

**Part-II**

**Chapter V**

**Compliance audit observations  
relating to Statutory  
Corporation**

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### **Chapter V**

#### **Compliance audit observations relating to Statutory Corporation**

Important audit findings that emerged from the test check of transactions of the Statutory Corporation of Government of Gujarat are included in this Chapter.

#### **Gujarat State Road Transport Corporation**

#### **Store management in Gujarat State Road Transportation Corporation**

##### **Introduction**

**5.1** Gujarat State Road Transport Corporation (the Corporation) was incorporated on 1 May 1960 under the Road Transport Corporations Act, 1950. The Corporation is mandated to provide an efficient, adequate, economical, and properly co-ordinated road transport in the State. The Corporation is functioning under the administrative control of the Ports and Transport Department of Government of Gujarat (GoG).

The Central Stores Department (CSD) of the Corporation was segregated (December 2018) from the Central Purchase and Stores Department. The CSD of the Corporation exercises control over Central Store (CS) and 16 Division Stores (DSs) at its Division Offices. The Corporation has a Central Workshop for fabrication of bus bodies and reconditioning of bus engines which issues delivery schedule for chassis of bus and monitored the fabrication of buses by contractors. The functions of CSD include issue of delivery schedule, receipt, inspection, issue of capital/ revenue store materials (other than chassis for bus), disposal of unserviceable store/ scrap, obsolete and surplus items. The Corporation has a printing press and seven<sup>1</sup> tyre re-treading plants.

##### **Scope of Audit and Sampling**

**5.2** The operational performance of the Corporation depends on the availability of material and management of their storage. The Corporation implemented (1997) Inventory Management System (INMANS) at CS and DSs and implemented (July 2009) Integrated Depot Management System (IDMS) at Depot Stores. Two modules of INMANS *viz.*, Store and Account store modules are utilised for store management. Audit reviewed the store management of the Corporation *viz.* bus bodies, chassis, tyres and tubes, lubricants, auto, spares, diesel, batteries, engines, *etc.* During audit, the timely assessment of adequate quantity of material, receipt of material as per

<sup>1</sup> Amreli, Bharuch, Godhra, Naroda (Ahmedabad), Palanpur, Rajkot and Valsad.

specifications, proper accounting, disposal of obsolete/ unserviceable stores and scrap was reviewed. The audit was conducted between January and April 2019 and covered the period from 2014-15 to 2018-19.

The stores issued to the 125 Depots by respective DSs are considered consumed by DSs therefore, stores expenditure is significant at Divisions. Audit selected<sup>2</sup> Ahmedabad, Palanpur, Rajkot and Surat Divisions for detailed examination besides Central Store and Workshop.

### Store performance of the Corporation

5.3 The store performance in terms of financial and operational parameters of the Corporation is as under:

**Table 5.1: Store performance of the Corporation**

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Fuel Consumption (₹ in crore)	1,161.69	963.44	1,132.11	1,201.35	1,434.75
2	Other Consumption (₹ in crore)	117.61	108.55	94.93	98.39	116.73
3	Store consumption (₹ in crore)	1,279.30	1,071.99	1,227.04	1,299.74	1,551.48
4	Total Closing stock (₹ in crore)	17.95	18.92	24.12	25.47	37.53
5	Average number of bus held	7,765	7,852	7,863	7,345	8,042
6	Closing stock held <i>per bus</i> (in ₹) (Sl. No. 4÷5)	23,117	24,096	30,675	34,677	46,667
7	Gross kms (in lakh)	10,701	10,797	10,865	10,739	11,379
8	Store consumption <i>per km</i> (in ₹) (Sl. No. 3÷7)	11.95	11.10	11.29	12.10	13.63
9	Store consumption <i>per bus</i> (₹ in crore) (Sl. No. 3÷5)	0.16	0.14	0.16	0.18	0.19

**Source:** As per information furnished by Statistical Department of the Corporation.

The total closing stock increased during 2014-19 by 109 *per cent* from ₹ 17.95 crore to ₹ 37.53 crore whereas store consumption increased by 18.75 *per cent* from ₹ 1,279.30 crore to ₹ 1,551.48 crore. The average number of vehicles increased by 3.57 *per cent* from 7,765 to 8,042 buses during this period. Thus, the increase in total closing stock and consumption *per bus* did not correspond with increase in number of buses.

