

## CHAPTER - V

### STORES AND STOCK

#### SECTION – A - REVIEW

#### PUBLIC HEALTH ENGINEERING DEPARTMENT

#### 5.1 Stores and stock

##### *Highlights*

*Failure on the part of the department to assess the annual requirements of stores, procurement of stores by working divisions without ascertaining the availability of such materials in the store division, random procurement of stores without any requirement, loss due to prolonged storage of materials, etc. were noticed*

**There was a loss of Rs.0.53 crore owing to materials becoming unserviceable due to unnecessary purchase and prolonged storage for a period ranging from 3 to 13 years.**

*(Paragraph 5.1.11 & 5.1.12)*

**Injudicious random procurement of materials led to unnecessary blocking of Government funds of Rs.0.89 crore.**

*(Paragraph 5.1.15)*

**Inter-divisional transfer of materials worth Rs.2.33 crore during the period 1981 to 1988 was awaiting adjustment.**

*(Paragraph 5.1.25)*

**Materials worth Rs.8.84 crore sold on credit to working divisions in contravention of Government orders were awaiting realisation.**

*(Paragraph 5.1.29)*

**A liability of Rs.4.20 crore was incurred towards procurement of materials without any provision of funds.**

*(Paragraph 5.1.32)*

##### *Introduction*

**5.1.1** Stores comprise all articles and materials purchased or otherwise acquired for use on works. The PHE Store Division, Aizawl, was entrusted with the task of procurement and distribution of major items of store materials like galvanised iron (GI) pipes and GI specials, etc., to cater to the needs of all Public Health Engineering (PHE) Divisions of Mizoram. The field divisions

were authorised to procure materials directly only in urgent cases within their powers delegated by the Government, by charging to works concerned after obtaining non-availability certificate in respect of these materials from the store division.

**Organisational set-up**

**5.1.2** The Chief Engineer (CE), Public Health Engineering Department (PHED) is responsible for overall supervision of stores. He is assisted by the Superintending Engineer (SE) PHED, Aizawl Circle. The custody of the stores is entrusted to the Executive Engineer (EE), PHE Store Division, Aizawl.

**Audit coverage**

**5.1.3** A review on ‘Stores and Stock’ of PHED was conducted during October-December 2001 and April 2002 by test check of records of CE, SE, (Aizawl Circle) and EEs, Store Division, Aizawl, Water Supply Project Division No.1, Aizawl and Kolasib PHE Division (out of 10 working PHE Divisions).

**Finance**

**5.1.4** The budget provision and expenditure incurred under ‘Stock Suspense’<sup>w</sup> during 1997-1998 to 2001-2002 were as under:

**Table 5.1**

Year	Budget provision	Expenditure incurred
	(Rupees in lakh)	
1997-1998	500	500
1998-1999	500	500
1999-2000	600	600
2000-2001	600	600
2001-2002	190	190
	<b>2390</b>	<b>2390</b>

(Source : As per information furnished by the EE Store Division, Aizawl)

**5.1.5** It would be seen from the above that the budget provisions were utilised *cent per cent* during the period covered by the review.

**Purchase procedure for acquisition of stores**

**5.1.6** As per State Government instructions (July 1991 and February 1995), all purchases shall be made only on the valid recommendations of the State

<sup>w</sup> ‘Stock Suspense’ sub-head is operated for procurement of materials against stock required for general use in the works under the Divisions of the department. Expenditure booked under Stock Suspense is cleared as and when materials are issued and utilised in the works and their value credited to this sub-head by debiting the same to the work concerned where materials are utilised.

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Purchase Advisory Board (SPAB) or Departmental Purchase Advisory Board (DPAB) which is valid for one year from the date of meeting of the Purchase Board.

**5.1.7** Although the Government of Mizoram adopted Central Public Works Department (CPWD) Code and manual for purchase and control of inventory of works department, it is still necessary to obtain the recommendations of SPAB or DPAB (as the case may be) in fixing the rates of materials proposed to be purchased and to obtain approval of the Government before materials are procured on the basis of financial power delegated to them under CPWD Code/Manual. The concurrence of the Finance Department is necessary for purchase of materials beyond the delegated financial powers.

