

CHAPTER - II

Department of Atomic Energy

2.1 Non-utilisation of equipment

Directorate of Purchase and Stores, Mumbai did not take effective action to repair equipment that was damaged in transit, which resulted in blocking of funds of ₹5.56 crore spent on its procurement.

Atomic Minerals Directorate for Exploration and Research, Hyderabad (AMDER), a unit of Department of Atomic Energy (DAE) is engaged in identification and evaluation of uranium resources for successful implementation of the atomic energy programme of the country. AMDER proposed (April 2009) procurement of an 'Electron Probe Micro Analyser (EPMA) SX-100' at an estimated cost of ₹6.50 crore for use in evaluation of geological and other natural and synthetic solid materials including alloys. Accordingly, Directorate of Purchase and Stores, Mumbai (DPS), which is the central procurement agency of DAE, placed a purchase order (November 2010) on Cameca, France through the vendor's Indian agent¹⁷ for supply, installation and commissioning of EPMA - SX-100 at a total cost of Euro 9,44,445 on FCA¹⁸ basis. DPS was to pay 90 *per cent* of the total value on receipt of the shipping documents and the balance 10 *per cent* on satisfactory installation. The equipment was guaranteed for 12 months from the date of installation or 18 months from the date of supply, whichever was earlier. All risk transit insurance for the shipment was arranged through Oriental Insurance Company.

Audit scrutiny revealed that the equipment was received (September 2011) in four wooden boxes and DPS paid an amount of ₹5.56 crore being 90 *per cent* of the total value to the firm (October 2011). On receipt of the equipment at AMDER, it was found that one of the four wooden boxes containing the packed equipment was damaged. Accordingly AMDER lodged (September 2011) a provisional claim with the insurance company. The consignment was inspected (October 2011) by the surveyor appointed by the insurance company who reported that there was no physical damage to the consignment. Subsequently, a representative of the vendor's Indian agent

¹⁷ Gannon Dunkerly & Co. Ltd., Mumbai

¹⁸ According to International Trade Rules Incoterms, FCA or free carrier means that the seller delivers the goods to the carrier or another person nominated by the buyer at the seller's premises or another named place at which point the risk passes to the buyer.

inspected (December 2011) the contents of the box and found that an electronic cabinet had been severely damaged. The supplier requested (January 2012) DPS to ship back the entire system (all four boxes) for repair and re-tuning of the physical and electronic components of the equipment.

DPS, however, asked (March 2012) the vendor to furnish bank guarantee for the cost of the equipment and to bear all expenses for transportation since the equipment was damaged within the warranty period. Another survey was conducted (April 2012) by the Insurance company in which physical damages found in the concerned box were reported.

The vendor (May 2012) refused to furnish the bank guarantee or bear any expenses relating to the damages stating that as per FCA Incoterms, it could not be held responsible for damages suffered during transit handling of the equipment, which had been duly expressed in the insurance survey report. The vendor also stated that warranty period started only after successful installation and acceptance test and hence was not applicable. To resolve this issue, DPS and AMDER held (October 2012) a meeting with the vendor's Indian agent wherein it was decided that an expert from the vendor would visit India to assess the extent of damage suffered and evaluate necessity to re-export the entire consignment.

The vendor's expert evaluated (January 2013) the entire consignment and offered three alternatives viz. returning the entire consignment for testing and repair, returning only the box containing damaged components for repair or providing replacement of the damaged components. AMDER decided (March 2013) to return the entire equipment to the vendor for repairs. However, DPS again asked (April 2013) the supplier to furnish bank guarantee for the cost of equipment and to bear all expenses towards its re-export. While the vendor agreed (April 2013) to furnish the bank guarantee, it refused to bear the expenses of re-export. As of June 2014, the matter remained unresolved and the equipment remained in AMDER premises in damaged condition.

Audit observed that DPS continued to hold the vendor responsible for carrying out repairs to the damaged equipment even though it was established that the damage had occurred during transit. This was incorrect, as the procurement was made on FCA basis, in which the responsibility for transportation of the equipment and associated risks lay with DPS. Further, the warranty coverage of the equipment extended to faulty workmanship and manufacturing defects only. Audit also observed that DPS did not take any further action to pursue the insurance claim for damaged equipment, its re-export and repair with the insurance company, even though transit insurance was taken from vendor's warehouse to the ultimate destination i.e

AMDER. As a result, the option for claiming insurance, which was valid for upto six months from the date of filing the provisional claim, also lapsed.

Thus, lack of effective action for repair of the damaged equipment resulted in blocking of fund of ₹5.56 crore on procurement of equipment. The equipment remained in a damaged condition for more than two years and could not be utilised for the purpose for which it was procured.

DPS stated (September 2013) that since the firm declined to give bank guarantee for equivalent value of equipment/components to be sent to for repair, the same could not be shipped back to the firm and was still lying with the Directorate/AMDER. The reply is not acceptable as DPS needlessly held the vendor responsible for damages suffered in transit and failed to take effective action to carry out the repairs or to lodge the final insurance claim. This resulted in blocking of funds of ₹5.56 crore besides loss of opportunity to mitigate the damages through insurance.

The matter was referred to DAE in April 2014, its reply was not received as of June 2014.

