Department of Water Resources

Chapter 5: Execution of Construction Projects by Odisha Construction Corporation Limited

5.1 Introduction

Odisha Construction Corporation Limited (OCCL) with its Registered Office at Bhubaneswar was incorporated on 22 May 1962 as a wholly owned company of Government of Odisha (GoO) under the administrative control of the Department of Water Resources (DoWR). The main objective of the Company is construction and development of works like dams, spillways, hydraulic gates, barrages, reservoirs, canals, *etc*. of DoWR. OCCL obtains works either allotted by DoWR or by participating in the tenders floated by DoWR or other departments of GoO.

The Company had finalised accounts for the year ended March 2020 and prepared provisional accounts for the year ended March 2021. As per the provisional accounts, the paid-up capital of the Company stood at ₹ 17.50 crore and accumulated surplus was ₹ 185.29 crore. At the same time, the non-current liabilities and current liabilities stood at ₹ 860.98 crore and ₹ 468.84 crore respectively. The net worth of the Company worked out as ₹ 202.79 crore as of March 2021. The turnover of the Company decreased from ₹ 874 crore in 2016-17 to ₹ 422 crore in 2020-21 and net profit after tax decreased from ₹ 35 crore to ₹ 34 crore during the same period.

The Management of the OCCL is vested in a Board of Directors (BoD) with the Secretary, DoWR as the ex-officio Chairman and 11 Directors, appointed by GoO. The Managing Director, the Chief Executive of the Company, is assisted by one Director (Mechanical), four General Managers (Civil), one General Manager (Mechanical), one Financial Advisor-cum-Chief Accounts Officer, one Administrative Officer and one Company Secretary who look after the day-to-day operations of the Company. The Company functions through four Regional Offices and 24 Project Offices[1] (POs) headed by General Managers (GMs) and Senior Managers (SMs) respectively.

Audit was conducted between July 2021 and January 2022 covering the period from 2016-17 to 2020-21 to assess planning for execution of projects by OCCL for their timely completion and achieving economy, efficiency in execution of works as well as utilisation of funds and other resources of the Company. Audit also examined the adequacy and effectiveness of the internal control system and the monitoring mechanism of the Company. Audit scrutinised records and documentation of OCCL at its Corporate Office and five selected Project Offices, where 48 projects out of a total of 526 projects were selected for examination on judgemental basis[2]. Besides, Joint Physical Inspections (JPI) of works/ assets were carried out by Audit along with Company personnel. The audit findings are presented in the subsequent paragraphs.

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[1] 17 civil project offices, six mechanical project offices and one construction consultancy division

[2] Selected considering the materiality of contract value and financial and physical progress

Audit Findings

5.2 Planning for construction projects

5.2.1 Absence of Corporate Plan and Annual Plans

Department of Public Enterprises, GoO had developed (November 2009) a Corporate Governance Manual (CGM) for State owned Public Sector Undertakings (PSUs) to govern their operations and strengthen their operational framework. As per Paragraph 1.5 of the CGM, every State PSU was to prepare and submit to its administrative department, a Corporate Plan by January, for a three-year period commencing from April. The Corporate Plan would provide a detailed description of how the PSU intends to deliver its long-term goals and objectives. Based on the Corporate Plan, a budget would be prepared that would integrate the resource requirements with the achievement of financial and non-financial targets. Subsequently, Annual Plans are to be prepared and submitted in January every year to the administrative department concerned, based on financial targets and resource requirements.

The Company was to prepare Corporate Plan and obtain approval of BoD for submission to DoWR. While the management of the Company was to ensure that the Corporate Plan is implemented, the Secretary of DoWR was to oversee the extent to which the Board guides the management of the Company in achieving aims and objectives and also to review the progress against performance targets.

Audit noted that OCCL had neither prepared the three-year Corporate Plan nor the Annual Plans during 2016-21. Despite the fact that during the period 2016-21, 21 meetings of the BoD were held, the issue of non-preparation and non-submission of Corporate and Annual plans were not discussed in these meetings. Further, the Secretary, DoWR, who was Chairperson of the BoD did not issue any instruction for preparation and submission of the same.

In absence of a Corporate plan, the business strategy, priority order of action points identified and risk mitigation measures adopted by the Company remained missing. Moreover, in the absence of annual plans, the aims and objectives of the Company could also not be translated into targets, progress against which could be periodically reviewed.

5.2.2 Targets specified in MoU with DoWR vis-à-vis achievements

The Company signs a Memorandum of Understanding (MoU) annually with DoWR wherein targets and commitments on the part of the Company on turnover, profitability, *etc*., are fixed. Targets for turnover and net profit after tax for the five years ending March 2021 are summarised in **Table 5.1** below:

Table 5.1: Target vis-à-vis achievement in turnover and net profit after tax by OCCL during 2016-21

(₹ in crore)

Particulars	Target/ Achievement	2016-17	2017-18	2018-19	2019-20	2020-21
Turnover	Target	700	800	800	500	500
	Achievement	874	728	451	522	422
	Percentage of achievement	125	91	56	104	84

Particulars	Target/ Achievement	2016-17	2017-18	2018-19	2019-20	2020-21
Net Profit after tax	Target	6.93	28.64	20.47	19.17	17.13
	Achievement	**35.45**	**67.16**	**50.13**	**49.03**	**34.21**
	Percentage of achievement	**512**	**234**	**245**	**256**	**200**

(Source: Information furnished by OCCL)

Audit noticed that:

- OCCL did not achieve turnover targets in three out of five years (except 2016-17 and 2019-20) and the achievement registered a decreasing trend during 2017-18 to 2020-21. The turnover target of the Company was also substantially revised downwards from ₹ 800 crore during 2017-19 to ₹ 500 crore during 2019-20. The actual turnover decreased by 52 *per cent* from ₹ 874 crore in 2016-17 to ₹ 422 crore in 2020-21. During these years, the value of works allotted to OCCL reduced from ₹ 1,183 crore in 2016-17 to ₹ 202 crore in 2019-20 as DoWR did not allot committed value of work to the Company. At the same time, the number of works that the Company could secure by participating in tenders also went down leading to an overall fall in achievement of turnover targets.

