Chapter II

Performance Audit relating to Government Companies

Jaipur Vidyut Vitran Nigam Limited

Performance Audit on 'Procurement and Inventory Management'

Executive Summary

The Performance Audit covers procurement and inventory management functions of Jaipur Vidyut Vitran Nigam Limited (Company) during the period from 2012-13 to 2016-17.

Rajasthan Transparency in Public Procurement Act 2012 (RTPP Act)

The Government of Rajasthan (State Government) enacted (May 2012) RTPP Act and notified (January 2013) Rules there under. The Act repealed all the prevailing rules and regulations relating to procurement of goods, services and works. The Company, however, failed to revise the Purchase Manual and Standard Bid Document as per the Act/Rules.

Assessment of requirement of material

The selected Assistant Controller of Stores (ACOS) and selected sub-divisional stores did not follow the prescribed procedure of assessment of requirement of material. The Circle offices and the sub-divisions did not have any documents regarding work wise/sub-division wise requirement of material submitted to the Zonal Chief Engineer (ZCE). The assessment for the current year was made on the basis of previous year without considering the actual requirement. Further, the Procurement Planning and Management Committee (PPM Committee) never finalised the requirement of material before commencement of the financial year during 2012-13 to 2016-17.

Finalisation of tenders

The Company finalised 29 (72.50 per cent) out of 40 selected tenders beyond the stipulated time period of 120 days. The delay ranged between 4 and 589 days. Further, the concerned authority finalised these tenders without approval of the next higher authority in violation of the Purchase Manual.

Efficiency and effectiveness in procurement of material

The Company procured sub-standard material not conforming to the prescribed specifications valuing ₹ 83.80 crore. The Company incurred extra expenditure of ₹ 6.31 crore by purchasing material at higher rates due to acceptance of supplies even after opening of new tender with lower rates, procurement of material at unreasonably higher rates and imprudent cancellation of tenders. The Company also blocked funds of ₹ 38.84 crore by accepting supplies ahead of delivery schedule without any requirement. Further, the Company procured material without proper inspection and testing which resulted in procurement of sub-standard or inferior quality of material.

Inventory control

The Company did not fix the critical levels of inventory and also did not carry out either the value analysis or the movement analysis. The storage rate was also not fixed on the basis of actual expenditure incurred on the storage. The ACOS and sub-divisional stores did not maintain the record of inventory in the prescribed format. The indents submitted by the sub-divisions to all selected ACOS did not have reference of the work identification memos and the material was issued without presentation of the estimate cards. None of the selected sub-divisional stores maintained job card as per the work identification memo for each work order, transformer movement register and material estimate card for each job.

The Assistant Engineers violated the directions and approved the hand written indents in place of printed indents. The Storekeepers also issued material against these hand written indents.

The Company did not annually conduct physical verification of inventory at the ACOS and sub-divisional stores. The time period covered under physical verification of ACOS ranged between 12 and 51 months while in case of sub-divisional stores it ranged between 16 and 57 months.

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

The Company accepted surplus material of ₹ 8.18 crore from the turnkey contractors which remained unutilised in the stores due to lack of directions, delay in closure of contracts by the Corporate Level Purchase Committee and change in technology. The Company procured material in excess of requirement and material valuing ₹ 10.49 crore was lying unutilised at the ACOS and sub-divisional stores due to lack of demand from the field offices.

The ACOS and sub-divisional stores neither maintained records nor stacked the inventory as per directions. The stock verifiers pointed out unadjusted shortages of ₹ 2.28 crore and excesses of ₹ 2.61 crore as on March 2017 in physical verification reports of all the ACOS. Non-maintenance of prescribed records and lack of inspections, lack of control and monitoring by the competent authorities provided opportunities for embezzlement and occurrence of fire. Further, the Company did not insure the material at sub-divisional stores.

Recommendations

The Performance Audit contains six recommendations which includes (i) revision of Purchase Manual as per RTPP Act and Rules, (ii) streamlining the process of assessment of requirement of material (iii) finalisation of tenders within prescribed time frame, following procedures prescribed for tendering and award of contracts scrupulously (iv) strengthening inspection and testing procedures and ensure strict adherence to the technical specifications at the time of the supply of material by the suppliers, (v) adopting inventory control techniques and maintaining prescribed inventory records and (vi) conducting physical verification at specified intervals and taking corrective action on discrepancies reported in physical verification reports.

Introduction

2.1 The electricity distribution network in Rajasthan (State) is managed by three state owned companies *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. Further, the existing system needs regular operation and maintenance (O&M) and replacement of old equipment. The distribution companies (DISCOMs) are also required to maintain a robust distribution network to ensure regular supply of electricity to the people of the State. Maintaining a large and an efficient electricity distribution network requires huge outlay of funds. 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.

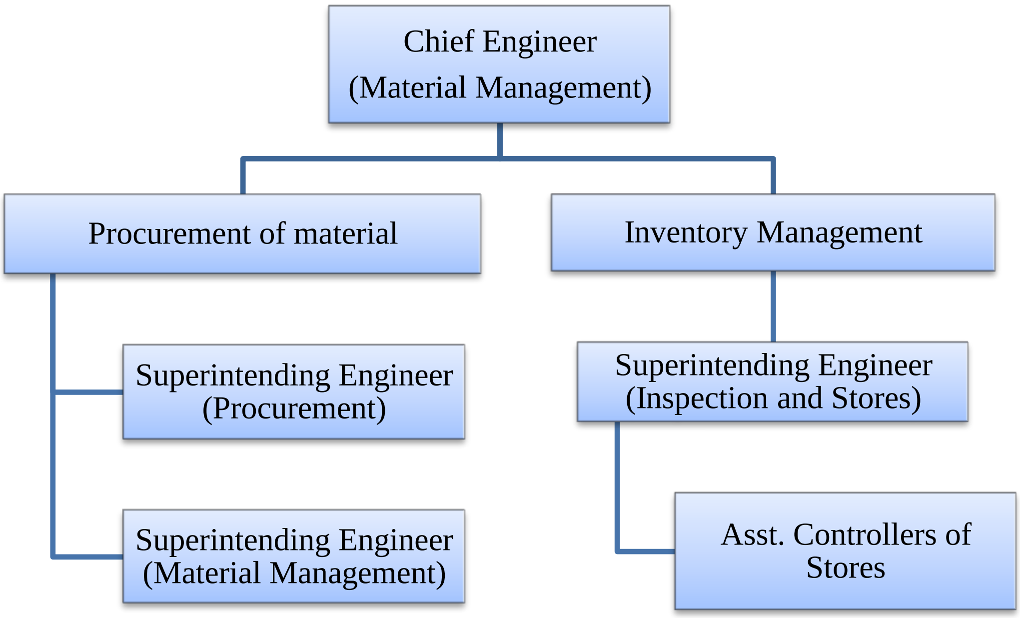
The Committee on Public Undertakings (COPU) of Rajasthan Vidhan Sabha in a meeting (14 July 2016) observed that the DISCOMs were incurring huge losses due to pilferage, theft and non-utilisation of material. The COPU suggested (25 July 2016) audit of the inventory management system of DISCOMs with emphasis 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 2016 to May 2017) in respect of the JVVNL (Company) considering the views and suggestions of COPU, huge investment in procurement of material and high risk involved in management of inventory. The Company was selected because it had the largest consumer base (36.26 *per cent*) in the State and maximum expenditure (₹ 4,619.49 crore) on procurement of material among the three DISCOMs during the last five years ending March 2017. Further, the Company acted as nodal agency for purchase of material for the three DISCOMs during the period 2012-17.

Procurement and Inventory management functions

2.2 The procurement and the management of inventory in the Company are carried out by the Material Management Wing (MM Wing) headed by the Chief Engineer. The MM Wing has three Circles: Material Management Circle, Procurement Circle and Inspection and Stores Circle. The Material Management and the Procurement circles are entrusted with the task of finalisation of requirement and purchase of material. Inspection and Stores (I&S) circle is engaged in the task of management of stores, testing of material, inspection of stores and disposal of scrap by way of auction.

The Assistant Controllers of Stores (ACOS) under the control of Superintending Engineer (I&S) are entrusted with the task of receipt of material, 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 technical standards and commercial specifications of all the items to be procured are common among the three DISCOMs and are finalised by a Technical and Commercial Specifications Committee[1]. Purchase cases 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. The purchase cases 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.

Scope of Audit

2.3 The Performance Audit covered the procurement and inventory management functions of the Company during the period from 2012-13 to 2016-17. Audit scrutiny involved detailed review of 40 high value[3] tenders out of a total of 353 tenders in the CE (MM) office. These high value tenders (₹ 1,814.75 crore) comprised 39.28 *per cent* of the total purchases (₹ 4,619.49 crore) made by the Company during 2012-17. The inventory management function was reviewed in four (Jaipur City Circle, Jaipur District Circle, Alwar and Kota) out of 13 offices of ACOS. The four ACOS offices were selected on the basis of highest consumption of inventory during 2012-17.

1 CEs/Dy. CEs (Purchase Cell) of JVVNL, AVVNL and JdVVNL; CE (O&M)/ Zonal CE, JVVNL; Chief Accounts Officer (Internal Audit), JVVNL; and SE (MM/Procurement), JVVNL.

2 The other members of the committee were Director (Finance), Director (Technical), CE (MM) and Zonal CE (Jaipur Zone). The concerned SE (MM)/SE (Procurement) and CAO (Financial Management, Ways and Means) were also associated during discussion.

3 The value of tenders ranged between ₹ 1.55 crore and ₹ 245 crore.

Audit Objectives

2.4 The Performance Audit was conducted to assess whether:

- there was an adequate system for assessing the requirement of material
- the procurement of inventory was economical, efficient and effective
- the inventory management system of the Company was scientific and effective and
- the system for physical verification of inventory was adequate and disposal of obsolete/scrap items was done in time.

Audit Criteria

2.5 The audit criteria for achieving the audit objectives were derived 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 and agenda and minutes of various committees involved in procurement of material
- Rajasthan Transparency in Public Procurement Act, 2012 (RTPP Act, 2012) and RTPP Rules, 2013 and
- management information system 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 2017)
- scrutiny of records at the Head Office of the Company, Material Management Wing and selected ACOS
- raising audit queries and interaction with the management
- issue (July 2017) of draft Performance Audit Report to the Government/Company for comments and replies thereon and
- discussion with the Government/Company on the audit findings during exit conference held on 6 September 2017.

Acknowledgement

2.7 We acknowledge the co-operation extended by the Company and its field offices in providing the necessary records for the conduct of this audit. We discussed the audit objectives and scope of the Performance Audit in an entry conference with the Government and Company on 8 February 2017 and an exit conference was held on 6 September 2017. The views of the Government and Management during exit conference have been incorporated in the Report along with reply (23 August 2017) on the draft Performance Audit Report.

Audit findings

2.8 The audit findings broadly cover issues relating to implementation of RTPP Act/Rules, procurement of material and management of inventory at the level of ACOS and sub-divisional stores.

Implementation of RTPP Act 2012

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

The State Government enacted (22 May 2012) RTPP Act, 2012 and notified (January 2013) RTPP Rules, 2013 to regulate public procurement. The RTPP Act, 2012 is applicable to all the State 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 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 these Rules. Section 56 of the Act allowed the Company to issue guidelines, procedures, general forms, standard specifications and manuals conforming to the provisions of the Act/Rules. 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 directed (January 2014) the DISCOMs to review the Purchase Manual and ensure that procedures stipulated therein were in consonance with the provisions/clauses of the RTPP Act/Rules. The Purchase Manual was, however, not revised and therefore, the DISCOMs requested (April 2016) the State Government to allow relaxation in certain conditions. The approval of State Government was, however, awaited (May 2017).

Subsequently, the Chairman DISCOMs constituted (8 August 2016) a committee to prepare/revise the Purchase and Stores Manual along with Standard Bid Document. The Purchase Manual, Standard Bid Document and Store Manual were, however, not revised (August 2017) as per the RTPP Act/Rules.

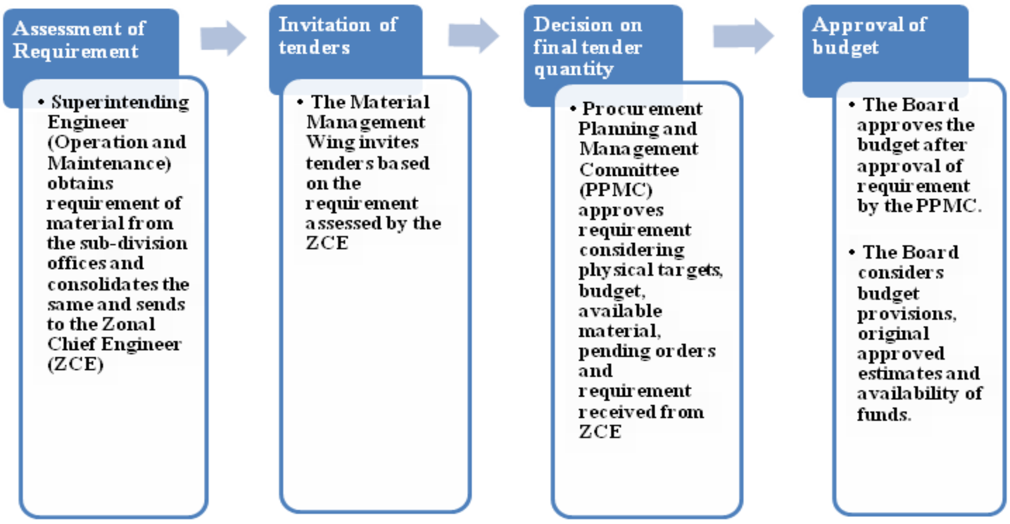
The Government in reply and during exit conference stated that the revision of Purchase Manual was in the final stage and revised manual would be implemented during 2017-18.