### Inventory Management System

5.4 The Corporation implemented (1997) Inventory Management System (INMANS) in Central Stores and 16 Division Stores. Audit reviewed the operation of INMANS and major observations are discussed below.

- No Information Technology Policy has been approved by the Corporation to define rules, regulations and guidelines to assure health, safety, and security of data, products, facilities as well as the people using them.

<sup>2</sup> Selected by assigning a rank to each division for “Expenditure on store items” and “Closing stock of inventory” on the basis of each of the above criteria and by further assigning a rank based on the average of the ranks of the abovementioned two criteria. Based on a single rank arrived for each division, zone wise ranks were assigned to each division in a zone. The division with the highest rank in the zone was selected.

- The INMANS was not audited by independent personnel to assess its compliance with the applicable regulations, standards, guidelines, plans, and procedures for store management of Corporation. Audit observed that the methodology for valuation of stock and issue of material stipulated in Manual of Account Department was ignored during computation of weighted average rate. This resulted in incorrect costing due to incorrect valuation of issues and stock.
- Of the total 84 reports generated in INMANS, the Divisions at Rajkot, Ahmedabad and Palanpur did not generate 24, 17 and 21 reports regarding surplus allocation of store items, change in delivery schedule, store items below/ above minimum/ maximum level, item-wise, party-wise rejection reports, item-wise inventory report, lost items, non-moving items, *etc.* The reports are critical for inventory management at Division stores.
- The information on scrap items are not maintained in INMANS but are manually entered by CS on receipt of information from DSs. This indicates lack of effective monitoring and control, which may lead to loss/ pilferage of scrap items.

The other deficiencies of Store Management related to stock level, procurement of capital/ revenue items, stores records and storage system, identification and delay in approval of obsolete/ non-use stores, unsold scrap items, internal Control and monitoring are discussed in succeeding paragraphs.

### Store management

**5.5** Store management refers to efficient management of materials for ensuring that store keeping activity is performed efficiently and effectively by those employed in the store. To achieve the above objective, various stock levels *viz.*, Minimum, Maximum, reordering levels are fixed. The Corporation fixed (March 2003) one and half months consumption as the minimum stock level (MinSL) for storage of all store items. The Corporation informed that while implementing INMANS the maximum stock level (MaxSL) was fixed twice the MinSL *i.e.*, three months for all items except nine<sup>3</sup> store items. For these items the MinSL was considered three months and MaxSL was fixed twice the MinSL *i.e.*, six months. However, the basis for assessment of above-mentioned MinSL and MaxSL and approval of Board of Directors (BoD) in respect of above stock level was not available on record.

Audit reviewed the stock position considering the above stock levels and observed the following:

#### **Monitoring of stock levels**

**5.5.1** The Corporation handled 3,246 store items in its CS and four<sup>4</sup> DSs checked by Audit. Of this, Audit test checked the daily balance of items in

<sup>3</sup> Brake lining and clutch facing, Brake drums and hubs, Gears and gear parts, Malleable spare/ sheet metal comp, springs and leaves, clutch and clutch parts, Electrical spare Lucas, Centre Bolt and "U" Bolt, Propeller shaft and its components.

<sup>4</sup> Ahmedabad, Palanpur, Rajkot and Surat Division.

store account of randomly selected 58 items. The value of 58 items consumed was ₹ 54.01 crore during four years from 2015-16 to 2018-19, which was approximately 25 per cent of the total consumption value of the stock. The Stock level of items in excess of maximum stock level during 2015-19 in above DSs and CS is given in **Table 5.2** below.

