Chapter-4

Financial Management and Revision of SoR

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Financial Management involves efficient and effective use of financial resources to achieve the objectives of the organisation. In the context of a Public Works organisation dealing with construction of roads, it involves ensuring timely availability of funds to fulfill contractual commitments, optimising cost, allocating resources in a fair and transparent manner and ensuring utilisation of funds and proper record keeping. Audit observed that lack of adequate planning as discussed in Chapter-3, had adverse implications on financial management resulting in delayed release of funds and consequential time over run in most of the road projects as discussed in the following paragraphs:

4.1 Budget provision and expenditure

During 2011-16, expenditure of ₹ 40,854.63 crore (Capital expenditure: ₹ 29,214.20 crore and Revenue Expenditure: ₹ 11,640.43 crore) was incurred by PWD on construction and maintenance of roads (excluding PMGSY). Position of budget allocation and expenditure during this period is given in Table 4.1 below:

Table 4.1: Position of budget provision, expenditure and surrender

(₹ in crore)

Sl. No.	Year	Budget provision	Release	Expenditure	Surrender
1	2011-12	6,403.88	5,480.22	5,480.22	923.66
2	2012-13	6,148.78	6,066.10	6,066.10	82.68
3	2013-14	8,190.56	8,085.05	8,085.05	105.51
4	2014-15	11,267.69	10,486.39	10,486.39	781.30
5	2015-16	10,919.64	10,736.87	10,736.87	182.77
	Total	**42,930.55**	**40,854.63**	**40,854.63**	**2,075.92**

(**Source:** Information furnished by E-in-C)

The department could not utilise ₹ 2,075.92 crore (4.84 *per cent*) out of allocated budget of ₹ 42,930.55 crore during 2011-16. The short utilisation was on account of less release of funds.

4.1.1 Late issue of Cash Credit Limits[1]: As a part of financial control, the State Government follows the system of Cash Credit Limits (CCL) for PWD under which the finance department issues CCL on the request of head of the department. Finance Controller should issue CCL directly to the divisions in the first week of every quarter of the year in the ratio of 35, 15, 35 and 15 *per cent* respectively.

[1] Authorisation letter sent by Finance Controller to the divisions and the Treasury Officer who sends it to the bank for honouring the cheques issued by the divisions.

Scrutiny of records in test-checked divisions revealed that the instruction of the Government was not being followed as 22, 20, 28 and 30 *per cent* CCL was issued in first, second, third and fourth quarters during 2011-16 against the prescribed norm of 35, 15, 35 and 15 *per cent* respectively.

Late release of CCL adversely impacted execution of works. It also impacted the accuracy of public works accounts as the divisions diverted funds to avoid surrender of money and resorted to irregular accounting practices. Audit noticed that in 17 divisions, advance payment amounting to ₹ 179.83 crore (***Appendix 4.1***) was made to Indian Oil Corporation (IOC), Mathura during 2011-16 for supply of bitumen and expenditure was irregularly charged directly to the works. As per financial rule[2], advance payments made to IOC should be first debited to miscellaneous advance head and when bitumen is issued from the store to the work, expenditure should be charged to the work. Thus, expenditure was booked against these works irregularly without constitution of contract bonds with a view to utilise the CCL.

In reply, the divisions accepted (June 2016) that due to late receipt of CCL, it was not possible to utilise the funds on the works concerned and therefore the expenditure was directly debited to works by making payment to IOC instead of following the prescribed accounting procedure.

This indicated poor financial management in the government as PWD failed to provide funds timely to the executing authorities as per approval accorded by the legislature and in accordance with broad norms laid down for release of CCL.

Case study 4.1

Widening of Bilgram-Unnao-Allahabad road was sanctioned for ₹11.91 crore on 30 March 2016 and a sum of ₹3.57 crore was released by the Government. Audit noticed that the fund was released only one day before the closing of the financial year and as such it was not feasible to finalise the contract bond. The Executive Engineer, CD-1, Unnao diverted ₹3.57 crore received for widening of Bilgram-Unnao-Allahabad road to make payment for another work on 31 March 2016 and booked the expenditure in accounts against widening of Bilgram-Unnao-Allahabad road. Thus, the late release of funds not only resulted in diversion of funds but also led to inaccurate accounting through wrong booking of expenditure.

