

CHAPTER-III

Audit of transactions

Compliance audit of the Government Departments, their field formations brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs under broad objective heads.

3.1 Non-compliance with rules, orders, etc.

For sound financial administration and financial control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authority. This not only prevents irregularities, misappropriations and frauds, but helps in maintaining good financial discipline. Some of the audit findings on non-compliance with rules and regulations are as under:

PUBLIC WORKS DEPARTMENT

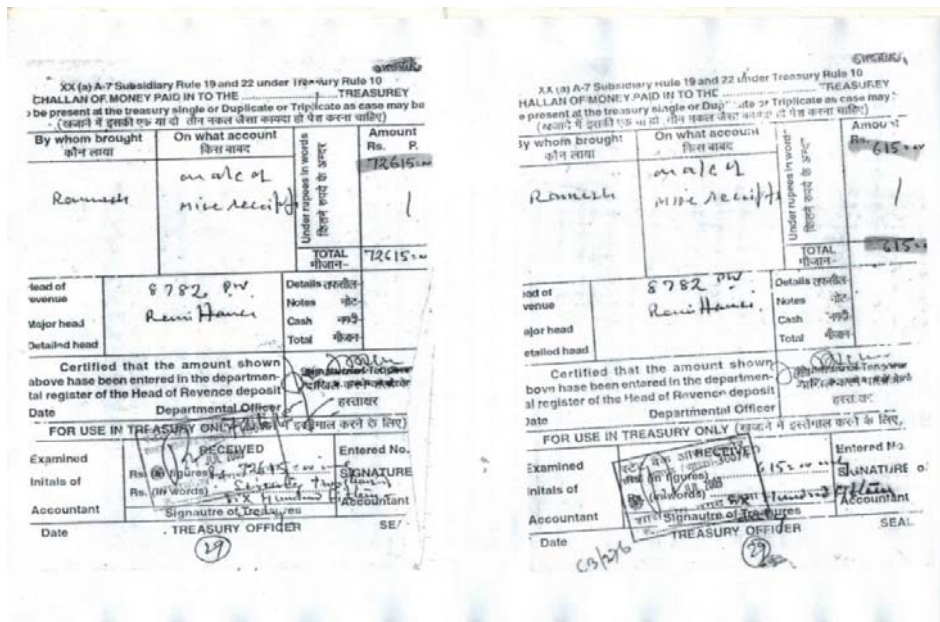
3.1.1 Embezzlement of Government money

Due to non-reconciliation of remittances and cheque drawals with treasury schedules embezzlement of ₹ 9.50 lakh remained undetected.

Rule 53 (v) of the Madhya Pradesh Treasury Code (MPTC) Vol-I Chapter VI provides that, when Government money in the custody of Government servant is paid into treasury or bank, the head of office should satisfy himself that the amounts have been actually credited into the treasury or bank before attesting it. He should obtain a consolidated receipt of all remittances from the treasury and compare with the posting in cash book. Paragraph 22.3.1 of Central Public Works Accounts (CPWA) Code read with Form-51 stipulates that Divisional Officer is responsible for reconciliation of transactions of cheques and remittances made by the division and sub-divisions after receiving the copies of daily scroll (receipts and payments) from treasury.

We observed that reconciliation (Form-51) of remittances and cheques with treasury schedules had not been done by the Divisional Officer of Public Works Department (PWD) Division, Rajgarh since 1998 despite being regularly pointed out by Audit through Inspection Reports. During scrutiny of records of Rajgarh Division, we noticed (August 2013) that on behalf of SDO, Rajgarh the Sub-Divisional Clerk (SDC) received ₹ 9.91 lakh on account of sale of tender forms/ miscellaneous receipts during the period April 2008 to November 2009. As per the counterfoils (depositor's copy) of treasury challan and the cash book the entire amount of sale proceeds was remitted into the bank by SDC under his own signatures, on behalf of the SDO. The SDO sent the monthly account to the EE without conducting verification of the remission of the amounts in the treasury. The EE also incorporated the same amount of remittances in monthly accounts without verification of remittances from treasury. However, during verification of transactions as per the records of the Division with treasury records and bank scroll we observed that actual

amount deposited was ₹ 0.41 lakh only against ₹ 9.91 lakh shown in counterfoils of treasury challans. We further noticed that the amounts remitted in treasury was inflated in the counterfoils of challan by the SDC by putting extra digits (also words) in the left of the actual amount deposited as per the original challans, as exhibited in the photographs. This resulted in embezzlement of amount of ₹ 9.50 lakh as detailed in Appendix 3.1. The matter was reported to the police authority (October 2013) after being pointed out by Audit.



Depositor's copy of Challan (in Divisional records)

Bank copy of Challan (in Bank records)

Thus, due to not adhering to the system of reconciliation of remittances and cheques drawn with the records of treasury/ bank, there was no deterrent against the possible defalcation and the amount of short deposit remained undetected.

On this being pointed out (August 2013), the Chief Engineer (CE) stated that the correspondences had been made with the District Treasury and even after personally approaching District Treasury Officer, the pending Certificate of Issued Cheques/ Consolidated Treasury Receipts (CIC/ CTR) was not provided. He accepted (May 2014) the embezzlement and stated that the defaulting official had retired (November 2009) and the Department had lodged FIR (October 2013) against the official who was under police custody.

