CHAPTER - VII

COMMERCIAL ACTIVITIES

AUDIT PARAGRAPHS

Transport Department

7.1 Material Management and inventory control of Punjab Roadways

7.1.1 Introductory

The Punjab Roadways (Undertaking) was established in May 1948 as a departmental quasi-commercial Undertaking in the State with the objective of providing road transport to the public in an economic and efficient manner. The Undertaking is headed by the Director, State Transport, Punjab (DST) assisted by a Chief Store Purchase Officer (CSPO), 3 Divisional Managers (DMs) and 18 General Managers (GMs), each heading a depot. The Directorate office places the orders and the Divisional offices receive the stores except tyres, tubes and flaps. The accounts of the undertaking were in arrear from 1994-95 onwards. The undertaking was running into losses and accumulated losses as on 31 March 1994 were to the tune of Rs. 300.26 crore.

The material management and inventory control of the undertaking for 5 years ending March 2001 was examined on the basis of test check of records in the offices of the DST, 3 DM# and 8 Depots* (out of 18 depots) conducted during October 2000 to March 2001.

7.1.2 Existing procurement system

The Undertaking had framed a calendar for the procurement of spares/stock from 1996-97 to ensure regular placement of orders so as to avoid “Stock-out” position and to maintain minimum level of stock. In order to meet the requirements of store purchase agency, the purchases are made from the firms on rate contract with Association of State Road Transport Undertakings (ASRTU), Director General Supply & Disposal (DGS&D), the Controller of

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Chandigarh, Ferozepur and Jalandhar

* Amritsar-II, Chandigarh, Ferozepur, Hoshiarpur, Jalandhar-I, Jalandhar-II, Ludhiana and Ropar

stores and from the original manufacturers. For this purpose High Level Purchase Committee headed by the Secretary Transport Department and Standing Purchase Committee headed by the Director, State Transport have been constituted.

7.1.3 Extra expenditure on purchases

7.1.3.1 Payment of sales tax

Non-observance of provisions of Sales Tax Act resulted in avoidable payment of Rs.92.85 lakh.

Under the provisions of Sales Tax Act, supply to Government Departments attracts sales tax at four per cent against 'D' Form. In 7 depots, sales tax at the rate of 8 per cent was being paid. It was noticed that on the supply of 16347.9 kilolitres HSD received between October 1999 and January 2001 in 7 depots, sales tax was levied/paid at 8 per cent involving an extra expenditure of Rs. 92.85 lakh. Only one depot viz. Hoshiarpur took up (June 2000) the matter for the refund of excess sales tax charged amounting to Rs. 9.09 lakh but the supplier (July 2000) indicated his inability to refund sales tax at such a belated stage. He, however, started charging sales tax at 4 per cent. Thus, non observance of the provisions of the Act resulted in avoidable payment of sales tax amounting to Rs.92.85 lakh.

7.1.3.2 Purchase of tyres

Non-availing of DGS&D rates resulted into extra expenditure of Rs.18.57 lakh.

Rules provide that all requirements would be met from store purchase agency of rate contract of DGS&D or Controller of Stores. Contrary to above, it was seen that on the basis of quotations, DST procured 6189 tyres for Rs.3.16 crore from three firms during 1999-2000 at the rate of Rs.5100 per tyre excluding sales tax. Audit scrutiny, however, revealed that these firms were on rate contract with DGS&D and had supplied tyres at the rate of Rs.4800 per tyre excluding sales tax during the same period to the Transport Commissioner, Haryana. Non-availing of DGS & D rates resulted into extra expenditure of Rs.18.57 lakh to the Undertaking.

Reasons for non-availing of DGS&D rates called for (April 2001) were still awaited (November 2001).

7.1.4. Non-levying of liquidated damages

Non-levy of liquidated damages on delayed supplies resulted into loss of Rs.11.60 lakh.