- During 2016-21, out of total value of works of ₹ 3,148.42 crore received by the Company, only 18 works valued at ₹ 260.46 crore were secured by participating in open tender, which was just 8.27 *per cent*. There was no analysis carried out by the Company to identify measures that could be taken to improve performance of OCCL in winning contracts *via* bidding in the open market. Although the BoD had directed the Company management to secure at least 20 *per cent* of works through participation in tenders, the same had not been achieved. In the absence of Corporate Plan and Annual Plans, there was no clarity on long and short-term measures to be adopted or time-based targets specified for this purpose, by the Company.

- OCCL, however, achieved targets for net profit after tax in all the years during 2016-21 and the achievement surpassed the targets by 200 to 512 *per cent*.

Audit observed that though the Company had not achieved turnover targets in three out of five years and the turnover was also in decreasing trend during 2016-21, volume of profit earned during the same period, however, remained almost unchanged. Also the profit earned far exceeded target fixed. This indicated that the targets fixed for turnover and profit were not realistic. Achieving targets for profit without achieving turnover targets requires a relook at strategy of setting targets.

5.3 Status of execution of works

The year-wise positions of receipt and execution of works for the period 2016-21 were as under:

Table 5.2: Receipt and execution of works in OCCL during the period 2016-21

Year	Spill over from previous year		Projects received during the year		Comp-leted (No.)	Value of works executed/ completed (₹ in crore)	Incomp-lete (No.)	Value of incomplete works (₹ in crore)
	No.	Value (₹ in crore)	No.	Value[3] (₹ in crore)				
	a	b	c	d	e	f	g (a+c-e)	h (b+d-f)
2016-17	225	1014.56	70	1412.57	117	874.03	178	1553.10
2017-18	178	1553.1	32	568.92	77	727.83	133	1394.19
2018-19	133	1394.19	58	164.22	47	451.01	144	1107.40
2019-20	144	1107.4	60	438.7	98	521.64	106	1024.46
2020-21	106	1024.46	81	564.01	60	421.69	127	1166.78

(Source: Information furnished by OCCL)

OCCL executed works valued at ₹ 2,996.20 crore during 2016-21. Execution of projects during a year ranged between 27 and 36 *per cent* of the total value of projects available with the Company during the period. The Company completed only 399 (76 *per cent*) out of 526 projects in hand during 2016-21. Of the 127 incomplete projects, works on 21 projects had not started as of March 2021 and 106 projects were under execution. In respect of 54 on-going projects, the delay in completion ranged from seven months to almost eight years as of December 2021. Delay was attributed to reasons such as adverse site conditions (3 projects), pending approvals for Detailed Project Report/ drawing/ design (10 projects), pending forest land clearance (14 projects), non-availability of labour during Covid-19 outbreak (7 projects) and pending land acquisition and rehabilitation of occupants (20 projects).

Of the 21 projects that had not yet commenced, the works did not start for periods ranging from nine months to almost nine years (as of December 2021) due to various reasons, such as adverse site conditions[4] (1 project), pending approval of drawing/ design[5] (4 projects), non-availability of labour during Covid-19 outbreak[6] (10 projects) and other reasons[7] (6 projects).

Audit test checked records of 48 projects, selected on the basis of judgemental sampling and the observations are presented in the following paragraphs.

5.4 Execution of works allotted by DoWR

Works Department, GoO issued (September 2012) guidelines for award of works to be executed through Public Sector Undertakings of the State. As per the procedure, the executing PSU shall prepare cost estimates for government projects on the basis of the prevailing Schedule of Rates (SoR), issued by the Works Department. Further, overhead charges and contractor's profit at a rate of 7.5 *per cent* each of the estimated cost is added, to arrive at the total estimated cost, as per the procedure outlined by the Works Department in October 2013. Thus, the total estimated cost of a project prepared by a PSU comprises material, labour and other expenses as well as overhead charges and

[3] Including revision of value of contracts made subsequently
[4] Nine months
[5] 10 months to 9 years
[6] 9 months to 11 months
[7] 9 months to 12 months

contractor's profit. The PSU shall then put the work to tender for selection of job workers for execution of the work indicating estimated cost of the project. Thus, cost estimates prepared by OCCL influences the price quoted by the job workers.

OCCL is entitled to 10 *per cent* on the value at which it awards work to the job worker towards 'overhead charges' from the DoWR. Thus, for DoWR, cost of a project executed through OCCL, is valued at a cost at which the work is awarded by OCCL to the job worker and 10 *per cent* thereon.

Audit, however, noticed deficiencies in preparation of cost estimate and execution of works through job workers, which resulted in excess expenditure, as discussed in the subsequent paragraphs.

5.4.1 Preparation of estimate

Paragraph 3.4.10 (i) of OPWD Code stipulates that estimate should be prepared on the basis of prevailing SoR and provision for item rates in estimates should be made in an economical manner. Rule 132 of Odisha General Financial Rules (OGFR), also state that for any cause if SoR is not considered sufficient, the deviation should be explained in detail on the estimate showing the manner in which the rate used was arrived at. Audit noticed the following deficiencies in preparation of estimates:

5.4.2 Undue benefit of ₹ 7.72 crore to the contractor due to increase in cost of dredger and pipelines

DoWR proposed (October 2015) execution of the work of "Removal of Shoal in the upstream side of Mahanadi Barrage" by OCCL at a provisional estimated cost of ₹ 222.19 crore for the project. The scope of work included desiltation by dredging river bed by one to seven metres and disposing the silt extracted at a distance of 2.5 km through a pipeline. As the SoR prepared (November 2014) by the Works Department did not include unit cost of dredging, the cost incurred by DoWR for dredging in a previously executed (2014-15) work was taken as the basis for preparing the estimates. Accordingly, the hire charge of dredger and accessories at a rate of ₹ 113.63 per cubic metre (cum) was included in the provisional estimated cost.

As per the guidelines issued by the Works Department in September 2012, OCCL prepared the cost estimate for the work (February 2016) valued at ₹ 298.44 crore. The cost estimate included ₹ 65.96 crore towards hire charges of dredger and accessories, calculated at a rate of ₹ 126.26 per cum as against ₹ 113.63 per cum adopted by the DoWR based on the cost incurred in an earlier work of same nature. Thus, the cost estimate was inflated by ₹ 12.63 per cum for dredging works.