The reply does not give reasons for non-reconciliation of remittances and payments by the Division since March 1998 leading to the non-detection of embezzlement of the government money and there was no evidence that the matter was taken up with the Finance Department on non-receipt of CIC/ CTRs from District Treasury Officer.

The matter was referred to the Government (January and August 2014); their reply has not been received (November 2014).

NARMADA VALLEY DEVELOPMENT DEPARTMENT

3.1.2 Excess payment of escalation to consultant

Excess payment of consultancy charges was made to the consultant on account of price escalation amounting to ₹ 59.07 lakh due to incorrect calculation on the basis of total quoted price instead of on the basis of the price of balance work to be executed after expiry of agreement period.

The Executive Engineer (EE), Narmada Development (ND) Canal Division, Khargone awarded (March 2008) the work of detailed engineering services (consultancy services) for "Execution of Indira Sagar Project Main Canal System" from RD¹ km 130.935 to RD km 155.000 to a consultant on 'Turn-key' basis at a cost of ₹ 3.85 crore. The scope of consultancy work included evaluation and recommendation of tenders, checking of designs and drawings, supervision, measurement, quality control, monitoring etc. of construction work. The consultancy work was scheduled to be completed within 48 months including rainy season i.e within March 2012. Twelve *per cent* of the quoted amount was to be paid to the consultant as initial payment and remaining 88 *per cent* of the contract value was to be paid on *pro-rata* basis depending on the payment made to the construction agency for the work executed². As there were delays in completion of the work of canal system due to stay orders of Hon'ble High Courts and delay in completion of work by the construction agency, the Chief Engineer (CE) Indira Sagar Project (Canal) Sanawad granted time extension on two occasions (July 2012 and October 2013) from 1 April 2012 to 30 June 2014. The 51st running bill amounting to ₹ 4.24 crore was paid (May 2014) to the consultant including escalation of ₹ 76.68 lakh.

As per Clause 11 of the agreement of the consultancy service, for the extended period of contract, escalation at the rate of 10 *per cent* per annum of the quoted rate shall be applicable for the balance work carried out after expiry of the contract period. As per the above condition, the escalation payable for the years 2012-13 and 2013-14 was ₹ 11.14 lakh³ and ₹ 6.47 lakh⁴ respectively.

We noticed (February 2014) that the Division calculated the escalation cost as ₹ 76.68 lakh⁵ during the extended period 2012-14 at the rate of 10 *per cent* per annum of the total quoted price (₹ 3.85 crore), instead of 10 *per cent* of value of the reduced balance work to be executed by the contractor during the years. Thus, a fixed amount of escalation (10 *per cent* of quoted price) became payable to the consultant irrespective of the quantum of balance work to be executed by the construction agency. As a result, an

¹ Reducing Distance

² Scheduled to be completed by March 2011.

³ 10 *per cent* of value of balance work (₹ 111.40 lakh at quoted rate), remaining unexecuted after due date of completion of consultancy i.e. March 2012.

⁴ 10 *per cent* of value of balance work (₹ 64.73 lakh at quoted rate) as of March 2013.

⁵ ₹ 38.50 lakh for 2012-13 and ₹ 38.18 lakh for 2013-14

excess payment of ₹ 59.07 lakh was made to the consultant, as detailed in the **Appendix 3.2**.

We further observed that in another work⁶ of consultancy for execution of Omkareshwar Canal Project Phase-I, the EE, ND Division No. 32, Barwaha paid escalation to the consultant at the rate of 10 *per cent* for balance work carried out after expiry of stipulated period and not at 10 *per cent* of original quoted price. It is evident that the EE, ND Division Khargone, made incorrect interpretation of the clause because of lack of clarity in the clause.

The CE stated (July 2014) that the escalation payment was for the balance construction work after expiry of contract period and not for the amount of balance work and as per the provision of the agreement. Payment of escalation was made at 10 *per cent* per annum on the quoted rate for the balance work to be carried out. He also stated that the work of the consultancy would be completed minimum one year after completion of the construction agency work in all respect and consultant would not get any payment during the work of monitoring the implementation activity of the project but he had to bear all the expenses of employees' salaries, vehicle and other expenses for minimum one year period for which payment against escalation shall only be available. In view of Natural Law of justice the payment seems to be justified.

The reply of the CE is not acceptable. If the terms relating to escalation payment do not take into account the quantum of balance work and the amount of escalation is paid at same rate (at ₹ 38.50 lakh per annum) as long as extension is allowed to the construction agency, it would lead to unreasonably large amount of escalation on consultancy. Further, the consultant had quoted rates considering all terms and conditions of contract viz. expenses of employees' salaries, vehicle and other expenses for specified period. Besides, payment of escalation should be made based on contract conditions, which safeguard the interest of the Government.

The matter was referred to the Government (July and August 2014); their reply has not been received (November 2014).

PUBLIC WORKS, WATER RESOURCES AND NARMADA VALLEY DEVELOPMENT DEPARTMENTS

3.1.3 Delay in deposit of Labour Welfare Cess

Delayed deposit of ₹ 8.10 crore towards Labour Welfare Cess to the Workers Welfare Board, in violation of the Workers' Welfare Cess Act, 1996, attracted liability of interest of ₹ 2.91 crore to the Government.

