply orders were placed on or after 1 February 2016. We noticed that the Company placed (April 2016) an order for supply of 250 transformers of 25 kVA on M/s Vijay Electricals (supplier). The supply order specified maximum total losses of 100 watts at 50 *per cent* loading of 25 kVA transformer under level-1 of energy efficiency. We observed that as per Electrical Transformers (Quality Control) Order, 2015, maximum permissible total losses for 25 kVA transformer were specified as 111 to 125 watts and 96 to 110 watts at 50 *per cent* loading for energy efficiency level-1 and level 2 respectively and the transformers ordered were covered under level-2 category. We further observed that the supplier had BIS certificate/license for manufacturing of level-1 transformers only. Thus, the Company awarded the work order worth ₹ 1.54 crore to ineligible supplier in violations of the GoI order/guidelines.

Government stated that supply of the transformers was accepted as per the specifications prescribed under the supply order and after obtaining the BIS certificate/license from the supplier. It further stated that the material fulfilled the condition of level-1 of energy efficiency as the losses at 50 *per cent* loading were covered under both levels *i.e.* level -1 and level-2 of energy efficiency. The reply is not acceptable as the losses prescribed for 50 *per cent* loading (100 watts) were covered under level-2 of energy efficiency and the supplier was accordingly required to obtain BIS certificate for level-2 also. It is worthwhile to mention that during the exit conference, the Department (Energy) accepted the observation and directed for ensuring compliance of load losses at both the levels.

22 This includes 771 single phase and 58 three phase meters.

Uneconomical procurement of material

2.15 The authorities associated with the procurement process or directly responsible for facilitating procurement of material are expected to take effective measures to ensure that the material procured are as per prescribed specifications, prices are reasonable, procurement matches the required quantity and collusion of bidders is minimised. Further, procurement in advance/ excess of requirement is to be avoided to ensure proper utilisation of available funds.

During review of records, following instances were noticed where the Company had accepted material ahead of the prescribed delivery schedule without assessing proper requirement and availability of stock and placed orders for supply of material at higher rates:

Acceptance of supplies ahead of delivery schedule

The Company placed (21 April 2016) order on Ahmedabad works of Stelmec Limited (supplier) for supply of 906 VCB kiosks under TN-2318 (common tender finalised by JVVNL). As per the order, the supply of kiosks was to commence from 21 June 2016 and to be completed within a period of 10 months from commencement of supply (i.e. by 20 April 2017) at the rate of 91 VCB kiosks per month. The order further provided that 90 *per cent* payment towards each consignment was to be made on supply of kiosks whereas remaining 10 *per cent* payment was to be released on installation of these kiosks.

It was noticed that the Company accepted supply of 500 kiosks from the supplier upto August 2016 against scheduled supply of 182 kiosks without recording any reasons. The supplier further offered (August 2016) to supply another 300 kiosks which was initially not accepted due to deferment imposed (August 2016) in the case. Later, the CLPC decided (September 2016) to accept supply of 300 kiosks offered by the supplier on apprising that the Company had stock of only 133 kiosks against requirement of 354 kiosks. After approval of CLPC, the supplier supplied another 300 kiosks on 27 September 2016. Thus, the Company accepted supply of 436 kiosks[23] valuing ₹ 11.32 crore[24] (*i.e.* 88.30 *per cent* of the ordered quantity of 906 kiosks) ahead of the prescribed delivery schedule and released ₹ 10.19 crore (*i.e.* 90 *per cent* of ₹ 11.32 crore) towards the supplies made ahead of schedule upto September 2016.

We observed that the Company accepted supply of subsequently offered kiosks (300 kiosks) on the basis of incorrect assessment of requirement as the stock of 378 kiosks lying with the sub-divisional stores (August 2016) was not considered in computation of available stock. Thus, the Company accepted further supply ahead of its schedule despite having availability of sufficient stock (511 kiosks) against the assessed requirement (354 kiosks) which resulted in awarding early release of ₹10.19 crore to the supplier. Further, the warranty period of these kiosks lapsed to the extent of delay in installation.

Government in reply stated that supply of VCB kiosks was accepted ahead of delivery schedule for replacing old and obsolete VCB kiosks under sub-stations improvement program and installing the kiosks at new substations. It further stated that stock of subdivisions was not considered as the same were under commissioning. The fact however remains that supply of VCB kiosks was accepted ahead of the prescribed schedule without assessing the capacity of simultaneous installation of these kiosks with a result the 436 supplied kiosks were lying without being installed from 31 to 541 days.

Procurement of material at higher rates

The Company placed (June 2015) orders on two suppliers[25] for supply of three lakh single phase static meters at the rate of ₹ 740 per meter under TN-2298 (common tender finalised by JVVNL). The supply was made within the stipulated schedule. Meanwhile, JVVNL

23 Total supply accepted (800 kiosks) – scheduled supply for initial fourth months ended on 21 October 2016 (364 kiosks)

24 436 VCB kiosks at the rate of ₹ 259694.58 per unit

25 1.50 lakh meters each by HPL Electric and Larsen and Toubro Limited

commenced (May 2015) the process of inviting subsequent common tender (TN-2317) for procurement of 17.70 lakh[26] single phase static meters. Due to delay in finalisation of subsequent tender and emergent requirement of meters, the Company placed (December 2015) repeat orders on both the suppliers for supply of 1.50 lakh meters (i.e. 50 *per cent* of the original ordered quantity) at the rate finalised under TN-2298. Both the suppliers supplied the additional ordered quantity by March 2016. Meanwhile, the price bid of subsequent tender (TN-2317) was opened (28 March 2016) and orders were placed (April 2016) for supply of meters at the rate of ₹ 687 per meter under this tender.

We noticed that when the company decided to place the repeat orders, the tendering process of subsequent tender was already in progress as the technical and price bids were submitted in August 2015 but price bid was not opened till December 2015. Therefore, the Company could have protected its financial interest by inserting a condition in the repeat orders that payment would be made at the lower of the prices in current tender (TN-2298) and subsequent tender (TN-2317). We observed that the Company did not protect its financial interest and incurred avoidable expenditure of ₹ 79.50 lakh by paying higher rate for supplies under repeat orders.

Government accepted the facts that the repeat orders were placed due to acute shortage of single phase meters. It further stated that there were urgent requirement to procure single phase meters for replacing the defective meters to avoid burden of rebate which would have to be given to consumers on account of delay in replacement of meters. However, the audit observation which highlighted that the repeat orders did not consist any condition for restricting the prices within the limits of subsequent tender on receipt of lower prices under the subsequent tender, was not addressed in the reply.

Non-initiation of penal action against defaulting suppliers

2.16 Clause 1.24 of the GCC provided that the delay in delivery, non-acceptance of order awarded on pre-accepted prices and terms and conditions and non-execution of agreement is to be regulated/ dealt as under:

- in case of delay in delivery, penalty at the rate of 0.25 and 0.50 *per cent* per week or part thereof for delay upto four weeks and beyond four weeks respectively is to be charged subject to a maximum of five *per cent* of delayed/unexecuted supply.
- In cases where the supplier does not accept the order awarded on the accepted prices and terms and conditions and does not comply with contractual formalities, action is to be taken against the defaulting supplier by way of forfeiture of EMD/cancellation of its vendor registration along with severing the business relations for a period of three years from the date of issue of order.

Clause 1.59 provides that in case the supplier fails/neglects to observe/perform its obligations under the contract, the Company is authorized to forfeit the security deposit at its discretion.

During scrutiny of records, instances were noticed where the Company did not take action to recover penalty and forfeit security deposit for delay in delivery/ non-commencement of supplies and sever business relations with the suppliers where the supplier did not accept order awarded on its accepted prices and terms and conditions besides not executing supply agreement.

26 This includes procurement requirement of 6.1 lakh for the Company

Non-levy of penalty for default in supply of material

2.16.1 In four[27] cases, the suppliers made part supplies against the ordered quantity whereas in one case (Indo Alusys Industries Limited under TN-4519), the supplier did not commence supplies despite expiry of delivery schedule. Thus, in all the five cases, the suppliers violated the contractual obligations by delaying the delivery of ordered material/non-commencing supplies.

