

CHAPTER–VI
Performance Audit on the Working
of Uttar Pradesh Rajkiya Nirman
Nigam Limited

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Uttar Pradesh Rajkiya Nirman Nigam Limited, incorporated in May 1975, is managed by a 10-member Board of Directors including a Chairman and Managing Director. The performance audit, covering the period from 2018-19 to 2022-23, evaluated financial management, operational planning, execution of operations, internal controls, and monitoring mechanisms of the Company.

The main source of funds was the amount received from clients against deposit works. The Company operated without a budget during 2019-20 to 2021-22. Audit observed irregularities, including expenditure of ₹ 65.80 crore in excess of funds received, non-refund of unspent balances of ₹ 1.65 crore, interest of ₹ 641.45 crore earned on Government funds credited only in the Government's ledger account but not deposited into the Treasury, and interest of ₹ 7.47 crore on mobilisation advances retained as Company income.

The Company's order book decreased substantially due to Government of Uttar Pradesh's withdrawal of award of deposit works above ₹ 50 crore on nomination basis in December 2019. It also lost tender works valuing ₹ 1,354.11 crore, due to inadequate documentation and blacklisting. Project planning was weak, with absence of scheduled completion dates/milestones, and commencement of works without technical sanctions and environmental clearances.

Tendering and execution processes were deficient, with inadequate time for bid submission, irregular subletting of works, irregular release of advances to sub-contractors, short recovery of interest on mobilisation advances, non-recovery of Workers' Welfare Cess, non-procurement of materials/services through Government e-marketplace (GeM), and execution of additional works without client approval.

Internal controls were weak, and monitoring was deficient. The financial statements of the Company were in arrears for seven years (2016-17 to 2022-23), and annual reports were not laid before the State Legislature since 2000-01. The corporate governance practices were inadequate, with no independent directors, statutory committees not constituted, and regular board meetings not conducted. Project monitoring and controls were weak, resulting in additional burden of ₹ 165.72 crore due to financial irregularities in deposit works, and payments of ₹ 31.72 crore for unexecuted work.

About the Company

6.1 Uttar Pradesh Rajkiya Nirman Nigam Limited (Company) was incorporated on 1 May 1975 as a State-owned construction undertaking with a view to undertake civil engineering works. The Company also aimed to execute these works directly and, as far as possible, eliminate the involvement of contractors and sub-contractors, thereby ensuring speedy construction with quality and economy. The main objectives of the Company are:

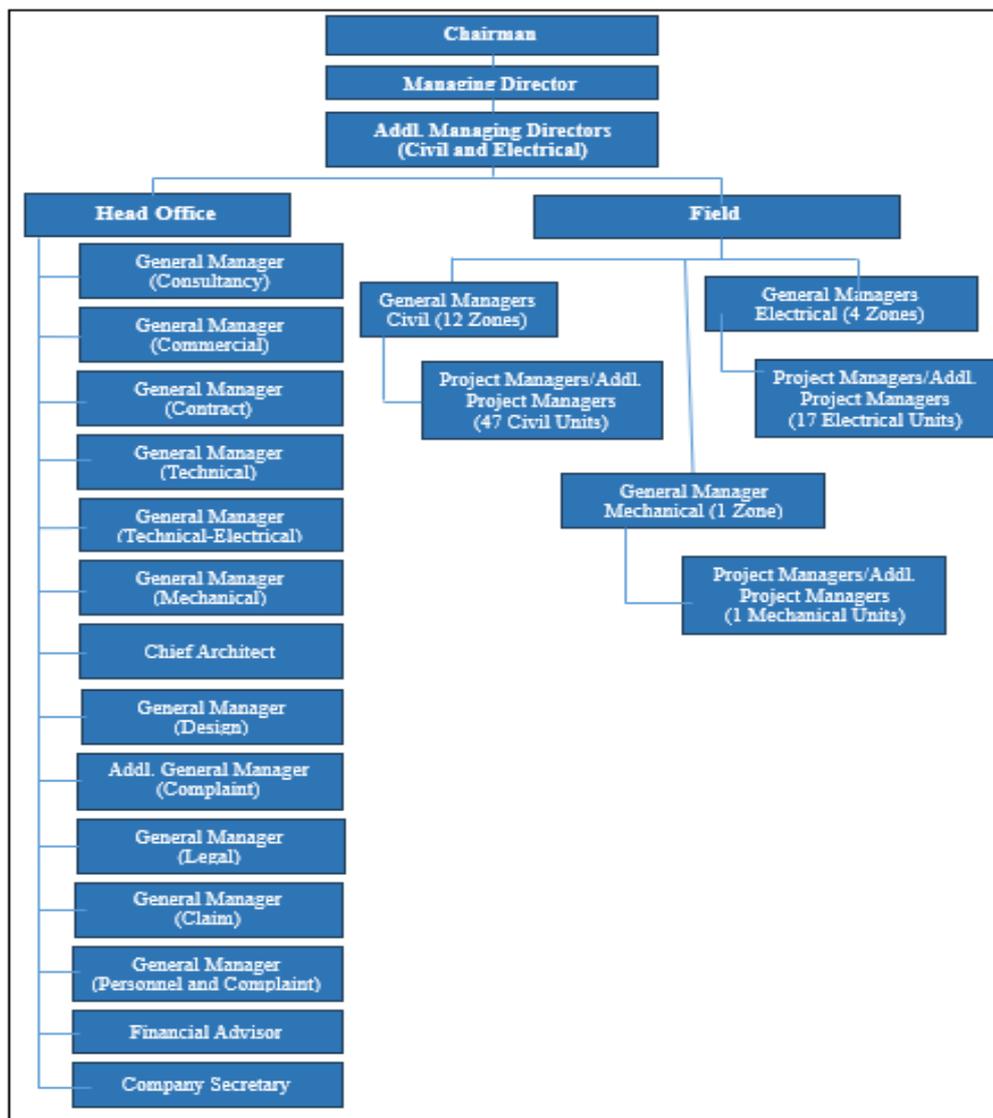
- To undertake works of civil, mechanical, electrical, sanitary, and water engineering, to carry out construction, maintenance, and improvement of roads and buildings of all kinds, and barrages, dams, aqueducts, bridges, culverts, tunnels, railway-related works, airports, rope-ways, electrical and its allied activity and it includes power plants, Sewerage Treatment Plant (STP), Effluent Treatment Plant (ETP), electric sub-stations including transformer, solar power plants and their maintenance, to provide project management consultancy services, township planning, village planning, malls, resorts, commercial complexes, amusement and entertainment parks, construction of memorials, seaports and waterways works, housing schemes and to do all activities incidental to such business activity, and installation and maintenance of solar panels, solar energy and its allied activities and sanitary installations.
- To manufacture, buy, sell, install, work, alter, improve, manipulate or otherwise deal in all kinds of bricks, tiles, earthenware, cement, stone, sand, hardware and other building materials, equipment, tools, electrical items, and machinery, *etc.*, and irrigation-related activities, *etc.*
- To purchase, take on lease or otherwise, take over any roads and buildings owned by the State Government for the purpose of construction, maintenance or management thereof and rendering project management consultancy. To carry out various CSR activities of other public sector units and companies.

Organisational set-up

6.2 The Management of the Company is vested in a Board of Directors comprising 10 Directors, including a Chairman and a Managing Director. The Managing Director of the Company is assisted by two Additional Managing Directors, a Financial Advisor (FA), a Chief Architect, a Company Secretary, and 10 General Managers (GMs) and one Additional General Manager at the Head Office. At the field level, the Managing Director is assisted by 17 General Managers who supervise 65 field units headed by Project Managers/Additional Project Managers.

The organogram of the Company is given in **Chart 6.1**.

Chart 6.1: Organogram of the Company



Source: Information furnished by the Company as on March 2023

Status of manpower

6.3 An organisation's ability to effectively carry out its operations and achieve organisational objectives is contingent upon having an adequate and skilled workforce in position across various functions and levels.

The details of sanctioned strength *vis-à-vis* men-in-position in different employee categories from 2018-19 to 2022-23 are given in **Table 6.1**.

Table 6.1: Details of category-wise sanctioned strength and men-in-position

Category	Sanctioned strength	Men-in-position				
		2018-19	2019-20	2020-21	2021-22	2022-23
Group A	391	229 (59%)	210 (54%)	199 (51%)	174 (45%)	147 (38%)
Group B	431	293 (68%)	283 (66%)	252 (58%)	270 (63%)	261 (61%)
Group C	1183	722 (61%)	709 (60%)	645 (55%)	588 (50%)	547 (46%)
Group D	96	145 (151%)	145 (151%)	157 (164%)	169 (176%)	168 (175%)
Total	2101	1,389 (66%)	1,347 (64 %)	1,253 (60%)	1,201 (57%)	1,123 (53%)

Source: Information furnished by the Company

As is evident from **Table 6.1**, the overall men-in-position ranged from 53 per cent to 66 per cent of the total sanctioned strength during the period from 2018-19 to 2022-23, indicating a significant gap between the approved workforce and the actual employees on rolls. Except for the Group D category, which was in excess of the sanctioned strength, the gap between sanctioned strength and actual men-in-position for other categories has widened over the years, indicating inefficient workforce planning, challenges in fulfilling workforce requirements, and potential adverse impact on the Company's operational capabilities.

Financial position and working results

6.4 The financial position and working results of the Company as per the unaudited financial statements for the period 2018-19 to 2022-23 are summarised in **Tables 6.2** and **6.3**.

Table 6.2: Financial position of the Company during the period 2018-19 to 2022-23

(₹ in crore)						
Sl. No.	Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
(A) Liabilities						
1.	Share Capital	1.00	1.00	1.00	1.00	1.00
2.	Reserves and Surplus	1,607.48	1,646.43	1,684.18	1,721.20	1,753.63
3.	Non-Current Liabilities	2,380.08	2,179.66	182.80	15.26	165.92
4.	Current Liabilities	6,119.40	5,445.58	5,959.85	8,640.62	9,953.44
Total Liabilities (A)		10,107.96	9,272.67	7,827.83	10,378.08	11,873.99
(B) Assets						
5.	Property, Plant, and Equipment	68.33	65.88	64.09	53.71	46.75
6.	Intangible Assets	--	--	--	0.17	0.20
7.	Capital Work-in-Progress	--	--	--	--	11.84
8.	Deferred Tax Assets	3.64	4.26	4.14	1.09	1.75
9.	Long-Term Loans and Advances	2,419.93	2,209.09	215.65	62.02	169.48
10.	Current Assets	7,616.06	6,993.44	7,543.95	10,261.09	11,643.97
Total Assets (B)		10,107.96	9,272.67	7,827.83	10,378.08	11,873.99

Source: Unaudited financial statements of the Company

An analysis of the financial position of the Company during the period 2018-19 to 2022-23 revealed the following:

- Share Capital has remained constant at ₹ one crore across all the years from 2018-19 to 2022-23, signifying no change in the Company's paid-up equity share capital.
- Reserves and Surplus have shown a consistent increase year-over-year, growing from ₹ 1,607.48 crore in 2018-19 to ₹ 1,753.63 crore in 2022-23. This suggests that the Company has been profitable and has been retaining its earnings to build up its reserves.
- Non-Current Liabilities and Long-Term Loans and Advances have fluctuated significantly. Non-Current Liabilities decreased from ₹ 2,380.08 crore in 2018-19 to ₹ 15.26 crore in 2021-22 but increased to ₹ 165.92 crore in 2022-23. Similarly, Long-Term Loans and Advances decreased from ₹ 2,419.93 crore in 2018-19 to ₹ 62.02 crore in 2021-22 but increased to ₹ 169.48 crore in 2022-23. The significant decrease in Non-Current Liabilities and Long-Term Loans and Advances during 2020-21 and 2021-22 was due to the pre-payment of the loan obtained by the Company from Housing and Urban Development Corporation Limited (HUDCO) on

behalf of the State Government. The sudden increase in Non-Current Liabilities from ₹ 15.26 crore to ₹ 165.92 crore during the year 2022-23 was due to an increase in provision for incomplete works.

