

**CHAPTER VI : MINISTRY OF EXTERNAL AFFAIRS**

**6.1 Flawed purchase of property for Indian Chancery and unjustified expenditure on its renovation**

**The Indian Mission in Prague incurred an expenditure of Rs. 20.12 crore on the acquisition and extensive renovation of a 75 year old property for Indian Chancery, between April 2004 and October 2008. The property was purchased ignoring both security and structural safety aspects the most serious being its proximity to a major tunneling project. Construction of a large underground parking lot and a new multipurpose hall at a cost of Rs. 3.55 crore was unnecessary as adequate overground parking space and a ready to move in hall already existed. Repeated revision in the scope of work led to time and cost overruns with the cost of renovation work rising to 116 per cent of the cost of acquisition against 15 per cent anticipated earlier.**

In April 2004, the Ministry approved purchase of a 75 year old property<sup>1</sup> at Prague for the Indian Chancery at a cost of CZK 49.5 million (Rs. 8.73 crore)<sup>2</sup> along with additional expenditure limited to 15 per cent of the property cost, i.e., CZK 7.43 million (Rs. 1.31 crore)<sup>2</sup> for renovation of the property. The Mission commenced renovation works at a cost of CZK 58.21 million (Rs. 11.57 crore)<sup>3</sup> in August 2007 which were finally completed in October 2008 at a final cost of CZK 57.30 million (Rs. 11.39 crore)<sup>3</sup>. The renovated chancery became operational soon after in November 2008.

Audit scrutiny of records relating to the selection, purchase and renovation of the property disclosed the following:

**I Flawed selection of site**

**(a) Security aspect**

The selected property had serious flaws from the point of view of security as it was located in a commercial area, next to a metro looping station with its main entrance opening onto the main arterial road. This contravened Ministry's security guidelines of March 2001<sup>4</sup>. The Ministry, however, contended (September 2009) that the property was located in a secure area in the vicinity

<sup>1</sup> 60/93, Milady Horakove, Prague-7

<sup>2</sup> Rs. 1 = CZK 0.567

<sup>3</sup> Rs. 1 = CZK 0.503 (exchange rate as adopted by the Ministry in January 2008 has been applied throughout to maintain uniformity)

<sup>4</sup> Embassy property should not be an area which is directly affected by commercial activity and the building should be in the centre of the land area so that maximum depth can be kept between the boundary wall and the main infrastructure.

of two other embassies and that the security guidelines applied only to fresh construction projects. The position taken by the Ministry is not correct as the other two embassies open onto a side road and are also located within secured campuses. Further, the security guidelines of the Ministry equally apply to such cases of purchase of properties.

**(b) Structural safety aspect**

The property also faces several disadvantages on account of its close proximity to the site of a major tunneling project for underground movement of vehicles and trams. Plans for the tunneling project though in the public domain, were neither considered by the Mission nor brought to the notice of the property team. The property team also failed to ascertain local conditions that could have an impact on the property. The Ministry (September 2009) refuted that the project was in the public domain. However, this is not valid as a building ban order had been in force in the area where the property was purchased, since 1997 on account of the high-priority tunnel project.

As a result of its proximity to the tunneling project, which involves digging up to a depth of 18 metres within half a metre from the compound wall of the Chancery building, the renovated Chancery building remains exposed to the risk of impairment and damage. Further, till the tunneling project is completed in 2011, the sole access road to the Mission will remain closed for a period of over two years from November 2008 to 2011, with adverse repercussions on its normal representational functions. The position of the main entrance to the building is shown in the photograph below:



Thus, deep digging in close proximity of the building posed serious access and safety related problems.

The Ministry accepted (September 2009) that the ongoing tunneling works had placed constraints on free access to the Mission and stated that these would be overcome with the completion of the tunneling project.

## **II Inadequacies in consultancy contract**

### **(a) Selection of Consultant was not transparent**

Based on the Mission's recommendation, the Ministry approved the appointment (September 2004) of M/s Atelier Vsehrdova as consultant for the renovation project from amongst three short listed parties *i.e.* M/s Gleeds Ceska republika, M/s Atelier Vsehrdova and M/s Atelier HRRRA. The selection of the consultant was improper as the bid of the selected party (M/s Atelier Vsehrdova) was not the lowest and the appointment was based solely on its being the most experienced and proficient in English. The Ministry, however, contended that the bid of M/s Atelier Vsehrdova was the lowest at 8 *per cent* of the total project cost as against 8.17 *per cent* of M/s Atelier HRRRA. This, however, overlooked the fact that the bid of M/s Atelier HRRRA comprised both a fixed cost (CZK 0.23 million) component and a variable cost (5.895 *per cent* of the cost of construction) component. Together, these were CZK 0.95 million *i.e.* 7.76 *per cent* of the estimated cost of construction of CZK 12.20 million<sup>5</sup> which was not only lower than CZK 0.98 million *i.e.* the 8 *per cent* of the then estimated cost quoted by the selected consultant but offered the prospect of savings in consultant's fee, were the project costs to escalate, as was finally the case. Further selection should have solely been based on financial bids as parties had already been short-listed based on company profile, work experience and reputation. Making the ability to communicate in English a key selection criteria without any evidence of this being specified as a pre-qualification, also lacked propriety.

### **(b) Deficiencies in services of the consultant**

Audit scrutiny also revealed deficiencies in contract performance by the consultant. The consultant failed to factor the impact of the tunneling project in his design work even though definite information on the project and its proximity to the chancery property was available before the award of the contract. Later, a large number of cracks developed in the newly renovated building as soon as the tunneling work commenced (November 2008) and progressed. In addition, the tender document drawn up by the consultant, neither included the work of leveling of uneven floors in several rooms nor did it address the problem of water seepage in the east boundary wall.

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<sup>5</sup> The cost of construction estimated by the selected bidder (M/s Atelier Vsehrdova) was CZK 12.20 million. This has been adopted as a base figure for like-to-like comparison.

The Ministry accepted that it was the consultant's responsibility to include the problem of uneven floors and water seepage in the scope of renovation contract.

### **III Deficient project management**

#### **(a) Frequent and unjustified changes in project scope**

The purchase of Chancery building was proposed by the property team (December 2003) as it was in "fairly good condition of maintenance" and had a "ready to move in large multipurpose hall facility" and open areas that could serve as a "parking lot sufficient for about 20 cars". As such renovation works were initially envisaged to be limited in scope. The scope of the works was, however, significantly revised by the Mission first in June 2005 and again in December 2006 when, several new elements including construction of a new multipurpose hall and an underground parking lot were added, citing functional requirements and local regulations.

As the scope of the project continued to evolve over a long period of time, frequent references to the Ministry for approvals became necessary which caused delays in the award and commencement of work. Besides the construction of a new multipurpose hall and an underground parking lot lacked adequate justification and was totally contrary to the earlier assessment of the property team.

The Ministry stated (September 2009) that the availability of 20 parking slots as assessed by the property team was erroneous. The Ministry's dismissal of the assessment of the property team is not acceptable. The requirement of a new multi purpose hall and an underground parking lot had evidently not been critically assessed by the Ministry as availability of a multi purpose hall and adequate parking space were the two features of the property which played a critical role in its selection. If the selection of the property was based on an erroneous assessment made by the MEA team, it is a serious matter which requires investigation for fixing responsibility.

#### **(b) Failure to factor impact of tunneling project**

The Mission ignored the critical aspect of the impact of the planned tunneling project on the new chancery building and failed to take any action to independently assess and manage the impact as part of the renovation and reconstruction works. As discussed earlier, it relied instead on the assurance of the local authorities to monitor impact and rectify damages. This was ill advised as several cracks have appeared in the renovated building soon after digging work for the tunnel commenced. The Ministry belatedly permitted the

Mission (March 2009) to hire a company<sup>6</sup> for an independent assessment of the impact of tunneling project on the Chancery building – a requirement which should have been anticipated earlier so as to safeguard the acquired property.

**(c) Rising costs and time overruns**

The Ministry had initially approved a sum of CZK 7.43 million (Rs. 1.31 crore) for renovation of the Chancery building based on the recommendations of the property team (December 2003). The renovation works were, however, completed at a total cost of CZK 57.30 million (Rs. 11.39 crore) which was more than eight times the original approved cost and 116 *per cent* of the acquisition cost as against 15 *per cent* initially contemplated by the property team. The Ministry justified the increase in the costs on the basis of changes in the scope of the work in order to cover a number of essential aspects which could not be foreseen earlier. However, the decision to provide a new multipurpose hall and an underground parking lot which added CZK 17.87 million to the costs and constituted over 30 *per cent* of the total costs, lacked justification.

An analysis of the time-lines revealed that the renovation project took more than four years to complete from the date of acquisition of the property in April 2004. Delays were noticed in finalizing the terms of engagement of the consultant; firming up the scope of work; obtaining local body approvals ; obtaining approvals from the Ministry and in the award of work. The extended time-lines added to the rental liability of the Mission which had to pay USD 24,000 per month<sup>7</sup> for each month's additional stay in the hired premises. The Ministry justified the delays as being inevitable in view of the range of tasks associated with any project and the need for adopting local practices.

In conclusion, it is evident that the selection of the property was injudicious as it ignored security considerations and carried with it several location disadvantages. The engagement of Consultant lacked transparency. The project management itself was deficient as it failed to factor in a major tunneling project being undertaken in close proximity to the property. Frequent changes were also made in the scope of the work some of which lacked adequate justification, which pushed up project costs and extended the time lines for project completion.

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<sup>6</sup> M/s Statika

<sup>7</sup> The Mission was paying a rent of USD 24,000 per month for the old Chancery building from April 1997 till November 2008 when it was vacated.

## **6.2 Extra expenditure on purchase of full fare economy tickets from Air India**

**The Ministry of External Affairs (Ministry) did not comply with instructions of the Ministry of Finance to effect utmost economy in air travel. It did not frame comprehensive arrangements for optimally utilising competitive fares and incentive schemes being offered by airlines including Air India (AI). Instead, it entered into an arrangement with AI for regulating air travel which was not only limited in scope but was flawed in so far that it allowed payment of full fares which were three to five times higher than market fares, for home travel, emergency passages and temporary duty in exchange for concessions to which officials were ordinarily not entitled. As a result, the Ministry incurred considerable additional expenditure on purchase of air tickets for home travel, emergency passages and temporary duty which for the 30 Missions covered by the review, alone estimated to Rs. 20.76 crore for the period November 2006 to March 2009.**

The IFS (PLCA) Rules entitle officers and staff posted in Missions and Posts abroad to air travel while on transfer/ posting, on home leave, temporary duty and during emergency passages. On account of this extensive facility for air travel, the Ministry incurs substantial expenditure on foreign travel. The expenditure on this account in the years 2006-07, 2007-08 and 2008-09 was Rs. 152.83 crore, Rs. 148.55 crore and Rs. 154.40 crore respectively.

These rules also lay down the entitlements for air travel for different levels of officials and for different types of travel. While officers at the level of Joint Secretary and above are entitled to higher classes of travel in case of on transfer, temporary duty and home leave, all other officers and staff are entitled to travel by full fare economy. In the case of emergency passage, travel is permitted only in economy class irrespective of level. Further all travel is required to be made using routes approved by the Ministry which also specifies the mode and carriers to be used on these routes. The Ministry has in all cases prescribed travel by AI on routes/segments covered by AI directly or through code share flights.

In November 2005, the Department of Expenditure as a part of economy measures, permitted both domestic and overseas air travel by airlines other than AI/Indian Airlines (IA) provided alternative airlines are selected based on better and more competitive prices being offered by them. It was also stipulated that various incentive schemes and concessional fares offered by AI/IA be fully utilised to ensure utmost economy in air travel. These orders were made applicable to officials posted abroad as well and the Ministry was

specifically required to “make consequential changes in Rules”. In addition DoPT and Department of Expenditure were asked to accordingly modify the general guidelines for domestic and overseas travel. Since then, each year the Department of Expenditure has consistently stressed on the need to effect economy in foreign travel.

