

Executive Summary

Chapter 1- Introduction

Uttar Pradesh is the most populous State in the country and has made massive investments in road sector in recent years to improve connectivity. Still the State stands at 25th position in road density per lakh population and at ninth place in road density per 100 square km area. The State has 2,03,457 km of various categories of roads such as National Highways, State Highways, Major District Roads, Other District Roads and Village Roads. The road works are executed by Public Works Department through contractors by award of works. During 2011-16, the State government incurred an expenditure of ₹ 40,854.63 crore on construction and maintenance of various types of roads in the State excluding *Pradhan Mantri Gram Sadak Yojana*. About 77 *per cent* funds were utilised on widening/strengthening of existing roads and remaining 23 *per cent* funds were utilised on construction of new roads. The State government in 2007 had introduced a number of reforms in tendering procedures to enhance transparency and competition and check involvement of anti-social elements in tendering process of public works. In view of huge investments made by the State Government on construction of roads during the last five years and significant amount of market borrowings made to finance capital expenditure, it was important to ascertain whether the expenditure had been incurred transparently in a prudent and efficient manner, to achieve the desired objectives of providing effective road connectivity in the State. Audit, therefore, decided to carry out a comprehensive performance audit of the system of tendering and contract management of road works by the department. Audit had also evaluated various stages of tendering/contract management to examine whether the entire tendering process and contract management had been managed in a transparent and efficient manner as per rules.

Audit observed serious irregularities in all the stages of tendering process and contract management. The basic norms for road design and cost estimation were not adhered to. The tendering process lacked transparency and competition. Large numbers of contractors not meeting the minimum technical requirements were qualified in technical evaluation and there were clear indications of collusive bidding in major contracts in most of the districts. Government instructions to check use of construction material from illegal mining were not complied with. Grant of concessions and undue benefits to contractors was rampant and there was complete neglect of the need to ensure road quality and protect government interests.

Major audit findings of the Performance Audit have been included in Chapter-2 to Chapter-11 of the Report as discussed below:

Chapter 2- Framework of Rules

The existing framework of rules and procedures have serious gaps and are not consistent with best practices in important areas such as single bid situations, giving wide publicity to tenders, assessment of bid capacity of contractors, review of performance of contractors, sanction of advances, negotiations with bidders etc. This not only affected Government's interest adversely but allowed exploitation of defective provisions to extend undue favours to private contractors.

(Paragraphs 2.2 and 2.3)

Chapter 3- Road Development Policy and Planning

PWD Research Institute, responsible for road design and quality testing, was not strengthened and it was found seriously lacking in both equipment and manpower.

(Paragraph 3.1.1)

Widening and strengthening of large number of roads was executed without proper need assessment as in 38 *per cent* of test-checked works in 17 districts, proposals for widening were not based on mandatory traffic census reports. Renewal of roads were also not carried out as per laid down policy norms.

(Paragraph 3.1.3)

Policy objective of ensuring environmental protection through extensive plantation along the roads was not achieved. Provision of ₹ 47.87 crore was not made for tree plantations in the estimates of 168 out of 170 works test-checked by audit.

(Paragraph 3.1.5)

Planning in construction of roads was found completely absent. Neither any five years Strategic Plan nor Annual Works Plan was prepared. Roads were selected and approved by government for construction on *ad-hoc* basis, without even indicating the date of completion of work in the sanctions.

(Paragraph 3.2.1)

Chapter 4 - Financial Management and Revision of SoR

An expenditure of ₹ 40,854.63 crore was incurred by the department on construction and maintenance of roads during 2011-16 and amount of ₹ 2,075.92 crore was surrendered.

(Paragraph 4.1)

Government sanctioned road works without any time-line for completion of projects and any definite commitment for release of funds in a specific time schedule. Government failed to release funds timely as per contracted schedule. As a result, 89 *per cent* selected works (out of 98 Contract Bonds) were delayed up to 57 months.

(Paragraphs 4.1.3 and 4.1.2)

Schedule of rates which forms the basis for determination of project cost were prepared irrationally by the Superintending Engineers (SEs), as different Circles of PWD were found adopting different basic rates for same construction materials procured from same quarries.