**Table 5.2: Stock level in excess of maximum stock level during the period from 2015-16 to 2018-19**

(₹ in crore)

Name of Store	Number of Items (in numbers)		Value of items		Number of items for which Stock level					Range of days during 2015-19 in which Stock level exceeded MaxSL	Total value of items exceeding MaxSL
	Total	Revised in Audit	Total	Revised	did not exceed MaxSL	exceeded MaxSL in					
						all 4 Years	3 years	2 years	only 1 year		
Central Stores	514	15	103.56	10.89	-	6	6	1	2	6 to 366	2.86
Ahmedabad	941	10	34.72	11.53	1	2	3	1	3	12 to 365	0.68
Palanpur	715	11	30.26	10.27	3	0	1	6	1	5 to 365	0.46
Rajkot	509	10	26.60	8.45	3	1	4	1	1	7 to 365	0.21
Surat	567	12	25.20	12.87	1	2	4	3	2	1 to 365	0.58
<b>Total</b>	<b>3,246</b>	<b>58</b>	<b>220.34</b>	<b>54.01</b>	<b>8</b>	<b>11</b>	<b>18</b>	<b>12</b>	<b>9</b>		<b>4.79</b>

**Source:** Compiled based on information provided by the Corporation.

The stock level of eight of the 58 items reviewed did not exceed MaxSL. The stock level of all 15 items of CS valued ₹ 2.86 crore exceeded the MaxSL indicating stock remained idle. The stock level of remaining 33 items exceeded the MaxSL in the four checked DSs in consecutive period of four, three, two and one year that valued ₹ 1.93 crore. Thus, 86 per cent of the items reviewed remained idle due to non-monitoring of their stock levels at regular intervals. Audit observed that the stock balance above MaxSL was due to non-review of available stock balance prior to issue of Purchase Order and issue of delivery schedule, acceptance of receipt of excess over scheduled quantity. This excess above MaxSL could have been avoided by effective monitoring and control.

### **Categorising store items**

**5.5.2** Audit observed that the Corporation has not framed any policy for categorising store items based on their turnover. The Corporation has categorised all items that remained unutilised for more than six months as non-moving items. As on 31 March 2019 the Corporation had 7,594 items (excluding Diesel and unconsumed store at Depots) valued ₹ 35.84 crore. The Corporation had identified 993 items valued ₹ 0.84 crore (March 2019) as non-moving. Of the 993 items, 396 items valuing ₹ 30.39 lakh were non-moving since February 2009. However, the Corporation has not fixed the parameters for monitoring the consumption and categorising its store items into fast and slow-moving store items. This has resulted in delayed identification of scrap and obsolete/ unserviceable items as discussed in **Paragraph 5.8**.

### Monitoring of store material availability

**5.6** Availability of adequate materials at right time and of right quality reduce the storage cost. The Corporation procures major items *viz.*, Diesel, Tyre, Tubes, Batteries, Chassis/ Bus Bodies, Mini Buses and Auto Spares, *etc.* Audit reviewed the store management for availability of major items and the audit findings are discussed in succeeding paragraphs.

#### *Deficient monitoring of fabrication materials*

**5.6.1** The Corporation has workshop for fabrication of bodies on bus chassis. It also gets the fabrication of bus body done through external contractors. Audit observed that the Corporation has not set the parameter of time required for fabrication of a bus body at their workshop. However, in the fabrication contracts, the Corporation stipulates a period of 30 days for fabricating a bus which audit has considered as the time for fabrication of a bus in its own Workshop. During 2014-19, 679 buses were fabricated in the Corporation's Workshop with delays ranging from 1 to 60 days. The delays were mainly due to non-availability of readymade seats, windows, epoxy primer, galvanised plain sheets, complete window for passenger door, mating, front glass, rear glass, *etc.* in adequate quantity. This indicated the deficient monitoring on the part of the management to watch stock levels of required materials in order to complete the fabrication within the time limit.

#### *Docking of buses due to non-availability of material*

**5.6.2** Maximum availability of bus fleet for operation is essential for providing efficient and (spelling) adequate Road Transport. The breakdown of the buses has to be attended in the shortest possible time for maximum availability of buses fit for road travel. It is therefore necessary that material required for repair and maintenance is available in stores at least at MinSL. Audit reviewed the Docking of buses in respect of five<sup>5</sup> DSs for the period from April 2016 to December 2018 and observed that 980 buses were docked for maintenance.