Procurement of material

2.10 There were shortcomings in assessment of requirement of material and non-adherence to the prescribed procedures of Purchase Manual, cases of purchase of material not conforming to the specification, uneconomical purchase of material, accepting material ahead of delivery schedule and procurement of material without proper testing and inspection. Audit scrutiny disclosed these shortcomings in 31 (77.50 *per cent*) out of 40 selected tenders involving money value of ₹ 164.54 crore as discussed below:

Assessment of requirement of material

2.11 The assessment of requirement of material is guided by the Stores and Purchase Manual. 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 shall be finalised by the 'Procurement Planning and Management (PPM)' Committee[4] on commencement of the financial year. The PPM Committee for assessing the requirement of material should keep in view the 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. The actual process of assessment of requirement of material and its approval is shown below:



The Chairman DISCOMs issued (February 2014) detailed guidelines for assessment of requirement of material. The directions inter alia provided for work wise and month wise assessment of requirement of material at sub-divisional level. The sub-divisional requirement is to be compiled and

4 The members of the committee were SE (MM), SE (Procurement), CAO (WM & FM), CE (MM), SE (Plan) and CE (Jaipur Zone).

reviewed at circle level. The circle wise requirement was to be further compiled by Zonal CE (Jaipur Zone) and informed to PPM Committee. The whole assessment was to be need based and driven by the available budget.

Review of records at selected ACOS and test check at 21[5] 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 did not have any documents regarding work wise/ sub-division wise requirement of material sent to the Zonal CE. In absence of work wise/sub-division wise assessment sheets/documents, we could not ensure:

- 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.

We noticed that quantities intimated by the Zonal CE (Jaipur Zone) for the year 2013-14 in respect of 229 out of total 261 items for deposit works, new works and augmentation works for 11 kV and low tension, repair and maintenance, cable network and other miscellaneous works for urban focus programme were the same as that of previous year. Similarly, the quantities intimated for the year 2015-16 for these works were same as that of 2014-15 in respect of 211 out of 253 items.

This shows that requirement of material was not received from the field offices and assessment for the current year was made on the basis of previous year without considering the actual requirement of material for ongoing works.

Thus, the material tendered by the CE (MM) based on the requirements of Zonal CE was on *adhoc* basis, and therefore, not indicative of the actual requirement of field offices. Further, it could be seen that the Company invited tenders prior to the firming up of requirement by the PPM Committee.

The Government accepted the facts and stated that the PPM Committee approved the requirement as per past consumption pattern to avoid delay in floating the tenders. It was further stated that the detailed requirement as per the guidelines of Chairman DISCOMs was being obtained and processed for finalisation of requirement in time for the year 2017-18 and 2018-19.

Improper approval of requirement of material

2.11.1 The PPM Committee approved the tendered quantities during 2015-16 and 2016-17 instead of approving the actual requirements as per the procedure prescribed in Purchase Manual and directions issued (February 2014) by the Chairman DISCOMs. This led to approval for purchase of

5 (i) Bhankrota, (ii) Jaipur D-III, (iii) Shahpura, (iv) Chomu A1, (v) Sambhar, (vi) Dudu, (vii) Thanagaji, (viii) Kotputli, (ix) Chaksu, (x) Bassi, (xi) Bhiwari, (xii) Rajgarh, (xiii) Neemrana, (xiv) Bansur, (xv) Malakhera, (xvi) Laxmangarh, (xvii) Kotkasim, (xviii) Alwar-A II, (xix) Kota Rural, (xx) Itawa, and (xxi) Chechat.

6.20 lakh units of eight[6] items valuing ₹ 70.13 crore in excess of requirement during 2015-16. The Zonal CE had indicated excess availability (2.40 lakh units) of these items in the stores. Further, during 2016-17, the PPM Committee approved requirement of 0.52 lakh quantity of nine[7] items valuing ₹ 138.17 crore despite the fact that actual requirement for these items was nil. This led to purchase of excess material as discussed in case 3 of Annexure 5.

The Government accepted the facts that the PPM Committee approved the quantities in excess of the requirement but subsequently some items were not purchased or the NIT was dropped.

2.11.2 The Stores Manual provide for maintenance of buffer stock to cater to emergent requirements and guard against late deliveries of material. Further, the Purchase Manual provided that part quantity for subsequent year based on normal procurement and lead time of supply should be added while approving the requirement. The Company normally added *15 per cent* quantity for spillover works and 25 *per cent* quantity for the first quarter of the next financial year. We noticed that:

- The PPM Committee while assessing requirement for the year 2013-14 did not add 15 and 25 *per cent* quantities for spillover works and first quarter of the next financial year respectively in respect of 39 items
- During 2014-15, the PPM Committee did not add 25 *per cent* quantity for first quarter of the next financial year in respect of 166 items. Further, no quantity was added for spillover works and first quarter of the next financial year in respect of four items.

Thus, there was no uniformity in approval of requirement of material by the PPM Committee. Further, there were no recorded reasons for not adding the quantities for spillover works and first quarter of the next financial year in respect of these items.

The Government stated that during 2014-15, the Company finalised the requirement in the month of May 2014 and hence it was based on actual/realistic basis. The reply was not convincing because the assessment made by the Company did not show adequate availability of these items in the stores. The Government/Company did not respond about assessment during 2013-14.

6 GI Pins of 11 kV (3,26,437 units); GI pin LT (2,79,261 units); 11 kV CT/PT 200/5 (1,824 units); 11 kV CT/PT 50/5 (500 units); 11 kV CT/PT 15/5 (1,000 units); 12 kV O/D VCB kiosks (2,000 units); LT distribution box U/G cable 100 ampere (3,000 units); Surge Arrestors 11 kV ST type (6,000 units).

7 Four core LT cable 185 sq. mm (200 KM); Four core LT cable 120 sq. mm (100 KM); Four core LT cable 95 sq. mm (100 KM); Control cable 4C X 4 sqm. (25 KM); Control cable 6C X 4 sqm. (25 KM); Special meters HT TVM (3,780 units); LT TVM meters (4,270 units); 11/0.4 kV DTs (29,385 units); Safety shoes (14,535 units).

Finalisation of requirement of material

2.11.3 The requirement finalised by the PPM Committee and actual purchases made by the CE (MM) during the period from 2012-13 to 2016-17 were as follows:

(₹ in crore)

Year	Requirement approved by PPM Committee		Actual purchase	(Shortage)/excess purchases than the approved requirement
2012-13	1132.53	1 June 2012	980.85	(151.68)
2013-14	1366.20	13 July 2013	1077.12	(289.08)
2014-15	972.72	6 August 2014	852.50	(120.22)
2015-16	1060.32	9 June 2015	884.57	(175.75)
2016-17	878.02	1 June 2016	824.45	(53.57)

It could be seen that the PPM Committee never finalised the requirement of material before commencement of the financial year during 2012-13 to 2016-17 as prescribed by the Purchase Manual. The requirement of material was finalised 62 to 128 days after the commencement of the financial year. The actual purchases were less than the approved requirements.

The Government stated that delay in finalising the requirement by PPM Committee was due to continuous process of procuring and issuing material. The requirement, therefore, could not be finalised at a point of time as the supplies were continually made. It was further stated that being a public utility, the requirements were finalised keeping in view the sponsored schemes of the government and other exigencies of local self government. The fact remained that the Company could not develop a system of finalising the requirement of material as prescribed in the Purchase Manual.

Our scrutiny of records disclosed deficiencies in assessment of requirement of material. Illustrative cases are discussed below:

Procurement of cable without assessment of realistic requirement

2.11.4 The Company assessed requirement and procured armoured power cable[8] as detailed below.

Particulars	Assessment/finalisation/ orders placed	Supplies received
Chief Engineer (MM) assessed the requirement of cable for the year 2014-15 based on the requirement intimated (December 2013) by Chief Engineer (O&M), Jaipur Zone and R-APDRP[9] works	750 KM	
Requirement finalised (August 2014) by the PPM Committee	187 KM	
Company placed (July 2015) purchase orders under TN 4493 and received supplies	395 KM	355.98 KM
Company also opened (August 2015) a new tender (TN 4522) and placed (November 2015) purchase orders and received supplies (May 2016)	350 KM	88.05 KM

8 11 kV, 3C X 120 XLPE armoured power cable.
9 Re-structured Accelerated Power Development and Reforms Programme.

We noticed that the Company deferred (May 2016) the pending supplies under TN 4493 and TN 4522 considering adequate availability of stock (248.32 KM as on 20 April 2016) to meet requirements for the year 2016-17.

We observed that:

- the assessment of requirement was not realistic as PPM Committee assessed requirement of only 187 KM while the CE (MM) assessed the requirement of 750 KM for the year 2014-15. Further, there was no relation between assessment and procurement as tenders were invited for 395 KM without any basis. The Company also advanced the delivery schedule of TN 4493 and placed purchase orders under a new tender (TN 4522) without any requirement
- the Company had stock of 170.62 KM as on 31 March 2017 which was sufficient to meet requirements for next 14 months (11.86 KM per month based on the consumption pattern of 2015-16)
- the Company stockpiled cable without any requirement as out of 444.03 KM cable procured during 2015-16 and 2016-17, only 273.40 KM could be utilised by March 2017.

The procurement of cable without requirement resulted in blocking of funds of ₹ 9.15 crore against 170.62 KM cable besides deterioration in quality and lapse of guarantee period which was 18 months from the date of supply.

The Government stated that the balance quantity was deferred considering the consumption pattern, available stock and quantity under inspection. Further, no subsequent NIT was floated for this item. The fact remained that the Company stockpiled cable due to unrealistic assessment of requirement. Further, the stock was lying unutilised despite cancellation of subsequent tendered quantities.

Incorrect assessment due to non-consideration of ground balances

2.11.5 The Company procured 33 kV HT XLPE 3C X 300 sqm power cable as follows:

TN 4267 (February 2011 to June 2011)	345 KM
TN 4375 (February 2013 to March 2014)	276 KM
TN 4400 (December 2013)	67.11 KM

The Company considering adequate stock position of cable deferred (March 2014) the supply of 223.89 KM under TN 4400. The SE (Procurement) apprised (September 2015) the CLPC that consumption of cable was only 19.13 KM during 2014-15 and there was closing balance of 105 KM in various stores which was sufficient for more than two years. Accordingly, the CLPC cancelled (September 2015) the deferred supplies.

We observed that:

- the Company overestimated the requirement of cable due to non-consideration of ground balances (material supplied to field offices) which resulted in excess purchase of material under TN 4375 and 4400. The ACOS had closing balances of 12.15 KM, 109.95 KM, 105.94 KM, 70.17 KM, and 2.34 KM cable in the last five years ending March 2017.

- the sub-divisional stores also did not utilise the cable issued to them. Even nine sub-divisions of only two Circles (Kota and Jaipur City Circle) were holding balances ranging between 73.46 KM and 99.26 KM during 2012-13 and 2015-16.

Thus, improper assessment of cable led to excessive purchase in 2012-14 causing blockage of funds of ₹ 6.83 crore and likely deterioration in quality of unutilised cable. The material would meet the requirement for the next four years. The guarantee period of the cable also expired as it was 18 months from the date of supply.

The Government/Company during exit conference stated that such instances were inevitable in absence of computerisation. The Government emphasised upon the need to implement Enterprise Resource Planning (ERP) to deal with such shortcomings and informed that ERP will be in place by the end of 2017-18.

Finalisation of tenders

2.12 Out of 40 selected tenders, there were delays in finalisation of 29 tenders and in nine tenders the Company did not adhere to the prescribed procedure of counter offer as detailed below:

Delay in finalisation of tenders

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

Rule 40 of the RTPP Rules 2013, notified by the State Government, provides a maximum time period of 70 days for finalisation of a tender. The Rule further provides that the bids would be submitted to the next higher authority for decision in case the authority responsible failed to finalise the tenders within the stipulated time period.

Review of 40 selected tender cases disclosed that the Company finalised 29 tenders beyond the stipulated time period of 120 days. The delay in finalisation of tenders ranged between 4 and 589 days. Further, the concerned authority violated the Purchase Manual and RTPP Rules by finalising these tenders without approval of the next higher authority. In two cases delay in finalisation of tenders for purchase of meters led to additional financial burden of ₹ 2.14 crore on the Company due to repeat orders or due to not invoking the price fall clauses as discussed below.