Audit observed that in the absence of rates for hire charges of dredger and accessories in the SoR, DoWR, in pursuance of Rule 132 of OGFR, had adopted (August 2015) dredging charges at ₹ 113.63 per cum on the basis of cost incurred for dredging in an earlier work. OCCL also prepared an estimate for the work in December 2015 taking dredging charges as ₹113.63 per cum. In the revised estimate prepared by OCCL in February 2016, OCCL increased the dredging cost to ₹ 126.26 per cum without mentioning any justification for such increase. Deviation from a reasoned rate without any justification was in violation of the provisions of OGFR and, therefore, arbitrary. The DoWR also accepted (December 2019) the higher rate without seeking any details from OCCL and signed the agreement with OCCL.

OCCL awarded the dredging work as a job work during February 2019 to December 2019 at a tender cost of ₹ 148.93 crore. The job worker executed 55.40 lakh cum as of July 2021 on which an extra expenditure of ₹ 7.72 crore was incurred due to adoption of higher rate for dredging ***(Appendix 5.1)***.

5.4.3 Adoption of uneconomical rate for spreading of dredged materials

As per SoR, 2014, the rate for spreading the dredged materials using dozers with output capacity of 200 cum per hour and 300 cum per hour was ₹ 7.96 and ₹ 7.30 per cum respectively. Thus, use of dozer with output capacity of 300 cum per hour was economical.

Audit noted that OCCL instead of using a higher capacity dozer (300 cum) at lower rates (₹ 7.30 per cum), considered use of 200 cum capacity dozer for preparing the cost estimate of a work "Removal of Shoal in the upstream side of Mahanadi Barrage" and accordingly used the rate of ₹ 7.96 per cum. Based on SoR, it is clear that provision for use of higher capacity machines would have been more economical by ₹ 0.66 per cum. Thus, by using a 200 cum dozer for execution of 38.78 lakh cum of work, OCCL and ultimately the Department, incurred an extra expenditure of ₹ 28.29 lakh.

5.4.4 Undue benefit to contractor of ₹ 1.62 crore due to inclusion of inflated cost in the cost estimate

In case of one test checked Project[8], OCCL incorporated (March 2016) a rate of ₹ 302 per cum towards the work of excavation of soil from approved borrow area including stripping and transporting the same to the project site. Audit noted that the rate provided in the SoR for the same work of excavation was ₹ 272.78 per cum.

Audit noted that OCCL while arriving at the rate of excavation (based on the SoR) for the work, had also included additional cost for stripping in the estimate. This was despite the fact that the rate for excavation included in the SoR was inclusive of stripping charges and no further additions were thus necessary. Further, while the SoR provided a depreciation charge for tyres and tubes at ₹ 9 per hour, OCCL adopted the same as ₹ 24 per hour. As a result, the cost estimate of the work was inflated by ₹ 29.22 per cum.[9]

Based on this inflated estimate, work was awarded to a contractor in June 2016 by OCCL at a tender cost of ₹ 134.71 crore. Due to the inflated estimate, an undue benefit of ₹ 1.62 crore was extended to the contractor (M/s D. D. Builders) for excavation and transportation of 5.63 lakh cum of earth.

The Senior Manager (SM) stated (September 2021) that the cost of stripping of borrow area had not been considered by Audit and depreciation cost of tyres and tubes had been taken as per the prevailing market rate. The reply is not acceptable as the SoR was inclusive of the striping charges. Further, the rate of depreciation fixed at ₹ 9 per hour, as was prevailing at the time of preparation of cost estimate, should have been considered.

[8] Construction of Spillway of Haldia dam in Subarnarekha Irrigation project (HSP 127:04)

[9] ₹ 302.00 - ₹272.78 = ₹ 29.22

5.4.5 Undue benefit of ₹ 1.27 crore to the contractors, due to adoption of higher rate for Z-Type Sheet Pile and Stone

Works Department issued (September, 2012) working procedure for execution of works through PSUs which *inter alia* stipulated that the estimates should be prepared by the PSUs on the basis of prevailing SoR.

In case of three projects allotted by DoWR to OCCL, Audit noticed that the latter had prepared estimates at rates higher than applicable as per the SoR. Tenders for selection of executants for these works were invited on the basis of these increased estimates. As a result, there was an extra expenditure of ₹ 1.27 crore, in cases as discussed below:

i) In respect of "Driving and Fixing of Z-type sheet piles" of two projects[10], the rates adopted by OCCL were excess by ₹ 1,522.57[11] and ₹ 4,340.15[12] of what was mentioned in the SoR. The works were awarded to the contractor during January 2016 to November 2020 at a total cost of ₹ 74.30 lakhs. Inclusion of excess item cost, thus, resulted in extra expenditure of ₹ 98.08 lakh.

The SMs of the Projects stated (October 2021) that prevailing market rate had been adopted for preparing the cost estimate. The fact, however, remained that any rate beyond SoR was not admissible for preparing cost estimates as per the procedures outlined by the Works Department in September 2012.

ii) In another project "Construction of Earth Dam of Deo Irrigation Project from RD 183.50 M to RD 1280.00 M including Right Head Regulator (balance work)", allotted by DoWR, OCCL prepared estimates for stone (including carriage and royalty) at rates higher than those mentioned in the SoR by ₹ 108.22 per cum to ₹ 290.22 per cum. OCCL awarded (July 2014 to May 2015) these works to job workers at these higher rates. Due to provision of higher rates in the estimates, OCCL incurred an extra expenditure of ₹ 29.40 lakh for execution of 10,949.91 cum stone works by the job workers ***(Appendix 5.2)***.

The SM stated that (November 2021) necessary steps would be taken after verifying the estimate and agreement with the contractor.

Audit observed that the procedures outlined by the Works Department in September 2012 for preparing cost estimates had been overlooked by OCCL. As a result, DoWR was made to incur excess expenditure of ₹ 1.27 crore in three works and the job workers of the works were benefitted to that extent.

5.4.6 Provision of excess lead

Para 3.4.16(a)(vii) of the OPWD Code provides that the approved lead is to be provided judiciously for the purpose of estimate.