Section 3 (1) of the Building and other Construction Workers' Welfare Cess Act, 1996 (Act) provides for levy and collection of a cess at the rate not exceeding two *per cent* but not less than one *per cent* of the cost of construction work incurred by an organisation. Accordingly, Madhya

⁶ Agreement dated 18 October 2004 with same contract clause

Pradesh Building and other Construction Workers rule 2002 provides for levy and collection of a cess at the rate of one *per cent* which is effected from April 2003. Rule 5 (2) of the Welfare Cess Rules, 1998 provides that the amount collected shall be transferred by cheques/ demand draft to the Workers Welfare Board (Board) of the State within 30 days of its collection.

Section 8 of the Act provides that failure to pay any amount of cess within the specified time entails payment of interest on the amount to be paid at the rate of two *per cent*, for every month or a part of a month comprised in the period from the date on which such payment is due till such amount is actually paid.

We noticed (March 2013 to February 2014) from the vouchers of payment to contractors relating to collection and deposit of labour welfare cess that during the period February 2004 to March 2014, 16 divisions of three Works Departments⁷ had collected cess amounting to ₹ 8.10 crore at source from the contractors' bills. However, the Divisional Officers did not deposit the amounts with the Board within the prescribed period of one month. The amounts were remitted into the Civil Deposit instead of depositing the money with the Board. After being pointed out in audit, the Divisional Officers deposited the amount of cess with the Board during the period March 2013 to August 2014. The deposit of the cess to the Board was delayed by one month to 119 months. Due to delayed deposit of cess to the Board, the Departments became liable for payment of interest amounting to ₹ 2.91 crore as detailed in **Appendix 3.3**.

Evidently, the Departments have not evolved any system for ensuring timely deposit of cess within the prescribed time limit so as to avoid liability of interest on account of delays.

The matter was referred to the Government (July 2014); their reply has not been received (November 2014).

⁷ Water Resources Department – Bansagar Distributory Dn Rewa, Keoti Canal Dn Rewa, WR Dn Khaniyadhana, Singrauli, Tikamgarh and Masonry Dam Dn Madikheda
Public Works Department - PWD (B&R) Dn. Ashoknagar, Dewas, Guna, Jabalpur, Khandwa, Ratlam, Tikamgarh and Umaria
Narmada Valley Development Department – Narmada Development Dn. No 1 Dindori and Dn. No. 2 Panagar

3.2 Expenditure without propriety

Authorisation of expenditure from public fund is to be guided by the principles of propriety and efficiency of public expenditure. Authorities empowered to incur expenditure are expected to enforce the same vigilance as a person of ordinary prudence would exercise in respect of his own money and should enforce financial order and strict economy at every step. Audit has detected instances of impropriety, extra and infructuous expenditure, some of which are mentioned below:

NARMADA VALLEY DEVELOPMENT DEPARTMENT

3.2.1 Unjustified payment of price adjustment for extended period

Injudicious grant of time extension for completion of work resulted in payment of price escalation amounting to ₹ 12.29 crore, besides non-levy of penalty for delays attributable to contractor.

The Narmada Valley Development Department (NVDD) awarded (March 2008) the work of "Execution of Omkareshwar Project⁸ Canal System (Phase-II) comprising of Right Bank Canal from RD⁹ km 9.775 to RD km 68.92 including distribution network" on 'turnkey'¹⁰ contract basis to a Joint Venture company at a cost of ₹ 193 crore exclusive of the cost of land acquisition. The work was scheduled to be completed within 30 months i.e. by September 2010. The work was incomplete as of June 2014.

According to the contract agreement, 'the price adjustment clause shall be applicable only for the work that is carried out within the stipulated time or extension thereof due to reasons not attributable to the contractor. There was also provision for levying penalty¹¹ or termination of contract in case of delays in execution in excess of 100 days.

The contractor commenced execution of the work from August 2008. However, the work was stopped during 1 July 2009 to 25 February 2010 due to stay by the Hon'ble High Court since the Department did not consult the Gram Sabha and Panchayats before process of land acquisition under the provisions of Article 243 M of the constitution and the Panchayats Act, 1996. The work resumed in March 2010. The Chief Engineer (CE), Lower Narmada Project accorded (December 2010) time extension for the period from September 2010 to June 2012 on ground of stay by the Hon'ble High Court and delay in land acquisition. We noticed (July 2013) that 95 *per cent* of land was available before sanction of time extension in December 2010 and total land (774.516 ha) required for the work was made available to the contractor by May 2011. We also observed that the Executive Engineer (EE), ND

⁸ The Project envisaged construction of concrete dam with gated spillway to generate power of 520 MW and irrigation of 1,46,800 hectare (ha) of land.

⁹ Reducing Distance

¹⁰ Comprising the complete work of survey, planning, design, estimate, preparation of land acquisition cases, construction of canal including cement concrete lining, concrete structures and Cross Drainage works.

¹¹ In the event of delay, the penalty at rate of 0.1 *per cent* per day of the shortfall value will be imposed on the contractor. The cumulative penalty shall, however, be limited to 10 *per cent* of the contract value.