Particulars	**Case 1: TN 2149**	**Case 2: TN 2158**
Tenders opened in	November 2011	June 2012
Samples of meters of the qualified bidders sent for testing at Laboratory	December 2011[10]	August 2012[11]
Testing reports received	July and October 2012	April 2013
Time gap between sending and receipt of reports	7 and 10 months	8 months
Price bid opened	February 2013	December 2013
Issue of purchase orders	February 2013	May 2014
Time gap between opening of tender and issue of purchase orders	14 months	22 months

We noticed that the rates under the new tenders were lower than the ongoing tenders (TN 2097 and TN 2151 respectively). As a result of delay in finalisation of tenders:

- Case 1: The Company had to place (May 2012) an additional purchase order for 15,714 meters under previous tender (TN 2097) which caused an extra expenditure of ₹ 1.21 crore.

The Government stated that regular pursuance was made by the Company to expedite the testing of meters and there was no delay on the part of the Company.

- Case 2: The Company could not impose price fall clause and had to accept supplies at higher rate under the ongoing tender (TN 2151) which caused an extra expenditure of ₹ 93.44 lakh. It is pertinent to mention that the suppliers under the ongoing tender and the new tender were same.

The Government stated that in view of availability of stock, the process was on hold as per directions of higher authorities. The reply was not convincing as the Company could have deferred the supplies after opening of price bids.

Non-adherence to the prescribed procedure of counter offer

2.12.2 The Company amended (April 2012) the procedure of negotiation and counter offer to the bidders prescribed in the Purchase Manual. The amended procedure provided that the competent authority may negotiate with the L1 firm and seek reduction in prices to the extent possible. The offer of L1 firm should be approved unless the competent authority felt that the price tendered by the L1 firm was higher than the estimated rates which were worked out on the basis of updated prices of ongoing works/recent past tenders, ongoing works/contracts awarded by other DISCOMs of the State in recent past, *etc*. In case of un-satisfactory reduction in rates by the lowest bidder even after negotiation, the competent authority could counter offer the rates to other eligible bidders.

10 Electrical Research and Development Association, Vadodara.
11 Central Power Research Institute, Bengaluru.

We noticed that in nine[12] out of 40 selected tenders, the Company did not counter offer the estimated rates to other eligible bidders after rejection of counter offer by the lowest bidder. The Company offered higher prices to the lowest bidder instead of exploring possibilities for awarding purchase orders at the estimated rates to other eligible bidders. The higher prices accepted by the lowest bidders were then offered to other bidders.

The Company by adhering to the prescribed procedure of negotiation and counter offer, could have saved an amount upto ₹ 9.61 crore **(Annexure-3)** at the time of awarding tenders.

The Management during exit conference stated that the Company had to give counter offer at a reasonable rate otherwise it ran the risk of cancellation of tendering process as the Company could only give counter offer just once. The Government, however, opined that the Company should propose its counter offer of the estimated prices to all the bidders.

Efficiency and effectiveness in procurement of material

Procurement of material not conforming to the specifications

2.13 The technical committee finalises technical parameters/specifications of the material suitable for the existing distribution network. The technical specifications of various type of material are included in the tender documents and purchase orders. The suppliers were required to ensure that the material conformed to the prescribed specifications. Further, the Company was also required to ensure that supplied material conformed to the prescribed specifications through inspection and testing of material.

Procurement of sub-standard material or material not conforming to the prescribed specifications were noticed in six out of 40 tenders selected for detailed scrutiny of records. These cases disclosed purchase of sub-standard material valuing ₹ 83.80 crore as discussed below:

Supply of defective three phase meters

2.13.1 The Company issued (March 2013) purchase orders (TN 2156) on Genus Power Infrastructure Limited for supply of 19,660 three phase[13] energy meters along with meter box having optical port communication facility at the rate of ₹ 2,565 per meter. Another purchase order under TN 2157 was also issued (March 2013) to Genus Innovation Limited for supply of 80,000 three phase[14] meter with optical port and low power radio communication facility at the rate of ₹ 2,990 per meter. Clause 19 of the purchase orders provided that the meters declared defective by the Company or the meter testing laboratory would be replaced by the supplier to the fullest satisfaction of the Company within 45 days of intimation.

12 TN Number 2181, 4364, 2169, 4377, 2163, 2218, 2180, 2176 and 4407.

13 AC static three phase four wire 10-60 ampere rating whole current class 1.0 accuracy KWH energy meters with backlit LCD display along with meter box having optical port communication facility.

14 Three phase four wire 10-60 ampere rating with backlit LCD display with poly carbonate meter case without meter box with optical port and low power radio communication facility.

The terms and conditions of both the tenders required the suppliers to submit type test certificates for all tests as per IS:13779-1999/relevant IEC standard (latest amendments). The type tests/additional type test certificates had to be issued by any one of the standard laboratories such as National Physical Laboratory/Electronic Regional Test Laboratory/CPRI (NABL accredited for particular equipment/ test).

The meters offered by the suppliers were also required to pass the specified tests at the bidding stage and before commencement of the supplies. The bulk supplies were to be accepted only after approval of pre-commencement sample. Further, samples from each lot/sub-lot were subject to different type of tests at the Central Testing Laboratory of the Company.

We noticed that meters supplied by both the firms passed the prescribed tests at different stages of tender and accordingly the Company accepted the tendered supplies of meters. The field offices also installed the meters at the consumer's premises. However, the field offices observed (February 2016) some peculiar deficiencies in the meters supplied by both the firms with regard to recording of consumption of energy. It was noticed that the meters became defective at a certain point of reading and whenever there was any interruption in supply, the meters automatically reversed to that point of reading at which it became defective. The memory register of the meter, therefore, failed to record the consumption of energy after a certain point of reading due to supply failure. However, the behavior of meters was normal and accuracy was found within the prescribed limits in case of continuous supply of electricity.

The Company investigated (May 2016) the issue and confirmed the peculiar behavior of meters. The SE (Meter and Protection), therefore, recommended that all the meters supplied by the firms should be replaced as the peculiar behavior of meters might cause financial loss to the Company. The Managing Director also directed (July 2016) to replace all the meters if the defect was established and accepted by the firm. The legal wing of the Company also opined (July 2016) that meters tested by the Meter and Protection (M&P) Wing had shown peculiar behaviour. As testing of each and every meter at site was a time consuming exercise it would, therefore, be appropriate that all meters supplied by the firms under TN 2156 and 2157 should be taken out from the circuit on priority to avoid any revenue loss and the firms should be directed to replace all meters.

The matter was intimated (March 2016) to the firms but the Company never issued any direction for replacement of the meters procured under the tenders as advised by SE (M&P) and legal wing. The firms during a meeting held (July 2016) at the level of Managing Director, however, assured to replace only the defective meters lying in the stores.

As of March 2017, Genus Innovation Limited and Genus Power Infrastructure had replaced (September 2016) only 5,000 meters against the 99,660 meters supplied.

This indicates that the testing procedures failed to ensure accuracy of meters as per prescribed specifications as the defective meters were stated to have passed all types of tests at different intervals. Further, the Company failed to ensure replacement of all the meters despite establishing peculiar type of defect in the meters. The Company did not remove the defective meters procured at a cost of ₹ 28.96 crore and was incurring losses due to non-recording of energy consumed by the consumers.

The Government accepted the facts and stated that as per decision taken (30 May 2017) in the Senior Officers meeting of the Company, all the SEs (O&M) had been directed to ensure replacement of all three phase meters supplied under TN 2156 and 2157.

Purchase of meters of obsolete technology

2.13.2 The Financial Restructuring Programme, 2012 (FRP) of the State Government required the Company to install prepaid meters for all defaulter consumers (Government and large consumers like PHED[15]) by March 2013.

The Company invited (April 2012) tenders wherein HPL was the L1 bidder and it offered common meters for both (10-60 and 20-80 Ampere) type of ratings. It clarified that offered meters fulfilled the criteria of both types of rating as per the requirement of the Company. The CLPC decided (28 August 2014) to place purchase orders on HPL (lowest bidder) for 42,000 meters at a negotiated price of ₹ 6,765 per meter. A member of the Common Purchase Committee, however, felt that HPL lacked experience and hence the case should be placed before the Board of Directors. The CLPC, however, cancelled (12 September 2014) the tender on the ground of non-competitive prices. As such the case was not placed before the Board for decision.

The Company opened (February 2015) a new tender[16] with relaxed criteria (minimum supplied quantity in past) to secure competitive prices and broader participation of bidders. HPL was again the L1 bidder for both (10-60 and 20-80 Ampere) types of rating at unit rate of ₹ 10,440. The meters offered by the HPL were same as that of previous tender. The Company carried out (August 2015) negotiations with the bidders and placed purchase orders on all the three qualified firms for supply of 43,883[17] meters at negotiated rate of ₹ 9,500 per meter. HPL completed supplies of 12,849 meters to the Company by February 2016.

The Company, thus, purchased the meters at an extra expenditure of ₹ 3.51 crore as the meters were same in both the tenders.

Review of records further disclosed that the meters could not be commissioned because (i) the PHED connections were installed in super transformers, (ii) the box of the transformer was welded, (iii) there was lack of directions for installing customer interface units and (iv) there were space constraints in PHED meter boxes. The problems could not be resolved and as of May 2017 only 2,366 out of 12,849 prepaid meters could be installed. The remaining meters were lying (May 2017) in various stores of the Company.

Audit scrutiny disclosed that prepaid meters were installed at PHED and 30 days' grace period was allowed to recharge the meters. However, the meters

15 Public Health and Engineering Department (PHED) is responsible for water supply in the State and is one of the largest defaulter consumers.

16 TN 2297.

17 HPL supplied 12,849 meters to the Company, Secure Meters supplied 14,334 meters to AVVNL and Genus Power supplied 16,700 meters to JdVVNL.

did not have online communication feature for re-charging. This resulted in automatic disconnection of electricity supply after the originally charged amount was exhausted. This created unrest among the public due to non-supply of water.

The issue was discussed in the State Government and it was decided (February 2016) that prepaid meters should not be installed at PHED. The SE (IT) was directed to ensure suitable modifications in the software of the meters. The Company requested (March 2016) HPL for necessary modification in the software, installation of external modem with the meter, installation of server to provide online meter reading, SMS facility, *etc*. HPL replied (March 2016) that necessary modifications would be at an additional cost and submitted (June 2016) financial proposal to the Company.

The CLPC discussed (August 2016) the issue and observed that reasonability of the price demanded by HPL could not be ascertained in absence of any past example from any other utility. The committee formed (July 2016) to examine the justification and methodology for installing prepaid meters also observed (August 2016) that prepaid meters had not yielded the desired results and the meters were of obsolete technology. This committee also opined that there was no need for further investment on these meters on the basis of cost benefit analysis.

The Government stated that the scope of works for supply in new tender also included installation and commissioning of meters which increased the cost of meters in new tender. Further, the matter of installation of prepaid meters at temporary connections was under consideration. The Company was also trying to install the prepaid meters for the consumers of other categories and the purpose of procurement of these meters as per FRP scheme 2012 would be achieved. The reply was factually incorrect as the Company awarded the work of installation and commissioning of meters through a separate work order which had not been added to the cost of TN 2297. Thus, an amount of ₹ 12.21 crore was spent on procurement of meters of obsolete technology. Further, the Company could not install these meters (August 2017) to achieve the objectives of FRP 2012.

Purchase of Ring Main Units in deviation from the approved specifications

2.13.3 The Company placed (July 2015) purchase orders[18] for procurement of SCADA[19] compatible Ring Main Units (RMUs) as below:

Schneider Electric Infrastructure Limited Jaipur	371 RMUs of two pound	₹ 3.39 lakh per unit
Crompton Greaves Limited, Nashik	742 RMUs of two pound	₹ 3.39 lakh per unit

The procurement of RMUs was subject to the condition that signals required for SCADA compatibility should be as per specifications intimated by the Information Technology (IT) Wing of the Company to the SCADA implementing agency (Dongfang Electronics Company Limited).

18 TN 2292.

19 Supervisory Control and Data Acquisition.

Schneider Electric Infrastructure Limited

We noticed that RMUs were not transmitting 10 types of signals covered in the approved list of signals. The SCADA implementing agency was unable to connect and configure these signals with the SCADA system due to non transmission of digital input/output signals by the RMUs. The issue was apprised (June 2016) to the firm but the firm neither took any action to rectify the defects nor replied to the queries of the Company. After several reminders (July 2016 to September 2016) the firm merely replied (October 2016) that the RMUs were as per the approved drawing and specifications.

The Company simply relied on the reply of the firm without any verification/testing and opinion from the SCADA implementing agency. As of March 2017, the RMUs procured from the firm could not be integrated with the SCADA system.

Crompton Greaves Limited

The inspecting officer in his report (January 2016 for Lot IV) pointed out deviation from the Guaranteed Technical Parameters (GTP). The deviation was that the protection current transformer (CT) was installed on a separate mounting plate instead of direct mount on bushing. The firm replied (February 2016) that protection CTs were mounted on the back plate inside the cable box for better accessibility and ease of maintenance. The firm further intimated that all RMUs under the tender till now had been supplied with the same CT arrangement. The SE, Jaipur City Circle (JCC) reported (February 2016) that it was not possible to conclude whether RMUs supplied by the firm with such a CT arrangement fully met the requirement of SCADA because the RMUs were not still functional at SCADA. He also mentioned that technical viability of the RMUs should be verified by the Technical Specification Approval Committee.