General terms and conditions of rate contracts entered into by the ASRTU with various suppliers of stores and spares provide for levy of liquidated damages in the event of late supplies. Liquidated damages equivalent to 2 per cent of the price of the stores delivered late each month or part thereof subject to maximum of 10 per cent of the value are to be paid by the supplier for late supplies. Test check of records of 2 Divisional Offices (Jalandhar and Ferozepur) revealed that against supplies valuing Rs.12.71 crore (Rs.6.64 crore: Jalandhar; and Rs.6.07 crore : Ferozepur) received during 1997-98 to 1999-2000, stores valuing Rs.2.08 crore (Rs.1.22 crore : Jalandhar, Rs.0.86 crore: Ferozepur) were received after delay ranging between 31 and 430 days. Liquidated damages amounting to Rs.11.60 lakh were not claimed. The department accepted that liquidated damages were not levied on the ground that the firms would have charged interest on delayed payments in case liquidated damages were levied. The reply was not tenable as the department had not lodged any claim against the firms.

7.1.5 Local purchases

The table given below gives the total expenditure incurred on the procurement of stores/spares (excluding tyres, tubes, flaps, oil and lubricants) vis-a-vis the expenditure on local purchases made in 8 depots during the years 1995-96 to 1999-2000.

Year	Total purchase	Local purchase	Percentage of local purchase to total purchase
	(Rupees in lakh)		
1995-96	567.72	140.64	25
1996-97	607.38	163.82	27
1997-98	617.68	143.96	23
1998-99	417.90	182.61	44
1999-2000	454.32	192.02	42
Total	**2665.00**	**823.05**	

High incidence of local purchases due to non-observance of procurement calendar etc.

(i)It is observed from the above table that the percentage of local purchase to total purchases increased from 23 per cent in 1997-98 to 42 per cent in 1999-2000. While the Undertaking was unable to give the reasons for increase in proportion of local purchase, the audit observed that local purchases were due to non-observance of procurement calendar and non-inclusion of minimum stock levels while estimating the requirements. The department while admitting the audit point stated (June 2001) that increase in expenditure on local purchases was due to hike in prices of spares and depots made local purchases due to non-supply of adequate quantity of spares by the Divisions. The reply was not tenable as the department did not observe procurement calendar.

(ii)Analysis of rates of 25 items purchased locally during 1999-2000 in Chandigarh depot with the rates of rate contract firms revealed that the department suffered a loss of Rs. 1.42 lakh during the period on these items.

Local purchase of Rs.1.97 crore awaits regularisation.

(iii)It was further noticed that out of the total local purchase of Rs.8.23 crore during the period from 1995-96 to 1999-2000, purchases valuing Rs.1.97 crore had not even been regularised by the competent authority.

7.1.6 Inventory control

DST had laid down (December 1992) the minimum and maximum level of stock as 1 month and 3 months consumption for Divisional Stores and maximum of 1 month in respect of each depot. Value of the stock of spares and batteries held by 3 divisional offices and 8 depots during 1995-96 to 1999-2000 excluding obsolete and short/damaged parts was as under:

Non-observance of norms resulted into excess holding of stock at divisional and depot levels.

Year	Consumption	Closing stock	Closing stock in terms of months consumption		
Divisional stores	(Rupees in lakh)		**Average**	**Maximum**	**Minimum**
1995-96	961.19	285.54	3.56	5.13 (Ferozepur)	2.83 (Chandigarh)
1996-97	964.94	322.13	4.00	5.21 (Ferozepur)	3.11 (Jalandhar)
1997-98	1100.63	424.96	4.61	5.78 (Ferozepur)	3.87 (Jalandhar)
1998-99	572.39	198.20	4.16	5.82 (Ferozepur)	2.71 (Jalandhar)
1999-2000	630.97	130.94	2.50	3.14 (Ferozepur)	1.70 (Jalandhar)
Depot stores					
1995-96	560.41	123.91	2.65	3.98 (Jalandhar-I)	1.58 (Chandigarh)
1996-97	565.06	155.54	3.30	4.62 (Ropar)	2.20 (Jalandhar-II)
1997-98	602.32	192.55	3.84	5.80 (Ropar)	2.97 (Jalandhar-II)
1998-1999	481.62	146.50	3.65	6.18 (Jalandhar-I)	1.91 (Ludhiana)
1999-2000	502.44	132.30	3.16	6.60 (Jalandhar-I)	1.22 (Ludhiana)

