

CHAPTER V
STORES AND STOCK
SECTION "A"
(AUDIT REVIEW)

PUBLIC WORKS DEPARTMENT

5.1 Material Management of Public Works Department

The Store Division, Imphal is vested with centralised procurement of various materials required for execution of works by 32 divisions of the department. The budget provision during 1997-2002 was made without assessment of actual requirements. As a result, 108 works remained incomplete in six divisions due to non-supply of materials worth Rs.2.22 crore as of June 2002. The value accounts of stock (bitumen, steel and cement) did not depict the true picture of store management of the department as there was excess exhibition of closing value of stock to the tune of Rs.11.55 crore as of March 2002 in the accounts as against actual value (Rs.0.32 crore) as per ground balance. While there were no electrical stores, paints, sanitary stores *etc.*, the value accounts showed Rs.9.01 lakh during 1999-2000 to 2001-02. Undue financial aid to the tune of Rs.1.34 crore as of March 2002 was given to supplier as advance though materials were not received in full. Physical verification of store was not conducted during 1997-98 to 2001-02.

Highlights

There were persistent savings against budget provisions in all the years under review which varied from 2 per cent to 89 per cent. Reason for savings was stated to be due to short release of funds by the State Government.

(Paragraph 5.1.5)

Poor planning for procurement of materials resulted in suspension of the works midway and non-completion of works till June 2002 for want of materials worth Rs.2.22 crore.

(Paragraph 5.1.8)

Department failed to get the materials as per the terms of contract resulting in undue financial aid to the supplier due to short supply of materials valuing Rs.10.15 lakh and injudicious payment of advance amounting to Rs.1.34 crore. No action was taken to recover the cost (Rs.10.15 lakh) from the defaulting suppliers.

(Paragraph 5.1.9 and 5.1.14)

Procurement of material without immediate requirement resulted in locking up of Rs.20.12 lakh.

(Paragraph 5.1.16)

Value account of electrical stores, paints and sanitary stores showed Rs.9.01 lakh as of March 2002 but there was no record of these stores.

(Paragraph 5.1.24)

Physical verification of stores was not conducted during the period under review though CPWD Manual provides for such verification at least once in a year.

(Paragraph 5.1.25)

Introduction

5.1.1 The material component plays a significant role in the construction of maintenance works of Public Works Department. Therefore, planned procurement of stores is of vital importance to reduce uneconomic and excessive stock. The Stores Division, Public Works Department, Imphal is vested with the centralised procurement of various materials required for work executed by 32 divisions of the department.

Organisational set up

5.1.2 The general management of stores was the responsibility of the Executive Engineer, Stores Division, Imphal under the overall supervision of the Chief Engineer-I, PWD, assisted by a Superintending Surveyor of works and a Superintending Engineer.

Audit Coverage

5.1.3 The purchase, transportation and issue of materials during the period 1997-98 to 2001-02 (except stock accounts, purchase records *etc.* of Store Division upto January 2000 gutted in fire on 27 January 2000) were reviewed by test check of records of Chief Engineer, Store Division and 8¹ works divisions (out of 32) during April - June 2002. The result of test check (30 *per cent* of the total expenditure Rs.83.75 crore) have been incorporated in the succeeding paragraphs.

Financial Outlay

5.1.4 The expenditure incurred on procurement of stores are charged to suspense head "Stock" under the respective major heads (Public Works and Roads and Bridges).

5.1.5 Year wise details of budget allotment and savings and excesses thereon, debit, credit and balances under the suspense head for the period from 1997-98 to 2001-02 were as follows:

Table No.5.1

(Rupees in crore)

Year	Budget Provision	Opening balance	Receipt	Issues	Closing balance	Savings(-) (2-4)
1	2	3	4	5	6	7
1997-98	22.10	27.43	21.65	13.84	35.24	(-)0.45 (2)
1998-99	15.80	35.24	15.09	16.27	34.06	(-)0.71 (4)
1999-2000	11.05	34.06	10.84	8.66	36.24	(-)0.21 (2)
2000-01	11.05	36.24	1.21	7.58	29.87	(-)9.84 (89)
2001-02	11.05	29.87	7.53	3.18	34.22	(-) 3.52 (32)

Source – Appropriation Accounts
(Figures in bracket represent percentage)

5.1.6 Persistent savings during 1997-98 to 2000-01 were mainly due to short release of funds by the State Government due to financial constraints as stated by the Chief Engineer.