- Current Liabilities have shown an increasing trend, rising from ₹ 6,119.40 crore in 2018-19 to ₹ 9,953.44 crore in 2022-23.
- Property, Plant, and Equipment have remained relatively stable, with a slight decrease from ₹ 68.34 crore in 2018-19 to ₹ 46.75 crore in 2022-23, indicating that the Company's fixed assets are ageing and may require replacement or upgradation in the future.
- Current Assets have shown a significant increase, growing from ₹ 7,616.06 crore in 2018-19 to ₹ 11,643.97 crore in 2022-23.

Table 6.3: Working results of the Company during the period 2018-19 to 2022-23

(₹ in crore)						
Sl. No.	Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
(A) Income						
1.	Revenue from operations:					
	(a) Deposit works	3213.30	3059.17	2662.66	2702.42	2065.14
	(b) Project Management Consultancy (PMC) works	180.33	169.55	52.51	275.59	30.62
	(c) Tender works	554.67	170.64	149.44	39.34	113.25
	Total	3948.30	3399.36	2864.61	3017.35	2209.01
2.	Interest income	66.06	62.44	44.53	40.29	74.93
3.	Other non-operating income/ miscellaneous income	1.31	1.12	3.95	10.39	10.97
	Total Income (A)	4015.67	3462.92	2913.09	3068.03	2294.91
(B) Expenses						
4.	Operating expenses	3658.96	3185.67	2632.42	2787.06	2033.30
5.	Employees benefit expenses	195.05	177.58	189.53	170.58	178.71
6.	Financial costs	0.30	0.14	0.04	0.17	0.12
7.	Depreciation and amortisation expenses	1.66	3.82	3.03	10.43	1.06
8.	Other expenses	52.02	36.52	30.41	34.41	39.83
9.	Prior period expenses	--	0.12	0.01	--	--
	Total Expenses (B)	3907.99	3403.85	2855.44	3002.65	2253.02
	Operating Profit/(Loss) [1-(4+5+7+8+9)]	40.61	(4.35)	9.21	14.87	(43.89)
	Net Profit/(Loss) (A-B)	107.68	59.07	57.65	65.38	41.89

Source: Unaudited financial statements of the Company

An analysis of the working results of the Company during the period 2018-19 to 2022-23 reveals the following:

- **Declining revenue from operations and operating profit:** The Company's revenue from operations decreased by 44 per cent (₹ 3,948.30 crore in 2018-19 to ₹ 2,209.01 crore) over the past five years. Consequently, the operating profit of the Company has also been decreasing, and in the most recent year (2022-23), the Company has experienced an operating loss of ₹ 43.89 crore. The decline in operating profit and the recent operating loss raise serious concerns about the Company's profitability and indicate difficulty in generating enough revenue to cover operational costs.

- **Dependence on non-operating income:** The Company generated non-operating income (interest income and other miscellaneous income) ranging between ₹ 48.48 crore and ₹ 85.90 crore during the period 2018-19 to 2022-23. However, relying on these sources to supplement operating income is not a sustainable long-term strategy. The focus should be on improving core

business operations and increasing revenue from core activities. Further, while revenue from operations has decreased by 44 *per cent* over the past five years, non-operating income has not shown a significant increase, resulting in a steady decline in net profit (₹ 107.68 crore in 2018-19 to ₹ 41.89 crore in 2022-23). This suggests that the Company has not been able to effectively leverage its non-core business activities (consultancy services, hiring charges on steel shuttering, sale of assets, and other miscellaneous income sources) to offset the decline in core business revenue. Moreover, there was an increase in interest income from ₹ 40.29 crore during the year 2021-22 to ₹ 74.93 crore during the year 2022-23, primarily due to higher investments in fixed deposits, enabled by improved liquidity resulting from a decrease in Trade Receivables and Long-Term Loans and Advances.

Audit objectives

6.5 The objectives of the performance audit were to assess whether the Company:

- had an effective and efficient financial management system;
- planned and executed its operations economically, efficiently, and effectively, conforming with the objectives of the Company and in accordance with prescribed procedures and rules; and
- had adequate, efficient, and effective internal controls and monitoring mechanisms.

Audit criteria

6.6 The audit criteria for the performance audit were drawn from the following sources:

- ‘Working Manual and Forms’ of the Company and orders of GoUP/ Company issued from time to time.
- Uttar Pradesh Budget Manual, Financial Handbook (FHB) of GoUP, General Financial Rules (GFR), and Guidelines of Central Vigilance Commission (CVC).
- Budgets prepared by the Company.
- Schedule of Rates of Uttar Pradesh Public Works Department (UPPWD)/ Central Public Works Department (CPWD).
- Terms and conditions of contracts executed with the clients/ contractors.

Scope and methodology of audit

6.7 The performance audit was conducted to evaluate the working of the Company in the execution of construction works during the five years from 2018-19 to 2022-23. Audit examined records at the Head Office of the Company and 18 field units¹. The field units were selected by adopting the stratified random sampling method. Further, 78 works² executed by the selected 18 field units, on which expenditure of ₹ 4,022.75 crore³ was incurred by the Company during the period 2018-19 to 2022-23, were selected for detailed examination

¹ Out of 65 fields units.

² Out of 585 works executed by the selected 18 field units during the period 2018-19 to 2022-23.

³ Out of ₹ 5,399.37 crore being the expenditure incurred by the Company during the period 2018-19 to 2022-23 on the 585 works executed by the selected 18 field units.

by adopting the stratified random sampling method. Besides, records of the administrative department, *i.e.*, UPPWD, relating to the Company were also examined.

The audit objectives, scope, and methodology of the performance audit were explained to the Management and GoUP during the Entry Conference held on 27 July 2023. The methodology for conducting the performance audit included examination of records, analysis of data, raising audit queries, and interaction with the Management. After the issue of the draft Performance Audit Report, an Exit Conference was held with the Management and GoUP on 16 August 2024 to discuss the audit observations and replies of the Management/GoUP. The replies of the Management/GoUP have been suitably incorporated in the Report.

Audit constraints

6.8 The Company had not furnished records and information as detailed in **Appendix 6.1**, which adversely impacted the performance audit.

Acknowledgement

6.9 Audit acknowledges the co-operation and assistance extended by GoUP, Head Office of the Company, and test-checked field units in conducting the performance audit.

Audit findings

6.10 The performance audit revealed deficiencies in financial management, operational planning, execution of operations, and internal controls and monitoring of the Company. The audit findings are discussed in detail in the succeeding paragraphs.

Financial Management

6.11 Financial management is the managerial activity that is concerned with planning and controlling the firm's financial resources. In other words, it is concerned with acquiring, financing, and managing assets to accomplish the overall goal of a business enterprise. Financial management comprises forecasting, planning, organising, directing, co-ordinating, and controlling of all activities relating to the acquisition and application of the financial resources of an undertaking in keeping with its financial objective.

The Company is engaged in the execution of construction projects across diverse sectors, including infrastructure development, healthcare facilities, educational institutions, and public buildings. Primarily, the Company undertakes these projects on a deposit basis, wherein it receives funds from various State Government departments and executes construction activities as per their requirements. Given the substantial magnitude of public funds involved and the pivotal role played by the Company in the State's development initiatives, adherence to sound financial management principles acquires paramount importance. Efficient financial management practices are crucial for the Company to ensure the judicious utilisation of resources, maintain financial discipline, and achieve desired outcomes in project execution.

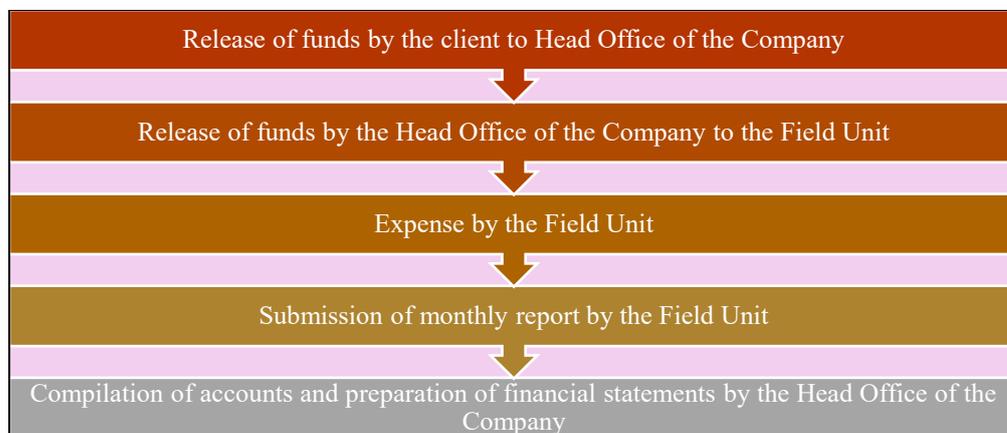
Status of receipt and utilisation of funds

6.11.1 The main source of funds of the Company is deposits from clients against deposit works. Para 137 of the Company's Working Manual provides that the

Head Office would provide funds to the Units according to their monthly requirement based on the expected amount of work to be executed.

The process of the flow of funds in the case of deposit works is depicted in **Chart 6.2**.

Chart 6.2: Process flow of funds



Source: Information furnished by the Company

Further, the details of funds received and utilised by the Company during the period 2018-19 to 2022-23 against deposit works assigned to the Company during such period are depicted in **Table 6.4**.

