

CHAPTER – V
STORE AND STOCK
SECTION: A : REVIEW

HOME (POLICE) DEPARTMENT

5.1. Store and Stock management

Highlights

The stores and stock management in Police Department was flawed as requirements were not based on actual data on past consumption. Purchases were made in an unbridled manner leading to avoidable locking up of large inventories and public funds (Rs.54.55 crore). Essential documentation was either incomplete or not maintained. Although scales had financial implications, the system did not provide for their financial approvals. Due to disagreement in inventory reported and reflected in accounts, the annual stock level reported could not be relied upon and the total stock position was not known to the Department with any degree of precision.

The system of assessment of requirements were not assessed on the basis of actual past consumption data and available stocks. Requirements were assessed centrally in Police Headquarter at Kohima without ascertaining the needs and necessity of the field units resulted in locking up of inventories valued Rs.17.32 crore.

(Paragraph 5.1.6)

Due to purchase of materials in unbridled manner, the Department purchased anti-riot equipment worth Rs.52.90 lakh in excess of the requirements. Moreover, such equipment worth Rs.45.13 lakh remained unutilised in the Police Central Store, Chumukedima for more than 3 to 4 years.

(Paragraph 5.1.10)

Due to the Department's failure to mention the specification, design and weight in supply orders, 4187 bullet proof jackets procured between April 1997 and July 1999 at a cost of Rs.385.63 lakh were lying unused in stores as the Jawans did not wear those jackets because of heavy weight (each weighing 10 to 12 kgs) of these jackets. Similarly, kitchen-ware worth Rs.23.60 lakh purchased between June 1998 and August 2000 were lying idle in store for more than 1 to 3 years as these were purchased for in excess of actual requirements.

(Paragraphs 5.1.13 and 5.1.16)

Against authorised reserve stock limit of Rs.25 lakh, the Police Engineering Project Divisions at Chumukedima had accumulated stores exceeding the ceiling limit by Rs. 2559 lakh. No reserve stock limit was prescribed for

Police Central Store, Chumukedima and Police Engineering Project Division, Alichen. As a result the stock held by these two offices (Rs. 176.92 lakh and Rs. 956 lakh respectively) as of 31 March 2001 was unauthorised.

(Paragraph 5.1.31)

Introduction

5.1.1. Timely acquisition of various stores like clothing items, equipment, footwear, kitchenware etc is critical to the functioning of the Police Department. Consequent upon introduction of free ration system from May 1998, the Department had also been purchasing edible items and other consumables for issue to its uniformed personnel. Besides, the Department had also been procuring construction materials for its two Engineering Divisions responsible for execution of civil works. The Department had no Purchase Manual of its own and reportedly following the guidelines regarding purchase, custody and accounting of stores laid down in General Financial Rules and Nagaland Public Works Department Code.

Organisational set up

5.1.2. The Department is headed by a Director General who is assisted by an Assistant Inspector General (Supply) responsible for policies, practices and procedures relating to acquisition and deployment of inventory. The Police Central Store, Chumukedima under the control of an Officer-in-Charge is the central procuring agency of the major items required by 9 battalions and 9 Superintendants of Police of the State. Besides, the Project Engineers, Police Engineering Project Divisions, Alichen and Chumukedima, (who are working under the Additional Chief Engineer, Police Department) had also been maintaining two stores at Alichen and Chumukedima to accommodate all materials required for execution of civil works. Although there was no store at district level, small and petty stores were maintained by each Battalion and Superintendant of Police.

Audit Coverage

5.1.3 Purchase, custody and management of stores for the years 1996-97 to 2000-2001 was reviewed in audit during May-June 2001 by examination of records of the Police Headquarter (PHQ), Kohima, both the Police Engineering Project Divisions (Alichen and Chumukedima), Police Central store, Chumukedima and 5¹ field offices out of 18 units. The important points noticed during audit have been discussed in succeeding paragraphs.

¹ Deputy Inspector General of Police (Wireless), Kohima; 1st NAP Battalion, Chumukidema; 7th NAP Battalion, Bhandari, 9th Battalion, Chumukidema and Superintendant of Police, Wokha.