4.1.2 Delayed release of funds: Test-check of records revealed that funds for road works were not released timely by the department during 2011-16. In 106 test-checked works (110 contract bonds) in selected districts sanctioned during 2011-14 by the Government, there were delays in release of fund by one to five years. This adversely affected the pace of execution of works and resulted in delay of up to 57 months in completion of 98 contract bonds (89 *per cent*). The position of delay is given in the Table 4.2 below:

[2] Paragraph 567 of FHB Vol VI.

Table 4.2: Position of delay in completion of works

Sl. No.	No. of contract bonds	Cost of contract bonds (₹ in crore)	Delay in completion (in months)
1	17	226.27	Upto 6 months
2	28	689.29	6 to 12 months
3	32	813.89	12 to 24 months
4	21	403.63	24 to 57 months

Further, out of the test-checked 106 works, NITs for 59 works were published before AA/FS (ranging up to 565 days) while in case of 95 works, NITs were published before TS (ranging up to 872 days) for stated speedy execution of works. Despite such advance action taken to tender out the works much before the administrative approvals/technical sanctions (in violation of rules) on the grounds of urgency, audit noticed that the professed urgency was not shown at the time of release of funds.

The problem of delayed release of funds was primarily on account of deficient planning and improper sanction procedures as discussed below:

4.1.3 Deficiency in government sanction: Audit examined the issue and noticed following serious deficiencies in the entire system of planning, sanction of works and release of funds by the government.

- The government sanctions never mentioned the time-schedules for completion of works.
- The sanctions also did not indicate the proposed fund flow matching with the project completion schedule.

In the absence of any time-schedule approved by the government for the specific works, engineering authorities decided project completion schedule after issue of government sanction, at the time of award of work. The divisional/circle authorities never took government approval for the time-schedule for completion of works and adopted *ad-hoc* and arbitrary approach in deciding the time-schedule for completion as discussed in paragraph 8.4.

The above practice adopted by the government was deficient as it neither provided timelines for completion of projects nor gave any definite commitment for release of funds as per a specified time-schedule.

4.1.4 Deficiency in planning: Audit observed that the above problem of poor financial management arose mainly on account of poor planning and deficient project management. As already discussed in the paragraph 3.2.1**,** long term as well as annual planning was absent in PWD.

Audit observed that the State government prepared annual works plan in majority of the schemes such as PMGSY, NRHM, RTE etc., clearly specifying the total number of projects (new and ongoing) to be executed during the year and approving estimated amount of funds required. The execution of works during the year was made as per the approved Annual Action Plan. In contrary, no Annual Works Plan was prepared by the PWD for construction of roads and works were sanctioned in an *ad-hoc* manner on case to case basis, based on proposals submitted by the divisions. As a result, the cost of projects sanctioned was much more than the annual financing capacity (budget) of the department. This resulted in delay in release of funds much beyond the contracted time-schedule for completion as shown in the Table-4.3 below:

Table 4.3: Position of schedule completion period and fund release

Sl. No.	Number of CBs	Schedule completion period (in months)	Fund release period (in months)
1	27	Up to six months	12 to 60
2	50	7 to 12	12 to 60
3	25	13 to 18	12 to 60
4	08	19 to 26	24 to 72

In reply, the Government stated (June 2017) that the issues have been noted and steps would be taken up for proper implementation.

Recommendations:

- ***Government must introduce a system of preparation of annual works plan to ensure systematic selection of projects based on clearly laid down priorities and provision of adequate funds for their timely completion;***
- ***The works proposals should be prepared and sanctioned as per the approved annual work plan; and***
- ***Rush of expenditure towards the end of financial year should be avoided by releasing CCL timely.***

Case study 4.2

Scrutiny of records (June 2016) of Executive Engineer, Provincial Division, Gorakhpur revealed that the administrative approval and financial sanction for widening and strengthening of Gorakhpur-Khajni-Sikariganj was accorded by the Government (October 2011) for ₹23 crore. CE, Gorakhpur zone accorded technical sanction for the same amount in December 2011. SE, Gorakhpur Circle entered into a contract[3] for ₹ 17.65 crore with M/s Kandarp Construction, Lucknow at 18 per cent below the departmental rates.