Thus, the closing stock in terms of months consumption in respect of divisional stores during the five years ending March 2000 varied from 1.70 months (Jalandhar division in 1999-2000) to 5.82 months (Ferozepur division in 1998-99) and from 1.22 months (Ludhiana depot in 1999-2000) to 6.60 months (Jalandhar I depot in 1999-2000) in respect of depot stores which was contrary to the prescribed norms. The Undertaking had not analysed the reasons for excess holding of stock resulting in blocking of Government money.

7.1.7 Excess consumption of stores

(i) Lubricants

Excess consumption of lubricants on the basis of highest KMPL achieved in a depot resulted into loss of Rs.2.06 crore

The Undertaking had not fixed any norms for consumption of engine oil, gear oil and brake oil for its TATA and Leyland vehicles.

The table below indicates the maximum and minimum distance covered during 1995-96 to 1999-2000 per litre of lubricants in 2 TATA depots (Amritsar-II and Hoshiarpur)and 6 Leyland depots (Chandigarh, Ferozepur, Jalandhar-I, Jalandhar-II Ludhiana, and Ropar) test checked.

		1995-96		1996-97		1997-98		1998-99		1999-2000	
		TATA	LL	TATA	LL	TATA	LL	TATA	LL	TATA	LL
Engine oil	**Max**	486	443	506	421	670	500	576	687	545	562
	Min	196	288	175	301	207	344	284	384	331	386
Gear oil	**Max**	2186	2099	1705	1990	1790	1869	2981	2295	3209	2120
	Min	1619	661	1132	634	1754	767	2143	1136	2303	1079
Brake oil	**Max**	4172	@	4297	@	4507	@	7016	@	6135	@
	Min	4089	@	4107	@	4193	@	4988	@	5675	@

@ *Break oil is not used in these models*

The above table revealed that there were wide variations in different depots in the distance covered per litre of lubricants. By assuming the average of maximum distance covered per litre of lubricants in all the years as a norm, there was excess consumption of 352462 litres engine oil, 143289 litres gear oil and 1927 litres brake oil valued at Rs.2.06 crore. Reasons for wide variation had not been analysed by the management so far (August 2001).

(ii) Major assemblies

Non-fixation of norms for major assemblies resulted into excess consumption valuing Rs.57.72 lakh.

The Undertaking had not fixed any norms for the consumption of major assemblies like Piston complete, Piston ring set, Cylinder liner, U.J.Cross, Axle shaft, Automiser, nosal and Fuel pump element etc. However, the Pepsu Road Transport Corporation (PRTC) had fixed (June 1994) the norms for these assemblies of Leyland and TATA vehicles. A comparison of actual consumption of 7 items of major assemblies in 8 depots during 1995-96 to 1999-2000 against the norms fixed by PRTC revealed that the Undertaking had consumed excess assemblies valuing Rs.57.72 lakh.

7.1.8 Short recovery of burnt engine oil

Non-fixation of norms for recovery of burnt engine oil resulted into short recovery to the extent of Rs.8.10 lakh.

Like-wise, no norms for recovery of burnt engine oil at the time of replacement of engine oil had been fixed. However, the Transport Commissioner of Uttar Pradesh had laid down (June 1970) that 80 per cent of the engine oil issued be recovered at the time of replacement of engine oil.

A test check of records of 8 depots for the years 1995-96 to 1999-2000 revealed that the recovery rate of burnt engine oil varied from 22.89 per cent (Ferozepur in 1997-98) to 80.11 per cent (Ropar in 1999-2000). As against the issue of 416417 litres of engine oil for replacement, only 214053 litres of burnt engine oil was recovered. Based on the norm fixed by the Transport Commissioner, Uttar Pradesh, there was short recovery of 119081 litres of burnt engine oil valuing Rs.8.10 lakh.