Budget provision and expenditure

5.1.4 The budget provision and the actual expenditure incurred on stores and stock could not be ascertained. However, the information furnished by the department on purchase of stores during past 5 years ended 31 March 2001 was as under

Table No. 5.1

<i>Particular</i>	<i>1996-97</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-2000</i>	<i>2000-2001</i>	<i>Total</i>
	<i>(Rupees in lakh)</i>					
Budget provision	759.04	795.64	998.48	1458.11	898.96	4910.23
Expenditure	754.70	1175.39	818.91	1382.58	716.38	4847.96
Variation Excess(+) /Savings(-)	(-)4.34	(+)379.75	(-)179.57	(-)75.53	(-)182.58	(-)62.27

Source: Departmental records

5.1.5 From the above, it appeared that there was excess expenditure of Rs.379.75 lakh during 1997-98. Records showed that excess expenditure was mainly due to procurement of clothing materials in excess of the budget allocation. However, the reasons for procurement exceeding budget allocations were not stated. In later years, these were substantial saving indicating that budget provisions were made without taking into consideration expenditure trend and consumption pattern of important items.

Assessment of requirement

5.1.6 The department did not obtain any information on past consumption from its Central Store, Divisional and other Battalion Stores and assessment of requirement was done centrally by PHQ without obtaining any indent from field offices. Under the existing system stores once issued to field units by the Police Central Stores, Chumukidema are deemed to have been consumed even if they remain idle in field units. Added to this, the closing stock lying idle in the Central Store or other stores had also not been taken into account while forecasting the needs. The faulty method of forecasting resulted in inflated demand, excess liability, avoidable locking up of inventories estimated to cost Rs.17.32 crore, as discussed in Paragraphs 5.1.8 to 5.1.18.

System of purchase

5.1.7 Based on centrally assessed requirements, the PHQ finalised the rates after calling tenders. Suppliers had been asked to supply the materials to Police Central Store, Chumukedima. Materials were subjected to pre-delivery inspection by "Line Committee" constituted by the Department from time to time for the purpose. After clearance by the Line Committee, the materials were received and recorded in the Stock Ledgers and bills were sent to the PHQ by the OC, PCS, Chumukedima for payment to the suppliers.

Unbalanced inventory

5.1.8 Effective store management aims at keeping inventories as low as possible. It was noticed in audit that huge stock of clothing valuing between Rs.75 lakh to Rs.956 lakh was retained in the Police Central Store, Chumukedima at the end of each of the years 1996-97 to 2000-2001 as shown in the table given below.

Table No. 5.2

<i>Year</i>	<i>Opening balance</i>	<i>Receipts</i>	<i>Total</i>	<i>Issues</i>	<i>Closing balance</i>
<i>(Rupees in lakh)</i>					
1996-97	129	392	521	446 (86)	75
1997-98	75	1101	1176	268 (23)	908
1998-99	908	254	1162	405 (35)	757
1999-2000	757	510	1267	407 (32)	860
2000-20001	860	374	1234	278 (23)	956

NOTE-Figures in the bracket show the percentage of issue to the total stock held.

5.1.9 Holding of excess inventories was mainly due to incorrect and inflated assessment of requirement. For prolonged retention in stores, possibility of deterioration and obsolescence also could not be ruled out.

5.1.10 The Department obtained (June 1997) requirements of anti-riot equipment from all its field units and procured the materials in 1997-98. The following table would show the position of such equipment available in stock, quantity indented by field offices and quantity purchased.

Table No. 5.3

<i>Particulars</i>	<i>Cane shield</i>	<i>Body Protector</i>	<i>Fibre Helment</i>	<i>Cane stick</i>
i) Requirements furnished by all field offices	4858	5157	3387	5691
ii) Less Quantities already available in stock	134	141	479	Nil
iii) Net requirements	4724	5016	2908	5691
iv) Total quantities purchased	5150	8340	6110	5691
v) Value of materials purchased (Rupees in lakh)	24.20	68.39	45.21	7.00
vi) Value of materials purchased in excess of requirement (Rs. in lakh)	2.00	27.26	23.64	Nil

5.1.11 The value of materials purchased in excess of requirement was Rs.52.90 lakh. Such unproductive locking up of funds was also corroborated from the stock ledgers of Police Central Store, Chumukedima which showed that 1794 cane shields, 2401 body protectors, 1618 Fibre helmets and 4091 cane sticks (representing 35 per cent, 29 per cent, 26 per cent and 72 per cent of the total quantities purchased respectively) valued at Rs.45.31 lakh were lying unissued in stock since these were purchased in December 1997 and January 1998.