**5.1.8** The purchase under 'Stock Suspense' is made centrally by the store division with the approval of CE who is vested with full powers for purchase of stores borne on Director General of Supplies and Disposal (DGS&D) rate contract.

**5.1.9** As the store division is to purchase materials to cater to the needs of field divisions of the department, annual requirement of materials should invariably be assessed with reference to demand placed by field divisions. Such an exercise on demand should be as accurate as possible so that the materials are procured timely and there is no advance/excess procurement of materials over actual requirement. The irregularities noticed are discussed in the succeeding paragraphs.

***Loss due to unnecessary purchase and prolonged storage of materials***

**5.1.10** General Financial Rules require that all purchases be made in a most economical manner and in accordance with definite requirement of public service. At the same time, care is to be taken not to purchase stores far in advance of actual requirements, if such purchases are likely to prove unprofitable to Government. Further, as the materials are to be purchased only for works in progress, due consideration should be given to the anticipated requirements of stores according to nature and quantum of works to be done by the executing divisions during a year.

**5.1.11** Test check of records of PHE Store Division, Aizawl, revealed that the division procured 51 items of various store materials like wheel valve, GI socket, GI nipple, GI bend, fibre glass with syphone, silicagel powder, single fly sheet steel wire rope, car tyre *etc.*, worth Rs.0.53 crore between December 1988 and September 1998 without assessing their requirements. These were lying in store without any issue till the date of audit (April 2002). The said materials were declared unserviceable by a committee formed for this purpose (October 2001). The reasons for the materials becoming unserviceable were attributed to prolonged storage, frequent shifting and improper storage facilities. No action has yet been taken to obtain write off sanction for the losses.

**5.1.12** Thus, unnecessary purchases and prolonged storage ranging from 3 to 13 years without having proper storage facilities and failure of the division to utilise or dispose of the materials before their becoming unserviceable resulted in loss of Rs.0.53 crore.

**5.1.13** In their reply, the Government stated (September 2002) that the materials were procured in advance based on the probable requirements of the proposed schemes as well as for maintenance of the completed schemes. But due to acute fund constraints, most of the schemes were not sanctioned. As a result, the materials procured against these schemes became surplus. But the fact remains that the materials were procured by the department on the basis of probable requirements and not on the basis of actual requirements which led to loss of Rs.0.53 crore to the State exchequer. The contention of the Government that the materials are expected to be utilised in the ongoing schemes is also not tenable as the entire materials worth Rs.0.53 crore were already declared unserviceable in October 2001.

**Random purchase of stores without assessment**

**5.1.14** Test check of records revealed that in contravention of Financial Rules, the division resorted to random purchase of materials between October 1999 and September 2001 without any indents from the field divisions and without any assessment of actual requirement. The details of procurement of materials are tabulated below:

**Table 5.2**

Particulars of Stores	Opening Balance (as on 1.10.1999)		Receipt			Issue (Upto 3/2002)		Closing balance (as on 31.3.2002)	
	Quantity	Value (Rs. in lakh)	Period	Quantity	Value (Rs. in lakh)	Quantity	Value (Rs. in lakh)	Quantity	Value (Rs. in lakh)
G.I. Nipple 150 mm dia	417 Nos	2.47	3/2000 to 12/2000	2905 Nos	17.18	6 Nos	0.04	3316 Nos	19.61
G.I. Nipple 125 mm dia	250 Nos	1.20	-do-	2228 Nos	10.73	20 Nos	0.09	2458 Nos	11.84
Rubberised cock sheet (6 mm thick)	-	-	10/99 to 9/2001	2306 Kg	20.82	150 Kg	1.35	2156	19.47
300 Amp welding cable	-	-	5/2000 to 8/2001	1430 RM	19.06	-	-	1430 RM	19.06
High pressure Gasket 2/3	-	-	5/2001	525 Sqm	13.83	-	-	525Sqm	13.83
Permite Gasket	-	-	5/2001	1000 Kg	4.84	-	-	1000 Kg	4.84
		<b>3.67</b>			<b>86.46</b>		<b>1.48</b>		<b>88.65</b>

(Source : As per bin cards maintained by the Store Division)

**5.1.15** Thus, out of the materials procured worth Rs.0.90 crore (Rs.0.04 crore + Rs.0.86 crore), materials valued Rs.1.48 lakh had only been issued till March 2002 (i.e., less than 2 per cent of the total procurement). Out of the

balance materials worth Rs.0.89 crore, materials worth Rs.0.85 crore were lying idle in stock for periods ranging from 1 to 3 years entailing the risk of loss due to likely deterioration of materials because of prolonged storage.