Planning

5.1.7 According to Central Public Works Department Manual, Executive Engineers of the works divisions are required to furnish annual requirement of stores well in advance before the commencement of the financial year so that the central stores division can arrange bulk purchases. It was the duty of the central stores division to consolidate such requirements to facilitate planning, control of

¹ Imphal West, Imphal East, Bridge Division, Imphal Building Division-I, Churachandpur, Chandel, Jiribam and Thoubal PW Divisions.

expenditure and receipt and issue of stores. However, this system was not followed in the department. The budget for procurement of stores was framed during the entire period of 1997-98 to 2001-02 without assessment of requirements. This had resulted in frequent failure of the department to arrange supply of bitumen, cement and steel in the right quantity and at the right time to the works leading to delay in completion of works.

5.1.8 Between June 1995 and February 2001, six divisions² awarded 108 works targeted for completion between June 1996 to May 2002 to contractors, but due to non-supply of materials worth Rs.2.22³ crore (*Appendix-XVII*) (total requirement of materials worth Rs.5.23 crore), the works remained incomplete as of June 2002 and physical progress of the works ranged between 2 to 90 per cent.

Undue financial aid to the supplier

(i) 5.1.9 Between January and March 1999 Executive Engineer (EE), Stores Division placed two supply orders with a local dealer of Indian Oil Corporation (IOC) Limited for 1000 tonnes of bitumen (value: Rs.93.96 lakh) and made an advance payment of Rs.87.96 lakh (January 1999: Rs.50.98 lakh; September 2000: Rs.36.98 lakh) without any security/bank guarantee. The dealer supplied only 828.17 tonnes of bitumen (value: Rs.77.81 lakh) between February 1999 and May 2001 though the supply was to be completed within three months from the date of supply orders. Thus, the irregular payment of advance to the dealer resulted in undue financial aid amounting to Rs.10.15 lakh (Rs.87.96 lakh – Rs.77.81 lakh).

5.1.10 Executive Engineer, Store Division stated (June 2002) that the matter had been taken up (January 2002) followed by reminders (May 2002) to the dealer.

(ii) 5.1.11 For construction of five Bailey Bridges under the Jiribam PW Division, the Superintending Engineer placed (February 1998) orders on a Calcutta based firm (M/S Garden Reach Ship Building and Engineers Ltd.) for supply of bridge components for a total value of Rs.2.90 crore. As per terms and condition of supply order, 50 per cent of the value was to be paid on receipt of the proforma bill from the supplier and 50 per cent after receipt of materials. The delivery was to be completed within five months from the date of payment of advance.

² Imphal West, Imphal East, Bridge Division, Imphal Building Division-I, Churachandpur and Chandel division.

³

(Rupees in lakh)

	Bitumen	Steel	Cement	Total
Value of requirement of materials:	117.90	170.50	234.57	522.97
Value of material supplied by the Department and arranged by contractor:	10.51	144.60	145.67	300.78
Value of quantity yet to be supplied:	107.39	25.90	88.90	222.19

Rate of materials: Bitumen (Rs.13,524 per tonne), steel (18,914 per tonne) and cement (Rs.190 per Kg)

5.1.12 Test check of records of the Executive Engineer, Jiribam PW Division revealed that against admissible advance of Rs.1.45 crore, Rs.2.83 crore (98 *per cent*) was paid to the supplier (March 1998 and March 1999) without any security/bank guarantee.