5.1.12 The Department, however, could not explain as to why equipment worth Rs.52.90 lakh were purchased in excess of requirements and why equipment worth Rs.45.31 lakh were lying idle in stock for more than 3 years. Locking up of funds of Rs.52.90 in unnecessary procurement led to interest cost of Rs.18.57 lakh to the Government at the average borrowing rate for the year 1998-99 to 2000-01.

5.1.13 The Police Department had been purchasing Bullet Proof (BP) jackets of different categories for its officers and other armed personnel. No scale prescribing the entitlement of these jackets had been fixed (June 2001) by the Department. Consequently, the basis on which the requirements of the BP jackets were assessed remained unascertainable.

5.1.14 In July 1999, the Inspector General of Police (HQ) observed that the Department purchased (April 1997 and July 1999) 4187 BP jackets of different categories at a total cost of Rs.385.63 lakh and issued the same to its different units. As the Jawans did not want to wear all these jackets due to

their heavy-weight (10 to 12 kgs each) all these jackets had been lying unused in stores as of January 2002.

5.1.15 It was also noticed that while placing supply orders, the Department did not specify the weight, size and other specifications of these BP jackets and the suppliers were allowed to deliver the goods as per their options. No indent was also obtained by the Department from its field units to assess the requirements of BP jackets. Thus, as a result of placing faulty supply orders, materials worth Rs.385.63 lakh were unproductively locked up in the departmental stores, since the date of procurement. This resulted in interest cost of Rs.164.28 lakh to Government.

5.1.16 It was seen from the Stock Registers of “Cooking Utensils” that large quantities of kitchen-ware of different sizes and categories valued at Rs.23.60 lakh were lying unutilised in the Police Central Stores, Chumukedima since procured between June 1998 and August 2000 resulting in locking up of funds for more than 1 to 3 years. Such accumulation was mainly due to purchase of materials much in excess of actual requirements.

5.1.17 The Deputy Inspector General of Police (HQ) while admitting the idle outlay stated (October 2000) that purchase had been made keeping in mind future contingencies like wear and tear, breakages etc. The reply is not acceptable to audit as the extant rule forbids such a practice and this also goes against the basic tenet of stores management which provides that inventory should not be in excess of the immediate requirement nor fall below the optimum level.

5.1.18 The Department had also been procuring prefabricated huts for providing accommodation to its uniformed personnel. During test-check of records of the Police Engineering Project Division, Chumukedima, it was noticed that between April 1997 and July 2000, the Addl. C.E, P.E.P, purchased 201 sets of prefabricated huts of 64' x 16' (157 sets) and 16' x 16' (44 sets) at a total cost of Rs.16.80 crore, of which only 157 sets were issued to different battalions and 44 sets (64' x 16' = 32 Nos. and 16' x 16' = 12 Nos.) valued at Rs.3.21 crore were lying idle in store as detailed below:-

Table No. 5.4

<i>Year</i>	<i>Opening balance</i>	<i>Received</i>	<i>Total</i>	<i>Issued</i>	<i>Closing balance</i>
1997-98	Nil	59	59	31	28
1998-99	28	35	63	15	48
1999-2000	48	78	126	41	85
2000-2001	85	29	114	70	44
Total	161	201	362	157	205

Source: Departmental records

5.1.19 No reasons were stated by the Project Engineer for such huge accumulation.

5.1.20 In December 1998, the Government of India conveyed approval for raising an India Reserve Battalion by the Government of Nagaland and accordingly the said battalion was raised in March 1999. Pursuant to above, the Additional Chief Engineer, Police Engineering Project, Chumukedima submitted (March 1999) an estimate for Rs.259.95 lakh to the Department for procuring 29 pre-fabricated huts to accommodate the Police personnel of the said battalion at Yachang under Mokokchung district.

5.1.21 Scrutiny of records showed that Addl. C.E, P.E.P, placed (May 1999) supply orders for 29 pre-fabricated huts with a Dimapur based firm at a total cost of Rs.252.95 lakh. As per terms and conditions embodied in supply orders, 75 per cent of payment was to be made to the firm on proof of despatch, 20 per cent on receipt of materials and balance 5 per cent on erection of huts which was to be certified by the Project Engineer, Police Engineering Project Division, Chumukedima.