Division No. 20, Mandleshwar had persistently brought to the notice (March, July and October 2010) of contractor regarding slow progress of the work in the stretches, where land was already made available. Due to slow execution, the contractor could not complete the work even within the extended period. The CE, however, granted (July 2012) second time extension up to 30 November 2013 reserving the rights to levy of penalty with the condition that escalation shall be paid only if proportionate progress is achieved against quarterly target. As of June 2014, the contractor could complete only 56 *per cent* of the work. The Division attributed the delay to lack of adequate resources available with the contractor. The Division paid (June 2014) ₹ 167.77 crore including price adjustment of ₹ 28.95 crore to the contractor up to 129th Running Account (RA) bill for gross value of work done. Due to non-completion of work in the extended period (up to November 2013), the CE again granted (June 2014) time extension up to March 2015 with reserving the right to impose penalty as mentioned in the agreement.

Since the total land was provided to the contractor by May 2011 and progress of the work by the contractor was slow due to inadequate resources, the delay beyond June 2012 was attributable to the contractor therefore attracts the penal provision. Unjustified deferment of the decision regarding levy of penalty facilitated payment of price variation, not due to the contractor. The Department paid ₹ 12.29 crore¹² on account of price adjustment for the extended period after June 2012 and also did not impose penalty of ₹ 19.30 crore¹³ which was unjustified.

The EE replied (July 2013) that the matter regarding levy of penalty and price adjustment was under review by the competent authority and after decision necessary action would be taken.

The reply of the EE is not convincing as delay after June 2012 was attributable to the contractor; hence price adjustment should not have been paid to the contractor.

The matter was referred to the Government (May and August 2014); their reply has not been received (November 2014).

¹² Escalation paid up to June 2014 (₹ 28,95,39,637) *minus* Escalation paid up to June 2012 (₹ 16,65,91,805) = ₹ 12,29,47,832.

¹³

(1) Total delay (July 2012 to June 2014) 24 months	=730 days
(2) Short fall in value of work done as on June 2014 (44 <i>per cent</i> of ₹ 193.00 crore)	=₹ 84.92 crore
(3) 10 <i>per cent</i> of the contract value (₹ 193 crore)	=₹ 19.30 crore
(4) Total penalty (0.1 <i>per cent</i> of (2) above x (total delay i.e. 730 days)	=₹ 61.99 crore
(5) Penalty to be imposed (3) or (4) whichever is less	=₹ 19.30 crore

WATER RESOURCES DEPARTMENT

3.2.2 Extra expenditure due to incorrect adoption of cement concrete lining

Incorrect adoption of provision of cement concrete lining resulted in extra expenditure of ₹ 1.01 crore in four canal works.

According to the technical circular (January 1984) issued by the Engineer-in-Chief (E-in-C), Water Resources Department (WRD) and Note 8 of Chapter 25 of Unified Schedule of Rates (USR), M-10 cement concrete (CC¹⁴) lining shall be done for the canals having discharge of water up to three cumecs and depth of water less than one metre.

During scrutiny of records of five Water Resources Divisions¹⁵ (October 2012 to March 2013 and March 2014), we observed that discharge of water in respect of canals of five¹⁶ minor irrigation schemes being implemented (July 2011 to May 2012) by five divisions of the Department were less than three cumecs and depth of water at full supply level were also less than one metre. Therefore, concrete lining of M-10 grade was required to be provided in these works. However, in the technical sanction accorded by the Chief Engineer (CE) on the estimates prepared by the Executive Engineers (EEs), a provision was made for M-15 grade CC¹⁷ lining, a richer grade of concrete, which was costlier than M-10 grade and the work was executed accordingly without giving any justification for the change of prescribed specification. The difference in cost of the two grades of CC ranged between ₹ 383.02 per cu m and ₹ 641.28 per cu m in the five schemes.

Out of 20,486.68 cu m concrete estimated in these five schemes, the contractors executed 9,631.493 cu m M-15 grade CC lining as of March 2014 for which extra expenditure incurred was ₹ 41.33 lakh. On the remaining 10,855.187 cu m of concrete yet to be executed, an extra expenditure would be ₹ 59.23 lakh, as detailed in **Appendix 3.4**.

The EEs of four Divisions¹⁸ (October 2012 to March 2013) stated that provision of M-15 grade CC lining was made as per directions of the Government, the estimates, technical sanction and the approved Detailed Project Report (DPR). However, the EE WR Division-I, Sagar did not offer any comment on this issue. The EEs also did not furnish the evidence of the Government directions even after repeated requests.

The replies of the EEs are not acceptable in view of the laid down specifications of CC lining. Further, the EEs themselves prepared the proposals for higher specification, in violation of the provisions of technical circular of E-in-C and USR 2009 and submitted to the CE for approval.

¹⁴ M-10 concrete has components of cement, sand and aggregate in the ratio of 1:3:6.

¹⁵ WR Division Jhabua, Manawar, Raghogarh, and Dn-I, II Sagar

¹⁶ Birai Tank- Raghogarh, Dholkhara Tank-Jhabua, Indla Tank- Manawar, Samnapur Tank & Tikari Tank-Sagar

¹⁷ M-15 concrete has components of cement, sand and aggregate in the ratio of 1:2:4.

¹⁸ WR Division Jhabua, Manawar, Raghogarh, and Dn-II Sagar

The matter was referred to the Department and the Government (June and August 2014); their replies have not been received (November 2014).