An audit review was conducted with the objective of assessing the viability and adequacy of arrangements, if any, put in place by the Ministry for effecting economy in air travel as stipulated by the Department of Expenditure, and for leveraging discounts and concessional air fares being provided by airlines. The review also aimed at assessing the financial implications of arrangements made by the Ministry for regulating air travel. The review covers an examination of expenditure incurred on foreign travel and of related documents in 30 Missions across Europe, CIS and the Americas during November 2006 to March 2009. However, data only with respect to home leave passage, emergency passage and temporary duty has been analysed as complete details of travel on transfer from one Mission/Post to another could not be obtained. The review also focuses on travel by economy class as travel by this class accounts for the bulk of foreign travel.

#### **6.2.1 Failure to frame comprehensive arrangement to regulate air travel**

In pursuance of the Department of Expenditure’s instructions of November 2005, the Ministry did not effect changes in its travel rules either to allow use of air lines other than AI/IA or for availing incentive schemes and concessional fares offered by AI/IA. Nor were comprehensive guidelines framed for regulating overseas air travel so that competitive prices being offered by various airlines could be utilised and economy in travel effected.

Instead the Ministry only signed a Memorandum of Understanding (MoU) with AI in November 2006 which largely envisaged provision of certain facilities to passengers travelling on full fare tickets on transfer and on home leave along with a discount of 10 *per cent* on full fares limited to Air India sectors and the facility of making payment in Indian Rupees. The facilities provided to passengers were (i) 80 kg additional free baggage allowance<sup>8</sup> per passenger subject to a maximum of 350 kg per family and wherever the piece concept was applicable, provision of one extra piece per passenger subject to a maximum of four pieces per family; and (ii) up-gradation of class of travel.

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<sup>8</sup> In addition to 20 kg allowed by the airlines

The arrangement worked out by the Ministry was both inadequate and flawed. The arrangement had no provision for availing of competitive fares being provided by airlines other than AI/IA nor did it cater to segments of approved routes for overseas travel not covered by AI or its code share flights. The inadequacy of the arrangement worked out by the Ministry, is evident from the fact that only three<sup>9</sup> of the 30 Missions/Posts covered by this review were connected by direct AI flights from Delhi. The benefits accruing to the Government was limited only to a 10 *per cent* discount on the vastly high full fare rates and that too was restricted to sectors covered by AI. Similarly, the facility of additional baggage allowance of 80 Kgs though of benefit in the case of transfer passages, had limited applicability as it could be availed of only in case of transfers and postings between stations covered fully by Air India flights. It was seen during audit that in the case of 27 out of the 30 Missions covered in this review, AI did not have its own flights to these destinations. As such in the case of officials on transfer/posting to and from these Missions, charges for additional baggage of 80 kgs would need to be separately paid for despite full fares being paid to AI. The arrangement was especially flawed when it came to home leave and emergency passages as it involved continued payment of full fares in exchange for class upgrades and additional free baggage allowance which did not provide any savings to the Government. These concessions only irregularly conferred benefits to officials to which they were ordinarily not entitled during home leave and emergency passages.

#### **6.2.2 Adverse financial implications of the MOU with AI**

The failure of the Ministry to draft a proper and comprehensive system for regulating air fares despite the air travel market having become very competitive resulted in the Ministry foregoing substantial savings in air travel expenditure. Information obtained from Missions/Posts covered by the review shows that during the period covered by the review, they incurred an expenditure of Rs. 26.97 crore towards purchase of full fare economy tickets for their officials and family members during home leave (Rs. 22.40 crore), emergency passage (Rs. 3.16 crore) and temporary duty (Rs. 1.41 crore). Audit analysis revealed that the expenditure so incurred on purchase of full fare economy tickets from Air India was three to five times the estimated expenditure that would have been incurred on purchase of concessional /cheap economy class tickets and thus entailed an estimated avoidable expenditure of Rs. 20.76 crore i.e. 77 *per cent* of the full fare expenditure. The details of extra

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<sup>9</sup> London, Frankfurt, Paris



expenditure incurred by these 30 Missions/Posts on purchase of full fare economy tickets for their officials and family members during home leave, emergency passage and temporary duty are indicated in the **Annex-I**.

The Ministry in its reply (October 2009) stated that it was continuing with its policy of buying full fare tickets from AI in compliance with instructions of Department of Expenditure of July 2009 which makes it mandatory to undertake air travel by AI to destinations served by it. It also cited several practical difficulties in the implementation of flexi fare/market fare scheme. The position taken by the MEA is not acceptable as the austerity guidelines issued by the Department of Expenditure for purchase of cheapest fare tickets are applicable to all the Departments including MEA. Directions of the Department of Expenditure prescribing air travel only by AI do not preclude the Ministry from seeking more economical fare options from AI in view of the Department of Expenditure's instructions of October 2008 for devising internal processes "to leverage the discounts being provided by the Airlines". With regard to the practical difficulties cited by the Ministry it needs to be noted that the provision of additional baggage allowance is justified only in the case of transfer passages and that even now this benefit is not available on routes where AI is not the sole carrier. The statement that AI does not issue flexi fare tickets if more than one destination is involved is factually incorrect for routes on which AI or its code share flights operate.

Further, though the Ministry informed Audit in October 2009 that it was continuing with the system of purchasing full fare tickets from AI, later in the same month, it instructed its Missions to buy flexi fare/market fare from AI for all types of journeys. This was however, with a rider that where AI certifies that such tickets are not available full fare tickets must be purchased. Soon after in early November 2009, it withdrew its revised instructions and instead advised Missions to purchase tickets for which payment could be made to AI in Indian Rupees. Given the fact that AI issued flexi fare tickets only in local currency, the instructions of the Ministry in practice allowed continuance of purchase of full fare tickets from AI for all types of journeys undertaken in Missions. Additionally, as the MoU between AI and MEA had already expired on 31 March 2009, AI had not been consistently allowing concessions such as upgrades and additional baggage allowance for home leave and emergency passages thereby completely removing the justification for purchase of full fare tickets for these passages.

In February 2010, the Ministry informed all the Missions/Posts that it had worked out another arrangement with AI which laid down a scale of discounts

on various types of fares and also extended concessions available<sup>10</sup> under the previous MoU besides improving upon others. These concessions were, however, to be allowed only on travel involving IATA/full fares. The new arrangement save for negotiating higher discounts perpetuated the existing arrangement of paying exorbitantly high fares in exchange for concessions which did not afford significant saving in expenditure to the Government. The new instructions while listing out various fare types did not indicate as to which fare type should be used for different types of travel.

In conclusion, the Ministry lagged in complying with repeated instructions of the Ministry of Finance to effect utmost economy in air travel. The Ministry did not frame comprehensive arrangements for optimally utilising competitive fares and incentive schemes being offered by airlines including Air India. Instead, it entered into an arrangement with AI for regulating air travel which was not only limited in scope but was flawed in so far that it allowed payment of full fares which were three to five times higher than market fares, for home travel, emergency passages and temporary duty in exchange for concessions to which officials were ordinarily not entitled. As a result, the Ministry incurred considerable additional expenditure on purchase of air tickets for home travel, emergency passages and temporary duty. Thus there is a need for an urgent review of existing arrangements and formulating a more comprehensive system of regulating air travel which balances the costs of air travel with the benefits accruing to the Government and officials.

### **6.3 Poor maintenance of Government property and avoidable payment of rental charges**

**The HCI, London incurred an unfruitful expenditure of Rs. 82.19 lakh on a project for conversion of eight small residential flats into four large apartments to accommodate Representational Grade officers. The project was initiated without prior approval of local authorities and the process of selection of contractors was not competitive. There was inadequate technical appreciation of work and the scope of the work was limited and skewed. Despite the conversion, while one apartment remained permanently uninhabitable due to severe leakage and dampness, the remaining three converted apartments were beset with condensation and fungus problems. Private property was hired to accommodate one RG**

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<sup>10</sup> (i) 80 kg excess baggage allowance per adult and 30 kg per child subject to a maximum of 350 kg per family for economy class  
(ii) Wherever the piece concept is applicable, provision of one extra piece per passenger subject to a maximum of four pieces per family  
(iii) Firm upgrade to diplomatic passport holders and upgrade on seat availability basis to official passport holders

**officer resulting in avoidable expenditure of Rs. 70.61 lakh on lease rentals. Besides, one unconverted flat also remained vacant for significant period leading to further avoidable expenditure of Rs. 32 lakh on lease rentals.**

High Commission of India (HCI), London owns 113 houses/flats at 12 different locations in London for accommodating its India-based officers and staff members. Besides, eight properties have been hired to cater to requirements of Representational Grade (RG) officers. The annual rental outgo in respect of these eight properties is £ 209,796 (Rs. 1.72 crore)<sup>11</sup>.

The Secretary (Expenditure), Government of India during his visit to London (January 2003) pressed the HCI to address the issue of leasing of accommodation for officers considering that some of the Government-owned properties were lying vacant. In its fifty-first Report (14<sup>th</sup> Lok Sabha), the Public Accounts Committee (PAC) in August 2007 also expressed concern over rising rental expenditure being incurred by the Missions/Posts abroad and *inter alia*, recommended that the Ministry should take corrective steps to make the property management process more organised and systematic with a view to effecting significant reduction in the rental outgo.

The HCI proposed (July 2003) to convert 12 flats located (serial number 1 to 12) at East Lane, Wembley into six large apartments for accommodating RG officers. The Ministry accorded (December 2003) 'in-principle' approval to the HCI's proposal. In the first phase, HCI decided to convert two flats (Flat No.7 and 8) into one as a pilot project. On completion of the pilot project (August 2003), Ministry approved in two stages (May 2004 and May 2006) the conversion of another six flats into three apartments.

Accordingly, eight of the 12 flats were converted into four large apartments in a phased manner between August 2003 and August 2006 at a cost of £ 102,546 (Rs. 82.19 lakh). The details of conversion of flats including their dates of completion, expenditure incurred and the status of occupation are indicated in Table-1.

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<sup>11</sup> £ 17,483 \* 12 = £ 209,796 or Rs. 1.72 crore (Converted at the average rate of exchange between March 2004 and March 2008 i.e. £1=Rs. 82.11)

**Table-1**

Sl. No.	Flat No.	Contractor	Expenditure incurred (in GBP/INR)	Date of completion	Status of occupation
1.	7 and 8 (Pilot project)	M/s M&B Builders	26,000/19.96 lakh	August 2003	Being used as regular accommodation since 2006.
2.	9 and 10	M/s H. Harar	25,600/21.55 lakh plus 950/0.80 lakh (supervision charges)	September 2004	Intermittently used as a transit accommodation for 80 days in a period of 19 months from August 2007 to February 2009. From February 2009, it is being used as a regular accommodation.
3.	1 and 2	M/s Bains Constructions	24,998/19.94 lakh	May 2006	Vacant due to uninhabitable conditions.
4.	3 and 4	M/s Bains Constructions	24,998/19.94 lakh	August 2006	Being used as regular accommodation since 2006.
<b>Total</b>			<b>£102,546/ Rs. 82.19 lakh</b>		

Audit scrutiny of the project for conversion of flats into residential units at East Lane revealed the following inadequacies:

(i) **Professional technical advice was not taken**

The East Lane property was originally constructed in 1945 and acquired by the HCI in March 1980. At the time of initiation of the pilot project in 2003, the property was more than 58 years old. Given the age of the property and the fact that conversion involved major structural changes and huge expenditure, the HCI should have formulated a detailed scope of work and cost estimates in consultation with a professional surveyor for approval of the Ministry. Audit scrutiny, however, revealed that the HCI obtained (04 July 2003) only a casual technical opinion from a Chartered Structural Engineer, which was merely an observation made by him based on his preliminary visit to the site, without any estimate of costs and awarded the pilot project on 17 July 2003 even before receipt of Ministry's approval.

(ii) **Local authority permission not obtained**

The HCI did not seek the mandatory planning permission from the local authority before carrying out alterations in the East Lane property, which had health and safety implications and involved the

issues of merging of gas, electricity and water meters. The converted apartments still have separate meters for gas, electricity and water. The electricity and gas safety certifications have not yet been obtained. This was despite the fact that the terms and conditions of award of work to each of the contractor required them to take any permission, if required, from the local councils in undertaking the job. This was a flagrant omission/lapse on the part of the contractors/Mission.