Table 6.4: Details of funds received and utilised

Year	No. of deposit works assigned during the year	Sanctioned cost of the works	Cumulative funds received up to 31 March 2023	Cumulative funds utilised up to 31 March 2023	(₹ in crore)
					Balance funds available as on 31 March 2023
2018-19	209	2,956.04	2,142.85	1,868.71	274.14
2019-20	185	1,509.30	1,220.73	1,016.58	204.15
2020-21	128	870.05	513.55	398.10	115.45
2021-22	395	1,437.59	539.49	346.42	193.07
2022-23	275	777.93	270.76	112.20	158.56
Total	1,192	7,550.91	4,687.38	3,742.01	945.37

Source: Compiled by audit based on information furnished by the Company

From **Table 6.4**, it would be seen that the Company was assigned 1,192 deposit works during the period 2018-19 to 2022-23, against which it received an amount of ₹ 4,687.38 crore till March 2023. Out of ₹ 4,687.38 crore received by the Company, ₹ 3,742.01 crore (80 per cent) was utilised up to March 2023, and an amount of ₹ 945.37 crore was available with the Company against such works as on 31 March 2023.

Deficiencies in budgeting exercise

6.11.2 Budgets are quantitative statements prepared and approved before a defined period, outlining the policy to be pursued during that period to achieve specified objectives. Budgets facilitate planning, coordinating, and controlling an organisation's activities. The Company's Working Manual provides that, each year in January, the Head Office shall prepare the budget for the next financial year and the Board of Directors shall approve it by March.

Audit noticed that the Company proposed budgets for four years from 2019-20 to 2022-23 together on 27 September 2022. Considering budget proposals for three years from 2019-20 to 2021-22, a redundant exercise, the BoD did not

approve the same. However, it approved the 2022-23 budget after a delay of six months. Thus, the work for the years 2019-20 to 2021-22 was carried out in the absence of an appropriate budget, which affected the Company's ability to effectively monitor progress and exercise budgetary control.

In reply, the Government and Management stated (July 2024) that due to unavoidable reasons, budgets for the years 2019-20 to 2021-22 were not placed before the BoD in a timely manner.

Expenditure in excess of funds received

6.11.3 Para 39 of the Company's Working Manual provides that in the case of deposit works, expenditure should be restricted to the amount deposited by the concerned department of GoUP.

Audit noticed that during the period 2018-19 to 2022-23, the Company completed 1,003 deposit works after incurring an expenditure of ₹ 12,161.02 crore. Out of the above, 99 works were completed by the Company after incurring an expenditure of ₹ 1,917.25 crore against funds received amounting to ₹ 1,851.45 crore. Thus, the Company had incurred expenditure of ₹ 65.80 crore in excess of funds received against the said works. It is worthwhile to mention here that in 29 works out of the above 99 works, the Company had incurred an expenditure of ₹ 15.63 crore, even in excess of the sanctioned cost of the works (Sanctioned cost - ₹ 201.05 crore and Expenditure incurred - ₹ 216.68 crore).

In the case of the 29 works where expenditure had been incurred even in excess of the sanctioned cost, the Government and Management stated (July 2024) that efforts were being made by the concerned units to obtain approval for the revised estimates.

The efforts to obtain revised sanctions in respect of 29 works do not justify the violation of Para 39 of the Company's Working Manual, which mandates that expenditure should not exceed the funds deposited by the concerned department. Further, the reply did not address the remaining 70 works where the expenditure exceeded the funds received.

Unspent funds not refunded to clients

6.11.4 Para 39 of the Company's Working Manual provides that, after the completion of the deposit work, the total expenditure incurred on the project is to be intimated to the concerned Department/Officer of the Government, and the unspent amount, if any, is to be refunded.

Audit noticed that during the period 2018-19 to 2022-23, the Company closed accounts of 33 completed deposit works. Of these, 22 deposit works were completed after incurring an expenditure of ₹ 51.25 crore against funds received amounting to ₹ 52.90 crore. The unspent balance of ₹ 1.65 crore was, however, not refunded by the Company to the concerned Departments of GoUP till date (March 2023).

In reply, the Government and Management stated (July 2024) that the unspent balance would be refunded to the concerned Departments after finalisation of the accounts.

The reply is not acceptable, as the Company had already closed the accounts of these 22 works, yet the unspent balance of ₹ 1.65 crore was not refunded to the concerned Departments.

Interest earned on Government funds not deposited in the Treasury

6.11.5 GoUP directed⁴ (May 2015) the departments and State Public Sector Undertakings (PSUs) to deposit interest earned on funds released by it in the Treasury.

Audit noticed that as on 31 March 2023, an amount of ₹ 641.45 crore, being interest earned on funds released by the Government and parked in bank accounts maintained at field units, though credited to the Government's ledger account in the Company's books, was not actually deposited into the Treasury. Further, the Company, in violation of the above GoUP directive, treated interest earned⁵ on funds in bank accounts at its headquarters, including interest earned on Government funds, as its own income.

In reply, the Government and Management stated (July 2024) that interest is refunded upon demand by the respective departments, with ₹ 62.06 crore refunded between 2018-19 and June 2024. In the meeting (July 2016), chaired by the Finance Secretary, GoUP, the Company requested to adjust the outstanding dues from client departments against the interest earned.

The reply is not acceptable, as the Company was required to deposit the interest in the Treasury as per the Government Order.

Interest recovered on mobilisation advances not credited to the Government account

6.11.6 In some cases of deposit works of GoUP carried out by the Company, the Company released interest bearing mobilisation advances to the contractors.

In six such works test-checked, Audit noticed that the Company recovered ₹ 7.47 crore as interest on mobilisation advances from the contractors. However, instead of crediting the said amount to the Government's account and depositing the same in the Treasury, the Company treated it as its own income.

In reply, the Government and Management stated (July 2024) that in cases where contractors leave the work mid-way, the balance work is completed through another contractor by invoking the advance bank guarantee furnished by the original contractor and by utilising the interest earned on mobilisation advances. Thus, the interest earned on mobilisation advances is a security against financial loss arising from contractors leaving works mid-way. Such losses are not reimbursed by the GoUP.

The reply is not acceptable as interest on mobilisation advances is earned from funds released by GoUP, which has clarified from time to time that interest earned on its funds should be deposited in the Treasury. Further, financial loss due to contractors leaving work mid-way is secured by way of a performance bank guarantee and not by interest on mobilisation advances.

Operational Planning

6.12 The Company mainly executes tender works and cost *plus* centage/deposit works. Tender works involve executing projects based on fixed and agreed unit rates determined through competitive tendering or negotiations with clients. Cost *plus* centage works are undertaken based on the actual cost of work *plus* an additional percentage towards overheads and profit. Deposit works are works

⁴ Order No. 10/2015/A-1-502/10-2015-10(33)2010 dated 29 May 2015.

⁵ ₹ 287.08 crore for the period 2018-19 to 2022-23

of various departments of the Government of Uttar Pradesh (GoUP) with budgetary funding, executed on lines similar to cost *plus* centage works.

Deposit works/ cost *plus* centage works are generally assigned/awarded to the Company on nomination basis. It secures Project Management Consultancy (PMC) works through tender participation as well as on nomination basis.

Status of procurement of works

6.12.1 During the five-year period from 2018-19 to 2022-23, the Company was assigned 1,192 deposit/cost *plus* centage works valuing ₹ 7,550.91 crore on nomination basis, and secured 24 construction works and 57 project management consultancy works valuing ₹ 2,814.04 crore and ₹ 1,953.06 crore, respectively, through tender participation as detailed in **Table 6.5**.

Table 6.5: Details of works assigned/ awarded to the Company

Year	No. of deposit/ cost <i>plus</i> centage works assigned	Cost of deposit/ cost <i>plus</i> centage works assigned	No. of tender works awarded (Construction works)	Cost of tender works awarded (Construction works)	(₹ in crore)	
					No. of tender works awarded (PMC works)	Cost of tender works awarded (PMC works)
2018-19	209	2,956.04	6	586.76	10	1,098.20
2019-20	185	1,509.30	5	653.58	4	111.94
2020-21	128	870.05	6	940.26	25	522.53
2021-22	395	1,437.59	5	349.96	13	193.90
2022-23	275	777.93	2	283.48	5	26.49
Total	1,192	7,550.91	24	2,814.04	57	1,953.06

Source: Information furnished by the Company

From the above, it is evident that though the number of deposit/cost *plus* centage works assigned to the Company increased from 209 in 2018-19 to 275 in 2022-23, the sanctioned cost of these works dropped significantly from ₹ 2,956 crore in 2018-19 to ₹ 777.93 crore in 2022-23, *i.e.*, a reduction of around 74 *per cent*⁶ in value terms, indicating that the Company was being entrusted with low ticket size works. Notably, GoUP withdrew the award of deposit works above ₹ 50 crore on nomination basis to the Company in December 2019.

The Company was also not able to fill this gap effectively by securing construction and PMC works through tender participation. In fact, the value of construction works increased from ₹ 586.76 crore in 2018-19 to a high of ₹ 940.26 crore in 2020-21 but dropped to a five-year low of ₹ 283.48 crore in 2022-23, which is 70 *per cent*⁷ lower than the five-year peak. Also, the value of PMC works dropped from ₹ 1,098.20 crore in 2018-19 to ₹ 26.49 crore in 2022-23, *i.e.*, a reduction of around 97.59 *per cent*⁸ in value terms.

Thus, withdrawal of the Company's nomination for larger works by GoUP, coupled with its inability to secure more works through competitive bidding routes, adversely affected its revenue.

In reply, the Government and Management stated (July 2024) that prior to December 2019, 75 *per cent* of the turnover of the Company was of projects having cost over ₹ 50 crore. At present, the Company is executing five projects over ₹ 50 crore procured through EPC⁹ mode, and efforts are being made to procure big projects through tender.

⁶ (₹ 2,956 crore - ₹ 777.93 crore)/ ₹ 2,956 crore.

⁷ (₹ 940.26 crore - ₹ 283.48 crore)/ ₹ 940.26 crore.

⁸ (₹1,098.20 crore - ₹ 26.49 crore)/ ₹ 1,098.20 crore.

⁹ Engineering, Procurement, and Construction.

Deficiencies in tendering

6.12.2 Para 32 of the Company's Working Manual provides that the Company shall execute tender works which will be done on certain fixed and agreed unit rates for each item of the work, based on certain terms and conditions. These rates can be based on competitive tendering by a client or on the basis of negotiations with the client. The Company has its own contract wing under the General Manager (Contract) for obtaining tender works.

During the period 2018-19 to 2022-23, out of 266 valid¹⁰ tenders valuing ₹ 47,396.48 crore participated by the Company, it was technically disqualified in 70 tenders valuing ₹ 23,773.02 crore and in 115 tenders valuing ₹ 18,856.36 crore, it was not the lowest bidder. It was successful in obtaining 81 tenders valuing ₹ 4,767.10 crore, which is detailed year-wise in **Table 6.6**.