It was observed that due to delay in allotment of fund, the contractor refused to execute the work. As such, the contract was terminated and the contractor was paid (November 2015) ₹ 12.73 crore for work executed for the cost of ₹ 15.52 crore. Further, for completion of left over work of ₹ 4.92 crore[4], a contract bond (71/SE/15-16) amounting to ₹ 6.61 crore was executed with M/s Prabha Construction company, Gorakhpur at 0.50 per cent below the departmental rates.

[3] 106/SE/2011-12.
[4] ₹ 17.65 crore - ₹ 12.73 crore = ₹ 4.92 crore.

Thus, the department had to incur excess expenditure of ₹ 1.69 crore to complete the left over work due to delay in allotment of fund by the Government. The work was still in progress even after more than five years of sanction.

In reply, EE accepted (June 2016) that due to delay in allotment of fund, contractor refused to execute work.

4.2 Deduction of labour welfare cess

For regulating the conditions of service, particularly health and safety, and providing the benefits of welfares scheme for Building and other construction workers of the unorganised sector, the Government of India (GoI) enacted the Building and other construction workers (Regulation of employment and conditions of service) Act, 1996. Pursuant to the Act, the Government of Uttar Pradesh (GoUP) framed U.P. Building and other construction workers (Regulation of employment and conditions of service) Rules, 2009. The rules provide[5] for deduction of labour cess by employer at the rate of one *per cent* of the total cost of works from the bills of the contractor. Engineer-in-Chief directed (April 2010) all the divisions to ensure deduction of labour cess accordingly.

Scrutiny revealed that the system of deduction of cess was not uniform and varied from district to district and division to division and also from contract to contract within the division as discussed below:

- In 66 cases under 17 test checked divisions, labour cess amounting to ₹ 10.24 crore was deducted from the bills of the contractors and labour cess was borne by the contractors. However, in another 33 cases under 10 divisions, one *per cent* amount on account of labour cess was firstly added to the total amount payable to the contractors and then the same or lower amount was deducted from the bills as labour cess. Thus, in these cases, labour cess amounting to ₹ 5.22 crore was paid by the Government instead of the contractors. This was irregular, as the bidders were asked to quote all-inclusive[6] rate in their bid at the time of tendering.

- In 77 cases involving 20 divisions, labour cess amounting to ₹ 14.90 crore was not deducted from the bills but was directly transferred by the divisions to the Welfare Board from the allotment received for the works. As the contracts concluded were all inclusive, payment of labour cess by the divisions led to overpayment of ₹ 14.90 crore to the contractors which need to be recovered ***(Appendix 4.2)***.

In reply, the Government accepted the recommendation and stated that notification in this regard is loud and clear which shall be re-circulated to the field.

[5] Rule 4 (3) of the U.P. Building and other construction workers Welfare Cess Rules, 2009.
[6] Para 41.1 of General Condition of Contract of Model Bidding Document.

Recommendation: The Government should issue instructions immediately to all the divisions that labour cess should be deducted from the contractors' bills but the burden of paying labour cess should be borne by the contractors in all-inclusive contracts.

4.3 Revision of Schedule of Rates

Schedule of Rates (SoR) is a basic document which provides rates of different material and items of works for construction of roads and buildings, for preparation of estimates. SoRs of PWD are also used by other departments in preparation of estimates. Superintending Engineers are responsible for regular revision of SoRs pertaining to their circle. Government ordered (January 2013) that SEs would revise SoRs every six month. There are 32 SoRs[7] prevalent in State PWD under 32 circles in the State.