PUBLIC WORKS DEPARTMENT

3.2.3 Extra cost due to fixation of higher rate in Schedule of Rates

Injudicious fixation of higher rate for item “Excavation for roadways in hard rock blasting prohibited” in Schedule of Rates resulted in extra cost of ₹ 50.75 lakh in execution of the item in a road work.

Schedule of Rates (SOR) for road and bridge works prepared and published by the Engineer-in-Chief (E-in-C), Public Works Department (PWD) are applicable for construction and maintenance of roads executed by PWD in the State. The SOR is prepared keeping in view the specifications of Road and Bridge works and based on Standard Data Book of Ministry of Road Transport & Highways, Government of India issued by Indian Road Congress. Estimates for assessing cost of work are prepared on the basis of SOR. The SOR is revised from time to time by the Department due to increase or decrease in rates for labour, material and POL¹⁹. Therefore, accuracy of rates of items given in SOR has direct impact on expenditure on works where payment is made to contractor at the estimated rates.

For construction of roadways two important items are ‘excavation of hard rock requiring blasting’ and ‘excavation of hard rock blasting prohibited’; the rates were ₹ 140 per cu m and ₹ 503 per cu m respectively as per SOR 2009 (against ₹ 123 and ₹ 279, as per SOR 2008). Thus, in SOR 2009, increase in rate of ‘excavation of hard rock blasting prohibited’ was as much as 80 per cent, while increase in the other item was only 13 per cent. We observed that the rate of the item excavation of hard rock blasting prohibited (₹ 503 per cu m) in the SOR effective from April 2009 comprised of machinery, overhead charges, contractor's profit and components of item of labourers i.e. mate, mazdoor, chiseller and blacksmith. When enquired (February/ April 2014), the E-in-C did not provide the basis for the rates of labour components. We noticed that the rates adopted in the SOR by the Department for different categories of labours were higher by 0.74 to 71 per cent compared to the Labour rate effective from April 2009, published by Labour Commissioner, Indore. The rate of the item is worked out to ₹ 429.85 per cu m based on wages for labour published by the Labour Commissioner.

We noticed (November 2013) from the records of the Executive Engineer (EE), PWD (B&R) Division, Damoh that in the construction work of Mala Pondi-Bhangarh road, provision of 67,096.66 cu m quantity of ‘Excavation for roadway in hard rock requiring blasting’ (₹ 140 per cu m) was made. The EE, however, got executed (November 2012) 69,382.346 cu m of the item “Excavation for roadways in hard rock blasting prohibited” through the contractor at the rate of ₹ 503 per cu m on the ground that permission for blasting in hard rock was not given by the Forest Department. As a result of injudicious fixation of higher rate for the item ‘excavation in hard rock

¹⁹ POL: Petrol, Oil and Lubricants

blasting prohibited' in the SOR resulted in extra cost of ₹ 50.75 lakh as detailed in **Appendix 3.5**.

Besides, for the change of method of excavation, which entailed additional expenditure of ₹ 2.52 crore²⁰, revised technical sanction of the competent authority (CE) was not obtained (August 2014).

The Government stated (August 2014) that the rates were derived by taking average of the actual prevailing market labour rates in different parts of the State to frame a SOR on a realistic basis.

The reply is not convincing because the Labour Commissioner also issued daily/ monthly rate of wages for unskilled/ skilled labours after analysis of prevailing market rate in different parts of the State which should have been adopted.

3.2.4 Inadmissible payment of price escalation

A contractor executing road work was paid price escalation of ₹ 75.26 lakh even though the same was not covered under the agreement, since the period of completion of work was less than 12 months.

The Chief Engineer (CE), National Highway (NH) Zone, Public Works Department (PWD), Bhopal awarded (March 2013) the work of widening and strengthening of Bhopal-Sagar road in km 88 to km 101 to a contractor at a cost of ₹ 14 crore on item rate tender basis. The work was scheduled to be completed within four months including rainy season. The work was completed in November 2013 and final bill of ₹ 16.88 crore including price escalation of ₹ 75.26 lakh was paid to the contractor in March 2014.

The clause 13.4 general conditions of standard bid document regarding rates and prices of work has two parts. First part is for contracts up to 12 months period, which provides that the rates and price quoted by the bidder shall be fixed for the duration of the contract and shall not be subject to adjustment on any account for contracts up to 12 months period. The other part of the said clause is for contracts more than 12 months period, which provides that "the rate/ prices quoted by the bidder are subject to adjustment during the performance of the contract in accordance with the provision of clause 47.1²¹ of the conditions of the contracts for more than 12 months period". In the agreement of the work, the second part was scored out as the period of agreement was less than 12 months. Thus, price escalation was not applicable in the said agreement.

We noticed (May 2014) from scrutiny of records of Executive Engineer (EE), PWD (NH), Division Bhopal that against the scheduled completion period of four months, the work was completed within eight months (November 2013). Though the contractor was not entitled for payment of price escalation in terms of the agreement, the Division paid him ₹ 75.26 lakh on account of price escalation.

²⁰ Difference in rate (₹ 503 - ₹ 140 = ₹ 363) per cu m * quantity executed (69,382.346 cu m) = ₹ 2.52 crore.