(iii) **Lack of competitive bidding and poor quality of work executed**

The process of award of work was not competitive and contravened the provisions of GFR<sup>12</sup> as offers were not invited through open tender. The HCI invited limited offers from three/five building contractors from its existing panel of contractors for undertaking routine repair and maintenance work for the pilot project (flat 7-8) and conversion of flats (9-10) respectively and the contracts were awarded to the lowest bidder in each case. It is pertinent to mention that two contractors (M/s M&B Builders and M/s H. Harar) were not VAT registered, implying that these were small contractors whose annual turnover did not exceed £ 55,000 *per annum*. The bidding process followed prior to the selection of the third contractor (M/s Bains Constructions) was also not on record. The quality of work executed was far from satisfactory as is evident from the fact that perennial problem of seepage and dampness could never be resolved in converted flats 1-2 despite damp proofing of the walls being a part of the scope of work, as indicated in **Annex-II**. The HCI also admitted (February 2006) that the conversion work initially carried out on flat 7-8 and 9-10 lacked quality.

(iv) **Sub-optimal utilisation of flats and avoidable rental liability**

The property in East Lane could not be put to optimal use since the conversions were carried out. Out of the four converted flats, only two (converted flats 3-4 and 7-8) could be put to their original intended use *i.e.* allotment to RG officers. Converted flats 1-2 and 9-10 could not be regularly allotted to RG officers as these were unfit for representational purpose. While converted flat 1-2 could not be occupied at all since its conversion in May 2006 till November 2009 (43 months) due to multiple leaks and severe dampness problem on the walls, converted flat 9-10 was intermittently used as transit accommodation for 80 days during the period August 2007 to February 2009. These flats (3-4, 7-8

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<sup>12</sup> General Financial Rules

and 9-10), though occupied by RG officers as transit or regular accommodation, were besieged with dampness problem that occurred over a period of time subsequent to their conversions as indicated in **Annex-II**.

The HCI did not undertake the conversion of the remaining four flats ostensibly due to the problems initially encountered by it in the conversion of eight flats. Of the four unconverted flats, two flats (5 and 6) were used as transit accommodation. Flat 11 was a regular accommodation from February 2002 to December 2008 and thereafter, it was being used as transit accommodation. The unconverted flat 12 was used as a regular accommodation between September 2002 and July 2006. Thereafter, it was used as a transit accommodation as and when required.

Despite incurring an expenditure of £ 102,546 (Rs. 82.19 lakh) on conversion of eight flats into four large apartments, the HCI continued to hire residential premises for the RG officers at a monthly rental of £ 2,000 to £ 2,600 as two of the four converted apartments (1-2 and 9-10) were admittedly not fit for representational purposes.

The Ministry stated (October 2009) that while converting the flats initially during 2003-06, the HCI got only the interiors of the relevant flats refurbished and the exteriors of the building were never renovated since the purchase of property in March 1980. The Ministry further clarified that the surveyor who inspected the property and submitted his report (November 2008) had recommended repairs to exterior walls, gutters, underground drains and improvement of insulation of roofs and cavity walls. The surveyor also opined that the flats in East lane were in a dilapidated state, especially from the exterior, as no works had been undertaken since its acquisition which is causing serious problems of condensation and fungus in various rooms of both unconverted and converted flats. To bring the flats in habitable condition, the HCI has sent (August 2009) a comprehensive proposal (drawn up by a Chartered Surveyor) to the Projects Division of the Ministry to carry out inescapable essential works at a total projected cost of £ 202,000. The HCI would also be seeking permission from the local authorities retrospectively for the alterations carried out in the flats.

Regarding utilisation of flats, the Ministry stated that except for the converted flat 1-2, the other three converted units were being utilised by the HCI as regular accommodations and once the essential works are undertaken, all the

converted flats would be allotted to the entitled RG officers. The unconverted flats were stated to be suitable for allotment up to the rank of Attaché only whose strength in the HCI had come down over a period of time. Consequently, the four unconverted flats were used by the HCI as transit accommodation as and when necessary.

The Ministry's reply confirms that the HCI did not properly plan the project *ab initio*. The renovation project was initially undertaken in an *ad-hoc* and hurried manner without following the due diligence process. Given the fact that an additional £ 0.202 million (Rs. 1.55 crore) is proposed to be spent on the property to bring it back to habitable condition confirms that the planning for conversion of flats was *ab initio* faulty.

The Ministry's argument for non-allotment of unconverted flats to the entitled officials on the basis of reduction of their strength also does not hold ground. The HCI could have explored the possibility of allotting at least one unconverted vacant flat (12) to an India based non-RG official of Government of India Tourist Office (GOITO) at London which would not only have resulted in savings of £ 39,000 (Rs. 32 lakh)<sup>13</sup> in 40 months on rentals but also resulted in judicious utilisation of vacant accommodation held by the HCI. Similarly, had the conversion project been appropriately planned and executed the converted flat 1-2 could have been allotted to one RG officer and led to a minimum savings of £ 86,000 (Rs 70.61 lakh)<sup>14</sup> in 43 months on lease rentals.

To sum up, the HCI embarked on an important project for conversion of small residential units into large apartments at a cost of Rs. 82.19 lakh without obtaining the prior approval of the Ministry and ensuring adequate technical feasibility of the work. No prior permission of the local authorities was obtained before carrying out the alterations and the process of award of work was not competitive. While one apartment was rendered permanently uninhabitable immediately after conversion due to severe leakage and dampness, the remaining three apartments were also beset with rampant condensation and fungus problems. Consequently, persistent significant expenditure on hiring of accommodation for the RG officers is being incurred and thus, the concerns of the PAC and Ministry of Finance remain largely unaddressed.

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<sup>13</sup> A monthly rent of £ 975 is being paid by GOITO, London in respect of Assistant Director (non-RG official). £ 975 \* 40 months = £ 39,000 or Rs. 3,202,290 (August 2006 to November 2009; £1= Rs. 82.11).

<sup>14</sup> A monthly rent of £ 2,000 is being paid by the HCI in respect of Military/Air/Naval Adviser (RG officer). £ 2,000 \* 43 months = £ 86,000 or Rs. 7,061,460 (May 2006 to November 2009; £1= Rs. 82.11).

#### 6.4 Non enforcement of personal recoveries

**Deficient financial controls in Missions/Posts and the Ministry in enforcing recovery of payments in excess of entitlements either due to infringement or non application of rules resulted in accumulation of an amount of Rs. 40.35 lakh which was yet to be recovered from the officials concerned.**

As per rules<sup>15</sup>, all payments should be drawn and disbursed to Government officials as per entitlement and after recovery of the legitimate deductions. Scrutiny of the records revealed several instances of the Indian Missions/Posts abroad making payments to its officials on various accounts which were either irregular or in excess of their entitlements due to infringement or incorrect application of rules. Scrutiny also revealed that the Missions/Posts and the Ministry did not initiate prompt action to enforce recovery despite such irregularities were pointed out by Audit in various Audit Reports. During 2004-05 to 2009-10, irregular/excess payment of Rs. 45.31 lakh relating to personal claims was pointed out by Audit in respect of 25 Missions/Posts. Of this, recoveries were actually effected only by 10 Missions/Posts involving an amount of Rs. 4.86 lakh and the balance amount of Rs. 40.35 lakh was yet to be recovered. The amounts pending recovery related to unauthorized payment of Electricity, Water and Fuel (EWF) charges (Rs. 7.95 lakh), excess payment of Travelling Allowance (TA), Daily Allowance (DA) and related claims (Rs. 10.50 lakh), over payment of Pay, Foreign Allowance (FA), Representational Grant (RG) etc (Rs. 4.74 lakh), excess payment of Children Education Allowance (CEA) (Rs. 1.09 lakh), non settlement of advances (Rs. 10.11 lakh) and other miscellaneous excess payments (Rs. 5.96 lakhs) as detailed in **Annex-III**.

In reply to the audit observations, the Ministry accepted (September 2009) that overpayments to officials on account of deliberate misapplication of rules, must be recovered. The Ministry further stated that the recoveries often involved officials who were no longer serving at the stations where overpayments were made. It was also added that at any given time, there would always remain some outstanding paragraphs where recoveries have been recommended by Audit, but which are being examined in the Ministry or where concerned officials have questioned the proposed recoveries advancing another interpretation of the rules requiring further examination.

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<sup>15</sup> Receipts and Payment rules and IFS (PLCA) Rules 1961



The reply of the Ministry is not acceptable in view of the fact that the recoveries pointed out from the year 2004-05 are still pending and it indicates the lack of proper follow up action by the Missions/Posts and the Ministry in effecting the recoveries and also the lack of internal control mechanism to ensure the recovery of the dues once the officials are transferred from the Mission/Post.

Thus, laxity on the part of the Missions/Posts and the Ministry regulating payments as per rules and thereafter in recovering the amount resulted in accumulation of Government dues amounting to Rs.40.35 lakh and corresponding undue benefit to the concerned Government servants.

#### **6.5 Recovery at the instance of Audit**

**Failure of the Missions/Posts abroad to correctly regulate payments of salaries and allowances etc. to their employees resulted in overpayment of Rs. 52.28 lakh by 32 Missions/Posts in 64 cases, which was recovered at the instance of audit during 2006-09.**

Previous audit reports<sup>16</sup> had highlighted recovery of overpaid pay and allowances in the Missions/Posts abroad. The Ministry in January 2009 in their Action Taken Note on Paragraph 7.9 of the Comptroller and Auditor General of India's Report No.2 of 2007 stated that Missions/Posts had been instructed to strictly observe the prescribed rules and procedures in financial matters and to avoid overpayments to their officials.

Audit examination of the records of various Indian Missions/Posts abroad revealed that a large number of Missions/Posts continued to deviate from the prescribed rules and procedures resulting in overpayment of salaries and allowances and other miscellaneous payments to their employees. At the instance of audit, 32 Missions/Posts recovered the overpayment of Rs. 52.28 lakh, in 64 cases during 2006-09, as detailed in the **Annex-IV**. The occurrence of this persistent irregularity despite assurance to the Public Accounts Committee of Parliament to avoid such overpayments indicates that scrutiny of the claims by the Missions is inadequate and the action taken by the Ministry to stop such irregularities is also ineffective.

The Ministry should take effective steps to ensure strict observance of the prescribed rules and procedures by all the Missions/Posts to guard against recurrence of such overpayments by strengthening internal controls and taking action against such officials who claim or allow such irregular payments.

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<sup>16</sup> Paragraph 7.9 of Report No. 2 of 2007 and paragraph 3.3.3 of Report No. CA 14 of 2008-09

The matter was referred to the Ministry in September 2009; their reply was awaited as of March 2010.

#### **6.6 Outsourcing of visa support services in Missions/Posts abroad**

**The process of tender evaluation and selection of Service Provider (SP) for outsourcing of visa support services in CGI, Milan was flawed leading to selection of a vendor who was not the lowest bidder. In HCI, London an undue financial benefit of Rs. 3.63 crore was extended to the SP due to non-consideration of rates linked with the number of visa service centres operated. Besides, due to incorrect interpretation of the provisions of the agreement, the SP was additionally benefited by Rs. 1.96 crore by way of levy of administrative fee from the visa applicants. In EI, Washington DC the SP continued to collect a minimum rate of USD 21 per application on account of mailing charges vis-à-vis the minimum mailing charges of USD 18.95 per application, resulting in an undue benefit of Rs. 1.16 crore to the SP. Exclusion of and deviation from the important provisions of the model agreement diluted the control of the Missions/Posts over the functioning and quality of the services rendered by the SPs. While CGI, Frankfurt was yet to review its staff strength for consular services, EI, Paris was holding excess consular staff.**

Receipts from consular services through Missions and Posts abroad and Passport Offices in India constitute an important source of Non-Tax revenue of the Union. A review of the Union Finance Accounts over the last four years revealed that there has been a significant increase in receipts of the Union Government by way of its consular functions. For the Financial Year 2007-08, the total receipts of the Union Government from the Passport and Visa fees alone were Rs 1,667 crore.