Table 6.6: Details of tenders participated in by the Company

(₹ in crore)

Year	Nature of work	Valid tenders participated		Tenders awarded			
		No.	Value	No.	Per cent	Value	Per cent
2018-19	Construction	45	10,175.41	6	13.33%	586.76	5.77%
	PMC	22	3,373.02	10	45.45%	1,098.20	32.56%
	Total	67	13,548.43	16	23.88%	1,684.96	12.44%
2019-20	Construction	35	9,153.05	5	14.29%	653.58	7.14%
	PMC	12	2,735.44	4	33.33%	111.94	4.09%
	Total	47	11,888.49	9	19.15%	765.52	6.44%
2020-21	Construction	42	7,896.75	6	14.29%	940.26	11.91%
	PMC	30	1,177.43	25	83.33%	522.53	44.38%
	Total	72	9,074.18	31	43.06%	1,462.79	16.12%
2021-22	Construction	28	7,761.09	5	17.86%	349.96	4.51%
	PMC	26	2,480.71	13	50.00%	193.90	7.82%
	Total	54	10,241.80	18	33.33%	543.86	5.31%
2022-23	Construction	16	2,139.27	2	12.50%	283.48	13.25%
	PMC	10	504.31	5	50.00%	26.49	5.25%
	Total	26	2,643.58	7	26.92%	309.97	11.73%
Total	Construction	166	37125.57	24	14.45 %	2814.04	7.58%
	PMC	100	10270.91	57	57.00%	1953.06	19.02%
	Grand Total	266	47,396.48	81	30.45%	4,767.10	10.06%

Source: Information furnished by the Company

From **Table 6.6**, it is evident that the Company's yearly participation in tenders varied from 26 tenders (lowest) in 2022-23 to 72 tenders (highest) in 2020-21, against which tenders awarded were seven tenders (lowest) and 31 tenders (highest) in 2022-23 and 2020-21, respectively. On an overall basis for the five years from 2018-19 to 2022-23, the Company bagged 30.45 per cent tenders (Construction works – 14.45 per cent; and PMC works – 57 per cent) in terms of numbers and 10.06 per cent tenders (Construction works – 7.58 per cent; and PMC works – 19.02 per cent) in terms of value. The difference between the percentage of tenders won in terms of numbers (30.45 per cent) and the percentage of tender value won (10.06 per cent) suggests that the Company has been more successful in securing contracts for lower-value projects compared to higher-value ones. Further, the difference between the percentage of tenders won for construction works (14.45 per cent) and the percentage of tenders won for PMC works (57 per cent) indicates that the Company has a higher success

¹⁰ Out of 305 tenders valuing ₹ 53,509.52 floated, 39 tenders valuing ₹ 6,113.04 crore were subsequently cancelled/ withdrawn by clients.

rate in securing PMC works as compared to construction works. Thus, the Company was more successful in securing PMC and small-value works as compared to construction tenders and high-value works.

Audit noticed that out of 14 disqualified tenders examined in detail, in seven tenders the Company was disqualified due to insufficient document¹¹ submission, while in the remaining seven tenders it was disqualified by the clients on account of blacklisting by the Infrastructure Committee of Subordinate Judiciary¹².

Audit observed that in two tenders worth ₹ 187.16 crore, the Company quoted the lowest rates but was disqualified for non-submission of requisite documents, while in four tenders worth ₹ 1,166.95 crore, it was the lowest bidder but was disqualified due to blacklisting by the Infrastructure Committee of Subordinate Judiciary. In one such case¹³, the client also encashed the earnest money of ₹ 1.93 crore for violating the conditions of the integrity pact. Thus, despite being the most competitive bidder, the Company lost significant opportunities due to poor documentation and blacklisting.

In reply, the Government and Management stated (July 2024) that the Company has requested the Hon'ble High Court, Allahabad, for reconsideration of its resolution blacklisting the company.

Recommendation

The Company may maintain a centralised repository of frequently required documents and establish a rigorous internal review process for all bids to ensure full compliance with tender requirements before submission.

The Company may develop and implement a comprehensive action plan to address the issue of blacklisting.

Absence of timelines and milestones

6.12.3 The administrative orders issued by Government departments/clients while assigning deposit works to the Company did not stipulate any scheduled date of completion or intermediate milestones. Accordingly, no fund release schedules linked to project milestones were finalised. In the absence of such timelines, the Company, based on its own assessments, fixed the completion date and revised these dates to the expected completion date. The company did not have any contractual obligation or consequences for delays. This practice not only reflects poor initial planning but also undermines accountability, as there were no penalties for delays or incentives for timely completion.

In reply, the Government and Management accepted (July 2024) the facts mentioned in the observation and stated that funds for works are allocated yearly through the budget for the ensuing financial year. The timeline/bar chart/milestone for the completion of work is prescribed in the agreement entered with the sub-contractor, and the work is executed accordingly. The

¹¹ Acknowledgement of up-to-date GST filed return, certificates, electrical license, details of proposed methodology and program of construction, GST clearance certificate and ITR, documentary proof of work completion related to similar nature of work, Annual report/audited report, etc.

¹² On 27 February 2020 due to the execution of sub-standard work in respect of CCTV installation at Hon'ble High Court, Allahabad.

¹³ 'Construction of New Greenfield Airport at Hollongi, Itanagar, Arunachal Pradesh' estimated at ₹ 167.56 crore.

client department also reviews the work as per the bar chart/scheduled timeline. For any delay, a penalty is imposed on the contractor as per the terms of the contract. Time and cost overruns also arise due to the non-receipt of funds on time.

The fact remains that the Government/clients did not fix timelines and milestones for the projects. As a result, timely delivery could not be ensured by fixing responsibility and accountability on the Company for delays.

Recommendation

Government departments/clients may fix realistic schedules of completion in their administrative orders for projects being executed by the Company, with clearly defined intermediate milestones and provisions for penalties/incentives to avoid delays.

Start of construction work before Technical Sanction

6.12.4 Para 320 (24) of the Company's Working Manual read with Para 318 of the Financial Handbook Vol. VI of GoUP provides that for every work proposed to be carried out by a Government Department (except petty works, petty repairs, and repairs for which a lump sum provision has been sanctioned), a detailed estimate must be prepared for sanction by the competent authority. This sanction is known as the 'Technical Sanction' of the estimate, and it amounts to a guarantee that the proposals are structurally sound and that the estimates are accurately calculated and based on adequate data. The Technical Sanction must be obtained before the work is commenced.

Detailed examination of 57 deposit/cost *plus* centage works valuing ₹ 3,939.08 crore revealed the following:

- Only 23 works (40 *per cent*) valuing ₹ 1,880.73 crore were granted Technical Sanction before the commencement of work.
- In the case of 27 works (47 *per cent*) valuing ₹ 2,016.68 crore, Technical Sanction was granted after one to 86 months of commencement of work.
- In the case of seven works (13 *per cent*) valuing ₹ 41.67 crore, Technical Sanction had not been granted till date (March 2023). Out of the aforesaid seven works, three works valuing ₹ 21.70 crore had already been completed.

Thus, the Company commenced 34 works (60 *per cent*), valuing ₹ 2,058.35 crore (**Appendix 6.2**), without ensuring that the proposals are structurally sound, and the estimates are accurately calculated and based on adequate data.

In reply, the Government and Management stated (July 2024) that the works were started without Technical Sanctions due to pressure from GoUP, and this was allowed under Para 34 of the Company's Working Manual. Technical Sanctions were granted during the execution of works, except in some special cases.

The reply is not acceptable as Para 34 of the Company's Working Manual deals with estimates and cannot override the provisions of GoUP's Financial Handbook on the matter. Further, Para 320 (24) of Chapter XV of the Company's Working Manual reiterates GoUP regulations. Besides, the

Management did not provide any sanction details for cases highlighted in the observation.

Commencement of construction without prior environmental clearance

6.12.5 The Ministry of Environment and Forest (MoEF), Government of India (GOI), notification (September 2006) provides that prior environmental clearance from the State Environment Impact Assessment Authority (SEIAA) shall be required for Category 'B' projects listed in the schedule attached to such notification. Building and construction projects with a built-up area between 20,000 sqm and 1,50,000 sqm fall under Category 'B'.

Audit noticed that the Company commenced construction on 12 works (**Appendix 6.3**), each exceeding 20,000 sqm of built-up area, without obtaining the requisite environmental clearance from the concerned SEIAA. Out of these 12 works, environmental clearance was obtained after a delay ranging from 16 to 35 months in seven cases. The Company incurred an expenditure of ₹ 932.95 crore on these works before obtaining environmental clearance. In the remaining five works, the Company had already incurred an expenditure of ₹ 1,150.66 crore until March 2023 without environmental clearance.

Audit also observed that the construction of 100-bedded ESIC Hospital at Ranchi had to be stalled (November 2022) following a notice from the Ranchi Municipal Corporation for not obtaining prior environmental clearance as per the above notification.

In reply, the Government and Management stated (July 2024) that environmental clearance from SEIAA has been obtained in five cases belatedly, and in seven cases, it is yet to be obtained. Later, the Management furnished (July 2024) environmental clearance for two more cases out of the pending seven cases.

Incorrect estimation due to non-deduction of savings on account of the Company's efficiency

6.12.6 Para 40 of the Company's Working Manual provides that in case of deposit/cost *plus* centage works, five *per cent* is to be deducted from the total cost, as it is expected that the cost of construction by the Company will be five *per cent* cheaper than the Schedule of Rates of PWD/CPWD whose works are being done by contractors. Centage, as decided from time to time, is then added to arrive at the final estimated cost for sanction by the concerned client department.

Audit noticed that in the preliminary estimates prepared for three works¹⁴, the Company did not deduct five *per cent* from the total cost, which resulted in the estimated cost of ₹ 318.72 crore instead of ₹ 302.78 crore. While the final cost to the client is discovered through the tendering process by the Company, this incorrect cost estimation is a misrepresentation to clients about the expected project cost, potentially affecting their budgetary allocations and financial planning. It also questions the Company's commitment to the principle of executing works five *per cent* cheaper than contractors, as without this

¹⁴ Construction of Govt. Medical College, Almora; Construction of Infrastructural Development works for Mini Textile Hub at Munsiyari; and Construction of Government Nursing College, Almora.

deduction, there's no self-imposed target for the Company to achieve cost efficiency, thereby defeating the purpose of assigning works to the Company.

In reply, the Government and Management stated (July 2024) that the five *per cent* deduction was not applied as the client department provided centage at the rate of 6.5 *per cent* only.

The reply is not acceptable as the lower centage fee is unrelated to the five *per cent* deduction that reflects cost efficiency expected from the Company.

Execution of Operations

6.13 The Company executes construction projects either using its own technical staff and workforce under a 'Piece Rated Working' system or on a sub-contract basis. Under the Piece Rated Working System, materials are procured directly by the Company, and Piece Rated Workers (PRWs) are employed to manage and pay labourers based on output. Under a sub-contract, the work is either partly or fully awarded to sub-contractors through a tendering process.

Inadequate time for submission of bids

6.13.1 Para 473 of the Company's Working Manual provides that in case of large contracts, *i.e.*, over ₹ 50 lakh, the bids should be opened at least one month after the date of the first advertisement or notice. Similarly, Para 360 (2) of the Financial Handbook Vol. VI, Company's Office Memorandum dated 9 June 2015, and CVC guidelines also prescribe that the time for submission of bids should be at least one month after the date of the first advertisement.