Audit noticed in four test checked projects in Mayurbhanj district, stone

10 Construction of Instream Barrage across river Baitarani near Saptamatruka Temple in Jajpur District (Right Arm) (CRW 102:28) and Development of Barahapitha on River Baitarani left (JPR 123:17)

11 Rate as per SoR: ₹ 8,241.98; taken in the estimate: ₹ 9,764.55

12 Rate as per SoR: ₹ 8,619.65; taken in the estimate: ₹ 12,959.80

quarries were available at a distance of 20 kms to 85 kms from the work sites as was evident from the District Survey Report on Minor Minerals available on the website of the Mayurbhanj district. Thus, required quantity of quarry for project works could have been sourced from the nearby quarries. OCCL, however, identified another quarry *viz*., Bagudi stone quarry at Soro Block of Balasore district which is situated at a distance of 105 km to 151 km from the work sites, for sourcing stones for the projects. OCCL prepared cost estimates between March 2016 and October 2016 accordingly. Thus, ignoring nearby quarries for sourcing stones, lead was increased by 20 km to 131 km, as explained in **Table 5.3**.

Table 5.3: Calculation for excess lead taken in the estimate and volume of stone used

Sl. No.	Name of the project	Distance from nearby quarry (km)	Distance from quarry taken in the estimate (km)	Excess lead (km)	Volume of stone used (lakh cum)	Excess expenditure incurred (₹ in crore)
1	Construction of Spillway of Haldia Dam	25	130	105	1.13	9.77
2	Construction of Baisingha Feeder-cum-link canal	35	107	72	0.75	4.14
3	Restoration of Subarnarekha Main Canal	20	151	131	0.31	2.69
4	Bank protection on right bank of river Subarnarekha from Berhampur to Tambakhuri	85	105	20	0.56	0.69
Total volume of stones sourced from quarries other than nearby quarries (lakh cum)					**2.75**	**17.29**

(Source: Work records of OCCL and Audit analysis)

Audit noted that the reason for ignoring nearby quarries for sourcing stone products were not documented by OCCL nor was there any evidence in support of the claim that the stone products had indeed been sourced from the distant quarries. Audit observed that provision of excess lead resulted in additional lead charges ranging from ₹ 130 to ₹ 932.50 per cum in the estimates. Based on the inflated estimate, work was awarded to contractors during June 2016 to December 2016 for ₹ 294.46 crore. As a result, transportation of 2.75 lakh cum stone products was undertaken at an extra expenditure of ₹ 17.29 crore ***(Appendix 5.3)***. Due to unjustified excess lead, the job workers were extended undue benefit.

The SM stated (September 2021) that the lead had been ascertained on the basis of the location of nearest quarry and availability of materials. The reply is not acceptable as the District Survey Report on Minor Minerals available on the website of Mayurbhanj district indicated that a nearby quarry namely Jaggannath Khunta quarry at Bangriposi block of Mayurbhanj was active during 2015-16 to 2019-20.

5.5 Award and execution of works through job workers

OCCL executed works projects through job workers or contractors engaged by it. Based on the turnover, works experience, *etc*., of the applicants, they are categorised into four Groups *i.e.*, I to IV[13]. Audit examined the aspects relating

[13] Category I: ₹50 lakh and above, Category II: ₹20 lakh to ₹50 lakh, Category III: ₹5 lakh to ₹20 lakh and Category IV: Less than ₹5 lakh

to award of works to job workers and observations thereon are presented in the succeeding paragraphs.

5.5.1 Avoidable expenditure of ₹ 4.74 crore due to adoption of excess hire charges of machineries for compaction of earth

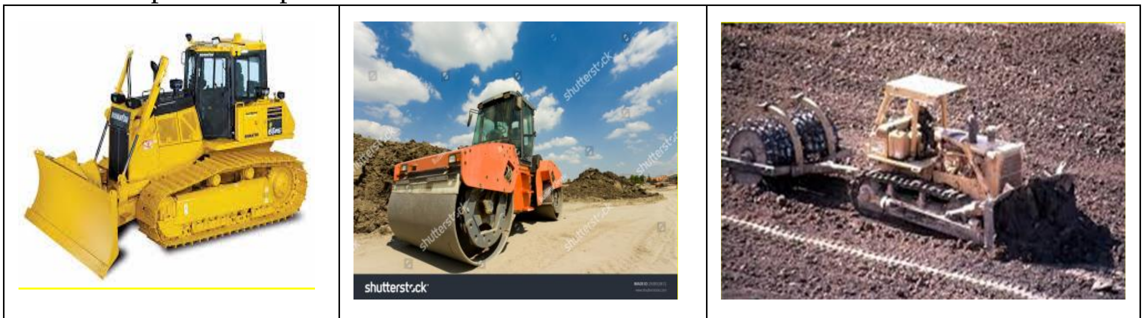
SoR 2014 provided hire charges of one dozer with a capacity of 300 cum per hour, for spreading of earth at ₹ 2,463.50 till 30 June 2017 and ₹ 2,141.79 thereafter. For the same periods, hire charges of one vibratory roller having compaction capacity of 100 cum per hour were ₹ 994 and ₹ 864.35 respectively.

Audit noticed in the cost estimates of six test checked projects prepared during February 2014 to June 2021, that OCCL had considered capacity of dozer and vibratory roller at 100 cum per hour each. The reason attributed by the Company for considering capacity of both the machines as 100 cum per hour was that the machines worked in tandem.

The rate prescribed in the SoR for 300 cum outturn capacity dozer was ₹ 2,463.50/ ₹ 2,141.79 per hour. SoR, however, did not prescribe any rate for 100 cum outturn capacity dozer. Thus, one-third of the rate prescribed for 300 cum dozer should have been taken in the estimate. As proportional reduction was not done, the compaction charges got increased by ₹ 4.74 crore *(**Appendix 5.4**)*.

The SMs stated (September 2021) that the works involved simultaneous spreading of earth using dozer and compacting the same by vibratory roller. It was added that the machineries should be operated in tandem. Therefore, hire charges of dozer were not reduced proportionately. It was also stated that had the dozer been used only for spreading earth, the hire charges could have been reduced proportionately.

The reply is not acceptable because dozer and roller work in tandem only when a particular type of roller *i.e.*, Sheep Foot Roller is used, as shown in the representational image below. However, in these works, vibratory roller had been used instead, as confirmed in the reply, which works independent of the dozer. Since both the machineries work independently, rate as per their respective capacities should have been taken in the cost estimate.