7.1.9 Disposal of scrap material

Rejection of competitive rates offered by MSTC resulted in undue stocking of stores valuing Rs.41.10 lakh.

The Undertaking entered into (February 1999) an agreement with the Metal Scrap and Trading Corporation (MSTC) (a Government of India Undertaking) for the disposal of its surplus/obsolete stores, equipments, miscellaneous article, and steel scrap etc. The agreement provided that the highest bid obtained by the MSTC would be approved by the Undertaking before disposal.

A test check of records in 8 depots revealed that the value of disposable material (except buses batteries and metal scrap) with the depots increased from Rs.28.05 lakh (March 1999) to Rs.41.10 lakh (March 2000). During 1999-2000, material valuing Rs.4.56 lakh only was disposed of because in most of the cases rates found reasonable and competitive (by the MSTC) were rejected (by the concerned depots) on the plea that the rates offered were less than the reserve prices. However, it was seen that the basis for fixation of reserve price by the depots was not realistic which may facilitate disposal of scrap material as the prevailing market trends viz. demand, rates of metal scrap etc. were not kept in view. This resulted in undue storage of stores valuing Rs.41.10 lakh beside expenditure on storage, watch and ward and loss due to further deterioration in the condition of stores with the passage of time.

7.1.10 Quality control

The proportion of samples got tested not commensurate with the volume of purchases.

In order to maintain good quality control, the general conditions of the rate-contracts entered into by the ASRTU provide that random samples be taken from the consignment and got tested either at the Central Institute of Road Transport or in a Government test house. It further provides that in case the test results were found unsatisfactory, the Undertaking concerned, without prejudice to its rights, would reject the entire consignment, purchase the material from elsewhere at the risk and cost of the supplier and in case this material was used, would levy penalty, based on the shortfall in specifications, if any.

Contrary to the above, it was noticed in audit that out of the material valuing Rs.40.41 crore (2484 consignments) procured in the divisional stores during 1995-96 to 1999-2000, only 3 samples of supply valuing Rs.1.19 lakh were drawn, which constituted a very negligible percentage. Out of these, one sample had failed as it did not conform to the requirements.

Thus, the proportion of samples got tested was not commensurate with the volume of purchases made by the Undertaking and quality control mechanism was not effectively implemented and quality of the stores purchased was not ensured.

7.1.11 System deficiencies

The Undertaking did not adhere to the procurement calendar for ensuring regular placement of orders to maintain minimum level of stock. Though norms for minimum and maximum level of stock at Divisional Stores were laid down, yet these were not followed. No separate Purchase Manual was prepared and no norms for consumption of major assemblies, gear oil, break oil, engine oil and recovery of burnt oil etc. had been fixed.

The above matter was referred to the Director in April 2001. The material was developed into a long draft paragraph for consideration of Government and the same was demi-officially forwarded to the Secretary to the Government for reply within six weeks. Reply of the Secretary was received in June 2001 and his reply incorporated where necessary.

Food and Supplies Department

7.2 Blockade of funds

Longer storage coupled with non-milling of paddy resulted in blockade of Rs. 42.47 lakh apart from cost of Rs. 5.16 lakh on storage.

According to the Custom milling policy of the State Government for the crop year 1997-98, procuring agencies were required to store a minimum of 20 per cent of paddy procured by them in each district in own custody. The responsibility for quality and quantity of the paddy stored in own custody was of the concerned staff of the procuring agency. The department issued (March 1998) instructions that paddy kept in own custody as well as in joint custody of the procuring agencies and millers should be got milled on priority in 50:50 ratio .

Audit scrutiny of records of District Food and Supplies Controller (DFSC) Moga revealed (September 2000) that the department procured and stored 7813.39 quintals of paddy (September-November 1997) in own custody at Nihal Singh Wala Centre for the crop year 1997-98. The department could not get the paddy milled on priority basis as per instructions which resulted in deterioration of quality due to longer storage. Thus, non-milling of paddy on priority and longer storage thereof resulted in blockade of Government money amounting to Rs. 42.47 lakh (calculated at the rate of Rs. 543.55 per quintal of paddy fixed by the Government of India) besides extra cost of storage of Rs. 5.16 lakh.