The Company, however, decided (February 2016) to accept the supplies on the grounds that no difficulty was observed in the installed RMUs with such a CT arrangement. Further, the drawings of the RMUs were revised at the level of CE (MM) as per the CT arrangement of RMUs supplied by the firm. The field officers, however, observed that the possibility of damage of CT could not be ruled out during operation. The Company accepted supplies of RMUs with the condition of supply of 15 extra sets of protection CTs for emergency. The technical viability of the RMUs was, however, not verified by the Technical Specification Approval Committee.

The Company, thus, purchased 371 RMUs valuing ₹ 12.58 crore from Schneider Electrical Infrastructure without ensuring technical viability as these could not be integrated with the SCADA. Further, the purchase of 742 RMUs valuing ₹ 25.16 crore from Crompton Greaves was made in deviation from the approved drawings/specifications without approval of the Technical Specification Approval Committee. We observed that the decision to accept supplies on the condition of supply of 15 extra CT protection sets was not logical in view of wide gap between cost (around ₹ 501.59 per unit) of CT protection set and cost (₹ 3.39 lakh per unit) of RMU.

The Government stated that Schneider Electrical Infrastructure has furnished (June 2017) clarification to the SE (IT) which was under examination. Further, the Company was taking necessary steps to ensure that RMUs supplied by the firm could be well integrated/compatible with SCADA system. As regards Crompton Greaves it stated that change in location of protection CTs did not deviate from the technical specifications and hence no requirement for approval from the Technical Specification Approval Committee was envisaged. The reply was not convincing because the inspecting officer of the Company itself pointed out deviation from the Guaranteed Technical Parameters. Further, the SE (JCC) also required that technical viability of the RMUs should be verified by the Technical Specification Approval Committee. We observed that any deviation from the approved Guaranteed Technical Parameters had to be approved by the Technical Specification Approval Committee to ensure that the material supplied by the firms conform to the specifications.

Utilisation of inferior/failed EHV Grade Transformer Oil

2.13.4 The Company placed (September 2012) purchase order (TN 2172) in favour of Savita Oil Technologies Limited, Navi Mumbai (Supplier) for supply of 1,500 Kilolitre (KL) EHV Grade Transformer Oil at the rate of ₹ 80,441.65 per KL. Clause 11 of the purchase order provided that composite samples from each inspected lot would be drawn and sent to CPRI[20], Bengaluru for complete testing of the guaranteed technical particulars prescribed in the purchase order. The terms of payment (Clause 5) provided that 85 *per cent* payment of each consignment would be made against the challans and remaining 15 *per cent* payment would be released after receipt of successful type test reports from the CPRI, Bengaluru. In case of failure of composite sample, the balance 15 *per cent* payment was to be forfeited by the Company.

The Company received supplies in six lots during December 2012 to July 2013. The composite samples were drawn from each lot and sent to CPRI, Bengaluru for testing of the guaranteed technical particulars. The Company also tested the samples at its Central Testing Laboratory (CTL), Jaipur. Pending lot wise reports from CPRI, Bengaluru but after getting clearance from CTL, the Company allowed the field offices to use the transformer oil.

We noticed that four out of six composite samples failed in CPRI testing and the Company received the testing reports between July 2013 and November 2013. However, the SE (MM) belatedly issued (August 2014) instructions to the field offices for not using the transformer oil. The Supplier was also directed (August 2014) to lift the unused oil from the field offices. The failed lots involved supply of around[21] 1,000 KL transformer oil out of which 750 KL (75 *per cent*) oil had already been utilised by the field offices by the time instructions were received. The remaining 250 KL oil was lifted by the Supplier.

This indicates that CTL, Jaipur failed to ensure proper testing of the guaranteed technical particulars prescribed in the purchase order. Further,

20 Central Power Research Institute.

21 The exact supply under failed lots was 999.85 KL out of which 749.89 KL transformer oil was utilised by the field offices.

delay in issue of instructions by the SE (MM) led to utilisation of 750 KL failed transformer oil valuing ₹ 4.89 crore.

The Government stated that only testing of density and volume of oil was being carried out at CTL for ensuring adequate quality and specified quantity of supplied EHV grade transformer oil. Further, the quality of oil does not degrade on account of failure in one or two type tests. There were no adverse reports of the oil supplied and used under TN 2172. The reply was not convincing because the Company would not have directed the supplier for lifting the unused oil if its quality was within the specified parameters. As regards delay in issue of directions by the SE (MM), the Management during exit conference stated that there was some communication gap between the ACOS and MM Wing regarding receipt of reports.

Uneconomical procurement of material

2.14 The authorities associated with the procurement process or directly responsible for facilitating acquisition of goods and services with the public funds should take effective measures to ensure that material is procured as per specifications, prices are reasonable and collusion of bidders is minimised. The instances indicating uneconomical purchase of material of ₹ 6.31 crore were noticed in three cases consisting of four out of 40 selected tenders as detailed below.

Extra expenditure due to accepting supply of transformers at higher prices

2.14.1 Clause 1.60 of the General Conditions of Contract (GCC) provided that the price fall clause would be effective from the date of opening of price bid of subsequent tender. In case the delivery schedule was not over and the supplier did not agree to supply the remaining quantity at lower rate received in the new tender, the remaining quantity had to be accepted upto three months from the date of opening of new bid to the extent of ordered quantity as per delivery schedule. Further, no supply in excess of the quantity specified in the delivery schedule shall be accepted in any circumstances during three months after opening of price bid. The original delivery schedule should not be preponed and the old purchase orders in respect of un-supplied quantity would be cancelled.

The Company placed (April 2012) purchase orders (TN 2137) on various firms for supply of 25 kVA (aluminium wound) three phase distribution transformers with meter box. The Company extended (August 2012) the original schedule of commencement of supplies by four months.

The price bids of a subsequent tender (TN 2176) were opened (30 October 2012) wherein the lowest rate was decided at ₹ 44,100 per transformer. The rate in new tender was lower than the updated rate (₹ 47,003.61 per transformer) of ongoing TN 2137.

We noticed that 32 suppliers did not accept the reduced rate. The Company accepted supplies from these firms as per delivery schedule mentioned in the orders without considering the fact that the original delivery schedule was extended by four months. The Company by doing so accepted supplies of 5,593 transformers at higher rates which resulted in extra payment of ₹ 1.62 crore.

The Government stated that the price fall clause was made applicable as per original delivery schedule as the extended schedule was allowed only to give relief to the suppliers in wake of delay in payments by the Company. The reply was not convincing because extension of supply schedule was with the condition that there should not be any financial loss to the Company.

Avoidable expenditure due to procurement of poles at higher prices

2.14.2 The Company opened (June 2014) price bids of the qualified bidders for purchase of eight meter (1,52,160 poles under TN 4468) and nine meter (2,77,691 poles under TN 4467) plain cement concrete (PCC) poles.

The lowest rate (₹ 1,599 per unit) of the eight meter pole was higher than the updated price (₹ 1,524.09 per unit) of previous tender. The lowest rate in respect of nine meter poles was ₹ 2,147.25 per unit. The Company counter offered the L1 rates to other bidders but they did not accept Company's offer. The Company also enhanced its offer several times and finally placed purchase orders for eight and nine meter poles as below:

No. of poles	Rate per pole	Remarks
Eight meter poles		
19,500	₹ 1,599	Placed (July 2014) purchase orders on three bidders at L1 rate.
36,000	₹ 1,599	Additional quantity accepted by one of the three bidders which accepted L1 rate.
16,200	₹ 1,609	Placed (July 2014) purchase orders on five bidders.
1,06,000	₹ 1,685	Placed (September 2014) purchase orders on 56 bidders after increasing the tendered quantity.
Nine meter poles		
5,600	₹ 2,147.25	Placed (July 2014) purchase order on L1 bidder
31,500	₹ 2,161	Placed (July 2014) purchase orders on six bidders
12,000	₹ 2,225	Placed (July 2014) purchase orders on two bidders
3,500	₹ 2,240	Placed (August 2014) purchase order on one bidder
2,17,109	₹ 2,340	Placed (September 2014) purchase orders on 55 bidders

We noticed that the CLPC decided (July 2014) to invite a short term tender to fulfill the requirement of eight meter poles but no action was taken and the CLPC went for negotiations with the bidders by offering higher prices each time.

We observed that the Company awarded purchase orders at unreasonably higher rates than those worked out on the basis of previous tender/tender awarded by other DISCOMs/subsequent tender. This was established from the fact that the Company awarded purchase orders for eight meter poles under subsequent tender (TN 4505[22]) at the rate of ₹ 1,440 per unit and other DISCOMs also finalised the tenders at lower rates during this period. In case of eight meter poles AVVNL placed purchase orders at ₹ 1,599.98 per unit under TN 834 and JdVVNL placed purchase orders at ₹ 1,611 per unit under TN 1046. In case of nine meter poles, AVVNL finalised a tender (TN 889) at price of ₹ 2,255.09 per unit during this period.

22 Finalised in August 2015.

The Company by procuring poles at unreasonably higher rates incurred avoidable extra expenditure of ₹ 2.66 crore[23].

The Government stated that all possible efforts were made to give reasonable offers to the bidders as per purchase manual and in the interests of the Company. Further, during exit conference, the Management stated that various incremental offers given by the Company were repeatedly turned down by the bidders. The reply was not convincing as the Company did not make efforts to break the cartel of bidders despite reducing trend of the prices of poles as indicative from the purchase orders placed by other DISCOMs at lower rates. Further, there were no recorded reasons for not inviting a short term tender as decided by the CLPC.

Purchase of meters at higher rates due to cancellation of tender

2.14.3 The Company opened (6 August 2014) technical bids of 17 bidders under TN 2248 for purchase of 17.75 lakh single phase static energy meters for three DISCOMs. The price bids of 12 bidders were opened (26 November 2014) after technical evaluation by the techno-commercial bid evaluation committee and approval by the CLPC. The lowest all inclusive unit price was ₹ 689.27 per meter as against the ordered price of ₹ 858.01 per meter under previous tender (TN-2158). However, the CLPC decided (12 December 2014) to cancel the tender and invite a short term tender in view of complaint from a bidder (HPL Electric and Power Limited-HPL) regarding opening of price bid of bidders which had not passed additional type tests/tamper tests, rate of taxes/duties quoted by some bidders not matching with the prevailing rates, the lowest bidder being debarred by a utility in State of Bihar and incomplete submission of information by the bidders.

We observed that the decision of the CLPC to cancel the tender was not justified in view of the following facts:

- the techno-commercial bid evaluation committee recommended to open the price bids of four bidders which could not pass additional type tests/tamper tests on the basis of past practice adopted in TN-2151 and 2246. The techno-commercial committee was of the view that these firms could adhere to the specifications at the time of submission of pre-commencement sample
- the Company while preparing comparative statement considered the prevailing rates of taxes and duties in respect of two bidders which quoted different rate of taxes/duties then the prevalent rates and
- there were no documents on record to ensure that the L-1 firm was debarred by a utility in the State of Bihar. Further, a bidder could only be disqualified as per tender conditions when it had been debarred by any of the three DISCOMs of the State.

We noticed that the Company invited a short term tender (TN 2298) to fulfill the requirement of 17.75 lakh meters. The price bids of eligible bidders were opened (5 May 2015) wherein the lowest rate was ₹ 749.73 per meter.

23 ₹ 0.81 crore [1,06,402 X (₹ 1,685 - ₹ 1,609) for eight meter poles and ₹ 1.85 crore [2,17,109 X (₹ 2,340 - ₹ 2,255] for nine meter poles.

The orders were finally placed (June 2015) on HPL at a negotiated unit price of ₹ 740 for four lakh meters for the Company and the supplies were accepted at this price.

Imprudent cancellation of TN 2248, therefore, resulted in procurement of meters at higher prices causing loss of ₹ 2.03 crore to the Company.

The Government stated that the tender was cancelled on justified grounds. The reply was not convincing as the price bids were opened after technical evaluation by the techno-commercial bid evaluation committee and approval of CLPC which had taken into consideration all the issues raised by the complainant.

Accepting supplies ahead of delivery schedule

2.15 Clause 1.23 of the General Conditions of Contract stipulates that delivery is the essence of the contract and, therefore, the delivery schedule needs to be strictly adhered to by the suppliers. Normally, the Company should not accept supplies ahead of delivery schedule except in case of urgency. Two instances highlighting receipt of material ahead of delivery schedule without requirement are discussed below:

Purchase of earthing sets

2.15.1 The Company placed (September 2015) purchase orders (TN 4534) on various firms for supply of 1,52,597 galvanized mild steel rod type earthing sets at the rate of ₹ 422.68 (ex-works) per set. The firms were required to supply material between October 2015 and May 2016.

We noticed that the Company requested (September 2015) the firms to supply the material ahead of the stipulated delivery schedule in view of ostensibly poor stock position (11,565 sets as on 15 August 2015). Accordingly, dispatch instructions for supply of 1,46,391 out of 1,52,597 sets were issued in September and October 2015. The suppliers delivered the requested quantity by October 2015.

The decision of the Company to advance the supplies was not prudent because the average consumption of material was around 11,676 sets per month during September 2015 to May 2016. As of May 2016, the Company had stock balance of 55,703 sets which was sufficient to cater to the requirement for next four months. We observed that the Company by accepting the material ahead of the delivery schedule not only blocked the funds but also could not avail the benefit of negative price variation of ₹ 44.90 lakh. The price of the material was steadily declining as the applicable price variation was on negative side. It varied from (-) 3.16 *per cent* in September 2015 to (-) 13.14 *per cent* in April 2016.