L to R: 1. Dozer, 2. Vibratory roller (used in the work) and 3. Dozer and Sheep Foot Roller working in tandem

5.5.2 Excess payment of ₹ 2.72 crore due to inclusion of contractor's profit on cement

As per OPWD Code 3.4.1 read with the instructions of the Works Department issued in September 2012 and October 2013, estimate of a work is prepared on the basis of quantity of material to be used and rates of those materials as prescribed in SoR. The estimated cost includes overhead charges and contractor's profit at the rate of 7.5 *per cent* each.

Audit noted that in projects where OCCL would supply material to the job worker, overhead charges and contractor's profit on the value of such material so supplied is not admissible to the job worker. Accordingly, OCCL had not paid overhead charges and contractor's profit to the job worker in case of a test checked project[14], executed during 2017-21.

In two test checked Projects[15] under execution since 2015-16 through one job worker, Audit noticed that the agreements with the job worker stated that OCCL would provide cement as per the requirement of the Cement Concrete (CC) works. Thus, the job worker was not entitled to overhead charges and contractor's profit on the value of cement to be provided by OCCL. Contrary to this, OCCL included ₹ 620 per quintal towards cement cost and ₹ 46.50 towards contractor's profit thereon and deducted ₹ 620 only towards cement cost to derive final rate of CC works. As a result, ₹ 46.50 per quintal towards contractor's profit on cement was allowed to the contractor irregularly. On execution of above work, 5,84,328.65 quintals of cement was used as of October 2021, on which a sum of ₹ 2.72 crore towards contractor's profit was paid to the contractor (M/s D.D. Builders), which was irregular.

The SM assured (November 2021) to take necessary steps after verifying the estimate and agreement with the contractor.

5.5.3 Undue benefit of ₹ 5.61 crore to contractors due to payment of inadmissible conveyance charges on stones issued from the work-site itself

The Tender Committee of the DoWR, while examining the offer of OCCL for the work of Construction of Earth Dam of Deo Irrigation Project decided (November 2012) that cost of useful stones obtained from excavation shall be recovered at ₹ 195 per cum. DoWR awarded (December 2012) the above-mentioned work to OCCL as two projects [16]. OCCL entered into agreements with two job workers (during July 2014 to January 2016) in respect of these two projects for execution of the works. As per the terms of the agreements, excavated hard rock would be dumped by the executing contractor in the dumping yard situated within the work sites and the ownership of excavated hard rock would be with OCCL. The agreements further provided that the usable excavated hard rock shall be issued to the job workers, if required, at the issue rate, as would be fixed by the Department *i.e.*, DoWR. Further, as per the terms of the agreement, the job workers would be paid cost of hard rock at

[14] Excavation of Narasinghpur branch canal under SM, OCCL, Dhenkanal

[15] Construction of spillway, left head Regulator and Earth Dam portion from RD0.00M to RD183.50M of Deo Irrigation Project (Balance work) (DES 119:04) and Construction of Earth Dam of Deo irrigation from RD183.50M to RD1280.00M including Right Head Regulator (Balance work) (DED 118:04)

[16] (i) Supply of labour, production/ supply of construction materials & hire and running charges of machineries for construction of Spillway, left Head Regulator and Earth Dam portion from RD 0.00 M to RD 183.50 M of Deo Irrigation Project (balance work) (Reach-IX) (DES 119:04) and – (ii) Supply of labour, production/ supply of construction materials & hire and running charges of machineries for construction of Earth Dam of Deo Irrigation Project from RD 183.50M to RD 1280.00M (Balance Work) (DED 118:04)

a rate of ₹ 900 per cum including transportation charges for a distance of 31 km to bring them to the work site.

Audit noticed that DoWR fixed issue rate of the excavated hard rock at ₹ 195 per cum. The job workers were issued 1.42 lakh cum usable excavated hard rock and a sum of ₹ 2.76 crore was deducted from their RA bills as of June 2021. Entire quantity of issued hard rocks was used in the works by the job workers and they were paid the agreed rate of ₹ 900 per cum.

Audit observed that:

- There was a wide variance of ₹ 705 per cum between the issue rate of hard rock (₹ 195 per cum) and supply rate as per the agreement (₹ 900 per cum). In absence of basis for arriving at the issue rate and supply rate, Audit could not vouchsafe reasonableness of the rates thus adopted by OCCL.
- The agreed supply rate of ₹ 900 per cum was inclusive of ₹ 395.60 per cum[17] towards transportation cost for 31 km. Since 1.42 lakh cum of hard rock excavated from the work sites were used by the job workers in the same works, there was no involvement of lead. Therefore, agreed rate should have been reduced accordingly for the quantity of hard rock used in the works.

Thus, due to allowing inadmissible transportation cost on the quantum of stones issued from the work site itself, the job workers were extended an undue benefit of ₹ 5.61 crore[18].

The SM while accepting the Audit observation stated (November 2021) that the excavated hard rocks were stacked at a distance of one kilometre from the work site from where the job workers transported the same to the work site as and when required and therefore, transportation charges at a rate of ₹ 156.40 per cum, as per the SoR was payable. The fact remains that excess payment made at a rate of ₹ 239.20 per cum amounting to ₹ 3.39 crore had not been recovered.

5.6 Contract Management

The works allotted by DoWR or received through open tender by OCCL are executed through the enlisted job workers. Profitability of the Company largely depends upon the economy and efficiency achieved in execution through the job workers. The Company is, thus, a principal contractor who remains responsible for any issues arising with regard to quality and quantity of executed works. Audit noticed the following deficiencies in management of contracts entered into with the job workers.

5.6.1 Poor execution of works by job worker

OCCL awarded (December 2017) a work[19] to a job worker (M/s Guru Maharaj Engicon Pvt. Ltd.) for ₹ 95.34 crore. The scope of the work included, *inter*

17 @ ₹156.40 for first 5 kms then @ ₹9.20 per km for 26 kms (Schedule of Rates 2014)

18 Conveyance cost for 141823.906 cum stone

19 Driving of two rows of Z-type of steel sheet piles and tying with 50 mm diameter tie bar welding with flange along with construction of bank protection from RD 600M to RD 2100 M & Bathing Ghat of 400 M length at right side upstream of Mahanadi Barrage (JFP 117:22)

alia, supply of 6,267 numbers of GI crates and stitching and tying of the same filled with granite stones for protection of river bank. The agreed rate for such work was ₹ 1,607 per GI crate.