We observed that in four[28] cases, the Company did not recover penalty of ₹ 1.01 crore for delayed/unexecuted supplies besides not forfeiting the available security deposit of ₹ 0.46 crore. In one case (Hindustan Petroleum Corporation Limited under TN-934 for supply of transformer oil), the Company waived penalty of ₹ 32.28 lakh leviable for delay in delivery besides non-forfeiture of security deposit of ₹ 16.40 lakh.

Government accepted the facts and stated that one of the defaulting supplier *i.e. Indo Alusys Industries Limited* has made (April 2018) part supply under TN-4519 against the ordered quantity after the issue of show cause notice in this regard. The supplier however did not supply further quantities due to which another show cause notice has been issued (June 2018) to the supplier and the Company assured to take required action against the supplier. Further, the reply was silent on the issue of not initiating any action against this supplier for its defaults in supplying the ordered material under TN-4448. In case of another defaulting supplier *i.e. Easun Reyrolle Limited* who had made part supplies under TN-2169, Government stated (November 2018) that the Company had issued cancellation order for the unsupplied quantity and finalised the penalty recoverable towards delay in supply and unsupplied quantity. However, status of final recovery/adjustment of penal amount is awaited. **(November 2018)**

In case of *Hindustan Petroleum Corporation Limited,* Government stated that the management of the Company waived the applicable penalty of the supplier concerned being a public sector undertaking of the GoI and considering that the requirement of transformer oil was fulfilled from the firms appointed for repairing the transformers. The reply is not acceptable as the GCC and purchase order provided for levy of penalty on the supplier for delay in supply and imposing of penalty which cannot be linked to alternate arrangement of supply, therefore waiver of the applicable penalty merely due to the supplier being a GoI entity, was not justified.

In case of *Bharat Heavy Electricals Limited*, the Government stated (November 2018) that the Company had issued cancellation order for the unsupplied quantity and finalised the penalty recoverable towards delay in supply. However, status of final recovery/adjustment of penal amount is awaited. **(November 2018)**

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27 Indo Alusys Industries Limited (TN-4448), Hindustan Petroleum Corporation Limited (TN-934), Easun Reyrolle Limited (TN-2169) and Bharat Heavy Electricals Limited (TN-2207)

28 Applicable amount of penalty for delay/ non-supply and forfeiture of security deposit were ₹ 31.32 lakh and ₹ 14.91 lakh respectively for Indo Alusys Industries Limited (TN-4448), ₹ 26.74 lakh and ₹ 12.72 lakh respectively for Indo Alusys Industries Limited (TN-4519), ₹ 17.85 lakh and ₹ 6.91 lakh respectively for Easun Reyrolle Limited (TN-2169) and ₹ 25.44 lakh and ₹ 11.91 lakh Bharat Heavy Electricals Limited (TN-2207).

Non-severing business relations with the defaulting suppliers

2.16.2 The Company placed following orders for supply of material to the concerned suppliers under common tenders finalised by JVVNL/JdVVNL:

Tender (TN) No.	Supply item	Name of Suppliers	Ordered quantity (KMs)	Date of supply order
4559[29]	LT XLPE cable	Rajasthan Transmission Wire Private Limited (RTWPL)	1000	June 2017
		Rajasthan Transformers & Switchgears Limited (RTSL)	900	
1207[30]	ACSR weasel conductor	Bansal Conductors Private Limited (BCPL)	3571.50	July 2016

We noticed that in all the three cases, the suppliers initially accepted the letters of intent (LOIs) placed by the respective DISCOM (JVVNL/JdVVNL) which finalized the common tender. However, these suppliers did not execute the agreement for supply of ordered material with the Company.

We observed that in case of TN-4559, the Company belatedly served (December 2017) show cause notice (SCN) on both the suppliers (RTWPL and RTSL) for severing the business relation for a period of three years along with forfeiture of EMD/Cancellation of vendor registration. RTWPL did not respond to the SCN till March 2018 whereas RTSL submitted (January 2018) that it had agreed to supply material for JVVNL and JdVVNL only. However, JVVNL had already clarified (22 May 2017) that in case of common tender the bidder was to quote for supply to all the three DISCOMs. Further, as per governing specification purchaser reserves the right to distribute quantity among three DISCOMs in the ratio of their requirement and accordingly LOIs were issued.

We further noticed that in case of TN-1207, BCPL requested (November 2016) to cancel the purchase order without any financial liability on personal grounds. The Company rejected (17 February 2017) the request and served (27 February 2017) show cause notice (SCN) on BCPL for severing the business relation for a period of three years along with forfeiture of EMD/Cancellation of vendor registration. In response, BCPL submitted (March 2017) that it had not accepted the counter offer given by JdVVNL. However, JdVVNL clarified (May 2017) that BCPL had accepted the counter offer on 13 June 2016.

We observed that the Company did not take any further action (till March 2018) for severing the business relations with these three defaulting suppliers for a period of three years as provided under relevant clauses.

Government in reply stated that after issuing the show cause notices, RTWPL and RTSL requested to cancel the order or revise the delivery schedule and to cancel the allotted quantity respectively. As the supply rate under this tender (TN-4559) was lower than the subsequent tender, the delivery period of RTWPL was extended and RTWPL supplied 22.360 KMs cable against the ordered quantity whereas issue of cancellation of quantity allotted to RTSL was pending before the settlement committee of three DISCOMs. It further stated that in case of BCPL, the CLPC has decided (July 2018) to cancel the

29 Common tender finalised by JVVNL.
30 Common tender finalised by JdVVNL.

ordered quantity along with forfeiture of EMD or cancellation of vendor registration to recover the EMD amount. The fact thus remains that despite non-commencement of supplies, action for severing business relations against RTSL and BCPL was not taken even after lapse of seven months and 17 months respectively from the date of issuing SCN to these suppliers whereas the delivery period of RTWPL was extended in violation of laid down norms. Further progress in all the three cases is awaited. **(November 2018)**

Inspection/ testing of material

2.17 The inspecting authorities of the Company were required to ensure that materials offered by the suppliers conform to the required quality and specifications. Further, the items were to be accepted after required testing in the designated laboratories. In case of transformers, the purchase orders issued by the Company provided that one transformer out of every lot[31] or part thereof was to be selected for measurement of total losses[32] at 50 *per cent* and 100 *per cent* loading at rated voltage. In cases where the total losses were found to be more than 10 *per cent* of specified losses at 100 *per cent* loading, then apart from rejecting the concerned lot, the firms balance order would be cancelled. Further, the concerned supplier would not be awarded any order for one year or in the next tender of the same rating to be opened/finalized whichever is later.

During scrutiny of records, we noticed instances where the Company procured material without proper inspection and testing and utilized the sub-standard material instead of taking prompt action against the concerned suppliers. Details are as follows:

Acceptance of transformers without ensuring prescribed testing

2.17.1 We noticed that the Company did not ensure required testing of transformers in following cases:

- The Company placed (January 2017 and February 2017) repeat purchase orders on two suppliers (Anupam Udhyog and Mor Transformers) for procurement of 1000 transformers (16 kVA) each under TN-1052. We observed that the Company accepted supply of 126 transformers in 13 lots without selecting any sample for testing from these lots.
- The Company placed (May 2014) purchase order on Hardik Transformers Private Limited under TN 2218 for supply of 292 transformers (25 kVA three phase). We observed that the Company did not select any sample from five[33] lots of 10 transformers each.

Thus, the Company accepted supply of 176 transformers valuing ₹ 70.45 lakh without testing these according to the laid down prescribed parameters and technical standards. The Company does not maintain transformer wise details

31 A lot consists 25 or 10 transformers as specified in the concerned purchase order.

32 It depicts the level of energy losses of the transformers at 50 *per cent* and 100 *per cent* loading of its rated capacity.

33 Serial number 2195-2204, 2225-2234, 2245-2254, 2295-2304 and 2325-2334

of performance and hence, audit could not examine the failure rate of such transformers.

Government stated that samples for testing of the lots were selected as per sampling plan specified in the purchase order. The reply is not acceptable as the method adopted for selection of samples was defective as it could not draw sample from each lot of transformers as per provisions of the purchase order and some lots were totally left out.