In November 2006, Ministry of External Affairs (Ministry) decided to outsource Visa support services of selected Missions/ Posts. Simultaneously, the Ministry laid down broad guidelines for the selection of Service Providers (SP) for outsourcing of visa support services in the Missions/Posts abroad in a competitive manner. The visa support services broadly envisaged the following services to be provided by the service providers:

- (i) Distribution of blank application forms.
- (ii) Collection and scrutiny of visa applications with supporting documents and prescribed visa fee.
- (iii) Depositing of applications with Missions/Posts and daily visa fee in the designated bank account.
- (iv) Capture the visa application data in electronic format and transfer the same to Mission/Post; and

- (v) Collection of passports with visa from Missions/Posts and despatch/hand over the same to the applicants.

The Ministry also circulated (April 2007) a model contract to the Missions/Posts laying down the essential terms and conditions to be incorporated in the outsourcing contract.

A review of outsourcing of consular works in five<sup>17</sup> Missions/Posts abroad was conducted between October 2007 and March 2009. The position of issue of visas by the Missions/Posts abroad and total fee/commission collected by the service providers during the year 2008-09 is detailed below:

**Table-2**

Name of the Mission/Post	Commencement of operation	Fees charged by SP per application	No. of visas issued during 2008-09	Total fee/commission collected by SP in local currency	Total fee/commission collected by SP (Rupees in crore)
HCI, London	May 2008	GBP 6.90	4,57,211 <sup>18</sup>	GBP 31,54,756	22.12
EI, Paris	February 2008	Euro 12	1,58,413	EURO 19,00,956	11.98
CGI, Milan	May 2007	Euro 15	51,244	EURO 7,68,660	4.84
CGI, Frankfurt	August 2007	Euro 13.50	50,031	EURO 6,75,419	4.26
EI, Washington DC <sup>19</sup>	October 2007	USD 13	5,53,511	USD 71,95,643	35.35
<b>Total</b>					<b>78.55</b>

The review revealed a number of deficiencies in the process of evaluation of tenders, selection of SP, terms and conditions negotiated and contracted with the SP and execution of the contract. These are discussed below:

#### **6.6.1 Infirmities in selection of SP at CGI, Milan**

The tender evaluation process in CGI, Milan was done without keeping in view the guidelines circulated by the Ministry in November 2006 and the relevant provisions of the General Financial Rules (GFR). Consequently, while the selection of SP was seriously flawed, the rates finally accepted were not fair and competitive.

##### **6.6.1.1 Selection of SP not based on lowest quotes**

CGI, Milan received 14 bids for the outsourcing project. Two bids were rejected and of the 12 remaining bids, the Post short-listed four firms and segregated them

<sup>17</sup> CGI, Milan; CGI, Frankfurt; EI, Paris, HCI, London and EI, Washington DC

<sup>18</sup> Figures include the number of visas issued in CGI, Edinburgh and CGI, Birmingham. Period covered is from May 2008 to March 2009.

<sup>19</sup> Figures include the number of visas issued in CGIs at Houston, New York, San Francisco and Chicago. The figures are for the period from October 2007 to March 2009

into two categories 'A' and 'B' comprising of two firms in each category, based on their ability to meet the desirable benchmarks. The offer of Euro 15 made by M/s K&S (one of the two firms in category 'A') was finally accepted by the Post and an agreement was signed with the firm in February 2007. On the contrary, it was observed that the two firms included in category 'B' had quoted a much lower rate of Euro 10 and Euro 12 *vis-à-vis* Euro 20 initially quoted by M/s K&S, which was finally negotiated down to Euro 15. The fact that the Post entered into negotiations and that too with a bidder who was not LI was unwarranted and in contravention of guidelines of Central Vigilance Commission (CVC) in force at that point of time. Moreover, the selected vendor (M/s K&S) included in category 'A' did not have any previous work experience in this field, while the vendor quoting Euro 12 per application and put in category B (M/s Project Export Services) had the previous experience of outsourcing for the Australian and British Governments and the vendor at that point of time was doing the outsourcing work for the Nigerian Embassy in Rome.

Thus, by not accepting the offer of the vendor who quoted Euro 12 and had the requisite experience in category 'B', the Post extended undue financial benefit to M/s K&S to the extent of Rs. 96.87 lakh during 2008-09 alone, being the differential in service charge of Euro 3 on 51,244 visa application issued during the year.

#### **6.6.1.2 Deviation from two stage bid system**

Standard operating procedure envisages a two stage bid system in the Government departments for procurement of high value goods and services *i.e.* evaluation of technical bids followed by evaluation of financial bids of the technically qualified bidders. However, the two stage bid system was not observed in CGI, Milan and the technical and financial bids of all the bidders were opened simultaneously in contravention of Ministry's guidelines of November 2006 and Rule 178 of the GFR.

#### **6.6.1.3 Absence of criteria for evaluation of bids**

The GFR<sup>20</sup> requires, *inter alia*, that the bid evaluation criteria and the selection process should be stated in the Request for Proposal. In CGI, Milan no benchmarks for evaluation of bids were specified at the time of invitation of bids. This introduced arbitrariness in the selection process.

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<sup>20</sup> Rule 171 of the GFR

#### **6.6.1.4 Absence of inclusion of experience as benchmark**

For the purpose of evaluating bids, the tender evaluation committee formulated 12 criteria. As per Ministry's guidelines of November 2006, 'experience profile' was to be obtained from bidders and considered while evaluating the bids. Further, Rule 180 of GFR also stipulate that the eligibility and qualification criteria (which would also include the past experience) to be met by the contractors should invariably be included in the tender enquiry. It was observed that while criteria like waiting area, basic facilities such as bathroom, soft and hot drinks vending machine etc. were considered, past 'experience' as a criteria was neither sought for nor considered while arriving at a decision for short listing the bidders. No specific quantification of the criteria was done e.g., area required, number of counter/staff required and working hours. Consequently, neither did the bidders have any indication of the desired facilities to be provided nor could the evaluation process be fair and objective.

The Ministry stated in October 2009 that CGI, Milan was being asked to provide full details of the process followed in the selection of M/s K&S as service provider to enable them to take necessary action.

#### **6.6.2 Deficiencies in the terms and conditions negotiated and contracted in the outsourcing contracts**

##### **6.6.2.1 Acceptance of higher rate by HCI, London**

HCI, London signed an agreement (January 2008) to provide visa support service with M/s VFS Global Ltd for a period five years from the date of operation. As per Para 4.1 of Schedule 1 of the agreement, the charges to clients were not to exceed the cost of the appropriate prescribed visa fee plus a service provider service charge for each passport not exceeding £6.90 per visa application. As per schedule 1, clause 1.1 of the agreement, the service provider would maintain eight visa service centres<sup>21</sup>.

Audit scrutiny of the records revealed the following:

- (i) In the initial tender for inviting bids for pre-qualification of agencies, the Mission indicated that the application/passport collection centres would be required at Central London, Birmingham and Edinburgh with the provision of additional centres in London (Finchley and Southall) and other parts of UK (Manchester, Glasgow, Liverpool, etc.).

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<sup>21</sup> London (Central and Southall), Edinburgh, Birmingham with provision for additional centres in London (Finchley and thereabouts) and other parts of UK (Manchester, Glasgow and Cardiff)

- (ii) VFS offered three options to the Mission. It quoted a minimum rate of £5.65, £6.40 and £6.90 per application (excluding VAT) for operation of visa support centres in five, seven and eight locations respectively. Further, VFS was also open to suggestions/ negotiations on their quoted prices.
- (iii) The Mission awarded the contract to VFS at the rate of £6.90 per application quoted for eight centres, which was incidentally highest amongst the three options offered by VFS.
- (iv) VFS operated only five centres<sup>22</sup> till February 2009 for a period ranging from five to nine months.

Since the rates offered by VFS varied with the number of centres operated and it was also open to suggestions/negotiations, the Mission should have availed of the benefits of the variable rates quoted by VFS for different centres. Consequently, on account of application of higher rate, the SP was granted an undue benefit of £ 0.517 million (Rs. 3.63 crore)<sup>23</sup> during May 2008 to February 2009. Correspondingly, visa applicants also bore an avoidable financial burden. The details are indicated in the table below.

**Table-3**

*(Amount in GBP)*

Mission/Post	No. of Visas issued (Up to Feb. 2009)	Service Charge collected @ GBP 6.90 per application (in lakh)	Service charge @ GBP 5.65 per application (in lakh)	Difference (in lakh)
HCI, London	2,91,087	20.09	16.45	3.64
CGI, Edinburgh	11,418	0.79	0.65	0.14
CGI, Birmingham	1,11,465	7.69	6.30	1.39
<b>Total</b>	<b>4,13,970</b>	<b>28.57</b>	<b>23.40</b>	<b>5.17</b>

The Ministry stated (October 2009) that the bidders were required to quote the rates on per application basis and not according to the number of centres in UK as per the conditions laid down in the RFP. It further added that the decision to stagger the opening of centres was only an operational one and the rates quoted by VFS for eight centres was the lowest and as such no undue benefit was extended to VFS.

The reply of the Ministry shows that it had not planned the operationalisation of visa centres well in advance. The decision to open the visa application centres in a staggered/phased manner was taken in April 2008 (i.e. after signing of agreement in January 2008) on operational grounds in order to ensure seamless transition of work to the service provider. In fact, such a crucial decision should

<sup>22</sup> Victoria, Goswell and Hayes (all in London), Birmingham and Edinburgh.

<sup>23</sup> GBP 1 = RS. 70.13; Official rate of exchange of March 2009

have been taken during finalisation of tender and the application of variable rates (for five, seven and eight centres), depending upon the opening of centres, should have been negotiated and translated into contract in the larger interest of the visa applicants. Further, the private service provider cannot charge the Mission for the service (at three locations) that it had not actually rendered till February 2009.

#### **6.6.2.2 Deviations from the model agreement**

A review of the agreement signed by the Missions/Posts revealed that there was absence/deviation from the clauses of the model agreement circulated by the Ministry.

##### **(A) Non-inclusion of clauses of model agreement in the agreement executed with SP**

The model agreement circulated by the Ministry included specific clauses to be incorporated in the final agreement with the SPs. These clauses were to ensure that the selected SPs offer the services to applicants in a speedy manner, in comfortable conditions and in minimum time with the help of state-of-the-art technology and were specific to each of the functions that SP provider was expected to provide and also set criteria for judging the SP's performance.

It was noticed that the agreement signed by the **CGI, Frankfurt** did not contain all clauses specifically mentioned in the Model agreement. Some of the important clauses not included in the agreement were the time limit of two days for replying to postal letters, process to train and recruit staff, networked IT system for centrally based appointment system and requirement of SP to notify any fraud or any allegation of fraud to Missions/Posts.

Non-inclusion of these clauses in the contract diluted the regulatory capacity of the Post over the functioning and quality of services rendered by the SP.

##### **(B) Deficiencies in the agreements executed**

The model agreement and the agreements signed with Service Provider by the EI, Paris, CGI, Frankfurt, HCI, London and CGI, Milan were silent on the following aspects:

- (i) **Penalty for delays in remittance of fees:** In the agreement signed with SPs by Mission/Posts in Paris, Milan and Frankfurt, there was no clause to levy penalty on the SP in the event of delays in remitting visa fees collected to Government account. Due to absence of clause to this effect, the Missions/Posts have no remedy in the event of delays in remittances as discussed in para 6.6.3.3.

- (ii) **Clauses to provide quality assurance:** Clause 1.2, sub-clauses (a) to (e) of the model agreement circulated by Ministry emphasized the need for the SP to maintain staff and IT systems equipped to deliver efficient and effective visa application collection service. Further, the Clause 12 of the Schedule I of the model agreement provides that the SP will conduct quality assurance checks and the Mission/Post will also conduct quality assurance and audit checks of the SP. However, no independent mechanism for obtaining such assurance was envisaged or agreed upon.