**5.1.16** In their reply, the Government stated (September 2002) that all efforts are being made to utilise these materials in the ongoing schemes.

***Local purchase of materials without ascertaining the availability of such materials in Store Division***

**5.1.17** Test check of records revealed that between June 1998 and June 2001, Aizawl Water Supply Project Division No.1 and Kolasib PHE Division procured materials like CI valve, GI flange, GI nipple, goat-proof fencing net etc, worth Rs.5.59 lakh from local market by placing indents/supply orders without obtaining non-availability certificate from the store division as detailed in **Appendix - XXV**. Cross check of records, however, revealed that such materials were available in the store division during the period of requirement by the aforesaid field divisions.

**5.1.18** Thus, procurement of materials locally by the field divisions instead of drawing materials from store division, even at rates higher than issue rates in two cases (Sl. 2 and 3 of the **Appendix - XXV**) not only contributed to accumulation of huge balance of stock materials in the store division but also resulted in extra avoidable expenditure of Rs.0.72 lakh.

***Extra payment towards price escalation***

**5.1.19** The CE, PHED, Mizoram, without inviting tenders, placed (June 1998) a supply order on a local firm, for supply of 500 RM of ERW pipe (14" dia 9.5mm thick) valued Rs.18.44 lakh at the rate of Rs.3687 per RM with the stipulation to supply the materials by September 1998. As per terms and conditions of supply order, rate was FOR Central Store (Aizawl), besides making of 90 per cent advance payment to the firm with the balance 10 per cent payable only after receipt of materials. The price escalation, if any, before delivery period would also be paid extra on production of proof of necessary documents. The store division paid (July 1998) an advance of Rs.16.59 lakh to the firm. In August 1998, the department extended the period of delivery of materials upto October 1998 and again upto May 1999 without citing any reason. Though extensions were given no material was supplied by the firm. The department amended the supply order in March 1999 enhancing the rate to Rs.4218 per RM from Rs. 3687 per RM citing increase in price of steel materials. The firm supplied 499.53 RM ERW pipe in April 1999 and the balance payment of Rs.4.48 lakh (Rs.21.07 lakh – Rs.16.59 lakh) was released (April 1999) to the firm at the enhanced rate. Thus, undue favour was shown to the firm by granting extension of delivery period which resulted in an avoidable extra expenditure of Rs.2.65 lakh<sup>v</sup>.

<sup>v</sup> Cost of 499.53 RM @ Rs.3687 per RM = Rs.18.42 lakh (pre revised rate)  
Cost of 499.53 RM @ Rs.4218 per RM = Rs.21.07 lakh (revised rate)  
Extra avoidable expenditure : Rs.21.07 lakh – Rs.18.42 lakh = Rs.2.65 lakh.

**5.1.20** In their reply, the Government stated (September 2002) that due to non-availability of raw materials with the manufacturer, the firm could not procure and supply the materials in time. Hence, extension of time for delivery of materials was allowed to the firm and the payment at the enhanced rate was made as per terms and conditions of the supply order. But the reply is not tenable as the supply order was placed with the firm without inviting any tender and also without ascertaining the actual availability of such materials with the firm before placing the supply order.

**5.1.21** The CE, PHED, Mizoram placed 6 supply orders, in June 1999 on a Guwahati based manufacturing firm for supply of 287000 RM of GI pipes of different dia costing Rs.3.90 crore with the time frame for their supply by August 1999. However, the supply orders for 85,000 RM of GI pipes of different dia valued Rs.0.64 crore were cancelled in October 1999. Thus, the firm was to supply 202000 RM of GI pipes valuing Rs.3.26 crore.