**Table 5.3: Buses docked due to non-availability of material during the period from 2016-17 to 2017-18**

Range of days	Number of Buses	Number of Bus days lost
1 to 15	873	3,120
16 to 30	87	1,912
30 to 60	18	773
60 to 100	1	78
100 & above	1	103
<b>Total</b>	<b>980</b>	<b>5,986</b>

**Source:** Information provided by Divisions of the Corporation.

It can be observed that non-availability of material resulted in docking of 980 buses and consequent non-availability of 5,986 bus operating days as worked out by the divisions. This indicates lack of monitoring for ensuring availability of materials for maintenance.

<sup>5</sup> Bharuch, Junagadh, Palanpur, Rajkot and Valsad Division.

### ***Decline in production of re-treaded tyres***

**5.6.3** The Corporation's requirement of tyres is fulfilled through purchase of new tyres and re-treaded tyres (RT) by its seven re-treading plants. The CSD issues delivery schedule and pursues it for timely delivery of raw material for tyre re-treading based on the indents received from re-treading plants. During 2014-18, the Corporation had set the target of 73,200 tyres against the installed capacity of 1,17,400 number tyres *per annum*. It was observed that the production declined due to non-availability of required raw material that was attributed to delayed finalisation of PO by Central Stores Department for material though the Stock level of material was below MinSL.

### **Review of store records and storage system**

**5.7** Audit reviewed the maintenance of store records and storage system for the period from 2014-15 to 2018-19 in stores of four DS, five sub-stores of Central Workshop and observed the following deficiencies.

- The record of receipt, consumption and balance of stock items were not maintained by sub-stores for bus body materials and printing press required for effective monitoring and control of material.
- Item-wise stock ledger was not maintained in sub-stores of Fuel Injection Pump, Engine Shop and Tyre Re-treading Plant and the consumption of items was derived based on closing stock at the end of the month.
- The coach shop of Workshop deposits identified scrap into scrap yard without weighing it. The credit voucher in this regard was being prepared on the basis of approximate weight prior to e-auction of the scrap.
- The workshop and DS recorded approximate quantity of scrap generated. The variance between store records and their actual weight were observed in the range of 15 to 688 *per cent* of recorded quantities at the time of physical verification of the scrap items by Management (April 2018).

The above deficiencies indicated lack of effective monitoring and control in the store management.

### ***Discrepancies in store balances***

**5.7.1** The Store records in Central Workshop, Tyre re-treading plant and printing press are not computerised. Therefore, the stock balances have to be reconciled at regular intervals to ensure their agreement with physical stock. During detailed checking of the stock records of Tyre re-treading plant at Naroda discrepancies were observed between closing stock position and opening stock position of respective succeeding month. In two<sup>6</sup> instances, discrepancy in stock balances of two items at each instance was observed. The opening stock balance of the succeeding months were short recorded for Pre-tread rubber by 3,660 KG valued ₹ 4.60 lakh, Bonding Gum by 329 KG valued ₹ 0.51 lakh and Black Vulcanizing Solution by 120 litre valued

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<sup>6</sup> Bonding gum and Black Vulcanizing Solution in November-December 2017, Pre-tread rubber and Bonding gum in April -May 2018.

₹ 0.08 lakh. The reasons for shortage and action taken for their reconciliation were not available on record. This shows that the Corporation did not reconcile the records regularly for effective monitoring and control.

### Management of scrap

**5.8** The various items purchased become obsolete/ unserviceable due to efflux of time, change in technology and these have to be disposed periodically. The disposal of unserviceable/ obsolete items by the Corporation involves their identification, submission, approval of proposal for disposal. The disposal of chassis of bus related items and store items other than chassis of bus related items are undertaken by Workshop and Store respectively. During the period from 2014-15 to 2018-19, the Corporation realised ₹ 60.13 crore from sale of scrap. The deficiencies observed in the above process for sale of scrap at the Stores and Workshop of the Corporation are discussed below.

#### Stores

**5.8.1** Audit reviewed the process of store identification followed and observed delays in identification of scrap and non-disposal of scrap items as shown in **Table 5.4** below.