5.1.22 An amount of (Rs.238.07 lakh) was drawn in August 1999 by the E.E., P.E.P, CMD. and paid to the firm in August 1999 (Rs.181.19 lakh), October 1999 (Rs.46.30 lakh) and December 1999 (Rs.10.58 lakh) although materials were received by the Project Engineer in November 1999 and were lying unerected (June 2001). Despite this, the supplier was already paid erection charge of Rs.20.19 lakh in October and December 1999 which resulted in over payment and undue financial aid to the contractor. The Deputy Inspector General of Police (HQ) Kohima stated (October 2000) that reply would be furnished to audit on receipt of status report from A.C.E (PEP). No reply has, however, been furnished (January 2002).

Other points of interest

Loss due to forgoing of discount

5.1.23 In pursuance of Notice Inviting Tenders and recommendations (July 1997) of the Purchase Board, the Home Department (Police) approved (September 1997) names of 3² firms for supply of ration items for the year 1997-98. The Government also allowed these firms to continue the supply of these items for the years 1998-99 to 2000-2001 on the basis of representations submitted by them. While submitting (August 1997) tenders, a discount of one per cent was offered by the three selected firms provided that payment to them were made within 30 days from the date (s) of supply.

² M/s Nezone Enterprise, Dimapur for whole Milk Powder,
M/s Angami Trading Company, Dimapur for Vegetable Ghee,
M/s T.Temsum Jamir, Dimapur for Vegetable Ghee and Refined Oil.

5.1.24 Although the Department purchased 7129 tonnes of different items (whole Milk Powder, Refined Oil and Vegetable Ghee) valued at Rs.636.29 lakh during the years 1998-99 to 2000-2001 from the said 32 firms, it failed to avail the said discount of one *per cent* and sustained a loss of Rs.6.36 lakh.

5.1.25 The Deputy Inspector General of Police (HQ) Kohima attributed the loss (October 2000) to procedural delays. However, steps taken by the Department for arresting such delays and to fix responsibility for the lapses were not intimated.

Purchase of Sub-standard dry-chilly

5.1.26 Test-check of records showed that 9174 kgs of dry-chilly valued at Rs.4.56 lakh were procured by the Deputy Inspector General of Police (PHQ) in August 1999 and amount was paid to the supplier in November 1999. The Line Committee, constituted to inspect and certify both quality and quantity of the material, observed (August 1999) that the dry chilly (9174 kgs) supplied were not of good quality. Despite this report of the Line Committee, the officer-in-charge, Police Central Store, Chumukedima accepted the sub-standard material and released payment.

5.1.27 The Deputy Inspector General of Police (PHQ) stated (October 2000) that the supply was accepted to avoid hardship to the Jawans. The reply could not explain as to how the hardship of the Jawans was avoided by feeding them sub-standard material when plenty of good quality chillies were available in the local market and why the supplier was not asked to replace the inferior quality material.

Mis-appropriation

5.1.28 Rule 106 of the General Financial Rules provide that all materials received, shall be examined, measured when delivery is taken by a responsible officer who shall record a certificate to the effect that he has actually received the materials and recorded them in the appropriate stock register.

5.1.29 It was noticed in audit that the AIG (supply) paid Rs.15.19 lakh towards clearance of past liabilities being cost of 1000 woolen blankets and 12198 metres of khaki terry cotton cloth which were supplied by Firms 'A' and 'B'³ against the supply orders dated 9 February and 12 February 1996 (as quoted in the supplier's bills) for the year 1995-96. Copies of supply order, approval of the Government for these procurement were not made available to Audit. Collateral checks of supply bills with the relevant stock ledgers, however, showed that although the materials were stated to have been taken into the relevant stock registers but no such receipt entries were made in the Stock Register. It is, thus, obvious that the amount (Rs.15.19 lakh) was paid without receipt of any materials and was misappropriated. The reply of the Department was awaited (January 2002).