Non-cancellation of supply/ Non-debarment of the defaulting supplier

2.17.2 We noticed that the Company did not take action against the defaulting supplier despite the transformers failing the required tests conducted by the CTL in following cases:

- In case of Kalpana Industries (Supplier), a particular lot of 25 kVA transformer was certified (29 May 2014) as failed during testing at the Central Testing Laboratory (CTL) on the ground that the total losses recorded under the sample test (395.50 watts) were in excess of ten *per cent* of the specified losses (315 watts) at 100 *per cent* loading of the transformer. We observed that the Company despite rejecting the lot, did not cancel the remaining supply by debarring the supplier for participating in subsequent tenders[34] as per norms laid down in the concerned purchase order. Besides, the Company accepted further supply of transformers valuing ₹ 1.59 crore under the tender (TN-2223) and also awarded further supply orders worth ₹ 1.08 crore to the supplier under subsequent tenders.
- In case of repeat order placed on Anupam Udhyog for supply of 1000 transformers (16 kVA) under TN-1052, losses of sample transformer (serial number 35306) were recorded (March 2017) at 538.83 watts which was in excess of 10 *per cent* of prescribed maximum total losses (440 watts) at 100 *per cent* loading of the transformer. We observed that the Company rejected the concerned lot (35301 to 35310) but did not cancel the balance order and availed supply of remaining 484 transformers valuing ₹ 1.83 crore whereas the purchase order provided for cancellation of entire ordered quantity of the current tender and debarment from participating in the next tender or upto one year whichever is later. Thus, the Company did not take required action against the concerned supplier for cancellation of remaining supplies and debarment of supplier in violation of norms laid down in the purchase order.

Government accepted the facts and stated (November 2018) that the required action against these defaulting suppliers could not be taken due to oversight and applying incorrect provision of the purchase orders. The Company further assured to take required action as per norms laid down on such instances in future.

34 25 kVA transformer of ₹ 99.70 lakh under TN-2269 (16 September 2014) and ₹ 8.42 lakh under TN-2245 (26 August 2014).

Inventory management

2.18 An efficient inventory management system aims to minimise capital investment by eliminating excessive stocks, ensuring availability of required inventory in time for tiding over demand fluctuations and minimising the risk of loss due to obsolescence and deterioration in quality. SE (I&S) is responsible for overall inventory management. Audit scrutiny disclosed shortcomings in inventory management involving ₹ 69.65 crore. These include non-observance of procedure prescribed in Stores Manual for issue and accounting (₹ 3.01 crore), idle inventory due to excess procurements (₹ 9.11 crore), delay in repair of material failed within the guarantee period (₹ 36.62 crore), acceptance of surplus material from turnkey contractors without required testing and utilisation of material without proper approval (₹ 10.47 crore), loss of inventory due to theft, fire, embezzlement (₹ 2.04 crore) and delay in disposal of transformers (₹ 8.40 crore).

Inventory control

2.19 The Purchase Manual provides that quantity of items to be purchased needs to be guided as far as possible by applying inventory control techniques like laying down minimum level, re-order level and maximum level and through value analysis (ABC) and movement analysis of material. The Company, however, did not fix the prescribed critical levels for efficient management of inventory. The Company did not also carry out value analysis to minimise investment, inventory carrying cost and risk of obsolescence and deterioration in quality of material.

The Company is also expected to prescribe standards and methodology for categorisation of inventory items on the basis of their movement and accordingly monitor movement of inventory. We observed that the Company did not prescribe any standard and methodology for categorisation of inventory items into slow moving, non-moving and obsolete items. The Company however, generated reports for slow moving and non-moving items through its software without prescribing any uniform categorisation. We found that the criteria adopted for generating such reports was different for different ACOS since it was not prescribed through any circular/directions from the Companys headquarters. Thus, the categorisation was done without any standard procedure/ norms.

The inventory position depicted in the books of accounts of the Company for the period 2013-18 was as detailed under:

Financial year	Opening balance of stock	Stock received during the year	Stock issued during the year	Closing balance of stock	Average Stock[35] for the year	Average inventory during the year (in Months)
	(₹ in crore)					
1	2	3	4	5	6	7=(6/4)*12 Months
2013-14	93.42	947.12	947.07	93.47	93.45	1.18
2014-15	93.47	825.87	775.98	143.36	118.42	1.83
2015-16	143.36	715.13	705.26	153.23	148.30	2.52

35 Average Stock for the year =(Opening balance of stock + Closing balance of stock)/2

2016-17	153.23	631.09	646.83	137.49	145.36	2.70
2017-18	137.49	672.59	709.13	100.95	119.22	2.02

It could be seen that the closing stock of the Company ranged between ₹ 93.47 crore and ₹ 153.23 crore during 2013-14 to 2017-18. During scrutiny of records, it was noticed that while computing the value of the closing stock, the Company considered the closing balance of material lying with the ACOS only and did not consider the closing balance of stock lying with the sub-divisional stores. Further, the Company accounted for the material issued from ACOS under work in progress and did not disclose the closing stock at sub divisional stores separately in the books of accounts. In the absence of stock position of the sub-divisional stores, inventory level and its appropriateness could not be analysed for Company as a whole. We, however, observed that the average inventory maintained by the ACOS[36] ranged between 1.18 and 2.70 months during the period 2013-14 to 2017-18.

Government accepted the facts and stated that inventory level in ACOS has reduced in 2017-18 as compared to previous three years. It further stated that various levels of stores inventory, value analysis, movement analysis and store accounting system will be improved. Further, Enterprise Resource Planning (ERP) based inventory control system is also being introduced which will be developed in the existing Store Inventory Management System to overcome such irregularities/deficiencies.

Improper fixation of Store Issue Rate

2.19.1 Clause 9.17 of the Stores Manual provides that annual uniform storage rate including all charges incurred after delivery of material are to be booked under the 'storage' head and to be levi ed on the value of the material issued through Store Issue Notes (SINs). We noticed that the SE (I&S) did not fix a uniform storage rate based on the total estimated annual storage expenditure and instead a 'Store Issue Rate' (SIR) was worked out after increasing the cost of material by 15 *per cent* on account of price variation. The SIR so worked out was charged on the cost of material issued to the field offices/works for the purpose of capitalising the cost of works. In the absence of actual storage rate as per the procedure prescribed in the Stores Manual, audit could not ascertain whether the Company overcharged/undercharged the cost of storage on the works.

Government accepted the facts that pursuant to the decision (18 September 2009) of the DCF, the SIRs are being worked out with 15 *per cent* increase in the cost of material towards price variation and stated that a system is being developed to compute the storage cost of the material for working out the SIRs. It further stated that a committee has also been constituted for revising the Store Manual/Purchase Manual in this regard.

Implementation of Stores and Inventory Management System

2.19.2 The Company awarded (January 2006) the work for development of a fully dedicated software for operating the stores and management of inventory to Nexgen Consultancy Private Limited (Nexgen) at a cost of ₹ 3.63 lakh and the work was to be completed within a period of sixty days. Scope of the software included generation of 59 reports/ statements. The developer was to

36 This does not include stock maintained at sub-divisions of the Company.

conduct successful trial run and correctness test at Ajmer and Udaipur ACOS. We noticed that no reports regarding installation of the software at Ajmer and Udaipur for trial run and test reports for analyzing the correctness of the software were available in records.

It was noticed that the software developed by Nexgen (Old version) was in use from June 2006 to January 2017. As the software failed to function as per the work order and generate output reports as envisaged, it could not be used as an effective tool of inventory management. Following discrepancies in implementation of the software and generation of output reports/statements were observed:

- The software could not generate reports relating to fixing of minimum and maximum stock level, division wise chargeable head wise account, material tracking register, age wise analysis of inventory *etc.*
- The software did not provide for accounting of material sent for testing, thus accounting was done manually.
- The software could not generate reports of slow moving/non-moving items of a prior date.
- The ACOS faced various operational problems *viz.* generation of blank Store Receipt Notes (SRNs), non-insertion of serial numbers in Store Issue Notes (SINs), failure in supporting the heavy volume of transactions, depiction of incorrect and inconsistent stock balance in different reports. Besides, the software was not supported by latest hardware procured by the Company.