5.1.13 The Executive Engineer, Jiribam Division stated (July 2002) that 8.670 MT of the bridge components valuing Rs.4.51 lakh only had been received by Mechanical Division II and some parts were in transit.

5.1.14 Thus, the irregular payment of advance of Rs.1.34 crore (Rs.2.83 crore – Rs.1.45 crore-0.045 crore) resulted in undue financial aid to the supplier.

Procurement of material in advance of requirement

5.1.15 The Executive Engineer (EE), Store Division, Imphal had procured (March/April 2001) 2550 metres of steel wire rope valued at Rs.20.12 lakh from a Kolkata based firm for stock (supply order was issued in September 2000). The material was lying unutilised as of April 2002.

5.1.16 Purchase without immediate requirement resulted in unnecessary locking up of funds of Rs.20.12 lakh. Besides, there was loss of interest of Rs.2.63⁴ lakh (calculated at the borrowing rate of 12 *per cent*) to the Government on the money locked up.

Departure from prescribed system

5.1.17 The practice of Cash Settlement Suspense Account (CSSA) was discontinued and the store division switched over to a new system known as “Proforma Bill System” from 1985-86.

5.1.18 Under the new system, on receipt of indents from the works divisions, Stores Division prefers proforma bill for the value of stores and the former is required to issue the cheque first and then lift the material from the stores division.

5.1.19 During review, it was noticed that on receipt of the indents from the works divisions, the stores division preferred proforma bills without ascertaining the availability of the material in the stores. On receipt of the cheque against the proforma bill, the store division entered them in the cash book as credit to Suspense Stock.

5.1.20 Switching over to new system, without considering its consequential effect, has given scope for excess credit to Suspense Stock on one hand and the

⁴ Rs.20.12 lakh x 12% x 13 months = Rs.2.63 lakh

works concerned have been over debited without receiving the material valued at Rs.37.36 lakh during 1999-2002 (Rs.1.46 lakh in 1999-2000, Rs.35.61 lakh in 2000-01 and Rs.0.29 lakh in 2001-02). The materials for the entire credited amount had not been issued at all though the values had been received from the works divisions and credited to Suspense Stock.

Accounts of stores

5.1.21 The divisional officer was responsible not only for financial regularity, but also for maintenance of accounts of stores correctly in accordance with rules in force. It was, however, noticed that 9 Divisional Officers whose records were test checked in audit failed to maintain such accounts properly as discussed below:

Stock Account

5.1.22 The schedule of stock accounts of store division at the end of 1999-2000, 2000-01 and 2001-02 showed stock balance (steel, cement and bitumen) of Rs.6.98 crore, Rs.3.61 crore and Rs.11.55 crore respectively whereas physical balance of the above items at the end of these years was only of Rs.1.11 crore, Rs.0.66 crore and Rs.0.32 crore (calculated at the current issue rates) respectively. The discrepancies were not reconciled and thus, the stock accounts did not depict the true picture of stores.

5.1.23 Eight divisions obtained materials⁵ from the store division on payment of Rs.11.81⁶ crore during April 1997 to March 2002 for use in works but material at site (MAS) accounts were not maintained by the divisions. One division stated (June 2002) that the materials were collected by the contractors and kept at the work site under their custody.

5.1.24 The schedule of stock accounts of store division exhibited Rs.9.01 lakh being value of electrical stores, paints, sanitary stores *etc.* during 1999-2000 to 2001-02 but no records in respect of these items were maintained nor was physical verification conducted to ascertain their existence *etc.* The procedure of taking materials into Stores and Stock Register has also not been followed.

Stock Taking

5.1.25 CPWD Manual provides for physical verification of stores by a responsible officer other than the custodian at least once a year, but, no such

⁵ Cement – 1,84,039 bags, steel – 1336.836 MT and bitumen – 5340.021 MT.

⁶ Cement- Rs.3.50 crore, steel – Rs.2.64 crore and bitumen- Rs.5.67 crore.

report of verification of stores were available for the period under review. Reasons for non verification of stores not stated.

Cash Settlement Suspense Account.