- Audit noted that the job worker had been paid ₹ 38.69 lakh for supplying, stitching and tying of 2,408 numbers of GI crates as of June 2021. Audit conducted (18 August 2021) a Joint Physical Inspection (JPI) of the site along with the SM of the concerned project *i.e.*, Mahanadi-Birupa Group of Projects, Cuttack. In the JPI, it was observed that the GI crates were damaged and boulders were washed into the river, even while the bank protection work was still ongoing, as against the stipulated date of completion by February 2021.

Unstitched and untied GI crates

  Due to poor execution of the work the objective of bank protection work was not only defeated but also the expenditure of ₹ 38.69 lakh was rendered wasteful.

- The scope of work also included painting of two coats of black anti-corrosive paints over surface area of 32,722.80 sqm at a rate of ₹ 178 per sqm. Audit noted that a sum of ₹ 58.20 lakh had been paid to the job worker for painting 32,694.19 sqm as of June 2021. In the JPI, conducted on 18 August 2021, Audit observed that exposed part of the sheet piles spreading over 2.76 kilometers were rusted and only light traces of paint were found with only two months of the work reported to have been executed. Further, the piling work had not yet been completed despite stipulated completion date of February 2021. However, the full amount of ₹58.20 lakh had been paid to the job workers.

Rusted sheet piles with fainted paintings

5.6.2 Premature release of defect liability amount to the job worker

The terms of the agreement (February 2019) entered into by OCCL with the job worker for execution of a project[20] envisaged, *inter alia,* that job worker would be paid 90 *per cent* of the total cost after completion of the work in all

[20] Construction of canal lining of Rengali Right Canal in two difficult patches of 630 M length (from 68.200 km to 68.450 km & from 72.730 km to 73.110 km) by using Cementious Composite Geo Tex Carpet (CCGC) technology (DKL 30:52)

respects and the balance 10 *per cent* after defect liability period of five years from the date of the completion of the work.

Audit noted that the work for canal lining by using cementious composite geo tex carpet was completed in all respects in June 2020 with an expenditure of ₹ 3.52 crore. However, the job worker was paid full amount on 30 June 2020 without retaining 10 *per cent* towards defect liability amounting to ₹ 35.23 lakh. Non-retention of amount towards defect liability indicated lack of Company's control over the contractor to safeguard the constructed structure from occurrence of any future defects. Further, the Company also deprived itself from earning potential interest of ₹ 1.30 lakh (at a rate of 2.70 *per cent* simple interest) as of October 2021.

Accepting the fact, the SM stated (November 2021) that security deposit of ₹ 17.60 lakh deducted from the bills of the contractors at a rate of 5 *per cent* would be retained till completion of defect liability period. The fact, however, remained that the defect liability remained uncovered to the extent of remaining ₹ 17.63 lakh.

5.7 Funds management for construction projects

The Company has finalised its annual accounts up to 2019-20 and prepared provisional accounts for the year 2020-21. The summarised working results of the Company for the years from 2016-17 to 2020-21 are shown in **Table 5.4** below:

Table 5.4: Summarised working results of OCCL for the period 2016-21

(₹ in crore)

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21 (Unaudited)
A. Income					
Revenue from operation	867.46	763.35	470.45	474.22	408.40
Other receipts	34.12	38.74	46.39	51.93	42.18
Total-A	901.58	802.09	516.84	526.15	450.58
B. Expenditure					
Works expenses	102.02	67.37	35.51	20.23	32.34
Employees cost	38.04	40.76	33.11	37.12	34.46
Depreciation and other expenses	707.30	589.78	370.86	392.49	329.33
Total-B	847.36	697.91	439.48	449.84	396.13
C. Profit for the year (A-B)	54.21	104.18	77.36	76.31	54.45

(Source: Financial Statements of OCCL for the years 2016 - 2021)

It would be observed that due to lower allotment of works and inability to secure tenders, the revenue from operations decreased from ₹ 867.46 crore in 2016-17 to ₹ 408.40 crore in 2020-21 and at the same time other receipts increased from ₹ 34.12 crore to ₹ 42.18 crore. Other receipts comprised interest earned from term deposits, security deposits with DoWR, *etc*. and made up 4 to 10 *per cent* of the total income during 2016-21.

Audit noticed the following lapses in funds management by the Company.

5.7.1 Non-recovery of work advances

As per OPWD code 3.7.21 (Vol.I) advances to contractors are as a rule prohibited, and every endeavour should be made to maintain a system under which no payment is made except for work actually done.

Audit noted that a sum of ₹ 34.20 crore were given as advances to the job workers relating to 203 projects and were lying outstanding/ unadjusted as of March 2021 for more than 12 months. In case of a sample project[21], OCCL engaged (March 2008) a job worker to execute the Right Flank of Earth Dam from RD 650 to 1200 m. The job worker, after executing works valuing ₹ 4.41 crore had left the work (March 2018). As per the accounts of the SM of the project, advances amounting to ₹ 1.64 crore[22] were outstanding against the job worker. The left-over work was carried out by another job worker of the project, who had agreed to assume the liabilities, if any, arising out of the previous contract. Despite this, OCCL adjusted only ₹ 1.07 crore out of the outstanding advances of ₹ 1.64 crore from the bills of the job workers, leaving balance of ₹ 57.17 lakh unrealised[23] as of March 2021. The work has been completed since 2018-19.

Accepting the fact, the SM (December 2021) assured to recover the balance amount of advance from the subsequent bills of the second job worker. However, the fact indicated mismanagement in adjustment of outstanding advances against the job workers.

5.7.2 Outstanding advances against suppliers: ₹ 3.66 crore

OCCL follows provisions in the Odisha Public Works Department (OPWD) Code, issued by the Works Department, GoO on matters relating to works executed by it. Para 3.7.21 of the OPWD Code (Vol-I) prohibits sanction of advances to contractors except in exceptional cases where Divisional Officer may sanction advances up to an amount not exceeding 75 *per cent* of the value of such materials of imperishable nature and when a formal agreement is drawn up with the contractor under which Government secures a lien on the materials and is safeguarded against losses. Recoveries of advances so made must not be postponed until the whole of the work entrusted to the contractor is completed.

Audit noted that as of March, 2021, advances of ₹ 3.66 crore relating to 138 works remained outstanding against suppliers for more than 12 months. This included advances of ₹ 1.10 crore pertaining to 78 projects which have already been completed and the project offices have also been closed. Thus, chances of recovery are remote.