**Table 5.4: Status of scrap items in Store as on 31 March 2019**

Sl. No.	Item		Authority		Event period	Audit observation
	Name	Number	Name	Delay range		
<b>Items not declared scrap</b>						
1	Electronic Based Ticket Machine (EBTM)	8,151 Nos.	Electronic Data Processing Department	8 years	2006-07 to 2013-14	Non-working since 2006-07 at 7 Division Stores <sup>7</sup> as per information submitted.
2	Khakhi cloth material	10,943 meters	CSD	More than 9 years	July 2008 to December 2017	Unused at 12 DSs <sup>8</sup> and Central Stores since July 2008 and has not been disposed.
3	Miscellaneous Store	24	CSD	10 years	Prior to March 2009	Unused lying at CS for 10 years.
<b>Non disposal of scrap items</b>						
4	Obsolete auto spare Items	1,277	CSD	More than seven years	Prior to February 2012	Remained unsold since September 2012 and again placed for Auction in October 2018 but remained unsold as not approved by BoD.

<sup>7</sup> Ahmedabad, Bhuj, Bharuch, Junagarh, Nadiad, Rajkot and Surat division.

<sup>8</sup> Bharuch, Godhra, Himatnagar, Jamnagar, Junagadh, Mehsana, Nadiad, Rajkot, Surat, Vadodara and Valsad.



Sl. No.	Item		Authority		Event period	Audit observation
	Name	Number	Name	Delay range		
5	Obsolete auto spare items	2,917	CSD	More than three years	October 2013 and January 2016	Obsolete items valuing ₹ 2.65 crore collected between October 2013 and January 2016 were not placed for e-auction until March 2019 that remained unsold.
6	Scrap furniture and fixtures Items	18	CSD	More than two years	Sept. 2017 to Dec. 2019	Unsold lying at DSs as information of Average issue Rate/ last sale price by DSs is not available.

Source: As per information provided by the Corporation.

### Workshop

**5.8.2** The office of Divisional Controller (DC) proposes scrapping of non-usable vehicles/ engines to the office of Chief Mechanical Engineer (CME). CME office after inspection of the vehicles/ engines, issues order for evacuation of buses to Central Workshop for sale/ auction by workshop. Audit test-checked the information for the period from 2015-16 to 2018-19 proposed to CME office and observed delays for declaring as scrap as given in table below.

**Table 5.5: Status of scrap items in workshop as on 31 March 2019**

Sl. No.	Item		Authority		Event Period	Audit observation
	Name	Number	Name	Delay range		
<b>Identification of scrap</b>						
1	Non-use engines	146	2 DSs <sup>9</sup>	More than four years	March 2015 to Feb. 2019	Unused since June 2015. Lying at Division Stores.
2	Engines	31	Workshop	More than two years	Oct. 2013 to Dec. 2016	Received for reconditioning but Engine shop stopped functioning from December 2017
<b>Delay in proposing non-use items as scrap</b>						
3	Buses	1,646	8 DSs <sup>10</sup>	1 to 248 days	2015-16 to 2017-18	Delay in forwarding Proposal by DSs to CME office. However neither reasons were recorded nor the Corporation devised system/ for monitoring
4	Vehicles other than Buses	15	DSs	63 to 345 days		
5	Engines	302	DSs	15 to 443 days	2017-18 to 2018-19	

<sup>9</sup> Ahmedabad and Surat.

<sup>10</sup> Ahmedabad, Baroda, Bharuch, Mehsana, Palanpur, Rajkot, Surat and, Valsad Divisions.