5.1.26 Prior to introduction of “Proforma Bill System” from 1985-86, value of materials issued were accounted for under ‘Cash Settlement Suspense Account (CSSA)’ and the claims preferred for recovery of cost of materials.

5.1.27 Test check of records, however, revealed that payment against CSSA claims of Rs.3.87 crore preferred prior to 1985-86 remained unsettled (June 2002). There was little scope of settlement of these claims since the records of the original claims were not traceable at this belated stage. The division had not initiated any action for settlement/writing off the outstanding amount.

Reserve stock limit

5.1.28 CPWD Manual stipulates that no reserve stock should be kept except with the specific sanction of and to a monetary limit to be prescribed by the competent authority. Test check of records of store division, however, revealed that the value of stock that stood at Rs.4.44 crore in 1999-2000 rose to Rs.9.16 crore in 2001-02 without any reserve stock limit being fixed by the Government.

Non accountal of dismantled bridge components

5.1.29 For reconstruction of Salanthong bridge, the Executive Engineer, Bridge Division procured (October 1996-January 1997) two (100’ span and 110’ span) Bailey bridge components at Rs.57.63 lakh from M/S Garden Reach Ship Building and Engineer Ltd. The bridge was constructed in August 1996 through a contractor at his tender value of Rs.2.52 lakh. But the bridge had to be dismantled (March 1999) due to depression of the abutments. The dismantled bridge parts were not taken into any appropriate accounts (Register of Dismantled Materials) till June 2002. The asset valued at Rs.57.63 lakh thus remained unutilized or disposed of.

Recommendations

5.1.30 (i) Planning for procurement and supply of materials should be done by the Chief Engineer on the basis of the requirement of working divisions.

(ii) Advance payment should be regulated by the Chief Engineer by terms of the contract.

(iii) Purchase of stores should be regulated by the Executive Engineer after fixing the reserve stock limit.

**SECTION “B”
(AUDIT PARAGRAPHS)**

POWER DEPARTMENT

5.2 Injudicious Procurement of Materials

Procurement of materials without assessing requirement resulted in locking up of funds of Rs.31.25 lakh.

5.2.1 According to general principles of purchase laid down in Section 38 of Central Public Works Department Manual Volume II, stores should not be purchased in excess and much in advance of requirement.

5.2.2 Test check (March/April 2002) of records of the Executive Engineer, Store Division, Yurembam revealed that between May 1997 and April 2000, the division procured materials, without assessing the actual requirement, valued at Rs.31.35 lakh (electrical items -Rs.6.41 lakh and tools and plants – Rs.24.94 lakh) for stock (Rs.6.41 lakh) and general use by the executing divisions (Rs.24.94 lakh). Of these, a very negligible quantity only of electrical goods valued at Rs.0.10 lakh was issued between April 2002 and August 2002 to the working divisions leaving a balance of materials valued at Rs.31.25 lakh in stock as of August 2002. There was no issue of any tools and plants items during the said period (Details are given in *Appendix- XVIII*).

5.2.3 On this being pointed out in audit, the Executive Engineer while accepting (August/November 2002) the fact stated that indents for these items were not received from works divisions. Materials were, however, lying in good condition (November 2002).

5.2.4 Thus, the action of the department in procurement of materials without assessment of requirement was not only injudicious but resulted in locking up of funds to the tune of Rs.31.25 lakh. The matter was reported to Government in August 2002; the reply had not been received (December 2002).

5.3 Locking up of funds on purchase of Energy meters

Energy meters retained in stock without use beyond guarantee period led to locking up of funds of Rs.95.44 lakh.

5.3.1 Test-check (March–April 2002) of records of the Executive Engineer, Store Division (Electricity) Yurembam, Imphal revealed that between July 1998 and April 2000 the division procured 96,904 number of single phase energy meters costing Rs.4.73 crore (@ Rs.487.80 each) from two firms (New Delhi and Noida based) against supply orders (March 1998 and January 1999) placed by Superintending Engineer, (SE, Purchase) with the approval of Principal Secretary (Power). Performance of meters was guaranteed for replacement/rectification of defects for a period of 18 months from the date of supply or 12 months from the date of use/commissioning whichever earlier.