In test checked projects, Audit scrutiny revealed that as of 31 March 2021, an amount of ₹ 2.43 lakh remained pending against eight suppliers of cement, steel, other materials/ services, *etc*., for more than 2 to 10 years. Audit observed that since purchase orders were placed by SMs, it was the responsibility of the latter to monitor cases of outstanding advances. However, there was complete failure on the part of these Managers of the concerned projects in correctly monitoring and adjusting the advance amounts from bills of the suppliers as per the codal provisions leading to non-realisation of dues.

The SMs of the projects concerned assured (November and December 2021) of recovering the amount.

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[21] Construction of earth dam of Telengiri Irrigation Project

[22] Advances against Store- ₹ 85.38 lakh + Cash Advance- ₹ 78.99 lakh

[23] Advances against Store -₹ 55,24,099 + Cash Advance- 1,92,929

5.7.3 Outstanding advances against staff - ₹ 3.53 crore

The Company framed (July 1997) guidelines to deal with amounts in the form of advances lying with its own employees. It was stated therein that no staff/ officer on deputation to the Company would be relieved unless the advance amount is fully adjusted. In case, such staff/ officer is relieved, the amount of advance shall be reflected in his/ her Last Pay Certificate (LPC). The guidelines were, however, silent on modality of recovering advance reflected in the LPC.

Audit noted that advances amounting to ₹ 3.53 crore against 446 staff/ officers (both on deputation and own staff) were lying outstanding as of March 2021. Of this, a sum of ₹ 3.34 crore was outstanding against 333 staff/ officers[24] who had either expired, left service, retired, *etc*. As OCCL did not have a centralised database that would indicate purpose and age of advances and correlate these to employment status of the personnel, the adjustment of advances could not be duly monitored and a significant amount remained outstanding.

5.7.4 Loss due to non-conversion of performance securities into interest bearing deposits - ₹ 78.64 lakh

In respect of works allotted by DoWR, an amount at the rate of two *per cent* of the value of the Running Account (RA) bill is deducted by DoWR from the RA bills of OCCL towards Performance Security (PS). Upon completion of work, the amount towards PS along with interest, if any, is refunded to OCCL. DoWR, in January 1998, decided to park the amount deducted towards PS in interest bearing term deposits. The objective of such a decision was to allow OCCL to earn interest on PS deposited with DoWR.

Audit noted that an amount of ₹ 27.13 crore towards PS was deposited in interest bearing term deposits as of March 2021. However, a sum of ₹ 41.88 crore deducted from RA bill of the Company had not been deposited in interest bearing deposits for more than 12 months, as of March 2021. In 48 test checked works, Audit reviewed information furnished by the Senior Managers (SM) and noticed that PS of ₹ 6.60 crore relating to seven works was retained by DoWR in government accounts without being converted or partially converted to interest bearing deposits even after lapse of one to 90 months as of March 2021.

The permission to convert the PSs deducted from different running bills of OCCL to interest bearing deposits in the shape of Term Deposit Receipt/ Special Term Deposit Receipt (TDR/ STDR) are given by Divisional Officers. In this regard, Audit noted that although concerned SMs had requested the Divisional Officers of DoWR time and again to allow for such conversions, no response from those Officers was received as of March 2021, resulting in loss of interest of ₹ 78.46 lakh[25] to the Company**.**

This issue was also not addressed by the Managing Director or by the Board of Directors in their meetings during the period 2016-21. Despite the fact that the

[24] Retired: 300, Left service: 15, Deputationists repatriated to their parent departments: 13, Expired: 1, Suspended: 2 and Absconded: 2

[25] Calculated at the annum interest rate of four *per cent* up to 2019-20 and at 2.7 *per cent* for 2020-21

Principal Secretary, DoWR was the Chairperson of the Company, the issue of non-conversion of PS into interest bearing deposits had not been resolved. As a result of inaction on this matter, the profitability of the Company at the project level as well as overall profits of OCCL were adversely impacted.

5.8 Asset Management

5.8.1 Non-implementation of Asset Management System

In order to ascertain physical status and location of assets lying at different Project Offices as well as at Corporate Office, OCCL engaged (2 May 2014) a private firm *viz*., M/s TMC Solutions (P) Limited (TMC) for physical verification of assets and preparation of a fixed asset register for the period ending March 2014 as well as supply and installation of a web-based asset management system *viz*., Total Asset Management Solutions for a price of ₹ 7.08 lakh inclusive of service tax.

The Financial Adviser-cum-Chief Accounts Officer certified (January 2017) that the web-based asset management system had been installed[26]. The firm was paid (August 2016 and January 2017) full payment of ₹ 7.22 lakh (including service tax). In this context, Audit observed the following:

- The asset management software had been installed in the server of the vendor only but not in the server of OCCL where it was required for functional purposes. The software was therefore, not accessible to the Company and hence, remained unusable. Despite this, full payment was released to M/s TMC. Release of full payment without ensuring proper receipt of the software indicated inherent financial control lapses of the Company.
- Audit further noted that M/s TMC in its report submitted on 18 April, 2015 noted that while gross value of assets as per the books of accounts (as of March 2014) stood at ₹ 31.88 crore, the same as per the physical verification stood at a lower figure of ₹ 28.10 crore, leading to a discrepancy of ₹ 3.52 crore.
- The Audit Committee of OCCL directed the Company's management (29 July 2016) to reconcile the unmatched assets valued ₹ 3.52 crore, but the same had not been done as of March 2020. Thus, the Company continued to finalise its asset value based only on its unreconciled book data. Reconciliation for missing assets was not conducted, resulting in material non-compliance with the Company's Audit Committee recommendations. Thus, despite directions from the Audit Committee and expenditure of ₹ 7.22 lakh, the Asset Management System was not implemented, as of December 2021. Reply from the Company is awaited.

5.8.2 Loss due to non-revision of hire rates of machineries

OCCL lets out tools, plant and machineries, vehicles, *etc*. to job workers at rates approved by the Board of Directors.