Sl. No.	Item		Authority		Event Period	Audit observation
	Name	Number	Name	Delay range		
6	Engines	521	Engine shop	1 to 31 days		the non-use items lying in the DSs
7	Burnt Buses	154	Committee of Corporation	19 months	April 16 to October 2017	Abnormal delay in approval for sale and the buses remained unsold after October 2017.
<b>Delay in issue of evacuation order for scrap</b>						
8	Buses	1,261	CME	7 to 189 days	2015-16 to 2017-18	Delay in issue of Evacuation order by the office of Chief Mechanical Engineer for disposal as scrap.
9	Trucks	5	CME	88 to 93 days	2016-17 to 2017-18	
10	Water Tanker	1	CME	77 days		
<b>Delay in approval of scrap proposal</b>						
11	Workshop machines	77	Four <sup>11</sup> departments of the Workshop	22 Months	Sept. 2014 to May 2017	Approval of BoD is pending for disposal (February 2019) for which reasons were not available on record.
<b>Non-disposal of scrap items</b>						
12	Mini Buses	130	Workshop	27 Months	Nov.2016 to Feb. 2019	No system for setting upset price for sale of Mini Buses
13	Buses	1,810	Workshop	More than four years	2015-16 to 2018-19	Reasons for non-sale of buses not ascertained and has remained unsold
14	Bus body	141	Workshop	More than two years	Sept. 2017 to Dec. 2019	Not placed for e-auction Lying unsold.
15	Crown pinion	Scrap 1,331	Workshop	10 months	April 2018 to Jan. 2019	Earlier both items were dismantled for sale later on it was decided to keep it as a single unit to get better value, However, the items remained unsold and reasons sale was not recorded.
16	Gear assembly	Scrap 1,377	Workshop			
17	Mild Steel material	168.364 MT	Workshop	19 Months	Sept. 2017 to Mar. 2019	Lying unsold in scrap yard at Central Workshop, Naroda premises due to non-receipt of approval from civil department.

Source: As per information provided by the Corporation

<sup>11</sup> Engine Shop, Machinery shop, Printing Press and Tyre Shop.

It can be observed from the **Table 5.4 and 5.5** that delays were observed at all stages in disposal of scrap. The disposal of scrap is necessary for the Corporation to unblock funds and space. Though the Corporation has issued general standing order (GSO 980), it has not prescribed any time limit within which the various scrap proposal has to be processed and disposed. This shows that the Corporation has not devised any system for periodic identification of scrap items and their timely disposal by accurate assessment of the scrap value. The delays at all stages from their identification until disposal were not available on record. The system for periodic identification of scrap and accurate assessment of scrap value needs to be devised to prevent deterioration in their quality and ensure realisation of good price on their sale.

### **Internal control and Monitoring**

**5.9** Internal control provides reasonable assurance for an efficient system to maintain financial discipline, run operations efficiently and comply with applicable laws and regulations. Audit observed following deficiencies in the internal control and monitoring mechanism of the Corporation:

- The mandatory physical verification of both movable and immovable assets required to be conducted at least once in a year as per Gujarat State Road Transportation Rules, 1971 was not conducted.
- The responses to the Concurrent Stock Verification report for 2015-16, 2016-17 and 2017-18 of CS were pending for more than three years as on 31 March 2019.
- The Peripatetic Audit Parties did not conduct inspection of initial records, accounts maintained and physical verification of assets and stores by the units during period from 2013-18.
- The submission of purchase indents to Central Stores Department (CSD) by the office of works manager and consolidated indents to the office of Controller of Purchase by CSD was delayed in the range of 38 to 116 days and 53 to 201 days respectively.

### **Conclusion and Recommendations**

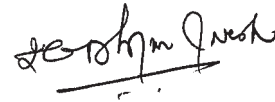
**5.10** Gujarat State Road Transport Corporation implemented (1997) Inventory Management System at Central Stores Department and Divisional Stores. The Corporation has not fixed various levels except Minimum Stock level for store items, not categorised its store items based on turnover and has not set parameters of time for fabrication of a bus body on the chassis. The stock level was not monitored which resulted in non-availability of materials, acceptance of sub-standard materials, *etc.* Deficiencies were also observed in store records maintenance, scrap management.

***Recommendations***

**For better store management, the Corporation may:**

- **frame a policy to fix stock levels, categorise the store based on turnover and set parameters for fabrication of a bus body on chassis for effective monitoring;**
- **devise a mechanism for periodic identification of scrap and its timely disposal.**

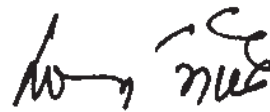
The matter was reported to Government/ Management (May 2020); the reply from Government/ Management is awaited (June 2020).



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**Countersigned**



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Comptroller and Auditor General of India**

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