Audit noticed that in 12 contracts/sub-contracts, each valued over ₹ 50 lakh and aggregating ₹ 968.61 crore, the time allowed for submission of bids ranged from eight to 29 days only, as detailed in **Appendix 6.4**, which violated the above provisions.

In reply, the Government and Management stated (July 2024) that, as per the CPWD Manual, the time limit for publicity of tender for works more than ₹ two crore is 14 days. In some cases, the notice was short due to the urgency of work. In two cases, there were revisions in the published tender, and after considering the initial and revised publication, the time allowed was more than the minimum time allowed.

The reply is not acceptable as the Company was required to adhere to its circulars and Working Manual along with GoUP's Financial Handbook instead of the CPWD Manual. Urgency in tender leads to limitation of competition. Further, revision of the initial publication renders the initial publication and associated timeline null and void.

Irregular subletting of works through the issue of work orders

6.13.2 The Company's Working Manual provides for the execution of projects predominantly through its own technical staff and workforce by procuring machines, equipment, materials, and engaging labour under the 'Piece Rated Working' system.

In case of any specialised work which the Company is not in a position to take up directly, or in case of any other special reasons recorded in writing by the Managing Director, the Managing Director can authorise to take up some works in part or full on sub-contract basis, instead of through Piece Rated Working system and bring it to the notice of the Board of Directors (BoD) in the next Board meeting. In such cases, a proper tendering process will have to be

followed. The Unit In-Charge and the General Manager are authorised to execute contract bonds valuing up to ₹ 40 lakh and above ₹ 40 lakh, respectively, after the tender.

Audit noticed that in five works, the Unit In-charges issued 52 work orders aggregating ₹ 1,047.67 crore (as detailed in **Appendix 6.5**) for complete items of work, including supply of materials, tools, plants, machinery, as well as engagement of labour, indicating subletting/sub-contracting of the works. However, the Managing Director's authorisation and intimation to the BoD were not done in these cases. Besides, instead of inviting open tenders, all 52 work orders were issued by the Unit In-charges after inviting quotations from empanelled contractors. Notably, 49 such work orders ranged from more than ₹ 40 lakh to ₹ 75 crore in value and were required to be issued by the General Manager instead of the Unit In-charge as per the Delegation of Power.

In reply, the Government and Management stated (July 2024) that the works were sublet as delays in the completion of works would lead to heavy penalties. They further stated that constraints such as lack of required staff and machinery, and difficult geographical conditions were the reasons for executing the work in the above-stated manner. During the Exit Conference (August 2024), the Special Secretary, Public Works Department, GoUP, and the Managing Director of the Company agreed to look into the matter.

The reply is not acceptable as the constraints cited do not justify bypassing the Company's established procedures. The Working Manual explicitly requires the Managing Director's authorisation and subsequent intimation to the Board for sub-contracting, which was not obtained. Furthermore, issuing work orders exceeding ₹ 40 lakh without proper authorisation violates the Delegation of Power, undermining transparency and accountability in the procurement process.

Sub-contracting to disqualified agencies

6.13.3 Public Works Department (PWD), Government of Meghalaya (GoM) invited (September 2018) bids for the construction of the New Meghalaya Assembly Building at Shillong at ₹ 105.59 crore. Out of four bidders¹⁵ participating in the tender, one bidder was disqualified for not submitting a hard copy of the technical bid, and two bidders did not fulfil the qualifying criteria of having successfully completed similar works (key Government buildings with dome/significant architectural feature) during the last seven years. The work was awarded (March 2019) to the only qualifying bidder, *i.e.*, the Company, at a cost of ₹ 127.76 crore, with the condition that sub-contracting, excluding design work, shall be limited to 40 *per cent* of the contract value.

Audit noticed that the Company, in violation of the agreement entered into with PWD, GoM, sub-contracted (June-July 2019) works worth ₹ 106.57 crore, *i.e.*, 83 *per cent* of the contract value, to two firms¹⁶ through three work orders. Notably, these two sub-contractors had participated in bids invited by PWD, GoM, where one was disqualified for not submitting a hard copy of the technical bid, and the other did not fulfil the qualifying criteria of having successfully completed similar works (key Government buildings with dome/significant architectural feature) during the last seven years.

¹⁵ Shree Gautam Construction Co. Ltd, Badri Rai and Co., UPRNNL, and Shiva Enterprise.

¹⁶ Badri Rai and Co. (Two work orders worth ₹ 85.03 crore) and Shiva Enterprise (One work order worth ₹ 21.54 crore).

In reply, the Government and Management stated (July 2024) that the sub-contractor qualified at a later stage, as the conditions framed for qualification by the Company were different from those framed by PWD, GoM. Further, the Company is not in violation of agreement terms with the client, as no single contractor has been awarded work exceeding 40 per cent.

The reply highlights that a contractor not technically qualified as per the criterion set by PWD, GoM, could easily fulfil the technical criterion set by the Company. Further, as per Clause 39.1 of the bidding document, sub-contracting (excluding design work) was to be limited to 40 per cent of the contract value. This means that the limit of 40 per cent applies to the overall sub-contracting under the contract and not sub-contractor-wise; otherwise, it would allow the entire work to be sub-contracted. In fact, one of the two sub-contractors was awarded two work orders aggregating ₹ 85.03 crore, constituting 66.55 per cent of the contract value.

Irregular release of advances

6.13.4 Para 553 of the Company's Working Manual provides for the release of advances up to 75 per cent of the current value of the material brought to the site to sub-contractors after securing a lien on the materials through a formal agreement. Further, Para 558 of the Working Manual allows advances to sub-contractors in urgent cases for work done, but not measured and billed after quantification of work done and its certification from the Company's engineer. In August 2020, the BoD deleted the abovementioned provision regarding the release of advances against work done but not measured.

Audit noticed the following deficiencies in the release of advances:

- The Company, in three works, released (June 2016 to May 2019) advances amounting to ₹ 20.40 crore to three sub-contractors against the request of the sub-contractors for providing financial assistance for supplies without obtaining any bank guarantee/security (as detailed in **Appendix 6.6**) despite there being no provision in the Company's Working Manual for the release of such advances.

During the Exit Conference (August 2024), the Government and Management accepted the audit observation and assured suitable action.

- The Company, in four works, released (March 2015 to August 2021) advances amounting to ₹ 18.47 crore to six sub-contractors against materials supplied (as detailed in **Appendix 6.7**) without entering into a formal agreement to secure a lien on the materials.

In their reply, the Government and Management stated that advances were given after valuation of the materials supplied on the recommendation of the concerned engineers.

The reply is not acceptable as the Company was required to enter into a formal agreement to secure a lien on the materials against which advances were released, which was not done by it.

- The Company in 15 works, released (April 2015 to October 2023) advances amounting to ₹ 245.71 crore to 14 sub-contractors against work done but not measured, without quantification of work done and certification from the Company's engineer (as detailed in **Appendix 6.8**). Out of these, in five works, the Company irregularly released (September 2020 to October 2023) advances

amounting to ₹ 150.65 crore to five sub-contractors, even though the provision regarding the release of advances against work done but not measured was deleted by the BoD in August 2020.

Notably, in one work¹⁷, advances aggregating ₹ 5.90 crore were released (April-August 2015) to the sub-contractor¹⁸ against the fourth running bill amounting to ₹ 2.78 crore only. Further, in another work¹⁹ against contract valuing ₹ 81.86 crore and work done valuing ₹ 33.38 crore only, the Company released (December 2022 to October 2023) advances aggregating ₹ 89.89 crore to the sub-contractor²⁰. The release of advances in excess of the actual work executed raises serious concerns about adherence to contractual and financial discipline.

During the Exit Conference (August 2024), the Government and Management accepted the audit observation and assured suitable action.

Short recovery of interest on mobilisation advance

6.13.5 As per the terms and conditions of the agreements executed with the sub-contractors, interest-bearing mobilisation advances were payable to the contractors.

Audit noticed that there was a short recovery of interest amounting to ₹ 4.97 crore on such interest-bearing mobilisation advances aggregating ₹ 30.75 crore released by the Company to sub-contractors for three works²¹.

During the Exit Conference (August 2024), the Government and Management accepted the audit observation with instructions to its officials for the recovery of interest.

Short deduction of security deposit

6.13.6 As per the tender guidelines issued (June 2015) by the Company, successful bidders were required to provide performance security at the rate of five *per cent* of the contract value. Further, a security deposit at the rate of five *per cent* of the gross amount was to be deducted from each running bill of the successful bidder.

Similarly, as per Clause 32.1, read with Clause 43.1 of the model bidding document²² of UPPWD, the contractor was required to provide performance security equal to five *per cent* of the contract price, and in addition, the employer was required to retain security deposit of five *per cent* of the amount from each payment due to the contractor until completion of the whole of the construction work.

Audit noticed that in one work²³, the Company did not include the condition regarding deduction of security deposit in the tender conditions/agreement, resulting in short deduction of security deposit by ₹ 6.56 crore. Further, in

¹⁷ Construction of Government Engineering College, Sonbhadra.

¹⁸ Comt Construction Pvt. Ltd.

¹⁹ Construction of Shri Ram Janki Medical College, Samastipur.

²⁰ Maa Vaishno Infracontract.

²¹ Construction of Government Engineering College, Sonbhadra; Construction of Government Medical College, Almora; and Construction of 500 bedded Super Speciality Block Campus at U.P. Ayurvigyan University, Saifai, Etawah.

²² Effective from 5 January 2007.

²³ Construction of ESIC Medical College, Rajajinagar, Bangalore awarded to Kanakdhara Ventures Pvt. Ltd.

three²⁴ works, the security deposit was short deducted by ₹ 75.91 lakh despite contractual conditions to deduct the security deposit.

In reply, the Government and Management stated (July 2024) that in the case of ESIC Medical College, Rajajinagar, Bangalore, a performance bank guarantee against security deposit was submitted by the contractor, and hence, the deduction of security deposit was not applicable. It was further stated that in the case of Boys Hostel, Pondicherry, and Girls Hostel, Pondicherry, security deposit of ₹ 1.29 crore has been deducted. In the case of toilet works, the mistake was acknowledged, and it was assured that special care would be taken to avoid such mistakes in the future.

The reply is not acceptable as the requirement for retention of the security deposit is in addition to the performance bank guarantee. Notably, the contractor for ESIC Medical College, Rajajinagar, Bangalore, left the work after partial completion. The recovery of security deposit in the case of Boys Hostel, Pondicherry, and Girls Hostel, Pondicherry, was done only after being pointed out by audit.

Short deduction of Workers' Welfare Cess

6.13.7 The Government of India (GoI) enacted the Building and Other Construction Workers' Welfare Cess Act, 1996 (Cess Act), to provide for the levy and collection of a cess on the cost of construction incurred by employers. As per Rule 4(3) of the Building and Other Construction Workers' Welfare Cess Rules, 1998 (Cess Rules), in cases where the levy of cess pertains to building and other construction works of a Government or a Public Sector Undertaking (PSU), such Government or PSU is required to deduct or cause deduction of cess at the notified rates from the bills paid for such works.