**5.1.22** According to terms and condition of supply orders, the rates were FOR destination rail head (Silchar) as per DGS&D rate contract of April 1999. The carrying charges from Silchar to PHE Central Store (Aizawl), excise duty of 16 *per cent* and inspection fee of 0.5 *per cent* were also payable. Price escalation, if any, during the currency of the contract was also payable on production of documentary evidence. The department was to pay 50 *per cent* advance payment against the proforma invoice and balance 50 *per cent* on proof of despatch documents of materials. There was, however, no stipulation regarding penalty for non-supply, short supply and delay in supply of materials.

**5.1.23** Test check of records revealed that between October 1999 and March 2000, the stores division paid an advance payment of Rs.1.49 crore on the basis of proforma invoice submitted (June 1999) by the firm. The firm did not supply the materials till the expiry of stipulated delivery date (August 1999). The department extended (September 1999) the delivery period upto 15 November 1999 as the firm could not offer materials for inspection to DGS&D for non-finalisation of paying authority by the department. The firm supplied (November 1999) 15251 RM of GI pipes costing Rs.11.81 lakh. In November 1999, the firm again requested for further extension of delivery period upto 15 January 2000 as the materials required for manufacture of GI pipes could not be collected due to non-movement of trucks (chakka jam) owing to hike in price of diesel, which was allowed by the department. During this extended period the firm supplied GI pipes for further quantity of 4999 RM valued Rs.4.91 lakh. In February 2000, the department without citing any reasons extended again the delivery period upto 29 February 2000 along with enhanced rates of GI pipes effective from 2 February 2000, but no supply of materials was made by the firm till February 2000. Thereafter, no further extension was granted. However, between March and December 2000, the firm supplied 1,61,720 RM of GI pipes costing Rs.2.98 crore at the enhanced rates while in accordance with the rates offered in original supply orders the cost of 1,61,720 RM of GI pipes was Rs.2.87 crore. Thus, there was an extra expenditure of Rs.0.11 crore (Rs.2.98 crore – Rs.2.87 crore) for

supplies made at the enhanced rate beyond the extended validity period for supply of materials. Moreover, due to defective terms and condition of supply order without incorporating penal provisions, the department could not initiate any penal action against the supplier for belated supply of materials.

**5.1.24** The Government stated (September 2002) that the penalty clause for delay in supply of materials would be incorporated in the supply order in future. It was also stated that the extension of time was allowed to the firm on the ground of unavoidable problems such as road blockade etc., prevailing in the North-Eastern States. But the reply furnished by the Government did not cover the entire aspect of this para, as no extension of time was allowed to the firm on and from 1 March 2000.

### ***Accounting management***

#### ***Inter-divisional transfer of materials***

**5.1.25** For services rendered or supplies made by one division to another the expenditure incurred by the originating division is accounted for under a suspense head called "Cash Settlement Suspense Account (CSSA)" pending settlement of the claim by the recipient division. The settlement is required to be done either by cheque or demand draft within 10 days of the receipt of the claim and at the close of the year there should normally be no balance under this suspense head. The practice of CSSA has been discontinued from 1 April 1988. It was, however, seen (December 2001) that between September 1981 and November 1989, the Store Division, Aizawl, raised 39 claims involving Rs.2.38 crore against seven divisions, of which 2 claims involving Rs.5 lakh in respect of two divisions were settled (October 1990 to February 1995) and the balance 37 claims involving Rs.2.33 crore were pending settlement till March 2002 as detailed in **Appendix-XXVI**.

**5.1.26** The store division, despite having such huge and long pending claims against other responding divisions, did not initiate any effective action to settle them. Instead the division simply carried forward the balances in their accounts from year to year. Non-settlement of such long pending claims of huge amount is also fraught with danger of possible misappropriation, fraud, etc.

**5.1.27** The Government stated (September 2002) that suitable action would be taken for regularising the pending claims with other divisions.

#### ***Unauthorised credit sale of materials***

**5.1.28** The Government introduced (April 1988) the system of issue of materials to other divisions on prepayment basis instead of raising CSSA by the originating division to the responding division.