(Paragraph 4.3.1)

Chapter 5 – Cost Estimation and Sanction of Works

Large scale violations of Indian Road Congress (IRC) specifications and norms were noticed in designing of roads and their construction. In 78 works (88 *per cent*) costing ₹ 2,350.32 crore, soil testing was not carried out, pavement conditions were not assessed and no deflection tests were conducted. Further, in 51 works (81 *per cent*) costing ₹ 970.95 crore, road designs were prepared and widening planned without conducting traffic census in violation of IRC norms.

IRC norms were not adhered to which made the entire process of road design and cost estimation non-transparent with inherent risk of construction of sub-standard roads, incorrect cost estimation, loss to government and undue favour to the contractors. In test-check districts, audit noticed various deficiencies in execution of works.

(Paragraphs 5.1.4, 5.1.2 and 5.2)

Road safety audits were not conducted in any of the 49 road works, test-checked by audit. This implied that government instructions and rules regarding road safety requirements were completely ignored at the time of preparation of road designs and execution of works.

(Paragraph 5.1.8)

Executive Engineers (EEs) exceeded their delegated powers of ₹ 40 lakh per work and accorded technical sanctions to 215 works costing ₹ 217.23 crore in 14 test-checked districts during 2011-16 with cost of each work ranging between ₹ 40.22 lakh to ₹ 4.48 crore.

(Paragraph 5.4)

Chapter 6–Invitation of Tenders

No tender can be issued unless the scope of the work is firmed up and cost of the projects sanctioned by the government by issue of administrative approval/financial sanctions (AA/FS) and technical sanctions. Audit noticed in test-check that in 96 works (56 *per cent*) valuing ₹ 3,071.45 crore, tenders were issued by SEs before administrative approval/financial sanction of works by government.

Similarly, Notice Inviting Tenders (NITs) for 156 works (92 *per cent*) costing ₹ 4,184.74 crore were invited by SEs before (up to 872 days) issue of technical sanction. Further, in 105 works (62 *per cent*) costing ₹ 3,333.61 crore, financial bids were also opened before (up to 823 days) issue of technical sanction. This indicated brazen violation of basic tendering rules by SEs.

(Paragraphs 6.2.1 and 6.2.2)

Eighty one NITs amounting to ₹ 1,655.36 crore were not sent to Director, Information and Public Relations for publication in newspapers by SEs violating Government instructions for publication of tenders.

(Paragraph 6.2.4)

Chapter 7 – Evaluation of Bids and Selection of Contractor

Tendering in road works was largely not competitive and the number of such tenders (one or two bids) increased steeply from 63 *per cent* in 2011-12 to 77 *per cent* in 2015-16.

Despite large number of registered contractors in each district, Audit found that 598 contracts (75 *per cent*) costing ₹ 3,300.79 crore were awarded on the basis of one or two bids only during 2011-16, without resorting to retendering. Receipt of only one or two bids in majority of tenders in a district despite existence of many registered contractors indicates large scale collusive bidding all across the State.

(Paragraph 7.1)

Rules provide that negotiations would be held only in exceptional cases. Audit noticed that out of 331 contracts test-checked (executed by SEs), negotiations were held in 234 contracts costing ₹ 3,886.87 crore (71 *per cent*). This indicated that negotiations had become a rule rather than exception, which vitiates the sanctity of the tendering processes.

(Paragraph 7.2)

In 331 contracts test-checked, audit found that most of the contractors had either not submitted the necessary qualifying documents (such as solvency, character, experience, turnover and/or clearance certificate, bid capacity statement, proof of machinery and technical staff, registration with labour department etc.) or documents submitted by them were deficient. Despite this, they were declared technically qualified and contracts were awarded to them.

(Paragraph 7.3)

Cartel formation/collusive bidding were noticed in large number of cases. In 128 contracts worth ₹ 101.70 crore concluded by SE, Gorakhpur circle during 2011-16, only two bidders participated and quoted same rates in the tenders and even after negotiations. Similarly, in 62 contracts amounting to ₹ 22.41 crore finalised by SE, Basti circle, similar pattern of bidding was noticed and contracts were awarded to both bidders. In 22 contracts valuing ₹ 155.50 crore pertaining to seven districts, the bidders were related as partner(s) of firms.

(Paragraph 7.5)

Chapter 8 - Award of Contracts

As per instructions, tenders should be finalised within 15 days of opening of bids. PWD authorities however, took unduly long time and delays in finalisation of tenders in 461 contracts valuing ₹ 3,017.35 crore ranged from one to 6 months or more.