Audit examined the system of preparation of SoRs in circles and compared rates of various items of material adopted in SoRs by SEs for their circles and observed serious deficiencies and irregularities which are discussed below:

4.3.1 Variation in SoR rates: The SoRs prescribed quarry rates of various construction materials in respect of different approved quarries located within the State and also in the neighbouring States from where the construction material is procured by the contractors for construction of roads. The quarry rates of construction material in respect of specific quarries should be same for all the circles. Audit observed variations in rates of construction material adopted by different circles for the same quarries as indicated in Table 4.4 below:

Table 4.4: Detail of rate of quarry material in the SoRs of Agra and Mainpuri circles

Name of Quarry	Crushed stone ballast	2011-12		2014-15		2015-16	
		Agra circle	Mainpuri circle	Agra circle	Mainpuri circle	Agra circle	Mainpuri circle
		Rate (In ₹)					
Khera Thakur	45-63 mm	500	415	-	-	-	-
	22.4-53 mm	600	500	-	-	-	-
	2.36 mm and below	400	320	-	-	-	-
	45-90 mm	-	-	525	400	-	-
Ghatri	45-63 mm	-	-	600	500	625	600
	22.4-53 mm	-	-	700	600	725	700
	40 mm	-	-	850	750	875	850
	2.36 mm and below	-	-	600	500	625	600

Audit further noticed that rate of crushed stone ballast (45-90 mm gauge) of Haridwar quarry was fixed ₹ 559 per cum by SE, Bulandshahr which was inclusive of loading and unloading charges while rate of this item for the same

[7] There are 32 SEs for civil divisions in the State.

quarry was fixed at ₹ 650 per cum by SE, Moradabad excluding loading and unloading charges in the SoR as given in ***Appendix 4.3.***

The variations in quarry rates in SoRs of different Circles implied that undue favour was given to the contractors by adopting inflated query rates by Agra Circle in comparison to Mainpuri Circle. Further, it also puts a question mark on the system of preparation of SoRs by the circles and the need to maintain 32 SoRs in the State when the quarry rates in respect of specific items from specific quarries have to be necessarily the same.

4.3.2 Lack of transparency: Test-check of records of Superintending Engineers[8] revealed that though the Committees formed for revision of SoRs did revise the SoRs regularly, they did not maintain any documentation to justify increase in the rates of various items. In none of the circles, documents relating to obtaining rates from quarries were furnished to audit. Thus, the process of revising SoRs by SEs lacked transparency.

4.3.3 Multiple SoRs without government approval: Audit also observed that in Uttar Pradesh, though SoR revision had huge financial implications in terms of increasing the project costs, the SEs concerned approved the revision of SoRs in respect of their Circles and no Government approval is required. On the other hand, in some States such as Kerala, the SoR revision is approved by the State government and there is only one SoR for the whole State. Similarly, in Bihar also only one SoR is applicable for the entire State.

Government stated in reply (June 2017) that administrative orders would be issued so that single SoR for different quarries of the State is issued from Lucknow circle only.

Recommendation: There should be a single SoR for the entire State prescribing uniform quarry rate for the whole State.

4.4 Functioning of 'U P State Road Fund Management Committee'

With a view to arrange financial resources for planned construction of new roads, widening/strengthening, renewal and maintenance of existing roads, the Government established (January 2000) 'Uttar Pradesh State Road Fund' (SRF). Essential resources for this fund are arranged from the taxes collected on sale of motor spirits/diesel oil. Operation of this fund is managed by 'Uttar Pradesh State Road Fund Management Committee[9]' headed by Hon'ble PWD Minister as per provisions of Uttar Pradesh State Road Fund Rules, 2000 (revised in 2013). All rights relating to utilisation of this fund and determination of policy have been vested in the Committee.

Year-wise position of allotment received and expenditure incurred from Uttar Pradesh State Road Fund during 2011-16 is given in Table 4.5 below:

[8] Budaun-Pilibhit circle, Moradabad circle, Bulandshahr circle, Agra circle, Mainpuri circle, Gorakhpur circle, Basti circle, Jhansi circle and Unnao circle.

[9] Constituted in May 2002 by the Government.