Record management

5.1.30 None of the 8 (eight) offices test audited maintained the basic records (Goods Receipt Notes, Bin Cards, Priced Stores Ledgers etc.) to capture data

³ 'A' – K. Sahu Angami
'B' – M/s Khrietou Angami

with regard to purchase rates; and rates were arrived at by dividing the total cost of stores purchased by their tonnage/quantities. It was, therefore, not possible for the Department to indicate with any degree of accuracy the value of their inventories, making any evaluation difficult. The monitoring system presently in vogue was in the form of periodical reports and returns being rendered by the field units to the Police Headquarter. Submission of these reports were also occasional. In absence of this, authenticity of the inventories maintained by the Department could not vouched in audit.

Reserve stock limit

5.1.31 To exercise proper control over purchase, issue and balance of stores, the Reserve Stock Limit (RSL) of materials for each division/store is to be fixed at the beginning of each year as per provision of rules. Although the RSL (Rs.25 lakh) was fixed in early eighties for Police Engineering Project Division, Chumukedima, the limit had not been revised (June 2001). Against this limit, the value of stock held by the Police Engineering Project Division, Chumukedima varied from Rs.2579 lakh to Rs.2584 lakh during 1996-97 to 2000-2001 which was 102 times the authorised stock limit.

5.1.32 In November 1992, the Project Engineer, Police Engineering Project Division, Alichen requested the Department to fix Reserve Stock Limit for his Division, but no RSL was fixed by the Department for PEPD, Alichen as well as for Police Central Store, Chumukedima and in the absence of any authorised RSL, the stock of Rs.1132.92 lakh (Rs.176.92 lakh by Alichen and Rs.956 lakh by Chumukedima) held by them as of 31 March 2001 was unauthorised.

Physical verification of stores

5.1.33 Annual stock taking and reconciliation of discrepancies is a mandatory requirement of any store management as the entire future planning of procurement depends on existing stock-levels. Under Financial rule, stock taking is to be carried out annually and discrepancies, noticed if any, between the actual holding and book balance is to be reconciled to make correct index of stock held. It was noticed that no stock verification was done during the years 1996-97 to 2000-2001 in the units test-checked. As a result, the actual inventory level as well as discrepancy, if any, between the book balance and actual physical balance could not be vouchsafed in audit. This also indicated that stock-taking had been relegated to lower priority.

Recommendations

5.1.34 Based on the shortcomings discussed in the foregoing paragraphs, audit recommends that -

- (i) -The Department should make endeavour to generate accurate and timely information on stock-holding of all the stores for proper assessment of requirements; avoid uncontrolled purchase of materials and locking up of scarce funds;
- (ii) -Stock holding in all the units should be more transparent to facilitate assessment of accurate and need-based requirements; and

(iii) -The Department should tone up its record management and adopt a system of maintaining priced inventory instead of present system of only quantitative accounting.

5.1.35 The matter was reported to Government in July 2001; their replies had not been received (January 2002).

SECTION: B**WORKS AND HOUSING/PUBLIC HEALTH
ENGINEERING/POWER DEPARTMENTS****5.2 Closing of stock registers**

5.2.1 According to the provisions of the Nagaland Public Works Department Code, the accounts are required to be closed each year on 30 September and valuation of stores done with reasonable accuracy. The valuation should be periodically reviewed and revised, where necessary, to enable the authorities to know the profit and loss in respect of different classes of materials and re-adjust the issue prices, where required. In case the valuation is not so reviewed from time to time, the accounts of stores would not reflect the true picture of the value of stores held.

5.2.2 Information received from the Public Works Department (PWD)-Roads and Bridges ((R&B), Housing, Civil and Mechanical Divisions, Public Health Engineering (PHE) and Power revealed the following position:-

Table No.5.5

Name of Department	No. of Division	Stock maintained (no.of divisions)	Position of stock Accounts		Remarks
PWD (R&B)	24	21	1 Division	September 1992	3 Divisions do not maintain Store
			3 Divisions	Upto September 1995	
			1 Division	Upto September 1996	
			5 Divisions	Upto September 1997	
			11 Divisions	Upto September 2000	
PWD (Housing, Civil and Mechanical Divisions)	20	8	Information not furnished by the Department. However, as per records of the Sr. Deputy Accountant General (A&E), out of 20 Divisions, 8 Divisions maintain Stores and 12 Divisions do not maintain store.		
PHE	10	10	All 10 Divisions have closed upto September 2000		
Power	16	12	5 Divisions	Upto September 1999	Information not received for 4 Divisions
			7 Divisions	Upto September 2000	
Total	70	51			

Source: departmental letter and Sr.DAG(A&E) records

5.2.3 Fifteen out of 44 Public Works Divisions (Roads and Bridges, Mechanical, Housing and Civil Divisions) had not closed their stock accounts for periods ranging between 1 and 8 years. While 15 Divisions do not maintain stores, information relating to closing of stock accounts in respect of 4 Electrical Divisions were not made available. In absence of the actual value of the stock held by the Divisions could not be ascertained in audit. This will also affect the cost of the works for which materials had been issued by the Divisions.