Audit observed that in the case of two works executed by the Company, the Workers' Welfare Cess was to be borne by the contractors. Consequently, the Company was required to deduct the cess at the rate of one *per cent*²⁵ from the contractors' bills. However, the Company did not deduct Workers' Welfare Cess amounting to ₹ 2.03 crore from the bills of the contractors, as detailed in **Table 6.7**.

Table 6.7: Details of non-deduction of Workers' Welfare Cess

(₹ in lakh)

Sl. No.	Name of the work	Name of the Contractor	Value of work done	Welfare Cess to be deducted	Welfare Cess deducted	Welfare Cess short deducted
1.	Construction of New District Jail, Etawah	Comt Construction Pvt. Ltd.	20,235.17	202.35	--	202.35
2.	Supply and laying of alternative demand for electric supply at S.N. Medical College, Agra	Bee Pee Electricals	45.72	0.46	--	0.46
Total				202.81	--	202.81

Source: Records/ information furnished by the Company

In reply, the Government and Management stated (July 2024) that in the case of District Jail at Etawah, no recovery was done as there was no such condition

²⁴ Construction of Boys Hostel, Pondicherry; Construction of Girls Hostel, Pondicherry; and Construction of a 10-seated public toilet in External Court, Duddhi, Sonbhadra.

²⁵ Notification dated 26 September 1996

for recovery in the contract. Further, in the case of Medical College, Agra an amount of ₹ two lakh has been withheld.

The reply is not acceptable, as in the case of New District Jail at Etawah, there was a clear provision in the agreement entered into with the contractor, which provided that all taxes and liabilities levied by the Labour Department shall be borne by the contractor. Further, in the case of S.N. Medical College, Agra, the amount of Workers' Welfare Cess was not deducted and deposited by the Company as of July 2024.

Payment for Project Management Consultancy/Third Party Quality Inspection not recovered

6.13.8 The Company entered (March 2020) into an agreement with Maa Vaishno Infracontract for the construction of Sri Ram Janki Medical College and Hospital at Samastipur. Work orders aggregating ₹ 442.86 crore were issued to the contractor. The terms and conditions of the agreement provided that payment on account of Project Management Consultancy/Third Party Quality Inspection made by the Company, subject to a maximum limit of 1.5 per cent of the contract value, shall be recovered from the contractor.

Audit noticed that the Company appointed (July 2020) Amulya Traders and Engineers Pvt. Ltd. as Project Management Consultant at an amount of ₹ 2.34 crore (excluding Goods and Services Tax). The Company had paid an amount of ₹ 2.81 crore to Amulya Traders and Engineers Pvt. Ltd., but had not recovered the said amount from Maa Vaishno Infracontract. Thus, the Company made an excess payment of ₹ 2.81 crore to the contractor and extended undue favour to it to that extent.

In reply, the Government and Management stated (July 2024) that the payment made to the Project Management Consultant was not recoverable from the contractor.

The reply is not acceptable because, as per the terms and conditions of the agreement, the payment made to the project management consultant was to be recovered from the contractor.

Excess payment to contractor

6.13.9 GoUP accorded (November 2013) administrative approval for the construction of Government Engineering College at Sonbhadra at a cost of ₹ 49.43 crore. The sanctioned cost was subsequently revised to ₹ 51.69 crore in March 2015 and to ₹ 104.24 crore in December 2016. Works having estimated cost of ₹ 35.77 crore were awarded (May 2014) to Comt Construction Pvt. Ltd. at ₹ 35.77 crore. After the revision of the estimated cost by GoUP, extra items/variations valuing ₹ 40.74 crore (extra items ₹ 35.75 crore and variations ₹ 4.99 crore) were also awarded (November 2017) to Comt Construction Pvt. Ltd.

Audit noticed the following instances of extra expenditure/excess payment in the aforesaid work:

- The extra items awarded to the contractor *inter alia* included the work of excavation (hard rock without blasting) by mechanical/manual means in foundation, trenches or drains. This item was awarded at the rate of ₹ 1,002.25 per cum, derived by allowing a five per cent rebate on the analysed rate of ₹ 1,055 per cum.

Audit noticed that the aforesaid item was based on item no. 2.9.3 of Delhi Schedule of Rates (DSR) 2014, for which the prescribed rate was ₹ 620.55 per cum. Thus, the analysed rate of ₹ 1,055 per cum was significantly higher than the DSR rate. In order to arrive at the inflated analysed rate of ₹ 1,055 per cum, the Company included costs related to 'hydraulic breaker (poke lane) with driver and fuel' in the rate analysis. However, as per the specifications of DSR item 2.9.3, such an item was not required for the awarded work.

Thus, by awarding the aforesaid work at an inflated rate of ₹ 1,002.25 per cum (after a five *per cent* rebate on the analysed rate), instead of the prescribed DSR 2014 rate of ₹ 620.55 per cum, the Company incurred an excess expenditure of ₹ 89.21 lakh on this extra item.

In reply, the Government and Management stated (July 2024) that the agreement was formed at ₹ 620.55 per cum for DSR Item No. 2.9.3 of the work, but due to disagreement with the contractor, the work was executed only by revising the rate to ₹ 1,002.25 per cum on the basis of market rates. This variation was approved by the competent authority, and the work was executed within the sanctioned cost.

The reply is not acceptable, as the awarded work corresponded to DSR Item No. 2.9.3. However, while analysing the rate for this extra item, the Company included the cost of a 'hydraulic breaker (poke lane) with driver and fuel,' which was not required as per the specifications of DSR Item No. 2.9.3. Inclusion of this invalid item resulted in an inflated analysed rate of ₹ 1,055 per cum and, after applying the five *per cent* rebate, an effective rate of ₹ 1,002.25 per cum, leading to excess expenditure of ₹ 89.21 lakh. Therefore, the excess expenditure is attributable to the inclusion of an invalid cost element and cannot be justified by any disagreement with the contractor.

- The work initially awarded to the contractor *inter alia* included the work of reinforced cement concrete work of M-25 grade in raft foundation and footings, columns, heavier beams, and slab being item number 3.1, 3.2, 3.3 and 3.4 of the BoQ respectively. These items were based on corresponding items of the UPPWD SOR (Item nos. 287, 288b, 286 and 288), wherein the rates were inclusive of the cost of centering and shuttering.

Audit noticed that the extra items awarded to the contractor *inter alia* included reinforced cement concrete work of M-25 grade in beam, which was based on UPPWD SOR item no. 288b. Even though the aforesaid extra item included the cost of centering and shuttering, it was incorrectly mentioned that it excluded the cost of centering and shuttering. Further, the extra items separately included the work of centering and shuttering in foundation, footing and bases of columns; suspended floors, roofs, landings, balconies and access platform; lintels, beams, plinth beams, girders, bressummers²⁶ and cantilevers; and columns, pillars, piers, abutments, posts and struts.

Since the cost of centering and shuttering was already subsumed in the rates for reinforced cement concrete items, inclusion of these items as extra items and making payment there against was irregular and resulted in excess payment of ₹ 1.83 crore to the contractor.

²⁶ A bressummer is a large beam that supports the weight of walls and floors above it in a timber-framed building.

In reply, the Government and Management stated (July 2024) that additional amount was paid towards centering and shuttering in the items mentioned in the estimate, which was based on DSR 2014, as the same was not included in the items of reinforced cement concrete.

The reply is not acceptable as the rates were based on UPPWD SoR and were inclusive of the cost of centering and shuttering.

Materials/ Services not procured through the GeM portal

6.13.10 The Company directed (October 2018) its Units to procure materials/ services from the Government e-Marketplace (GeM) portal.

Audit noticed that six Units of the Company procured (October 2018 to December 2022) materials/services valuing ₹ 1.55 crore locally by issuing supply/work orders for goods and services instead of procuring the same from the GeM portal, as detailed in **Table 6.8**.

Table 6.8: Details showing materials/services not procured through the GeM portal

(₹ in lakh)				
Sl. No.	Name of the Unit	Name of the work	Materials/services procured	Amount
1.	Meerut Unit, Meerut	Construction of 14 Courtrooms, Meerut	Furniture	79.01
2.	Electrical Unit, Meerut	Construction of 14 Courtrooms, Meerut	Air Conditioners and accessories	9.37
3.	Unit-21A, Lucknow	Construction of Sainik School, Amethi	Furniture	38.42
4.	Electrical Unit-2, Lucknow	Construction of Rajkiya Allopathic College, Bahraich	Manpower and electrical fans	12.48
5.	Haldwani Unit, Haldwani	Construction of Medical College, Almora	Manpower	2.15
		Construction of Nursing College, Almora	Manpower	2.24
		Construction of Government Degree College, Jaspur	Manpower	2.12
6.	MKRSS Electrical Unit, Lucknow	Construction of Ram Manohar Lohia Institute of Medical Sciences, Lucknow	Manpower	1.73
		CCTV work at District Court, Lucknow	Manpower	7.21
Total				154.73

Source: Work/ Supply orders issued by the Company

In reply, the Government and Management justified (July 2024) the above procurement on grounds such as the urgency of work, DSR 2018 rates used, work started before the Company's directions, and GeM procurement done during 2021-22 to 2023-24. During the Exit Conference (August 2024), the Government and Management assured to look into the matter.

The reply is not acceptable as the materials/services cited do not exhibit characteristics of urgent requirements. Moreover, the use of DSR 2018 rates does not exempt the Company from routing purchases through the GeM portal, and the audit finding pertains to the period after the Company's directive was issued.

Unauthorised execution of additional work

6.13.11 New Okhla Industrial Development Authority (NOIDA) awarded (July 2013) the work of construction of multi-level car parking facilities at Sector-16A, Noida, to the Company. The initial sanctioned cost of the project

was ₹ 76.14 crore (November 2013), which was subsequently revised (June 2018) to ₹ 101.86 crore. The terms and conditions of the Memorandum of Understanding (MoU) entered into with NOIDA provided that if, during execution of work, extra items/substitute items are required for completion of work, the same shall be approved by NOIDA within 30 days of submission by the Company.

Audit noticed that during the execution of the work, a requirement for dewatering was felt, which was not provided for in the sanctioned estimate. NOIDA directed (September 2015) the Company to go ahead with the dewatering work and instructed 'to furnish complete details of the probable cost by estimating the actual cost before starting the work'. The Company forwarded (October 2015) the rate analysis (₹ 51.64 per horsepower per hour) for the aforesaid item of dewatering to NOIDA and started the work of dewatering from 1 December 2015 in anticipation of approval. The Company executed (December 2015 to February 2019) dewatering work valuing ₹ 12.86 crore without obtaining formal written approval from NOIDA regarding the estimated quantum of work to be executed in terms of quantity/duration and amount. Consequently, when the Company claimed (March 2019) the aforesaid amount of ₹ 12.86 crore from NOIDA, it contested (June 2019) the justifiability of the demand and stated that the maximum amount on account of dewatering would work out to ₹ 4.24 crore only. No payment had been released by NOIDA against the aforesaid extra item till July 2024.