In view of the above mentioned deficiencies and operational problems in software, the work of updating and modifying the existing Stores and Inventory Management System (SIMS) was awarded (27 December 2016) to Visual Solutions Private Limited at a cost of ₹ 1.73 lakh. The work included provision for material testing flow, facility of accounting of guarantee failed/ repaired material (transformers, CTPT sets and meters), multi user entry of receipt/issue and multiyear compilation of reporting facility. The developed software was required to work on web base structure at all the circle store offices through Local Area Network (LAN) and at the end of the day data was required to be updated on the Company web server. The data was to be compiled at Head Office level of the Company.

The modified version of software was implemented from January 2017. However, following discrepancies in implementation of the modified version of software and generation of output reports/statements through it were observed:

- The modified version of the software also could not generate reports of slow moving/non-moving items of a prior date.
- The work order issued for updating the software did not include the component of migration of data from older version to modified version of software. As a result the modified software was not integrated with the existing system and data of older version was kept in a separate system. Thus the modified version of software could not be used to generate integrated output. Resultantly, the Company separately awarded (June 2018) the work of migration of legacy data of 12 years

from older version to modified version of the software at an additional cost of ₹ 7.78 lakh.

- The software was not integrated among ACOS through LAN and data at the end of the day was not available at Company web server. The reports were not compiled at Head office till March 2018.
- The modified version of the software did not provide for generating reports in respect of inventory items (transformers, CTPT sets, Meters, VCBs *etc.*) that failed within or beyond guarantee period and lying with the concerned stores/suppliers. The data was kept separately in MS Excel. Thus the Company could not monitor status of such high value items and work out penalties to be imposed on suppliers for non-replacement/ delay in replacement of failed items with the help of this software.

Thus, the modified version of software also could not be used as an effective tool of inventory management.

Government accepted the facts and stated that the modified software being a web based software, has been installed in all the ACOS and a server has been installed in the DCOS but the data of ACOS could not be transferred to the DCOS level server due to slow internet speed. It further stated that a lease line connection with higher speed is to be taken to overcome the problem of data transferring. Government further stated that the modified software has a module for items that failed during guarantee period but it could not generate the requisite reports due to lack of migration of data from the older version of software. During the exit conference, management of the Company assured to complete the data migration work by the end of July 2018. Further progress is awaited. **(November 2018)**

Accounting of inventory

2.19.3 The Stores Manual prescribed the system of storekeeping, accounting and inventory control through **32 types of Control Over Store** (COS) forms for different functions and types of material. It is mandatory for the ACOS and sub-divisional stores to maintain the record of inventory in these COS Forms for efficient accounting, monitoring, control and effective information system. After implementation of software, accounting of inventory at ACOS level was done on IT enabled system, however, accounting at sub-divisional level continued manually. We observed that specific guidelines were not issued for accounting and record keeping in view of implementation of SIMS. We also observed that both versions of the SIMS were unable to carry out complete accounting as all the COS forms (except Stock summery ledger of material of Circle (COS-14), Store Receipt Note (COS-8) and Store Issue Note (COS-18)) prescribed in the Stores Manual were not being maintained through the IT system.

Government accepted the facts and stated that efforts are being made to develop an IT enabled system for accounting at the level of sub-divisions also. The reply was however silent regarding not issuing any guidelines for accounting of inventory after implementation of SIMS.

Issue and accounting of inventory

2.19.4 Clause 8.2 of the Stores Manual mandates the maintenance of an Estimate Card (COS-16) wherein estimated quantity of each class/type of material required for a work order issued against a sanctioned estimate/sub-estimate for operation/maintenance/capital works is to be drawn and duly attested by the divisional/sub-divisional officer. Clause 8.3 and 8.4 of the Stores Manual require issue of material on submission of an indent called Stores requisition (COS 17) mentioning name of the stores/sub-division for which the material is required, job/work order number, head of account, purpose of requirement, work identification memo, name of person to whom stores are to be issued *etc.* We noticed that in all selected ACOS, the indents (COS-17) submitted by the sub-divisions did not have reference of the work identification memos (WIM), account head, purpose of requirement. Further, the material was issued without presentation of the estimate cards.

During scrutiny of records relating to receipt and issue of the material at selected ACOS and 15 test checked sub-divisions thereunder, following deficiencies were observed:

Provision of Stores Manual	Practice followed by the Company
Stores requisition (COS 17) was to be submitted by the sub-divisional offices to the ACOS and material was to be issued by the ACOS through Stores Issue Note (COS 18). Later, both the COS forms (COS 17 and 18) were merged and accordingly, the sub- divisional offices were required to submit an indent/stores requisition in five copies duly signed by the authorized officer alongwith the estimate card (COS 16).	• Original copy of indent kept blank and four copies were sent to ACOS by seven[37] test check sub-divisions. It is observed that indents were filled in ACOS and material was issued accordingly. In some cases, the gate passes through which material was issued were found pasted on the Indent/Store requisition forms. • Indents raised by the seven[38] Junior Engineers under selected sub-divisions were hand written and not in COS 17, did not mention the account head, purpose of issue, WIM number and job order number. • Junior Engineers of four[39] sub divisions did not submit indents for the material issued to them by the sub-divisions for the works under execution.
The storekeeper shall maintain a register of the officers authorised to indent material along with specimen signatures intimated by the concerned SE/Executive Engineer and tally them with requisitions before issue.	• The concerned SEs/Executive Engineers did not intimate the name and specimen signature of the officers authorised to indent material from the ACOS. The ACOS also issued material to the sub-divisions/works without ensuring that the indents were issued by the authorised officers. • The storekeepers of all the test checked sub-divisions (except RAPDRP, Udaipur and Madhuban) did not take approval of the concerned AEN for the indents of the Junior Engineers.
The ACOS was to prepare SINs in five copies and provided to the indentor, Stores Accounts and Circle accounts.	All the four selected ACOS maintain SINs in four copies but kept all the copies of SINs with them and did not provide the copies to the sub-division, Stores Accounts and Circle Accounts. In the absence of copies of stores requisition and the SINs with sub division offices, estimate cards were not filled and forwarded to the circle

37 (i) Pushkar, (ii) Jhadol, (iii) Madhuban, (iv) RAPDRP-Udaipur, (v) Palsana, (vi) Laxmangarh and (vii) Piprali

38 (i) Pushkar, (ii) Jhadol, (iii) Sri Madhopur, (iv) Bhadesar, (v) Dungla, (vi) Bari Sadari and (vii) Palsana

39 (i) Piprali, (ii) Bhindar, (iii) Mawli and (iv) RAPDRP-Udaipur

	accounts for accounting purpose.
The gate passes for issue of material from the sub-divisions to the Junior Engineers should be prepared in three copies and provided to the messenger and Junior Engineers.	The Storekeepers issued material to Junior Engineers on gate passes which did not mention the name of the receiver, name of work and purpose of the issue. Further, six[40] sub divisions maintained two copies of the gate passes and did not provide them to the messenger and concerned Junior Engineers.

Government accepted the facts that in some sub-divisions, the mistake of keeping blank indents occurred as the concerned storekeepers lacked required knowledge of record keeping being new to the system and assured that such mistakes will not be repeated in future. It also accepted that the laid down system of verification of specimen signature of authorised officers and process of issuing SINs to sub-divisions were not followed and assured to ensure compliance of the laid down system/process in future. It further stated that the problem of improper accounting and monitoring of inventory will be resolved after implementation of IT enabled software at sub-divisional level. Besides, the ACOS had also been directed (October 2017) to visit the sub-divisional stores for monitoring of inventory and submit the reports on regular basis.

Incomplete documentation

2.19.5 Stores Manual and periodic directions of management laid down the procedure for documentation relating to inventory accounting. Test check of records at 15 sub-divisions which requisitioned material from the selected ACOS disclosed following shortcomings:

- the selected sub-divisional stores did not maintain job cards as per the work identification memo for each work order and transformer movement register as per instructions laid down (26 February 2010). Further, the Junior Engineers and the contractors engaged on works did not maintain the *'Material at Site Account'* in all the selected sub-divisions

- The Company did not ensure availability of printed stationary to its field offices in the formats prescribed (COS6: Stores cum Quantity Ledger) for maintaining records of stock and stores. In the absence of requisite printed stationary, all the selected sub divisions maintained inventory in the Stock register purchased from the market wherein only quantitative details of inventory *viz.* receipt, issue and balance of inventory were entered.