5.3.2 The division could issue only 77,338⁷ numbers of meters (out of 96,904) till June 2002 to the working divisions for new installation and replacement of defective meters leaving a balance of 19566 meters costing Rs.95.44 lakh in stock without having been put to use. Meanwhile the guarantee period of the meters for rectification/replacement expired in August 2000 (1415 nos.) and October 2001 (18151 nos.).

5.3.3 On being pointed out in audit, the Executive Engineer, Store Division stated (August 2002) that meters were procured after proper planning and assessment to provide energy meters to all the consumers without having meters (150000 Nos.) and to replace the defective meters (30000 Nos.) but the work could not be completed as the divisions were busy in maintenance of supply system and revenue collection. The contention of the Divisional Officer was not tenable in view of the fact that energy meters were not put to use within their guarantee period and purpose of procurement remained unfulfilled.

5.3.4 Thus, non-installation of energy meters led to locking up of funds of Rs.95.44 lakh for a period of more than two to three years. Besides there was also the risk of these meters being defective with little chance of replacement or rectification by the suppliers.

5.3.5 The matter was reported to Government in August 2002; the reply had not been received (December 2002).

⁷ Year	Quantity issued (Numbers)
1998-99	40,989
1999-2000	4,500
2000-01	14,349
2001-02	<u>17,500</u>
	77,338

PUBLIC HEALTH ENGINEERING DEPARTMENT

5.4 Locking up of funds due to procurement of material without assessment of requirement

Paints worth Rs.16.91 lakh purchased between September 1995 and October 1996 remained unutilised leading to locking up of funds.

5.4.1 The CPWD manual provides that paints should not normally be stored for long as these are likely to deteriorate in quality and become unfit for use after a short period. If the paints are not likely to be required during the following twelve months, these should be disposed off either by sale or transfer to other divisions where these are required (Para 46.1 & 46.3 of CPWD Manual Vol-II).

5.4.2 Test check (January 2002) of records of the Executive Engineer, Water Supply Stores (Rural) Division, Imphal revealed that the division, without assessing the requirement, procured (September 1995 to October 1996) 14,878 litres of paints valued at Rs.21.06 lakh (bituminous paints 6,320 litres, red oxide 3,170 litres, aluminium paints 3,090 litres and black putty 2,298 litres) for stock. Of these, the division could issue (February 1996 to September 1999) 2,921 litres only to the executing divisions leaving a balance of 11,957 litres costing Rs.16.91 lakh as of December 2001 (bituminous paints 5,234 litres, red oxide 2,120 litres, aluminium paints 2,435 litres and black putty 2,168 litres).

5.4.3 Though the paints were liable to deterioration and were lying unutilised from February/October 1996, the division did not take any action to dispose off the paints either by sale or by transfer to other division in contravention of the aforesaid manual provisions.

5.4.4 Further, physical verification of stock was also not conducted as required under the provision of the CPWD Manual (Para 48.1 of the said Manual).

5.4.5 Thus, procurement without assessing the requirement coupled with non-observance of manual provisions by the divisional officer resulted in unnecessary locking up of funds of Rs.16.91 lakh. In absence of physical verification, their fitness for use in the future also remained unassessed. Besides, there was loss of interest of Rs.11.94⁸ lakh on the locked up funds which could have been utilised for other development activities (calculated at the average borrowing rate of 12.57 per cent).

5.4.6 The matter was reported to Government (May 2002); the reply had not been received (December 2002).

⁸ Rs.8.98 lakh from 2/1996 to 12/2001 @ 12.57% =Rs.6.69 lakh
Rs.7.93 lakh from 10/1996 to 12/2001 @ 12.57% =Rs.5.25 lakh
Total: Rs.11.94 lakh