The Government stated that the supply was preponed in view of urgent requirement of the material but the same could not be consumed due to shortage of matching material. Further, it could not be anticipated in advance whether the indices will go downward or upwards. The fact remained that the decision of accepting the supply of material ahead of delivery schedule without ensuring supply of matching material caused blockage of funds.

Purchase of vacuum circuit breaker kiosks

2.15.2 The Company placed (August 2012) purchase orders (TN 2169) for 1,822 units of 12 kV outdoor vacuum circuit breaker kiosks (VCB kiosks) to fulfill the requirement of the year 2012-13. Out of 1822 units, 1,252 units were to be supplied by Stelmec Limited, Ahmedabad with delivery schedule upto February 2014. The Company requested (September and December 2012) the firm to advance the deliveries considering emergent requirement of the material. The Company also issued (September 2013) an additional purchase order on the firm for 313 units considering stock position of only 174 units (as on 31 August 2013). The supplier (Stelmec Limited), however, brought (November 2013) to the notice of the Company that 863 VCB kiosks supplied under TN 2169 were already lying at stores for want of installation.

The Company also finalised (December 2013) a new tender (TN 2207) to fulfill the requirements of the year 2013-14 and placed purchase orders on Stelmec Limited (678 units) and Toshiba Limited (828 units). The firms were also requested (February 2014) to advance their deliveries in view of urgent requirement of the material. Thus, the Company placed purchase orders for 3,641 VCB kiosks to fulfill the requirements for the year 2012-13 and 2013-14.

Review of supply of VCB Kiosks under TN 2169 and TN 2207 and their installation disclosed that the 863 units of Stelmec Limited and 672 units of Toshiba Limited remained in the store upto 533 and 724 days respectively from the date of supply at stores. The instructions issued to advance the supplies of VCB kiosks citing emergent field requirement were, therefore, not justified. The Company by making unwarranted purchase of 1,535 VCB Kiosks blocked funds amounting to ₹ 38.39 crore for a substantial period besides lapse of the guarantee period of the VCB kiosks.

The Government accepted the facts and stated that VCB kiosks were purchased on the urgent demand of Tonk, Alwar and Sawaimadhopur Circles for implementing the State Government’s 60 days programme. Besides, the Managing Director also issued (June 2014) directions to provide 203 VCB kiosks to these Circles in addition to the available material. The Management during exit conference also stated that the time gap between delivery and installation of VCB kiosks was due to hiring of separate agency for installation work. Further, all VCB kiosks were installed by the Company. The fact remained that there was substantial delay in installation of VCB kiosks and further some kiosks were installed after expiry of their guarantee period.

Improper inspection/testing of material

2.16 The inspecting authorities of the Company were required to ensure that material offered by the suppliers conforms to the required quality and specifications. Further, different types of material were to be accepted after required testing in the designated laboratories. We noticed in four instances where the Company procured material without proper inspection and testing, sub-standard material was utilised because of failure to take prompt action and where the action against responsible suppliers and officials was not adequate.

The instances are briefly discussed below.

Procurement of non-star rated transformers

2.16.1 The Company placed (April 2014) a purchase order (TN 2217) on Century Infra Power Private Limited, Jaipur (Firm) for supply of 368 three phase (Aluminium Wound) four star rated distribution transformers of 16 KVA valuing ₹ 1.47 crore. The transformers were required to have star label of Bureau of Energy Efficiency (BEE) having unique label series code BE/CIP/03/0300/10. The Firm completed the supply of transformers by July 2015.

We noticed that the BEE granted (August 2011) permission to the Firm for affixing star rated labels with validity upto 9 August 2014. The BEE renewed (1 June 2015) the permission from 19 May 2015 after submission of necessary test reports and other documents by the Firm. The Firm was, therefore, not eligible to affix star rating labels during the period from 10 August 2014 to 18 May 2015 as per BEE (Particulars and Manner of their display on labels of distribution transformers) Regulation, 2009.

The inspecting authorities of the Company, however, did not give cognizance to these facts and accepted supplies of 220 non-star rated transformers worth ₹ 0.86 crore in violation of the terms and conditions of tender/purchase order against four dispatch instructions issued to the Firm between 1 October 2014 and 26 November 2014.

The Government accepted the facts but stated that there was no deficiency in the material accepted by the Company. The supplier could not provide star labeling due to procedural delay with BEE.

Improper inspection of material

2.16.2 The Company placed (April 2013) purchase order (TN 4397) on Rajasthan Transformers and Switchgears, Jaipur (Firm) for supply of 2,521 KM ACSR Dog conductor at FORD[24] price of ₹ 61,970.80 per KM. The inspecting authority of the Company conducted on site (Firm's premises) inspection of the offered material and cleared four lots (1,129.31 KM) of conductor for the dispatch instructions issued till 7 October 2013. Further, another dispatch instruction was issued (18 October 2013) for supply of 140 drums (312.17 KM) of conductor.

The Company received (October 2013) an anonymous complaint regarding poor quality of material supplied by the Firm with specific reference to Jhalawar ACOS. The complainant alleged collusion between Company officers and Firm's liaison official. The complaint mentioned that the Company officials were selecting only specified samples for testing at CTL on the directions of the Firm.

The Chief Engineer (MM) constituted (29 October 2013) a committee to verify the complaint. The committee selected three[25] drums for CTL testing against supplies received at ACOS Jhalawar under dispatch instructions issued on 23 September 2013 (20 drums having 44.59 KM

24 Free on Rail Destination.

25 Drum number 825 (under dispatch instruction issued on 23 September 2013) and drum number 965 & 1000 (under dispatch instruction issued on 7 October 2013).

conductor) and 7 October 2013 (40 drums having 89.19 KM conductor). The Company found the following major deficiencies in the quality of material of three drums during testing at CTL, Jaipur.

Particulars	Drum number		
	825	965	1000
Diameter of aluminum strands against minimum requirement of 4.67 mm	4.38 mm to 4.40 mm	4.51 mm to 4.52 mm	4.26 mm to 4.41 mm
Breaking load of all steel strands as per guaranteed technical parameter of 2.57 kN	1.38 kN to 1.56 kN	1.34 kN to 1.42 KN	0.98 kN to 1.20 kN
Tensile strength of all aluminum strands against minimum requirement of 2.64 kN	2.46 kN to 2.63 kN	2.43 kN to 2.56 kN	2.13 kN to 2.40 kN
Resistance of Aluminum Strands against maximum of 1.65 ohm/KM	1.79 to 1.81 ohm/KM	1.69 to 1.72 ohm/KM	1.81 to 1.89 ohm/KM

Millimeter (mm), Kilonewton (kN), ohm (Standard international unit of electrical resistance)

In addition to above, all the seven steel strands were found broken during checking of manufacturing defect at the distance of 535 meter in drum number 825. The CLPC decided (23 January 2014) to cancel the balance supply (1,258.48 KM) and supplies made at ACOS Jhalawar against dispatch instruction issued on 23 September 2013 and 7 October 2013 and to levy maximum penalty (₹ 32.85 lakh) of five *per cent* of the cancelled quantity (1,258.48 KM). However, the Alwar ACOS and Behror sub-store accepted (March 2014) 133.79 KM conductor from the Firm on the directions of Superintending Engineer (Procurement) against dispatch instruction issued on 18 October 2013 despite decision of the CLPC.

An anonymous complainant, therefore, proved to be a whistle blower in highlighting purchase of inferior quality of material by the officials of the Company.

We observed that the drums selected from ACOS Jhalawar for CTL testing belonged to the lot of 120 drums (267.574 KM) and 140 drums (312.170 KM) received at various ACOS vide dispatch instructions issued on 23 September 2013 and 7 October 2013 respectively. The Company received supplies of around 1,130 KM (excluding the supply made to Jhalawar ACOS which was cancelled) conductor valuing ₹ seven crore from the firm. The abnormal deficiencies observed during testing give rise to a strong suspicion about the quality of material but the Company did not carry out testing of the total material received from the Firm. The Company also did not take any action against the officials responsible for procurement of inferior quality of material. Further, the Company instead of blacklisting, debarred the Firm from participating in further tenders only for a period of one year.

The Government accepted the facts and stated that now samples are being selected through computer generated random programme after receipt of material in the stores.

Undue benefit to the supplier by accepting underweight material

2.16.3 The Company placed (20 May 2013) purchase order (TN 4413) on Nakoda Products, Vadodara (Firm) for supply of 50,000 units of 11 kV cross arm angle with Clamp and Top Hamper. The tolerance limit in weight was (+) 2 *per cent* to (-) 4 *per cent* as per clause C of the technical specifications contained in purchase order.

We noticed that Jhalawar and Karauli ACOS complained about lower weight of the angles in the supplies received against dispatch instructions (2076 and 2902) issued on 26 June 2013 and 6 August 2013. The weight of consignments (1250 units under each dispatch instruction) at Jhalawar ACOS was 15.240 MT and 15.155 MT against the specified weight of 15.986 MT. The actual weight was 4.67 and 5.20 *per cent* respectively less than the specified weight. In respect of Karauli ACOS, the weight of consigned quantity of 1,250 units received against dispatch instruction (2076) was 15.055 MT which was 5.82 *per cent* less than the specified weight. Besides, one more complaint of lesser weight was received (July 2013) from Alwar ACOS where the consigned weight of 1,250 units (dispatch instruction number 2076) was 14.660 MT instead of 15.986 MT (8.29 *per cent* less than the specified weight).

The CLPC directed (11 December 2013) the Company to issue instructions to the supplier for taking back the material lying in the stores of Jhalawar, Karauli and Alwar ACOS. The Company, however, did not do so.

Subsequently, on an enquiry from JPDC, Dausa, Swaimadhopur, Tonk and Alwar ACOS regarding the status of material, it was found that the material was either lying in the stores or issued to the field offices. The issue was again discussed (July 2014) in the meeting of CLPC wherein it was reiterated that the firm should take back the inferior quality material lying in various stores. The CLPC also directed to levy penalty of an amount equal to double the value of the material supplied with lesser weight of cross arm angles.

We observed that material (25,000 units) under dispatch instructions 2076 and 2902 was issued to 10 ACOS of the Company (1,250 units to each ACOS under each dispatch instruction). However, action was taken for consignments sent to six[26] (dispatch instruction number 2076) and two[27] (dispatch instruction number 2902) ACOS involving a quantity of 10,000 units only. The Company did not take any action to verify the weight of the material (15,000 units) supplied to the remaining ACOS under the dispatch instructions number 2076 and 2902. Further, the failure of the Company to take prompt action on the direction of the CLPC led to utilisation of the material by the field offices.

The Government stated that the weight of the material received at some stores was found within the prescribed limit. In other stores, the material was accepted with the penalty as the material was already issued to the field. The fact remained that the Company utilised sub-standard material in the field.

26 Jhalawar, Karauli, Jaipur District Circle, Dausa, Swaimadhopur and Alwar.
27 Jhalawar and Tonk.

Lack of action against the inspecting authority

2.16.4 The Company placed (October 2012) purchase order (TN 4374) on Ankit Industries (Supplier) for supply of 300 nine meter PCC poles at a cost of ₹ 8.18 lakh. Clause 15 (Inspection, testing and checking) of the purchase order provided that the supplier shall furnish test results from the manufacturer to substantiate that high tensile steel wire of required quantity was used in the manufacture of poles. The Supplier was also required to certify that cement, pre-stressed steel wires, mild steel bars, aggregates and other material had been used in manufacturing poles as per the required specifications.

The inspecting authority (Assistant Engineer-AI, Gangapur City) conducted (November 2012) inspection of 100 poles and reported that the poles conformed to the required specification. The Supplier also certified that all the poles offered for inspection were as per the design, strength and workmanship specified in the purchase order and cement, mild steel rods, aggregate and other material had been used in manufacturing of poles as per the prescribed specifications.

The Superintending Engineer (O&M), Sawaimadhopur, however, complained (March 2013) that the quality of poles supplied by supplier was very poor. He reported that all the 43 poles allotted for a deposit work broke down at the time of erection and only 16 steel wires were found inside the poles against the requirement of 20 wires. Further, the poles did not have galvanized iron wire. The Supplier accepted (14 March 2013) that poles were of poor quality and stated that negligence occurred due to engaging a new contractor for manufacturing of poles. The Supplier also accepted that the poles broke down due to use of less quantity of wires in manufacturing of poles. The Company also constituted (March 2013) a committee to investigate the case.

The committee reported (March 2013) that damaged poles could not be located at site or in the stores. The report further stated that no steel parts of the poles were available at any site and someone had intentionally dismantled the poles and taken away the steel parts. The other poles were placed with tampered serial numbers to mislead the facts. The team found only one pole in damaged condition which had only 16 high tensile steel wires and no galvanized iron wire. The concrete mix used in manufacturing of poles, however, appeared to be of inferior quality.

The CLPC debarred (April 2013) the firm from participating in next tender for a period of one year. The CLPC also directed to withhold the payment for first lot (99 poles) and to cancel order for balance quantity. The decision to cancel the balance quantity was, however, not logical as the Supplier had completed the supplies upto March 2013. The dispatch instruction for last lot of 102 poles was issued (5 March 2013) despite the knowledge of poor quality of material supplied under previous lots.