Table 4.5: Year-wise position of Uttar Pradesh State Road Fund

(₹ in crore)

Sl. No.	Year	Expenditure
1	2011-12	1,470.17
2	2012-13	1,703.91
3	2013-14	2,295.96
4	2014-15	3,032.91
5	2015-16	2,654.67
Total		**11,087.62**

(**Source:** Information furnished by E-in-C)

Uttar Pradesh State Road Fund Rules provided that determination of criteria/work plan for expenditure would be approved by the Committee. Administrative and Financial sanction to the works would be issued by administrative department after approval of works by the Committee. Examination of records relating to SRF in the offices of the Principal Secretary, PWD and E-in-C disclosed the following:

- At the start of every financial year, the Committee approved the work plan for that year and authorised the Chairman, Uttar Pradesh State Road Fund Management Committee to issue financial sanction for the specific projects. Audit observed that the details of works to be sanctioned from this fund were not defined. Proposals approved by the Committee contained only total amount of funds & revenue heads and issue of financial sanction on work-wise plans was left to the discretion of the Chairman. This indicated that the sanction of works from this Fund was not systematic and lacked a planned approach. No Annual Works Plan for execution of works from this fund was prepared and discussed by the management committee. Further, it was against the Rules which stated the AA/FS would be issued after the approval of works by the Committee.

- Though, expenditure to the tune of ₹ 1,470.17 crore to ₹ 3,032.91 crore was incurred annually from SRF, there was complete absence of planning and projects were approved purely in an *ad-hoc* manner.

Department did not furnish any specific reply.

4.5 Maintenance of records

Regular maintenance of records prescribed by Financial Handbook Vol VI is vital for smooth functioning of the divisions and it helps the higher officers in having a control over the working of the divisions. During scrutiny in test-checked divisions audit observed that divisions were not maintaining following three important records:

4.5.1 Works Abstract: According to paragraph 485 of FHB Vol VI, an account of all the transactions relating to a work during a month whether in respect of cash, stock or other charges should be prepared by the subdivisional officer in one of the Works Abstract forms[10]. It was also provided[11] that the monthly examination of the Works Abstract is an important part of the duty of the divisional officer and must not be omitted. He must initial and date them in token of the performance of this duty.

It was observed during performance audit that Works Abstract was not prepared in any test-checked district during 2011-16. In absence of this important record, it was very difficult to calculate the monthly expenditure of any work on account of cash, stock or other charges. Thus, the divisional officers failed to perform one of the major duty assigned to them.

4.5.2 Register of Works: The permanent and collective record of the expenditure incurred in the division during a year, on each work, is the register of Works[12]. This record is maintained in the divisional office. The Register of works is posted monthly from the Works Abstracts. On completion of works, a mention is made in this register against that work.

Test-check of records revealed that this important record was also not maintained by divisions in any test-checked districts during 2011-16. As this register was to be prepared from the Works Abstract, absence of maintenance of Works Abstract made the preparation of Register of Works impossible.

4.5.3 Contractor's Ledger: Paragraph 524 of FHB Vol VI prescribes that the accounts relating to contractor should be kept in Contractor's Ledger, Form no. 43, a separate folio or set of folios being reserved for all transactions with each contractor for whom a personal account is maintained. Contractor's Ledger should be written up in the divisional office[13].

Scrutiny revealed that this important record was also not maintained by divisions in test-checked districts during 2011-16.

Thus, the divisions in all test-checked districts did not maintain these important records during 2011-16. Higher officers also failed to ensure the maintenance of these basic records. It is important to mention here that the issue of not maintaining these records was consistently highlighted in previous years through Audit Inspection Reports sent to EE/SE/CE/E-in-C and the Government. But, despite repeated reference to this irregularity, no action was taken at any level to comply with the rules.

The department did not furnish any specific reply.

[10] Form 33: for major estimates and form 34: for minor estimates.
[11] Paragraph 510 of FHB Vol VI.
[12] Paragraph 511 of FHB Vol VI.
[13] Paragraph 526 of FHB Vol VI.