**5.1.29** Test check of records, however, revealed that between April 1988 and March 2002, the store division in contravention of the Government orders, issued materials on credit to different working divisions. During 1996-1997,

the division had an outstanding claim of Rs.6.56 crore pertaining to the period from 1988-1989 to 1996-1997 against 10 divisions and during 1997-1998 to 2001-2002 the division raised further claim of Rs.4.72 crore against credit sale of materials totaling to Rs.11.28 crore, of which Rs.2.44 crore was recovered as of March 2002 leaving outstanding claims of Rs.8.84 crore unrealised (**Appendix-XXVII**). Thus, the purpose of discontinuance of CSSA as observed in para 5.1.26 *supra* and introduction of the system of issue of materials on prepayment basis had been defeated.

**5.1.30** The Government stated (September 2002) that practice for credit sales of materials could not be avoided in order to maintain regular water supply in urban and rural areas of the State. But the contention of the Government was contradictory to their instructions (April 1988) regarding the issue of materials on pre-payment basis following the discontinuance of CSSA system.

#### ***Other topics of interest***

##### ***Irregular entertainment of outstanding liability***

**5.1.31** As per rules, no purchase should be made or liability undertaken unless there is provision of fund for the purpose.

**5.1.32** Scrutiny of records revealed that the division incurred a liability of Rs.4.20 crore towards procurement of materials like GI pipes and GI fittings locally by issue of supply orders to Aizawl based firms during 2000-2001 to 2001-2002. Recommendation of Purchase Board as required was also not obtained in the instant case. In November 2001, the CE, PHED, directed the division to cancel supply orders issued for local procurement of materials like small T&P and GI fittings worth Rs.1.91 crore. However, the supply orders could not be cancelled as the materials were already received before issue (November 2001) of CE's directive. This indicated that there was no immediate requirement of such materials. Thus, procurement of materials without any immediate requirement resulted in unnecessary liability beyond the scope of budget provision.

**5.1.33** The Government stated (September 2002) that the liability of Rs.4.20 crore was reduced to Rs.2.69 crore as of July 2002. But the reply was silent about the necessity for undertaking the liability without having immediate requirement of such materials.

##### ***Non-settlement of outstanding Railway claim***

**5.1.34** Between May 1986 and September 1993 the division preferred six claims of Rs.13.13 lakh against shortage of materials transported through rail by North-East Frontier Railway (NFR). The claim so preferred remained unsettled for a period ranging from 8 to 16 years despite routine action followed up by the division (Store). The possibility of receiving the claim from the NFR was, thus, remote at such a belated stage which tantamounts to a loss (Rs.13.13 lakh) to the State Government.

**5.1.35** The Government stated (September 2002) that a meeting has been fixed with the Railway authority in October 2002 for settlement of the outstanding claims. Further development in the matter has not been reported (November 2002).

***Monitoring and supervision***

**5.1.36** There was lack of monitoring and supervision both at the divisional level as well as at the higher levels as the purchases were made by the store division without any assessment of actual requirement. Some of the field divisions instead of drawing the materials from store division procured similar materials locally in contravention of standing instructions of the Government. Resultantly, a huge balance of stock materials piled up in the store division leading to idle investment, loss on account of prolonged storage *etc.* The department continued to issue stores 'on credit' basis from April 1988 onwards in spite of discontinuance of such credit sale through CSSA from that date resulting in heavy accumulation of outstanding claims against various working divisions owing to non-clearance of such claims by the responding divisions. Besides, no approval of the Purchase Board was obtained by the department from June 1998 onwards for procurement of materials thereby disregarding the standing instructions of the Government.

***Recommendations***

**5.1.37** The Government needs:-

- to regulate the enforcement of codal provisions at the divisional level so as to ensure that procurement of materials is made only on the basis of demand placed by the working divisions;
- to investigate the matter regarding purchase of materials without assessing the requirements and credit sales of materials even after discontinuance of CSSA system; and
- to fix responsibility for entertaining liabilities towards credit purchase of materials without having any demand for the same.