In reply, the Government and Management stated (July 2024) that the dewatering work was carried out by the Company as per the requirement suggested by the consultant of the work. Progress of this work was well informed to NOIDA, and the engineers of NOIDA also inspected the site from time to time to monitor the process jointly. The work was stopped (January 2019) on the directions of NOIDA. During vetting of the bills of the Company, the consultant accepted the fact of carrying out dewatering work by the Company on the directions of NOIDA and recommended reimbursing actual expenditure up to two floors. They further stated that the Managing Director of the Company has requested the Chief Executive Officer, NOIDA, to release the expenditure incurred by the Company on the dewatering work.

The reply is not acceptable as the Company executed the extra work of dewatering, which was not accepted by NOIDA, resulting in the non-release of the Company's claim of ₹ 12.86 crore to date (July 2024).

Execution of additional work without prior approval

6.13.12 GoUP accorded (September 2015) administrative approval for construction of Dr. Ram Manohar Lohia State Administration and Management Academy at Lucknow at a cost of ₹ 388.57 crore. The Expenditure Finance Committee (EFC), while evaluating (August 2015) the project, directed that any notable changes in the project, such as the addition of new works, increase in the size/area of works, the use of higher specifications, *etc.*, would not be executed without its prior approval. Furthermore, Para 316 (2) of the Financial Handbook Vol. VI provides that when expenditure on a work exceeds, or is likely to exceed the amount administratively approved for it by more than 10 *per cent*, or where there are material deviations from the original proposals, even though the cost of the same may possibly be covered by savings on other items, revised administrative approval must be obtained from the authority competent to approve the cost, as so enhanced.

Audit noticed that during execution of the work, the Company increased the quantity of existing work items²⁷ and included new work items²⁸, viz., piling work, RCC work, brickwork, wall panelling, laying concrete underwater, glass work, etc., without informing the administrative department about the same as per the above rules and directions. EFC, while approving (August 2020) the revised cost of the project at ₹ 474.42 crore, noted that the Company had submitted the revised estimate after a three-year delay, and had executed the tender and started work on increased quantities without obtaining approval on the revised project. Consequently, EFC denied centage²⁹ amounting to ₹ 9.42 crore to the Company on the increased project cost.

In reply, the Government and Management stated (July 2024) that the consultant did not provide maps and estimations related to variations in work in a timely manner. The consultant has been blacklisted, and an investigation against the officers of the Company is underway. During the Exit Conference (August 2024), the Government and Management agreed that the Company should secure its interests.

Recommendation

The Company may execute additional works only after obtaining prior written approval from the client.

Deficiencies in consultancy services

6.13.13 The Company appointed (February 2015) a Construction Supervision and Quality Control (CSQC) consultant³⁰ under an agreement, for a fee of 0.50 per cent of the project cost or ₹ 1.53 crore, whichever was less, for the construction of Vidhan Sabha Sachivalaya Vistar at Darulsafa Compound, Lucknow. The Company paid ₹ 1.38 crore to the consultant till September 2018.

As per the terms and conditions of the agreement, the consultant was required to take measurements and prepare, check, and certify the bills of the contractors. Further, the consultant was required to submit his periodical bill in triplicate along with attendance (as verified by the authorised official of the Company).

Audit noticed that the bills of the contractors were not signed by the consultant. Further, the bills of the consultant were not attached with verified attendance of manpower deployed by it for the supervision and quality control work.

In reply, the Government and Management stated (July 2024) that the works of Project Management Consultancy were done by the consultant, and payments against the same were made by the Company after verification by the concerned engineer.

The reply is not verifiable as the Company could not provide the required supporting documents.

²⁷ Resulting in increase of the estimated cost of work (excluding items on which centage was not admissible) by about 23 per cent i.e., from ₹ 315.79 crore to ₹ 387.62 crore.

²⁸ Valuing ₹ 9.87 crore (excluding items on which centage was not admissible).

²⁹ Centage is levied by the Company on the prime cost of the work to meet its overheads.

³⁰ Tecton Projects Services Private Limited.

Submission of incorrect Utilisation Certificates to clients

6.13.14 As per prevalent practice, the field units of the Company submit Utilisation Certificates (UCs) to the client departments periodically, certifying the utilisation of funds released by the clients for specific projects/works.

Audit noticed that in five works, the field units submitted UCs certifying utilisation of funds received from the client departments in excess of actual expenditure incurred by the Company as detailed in **Table 6.9**.

Table 6.9: Details of submission of incorrect Utilisation Certificates to clients

(₹ in crore)				
Sl. No.	Name of the work	Date of submission of UC	Amount utilised as per UC	Expenditure incurred as per Monthly Progress Report
1.	Construction of PWD Guest House, Etawah	27-08-2020	5.00	4.16
2.	Construction of Medical College, Almora	25-02-2023	311.35	279.51
3.	Construction of Infrastructural Development works for Mini Textile Hub at Munsiyari	03-08-2017	2.37	1.93
4.	Construction of a 10-seated Public Toilet in External Court Duddhi, Sonbhadra	17-02-2023	0.24	0.18
5.	Construction of Rajkiya Engineering College, Sonbhadra	05-11-2022	96.76	89.47
Total			415.72	375.25

Source: Utilisation Certificates submitted by the Company and Monthly Progress Reports

Submission of incorrect UCs misled the client departments regarding the financial progress of the works.

During the Exit Conference (August 2024), the Management stated that field units submitted UCs for the procurement of funds. The Government instructed the Management to ensure the submission of UCs to client departments as per the actual utilisation of the funds.

Internal Controls and Monitoring

6.14 Internal controls consist of specific policies and procedures designed to provide the Management with reasonable assurance that the goals and objectives it believes important to the entity will be met. ‘Internal Control System’ means all the policies and procedures (internal controls) adopted by the Management of an entity to assist in achieving the Management’s objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of the accounting records, and timely preparation of reliable financial information.

Delay in finalisation of financial statements

6.14.1 Section 129 (2) of the Companies Act, 2013 provides that the Board of Directors must present the Company's financial statements for the financial year at every Annual General Meeting (AGM). Further, Section 96 (1) mandates that every company, except a one-person company, must hold an AGM each year (except in the first year) within six months after the financial year ends.

Audit noticed that the financial statements of the Company for seven years (2016-17 to 2022-23) had not yet been presented in the Annual General Meeting. Delay in finalisation of accounts is not only a violation of the provisions of the Companies Act, 2013, but also makes it difficult to detect any error or fraud and take corrective action in a timely manner.

During the Exit Conference, the Management informed (August 2024) that the audit of financial statements was in progress. The Government accepted the audit observation and instructed the Management to finalise the financial statements promptly.

Recommendation

The Company may devise a time-bound plan to clear the backlog of seven years' financial statements (2016-17 to 2022-23). Further, the Company may establish a financial reporting mechanism to oversee the timely preparation of accounts, audit, and adoption of annual financial statements.

Annual Report not laid before the Houses of Legislature

6.14.2 Section 394 of the Companies Act, 2013 provides that an annual report on the working and affairs of a Government Company is to be prepared within three months of its annual general meeting and as soon as may be after such preparation, the annual report must be laid before the house(s) of Legislature, together with a copy of the audit report and comments upon or supplement to the audit report, made by the CAG.

Audit noticed that annual reports for the years 2000-01 to 2014-15 were not laid before the house(s) of the State Legislature. The Hindi version of the reports for the period 2000-01 to 2010-11 was forwarded to UPPWD only in June 2022. The Company was yet to forward the annual reports for the years 2011-12 to 2014-15 to the State Government for the purpose of laying the same before the State Legislature.

In reply, the Government and Management stated (July 2024) that the Company had requested (June 2024) UPPWD for laying of annual reports for the years 2000-01 to 2014-15 in the State Legislature.

Non-reconciliation of inter-unit transactions

6.14.3 Audit noticed that as per the unaudited financial statements of the Company for the year 2022-23, there was a significant debit balance of ₹ 316.87 crore on account of inter-unit transactions as on 31 March 2023, indicating lack of proper reconciliation of inter-unit transactions during the consolidation process.

In reply, the Government and Management stated (July 2024) that the Company has instructed all Zonal General Managers to reconcile inter-unit transactions as soon as possible.

Recommendation

The Company may prioritise investigating and resolving the ₹ 316.87 crore net debit balance through comprehensive reconciliation procedures.

Certificates for UPVAT deducted at source not obtained

6.14.4 Section 34 (1) of the Uttar Pradesh Value Added Tax (UPVAT) Act, 2008 provides that every specified person responsible for making payment to the selling dealer shall, at the time of making such payment to the seller, deduct an amount determined in the manner specified. Section 34 (7) of the UPVAT Act adds that the person making deductions under sub-section (1) shall, at the time of payment or discharge, furnish to the selling dealer a certificate of amount deducted in such form and manner and within such period as may be prescribed.

Section 24 (1) of the UPVAT Act provides that every taxable dealer, including a dealer from whom any amount of tax has been deducted at source, shall, for such tax period and within such time, as may be prescribed, submit a tax return of his self-assessed turnover and tax, in such form and verified in such manner as may be prescribed.

Audit noticed that the clients of the Company, while releasing funds/payments to it, deducted UPVAT at source amounting to ₹ 224.69 crore. The Company, however, could obtain certificates for UPVAT deducted at source amounting to ₹ 47.86 crore only to date (July 2023). Thus, an amount of ₹ 176.83 crore deducted by its clients remained unclaimed from the Commercial Tax Department.

In reply, the Government and Management stated (July 2024) that instructions have been issued to Zonal General Managers/Units to collect the certificates from the clients and deposit them with the Commercial Tax Department. Meanwhile, ₹ 33.23 crore has been received/ordered by the Commercial Tax department, and claims for ₹ 47.86 crore have been submitted to the Commercial Tax Department.

The Company was yet to obtain certificates for ₹ 143.60 crore³¹ deducted by clients as UPVAT at source (July 2024).

Independent directors not appointed to the Board

6.14.5 Section 149 (4) of the Companies Act, 2013, read with Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014, mandates that public companies having a turnover of one hundred crore rupees or more shall have at least two directors as independent directors.

Audit noticed that the Company, despite having a turnover exceeding ₹ 100 crore, did not have any independent director on its Board of Directors during the period 2018-19 to 2022-23. Failure to appoint Independent Directors not only constitutes non-compliance with the above statutory requirements but also dilutes the checks and balances vital for sound corporate governance.

In reply, the Government and Management stated (July 2024) that proceedings for the appointment of independent directors are being ensured.