The Company, however, did not take any action against the inspecting authority which certified the quality of material based on which material was accepted from the Supplier.

The Government stated that inspection was done on random basis which might not represent quality of entire lot and the Company was making efforts to improve the system. The reply was not convincing as all the poles were of inferior quality.

Inventory management

2.17 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. The SE (I&S) is responsible for overall inventory management. Audit findings disclosed shortcomings in inventory management like idle inventory, excess procurements, theft, fire, embezzlement and shortages of material totally involving ₹ 73.64 crore.

Inventory control

2.18 The Purchase Manual provides that quantity of items to be purchased needs to be guided as far as possible through inventory control techniques like minimum level, re-order level, maximum level, value analysis (ABC) and movement analysis. The Stores Manual also required the Company to maintain buffer stock to meet the unforeseen demands and to guard against late deliveries of material by the suppliers. The required levels of inventory and buffer stock are to be decided by the CE (MM) on the basis of recommendations of store offices and availability of funds.

The Company, however, did not fix the prescribed critical levels for efficient management of inventory. The Company also did not carry out value analysis to minimise investment, inventory carrying cost and risk of obsolescence and deterioration in quality of material. The inventory position during the period from 2012-13 to 2016-17 was as follows:

(₹ in crore)

Particulars		**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Opening stock	ACOS	235.50	323.75	388.83	334.11	377.03
	Sub-divisional stores	171.93	140.18	164.97	152.62	162.91
	Total	**407.43**	**463.93**	**553.80**	**486.73**	**539.94**
Purchases during the year		980.85	1077.12	852.50	884.57	824.45
Closing Stock	ACOS	323.75	388.83	334.11	377.03	362.39
	Sub-divisional stores	140.18	164.97	152.62	162.91	142.46
	Total	**463.93**	**553.80**	**486.73**	**539.94**	**504.85**
Consumption during the year		924.35	987.25	919.57	831.36	859.54
Average monthly consumption		77.03	82.27	76.63	69.28	71.63
Inventory in terms of months consumption[28]		5.66	6.19	6.79	7.41	7.29

It would be seen that inventory holding in terms of month's consumption increased from 5.66 to 7.41 months during 2012-13 to 2015-16 and thereafter

28 Stock in terms of monthly consumption = Average stock / (Material consumed/12 months).

marginally decreased to 7.29 months during 2016-17 despite the fact that average monthly consumption decreased from 2014-15 onwards. This indicated higher level of inventory at ACOS and sub-divisional stores.

During exit conference the Government and Management of the Company stated that efforts would be made to improve the system of fixation of critical levels, value analysis, movement analysis, inventory accounting and issue of inventory. The Government in reply stated that the Company is implementing ERP system which would include material management as one of the modules.

Movement analysis of inventory

2.18.1 The SE (I&S) issued (30 March 2015) directions regarding slow moving, non-moving and obsolete items available in ACOS. As per the directions, the store items issued upto 10 *per cent* of their quantity during last two years had to be considered as slow moving items. The items which had not been issued for a period of more than two years were to be considered as non-moving items. The items which had not been issued for more than two years and were not likely to be used in future had to be declared obsolete. The SE (I&S) was required to submit the survey reports to the Board on quarterly basis.

We noticed that the ACOS and sub-divisional stores did not conduct movement analysis of the inventory on regular basis to identify slow moving, non-moving and obsolete items. As such, the reports were also not submitted to the Board on quarterly basis. The stock verifier (Internal Audit) conducted movement analysis of the inventory at the time of physical verification of ACOS and sub-divisional stores. However, physical verification of each and every ACOS and sub-divisional stores was not done on regular basis.

The Government stated that physical verification of some of the stores could not be done due to shortage of staff. The reply was silent as regards non-submission of reports to the Board on regular basis.

Improper fixation of storage issue rate

2.18.2 Clause 9.17 of the Stores Manual provides that all charges incurred after delivery of material like carriage, handling and stacking of material, watch and ward, establishment and handling, *etc.* are to be booked under the ‘storage’ head. The SE (I&S) was required to fix an annual uniform storage rate for all the ACOS on the basis of recommendations of respective ACOS and in consultation with the Circle Accounts Officer. The annual uniform storage rate was to be worked out in such a way that the total estimated annual expenditure could be charged on the material likely to be issued during the year. The storage rate had to be levied on the value of the material issued through Store Issue Notes in the form of storage charges.

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.* 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 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.

The Government stated that storage at the rate of three *per cent* was included in the chargeable cost of works. The fact remained that the Company charged a standard rate irrespective of the actual expenditure incurred on the storage.

Inventory accounting

2.18.3 The Stores Manual prescribed the system of storekeeping, accounting, and inventory control through various types of COS (Control Over Store) Forms for different functions and type 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.

We noticed that the selected ACOS did not maintain all the ledgers in prescribed COS Forms. Further, review of records at 21 test checked sub-divisional stores disclosed that none of the stores prepared record in prescribed COS Forms. The ACOS and sub-divisional stores purchased ledgers from the market which had a different format and did not provide the requisite information to the management.

The Government accepted the facts and stated that as per prevailing practice COS 12 and COS 14 are maintained at each store. The ACOS have been advised to maintain these statements strictly. The reply was silent as regards non-maintenance of all the ledgers by the ACOS and sub-divisional stores in prescribed format.

Inspection and testing of inventory

2.18.4 Clause 7.7 of the Stores Manual provides that the inspecting authority shall inspect the material with reference to purchase order and approved samples, if any, and verify that it conforms to the specifications. In case the details/test reports/material are not found in conformity with the approved sample or specification, the same shall not be taken into account and the entries thereof shall be made in register in the Form COS 9. The supplier shall also be intimated through Form COS 10. Further as per Clause 9.6, the samples requisitioned from the firms by various purchase officers shall be properly labelled and entered in the register of sample in the Form COS 25.

We noticed that three[29] out of four selected ACOS did not maintain the register in the Form COS 25 (samples requisitioned from firms for testing) and COS 10 (intimation of failure of sample/rejection memo to the firms). In absence of Form 25 and 10, it could not be ascertained whether the ACOS carried out mandatory testing of the material and the failed samples were sent to the suppliers instead of taking them into stock.

The Government stated that directions were being issued to all the stores to maintain COS-9, 10 and 25 registers in accordance with Store Manual.

Issue of inventory

2.18.5 Clause 8.2 of the Stores Manual provides that the estimated quantity of each class/type of material required for a work order issued against a sanctioned estimate/sub-estimate for operation and maintenance/capital works shall be drawn in an estimate card in Form COS 16. As per Clause 8.3, issue

29 Jaipur City Circle, Jaipur District Circle and Alwar.

of all the materials from the stores shall be made on an indent called stores requisition (COS 17) duly signed by the authorised officer received along with the estimate card. It shall be the personal responsibility of the indenting officer to ensure that the requisitions are placed correctly with proper classification and the material is utilised on bona fide works, job, *etc.* mentioned in the requisition and the estimate card. Further, the concerned SE/Executive Engineer shall intimate to the ACOS the names of the officers authorised to indent material along with their specimen signatures. The storekeeper shall maintain a register in respect of such specimen signatures and tally them with the requisitions before issue of material.

We noticed that indents (COS 17) submitted by the sub-divisions in all selected ACOS did not have reference of the work identification memos and the material was issued without presentation of the estimate cards. Further, 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. Test check of 234 stores issue notes at Kota, JPDC and JCC ACOS disclosed that signature of the receiver of material was not obtained on 108 store issue notes, receiver's signatures were not attested on 47 notes and signature of persons receiving material did not match in 57 notes.

Improper inventory records

2.18.6 The Managing Director issued directions (November 2016) to the sub-divisions to adhere to the instructions issued from time to time for maintaining records relating to management of inventory. Test check of records at 21 sub-divisions which requisitioned material from the selected ACOS disclosed the following shortcomings:

- the selected sub-divisional stores did not maintain job card as per the work identification memo for each work order, transformer movement register as per instructions (26 February 2010) and material estimate card in Form COS 16 for each job. 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 Assistant Engineers approved the hand written indents raised by the Junior Engineers of 15 sub-divisions. This was in violation of the directions (June 2014) to raise and issue material against the printed indents only. The storekeepers also violated the directions and issued material against these hand written indents
- the Junior Engineers at 19 sub-divisions (except Chomu A1 and JCC D-III) did not maintain the stock register of the material received from sub-divisional stores. Further, the work contractors also did not maintain stock register at all the 21 sub-divisions
- Storekeepers at five[30] sub divisions did not maintain the record of failed and replaced transformers in the prescribed format. Further,

30 Kota rural, Itawa, Chechat, Dudu and Bassi.

none of the selected 21 sub-divisional stores maintained record of the recovery of transformer oil from the burnt transformers and

- The stock verifier reported (November 2016) that the Assistant Engineer of Itawa sub-divisional store either did not maintain the stock register or misplaced the same for the year 2013-14.

The Government accepted the facts and stated that sometimes materials were issued without work identification memo (WIM) in absence of WIM numbers. However, the issued material was ultimately booked in the accounts under various heads. It was further stated that orders were being issued to all the ACOS to maintain the record of specimen signature of O&M officers and to deliver material to the authorised signatory or to the person authorised by O&M officer. Also, the field officers have been instructed to maintain the relevant records. Further, corrective action was being taken for maintaining material accounts, printed indent, stock register, transformer and transformer oil record.

Inadequate documentation

2.18.7 The gate pass is an authorisation for taking delivery from stores. It ensures bona fide utilisation of material for the works for which it was indented as the Junior Engineer takes the custody of the material based on the indent and gate pass issued by the storekeeper. Further, the gate pass acts as a tool of inventory control as it provides assurance that the intended material was received by the authorised person only.

The Company issued directions (June 2014) which required the storekeepers to issue gate pass in three copies. The storekeeper had to retain one copy in record as an office copy and one copy each had to be given to the receiver of material and Junior Engineer of the sub-division who had indented the material. We noticed that storekeepers in 12 out of 21 test checked sub-divisional stores issued only two copies of the gate passes. The storekeeper at Laxmangarh and D-III, Malviyanagar sub-divisional stores retained both the copies of gate passes.

In absence of copies of gate passes, the Junior Engineer at sub-divisions could not ensure whether indented material in required quantities was lifted by the authorised persons as they had also not maintained stock registers.

At Malakhera sub-divisional store, in an illustrative case, we found that the storekeeper had shown receipt and issue of 2,677 drop out fuse cum isolators to the Junior Engineers during 2012-17. The stock position therefore, indicated nil stock of drop out fuse cum isolators. The storekeeper also maintained office copies of the gate passes showing issue of 2,677 drop out fuses. The Assistant Engineer, however, confirmed that 852 drop out fuses were lying in the store. Physical verification of the sub-divisional store also confirmed that the 852 units were lying in the store. This shows issue of fake gate passes.

The Government accepted the facts and stated that appropriate directions have been issued by the Zonal CE (O&M Jaipur Zone) for strict compliance. The reply was, however, was silent on shortcomings noticed in Malakhera and Laxmangarh sub-divisional stores.

Implementation of web enabled stores and inventory management system

2.18.8 The Company awarded (October 2007) the work of development of web enabled stores and inventory management system to Spanco Telesystems and Solutions Limited (Contractor) in all the Circle offices and ACOS at a cost of ₹ 45.14 lakh. The prime objective of the work was to reduce processing time in providing information and approval procedures through a comprehensive system of planning, designing, monitoring, operation and control of various procurement and inventory functions. The factory acceptance test was conducted (16 October 2008) wherein the software was found in order.

The Company directed (October 2009) all the field offices to generate challans and gate passes through the system from 1 November 2009 otherwise payment of bills was not to be entertained by the designated authorities. Further, all the indents for requisition of material had to be generated through the system.

The Rajasthan Electricity Regulatory Commission also while approving tariff orders (6 June 2013) directed (25 September 2013) the Company to expedite implementation of inventory management software to ensure efficient management of inventory and to avoid unwarranted procurements.

We noticed that all the modules of the software were not fully functional due to problems in the software. The software was capable of generating only challans and indents. The Company awarded (April 2014) operation and maintenance (O&M) contract to Vallium Technologies Private Limited, Jaipur (Firm) but the Firm could not resolve the problems and operationalise (August 2016) the software. Further, the field offices were not able to use the software due to lack of infrastructure, lack of knowledge about software, shortage of manpower and slow internet connectivity. The O&M contract of the Firm was not extended beyond August 2016.

The Government stated that various bugs/discrepancies have been pointed out by I&S wing and intimated to SE (IT) from time to time.

Physical verification of ACOS and sub-divisional stores

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

The Company has 13 ACOS, one sub-store at Behror, and 195 sub-divisional stores as on March 2017. We noticed that the Company did not annually conduct physical verification of inventory at the ACOS and sub-divisional stores during 2012-13 to 2016-17. Review of 37 physical verifications reports of the ACOS disclosed that the time period covered under physical verification ranged between 12 and 51 months. Similarly, 34 physical verification reports of 21 test checked sub-divisional stores during the period from 2012-13 to 2016-17 disclosed that time period covered under physical verification ranged between 16 and 57 months.