- The Junior Engineers of the selected sub divisions (except RAPDRP-Udaipur and Madhuban) did not maintain stock register for accounting of the material received from the sub divisional stores and issue to the contractors. Further, material at site account for the material issued and utilized for the specific job orders was also not maintained by the Junior Engineers and contractors.

- Transformers failure register was being maintained by the selected sub divisions (except RAPDRP-Udaipur, Dungla and Bari Sadari). However, the registers were maintained in hand written format without proper reference to the deposit of the transformers in ACOS and the

40 (i) Ringus, (ii) Palsana, (iii) Sri Madhopur, (iv) Bhadesar, (v) Dungla and (vi) Bari Sadari

failure report. Besides, no uniform format was adopted for maintaining the registers. Further, none of these selected sub-divisional stores maintained record of the recovery of transformer oil from the burnt transformers.

- The stock register maintained by storekeepers of selected sub divisions were neither signed by the store keepers nor submitted to/verified by the concerned AENs.
- In 13 selected sub divisions[41], material credit notes were not properly maintained by the storekeepers as in some cases incomplete/ blank material credit notes were signed by the storekeepers whereas in some material credit notes did not have any counter signature of the receiver.

Government stated that IT enabled system software will be adopted for proper documentation at the level of sub-divisions. The reply was however silent on the shortcomings/deficiencies highlighted in the audit observation regarding incomplete documentation by selected sub-divisions.

Some of the illustrative cases of issue and accounting of the material in violations of the provisions of Stores Manual and directions of the higher management are discussed below:

Issue of inventory items without adopting FIFO method

2.19.6 The Chairman of the DISCOMs directed (August 2016) that all stores items specially covered under guarantee period clause like transformers, CTPT sets and energy meters should be issued by *First in First out* (FIFO) method, so that optimum utilisation of stores in field can be ensured. Audit noticed that the system of issue of material by FIFO method was not followed by the Company due to which items pertaining to prior years were found in Stock even though material received subsequently had been issued.

Scrutiny of the records at ACOS Ajmer City disclosed that during internal inspection of the stores, the ACOS found 300, 1660 and 2825 three phase meters in excess for the period 2014-15, from July 2016 to September 2016 and 2017-18 respectively. Further, stock verifiers also conducted physical verifications of stores for the period 2013-17. However, the stock verifiers found only 178 meters in excess during the period November 2014 to January 2016 and did not find any variation between the actual number of meters lying in stock and the book balance (460 meters) during February 2016 to March 2017.

This indicates that the system and checks prescribed for verification of items in stores were not properly followed as the stock verifiers during physical verification of stores failed to detect the excess meters which were found during the internal inspection of the stores by the ACOS. Subsequently, the ACOS found (January 2018) 2825 excess meters (including 2000 meters procured in March 2013) during verification of stores. Thus, poor inventory control resulted in lapse of most of the guarantee period (five years) of meters worth ₹ 1.15 crore which remained unutilized in the stores.

41 (i) Saradhana, (ii) Pushkar, (iii) Jhadol, (iv) Bhindar, (v) Mawli, (vi) RAPDRP-Udaipur, (vii) Srimadhopur, (viii) Reengus, (ix) Palsana, (x) Laxmangarh, (xi) Bhadesar, (xii) Dungla and (xiii) Badi Sadri

Government accepted the facts and stated that the three phase meters were found in excess as the meters were not issued as per serial number and thus FIFO system of issuing material was not followed. The reply was however silent on the shortcomings/deficiencies highlighted in the audit observation regarding carrying out the internal inspections and physical verifications by stock verifiers.

Deficient accounting of issued/available inventory

2.19.7 Following instances were noticed where the Company did not ensure proper accounting of issued/available inventory:

- While scrutiny of the stock registers of the four[42] selected sub divisions and joint inspection of the stock available in the stores, we noticed that the closing balance shown (April 2018) in the stock registers were different from the balance of stock found available in the stores. During the joint inspection, inspection of 134 stock items available physically in the store of the sub-divisions was conducted wherein stock of 97 items valuing ₹ 1.86 crore was found in excess as compared to balances shown in the stock registers. This indicates that the storekeeper had shown the material lying with stores as issued to works by issuing Gate passes. The Junior Engineers were also not maintaining the stock register and the stock was shown nil in the books of the sub division.

- During the joint inspection conducted (22 February 2018) along with staff of the ACOS Ajmer City, we noticed that 52.80 MT (1056 bundles) GI stay wire of two types (7/10 mm and 7/8 mm) were mixed and dumped at six locations of the stores in open whereas the stock register reflected nil balance of these wires on the same date. Further scrutiny of records showed that entire available stock of both types of wires had already been issued to sub-divisions on the basis of the indents and stores issue notes (SINs) were also generated. This indicates that the indents and gate passes generated were not genuine. Further, the stock verifiers did not verify the stay wires during the three physical verifications conducted for the period from April 2013 to October 2014, November 2014 to January 2016 and February 2016 to March 2017.

- In case of ACOS Ajmer City, balance of GI wire (8 SWG) at ACOS Ajmer City was shown as 263.19 MT and 53.29 MT as on 1 April 2013 and 31 March 2018 respectively. We noticed that the Assistant Engineer (Meter Testing) Ajmer had placed (8 August 2013) an indent on ACOS Ajmer City for issue of 60 kilogram GI wire (8 SWG) which was issued on the basis of manual gate pass. We observed that the gate pass incorrectly depicted (21 September 2013) issue of 60 MT in place of 60 kg GI wire. However, excess accounting of issue of 59.94 MT (in 1199 bundles) was not pointed out by the store accounts section and the stock ledger for the period 2013-14 onwards was verified with the indents and stores issue notes. Further, the stock verifiers also

42 Badisadri, Badhesar, Mavli and Bhinder

conducted physical verifications of the ACOS Ajmer City thrice during 2013-18 but did not point out such mistake.

This indicates that the Company did not adopt a robust system for maintaining and monitoring of store records.

Government accepted the facts that inventory accounting is not being done properly at the sub-divisional level and stated that IT enabled software is being developed for proper accounting of inventory. The ACOS have been directed to reconcile the inventory issued to or received from field offices and monitor utilisation of inventory in field. It further accepted that the stay wire remained unaccounted and quantity of the GI wire was incorrectly accounted for in the records due to oversight. However, the mistake of incorrect accounting of the GI wire has been rectified. The reply was however silent on the issue of not identifying these deficiencies while conducting physical verifications of stores.

Physical Verification of Stores

2.19.8 Clause 11.2 of the Stores Manual prescribes for conducting annual physical verification (PV) of inventory at ACOS and sub-divisional stores by the stock verifiers working under control of the Chief Accounts Officer/ Internal Audit.

We noticed that physical verification of stores was not conducted annually. Out of total 12 ACOS, physical verification was conducted once, twice and three times at six[43] ACOS, three[44] ACOS and three[45] ACOS respectively during 2013-18. Thus, the stock verifiers conducted only 21 physical verifications against requirement of 60[46] physical verifications and reported shortages of ₹ 93.21 lakh and excesses of ₹ 106.13 lakh during 2013-18. The period covered in physical verifications also ranged between one to four years. We noticed that during 13 physical verifications, the stock verifiers covered store items ranging between 18.12 *per cent* (Udaipur ACOS) and 96.63 *per cent* (Bhilwara ACOS) whereas remaining eight physical verification reports did not depict status of items covered/ excluded from verification. We further noticed that in 15 selected sub-divisional stores, no physical verification (except three sub-divisions *i.e.* Dungla in 2010-11 and Pushkar and Saradhana in 2016-17) was conducted during last ten years period ended 31 March 2018.

Thus, the Company did not ensure physical verification of ACOS and sub-divisional stores on annual basis. The Company also had not specified a uniform proforma for physical verification reports and these reports were maintained in different formats. Non-conducting timely physical verifications of stores affected the internal control system and monitoring of stores.

Government accepted the facts that physical verification could not be carried out annually due to lack of audit staff and assured to strengthen the auditing team of the Company for conducting physical verification annually as prescribed under the Stores Manual.