²¹ Clause 47.1 provides the principles and procedures for calculating contract price, when price adjustment is allowed as per the contract conditions.

The EE, PWD (NH), Division, Bhopal stated (May 2014) that the price escalation had been paid as per the provision under clause 47.1 of the agreement, and there was no restriction of time limit.

The reply is not acceptable as the clause 13.4 clearly stipulates that price escalation was payable as per clause 47.1 for the contract period of more than 12 months. As the contract period was less than 12 months, price escalation was not admissible.

The matter was reported to the Government (August 2014); their reply has not been received (November 2014).

3.2.5 Short levy of supervision charges

Supervision charges for non-government works were levied at lower rate for deposit work of buildings for UCO Bank, in violation of the provisions of the MPWD manual. Short levy of the charges was ₹ 41.26 lakh.

According to para 2.164 of Madhya Pradesh Works Department (MPWD) Manual, the rates for supervision charges in terms of percentage shall be fixed by the State Government from time to time for non-Government Works. Accordingly, the Government of Madhya Pradesh (GoMP), Public Works Department (PWD) issued an order (May 1997) for levy of supervision charges of seven *per cent* of the value of work exceeding ₹ 5 crore for execution of non-Government works on deposit work basis.

We observed (September 2013) that the GoMP, PWD permitted (August 2008) construction of office and hostel buildings of UCO Bank at Jail Road, Bhopal by PWD on deposit work basis, with the condition that supervision charges as per admissible under rules would be recovered from UCO Bank, failing which the permission would stand automatically cancelled. The UCO Bank requested (January 2009) to execute the said work to the Department at an estimated cost of ₹ 10.70 crore, including supervision charges of three *per cent* on deposit work basis. The Department, after entering into agreement with the Bank issued work order in March 2010 to a firm, for completion of the civil work within 17 months i.e. within August 2011. The work was in progress as of October 2014. Besides, electrical and other related works for the buildings were also awarded (May 2012 to February 2014) at a cost of ₹ 1.09 crore. The value of completed civil work including other works of the buildings was ₹ 6.72 crore²² and also paid up to October 2014.

We noticed (September 2013) that on the request (September 2008) made by UCO bank to the GoMP, PWD superseded the order issued in August 2008 reportedly in consultation with the Finance Department and granted permission (September 2008) to levy supervision charges of three *per cent* instead of seven *per cent* for execution of the said work of UCO bank. Despite repeated requests made by us, the Department could not furnish justification of reducing supervision charges and evidence of permission accorded by Finance Department. Action of the Department was contrary to the provision of para 2.164 of MPWD Manual as the Rule does not provide

²² ₹ 5.09 crore for civil works executed by New Bhopal Division & ₹ 1.63 crore for electric work executed by (Electric/ Maintenance) Division, Bhopal.

for application of differential rates of supervision charges for different non-Government works. Thus, reduction of supervision charges from seven *per cent* to three *per cent* only in a specific case of UCO bank resulted in short levy of supervision charges of ₹ 41.26 lakh²³.

On this being pointed out, the Executive Engineer (EE) stated that levy of supervision charges of three *per cent* was made as per permission granted by GoMP, PWD.

The reply of the EE is not convincing as no justification was given for reducing the supervision charges.

The matter was reported to the Government (June and August 2014); their reply has not been received (November 2014).

3.3 Persistent and pervasive irregularities

An irregularity is considered persistent if it occurs year after year, it becomes pervasive, when it is prevailing in the entire system. Recurrence of irregularities despite being pointed out in earlier audits, is not only indicative of non-seriousness on the part of the Executive but is also an indication of lack of effective monitoring. This, in turn, encourages willful deviations from observance of rules/ regulations and results in weakness of the administrative structure. Interesting cases of persistent irregularity reported in audit are discussed below:

PUBLIC WORKS DEPARTMENT

3.3.1 Avoidable extra cost

Unwarranted provision and execution of richer specification in two road works compared to the provision in Indian Road Congress specifications resulted in avoidable extra cost of ₹ 2.45 crore.

The Chief Engineer (CE) Central Zone Bhopal granted (February 2010) Technical Sanction (TS) for two road works²⁴ under Central Road Fund. The works were awarded (July 2010 and December 2010) by the Executive Engineer (EE), PWD (B&R) division Chhindwara to two contractors at a total quoted price ₹ 11.72 crore. The works were scheduled to be completed within 15 months (within October 2011) and 18 months (within June 2012) respectively.

According to the Indian Road Congress (IRC: 37) specifications for design of flexible pavements, the crust (thickness) as well as type of bituminous course is designed on the basis of california bearing ratio (CBR)²⁵ of

²³ Four *per cent* of ₹ 10.32 crore (Estimated basic cost excluding supervision charges) = ₹ 41.26 lakh

²⁴

Name of road	Division	Completed
Multai-Rohana-Gaurayya-Powma road	PWD (B&R) division Chhindwara	March 2013
Hirdaghar-Nawegaon road	PWD (B&R) division Chhindwara	Ongoing

²⁵ CBR denotes strength of soil. It is the ratio of material resistance or the unit load on the piston for 2.54 mm of penetration to standard unit load for well graded crushed stone for 2.54 mm penetration.

sub-grade²⁶ and design traffic in terms of million standard axle (MSA)²⁷, which in turn is determined on the basis of commercial vehicles per day (CVPD), vehicle damage factor (VDF²⁸), design life and lane distribution factor (LDF). The IRC specifications further provide that wherever the designed traffic is one MSA and the CBR of sub-grade is up to 10 *per cent*, provision of only 20 mm open graded premix carpet (OGPC) with seal coat should be provided as a bituminous wearing course and thus, there is no need of bituminous macadam (BM) and semi dense bituminous concrete (SDBC).