When pointed out (September 2000), the department stated (May 2001) that the paddy in own custody was to be given to the millers for custom milling after the complete milling of paddy already under joint custody of the millers but the paddy had deteriorated by this time and the millers did not accept the paddy for custom milling.

The reply was not tenable as the paddy in own custody and in joint custody with millers should have been milled on priority at 50:50 ratio as per instructions of March 1998. Disposal of paddy was still awaited (November 2001).

The above matter was referred to the Director, Food & Civil Supplies Department in February 2001. No response had been received. The material was developed into draft audit paragraph for consideration of the Government and the same was demi-officially forwarded (February 2001) to the Secretary to the State Government for reply within 6 weeks. No reply had been received (November 2001).

7.3 Loss of Government money

Delay in applying treatment for quality control measures coupled with non-despatch of 6864.25 qtls. of wheat in time resulted into loss of Rs.31.21 lakh.

To ensure proper preservation of wheat stocks and effective quality control to avoid huge losses on deterioration of quality, Food and Supplies Department issued instructions (June 1984) which made the procuring agency responsible for the maintenance of proper health of wheat stock. The department claimed to have trained sufficient staff for applying proper preservation techniques. Apart from prescribing the preservative and curative measures and the norms to be applied, the instructions reiterated (June 1989) that each godown should be visited at least once in a fortnight and the results be recorded in a register alongwith the condition of the grain with the percentage of moisture and infestation of insects.

Following norms for treatment of wheat stocks were to be followed strictly:

i)	Fumigant		Three times per annum
ii)	Semi fumigant	i) Heavy	Twice weekly for 2 weeks and thereafter once a week for two weeks.
		ii) Medium	Once a week for two weeks and once in two weeks thereafter.
		iii) Low	Once in two weeks.
iii)	Contact poison		Every 15 to 21 days.

Audit scrutiny of records of District Food and Supplies Controller (DFSC) Ludhiana revealed (December 2000) that during the crop year 1998-99, 35701.95 quintals of wheat was stored at Mullanpur Centre to which no treatment had been applied upto October 1999 as verified from the stock register. At the time of despatch of stock to Food Corporation of India (FCI) and arrival of wheat special in March 1999 no stock was lifted since it was infested. Only 520 quintals of stock was lifted in April 1999. It was only in November 1999 that the prescribed treatment was given and as a result thereof 28317.70 quintals of wheat could be despatched between December 1999 and January 2000 and remaining 6864.25 quintals of wheat worth Rs. 59.80 lakh was declared (November 2000) unfit for human consumption by the joint inspection teams of the Food and Supplies Department and the Food Corporation of India.

Out of the rejected stock of 6864.25 quintals, 6079.05 quintals procured at a cost of Rs.52.96 lakh was sold in open auction (March/April 2001) for Rs.28.59 lakh and the remaining 785.20 quintals worth Rs. 6.84 lakh was found short. Thus, improper preservation of wheat stocks resulted in delay in despatch of wheat to FCI and declaration of 6864.25 quintals of wheat as unfit for human consumption. This resulted in loss of Rs 31.21 lakh to the department.

On being pointed out in audit (December 2000/March 2001), the department pleaded (May 2001) that the wheat stocks could not be cleared due to non-planning of sufficient wheat specials. The reply was not tenable as the department could not load the specials (March/April 1999) because of living infestation and non-providing of prescribed preservative and curative methods. However, the department stated (May 2001) that action against the responsible field staff was being taken. Final outcome was awaited (November 2001).

The above matter was referred to the Director Food and Supplies Department in March, 2001. No response was received. The material was developed into draft audit paragraph for consideration of Government and the same was demi-officially forwarded (August 2001) to the Secretary to the State Government for reply within 6 weeks. No reply had been received (November 2001).

(NAND LAL)

CHANDIGARH Accountant General (Audit), Punjab

The

Countersigned

(V.K. SHUNGLU)

NEW DELHI Comptroller and Auditor General of India

The