43 ACOS Chittorgarh, Jhunjhunu, Pratapgarh, Ajmer District, Dungarpur and Banswara
44 ACOS Sikar, Udaipur and Rajsamand
45 ACOS Ajmer City, Nagaur and Bhilwara
46 12 ACOS X 5 Years

Internal inspection of Stores

2.19.9 Clause 11.1 of the Stores Manual provides that random physical verification of the inventory is to be done by the storekeeper/ACOS periodically in such a manner that all the bin articles are checked at least thrice a year and tallied with the balance in stores quantity ledgers. The Chairman (DISCOMs) also directed (1 September 2016) the ACOS/ Stores Superintendents (SS) to carry out internal physical verification of stores in respect of high value items like conductor drums, cable drums, distribution transformers, transformer oil drums, CTPT set *etc*. The directions also required the ACOS/SS to physically verify at least five other randomly selected store items every month.

During review of records, we noticed that the ACOS/ SS/ storekeepers did not ensure compliance of the provisions of Stores Manual and directions of the Chairman DISCOMs as internal inspection reports for periodic verification of the inventory during the period 2013-18 were not maintained. However, the ACOS/ SS/ storekeepers conducted internal inspection of stores in selected cases[47]. We noticed following deficiencies in two instances where the selected ACOS conducted internal inspection of stores and identified shortages/ excesses of inventory during 2013-18:

- Chittorgarh ACOS declared 67 store items valuing ₹ 69.10 lakh in excess and included these items in stock. Of these items, 19 old and usable items had been shown at nil value. Besides, two store items *i.e.* 465 transformers (198 old and usable, 168 uneconomical and 99 damaged amorphous transformers) and 452 energy meters (three phase) were also declared as excess stock. We noticed that the ACOS issued the excess meters without ascertaining currency of guarantee period.
- The Ajmer City ACOS declared 73 store items[48] *viz.* energy meters, cable, conductor *etc.* worth ₹ 2.44 crore in excess. This mainly included 5385 three phase and 1552 single phase energy meters, 12.418 kilometre cable of different ratings and 80.319 kilometre conductor. We noticed that guarantee period was five years for energy meters and 18 months for cable from the date of last purchase. In the absence of availability of tender number and date of receipt in store, completion of guarantee period for cables could not be ascertained.

Thus, identification of surplus/shortage of substantial store items indicates that the prescribed procedure for issuing and accounting of store items were not followed properly. We observed that the ACOS did not analyse the reasons of deficient accounting of stores to control such deficiencies in future. Further, the ACOS did not seek approval of the Chief Accounts Officer, Internal Audit (CAO/IA) for accounting of variations as prescribed in the Stores Manual.

Government accepted the facts and stated that directions have been issued to all ACOS for carrying out the required internal inspections for random physical verification of inventory and the ACOS have started conducting

47 12 cases by ACOS Chittorgarh, 5 cases by ACOS Sikar, 18 cases by ACOS Udaipur and 44 cases by ACOS Ajmer City

48 This includes GI stay wire identified in excess in joint inspection.

monthly random physical verification of inventory especially for the high value items. It further stated that in the case of unauthorised accounting of excess declared material by the ACOS Ajmer and Chittorgarh, process of obtaining approval of the competent authority is under process. Further progress is awaited. **(November 2018)**

Adjustment of excesses/shortages of inventory

2.19.10 The Store Manual provides that shortages and excesses of inventory are to be adjusted through Store Issue Notes (SINs) and Store Issue Receipts (SIRs) respectively. The concerned Assistant Engineers/Assistant Storekeepers are required to furnish justification for such shortages/ excesses of inventory. The SE (I&S) is required to investigate reasons of shortages/excesses of inventory and issue sanction for writing-off the losses resulted from shortage of material. Besides, the excess/shortages of inventory pointed out in physical verification reports is required to be adjusted within a period of one month or at least at the closure of the concerned financial year.

During review of records, we noticed total unadjusted shortages and excesses of inventory was ₹ 0.96 crore and ₹ 1.11 crore respectively as on 31 March 2017. We observed that the concerned authorities, however, did not investigate reasons of shortages and excesses of these inventories. Further, adjustment of these shortages/excesses was also not done. The shortages/ excesses of inventories reflect improper recording of inventory. In the absence of proper documentation and accounting of these inventories, possibility of theft and misuse of inventory could not be ruled out.

Government accepted the facts and stated that adjustment of the excesses and shortages could not be done due to time taking process of conducting investigation and obtaining approval of the competent authority and assured that efforts will be made to minimise the time period for finalisation of such adjustments within the prescribed schedule. It further stated (November 2018) that the adjustment of shortages/excesses of inventory have been finalised in case of two ACOS (Jhunjhunu and Udaipur) whereas in remaining ACOS, the work of carrying out required adjustments is under process which would be completed at the earliest.

Idle inventory due to excess procurement

2.19.11 Review of records at the ACOS, sub-divisional stores and physical verification reports of the ACOS/sub-divisional stores disclosed that various types of material remained unutilised due to lack of demand from the field offices. This indicated that the material was procured in excess of requirement. A few indicative cases indicating poor inventory management resulting in excess purchase of material leading to blockage of funds of ₹ 9.11 crore are discussed in ***Annex-5***.

The reply of the Government/Company is awaited. **(November 2018)**

Performance of Store items

2.20 The Company procures mainly three store items *viz.* distribution transformers, Current transformer potential transformers (CTPT) and Vacuum Circuit Breakers (VCBs) wherein the suppliers are required to repair/replace the store items failed within the guarantee period. The Company is required to ensure timely repair/ replace of the defective material as delay in repair/ replacement of defective/ failed store items would increase requirement of procurement of new inventory. In case of delay, the effective guarantee period of such defective/ failed store items would also reduce to the extent of delay.

During scrutiny of records, following deficiencies were observed regarding performance of these three store items:

High failure rate of distribution transformers

2.20.1 Transformer is an important part of distribution network. It plays a crucial role in the power distribution network and any failure not only results in financial loss to the utility but also adversely affects consumer satisfaction due to interruption in supply. The high failure rate of distribution transformers (DTs) is caused by a combination of factors *viz.* overloading of DTs, improper earthing and protection, improper fuse, inadequate preventive maintenance etc. For proper reliability, DT failure rate of less than 1.5 *per cent* per annum was indicated by the Ministry of Power (MOP), GOI.

The following table indicates number of DTs installed, number of DTs failed and failure rate of DTs during the period 2013-18:

Year	Number of DTs installed at the beginning of the year	Number of DTs failed during guarantee period (GP) and beyond guarantee period (BGP)			Failure rate of DTs (in percentage)		
		GP	BGP	Total	GP	BGP	Total
2013-14	314077	17023	22973	39996	5.42	7.31	12.73
2014-15	390077	17908	29975	47883	4.59	7.68	12.27
2015-16	420169	19183	28096	47279	4.57	6.69	11.25
2016-17	453795	20602	31970	52572	4.54	7.05	11.58
2017-18	471390	16416	30787	47203	3.48	6.53	10.01
Total		**91132**	**143801**	**234933**			

(Source: MIS of the Company)

It could be observed from the above that failure rate of transformers ranged between 10.01 *per cent* and 12.73 *per cent* during 2013-18 which was substantially higher in comparison to the maximum failure rate specified by the MOP, GOI.

Government accepted the facts and stated that the work of reconditioning of transformers under Loss Reduction Programme, augmentation of capacity as per loading level and proper earthing has been taken up for reducing the high failure rate of transformers. It further stated that efforts will be made to reduce the failure rate of transformers upto five *per cent* in 2018-19.

Delay in repair of DTs failed within guarantee period

2.20.2 As per directions (January 2010) of the Discoms Coordination Forum (DCF), the sub-divisions are required to deposit the DTs failed within GP in the concerned ACOS within a period of seven days from the date of its failure. Further, the concerned supplier is required to lift the GP failed DTs within a period of 60 days from intimation of their failure and deliver back the repaired DTs to the concerned ACOS expeditiously maximum within a period of 60 days from the date of lifting the failed DTs. In case of delay, the Company is entitled to withhold the cost of failed DTs and recover penalty for delay at the rate of 0.50 *per cent* per week subject to maximum at the rate of 10 *per cent* of value of failed DTs from performance guarantee available with the Company or payments to be made against supplies under subsequent tender. Besides, the purchase orders issued for procurement of DTs provided that performance guarantee would be for the period of 60 months from the date of dispatch and repaired/ rectified free of cost expeditiously.