During scrutiny of records²⁹ (January 2013), we observed that the Executive Engineer (EE), incorrectly calculated the design traffic of the roads as four to five *msa* due to wrong considerations of the VDF (4.5 instead of 1.5), design life (15 years instead of 10) and LDF (1.5 instead of 0.75) as detailed in **Appendix 3.6**. While the design traffic based on correct VDF and LDF worked out to one *msa*, for which the bituminous course prescribed is OGPC and seal coat. The EE, however, adopted provision of BM (60 mm) and SDBC (40 mm) required for traffic design of five *msa*. Adoption of richer specification in TS resulted in avoidable extra expenditure of ₹ 2.45 crore, as detailed in **Appendix 3.7**.

On this being pointed out in audit, the EE stated that the work was executed as per IRC-37 for three and four *per cent* CBR. He further stated that the crust was adopted for better performance and on the basis of sanctioned estimate which were thoroughly scrutinised, checked and thereafter approved by the competent authority.

The reply is not acceptable as the IRC specification provides optimum crust thickness and compositions after consideration of all factors affecting the better performance. The Department ignored the provisions of IRC:37 while preparing the estimates and granted TS for richer specifications. This resulted in wrong computation of traffic intensity and thus led to avoidable extra expenditure of ₹ 2.45 crore.

The matter was reported to the Government (December 2013, April and August 2014); their reply has not been received (November 2014).

WATER RESOURCES DEPARTMENT

3.3.2 Non-deduction of additional security deposit from contractor

Undue financial benefits of ₹ 3.18 crore was provided to the contractors due to non-deduction of additional security deposit for unbalanced rate of items resulting in loss of Government money.

Clause 3.28 of the agreement provides that the items for which contractor had quoted disproportionately higher rates as compared to the estimated rate, the payment for such items should be limited to the estimated rate of

²⁶ Sub-grade is top 30 cm to 50 cm layer of earth work in roads.

²⁷ MSA denotes load of traffic on road.

²⁸ VDF is a multiplier to convert the number of commercial vehicles of different axle loads to the number of standard axle load repetitions.

²⁹ EE, PWD (B & R) Division, Chhindwara

that item *plus* or *minus* over all tendered percentage instead of making payment at the quoted/ agreed rate. The amount so retained shall be kept as additional security deposit (ASD), which shall be released only after completion of the entire work. In case of failure to complete the work, the entire ASD shall be forfeited. The Water Resources Department (WRD) directed (April 1994) that item rate tenders should be accepted with the above stipulations. Further, as per Clause 4.3.3 of the agreement, the Engineer-in-charge is empowered to rescind the work in case of delay in execution and award to another contractor and excess expense if any, shall be borne and paid by the original contractor.

Two works A³⁰ and B³¹ were awarded (August 2007 and August 2008) to two different contractors at a quoted price of ₹ 6.31 crore and ₹ 73.69 crore respectively. The works were scheduled to be completed within 12 months (within August 2008) and 30 months (within February 2011) respectively.

We noticed (January 2013 and September 2013) in above two works that the contractors had quoted disproportionately high rates against the estimated rates ranging from 120 *per cent* to 228 *per cent* for 8 to 11 items of the works as shown in **Appendix 3.8**. The Divisions, however, while making payments to the contractors did not restrict payment for unbalanced items up to the estimated rate *plus* or *minus* overall percentage. Against an amount of ₹ 3.80 crore (A: ₹ 60.27 lakh and B: ₹ 3.20 crore) required to be retained as ASD from the running account bills paid to the contractors, the Divisions retained only ₹ 62.03 lakh for work 'B' and no amount was retained in case of work 'A', resulting in non-recovery/ short recovery of ₹ 3.18 crore for unbalanced rate of items. The Executive Engineers (EEs) did not offer any reasons for the lapses, when enquired in audit. The contractors left the works in April 2011 and June 2011 when the works done were only 68 *per cent* and 30 *per cent* respectively. The Department rescinded the work in the same month on the ground of non-completion of the works within the schedule date. The balance works in both cases were awarded (August 2011 and September 2012) to other contractors at higher rates. Work 'A' was completed in December 2012 while Work 'B' was in progress (July 2014). The net extra cost of ₹ 8.04 crore³² incurred on execution of the balance work by other contractor, recoverable from the defaulting contractors and the uncollected ASD was ₹ 3.18 crore, as detailed below:

³⁰ Sindh Project Phase-II, RBC Division, Narwar, Shivpuri - construction of earthwork, cement concrete lining and Structures from RD km 0.00 to RD km 9.45 of Ukaila High Level Canal (Beyond Barua Pick Up Weir)

³¹ Kutni Dam Division, Khajwa, Chhattarpur - construction of concrete and earthen barrage of Singhpur Barrage RD km 0.00 to RD km 4.50