Statutory Board Committees not constituted

6.14.6 Sections 177 and 178 of the Companies Act, 2013, read with Rule 6 of the Companies (Meetings of the Board and its Powers) Rules, 2014, mandate that public companies having a turnover of one hundred crore rupees or more

³¹ ₹ 224.69 crore – (₹ 33.23 crore + ₹ 47.86 crore)

shall constitute an ‘Audit Committee’ and a ‘Nomination and Remuneration Committee’ of the Board.

Audit noticed that the Company, despite having a turnover exceeding ₹ 100 crore, did not constitute an ‘Audit Committee’ and ‘Nomination and Remuneration Committee’.

In reply, the Government and Management stated (July 2024) that legal advice on the matter would be taken, and thereafter, the Nomination and Remuneration Committee would be constituted.

Regular Board meetings not conducted

6.14.7 Section 173 (1) of the Companies Act, 2013 mandates that a minimum of four meetings of the Board of Directors (BoD) need to be held every year, with a maximum permissible gap of 120 days between two consecutive BoD meetings.

Audit noticed that the Company did not comply with the above statutory requirement for holding BoD meetings during the period 2018-19 to 2022-2023, as summarised in **Table 6.10**.

Table 6.10: Details of BoD Meetings held during the period 2018-19 to 2022-23

Financial Year	BoD Meeting No.	Date of BoD Meeting	Gap between BoD Meetings (in days)
2018-19	186	08-12-2018	270 ³²
2019-20	187	31-12-2019	388
2020-21	188	12-06-2020	164
	189	31-08-2020	80
	190	24-02-2021	177
2021-22	191	23-06-2021	119
	192	27-10-2021	126
2022-23	193	27-09-2022	335

Source: Minutes of BoD meetings

From **Table 6.10**, it is evident that the Company not only failed to conduct the stipulated minimum of four BoD meetings in each financial year but also allowed gaps exceeding the permissible 120-day limit between two consecutive meetings.

In reply, the Government and Management stated (July 2024) that regular BoD meetings could not be conducted during the stated period due to COVID-19 and the unavailability of directors. In the future, efforts will be made to conduct regular board meetings as per the provisions of the Companies Act, 2013.

The reply is not acceptable as the Company did not adhere to the statutory requirements in respect of BoD meetings even during 2018-19 and 2022-23 when there were no COVID-19 associated restrictions. In fact, comparatively more meetings were held during the COVID-19 period.

Deficiencies in Corporate Social Responsibility

6.14.8 Section 135 (1) of the Companies Act, 2013 states that every company having a net worth of ₹ 500 crore or more, or turnover of ₹ 1,000 crore or more, or a net profit of ₹ five crore or more, during any financial year, shall constitute a Corporate Social Responsibility (CSR) Committee of the Board consisting of

³² 185th Board Meeting was held on 13-03-2018.

three or more directors, of which at least one director shall be an independent director.

Further, Section 135 (5) provides that the Board of every company referred to in Section 135 (1) shall ensure that the Company spends in every financial year at least two *per cent* of the average net profits of the Company made during the three immediately preceding financial years in pursuance of its CSR policy. Any unspent CSR funds remaining at the end of a financial year should be transferred in any of the following ways³³:

- Any unspent amount from an ongoing project should be transferred within 30 days of the end of the financial year to the specifically designated 'Unspent Corporate Social Responsibility Account' to be opened by the Company in any scheduled bank. These amounts should be spent within the next three financial years, in accordance with the Company's CSR policy. If these amounts remain unspent even after the three-year period, then this should be transferred, within 30 days of the end of the third financial year, to any fund specified in Schedule VII of the Act.
- If the funds do not relate to any ongoing CSR project, then such unspent amount shall be transferred, within six months of the end of the financial year, to any fund specified in Schedule VII of the Act.

Audit noticed that a CSR Committee comprising five directors, but without an independent director, was constituted (September 2014) by the BoD in its 170th meeting. It is pertinent to mention that the Company did not have any independent director on its Board during the period 2018-19 to 2022-23.

Audit further noticed that the Company was required to spend an amount of ₹ 13.78 crore on CSR activities during the period 2018-19 to 2022-23. The Company, however, did not allocate/spend any amount on CSR activities against such amount. Besides, it also did not transfer the unspent amount of ₹ 4.72 crore pertaining to the period of 2020-21 to 2022-23 to any fund specified in Schedule-VII of the Companies Act, 2013.

In reply, the Government and Management stated (July 2024) that the appointment of independent directors in the CSR committee will be done after the appointment of independent directors as per the Companies (Appointment and Qualification of the Director) Rules, 2014. The Company has spent ₹ 1.99 crore during 2021-22 to 2022-23 and deposited the unspent fund in a nationalised bank.

The reply is not acceptable as the amount spent on CSR activities and unspent funds transferred to the Unspent Corporate Social Responsibility Account pertains to the period up to 2013-14.

Material consumption statements not prepared

6.14.9 Para 159 of the Company's Working Manual requires that material consumption statements for all works be prepared at the end of every financial year and at the close of the work.

Audit noticed that in six works, as detailed in **Appendix 6.9**, that were executed directly by the Company, *i.e.*, by procuring material and engaging labour through PRW, the Company did not prepare material consumption statements.

³³ Provisions regarding transfer of unspent CSR funds were effective from 22 January 2021.

In reply, the Government and Management stated (July 2024) that preparation of material consumption statements in respect of five works will be completed and submitted soon. No reply was given in respect of the remaining one work³⁴.

Execution of stalled works from the Company’s fund

6.14.10 As discussed in **Paragraph 6.11.3**, in the case of deposit works, the expenditure should be restricted to the amount deposited by the concerned department of GoUP. Further, as discussed in **Paragraph 6.13.4**, the Company released unsecured advances to sub-contractors/suppliers/ PRWs without any collateral or security.

Audit noticed that 137 deposit works valuing ₹ 573.07 crore were hindered due to financial irregularities, such as incurring expenditure in excess of the amount received, release of unsecured advances to suppliers/ PRWs, etc. The BoD of the Company, in its 190th meeting (February 2021), decided to complete such hindered works by incurring expenditure of ₹ 165.72 crore from its own resources.

In reply, the Government and Management stated (July 2024) that the Special Investigation Team, GoUP is investigating this issue, and action is being taken against the guilty officials.

Payments without actual execution of work

6.14.11 Para 528 of the Company’s Working Manual provides that when the measurements are recorded by a Sub-Engineer, at least 15 *per cent* of the entries must be checked by the Resident Engineer/ Assistant Resident Engineer and at least two *per cent* of the entries by the Unit In-charge. Entries checked should be ticked in ink by the checking officer, and a certificate of checking should be recorded in the margin where such measurements are recorded.

Further, Para 532 (B) of the Company’s Working Manual provides that the Sub-Engineer/Assistant Resident Engineer shall prepare the Bill from the Measurement Book concerned and will give the bill and the Measurement Book to the Accountant of the Unit. The Accountant will fill in/check the rates in the rates column of the bill, from the Work Order or the Contract Bond concerned and check the calculations.

During physical verification of the sites of seven works, the Company discovered that excess payments of ₹ 31.72 crore were made without actual work done, as detailed in **Table 6.11**.

Table 6.11: Details of payments to contractors without actual execution of work

(₹ in crore)				
Sl. No.	Name of the work	Payments made	Cost of actual work done	Excess payments
1.	Shifting and dismantling of 11 kV/33kV line and underground 11kV line at Integrated Industrial Establishment, Pant Nagar	6.90	1.07	5.83
2.	Construction of Administrative and Teaching block in State Nursing College and Nursing School, Dehradun	5.52	1.60	3.92
3.	Construction of Hostel block in State Nursing College and Nursing School, Dehradun	8.90	2.60	6.30

³⁴ Medical Gas Plant and Pipeline at different departments of KGMU, Lucknow.

Sl. No.	Name of the work	Payments made	Cost of actual work done	Excess payments
4.	Construction of OPD block at Doon Medical College, Dehradun	9.93	--	9.93
5.	Construction of Primary Health Centre Bhagwanpur, Chandanpur Block Norsan, Haridwar	1.26	0.61	0.65
6.	Construction of OT and Emergency block and renovation and upgradation of existing hospital at Doon Medical College, Dehradun	4.35	Nil	4.35
7.	Re-construction of approach road from behind Omaxe to NH-74 in Integrated Industrial Place, Pant Nagar	4.12	3.38	0.74
Total				31.72

Source: Records/ information furnished by the Company

The aforesaid instances indicate that the internal controls documented in the Company's Working Manual regarding measurements and preparation of bills were either not followed or were not implemented effectively. Besides, the possibility that the established internal controls were intentionally overridden or circumvented by collusion or fraudulent activities also cannot be ruled out.

Further, the significant discrepancies between payments and work done suggest a complete absence of site inspections and reconciliation of physical progress with financial outlays by supervisory officers. The scale of such overpayments across multiple projects indicates a systemic failure in the Company's project monitoring framework to flag and investigate unusual payment patterns.

Although the Company has initiated disciplinary action³⁵ against the concerned officials, the Company has not lodged First Information Reports (FIRs) against the concerned officials in any case to date (November 2023).

In reply, the Government and Management stated (July 2024) that the notices have been issued to the concerned officials, and proceedings are in progress.

The fact remains that an excess payment of ₹ 31.72 crore was made due to ineffective implementation or non-adherence to internal controls documented in the Company's Working Manual regarding measurements and preparation of bills.

Conclusion

The performance audit revealed systemic weaknesses across financial management, operational planning, execution of works, and internal controls. The Company lacked financial discipline, as activities were executed without budgets, expenditure exceeded available funds, unspent balances were not refunded to client departments, and interest earned on Government funds was not deposited into the Treasury. Further, interest on mobilisation advances was wrongly treated as income.

The Company had operational inefficiencies marked by the loss of high-value tendered works due to poor documentation and blacklisting, commencement of projects without mandatory approvals, and absence of prescribed timelines and milestones, which weakened accountability. The

³⁵ In two cases, the disciplinary proceedings have been finalised, and recovery orders have been issued by the Company against the concerned officials.

failure to apply the prescribed five *per cent* deduction from cost estimates further reflected lapses in planning.

Tendering and execution practices were deficient, undermining transparency and fair competition. Audit noted irregular subletting of works, release of unsecured advances, short recovery interest on mobilisation advances, non-recovery of statutory dues, unauthorised execution of additional works, and non-procurement of materials through the Government e-Marketplace portal.

The Company demonstrated severe weaknesses in its internal control systems and monitoring mechanisms across financial reporting, corporate governance, and project management. Non-compliance with statutory requirements, including delayed financial statements and annual reports, coupled with inadequate corporate governance practices, undermined transparency and accountability. The absence of critical oversight mechanisms, such as independent directors and statutory committees, further aggravated these issues. Weak financial controls led to significant unreconciled balances and delays in obtaining tax certificates. Project execution suffered from inadequate monitoring, resulting in financial irregularities including payments for work not done.

Response to Recommendations:

The Government and Management acknowledged the recommendations and assured of corrective action.

