

## CHAPTER – V

### STORES AND STOCK

#### SECTION-B – PARAGRAPH

#### PUBLIC WORKS DEPARTMENT

##### 5.1 Extra expenditure and avoidable payment of interest

**The procurement of cement at increased rate in contravention of the terms and conditions of the agreement resulted in extra expenditure of Rs.35 lakh beside incurring avoidable payment of interest of Rs.62 lakh**

On the basis of approval accorded by the Chief Engineer, Public Works Department, Western Zone, Itanagar, the Executive Engineer, Banderdewa Store Division placed (July 1995) supply order on a local firm for supply of 12,500 MT ordinary portland cement at a cost of Rs.4.07 crore at negotiated rate for FOR at Jogighopa rail head (Rs.2677 per MT and also for four designated points (i) Banderdewa store – 4000 MT @ Rs.3227 per MT, (ii) Margherita store – 3000 MT @ Rs.3387 per MT, (iii) Likabali store 3500 MT @ Rs.3287 per MT, and, (iv) Charduar store 2000 MT @ Rs.3067 per MT) with the stipulation for completion of supply within five months *i.e.* during the period from July 1995 to November 1995. The time limit for completion of supply was further extended upto June 1996 by the Chief Engineer Western Zone in April 1996.

In terms of the agreement, the firm was entitled to claim enhancement of rate due to any statutory increase or increase in the basic cost of cement billed by the factory and railway freight within the validity period of contract. Acceptance letter (June 1995) of the firm which formed a part of the agreement included the condition that 100 *per cent* payment for delivery of the supply of cement in good condition would have to be made within a period of 30 days with a provision for levy of interest @ 18 *per cent* per annum on the cost of cement supplied for delay in payment beyond 30 days.

Test check (July 2002) of records of Banderdewa Store Division revealed that the firm supplied 9235 MT of cement (OPC-8796.70 MT at enhanced rate – Rs.3.22 crore and portland slag cement (PSC) 438.30 MT – Rs.15.44 lakh) valued Rs.3.37 crore between November 1995 and July 1996 (**Appendix – XXX**). The balance 3265 MT of cement was not supplied by the firm as the department was not interested in procurement of cement at enhanced rate. Out of the total claim of Rs.3.37 crore, the division paid Rs.2.67 crore between November 1995 and March 1998 to the firm and the balance of Rs.70 lakh could not be paid due to non-availability of funds.

Procurement of materials at enhanced rate disclosed the following irregularities.

### 5.1.1 Extra expenditure

After supply of 261.90 MT of cement only, the firm requested (January 1996) the Chief Engineer, Western Zone to increase the rate for supply of cement as the basic cost of cement was increased to Rs.2982 per MT in January 1996 from Rs.2514 per MT at the time of tender. In support of the increase of basic cost of cement, the firm furnished the Jogighopa dump rate of cement of the Cement Corporation of India (CCI) Ltd., from October 1995 to January 1996. Accordingly, the Chief Engineer, Western Zone, Arunachal Pradesh in March 1996 enhanced the rates for supply of cement for different periods at four designated points (**Appendix – XXX**) for the period from October 1995 to January 1996 though there was no increase in ex-factory price of cement by the manufacturer. Further, as per terms of the agreement, the firm failed to submit documents like purchase voucher/invoice *etc.*, towards procurement of cement for determining the enhanced rate as the enhanced rate was applicable from the date of purchase. This was evident from the fact that in his letter dated December 1996 to the Chief Engineer, Western Zone, the Superintending Engineer (SE), Capital Circle, PWD specifically mentioned that the enhanced rate was not justified for consideration as there was no increase in the basic cost of cement.

Thus, imprudent and unjustified action of the Chief Engineer resulted in extra expenditure of Rs.35 lakh (Rs.3.22 crore – Rs.2.87 crore) beside rendering undue financial benefit to the firm.

In reply, the Chief Engineer, Western Zone, Itanagar stated (July 2003) that the enhancement in the basic cost of cement per tonne was made on the basis of approved Jogighopa dump rate of cement of the CCI Ltd. The reply is not tenable as there was no increase in the ex-factory price of cement by the manufacturer. Jogighopa dump rate of cement not covered by the agreement was inclusive of some additional charges like godown charges, transportation charges from rail head to dump and handling charges apart from regular charges (FOR Ex-Jogighopa rate) like basic cost of cement, taxes, railway freight and loading and unloading charges. Further, between November 1997 and March 1998 the CE procured 6424.30 tonnes of cement (OPC) through fresh tender agreements (September 1997) at a much lower rate (Banderdewa – Rs.3214.48 per MT, Margherita – Rs.3472.08 per MT, Likabali – Rs.3327.18 per MT and Charduar – Rs.2979.06 per MT) than that of the increased rate of the firm (Banderdewa – Rs.3651 per MT, Margherita – Rs.3811 per MT, Likabali – Rs.3711 per MT and Charduar – Rs.3491 per MT). Again in December 2002, the Executive Engineer, Banderdewa Store Division stated that the agreement was closed as the department was not interested in procurement of balance quantity (3265 MT) of cement at increased rate. The basis on which the 9235 MT of cement was procured at increased rate was thus not clear. The irregular and unjustified action also resulted in undue financial benefit to the firm. This has happened due to

procurement of cement from a local firm instead of reputed cement manufacturer.

### **5.1.2 Avoidable payment of interest**

It was further noticed that due to non-receipt of balance claim of Rs.70 lakh for supply of cement, the firm in December 1998 issued a notice to the Chief Secretary to the Government of Arunachal Pradesh and the Chief Engineer, Western Zone, PWD as required under civil procedure code before filing a money suit for recovery of outstanding bills. No action was however, taken by the Government/Department to clear the outstanding bills.

Failing to obtain the payment from the department, the firm filed (July 1999) a money suit in the Guwahati High Court for the outstanding bills alongwith 18 *per cent* interest for the period of delay in payment beyond 30 days on the cost of materials supplied as per terms of the agreement. The Hon'ble High Court decreed (July 2001 and December 2001) the case in favour of the firm according to which the department was to pay the balance amount with interest @ 18 *per cent* per annum from 31.7.1996 from which date the aforesaid amount became due and payable. The department, however, released the pending claims of the firm for Rs.70 lakh in September 2001 and security deposit of Rs.5.00 lakh in October 2001. Interest of Rs.62 lakh was released in January 2002 (Rs.59 lakh) and October 2002 (Rs.3 lakh).

Thus, purchase of materials without making necessary provision of funds resulted in delayed payment of supply bills to the firm and consequential avoidable expenditure of Rs.62 lakh on payment of interest.

In reply, Chief Engineer, Western Zone stated (July 2003) that the department had no other alternative but to accept the Hon'ble High Court order for making payment with interest. Reply remained silent regarding non-arrangement of fund as per terms and conditions of the agreement.