It was noticed that SPs use IT systems for performing the services outsourced to them. The Missions/Posts which have outsourced had not evolved any mechanism to ascertain or monitor the quality and reliability of the IT systems of the SP. One way to ensure the adoption of an integrated process approach to effectively deliver managed services to meet the business and customer requirements is to rely on the international certification for IT Service Management. This independent certification process will enable organizations to benchmark their capability in delivering managed services, measure service levels and assess performance against globally recognized Information Technology Service Management Standards.

While such Independent international authorities of repute are available to provide certification, neither did the Mission/Posts prescribe holding such certification as a pre requisite for participation in the bidding process nor did it give any time frame to the SP to obtain such certification once it was selected. In the absence of such certification, there exists no assurance to Missions/Post on the quality of the services and the IT systems of the SP.

- (iii) **Business Continuity Plan:** Issue of visa is an important and sensitive service provided by the Missions/ Posts abroad and it is essential to have a Business Continuity Plan (BCP) for the Missions/ Posts as well as for the SP so that in the event of any breakdown / deficiency in service on the part of the service provider, the restoration of service is made in the shortest possible time. It was, however, noticed that there was no provision for BCP in the agreement executed with the SP. Further it was also noticed that the Missions/Posts have also not formulated any BCP to deal with such eventualities. Besides, the Ministry is yet to formulate any policy on how the visa services will be continued on expiry of the contract with the SPs.



The Ministry stated (October 2009) that a penalty clause was proposed to be added to the outsourcing contracts already in operation. The clause would entail a penalty of 0.5 *per cent* per working/banking day for non-payment of cash fee in full or part by the SP in the Mission/Post's account. The Mission/Post would also have the right to terminate the contract immediately and forfeit the existing bank guarantee and take possession of all properties, should the SP fail to deposit the cash fee in Mission/Post's account continuously for three working/banking days, which would also be deemed as intentional lapse on the part of the SP. The Ministry further stated that NIC was being consulted to evolve a mechanism for conducting quality assurance checks and monitoring the quality and reliability of the IT systems of the SP. On BCP, the Ministry clarified that suitable clause was proposed to be added requiring the SP to put in place an adequate contingency plan (computerised and physical) to maintain an acceptable level of service within a reasonable time frame of not more than six hours if the operation of any/all visa application services were interrupted for any reason.

Ministry's reply confirms the Audit contention that there are serious deficiencies in the agreements already concluded. Remedial measures now proposed by the Ministry should have been considered at the time of negotiations of terms and conditions with the SP to safeguard the interests of the Government.

### **6.6.3 Deficiencies in implementation of the agreements with SPs**

#### **6.6.3.1 Irregular levy of additional administrative fee by SP**

**HCI, London** outsourced the visa support services to M/s VFS Global through a contract concluded in January 2008. Clause 1.2 (iii) of the agreement provided for payment of visa fee by bank order, postal order, debit card or cash. Any other mode of payment used in the UK including credit card and personal cheques could be accepted only at the sole risk of VFS. However, bank/ agency charges levied on such transactions were to be borne by the applicants.

In April 2008, VFS requested for a written confirmation from HCI, London to charge an administration fee to visa applicants to cover the cost of bank charges under the clause 1.2 (iii) in addition to the visa service charge of £6.90. HCI permitted VFS to charge an average rate of £0.80 plus VAT as an administrative fee to cover the cost of bank charges/agency charges. Accordingly, VFS is charging £0.80 plus VAT as an administrative fee

uniformly from all applicants irrespective of the mode of payment of visa fee which was irregular as it was contrary to the provisions of the contract.

As no bank or agency charges are applicable for payment of visa fee by cash, postal order and debit card, the collection of additional administrative fee on such transactions was a source of profit to the VFS and an unwarranted burden on applicants not paying through credit cards or cheques. Details of visas issued and the mode of payment during the period May 2008 to March 2009 were as under:

**Table-4**

Mission/Post	No. of visas issued	In percentage					No. of Visas not eligible for additional levy (cash, PO/DO, debit cards)	Undue benefit to VFS @ 0.80 per application (in GBP)
		Cash	Postal Order/DO	Debit Card	Credit Card	Cheques/drafts		
HCI, London	3,20,828	35.81	6.29	34.80	14.42	8.68	2,46,716 <sup>24</sup>	1,97,372
CGI, Edinburgh	12,350	45.00	8.00	25.85	21.15		9,737*	7,789
CGI, Birmingham	1,24,033	30.00	10.00	35.00	25.00		93,024 <sup>#</sup>	74,419
<b>Total</b>	<b>4,57,211</b>							<b>2,79,580</b>

Analysis of the data on the mode of payment revealed that administrative fee charged on 75 to 76.90 *per cent* of the visa applications was irregular as no bank charges were to be levied on such transactions. Thus, undue benefit accruing to VFS on account of levy of administrative fee amounted to £0.280 million (Rs. 1.96 crore) during May 2008 to March 2009 alone.

The Ministry accepted (October 2009) that levy of £0.80 plus VAT as administration fee was irregular and resulted in undue benefit to VFS and the Mission is being advised to direct the SP to discontinue levying administration fee on cash, debit card and postal order transactions with immediate effect. The Ministry also stated that the existing administration fee on cheque/DD and credit card transactions (£0.80 plus VAT) is proposed to be reduced to £0.50 plus VAT till the expiry of the present contract.

<sup>24</sup> 35.81+ 6.29+34.80= 76.90% of 320828 = 246716

\* 45+8+25.85 = 78.85% of 12350 = 9737

# 30+10+35 = 75% of 124033 = 93024

### 6.6.3.2 Undue benefit to SP

The visa services in the Indian Mission and Posts in the **United States of America** were outsourced to M/s Travisa with effect from October 2007. A service fee of USD 13 is being charged by the SP for each visa application. Audit scrutiny of the documents revealed that while there was no provision in the contract for any mailing charges to be paid to the SP by the visa applicants for mailing their passports (affixed with visa), the SP was collecting mailing charges varying from USD 21 to USD 87 per applicant through its delivery agency (M/s FedEx), in addition to charging the regular service fee of USD 13 for processing the visa application.

Of the total number of 5,53,511 visas issued during October 2007 to March 2009, 1,24,719 applicants (22 *per cent*) used the Travisa's FedEx account for mailing their documents for which FedEx rates varied from USD 18.95 to USD 51.55 per applicant depending on the size of the packet, distance and the zone in which the address falls. On the other hand, the SP was collecting mailing charges ranging from USD 21 to USD 87 per application. Taking the mailing charges collected and paid at the minimum of the scale mentioned above, undue benefit accruing to the SP amounted to USD 0.256 million<sup>25</sup> (Rs. 1.16 crore).

While the SP declined (January 2010) the request of EI, Washington DC to furnish the financial data of actual mailing charges collected and paid by it for the period October 2007 to March 2009, the Mission replied that the fee of USD 13 is charged by the SP for processing application and related documents and that it did not include charges for shipment of passports.

The reply of the Mission does not explain the rationale for retention of additional benefit by the SP on account of mailing charges. Since mailing of visa affixed passports to applicants is an important function of the SP, the Mission must examine and ensure that the SP does not unduly overcharge the distant applicants for mailing of their passports.

### 6.6.3.3 Delayed realisation of Government money

(A) Delays in remittance of visa fees into Government account by SP were noticed in **CGI, Frankfurt** in the following instances as discussed below:

- (i) After the consular services were outsourced, four consular camps were held in Essen and six in Cologne by the CGI, Frankfurt with the

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<sup>25</sup> (USD 21- USD 18.95) \* 124719 = USD 255,674

support of the SP. The consular service was rendered at the camp on the same day itself. It was noticed that the SP accepted money through cash and bank transfer from the applicants but the cheque for the consular fee was deposited in the consular wing after delays ranging from one to five days.

- (ii) Seven cheques valuing Euro 25,771 were returned unrealised due to insufficient funds, which were later credited to the Post's account after obtaining a new cheque. This resulted in delays in credit to Government account ranging from 20 to 26 days.

The Ministry stated (October 2009) that with regard to consular fees received during camps, the Post was being advised to ensure deposit of consular fee with the SBI, Frankfurt the next working day.

The fact, however, remains that huge delay in the past in remittance of visa fee coupled with absence of a penalty clause to this effect worked in favour of the SP.

**(B) Embassy of India, Paris** outsourced the visa support services to M/s VFS vide an agreement signed in October 2007. As per amendment to the agreement, M/s VFS was required to transfer the visa fee to the account of the Mission in Bank of India on the same day. It was, however, observed that though VFS has been intimating its banker to transfer the visa fee to the Mission's account on the same day, yet Bank of India was affording credit to the Mission after a delay ranging from one to seven days. In three instances, it was further observed that credit of Euro 159,260 was afforded to the Mission after a delay of more than four months leading to undue benefit of Euro 6,905.21 (Rs. 4.35 lakh)<sup>26</sup> to Bank of India. The possibility of the Mission issuing visas without actually receiving requisite visa fees into the Government account also cannot be ruled out.

The Ministry stated (October 2009) that the delay was on the part of Bank of India, Paris and the Mission was being advised to take up the matter with the bank to ascertain the reasons for delay in affording credit to Government account.

#### **6.6.4 Need for rationalisation of manpower in consular wings**

Consequent to the outsourcing of visa application collection services, there was a need for rationalization of manpower in the consular Wings

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<sup>26</sup> Euro 1= Rs. 63.03; Official rate of exchange of March 2009

commensurate with revised work norms to ensure right-sizing. Review of the manpower requirement in the consular wings of three Missions/Posts based on the revised norms fixed by the Ministry in August 2008 for various items of works in the consular wings taking into account the improvements in the visa processing and computerization systems and outsourcing of consular services revealed the following:

- (i) In Embassy of India, Paris, against the actual requirement of 14 staff members, the Mission has deployed 19 personnel in passport and consular wing.
- (ii) In CGI, Frankfurt, though the outsourcing of visa support services commenced from August 2007, the Post has not reviewed its staff strength in consultation with the Ministry in the light of outsourcing of work load of the passport and consular wing.

In view of outsourcing of visa and related services, it is imperative that the Ministry take up the issue of revised staff norms for consular services on an urgent basis, so that expenditure currently incurred on redundant/excess personnel can be reduced.

The Ministry stated that the suggestion of Audit for rationalizing staff strength has been noted. A circular was being sent to the Missions/Posts, where outsourcing has been implemented, to assess the staff requirement in consular wings.

#### **6.6.5 Recommendations:**

The Ministry may:

- ❖ review the outsourcing contracts concluded by the Missions/Posts and issue comprehensive guidelines for re-negotiating the unfavourable terms with SPs, in line with the model agreement;
- ❖ investigate the process of selection of SP by CGI, Milan and fix responsibility for non-adherence to the instructions of the Ministry circulated in November 2006 as also guidelines of CVC/GFR;
- ❖ effect recovery from the SP in HCI, London towards irregular levy of administrative fee of £0.80; and
- ❖ ensure that the pre-qualification bid for the prospective SPs include the international certification for IT service management. The model agreement may also be modified requiring the successful bidder to obtain such certification within a prescribed time frame and ensure its validity for the duration of the contract.

## 6.7 External publicity through Missions

**Despite assurance to the Public Accounts Committee, instances of release of funds to Missions without receipt of Annual action plans, incorrect classification of items of expenditure to publicity head and despatch of publicity material to Missions without request leading to 58 to 74 per cent of publicity material remaining unutilized, were noticed in Audit.**

The Ministry utilizes a variety of channels, including distribution of print and audio-visual publicity material to foreign audiences for projecting India's position on various international issues, developments in India, highlighting of different aspects of Indian life, art and culture as well as for countering distorted and malicious propaganda against India etc. Ministry incurs publicity expenditure through its External Publicity (XP) and Public Diplomacy (PD) divisions in India and various Missions/Posts abroad. Expenditure at these two levels is budgeted separately. Missions, in addition to incurring publicity expenditure from their own budget, are also responsible for end use of publicity material supplied by the Ministry. The annual expenditure incurred by the Ministry/Missions under the head publicity ranged from Rs. 31.70 crore to Rs. 45.44 crore during the period 2004-05 to 2008-09.