³² ₹ 0.73 crore (Work A) + ₹ 7.31 crore (Work B) = ₹ 8.04 crore

Table 3.1

(₹ in crore)

Name of Work	Amount payable for balance work by original contractor	Amount* paid or to be paid for balance work to other contractor	Extra cost	Security Deposits of original contractors left with the Department	Recoverable amount from defaulting contractors	Un-collected ASD
1	2	3	4=3-2	5	6=4-5	7
Work A	2.13	3.16	1.03	0.30	0.73	0.60
Work B	52.40	60.78	8.38	1.07	7.31	2.58
Total	54.53	63.94	9.41	1.37	8.04	3.18

* ₹ 3.16 crore denotes the actual amount paid to the second contractor while ₹ 60.78 crore denotes the amount quoted by the second contractor awarded after rescission of original contracts

Had the Division recovered ₹ 3.18 crore as ASD on account of unbalanced rate of items, it could recover extra cost incurred on the works, to that extent. This tantamounts to undue financial aid to the contractors.

On this being pointed out in audit, the Executive Engineer (EE), Kutni Dam Division did not offer any specific comments on non-deduction of ASD. The EE, Sindh Project Phase-II, RBC Division accepted the fact and stated that in respect of unbalanced rate of items instructions issued by the Government (July 2007) were not followed.

The fact remains that ASD of ₹ 3.18 crore was not recovered from the contractors for unbalanced rate of items.

The matter was referred to the Government (May, June and August 2014); their replies have not been received (November 2014).

3.4 Failure of oversight/ governance

The Government has an obligation to improve the quality of life of the people through fulfillment of certain goals in the area of health, education, development and upgradation of infrastructure and public service. However, audit scrutiny revealed instances where in the funds released by the Government for creating public assets for the benefit of the community remained unutilised/ blocked and/ or proved unfruitful/ unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. A few such cases have been discussed below:

NARMADA VALLEY DEVELOPMENT DEPARTMENT

3.4.1 Non-recovery of compensation for delay in completion of work

Compensation for delay in completion of work amounting to ₹ 1.97 crore was not imposed and recovered from the contractor even though delay in execution of canal work was attributable to the contractor.

The Executive Engineer (EE), Narmada Development (ND) Division No. 18, Khargone awarded (January 2007) the work of construction of main

canal from RD³³ km 107.74 to RD km 114.073, cement concrete (CC) structures and CC lining of Indira Sagar Project to a contractor on item rate basis at a cost of ₹ 20.55 crore. The work was scheduled to be completed within 24 months including rainy season i.e. within January 2009. As of July 2014, earth work, CC structures and CC lining of the canal work were completed only up to 89 *per cent*, 50 *per cent* and 71 *per cent* respectively. The contractor was paid ₹ 18.74 crore, including price escalation of ₹ 2.30 crore as of August 2014.

According to clauses 4.3.2, 4.3.3 and 4.4.1 of the agreement, contractor shall be liable to pay compensation amounting to the whole of his security deposit including initial security for performance, if he neglects or fails to proceed with works with due diligence besides other action, such as, rescission of agreement, completion of remaining work at his cost, debarring him from taking part in any other new tender etc.

During scrutiny of records (July 2013 and June 2014) of EE ND Division No. 18 Khargone, we noticed that total land required for the work was acquired and made available to the contractor by June 2007 and approved drawings from Central Water Commission (CWC) were also made available to the contractor by September 2007. But the contractor failed to complete the work within stipulated period. The Chief Engineer (CE) granted time extension of 21 months up to October 2010 under non-penal clause on the ground of delay in acquisition of land, delay in approval of drawings by CWC, and stay order (July 2009 to February 2010) on acquisition of land by Hon'ble Supreme Court and Hon'ble High Court.

The contractor could not complete the work even in the extended period (up to October 2010). We observed that the EE had issued several notices to the contractor between September 2011 and September 2013 for slow progress of the work. Based on proposal of the EE and the Superintending Engineer (SE), the CE granted further time extension up to December 2013. However, as a penalty for the delay the contractor would not be entitled for price escalation from November 2010. The EE, however, ignoring the instructions of the CE regarding non-payment of escalation, paid price escalation (from October 2010 to August 2014) to the contractor amounting to ₹ 1.89 crore which was irregular.

Further, since the price escalation for the extended period was not allowed, as a penal action for the delay attributable to the contractor, the Division was also required to impose and recover compensation amounting to ₹ 1.97 crore³⁴ from the contractor as per contract clause, which was not done.

³³ Reducing Distance

³⁴ Total compensation (₹ 1.97 crore) = ₹ 1.03 crore + ₹ 0.94 crore.

Five *per cent* of total value of contract (₹ 20.55 crore) i.e. initial performance security = ₹ 1.03 crore .

Five *per cent* of security deposit deducted from running bills i.e. five *per cent* of ₹ 18.74 crore = ₹ 0.94 crore.

In September 2013, the EE had stated that the delay was not attributable to the contractor and accordingly the time extension was sanctioned by the competent authority without penalty. However, in June 2014 the EE admitted that delay of 21 months was attributable to the Department and the contractor was responsible for delay of 38 months.

The matter was referred to the Government (July and August 2014); their reply has not been received (November 2014).

Bhopal
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Madhya Pradesh

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New Delhi
The

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