The Company did not carry out annual physical verification of the ACOS and sub-divisional stores as required under the Stores Manual. The Company was, therefore, not in a position to detect shortages/excesses of the material in time at the stores.

The Government accepted the facts and stated that physical verification of all the stores could not be done due to shortage of staff. However, corrective steps were being taken to improve the position.

Incomplete coverage of inventory during physical verification

2.18.10 The stock verifier before commencing physical verification, requests the concerned ACOS/sub-divisional store to arrange required manpower to ensure coverage of all items of the store. Clause 11.1 of the Stores Manual provided that random physical verification of the inventory shall 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.

We noticed that the competent authorities (SE (I&S) and SE (O&M)) did not provide adequate manpower to the stock verifiers for conducting physical verification of the ACOS and sub-divisional stores. Consequently, the stock verifiers could not report on all the items of the stores. The stock verifiers could not cover items ranging between 6.17 and 53.06 *per cent* during 31 out of 37 physical verifications (ACOS) conducted during 2012-17. The remaining six physical verification reports either did not mention the number of total items or items were excluded from physical verification.

Further, none of the four selected ACOS carried out internal physical verification of stores within prescribed periodicity during 2012-17 as per Stores Manual. However, one ACOS (Jaipur District Circle) carried out five inspections during the last five years ending March 2017. Further, none of the storekeepers/Assistant Engineers in 21 test checked sub-divisional stores carried out random physical verification of inventory. The ACOS also did not adhere to the directions of Chairman (DISCOMs) and carried out verification in respect of limited items only. The Kota ACOS restricted verification upto single item during a month by considering various ratings of the item as different items.

The Government accepted the facts and stated that it was not possible for the stock verifiers to cover all the items for physical verification due to large number of stores. However, corrective measures were being taken. Further, sample periodic checking of stock would be invariably verified by the SE (I&S) during inspection of stores.

Lack of monitoring at sub-divisional stores

2.18.11 The Managing Director issued (May 2006) circular/guidelines which provided that the SE (O&M) was specifically required to mention reasons for non-utilisation of material by the sub-divisions within 30 days and the action taken for non-utilisation of material. The Zonal CE was also required to issue directions to the CE (MM) for requirement/deferment of the delivery of material.

We noticed that the committee of Assistant Engineer, Assistant Revenue Officer and storekeeper of the sub-divisional store did not submit regular reports of ground balances to the Executive Engineer (O&M) and Accounts Officer after 2012-13. The committee occasionally submitted reports during the period from 2013-14 to 2016-17 but the reports did not mention the periodicity of the material lying with the stores. The SE (O&M) failed to ensure compliance of the guidelines and no action was taken against the defaulting Assistant Engineers. This led to incorrect assessment of requirement of material by the Zonal CE. Consequently, the CE (MM) assessed the requirement of material without considering the ground balances of material lying with the sub-divisional stores which led to excess purchases.

We further noticed that the Executive Engineer (O&M) was required to conduct monthly inspection of at least one sub-divisional store under its jurisdiction and submit report to the SE (O&M) and Chief Accounts Officer (Internal Audit). However, the concerned Executive Engineers did not carry out the required inspections. Lack of inspections by the authorities also led to non-follow up of the directions by the sub-divisional stores.

The authorities at various levels, therefore, failed to monitor and control the inventory maintained by the sub-divisional stores. Improper monitoring and control of inventory at sub-divisional stores increased the risk of obsolescence of material. The 34 physical verification reports of the sub-divisional stores under selected ACOS estimated the value of scrap/unserviceable items as ₹ 1.22 crore during 2012-17.

The Government accepted the facts and stated that appropriate directions have been issued to all SEs by the Zonal CE (O&M, Jaipur Zone) for strict compliance of the directions.

Idle inventory

Idle inventory due to acceptance of surplus material from turnkey contractors

2.19 The Company awarded various turnkey works wherein the contractors supplied the material as per bills of quantity and commissioned the project as per 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 and underwent successful testing at CTL. The DISCOMs coordination forum (DCF) decided (31 August 2010) rates for recoveries for short deposit and payment for surplus material deposited by the turnkey contractors.

Review of 27 turnkey work orders, the closure of which took place during 2012-17, disclosed that most of the material accepted by the Company from various turnkey contractors remained unutilised. Some of the cases where the company accepted material from the turnkey contractors like cables, meter protection boxes, galvanized iron wires, switch fuse units, *etc*. which were not required are discussed in **Annexure-4.** These cases highlight that the Company accepted surplus material of ₹ 8.18 crore from the turnkey contractors which remained unutilised in the stores due to lack of directions, delay in closure of contracts by the CLPC, change in technology, *etc*.

During exit conference, the Management of the Company stated that material was utilised only after settlement of payment of contractors to avoid any situation of dispute. The Management was in agreement that the material should be utilised at the earliest. The Government was of the opinion that either the Company should not accept the surplus material from the turnkey contractor or utilise the accepted material as early as possible.

Idle inventory due to unwarranted purchase of material

2.20 Two instances highlighting unwarranted purchase of material valuing ₹ 49.90 crore are briefly discussed below:

Non-utilisation of drop out fuse cum isolators due to injudicious purchase

2.20.1 The Company issued (August 2008 to March 2009) purchase orders/additional purchase orders for purchase of 3,86,700 drop out fuse cum isolator sets at a rate of ₹ 1,067.64 per unit (2,20,700) and ₹ 1,443 per unit (1,66,000).

The Chairman DISCOMs directed (21 September 2009) to defer the remaining supplies of drop out fuse cum isolator sets on the basis of reports from field offices that miscreants were using this item to isolate the distribution transformers and they attempted theft of oil and copper windings. The Chairman also directed for not using the isolators on rural feeders as the isolators installed at distribution transformers were being used for converting single phase supply into three phase supply for using power beyond the block hours.

The firms had supplied 1,95,200 isolators and 27,100 isolators were under inspection as on the date of deferment. The Superintending Engineer (Procurement) issued (25 September 2009) orders for deferment of supplies of 1,64,400 isolators. However, the CLPC decided (6 January 2011) to cancel orders for 1,42,900 isolators. In the meantime, the Company procured 21,500 isolators despite deferment due to delay in issuing cancellation orders by the CLPC. The Company, thus, procured 2,43,800 isolators from the firms.

As of March 2017, 28,852 drop out fuse cum isolators valuing ₹ 3.08 crore were lying with ACOS. The remaining quantities were issued to the sub-divisional stores. **The issued quantities also included 42,660 sets valuing ₹ 4.55 crore which were issued (after 31 January 2015) by the ACOS but the material was not found received at the sub-divisional stores. The Superintending Engineer (Procurement) asked (10 May 2016) the Superintending Engineer (I&S) to lodge FIR for missing isolators but no action was taken (May 2017)**. The Company did not have any information about the number of drop out fuse cum isolators installed by the sub-divisions and lying with the sub-divisional stores. The CLPC decided (24 February 2016) to take all steps for utilization of 11 kV drop out fuse cum isolators available in stock to reduce the inventory.

We observed that purchase of drop out fuse cum isolators was a first time purchase made on the recommendations (August 2007) of the technical committee. The drop out fuse cum isolators replaced the existing system of using 11 kV single phase switch fuse. The technical committee while recommending purchase of drop out fuse cum isolators did not assess their suitability with the existing distribution system which resulted in theft of electricity, transformer oil and copper windings of the distribution transformers.

Further, the Company did not wait for the performance of the new material and issued purchase orders for increased quantity at a higher rate (₹ 1,443 per unit) than the previous L1 rate (₹ 1,067.64 per unit) without assessing the actual field requirements. The ACOS issued the material to field offices for installation at rural feeders in violation of the directions of Chairman DISCOMs which provided opportunity to the miscreants for theft of electricity. The decision (24 February 2016) of CLPC to take all steps for utilisation of the drop out fuse cum isolators was not logical in view of implementation of the loss reduction programme from October 2016 which included dismantling of the installed drop out fuse cum isolators. Furthermore, the Company even did not investigate and lodge complaint for missing isolators.

The Company, therefore, made an injudicious purchase of drop out fuse cum isolators valuing ₹ 31.95 crore.

The Government accepted the facts and stated that isolators were not purchased after TN 4185. During exit conference the Management also stated that after purchase of isolators, it was observed that the isolators were being misused for theft of electricity. Hence, the Company decided not to make further purchase of isolators and the inventory was being used in urban areas where they are not likely to be misused. The Government/Company, however, did not provide the reasons for missing isolators.

Bulk purchase of multi connection distribution boxes

2.20.2 The Zonal Chief Engineer (Jaipur zone) submitted (28 April 2006) the requirement of 6,200 and 9,300 spring loaded single phase and three phase multi connection distribution boxes respectively for district headquarters and municipal towns. The technical committee decided (April 2008) to purchase the single phase and three phase distribution boxes for a trial quantity in view of first time purchase of multi connection distribution boxes. The bulk purchase of multi connection distribution boxes was to be made after satisfactory performance of the trial quantity.

The CLPC, however, decided (10 December 2008) to place purchase order for the Company as a whole. The purchase order for supply of 27,440 single phase and 15,330 three phase multi connection distribution boxes was placed (December 2008) on a single firm (Delhi Control Devices) at unit cost of ₹ 2,189 and ₹ 5,175.72 respectively. The other three bidders being the first time suppliers for the Company were allotted 10 *per cent* of the tendered quantity for both single as well as three phase distribution boxes at the same rates. The firm had supplied the ordered quantity within the scheduled delivery period of four months from the date of issue of purchase order.

The samples of the three bidders for single phase (25 August 2009) and three phase boxes (15 September 2009) were approved by the committee. The Company, however, imposed (6 October 2009) deferment on supplies (9,360 single phase and 6,570 three phase boxes) in view of stock position (26,790 single phase and 14,600 three phase boxes as on 15 September 2009) and poor utilization of the material. The firms requested (22 March 2011) the Company to lift the deferred quantity also as they had exclusively manufactured the product for the Company. After detailed deliberations and discussions, the CLPC decided (29 November 2012) to lift deferment and to utilize the boxes for R-APDRP part B works.

As per report of Chief Accounts Officer (Internal Audit), stock of 6,282 single phase (₹ 1.37 crore) and 4,063 three phase (₹ 2.10 crore) distribution boxes was lying with the ACOS as on 31 January 2015. Further, stock of 7,759 single phase (₹ 1.70 crore) and 3,753 three phase (₹ 1.94 crore) distribution boxes was also lying with the sub-divisional stores. **The Chief Accounts Officer also reported that 17,749 single phase (₹ 3.89 crore) and 3,767 three phase boxes (₹ 1.95 crore) were dispatched from ACOS but were not found received by the sub-divisional stores. The Superintending Engineer (Procurement) asked the Superintending Engineer (I&S) to lodge FIR against the responsible officers but no action was taken.** Considering heavy stock position, the CLPC cancelled (February 2016) the purchase orders for pending quantity (3,789) of three phase boxes.

We observed that the Company purchased 39,200 single phase (₹ 8.58 crore) and 18,111 three phase (₹ 9.37 crore) multi connection distribution boxes. The ACOS had stock of 416 single phase and 353 three phase boxes as on March 2017 and remaining boxes were issued to the sub-divisional stores. The number of boxes installed and lying with the stores was not available with the Company. However, test check of records of 21 sub-divisional stores under the selected ACOS disclosed balances of 525 (single phase) and 783 (three phase) distribution boxes as on 31 March 2017. Further, 230 single phase and 50 three phase boxes issued (2009-10) to the Junior Engineer, Chomu-A1 were also lying unutilized as on 31 March 2017.

Thus, the procurement of huge quantities by the CLPC against the recommendation of purchasing only the trial quantities and non-utilisation of distribution boxes by the field offices indicates unwarranted purchase of material to the value of ₹ 17.95 crore. Further, the Company did not investigate the case of missing boxes and no action was taken against the delinquent officers.

The Government stated that NIT quantity was purchased due to urgent requirement in field and TW works and the entire quantity had been utilised. The Government, however, did not submit any document in support of utilisation of material. Further, the reply was silent on the issue of missing distribution boxes and material lying at sub-divisional stores.

Idle inventory due to excess procurement

2.21 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 were lying 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 ₹ 10.49 crore are discussed in **Annexure-5**.

Storage of inventory

2.22 The SE (I&S) issued (September 2014) directions for proper storage of inventory at ACOS and sub-divisional stores in view of pilferage and theft of material due to improper maintenance of inventory. The directions inter alia provided that same types of material should be kept at one place, stacking of steel material, set of sub-stations, GI wires should be ensured in such a way that the same could be counted at the time of issue and physical verification, meters, copper scrap, *etc.* should be kept indoor, material should be issued on 'first in first out' basis specially in case of items covered under guarantee period, tender wise record of meters, CTPT and transformers covered under guarantee period should be kept indicating year of manufacturing, name of the supplier and loading and stacking should also be done accordingly, high security for indoor and outdoor material should be ensured through barbed wire fencing and proper lighting.

The field visit at four selected ACOS and 21 sub-divisional stores disclosed that the inventory was not stacked and maintained as per the prescribed directions. The material was lying in haphazard manner. The physical verification reports of these stores also mentioned about non-verification of material due to improper storage of inventory. The field visit also disclosed that failed transformers and meters were lying in heap and covered a large part of the stores.