(Paragraph 8.1)

As government did not indicate time-schedule for completion of works while issuing AA/FS, SEs, at the time of signing contracts, decided project completion time arbitrarily, benefitting certain contractors by allowing excess completion time.

(Paragraph 8.4)

Contractors were to provide insurance cover of ₹ 7,535.78 crore for 2,953 contract bonds. However, insurance cover was not provided by any contractor in test-checked districts except one contractor. Therefore, contractors were benefitted to the tune of approximately ₹ 1.71 crore.

(Paragraph 8.11)

Chapter 9 – Advances, Recoveries and Payments

Test-check revealed that EEs paid ₹ 36.14 crore to 23 contractors during 2011-16 as interest-free secured advance against the material brought to site though, there was no provision of payment of such advance in the tender conditions.

(Paragraph 9.1)

During 2011-16, eleven divisions irregularly paid advance of ₹ 67.10 crore to contractors against 17 contracts on the grounds of collection of material and works done but not measured, though there was no provision in the contracts for making such advance payments.

(Paragraph 9.2)

Equipment advances of ₹ 204.97 crore were paid to contractors during 2011-16 without obtaining any proof of purchase of new equipment and their utilisation by the contractors for the awarded works.

(Paragraph 9.3)

Deduction of ₹ 55.11 crore on account of retention money (at the rate of five *per cent* of the amount due to the contractor), was not made from the bills thus giving undue aid to the contractors.

(Paragraph 9.5)

To check loss of revenue from sale of minor minerals and also control illegal mining, the contractors are required to submit copies of treasury challans to PWD divisions as proof of pre-payment of royalty and purchase of construction materials from authorised quarries. None of the divisions in test-checked districts ensured receipt of copies of treasury challans from contractors in support of royalty payments.

(Paragraph 9.7.1)

Divisions failed to recover penalty of ₹ 28.16 crore in cases of not submitting the MM-11 forms in support of payment of royalty and procurement of materials from authorised sources were not submitted.

(Paragraph 9.7.3)

Chapter 10 – Quality Control, Manpower and MIS

Quality testing in road works was not being carried out in most of the divisions as only one *per cent* of the prescribed samples were collected from construction sites by the divisions and sent to Quality Promotion Cell/Research Institute for testing. Divisions also did not ensure establishment of field laboratories by the contractors for testing at works site. Hence, there was no assurance of quality construction in road works.

PWD Research Institute, Quality Promotion Cell and district labs remained largely idle due to failure in receipt of samples from the divisions for testing.

(Paragraphs 10.1.2, 10.1.4 and 10.1.5)

Test-checked divisions paid bills (₹ 3,031.91 crore) of contractors for all selected works without insisting for submission of quality test-reports ignoring the orders of Engineer-in-Chief and therefore use of substandard material and execution of poor quality work could not be ruled out.

(Paragraph 10.1.7)

The department did not have an efficient MIS. Digitalisation of road information was also not completed. As a result, the system of collection and consolidation of information related to road works was very slow and unreliable which adversely affected functioning of the department.

(Paragraphs 10.4 and 10.7)

Chapter 11 – Contract Variations

Engineering authorities sanctioned time-extensions in 355 works costing ₹ 547.72 crore involving delays of 21 to 1928 days on ineligible grounds without levying liquidated damages of ₹ 52.24 crore which was irregular and amounted to extending undue favours to the contractors.

(Paragraph 11.1.1)

In 105 contracts costing ₹ 35.61 crore, variations ranging from 16 to 2,519 *per cent* of the contracted cost of specific items of works totaling ₹ 20.14 crore were sanctioned irregularly by Chief Engineers/Superintending Engineers beyond the maximum prescribed limit of 15 *per cent*.

(Paragraph 11.2)

Normal items of works such as Wet Mix Macadam, Dense Bituminous Macadam and Bituminous Concrete approved by government were excluded from tendering but subsequently executed by sanctioning extra-items amounting to ₹ 35.66 crore in 92 contracts (valuing ₹ 553.27 crore) during 2011-16. Further, 27 separate complete road works amounting to ₹ 6.53 crore were executed without tendering and payments were made as extra-items under the contracts executed for other works.

(Paragraphs 11.3.1 and 11.3.2)