During review of records relating to failure of DTs, we noticed that total of 44919 DTs failed within the guarantee period in four selected ACOS during 2013-18. We observed following deficiencies in lifting/ repair of DTs failed in the GP during 2013-18:

- Out of 44919 DTs that failed during guarantee period (called as GP failed DTs), 41246 DTs (91.82 *per cent*) were lifted by the concerned suppliers till March 2018. We noticed that the suppliers lifted 16001 DTs within specified time period of 60 days and delayed lifting of the remaining 25245 DTs. Further, the suppliers had repaired and returned 37751 DTs (including repair of 31043 DTs beyond stipulated period) till March 2018 of which 2937 DTs were returned back with delay ranging between three and 12 years. We also noticed that the selected ACOS could ensure repair of only 84.04[49] *per cent* of total GP failed DTs during 2013-18.
- Remaining 3673[50] GP failed DTs (8.18 *per cent*) valuing ₹ 18.50 crore were not lifted by the suppliers and were with the ACOS till March 2018. Out of these 3673 DTs, 1118 DTs were lying with the ACOS for a period ranging between three to 16 years. We observed that the Company did not withhold cost of these failed DTs as per laid down norms.
- Out of 41246 DTs lifted by the suppliers, 3495[51] DTs (8.47 *per cent*) valuing ₹ 18.12 crore were not repaired and returned despite lapse of a considerable delay upto 17 years. We observed that Company neither withheld the cost of these failed DTs nor deducted penalty applicable for delay towards these DTs as per laid down norms.
- Supplier wise scrutiny of records relating to GP failed DTs revealed that 10 major suppliers[52] which defaulted in repair of DTs, were awarded further supply orders during 2013-18.

The Company therefore did not take proper action to ensure timely repair of GP failed DTs which resulted in non-repair of DTs valuing ₹ 36.62 crore. The effective guarantee period of these GP failed DTs was also reduced to the extent of delay.

The Government stated that regular notices were issued to the suppliers for repair of GP failed DTs. It further stated that payment of various suppliers had been withheld for non-lifting the GP failed DTs and recovery towards delay in

49 Repaired and redelivered DTs (37751)/ Total GP failed DTs (44919) X 100

50 Total GP failed DTs – Total GP failed DTs lifted by the suppliers

51 DTs lifted by the suppliers – DTs repaired and returned to ACOS

52 Kotson Private Limited (2009-18), Rajasthan Transformers and Switchgears (2009-18), Shri Krishna Sudarshan Urja Private Limited (2011-18), Shera Energy (2010-17), Anupam Udyog (2014-18), Roshan Engineers (2010-18), Vijay Electricals Limited (2008-18), Yash Granites (2015-18), Mishra Industries (2007-18) and Murti Metal Industries (2011-17)

repair had also been made while finalising the contracts. The reply is not acceptable as the Company did not recover any penalty from the suppliers towards the delays highlighted in lifting and repairing the GP failed DTs in above mentioned cases and the amount withheld earlier by the Company towards non-lifting of GP failed DTs had also been released.

Lack of penal provision in supply order for delay in repair of Current Transformer Potential Transformer (CTPT) failed within guarantee period

2.20.3 The orders for supply of CTPT provided that the guarantee period of CTPT was to be three years from the date of receipt. On receipt of failure intimation, the supplier was required to repair the CTPT failed within a period of 45 days. During review of selected four ACOS, we noticed that 351 defective CTPTs were with the ACOS as on 1 April 2013 and another 1094 defective CTPTs were received from sub-divisions during 2013-18. Out of these 1445 defective CTPTs, the suppliers lifted only 868 CTPTs whereas remaining 577 CTPTs were still with the ACOS (March 2018). Further, the suppliers replaced only 754 CTPTs which were replaced with delay ranging from 28 to 2177 days whereas remaining 114 CTPTs were still with the suppliers (March 2018).

We observed that the Company did not ensure timely repair of defective CTPTs. Further, the purchase orders issued during the period were also deficient as the Company did not insert any provision for levy of penalty due to delay in replacement of defective CTPTs. Besides, the effective guarantee period of these GP failed CTPTs was also reduced to the extent of delay.

Government stated that efforts are being made continuously for repair of GP failed CTPTs. It further stated that recovery towards delay in repair will be made from the defaulting suppliers as per provisions of the GCC. The reply was however silent on the issue of not inserting any penal clause in the supply order for delay in repair of GP failed CTPTs.

Delay in repair of VCBs failed within performance guarantee period

2.20.4 The Company placed (September 2008 and June 2010) two orders for supply of VCBs on Stelmec Limited (supplier) under TN-433 and TN-2064. The purchase orders provided manufacturers' warranty for satisfactory operation of VCBs for a period of five/ten years from the date of supply. The supplier was required to attend defects in VCBs within a period of 15 days from the date of receipt of complaint. In case of delay, penalty was to be levied at the rate of 0.5 *per cent* per week (TN-433) and ₹ 500 per day for delay upto 30 days and ₹ 1000 per day for delay beyond 30 days (TN-2064) respectively. During review of records of ACOS Sikar, we noticed that 14 defective VCBs were with the ACOS as on 1 April 2013 and another 10 defective VCBs were received from sub-divisions during 2013-18. Out of total 24 defective VCBs at ACOS Sikar, the supplier lifted only 21 VCBs after a period ranging from 720 to 2988 days from receipt of complaint whereas remaining 3 VCBs were still with the Sikar ACOS (March 2018). Further, the supplier replaced only 11 VCBs with delay which ranged between 950 and 3218 days[53] and remaining 10 VCBs were lying with the supplier (February 2018) despite lapse of period upto 2595 days.

53 Excluding 15 days period allowed for repair/ replacement under the supply order

We observed that the Company did not take proper action *viz.* withholding cost of VCB and deducting penalty for delay to ensure timely repair of defective VCBs.

Government accepted the facts and stated that out of total 24 VCBs, only 16 VCBs has been repaired/replaced by the supplier whereas remaining eight VCBs are still lying with the supplier/stores (July 2018). It further stated that in case of repaired/replaced VCBs, an amount equivalent to 10 per cent cost of the VCBs has been withheld towards the delay in repair/replacement whereas in case of remaining VCBs, amount equivalent to cost of the VCBs has been withheld for not lifting/repairing the VCBs. Further, the amount of actual penalty is being finalised. It is also worthwhile to mention that the management of the Company stated that the penalty could not be finalised as sometimes it even exceeded the cost of equipment.

Deficiencies in acceptance of surplus material from turnkey contractors

2.20.5 The Company awarded various turnkey works wherein the contractors were required to supply material as per the bills of quantities (BOQs) and commission the projects as per terms and conditions of the work orders. The Chairman DISCOMs directed (February 2009) to accept surplus/ unutilised material from the contractors under various turnkey works provided that the material was in good condition after testing at CTL. The DCF decided (31 August 2010) rates for recovery for short deposit and payment for surplus material deposited by the turnkey contractors.

During review of records relating to 18 turnkey contracts finalised during 2013-18, we noticed that the turnkey contractors deposited surplus material worth ₹ 22.51 crore with the Company. We observed instances where deposit of surplus material worth ₹ 10.47 crore from the turnkey contractors was accepted without CTL testing and utilised the material without proper approval. Further, material worth ₹ 1.24 crore remained unutilised with the stores as discussed in ***Annex-6.*** The reply given by the Government has also been included in the annexure.

Improper storage of inventory

2.20.6 In order to streamline the functioning of stores organization, the Chairman DISCOMs directed (September 2016) for proper storage of inventory to control pilferage and theft of material. The directions further provided for keeping material of same nature at one place, stacking of store items in systematic manner, placing inflammable material like PVC cable, transformers *etc.* away from the live electric lines/ hazardous places.