Audit test-checked the Machinery Hire Charge book/ register maintained at Central Store and Machinery Project of OCCL and noticed that hiring charges

[26] http://demo.urinternational.com/AMS_occ/modules/central/FmsMainFrame.html

levied for different machineries were based on rates approved by the Company during January 2010 to May 2014, without any further revision. However, in comparison, during the same period, based on enhancement of labour cost and market rates, the Works Department, GoO had revised its SoR four times. Audit further observed that nomenclature of eight numbers of machineries/ vehicles belonging to the Company was the same as items prescribed in SoR, 2014 published by the Works Department. Audit compared the rental rates levied by OCCL with those of SoR, 2014 for these eight machineries/ vehicles and noticed that the prevailing hiring charge rates of the Company were less than those fixed in the SoR by 21 to 78 *per cent*.

Non-revision of hire charges by the Company and use of lower rates for letting out these eight types of machineries, resulted in loss of ₹ 82.79 lakhs to the Company during the last five years ***(Appendix 5.5).***

5.9 Monitoring and Internal Control

5.9.1 Deficiencies in the internal control mechanism

As per Section 143 of the Companies Act 2013, every Company should adopt internal financial controls which are commensurate with the scale, size and nature of operations. The internal financial controls are intended to prevent material misstatements in the accounts of the Company as well as to protect the financial interest of the Company.

Audit reviewed the internal financial controls adopted by the Company and noticed significant deficiencies, which have also been highlighted by the Statutory Auditors of the Company for the accounting periods 2018-19 and 2019-20.

- Differences between book balance and physical balance for Fixed Assets of the Company had not been reconciled, as mentioned at ***Paragraph 5.8.1***. Fixed Assets had not been allotted unique IDs and affixed with marks to enable physical control.

- The Company had not maintained party-wise, period-wise details of payables (such as amounts withheld from contractors and suppliers) in the accounts for several years even in case of defunct/ closed projects.

- The Company had not maintained project-wise, period-wise details of receivables (such as Performance Security withheld by Client Departments) that it has accounted for, with amounts rolling over in the accounts for several years even in case of defunct/ closed projects. As a result, there is no assurance on the completeness and correctness of the amounts receivable by the Company. The Company had not reviewed each instance of receivables and made provisions for doubtful debts, resulting in non-compliance with its own Accounting Policy as well as the applicable Accounting Standard.

- Obsolete/ unserviceable stock and stores at project sites had not been disposed-off or utilised, even in case of defunct/ closed projects.

- The Company had not maintained project-wise, period-wise details of Term Deposits at Banks along with Bank Balance Confirmation Certificates. Bank Guarantee Register had also not been maintained, with details of beneficiaries to whom Bank Guarantees had been sanctioned by the Company.

- The Company did not have adequate controls to derive assurance on completeness of revenue recognised as interest income, since reconciliation with Form 26 AS of Income Tax has not been carried out.

There were serious deficiencies in internal control system which indicated that adequate measures did not exist to safeguard financial interests of the Company. An instance of misappropriation of funds involving an amount of ₹ 3.10 crore by a Senior Manager of the Company had been detected in the Internal Audit of the Company during 2018-19. FIR had been lodged by the Company and the matter was under investigation as of March 2021. In view of the significant deficiencies in internal controls, the Statutory Auditors issued a Qualified Opinion on the accounts of the Company for 2018-19 and 2019-20.

5.9.2 Non appointment of dedicated Central Vigilance Officer

The Corporate Governance Manual (CGM) on State PSUs required appointment of a Central Vigilance Officer (CVO) in exclusive charge of all aspects of vigilance. The functions of CVO included preventive and punitive vigilance. Under the Whistle Blower Policy specified in the CGM, the CVO should also function as the Compliance Officer to alert the Management of any issues which indicate violation of laws or ethical standards.

Audit noted that the Company had not appointed a dedicated CVO. Instead, the General Manager (Civil) at the Corporate Office was given the additional charge as CVO. Audit also observed that three vigilance cases were initiated by the Company during June 2018 to June 2020 and had remained pending as of December 2021. Also, there was no formal mechanism or prescribed procedure to register receipt and disposal of concerns/ questions received by the Compliance Officer, under the Whistle Blower Policy.

In view of the size and scale of operations of the Company and the inherent risks associated with the nature of operations of the Company, Audit is of the view that appointment of a dedicated CVO is an essential internal control.

5.10 Conclusion and Recommendations

5.10.1 Conclusion

The Company has not prepared Corporate Plan and Annual Plans, resulting in non-compliance with the provisions of the Corporate Governance Manual for State PSUs. Due to the absence of these Plan documents, the long term business strategy of OCCL, achievement against identified targets, fulfilment of the mandate of the Company, *etc.*, remain unclear and unspecified. Security Deposits to the tune of ₹ 41.88 crore deducted from running bills of the Company had not been converted into interest bearing security deposits for more than 12 months as of March 2021. Outstanding advances of ₹ 3.53 crore to staff and ₹ 3.66 crore to suppliers had not been adjusted for more than 12 months, as of March 2021.

Instances of inflated cost estimates of projects prepared by Company were noticed in audit. Since the Company invites tenders for selection of job workers, bid prices tended to be higher resulting in higher project cost and consequential excess expenditure burden on DoWR and also undue benefit to the job workers. The Company had not implemented an Asset Management System as of December 2021, even though the Audit Committee of the BoD had recommended its implementation in March 2014.

The Company had significant deficiencies in its internal control mechanism, which has resulted in issue of Qualified Opinion by the Statutory Auditors on its accounts for 2018-19 and 2019-20. The internal controls adopted by the Company are not commensurate with the size, scale and nature of operations.

5.10.2 Recommendations

It is recommended to:

- ✓ prepare a Corporate plan along with detailed annual plans as outlined in the Corporate Governance Manual.
- ✓ prepare cost estimates as per the applicable Schedule of Rates issued by the Works Department of the State from time to time.
- ✓ expedite approvals required at the level of DoWR for conversion of all security deposits into interest bearing term deposits in order to strengthen the financial management of OCCL.
- ✓ recover/ adjust outstanding advances with staff and suppliers.
- ✓ make functional, the asset management system and revise hire charges of machinery periodically in line with revisions of the SoR.
- ✓ strengthen Internal Control System to act upon the error signals raised either by the DoWR, BoD, Statutory Auditors, *etc*.

Bhubaneswar
The 11 JUL 2022

(RAJ KUMAR)

Principal Accountant General (Audit-I)
Odisha

Countersigned

New Delhi
The 22 JUL 2022

(GIRISH CHANDRA MURMU)

Comptroller and Auditor General of India