Physical verification of stores

5.2.4 The Nagaland Public Works Department Code prescribes that the Sub-divisional Officers should carry out *cent per cent* physical verification of the stores under their charge once in a year. The Divisional Officers are required to verify annually 10 *per cent* of all stores before submission of stock returns to the higher authorities and the Accountant General. Such verifications are meant to enable the authorities to detect shortage and discrepancies in the stores and are applicable to all other departments, where stores accounts are maintained. It was, however, noticed in audit that:-

5.2.5 Out of 70 Divisions, 10 Public Health Engineering Divisions, 7 Electrical Divisions and 11 Public Works Divisions (Roads and Bridges) had conducted physical verification of stores upto September 2000. 5 Electrical Divisions upto September 1999. PWD (Roads and Bridges) Divisions had conducted physical verification of stores - 5 upto September 1997, 1 upto September 1996, 3 upto September 1995, 1 upto September 1992. Information relating to physical verification of stores in respect of remaining 27¹ divisions were awaited (January 2002).

5.2.6 In the absence of physical verification of stock, the extent of loss caused due to pilferage, deterioration, damage, etc., of stock items could not be verified in audit.

Reserve stock limit

5.2.7 (i) Reserve Stock Limit (RSL) had not been prescribed for 3 out of 10 Public Health Engineering Divisions. Of these, the sanctioned RSL was exceeded in 4 Divisions by a total amount of Rs.1,474.74 lakh. The excess due to non-relevance with the prevailing market rate as the existing reserve stock limit was sanctioned in February 1982. 6 Divisions exhibited minus balance of stores aggregating Rs.1,571.78 lakh as on 31 March 2001. The minus balance was attributed by the Department due to centralised procurement through indents and the value of stock materials being left unadjusted against the indenting divisions.

(ii) RSL had not been prescribed for 23 out of 44 Public Works Divisions (Roads and Bridges, Mechanical, Housing and Civil). Of these, 9 Divisions unauthorisedly held stores worth Rs.3,782.40 lakh at the end of March 2001. The sanctioned RSL was exceeded in 17 Divisions by a total amount of Rs.1,331.23 lakh.

(iii) RSL had not been prescribed for 2 out of 16 Electrical Divisions. Eight Divisions had exhibited minus balance of stores aggregating Rs.742.22 lakh as on 31 March 2001. No reasons have been furnished by the Divisions for the minus balance.

1 Electrical Division (4), Public Works Divisions (Housing, Roads & Bridges, Civil and Mechanical Divisions),(23)

Tools and Plant

5.2.8 According to Nagaland Public Works Department Code, the divisions should close the Tools and Plant accounts on 30 September every year and arrive at the balance of stock held. Physical verification of Tools and Plant articles should also be conducted once a year.

5.2.9 It was noticed that all 10 Public Health Engineering Divisions had closed the Tools and Plant accounts and physically verified them upto September 2000. 7 Electrical Divisions and 11 Public Works Divisions (Roads & Bridges) had closed the Tools and Plant accounts and physically verified them upto September 2000. 5 Electrical Divisions upto September 1999. PWD (Roads & Bridges) Divisions had closed the Tools and Plant accounts and physically verified - 5 upto September 1997, 1 upto September 1996, 3 upto September 1995, 1 upto September 1992. Information relating to closing of Tools and Plant account and physical verification thereof in respect of 4 Electrical Divisions and 23 Public Works Divisions (Housing, Roads and Bridges, Civil and Mechanical Divisions) was not made available.

Conclusion

5.2.10 Due to delay in closing of accounts and non-conducting of physical verification, shortage/surplus of Tools and Plant, if any, could not be ascertained and adjusted in accounts in time.