During review of records, we observed that the selected ACOS and sub divisional stores did not adhere to the directions of Chairman DISCOMs and the materials were not stacked properly and kept in a haphazard manner. Improper storage of inventory caused shortages and excesses of stock which were also pointed out by the stock verifiers in their physical verification reports from time to time. We noticed that transformers, cables, CTPT and other inflammable materials under the lines were stored under high tension lines. The following picture depicts improper stacking/ storage of material:

(Material stacked under high tension lines at ACOS Sikar)

(Material stacked under high tension tower at ACOS Udaipur and Material lying at ACOS Ajmer)

Government stated (November 2018) that the Company issues directions from time to time to its ACOS and sub divisions for proper stacking of material. It further accepted that at some stores, proper stacking of material could not be ensured due to lack of required space and stated that efforts are being made to arrange proper storing space at ACOS. Further, the process for disposal of retrieved/old/unusable material has been initiated and e-auction of scrap/unusable material is being conducted fortnightly to overcome the problem of space at ACOS.

Loss of inventory due to theft, fire and embezzlement

2.21 The Stores Manual provides that all cases of loss of inventory are to be immediately reported to the ACOS/SE (I&S) and the Chief Accounts Officer-Internal Audit (CAO-IA) and are to be taken up for investigation and dealt with in accordance with the provisions of General Financial and Accounts Rules. The Assistant Engineer at ACOS was required to conduct preliminary inquiry, lodge FIR with the Police, claim compensation from the insurance agency and submit detailed report to the SE (I&S) along with preliminary enquiry report, copy of FIR and copy of claim registered with the insurance agency. The SE (I&S) was also required to order detailed inquiry and take action on the basis of inquiry report.

During scrutiny of records, following deficiencies were noticed:

- In case of ACOS, the Company informed that DCOS reported nine theft cases and one fire incidence in ACOS involving loss of ₹ 24.10 lakh during 2013-18. We observed that out of these 10 cases of theft/fire, in case of three incidents, FIR were lodged by the Police Department with delays ranging between 26 and 89 days despite receipt of communication from the concerned ACOS whereas in one case there was a delay of 36 days on the part of ACOS in reporting theft to the Police. Reasons of delay in lodging FIRs were not recorded. Besides, no claim was received from the concerned insurance company against these ten cases (including three rejected cases) of loss by theft/fire (March 2018).

Government stated (November 2018) that the loss of inventory due to theft/ fire at ACOS was very low as compared to the inventory maintained at the level of ACOS. It further stated that the Company is continuously pursuing with the insurance company for reimbursement of the claims.

- In respect of theft of inventory at sub-divisional level, the CAO-IA intimated (May 2018) that there was only one case of theft of copper (at sub-division Pratapgarh) during last five years. However, during scrutiny of records, Audit identified theft of 63 Vacuum Circuit Breakers worth ₹ 1.35 crore at 11 out of 16 sub-divisions under ACOS, Chittorgarh. Besides, 14 other cases involving theft of various material *viz.* cable, conductor, transformers, transformer oil, line material, iron pins, channels and arms *etc.* worth ₹ 0.45 crore at 10 sub-divisions[54] were also identified. Lack of awareness of the management regarding theft of inventory worth ₹ 1.80 crore at sub-divisional level indicates that the Company lacked proper monitoring system for theft cases at the level of sub-divisions. Further, the sub-divisions did not take insurance policies to secure the inventory maintained at sub-divisional level from theft/fire/embezzlement.

The reply of the Government/Company is awaited. **(November 2018)**

- Cases of material installed in the field relating to theft of transformers and other material were discussed regularly in monthly meetings of the Senior Officers during 2013-18. 4824 cases of theft of installed transformers, 936 cases of theft of oil and 70 cases of theft of conductor were reported during the period 2013-18. The Company booked loss of ₹ 5.04 crore, ₹ 2.17 crore and ₹ 2.00 crore towards theft of assets in 2015-16, 2016-17 and 2017-18 respectively. We noticed that theft of 202 transformers, 38 cases of oil and one case of conductor were reported during the Senior Officers' Meetings in 2013 - 14 but loss due to theft was not accounted for in the books of accounts. Besides, theft of 1795 transformers, 217 cases of oil and 17 cases of conductor were reported during the period 2014-15 but accounting details of these thefts were not available with the accounts wing of the Company. This indicates that the Company lacked proper accounting system for booking the losses of inventory due to thefts.

54 AEN-Construction (Udaipur), Rishabhdev, RAPDRP (Udaipur), Girva, Badgaon, Saradhana, Pushkar, Bhindar, Sawa and Mangliawas.

The reply of the Government/Company is awaited. **(November 2018)**

Disposal of scrap

2.22 The Stores Manual provided that dismantled inventory, whether in serviceable condition or not shall be recorded in COS 24. The serviceable inventory needs to be taken into stock while the unserviceable scrap should be deposited with the concerned ACOS through material credit note. The ACOS was required to prepare store receipt note and make entry in the scrap register.

Review of records at the 15 sub-divisional stores under selected ACOS disclosed that the storekeepers did not record the dismantled inventory in COS 24. The sub-divisional stores directly prepared material credit notes without making detailed entry in COS-24 and these MCNs were acknowledged by the ACOS. This indicated that there was no control over the scrap as accounting was done on the basis of material submitted by the sub-divisional store with the ACOS. There was no record of the actual material retrieved at the time of dismantling of lines/projects. The Disposal of Stores Rules required the ACOS to prepare quarterly survey reports and make recommendations regarding inventory to be disposed. The SE (I&S) had to submit the brief of quarterly survey reports before the Board of Directors for approval of disposal of stores. We observed that the SE (I&S) did not prepare and submit the brief of survey reports before the Board of Directors for its approval. Further, the survey reports prepared by ACOS did not mention the reasons of items becoming unserviceable for auction.

Government in its reply narrated the system of e-auction being followed by the Company at the ACOS level. It however did not reply to the specific audit observation.

Sale of scrap

2.22.1 The Company conducted open auction of scrap at ACOS level upto 2014-15. Simultaneously, online auction of scrap through portal of Metal and Scrap Trading Corporation (MSTC) Limited was also done. Analysis of the scrap declared and auctioned revealed that total material of ₹ 141.40 crore was recognised as scrap on the basis of the survey reports of the ACOS during the period from 2013-14 to 2017-18. Total revenue realised from auction of scrap was ₹ 88.47 crore during 2013-18.

Delay in decision for disposal of the transformers

2.22.2 Review of records revealed that the Company could not ensure repair or disposal of transformers retrieved under Feeder Renovation Programme (FRP) despite constituting a committee in this regard. It did not take decision for disposal of amorphous and copper wound transformers, delayed the disposal of failed 5 kVA single phase transformers and unusable power transformers through auction by declaring these transformers as scrap in survey reports. Thus, delay in taking decision and further required action for repair or disposal of transformers worth ₹ 8.40 crore resulted in blocking of substantial funds of the Company besides occupying unnecessary space at the ACOS of the Company. The cases are discussed in detail in ***Annex-7.***

Government accepted the facts and stated that the Company has initiated action for disposal of amorphous and copper wound transformers and transformers retrieved under FRP. Besides, auction of BGP failed 5 kVA transformers is also under progress. However, the Company did not furnish specific reply in respect of observations raised by audit.

Conclusion and recommendations

Conclusion

The audit findings disclosed various shortcomings in assessment of requirement of material and procurement system which led to uneconomical purchase of material, purchase of material not conforming to the specifications, receipt of material ahead of supply schedule without requirement and acceptance of material without proper testing and inspection. The Company did not adopt a scientific inventory management system. The critical levels of inventory were not fixed and movement analysis was not carried out to ensure efficient management of inventory. This resulted in idle inventory at the stores. Proper records relating to issue and accounting of inventory were not maintained and the system of physical verification was not adequate which led to theft and embezzlement of material. The Company could not implement IT based inventory management system.

Recommendations

It is recommended that the Company should:

- **revise the Purchase Manual to conform to provisions of Rajasthan Transparency in Public Procurement Act 2012 and Rules there under**
- **streamline the assessment of requirement of material to ensure that procurement is done as per requirements**
- **finalise the tenders within the prescribed time frame and ensure approval of the higher authorities in case of delay in finalisation. Procedures as prescribed for tendering and award of contracts need to be followed**
- **strengthen the inspection and testing procedures and ensure strict adherence to the technical specifications by the suppliers**
- **adopt inventory control techniques for efficient management of inventory. The prescribed records need to be properly maintained for better control and monitoring of inventory**
- **conduct physical verification of inventory at specified intervals and take corrective action on discrepancies reported in physical verification reports**
- **implement IT based inventory management system and**
- **dispose scrap promptly.**