Improper storage of inventory caused shortages and excesses as pointed out by the stock verifiers in their physical verification reports. This also caused incidents of theft, fire and embezzlements at ACOS and sub-divisional stores.

Failed transformers lying in heap at JPDC ACOS

New cables and scrapped conductor lying at JPDC ACOS

The Government accepted the facts and stated that regular pursuance was being made with all the ACOS/sub-divisional stores for proper stacking of material in their stores.

Excesses and shortages of inventory

2.22.1 The adjustments for shortages and excesses of inventory are required to be carried out through stores issue and store receipt notes respectively for the purpose of stores accounting. However, the concerned Assistant Engineers/Assistant Storekeepers has to furnish proper justification for such shortages and excesses of material. Further, the SE (I&S) is required to investigate the reasons for shortages and excesses of inventory and issue sanction for writing-off the losses incurred due to shortage of material. Besides, the excess/shortages of stores pointed out in physical verification reports has to be cleared and adjusted within a period of one month and at least at the closure of the financial year.

The physical verification reports of all the ACOS pointed out unadjusted shortages of ₹ 2.28 crore and excesses of ₹ 2.61 crore as on March 2017. Further, the 34 physical verification reports of 21 sub-divisional stores under the selected ACOS disclosed shortages of ₹ 0.77 crore and excesses of ₹ 1.09 crore during 2012-17. The concerned authorities, however, did not investigate the reasons for such shortages and excesses of material in the stores.

We noticed that investigation of shortages and excesses of material in the stores of the Company was pending since the financial year 1997-98.

The shortages and excesses of material in the stores indicate that inward/outward recording of inventory was done without proper documentation and accounting. The possibilities of theft and misuse of material could also be not ruled out in absence of proper documentation and accounting.

The Government accepted the facts and stated that excesses and shortage in Kota, JPDC and Bharatpur ACOS have been sorted out.

Loss of inventory due to theft, fire and embezzlement

2.23 The Stores Manual provided that all cases of loss of inventory shall be immediately reported to the ACOS/SE (I&S) and the CAO (Internal Audit) and taken up for investigation and dealt in accordance with the General Financial and Accounts Rules. The Assistant Engineer at ACOS was required to conduct preliminary inquiry; lodge FIR with the Police; claim compensation for loss from the insurance agency; and to 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.

The SE (I&S) provided information about 14 cases of theft and shortages at all ACOS amounting to ₹ 1.56 crore during 2012-17. Scrutiny of records at various levels, however, disclosed 31 such cases at the ACOS causing loss of ₹ 2.20 crore. The SE (I&S), therefore, did not have proper information about cases of theft, shortages and fire occurred at ACOS. Further, there was no reporting mechanism about theft, shortages and fire at sub-divisional stores which are controlled by the concerned SE (O&M). The loss incurred due to theft and fire at ACOS and sub-divisional stores, therefore, could not be assessed. We noticed that the Company insured the inventory at ACOS but no insurance was taken for sub-divisional stores.

The Government stated that all possible action would be taken regarding procedure to be adopted for investigation in case of theft of material. Further, a proposal had been sent to the Corporate Office for insurance of all sub-divisional stores of the Company.

Four instances highlighting non-maintenance of prescribed records and embezzlement, fire and shortages of material due to lack of control and monitoring by the competent authorities are discussed below. These also show that action in cases of embezzlement and fraud are badly delayed.

Shortages of copper coil

2.23.1 The JPDC ACOS conducted 13 auctions during the period between 28 May 2007 and 5 October 2013 but every time it offered a lesser quantity of burnt copper coil than what was actually shown in the records (after excluding the 50,350 kg copper coil on which stay was granted by the High court).

The SE (I&S), however, never took cognizance of the reasons for sale of lesser quantities by the ACOS. Also, there were complaints from the residents about theft of material but no action was taken to investigate the authenticity of complaints. A resident lodged (22 May 2012) FIR against certain persons for theft of material from the ACOS, based on which the police caught the thieves and recovered 350 kg of copper coil. The ACOS also lodged FIR for theft of 350 kg copper on the basis of material recovered by the police. However, the SE (I&S) did not conduct investigation even after lodging of FIR and recovery of copper coil.

Subsequently, the ward keeper was transferred (July 2014) and shortage of 19.62 MT (₹ 98.11 lakh) copper coil was discovered during handing over and taking over. The SE (I&S) constituted (9 July 2014) a committee for inquiry into the matter. The committee in its report pointed out that ACOS/Stores

Superintendent/Ward Keeper had observed negligence in receipt of copper coil. In many cases, the store receipt notes were prepared without weighment card. The concerned Assistant Engineer either received less or excess to the quantity entered in weighment card which indicated malpractice by the staff of the ACOS. Further, in many cases, the weighment cards were not signed by the store superintendent and the messenger leading to misappropriation of material. As per report, the vehicle movement register was also not maintained properly and the manual columns and entries were either blank or incomplete. It was also pointed that the ACOS had issued an additional quantity of 6,470 kg (₹ 32.35 lakh) copper coil to the sub-division offices and thereby hidden the shortages.

We observed that the lack of inspections by the competent authorities and improper maintenance of records by the ACOS led to embezzlement of material of ₹ 1.30 crore during a period of seven years indicating complete failure of the internal control mechanism. The SE (I&S) was required to take appropriate action on the complaints of the residents and reports of the stock verifiers which clearly stated that physical verification of copper coil was not done due to inadequate manpower and time.

The Government accepted the facts and stated that the Company constituted a committee for inquiry regarding shortage of copper coil, the report of which was awaited. It was further stated that now quantity of copper coil is segregated and kept separately in store.

Improper storage of material and failure to deposit the failed material

2.23.2 The Managing Director (January 2010) and SE (I&S) (June 2014) issued directions to the sub-divisional stores to deposit the transformers failing during guarantee period with the ACOS within a period of seven days. Further, the SE (I&S) issued (September 2014) directions for taking effective steps to prevent any incident of fire in the stores of the Company. The directions provided that the ACOS and sub-divisional officer needed to ensure that no inflammatory items like transformer oil, transformers, cable, CTPT set were kept under any high tension line passing over the stores office, keep separate records of CTPT sets and transformers failed during guarantee period and deposit the material in time.

We noticed that a fire occurred (April 2016) at Malakhera sub-divisional store. The Committee pointed out that fire occurred due to short circuit and spread because of 70,000 litre burnt transformer oil and failed distribution transformers. The Committee concluded that there was loss of material valuing ₹ 2.87 crore. The loss of material mainly included 67 failed transformers (₹ 36.08 lakh) which were under guarantee period and 676 failed transformers (₹ 2.37 crore) whose guarantee period had expired. The failed transformers under guarantee period were lying in store for more than two years. Further, the burnt transformer oil accumulated to 70,000 litre because it was not deposited with the ACOS in time.

We observed that the Assistant Engineer did not adhere to the directions regarding storage of material at a safe place as the inflammable material (transformer oil and transformers) was stored under the high tension line and, therefore, any such incident was inevitable. Further, the transformers failed during guarantee period were also not deposited with the ACOS in time.

The Company, therefore, suffered loss of material of ₹ 3.27 crore (including value of transformer oil ₹ 40.15 lakh) due to improper storage of material.

The Government accepted the facts and stated that a committee has been constituted for inquiry in the matter.

Delay in inquiry of shortages of scrap material

2.23.3 The Company conducted (3 July 2012) an e-auction for disposal of 32.71 MT of conductor lying in the ACOS Alwar. However, the Company could handover (August and September 2012) only 20.93 MT conductor to the firm and remaining conductor was not available with the ACOS. A committee conducted (October 2012) physical verification and found that there was 14.15 MT conductor as per ledger balance (as on 19 September 2012) but only one to two MT conductor was available with the ACOS. As per measurement, there was shortage of 11.25 MT of scrapped conductor.

The SE (I&S) constituted (February 2013) a committee to submit report on the case. The committee, however, had not submitted any report (May 2017) even after a lapse of more than four years. As a result action has not been taken against the officials accountable for embezzlement of material worth ₹ 15.19 lakh.

The Government accepted the facts and stated that regular pursuance was being made by the CE (MM) and SE (I&S) with the committee members to furnish their findings in the said matter.

Embezzlement due to non-adherence to laid down procedures

2.23.4 The stock verifiers reported shortage of cables (22.23 KM) of various sizes and other material valuing ₹ 64.92 lakh during physical verification of the sub-divisional (D-III) store under JCC for the period from December 2009 to November 2013. The physical verification reports mentioned that four copies of indent book (4268/10 and 4268/11) were not found and fifth copy of the same was blank which raised suspicion about misuse of indents. The store had also not made entries in the stock register during the period April 2013 to November 2013 for material valuing ₹ 1.19 crore. The Assistant Engineer (DIII) reported (January 2014) that stores were checked by him personally and cables of various sizes valuing ₹ 35.30 lakh were found short. The internal audit observed (February 2014) that the storekeeper got issued 10 drums of 4CX300 sqm LT XLPE cable from the ACOS through multiple indents between July 2013 and November 2013 despite the fact that there was no requirement and demand of the cable from the sub-division. We observed that embezzlement of ₹ 35.30 lakh occurred due to non-adherence to the laid down procedure as the ACOS and concerned SE (O&M) issued the material which was not required by the field office. The ACOS and SE (O&M) were required to ensure that work wise material was being indented and material had been issued for the designated work only.

The Government accepted the facts and stated that FIR has been lodged for shortage of material.

Disposal of scrap

2.24 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 in 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 21 sub-divisional stores under selected ACOS disclosed that the storekeepers did not record the dismantled inventory in COS 24. The sub-divisional stores prepared material credit notes which 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 put the brief of survey reports before the Board for approval of disposal of stores.

The selected ACOS, however, did not conduct surveys and prepare quarterly reports. We noticed that the ACOS prepared only 11 survey reports on the directions of SE (I&S) during 2012-17. Further, the survey reports did not mention the reasons of items becoming unserviceable for auction.

The Government accepted the facts and stated that field officers would be instructed for maintaining proper records of dismantled inventory.

Sale of scrap

2.24.1 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. The details of scrap generated and auctioned during 2012-17 was as follows:

(₹in crore)

Year	Opening balance	Received during the year	Total scrap	Scrap auctioned	Closing balance	Percentage of scrap sold to total scrap
2012-13	8.40	8.27	16.67	5.81	8.93	34.88
2013-14	9.00	10.23	19.23	6.86	10.84	35.67
2014-15	10.83	14.78	25.61	8.94	15.4	34.91
2015-16	14.87	63.05	77.92	59.71	17.91	76.63
2016-17	17.14	202.81	219.95	103.99	103.64	47.28
Total		**299.14**		**185.31**		

(Note: The opening and closing balances are not matching. The figures have been provided by the Company)

It could be seen that generation of scrap for disposal was steadily rising upto 2015-16. It jumped from ₹ 63.05 crore in 2015-16 to ₹ 202.81 crore in 2016-17 because the repair of the failed distribution transformers (manufactured upto 2010) was considered uneconomical. The Company could not auction the entire scrap during the year which resulted in space constraints at the ACOS and sub-divisional stores. Further, SE (I&S) did not reconcile opening, receipt and closing quantity of the scrap lying at ACOS.

The Government stated that e-auction of scrap material is being initiated immediately after receipt of survey report. During exit conference the Management of the Company stated that a special drive has been initiated for identifying redundant lines and disposal of scrap. The Management further stated that the employees of the Company were being given incentive for disposal of scrap.

Insurance of stores

2.25 The Company commenced (2010-11) insurance of stock at ACOS against theft, fire, *etc*. As of March 2017, the insurance companies accepted 14 claims of ₹ 40.44 lakh, rejected 10 claims of ₹ 53.34 lakh and eight claims of ₹ 12.62 lakh were pending for decision.

We noticed that the sub-divisional stores of the Company also maintain huge inventory of new and scrap items. The risk of theft and fire is also high due to improper storage and location of stores in remote areas. The Company, however, did not insure the sub-divisional stores despite many cases of theft and fire. Review of records disclosed six cases of theft and fire at sub-divisional stores which caused loss of ₹ 4.04 crore to the Company. The Company could not make good the loss in absence of insurance policies.

The Government stated that a proposal for insurance of all the sub divisional stores was under consideration with the Director (Technical).

Conclusion and recommendations

Conclusion

The audit findings disclosed serious 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 and an effective 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. This led to theft and embezzlement of material.

Recommendations

- **The Company should revise the Purchase Manual as per Rajasthan Transparency in Public Procurement Act 2012 and Rules there under**

- **The Company should streamline the process of assessment of requirement of material to ensure that procurement is done as per field requirements**
- **The Company should finalise the tenders within the prescribed time frame and approval of the higher authorities should be sought in case of delay in finalisation. Procedures as prescribed for tendering and award of contracts need to be followed scrupulously**
- **The Company should strengthen the inspection and testing procedures and also ensure strict adherence to the technical specifications at the time of the supply of material by the suppliers**
- **The Company should adopt inventory control techniques for efficient management of inventory and the prescribed records need to be properly maintained for better control and monitoring of inventory and**
- **The Company should conduct physical verification of inventory at specified intervals and take corrective action on discrepancies reported in physical verification reports.**