To ensure greater oversight and monitoring of expenditure on publicity in Missions/Posts abroad, the External Publicity division of the Ministry, while reiterating instructions to all Missions/Posts abroad in September 2005 laid down the following conditions to be strictly followed by the Missions/Ministry:

- The release of funds for publicity budget from the year 2006-07 onwards would be subject to Missions sending detailed Annual Action plans on publicity.
- While classifying the nature of expenditure, it must be ensured that the expenditure under the head publicity was intended for furthering the image of India either directly or indirectly but should not be of such nature which forms a part of the representational obligations of the concerned officers of the Missions/Posts.
- Provisioning of publicity material for the Missions would only be in response to their request, to avoid unnecessary expenditure on publicity.

The Ministry in its Action Taken Note on an earlier audit paragraph<sup>27</sup> had assured the Public Accounts Committee (PAC) of compliance with these instructions of the Ministry issued in September 2005.

However, examination of records pertaining to publicity expenditure of PD and XP divisions in the Ministry and test check of records of 44 Missions/Posts<sup>28</sup> for the period 2005-06 to 2008-09 disclosed many deviations as discussed below:

#### **6.7.1 Release of funds to Missions without receipt of annual action plans**

Scrutiny of records revealed that funds were released to 11 Missions<sup>29</sup> in 2006-07, 10 Missions<sup>30</sup> in 2007-08 and 09 Missions<sup>31</sup> in 2008-09, and expenditure of Rs. 4.04 crore incurred on publicity, even though the Missions had not prepared any Annual Action plan on publicity.

Ministry replied in February 2010 that the Audit's observations had been carefully noted and it had again reminded the Missions to scrupulously follow the instructions.

#### **6.7.2 Misclassification of items of expenditure not pertaining to publicity under the head 'publicity'**

An analysis of publicity expenditure booked by 42 Missions during the last five\* years disclosed that out of total expenditure of Rs. 18.73 crore booked under the publicity head, expenditure amounting to Rs. 6.19 crore (33 *per cent*) did not pertain to publicity. Missions routinely charged items of 'office expenses' such as purchase of local newspapers, foreign magazines for chancery and officers' residence, cable connection charge for embassy residence, purchase of furniture, taxi chares, advertisement for recruitment, payment to contingent staff, hotel accommodation etc. and other unauthorized expenditure to the publicity budget allotted to them. The inadmissible expenditure in the Missions/Posts ranged up to 90 *per cent* of total expenditure booked under the head "Publicity". Expenditure related to national day celebrations, for which a separate budget was sanctioned by the Ministry was also booked by Missions under the head 'publicity'.

<sup>27</sup> Para 4.7 of CAG's Audit Report no. 2 of 2006

<sup>28</sup> Indian Missions in Asia, Africa and Oceania region, which fall under the audit jurisdiction of DGA (CE) office, were covered in audit.

<sup>29</sup> Beijing, Canberra, Damascus, Dubai, Mahe, Male, Melbourne, Nairobi, Port Louis, Seoul, Sydney,

<sup>30</sup> Canberra, Damascus, Kuwait, Mahe, Male, Melbourne, Nairobi, Port Louis, Sydney, Zanzibar,

<sup>31</sup> Canberra, Damascus, Kuwait, Mahe, Male, Melbourne, Nairobi, Port Louis, Sydney,

\* There were cases, where Missions did not provide information for last five years. Expenditure figures from these Missions were considered for the years, for which information was provided by the Missions.

The Missions at Port Louis and Kathmandu accepted the audit findings. Missions at Johannesburg, Melbourne, Canberra, Dubai, Istanbul, Birgunj and Mahe stated that the audit observations had been noted for future compliance. Missions at Pretoria, Khartoum, Thimpu, Riyadh, Bangkok, Jeddah and Antananarivo accepted the audit findings except in relation to treating expenditure on purchase of local newspapers, national day celebrations and their advertisements, stationery items etc., as publicity expenditure. Missions at Zanzibar, Beijing, Colombo, Seoul, Lagos, Abuja and Nairobi classified expenditure on purchase of diesel, local newspapers and magazines, cable TV, national day celebration, postal charges, taxi charges, mobile phone charges, Diwali celebration, clearing of incoming bags etc., as publicity expenditure and did not accept the audit observation.

The replies of the various Missions to a common audit observation indicated lack of co-ordination between the Ministry and the Missions/Posts abroad purportedly due to ambiguity in the Ministry's instructions, which led to varying interpretations on classification of expenditure under the head publicity.

Ministry replied in February 2010 that the incorrect booking of expenditure was most likely attributed to oversight by the Chanceries and in order to obviate the recurrence of incorrect classification, relevant instructions had been reiterated to all the Missions.

### **6.7.3 Publicity material lying unutilized in the Missions**

The Ministry, despite its own instructions of September 2005, continued to send publicity material to Missions without specific requests from the Missions, leading to publicity material remaining unutilized with the Missions/Ministry.

- ❖ Based on the analysis of the information supplied by the Missions for the last five years, it was found that 56 *per cent* of the books and 60 *per cent* of the documentaries supplied by the Ministry to Missions for distribution/presentation to targeted foreign audiences during last five years were lying unutilized in the Missions. Out of this, 58 *per cent* of books and 74 *per cent* of documentaries were sent to the Missions without specific request resulting in unfruitful expenditure on their purchase and supply to Missions, as detailed below:



Table-5

Publicity material	Number of Missions/Posts which supplied information to audit	Copies supplied by the Ministry to Missions	Copies remaining unutilized in the Missions	Percentage of unutilized material	Copies supplied without request	Percentage material lying unutilized from the un-requested material
Books for distribution	26	33,804	19,059	56	11,395	58
Documentaries	31	3,074	1,839	60	1,783	74

- ❖ ‘India Perspectives’ a flagship magazine of the Ministry was used as part of the publicity efforts by Missions/Posts abroad to reach as wide an audience as possible. 58,215 copies of ‘India Perspectives’ were sent to 16 Missions without any request from them during the period 2006-09.
- ❖ The Missions had mostly issued library publicity material to their staff members instead of the targeted foreign audience, which did not serve the intended purpose. Details of publicity material in the library and its utilization by the target foreign audience are as follows:

Table-6

Publicity material	Number of Missions/Posts which supplied information to audit	Opening Balance	Additions during last five years	Closing Balance as on 31-03-2009	Material issued to target audience during 2008-09	Number of Missions that did not issue any material during 2008-09 to target audience	Number of Missions that did not issue any material during last five years to target audience
Books	27	1,36,144	23,556	1,59,700	5,344	13 <sup>32</sup>	11 <sup>33</sup>
CD/DVDs	26	8,474	3,706	12,180	430	13 <sup>34</sup>	11 <sup>35</sup>

Out of 27 Missions for which information on utilization of books was made available to audit, 11 Missions with a stock of 57,538 books at the end of year 2008-09 did not issue any book to the target audience during the last five years. Similarly, 11 Missions with a stock of 6,307 CDs/DVDs at the end of year 2008-09 did not issue even a single CD/DVD to the target audience during the last five years.

<sup>32</sup> Abuja, Cairo, Canberra, Chittagong, Dubai, Islamabad, Jeddah, Mahe, Pretoria, Port Louis, Seoul, Tehran, Zanzibar.

<sup>33</sup> Abuja, Cairo, Canberra, Chittagong, Islamabad, Jeddah, Mahe, Port Louis, Seoul, Tehran, Zanzibar.

<sup>34</sup> Birgunj, Cairo, Canberra, Colombo, Damascus, Dubai, Islamabad, Jeddah, Johannesburg, Male, Seoul, Tehran, Zanzibar.

<sup>35</sup> Birgunj, Cairo, Canberra, Colombo, Dubai, Islamabad, Jeddah, Johannesburg, Male, Seoul, Zanzibar,

These findings show that the basic purpose underlying the dispatch of publicity material to the Missions was not being achieved. The considerable amount of publicity material not being utilized by the Missions also calls into question the usefulness of publicity material being purchased/ prepared by the Ministry.

Ministry replied in February 2010 that in view of the Audit's observations, a more streamlined procedure in regard to dispatch and utilization of documentaries and other publicity material would be devised.

## **6.8 Logistic management for offices and residences of diplomatic personnel**

**Despite assurance to the PAC, the pace of construction of projects on acquired land by various Indian Missions/Posts abroad such as Embassy of India Brasilia, Embassy of India Port of Spain, Embassy of India Paramaribo (Suriname) and High Commission of India Abuja (Nigeria) continues to be a cause of concern. The delay in construction in above Missions/Posts ranged between 16 to 45 years resulting in both idling of funds and consequent escalation in cost of construction. Further as per IFS (PLCA) rules, the Ministry has to fix and intimate the Missions/Posts the rental ceiling fixed for various categories of India based officials. But in many India Missions/Posts abroad, the Ministry has not fixed the rental ceiling for the official accommodation of various categories of officers which resulted in excess payment or hiring of accommodation in excess of the eligibility. Audit also noticed expenditure on repair and maintenance of building being incurred by the Missions in excess of the powers delegated to Head of Missions/Posts.**

### **6.8.1 Introduction**

**6.8.1.1** Expenditure on office and residential accommodations forms a significant portion of expenditure of Missions and Posts abroad. When serving outside India, an officer shall be entitled, subject to such conditions as may be prescribed by the Government, free of charge, to furnished residential accommodation in accordance with the provisions of IFS (PLCA) Rules. The related financial powers are prescribed in the Financial Powers of Government of India's Representatives Abroad (FPGOIRA).

**6.8.1.2** The Public Accounts Committee (PAC) in their 51<sup>st</sup> (2007-08) and 75<sup>th</sup> (2008-09) Reports- Fourteenth Lok Sabha, had expressed their concern over the delay in construction of properties abroad. The Committee stressed the need to expedite the projects within the targeted time-frame through a specific monitoring plan for each project.

## **6.8.2 Audit objectives**

**6.8.2.1** Audit examined the records relating to construction of projects on acquired land, maintenance and repairs of built up properties, hiring of residential accommodations, furniture etc., with a view to assessing the efficiency, economy and effectiveness of logistic management for offices and residences of diplomatic personnel. The results of the study are discussed in the following paragraphs:

## **6.8.3 Inordinate delay in construction on acquired land**

### **6.8.3.1 Brasilia (Brazil)**

Government of Brazil gifted a plot of 25,000 square meters land in 1965 to the Indian Embassy in Brasilia for the construction of an Embassy Complex. Earlier Reports<sup>36</sup> of the Comptroller and Auditor General of India (C&AG) had highlighted the idling of the plot and continued payment of rent for hired accommodation. While submitting Action Taken Note (ATN) on the recommendations of the PAC, Ministry of External Affairs (MEA) stated (September 2006 and February 2008) that the contract for construction of this project was expected to be awarded in the coming months.

Subsequent scrutiny revealed that the CNE<sup>37</sup> had sanctioned Rs. 37.50 crore for the project in August 2006. In terms of CNE approval, pre-construction activities were scheduled to be completed by May 2007 and construction by May 2009. However, the Mission floated tenders only in February 2008 and that too before project specifications and drawings were accepted by MEA. Contract was yet to be awarded as of February 2010. The Ministry stated (February 2010) that as the financial bids submitted by the bidders were exorbitant, a modified tender was being issued to the shortlisted firms. The modified tender was held up due to environment issues and legal requirements of escalation costs in the tender. The Ministry further stated that it expected to award the work in another three to four months.

Thus, despite having spent an amount of Rs. 1.08 crore on the project up to March 2009, assurances given to PAC and protracted correspondence between Ministry and Mission, there is yet no clarity or finality about the scope of work. Inordinate delay, changes in scope and design, consequent cost escalations leading to re-tendering indicated improper planning, lack of

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<sup>36</sup> Paragraphs 26.8.6 (report No. 13 of 1990), 8.2 (Report No. 2 of 2001) and 5.5.3 (Report No. 17 of 2005)

<sup>37</sup> Committee on Non-plan Expenditure

coordination and indecisiveness on the part of Mission and MEA. This had resulted in continued idling of the plot for nearly 45 years and avoidable annual expenditure of Rs. 1.78 crore towards hiring of residential/official accommodations.

#### **6.8.3.2 Port of Spain (Trinidad & Tobago)**

The Government of Trinidad & Tobago donated five acre plot of land to India in 1994 on 99 years' lease, for setting up the India Cultural Centre. Delay in construction and continued payment of rental charges of the leased premises was commented upon in paragraph 5.5.12 of the Report of the CAG (Report No.17 of 2005). While furnishing the ATN (September 2006 and February 2008), the MEA stated that the project was under different stages of pre-construction activities and every possible effort was being made to bring the project to tender/construction stage at the earliest.

Subsequent audit scrutiny revealed that, the project was yet to commence as of July 2009 despite incurring expenditure of Rs. 36.10 lakh on consultancy fee up to March 2009 and lapse of 15 years since allotment of the plot in 1994. During this period (February 2004), part of the land was encroached by a company, which could not be removed as of July 2009, resulting in further delay to the project. Resultantly, the estimated cost of construction of the project had gone up from TT\$15.48 million (Rs. 11.14 crore<sup>38</sup>) in October 2003 to TT\$25.34 million (Rs. 18.23 crore<sup>38</sup>) in November 2006. This is likely to escalate further. The Mission also continued to incur annual expenditure of Rs. 16.76 lakh towards rent for residential accommodation.

#### **6.8.3.3 Paramaribo (Suriname)**

The Government of Suriname donated a plot of land in Paramaribo (1992) for construction of the Indian Cultural Centre. As the plot of land was lying vacant, the Government of Suriname took it back in May 1997 and allotted another plot measuring one hectare in July 1998. Mention was made in paragraph 5.5.5 of CAG's Report No.17 of 2005 about delay in construction of Indian Cultural Centre at Paramaribo. While submitting the ATN (September 2006 and February 2008), MEA stated that every possible effort was being made to bring the project to tender/construction stage at the earliest.

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<sup>38</sup> Worked out at the exchange rate of December 2006

Subsequent audit scrutiny revealed that the scope of the work of construction had been expanded to include additional classrooms, residences and for augmenting the capacity of the Auditorium. Fresh designs from the Architect were awaited as of July 2009. The Mission, meanwhile, continued to incur annual expenditure of Rs. 29.18 lakh towards rental payment for the Centre and residential accommodation.

#### **6.8.3.4 Abuja (Nigeria)**

The PAC in their 108<sup>th</sup> report (1987-88) and 51<sup>st</sup> report (2007-08) and Standing Committee of Parliament on Ministry of External Affairs in its report of June 1998, emphasised the need for gradual replacement of rental expenditure with sound investment in suitable properties and emphasised construction on available plots to avoid imprudent expenditure on rentals.

Audit scrutiny revealed that the Ministry purchased two plots for the construction of Residence of High Commission of India, Abuja and chancery-cum-residence building in the year 1990 and 1991, respectively, with lease period of 45 years. It was noticed during audit that despite payment of consultancy fee of Rs. 25.82 lakh up to May 2009 and ground rent of Rs. 7.20 lakh up to December 2008 and protracted correspondence between the Ministry and Mission, the Ministry could not decide the scope and design of the construction work even after lapse of a significant period of 18/19 years out of the leased period of 45 years.

The following reasons led to the delay:

- (i) No action for construction on the plots was taken by the Mission/Ministry till June 2001.
- (ii) Even after initiating the process of construction of the project in June 2001, Ministry took two and a half years, for reasons not on record, to appoint a consultant (January 2004) for preparation of the plan, drawings, construction and for management services at a consultation fee of five *per cent* of the tendered cost/estimated cost of construction.
- (iii) Ministry/Mission neither prescribed any time limit for the consultant to submit the designs nor included a penalty clause for unreasonable delays. The consultant submitted the designs after more than two years in March 2006.

(iv) The bids were obtained in December 2006 and a time line was drawn in April 2007 according to which, the project was to commence in July 2007 and completed by July 2008. However, due to non finalisation of the scope of work, the bids expired in April 2008. There has not been any progress towards construction of chancery building and residential accommodations on the plots since April 2008. As of February 2010, the proposal of construction of HOM's residence and other residences was under the consideration of the CNE.

Lack of planning, focus and indecisiveness on the part of the Ministry resulted in continued idling of the plots and avoidable annual expenditure of Rs. 1.22 crore towards rentals of chancery building and residence of High Commissioner. Further, inordinate delay in the projects may cause heavy escalations of costs and even revocation of allotment by the local Government.

#### **6.8.3.5 Damascus (Syria)**

A building having a floor area of 368.25 sq. metre was purchased for chancery of Damascus in 1978 for Rs 50.26 lakh. The Chancery was shifted to a new building in June 2003. The idling of old building since then was pointed out in Comptroller and Auditor General's Performance Audit Report no. 17 of 2005 on Property Management by MEA.

The Ministry, in September 2006 submitted to the PAC that they were exploring the feasibility of using this building as a Cultural Centre as the building was not found to be suitable for residential purpose in view of its location in the commercial area. The PAC in their 51<sup>st</sup> Report (2007-08) -14<sup>th</sup> Lok Sabha, recommended that the Ministry should list out all the properties lying vacant for long periods and prioritise the same for prompt disposal.

In the ATN on the report of the PAC, the Ministry stated (February 2008) that the plot would now be used for construction of residences of officers. The PAC subsequently recommended in their 75<sup>th</sup> Report (2008-09)- 14<sup>th</sup> Lok Sabha that MEA should not further dither in the matter and should formulate an action plan forthwith for timely disposal of vacant properties.

Audit scrutiny revealed that the Ministry had approved a panel of seven architect firms in May 2008 with the time schedule of July 2008 for submission of final proposal for architectural/ design plans. However, the Ministry had not selected any architect for the work as of January 2010. Further, no time frame had been drawn to utilise this building as recommended by the PAC. Resultantly, the property had been lying idle since

June 2003 and the Mission had been continuing to pay rentals for the residences of the officers/officials.

**Recommendation:**

Ministry needs to frame time bound plans for completion of the projects to avoid inordinate delay.

**6.8.4 Avoidable extra expenditure due to poor contract management**

**6.8.4.1** Embassy of India (EI), Washington DC, invited quotations (January 2006) for renovation/repair of ceiling of the Chancery-I building. The Mission received three bids (US\$ 163,770, 155,614 and 70,350) between January and March 2006. The Mission while expressing confidence over the capability of the first lowest agency, sought Ministry's approval. The Ministry approved the lowest offer on 17 May 2006.

Though the contract was signed on 18 May 2006, the contractor expressed (25 May 2006) his inability to execute the work due to delay in accepting the tender, invoking clause 6 of the contract. Clause 6 of the contract provided that either party with written notice could terminate the agreement should the other party fail substantially to perform in accordance with the terms of the agreement through no fault of the party initiating the termination. The Mission conveyed (31 May 2006) the above facts to the Ministry with recommendation to accept the second lowest offer and the Ministry approved (14 June 2006) the same. The work was completed on 22 September 2006.

Audit scrutiny revealed the following flaws in contract management:

- (i) The contract did not contain any provisions regarding the validity period of the rates, security deposit by the contractor and penalty to be imposed in case of breach of contract. As a result, the lowest contractor could freely opt out of the contract on the grounds of unworkable rates due to delay, after signing the agreement.
- (ii) Since there was substantial difference in the rate of first and second lowest bidder, the Mission should have properly determined the reasonability of rates before acceptance of L1 offer and also should have explored the possibility of re-tendering to get more competitive rates before awarding the work to L2 bidder.

Failure of the Mission to incorporate suitable safeguards in the contract resulted in avoidable extra expenditure of US\$ 85,264 (Rs. 39.41 lakh<sup>39</sup>). The case also highlights that the Mission has no system for determining reasonability of rates before award of contract.

The Mission replied (February 2008) that the matter was being reviewed. Further reply was awaited (July 2009).

**Recommendations:**

- ❖ Missions should incorporate suitable safeguards and penal provisions in the agreement with contractors.
- ❖ The Mission should put in place a proper system of determining reasonability of rates to avoid acceptance of unworkable rates and also the rates that are too exorbitant.

**6.8.5 Non-fixation of rental ceiling for hiring of residential accommodation**

Para 4(2) of Annexure-X to the Rules stipulates that the Mission/Post should hire accommodation within the rental ceiling prescribed by the Ministry for various categories of its officers/staff. As per item No. 20 (III) (3) of the FPGOIRA, in case where the rental ceiling has not been fixed, HOM/HOP has full powers to hire accommodation initially subject to the rent not exceeding USD 1426 per month. Further, Para 4 (18) (ii) of Annexure-X provides that the Missions for which rental ceilings have not been prescribed should invariably forward all proposals with complete details in the prescribed pro-forma showing rental of the proposed accommodation and the reason why it is in excess of the existing operative ceiling.

(i) Scrutiny of records revealed that the Ministry has not fixed rental ceiling in 13<sup>40</sup> Missions/Posts. In the absence of rental ceiling, the Missions continued to hire accommodation on the basis of rent initially sanctioned by the Ministry for a similar ranking officer. This practice cannot be deemed to substitute the provisions for fixation of rental ceiling as the Ministry's decision of sanctioning rent is case-specific, depending upon circumstances prevailing at that point of time, which may not be appropriate or hold good for future reference. Given the fact that the substantial expenditure is being incurred on hiring of accommodation, there is a need for instituting controls by fixing the

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<sup>39</sup> worked out at the exchange rate of September 2006 (US\$ 1 =Rs.46.22)

<sup>40</sup> Helsinki, The Hague, Lisbon, Vienna, Dublin, Berne, Geneva, Ottawa, Toronto, San Francisco, Chicago, Brasilia and Peru



rental ceilings for the leased accommodation in respect of various categories of officers/staff.

(ii) EI Helsinki(April 2006), The Hague(March 2004) and Vienna(April 2003) had taken up the matter for fixing ceiling limit with the Ministry. The Ministry's approval was awaited in all these cases. EI Berlin(June 2008) had taken up the matter with the Ministry for regularisation of excess expenditure incurred in excess of the ceiling limit fixed by the Ministry. EI Lisbon stated that it was not possible to fix the rental ceiling as the rent was increased as per the increase in coefficient published by the local Government, which would necessitate revision of ceiling every year and the sanction of the Ministry thereof. Replies of the EI Dublin and PMI Geneva were awaited.

(iii) In absence of rental ceiling fixed by the Ministry, the Missions/Posts at Ottawa, Toronto, San Francisco, Brasilia and Peru hired accommodations beyond the delegated powers of HOM in 32<sup>41</sup> out of 47 cases.

HCI, Ottawa and the Posts at San Francisco replied that they have taken up the Matter with the Ministry for fixing rental ceilings. Replies from Toronto, Peru and Brasilia are awaited.

(iv) In PMI Geneva, it was observed that rent for the hired accommodation exceeded prescribed financial powers of the HOM (USD 1426 per month) in 39 out of 42 hired accommodations (93 *per cent*). However, PMI, Geneva had not obtained approval of the Ministry in respect of 36 accommodations as required by Para 4 (18) (ii) of Annexure X to the Rules.

**Recommendation:**

Ministry may fix Mission-wise rental ceiling for all categories of the officers.

**6.8.6 Excess payment of agent's commission**

**6.8.6.1** As per item 20(1)(5) of Schedule I of FPGOIRA, HOM/HOP was empowered to incur expenditure towards payment of agent's commission up to one month's rent subject to a ceiling of 2.5 *per cent* of the total rent payable during the period of lease. Further, the expenditure on agent's commission should be shared equally between the Mission/Post and the landlord as per normal practice.

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<sup>41</sup> Ottawa (4/6), Toronto (4/4), San Francisco (14/14), Chicago (5/10), Peru (2/6), Brasilia (3/7)

**6.8.6.2** Audit scrutiny revealed that EI Vienna and Berlin (April 2007 to December 2007) incurred unauthorised expenditure of Euro 11949<sup>42</sup> (Rs. 7.53 lakh)<sup>43</sup> beyond the delegated powers of HOM/HOP towards payment of agent's commission.

EI Vienna stated (April 2009) that it has noted the audit observation. EI Berlin stated (July 2008) that it has sought approval of the Ministry for regularisation of the excess agency commission.

### **6.8.7 Non-refund of security deposit**

**6.8.7.1** As per item 20(III)(7) of FPGOIRA, HOM/HOP have been empowered to make payment of refundable security deposit equivalent to two month's rent. The instructions, of March 2004 *inter-alia*, provided that either the payment for the last month/quarter should not be made in advance or payments be made in such a way so that the security deposit is duly adjusted after giving notice of termination of the lease.

**6.8.7.2** In four<sup>44</sup> Missions, it was observed that they failed to obtain the refund of the security deposit of Rs. 10.57<sup>45</sup> lakh paid to the landlords despite de-hiring these accommodations between September 2005 and February 2008.

EI, The Hague stated that recovery of Rs. 1.13 lakh has been effected. EI Bucharest, Dublin and Paris stated that matter of refund of security deposit has been taken up with the landlord/agency.

### **Recommendations:**

The Missions may

- ❖ vigorously pursue with the landlords to get refund of security deposits; and
- ❖ explore the possibility of inserting a clause in the contract wherein the security deposits are adjusted against the rent payable during the notice period.

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<sup>42</sup> EI Vienna (Euro 4774) EI Berlin (Euro 7175)

<sup>43</sup> worked out at the official exchange rate of March 2009 (Euro 1=Rs.63.01)

<sup>44</sup> Bucharest, Hague, Dublin, Paris and Rome

<sup>45</sup> Rs.in lakh at the official exchange rate of March 2009 –Bucharest (1.97), Dublin (1.29), Paris (5.80) and Rome (1.51)

**Conclusion**

Despite assurances to the PAC, the pace of construction of projects on acquired land by various Missions abroad continues to be a cause of concern. There were substantial delays in construction in the case of five Missions ranging between 16 to 45 years, resulting in both idling of funds and consequent cost escalation. The Missions continue to incur avoidable rental expenditure towards hiring of residential/official accommodation.

Audit also noticed expenditure on repair and maintenance of buildings being incurred by the Missions in excess of the powers delegated to them. Instances of non-fixation of rental ceilings and non-adherence to norms for hiring of buildings point to the need for the Ministry to address the issue by enforcing the rules and orders issued in this regard.

Annex-I

(Referred to in paragraph No. 6.2.2)

Details of extra expenditure incurred by 30<sup>46</sup> Missions/Posts on purchase of full fare economy tickets for their officials and family members during home leave, emergency passage and temporary duty

Type of journey	No. of officials/family traveling	Amount of Air fare paid by the Mission/Post (full fare economy ticket) (in Rs.)	Air fare based on cheapest fare (in Rs.)	Extra Expenditure (in Rs.)	Comparison of full fare expenditure viz cheapest fare (number of times)
Home Leave Passage-PDA, London	569	130988263	27058909	103929354	4.8
Home Leave Passage-PDA, Washington	263	93013776	23674394	69339382	3.9
<b>Home Leave Passage-Total</b>	<b>832</b>	<b>224002039</b>	<b>50733303</b>	<b>173268736</b>	<b>4.4</b>
Emergency Passage-PDA, London	80	15525213	3787561	11737651	4.1
Emergency Passage-PDA, Washington	49	16066660	4245159	11821501	3.8
<b>Emergency Passage-Total</b>	<b>129</b>	<b>31591873</b>	<b>8032720</b>	<b>23559152</b>	<b>3.9</b>
Temporary Duty-PDA, London	48	8693108	2029972	6395283	4.3
Temporary Duty-PDA, Washington	13	5423047	1087157	4335890	5.0
<b>Temporary Duty-Total</b>	<b>61</b>	<b>14116155</b>	<b>3117129</b>	<b>10731173</b>	<b>4.5</b>
<b>Total Expenditure and Difference</b>	<b>1022</b>	<b>269710067</b>	<b>61883153.2</b>	<b>207559062.4</b>	<b>4.4</b>

<sup>46</sup> El Moscow, HCl, London, El, Paris, El, Budapest, El, Berne, El, Athens, El, Warsaw, El, Oslo, El, Bucharest, CGI, Frankfurt, El, Helsinki, CGI, Edinburgh, El, Belgrade, El, Dublin, El, Vladivostok, El, Copenhagen, El, Zagreb, CGI, Milan, EOI/Bogota, EOI/Brasilia, EOI/Buenos Aires, EOI/Sao Paulo, EOI/Panama, EOI/Kingston, CGI/Houston, EOI/Mexico, CGI/Vancouver, HCl/Port of Spain, CGI/Ottawa, EOI/Paramaribo

**Annex-II**

(Referred to in paragraph No. 6.3 (iii & iv))

Sl. No.	Apartment	Date of completion	Major problems
1.	Converted flat 7-8 (Pilot Project)	August 2003	Water leakage from the roof in dining area from the upstairs apartment (converted flat 9-10), water dripping from the electrical bulb point, thereby severely impairing the living conditions and safety of occupants.
2.	Converted flat 9-10	September 2004	
3.	Converted flat 1-2	May 2006	Severe damp problem; successive water leaks from upstairs apartment (converted flat 3-4); multiple leaks in the water pipes under the floor that damaged the shoes, paintings and other personal belongings stored in the apartment; water dripping next to the gas and electricity meters; wet walls and wiring; rusted radiator pipes; bloated flooring etc. The apartment is uninhabitable and lying vacant.
4.	Converted flat 3-4	August 2006	Major leakage from unconverted flat 5 and 6, severe damp in the walls and fungus problem. The problem of damp from converted flat 1-2 spilled over into flat 3-4.

Annex-III

(Referred to in paragraph No. 6.4)

Details of excess payments pending recovery

2004-05 to 2009-10

(Rupees in lakh)

Sl. No.	Name of Mission/Post	Year	Unauthorised payment of EWF charges	Excess payment of TA, DA and related claims	Over payment of Pay, FA RG etc	Excess payment of CEA	Other Excess payments	Non settlement of advances
1.	Moscow	2004-05	2.76					
2.	Dar-es-Salaam						5.20	
3.	Port Lious							1.09
4.	Argentina			1.85				
		2005-06						
5.	Rome			0.29				
6.	Sana				0.16			
7.	Tunis		0.21					
8.	Antananarivo				0.38			
9.	Mahe			6.11				
		2006-07						
10.	Athens			0.16				
11.	Madrid				1.53			
12.	Durban			0.10				
13.	Mombassa			0.22				
14.	Kandhar					0.14		
15.	Canberra							0.17
		2007-08						
16.	Hague						0.76	
17.	Ulaanbaatar					0.38		
18.	Hongkong				2.15			
		2008-09						
19.	Vladivostok			0.31				
20.	Frankfurt					0.57		
21.	Dar-es-Salaam		0.33					
22.	New York			0.46				
23.	Brasilia				0.13			
24.	Washington				0.39			
		2009-10						
25.	Sydney		1.19					
26.	Antananarivo							8.85
27.	Canberra		3.46					
28.	Ottawa			1.00				
	<b>Total</b>		<b>7.95</b>	<b>10.5</b>	<b>4.74</b>	<b>1.09</b>	<b>5.96</b>	<b>10.11</b>
	<b>Grand Total</b>							<b>40.35</b>

## Annex-IV

(Referred to in paragraph No. 6.5)

## Recoveries effected in respect of Missions/Posts at the instance of audit

Sl. No.	Name of the Mission	No. of cases	Amount (Rs.)	Nature of recovery
<b>2006-07</b>				
1	EOI*, Belgrade	4	293668	One <i>per cent</i> of Tuition fee, irregular reimbursement of taxi fare, excess payment of daily allowance and non-recovery of electricity, water and fuel charges.
2	HCI, London	3	172619	Overpayment during preparation time, excess payment of representational Grant and irregular payment of maintenance allowance.
3	EOI, Astana	1	20984	Irregular refund of income tax deducted at source.
4	EOI, Moscow	1	37757	Recovery of one percent of the tuition fee.
5	EOI, Madrid	2	63214	Recovery of excess payment of salary to locally recruited staff and recovery of gas charges during Heating period.
6	EOI, Helsinki	1	28712	Recovery of one percent of the tuition fee.
7	CGI, Edinburgh	2	84275	Recovery of transfer passage (air fare) and recovery of excess reimbursement of baby sitting charges.
8	EOI, Yerevan	2	35859	Recovery of irregular payment of pro-rata bonus to local employees and recovery of one percent of the tuition fee.
9	EOI, Berlin	1	35450	Recovery of water charges.
<b>Total</b>		<b>17</b>	<b>772538</b>	
<b>2007-08</b>				
1	EOI, Rome	3	210931	Recovery of excess telephone call charges, recovery of one percent of the tuition fee and recovery of irregular expenditure incurred by the Mission towards visit of the Ambassador of Berne to Rome.
2	PMI, Geneva	1	58715	Recovery towards excess reimbursement of additional cost of car insurance.
3	EOI, Bucharest	1	18610	Excess payment of Representational Grant.
<b>Total</b>		<b>5</b>	<b>288256</b>	
<b>2008-09</b>				
1	HCI, London	2	2425771	Non-availing of discount on Air India tickets and refund of excess payment of daily allowances.
2	EOI, Zagreb	2	57345	Recovery of excess payment to the gardener and recovery of inadmissible gas charges for non-heating season.
3	EOI, Prague	2	36619	Recovery of excess payment of daily allowance and incorrect computation of Income Tax and Additional Foreign Allowance
4	EOI, Berne	1	76815	Recovery of one <i>per cent</i> of Tuition Fee.
5	CGI, Frankfurt	1	21228	Excess payment of Foreign Allowance.
6	EOI, Dushanbe	1	22928	Wrong payment of bonus to the local employees.
7	EOI, Belgrade	3	89599	Recoveries on account of excess reimbursement of additional cost of car insurance, towards heating charges at Embassy residence and excess telephone calls from residence.
8	EOI, Moscow	1	11442	Recovery of unauthorized expenditure on residential telephones.
9	EOI, Kiev	1	11642	Inadmissible payment of various allowances to defence personnel.
10	EOI, Astana	1	72679	Refund of TDS by the Mission.
11	EOI, The Hague	2	46500	Excess payment of pay and allowances during Home Leave, recovery of excess residential telephone call charges.

\* EOI - Embassy of India

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Sl. No.	Name of the Mission	No. of cases	Amount (Rs.)	Nature of recovery
12	EOI, Baku	1	53409	Recovery of excess payment of packing charges.
13	EOI, Athens	1	35135	Non-availing of discount on Air India tickets.
14	EOI, Berlin	5	125472	Recovery of damages of leased residence, recovery of excess expenditure towards purchase of air tickets, erroneous slab deduction, Recovery of Electricity and Water charges, Recovery of EWF charges.
15	EOI, Helsinki	1	77185	Recovery of Tuition Fee.
16	HCI, Pretoria	3	81558	Recovery of foreign allowance in lieu of transportation charges.
17	EOI, Doha	2	21366	Recovery of excess reimbursement of additional cost of car insurance.
18	EOI, Tokyo	1	464161	Recovery of excess collection of commission/charges.
19	EOI, Bogota	1	31666	Overpayment of foreign allowance.
20	CGI, Toronto	1	17790	Excess payment of additional cost of car insurance.
21	EOI, Washington	1	43245	Recovery towards overpaid cable charges.
22	PML, New York	1	14885	Inadmissible payment of medical expenses.
23	EOI, Panama	2	22809	Inadmissible payment on account of transfer TA and incidentals during home leave.
24	CGI, Houston	3	43675	Overpayment of daily allowances, non-receipt of refund from Air India.
25	EOI, Brasilia	1	75189	Refund of demurrage charges.
26	HCI, Port of Spain	1	187568	Refund of unused portion of Air Ticket.
	<b>Total</b>	<b>42</b>	<b>4167681</b>	
	<b>Grand total</b>	<b>64</b>	<b>5228475</b>	
			<b>52.28 lakh</b>	