CHAPTER-II

2. REVIEWS RELATING TO GOVERNMENT COMPANIES

2.1 REVIEW ON EXECUTION OF CONSTRUCTION WORKS BY ASSAM POLICE HOUSING CORPORATION LIMITED

Highlights

The Company was incorporated (December 1980) to undertake construction works for Police Department and as such the Company was solely dependent on allotment of sufficient works by the State Government. The Company received an amount of Rs.118.52 crore against the budget provision of Rs.289.81 crore and executed works valued at Rs.95.48 crore. Despite availability of funds, the Company had reduced the quantum of work. As on 31 March 2005, there was cumulative unspent balance of Rs.37.78 crore.

(Paragraphs 2.1.1, 2.1.7, 2.1.8, 2.1.9 and 2.1.13)

Audit also noticed lack of transparency in the award of work; irregular retention of funds (Rs.5.61 crore); non-remittance of interests (Rs.5.05 crore) earned on unspent Government funds.

(Paragraphs 2.1.10, 2.1.11 and 2.1.16)

The Company failed to comply with codal requirements causing frequent changes in technical specifications after award of work and consequential increase in tender value as well as extra avoidable expenditure of Rs.15.32 lakh.

(Paragraph 2.1.14)

Introduction

2.1.1 The Assam Police Housing Corporation Limited (Company) was incorporated on 5 December 1980 as a wholly owned Government Company with the main objective to formulate, execute housing schemes for the employees of the Police Department; and undertake construction of buildings for the personnel of the Police Department.

The works allotted to the Company by the State Government are executed through private contractors registered with the Company on open tender basis. The execution of works is supervised by five branch offices of the Company. The Company executes construction work of residential and other administrative buildings for the State Police Department under both Plan and Non-plan schemes of the State Government, centrally sponsored Non-plan scheme of modernisation of State Police Force and Finance Commission Awards.

The Company is managed by a Board of Directors consisting of not more than 10 Directors, all nominated by the State Government. As on 31 March 2005, there were eight Directors including the Chairman-cum-Managing Director.

The performance and working of the Company for the period from 1985-86 to 1991-92 was reviewed in audit and incorporated in the Report (Commercial) of the Comptroller and Auditor General of India, Government of Assam—1991-92. The review is yet to be discussed by the Committee on Public Undertakings (COPU).

Scope of audit

2.1.2 The present review conducted during March 2005 to April 2005 covers an evaluation of actual performance in execution of works along with an assessment of the system and infrastructure available for the purpose. The review covers the period from 2000-01 to 2004-05.

Audit objectives

2.1.3 The main objective of the review is to ascertain how far the mandated objectives of the Company 'formulating and executing construction schemes for the benefit of State Police Department and its employees' were achieved, and executed effectively with economy and efficiency. Towards this goal, Audit analysed the following:

- Appropriation of funds received and closure of accounts;
- Execution of works;

- Preparation of detailed design and estimates;
- System of awarding works contract;
- Internal control and internal audit.

Audit criteria

2.1.4 The audit criteria, includes examination and analysis of the systems and procedures designed for achievement of objectives of the Company to see whether:

- funds were received before execution of works;
- all applicable rules/regulations were complied with;
- administrative approval/technical sanctions were obtained before execution of work;
- open competitive tenders were invited and works were awarded to the lowest tenderer;
- reasonableness of rates allowed to contractors was ascertained.

Audit methodology

2.1.5 Following audit methodologies were adopted:

- For fund analysis, receipt and utilisation of funds were ascertained from cash book, bank account, administrative sanctions and correspondence with the State Government.
- Selection of works for scrutiny was made on the basis of value (cases above Rs.10 lakh each) to find out compliance with applicable rules and regulations in the context of overall audit objectives.
- The works required to be scrutinised were compiled from cost estimates, administrative sanctions received and work orders issued.
- Correspondence with State Government, monthly/quarterly progress reports placed before the Board of Directors, instructions to field offices *etc*, were also examined, wherever necessary.

Audit findings

2.1.6 Audit findings, as a result of review on execution of construction works by Assam Police Housing Corporation Limited was reported to the Government/Management in June 2005 and discussed in the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 26 July 2005, which was attended by the Commissioner and Secretary (Home), Government of Assam, and Chairman-cum-Managing Director of the Company. Subsequently, the Company also submitted detailed written replies (August 2005), which have been taken into consideration during finalisation of the review.

During the period from 2000-01 to 2004-05, the Company executed works valued at Rs.95.48 crore out of the assigned works of Rs.118.52 crore. The shortcomings noticed in Audit are discussed in succeeding paragraphs:

Implementation

2.1.7 The Company received funds from the State Government against budgetary provisions made under (i) State plan/non-plan, (ii) Finance Commission Awards, and (iii) Modernisation grants. The details of budgetary provisions made by the State Government and actual funds received by the Company are detailed below:

Years	Budget provisions				Actual receipts				Shortfall (*Percentage*)
	State Government	Finance Commission Awards	Modernisation Grants	Total	State Government	Finance Commission Awards	Modernisation Grants	Total	
	(Rupees in crore)								
2000-01	4.39	27.08	0.50	31.97	0.40	6.84	-	7.24	24.73 (77.35)
2001-02	2.60	9.38	32.78	44.76	-	0.15	16.34	16.49	28.27 (63.16)
2002-03	4.51	-	64.16	68.67	0.40	-	16.34	16.74	51.93 (75.62)
2003-04	0.30	5.00	66.89	72.19	1.83	6.30	22.85	30.98	41.21 (57.09)
2004-05	1.97	-	70.25	72.22	0.30	0.54	46.23	47.07	25.15 (34.82)
Total	**13.77**	**41.46**	**234.58**	**289.81**	**2.93**	**13.83**	**101.76**	**118.52**	**171.29**

It will be seen from the table that the State Government did not release the budgeted amount during the last five years ended 31 March 2005. There was a shortfall of Rs.171.29 crore in receipt of funds ranging from 34.82 *per cent* to 77.35 *per cent*, compared to budget provisions during 2000-01 to 2004-05.

Due to shortfall in release of funds by the State Government, the value of works executed during 2001-02 and 2002-03 was very low at Rs.17.08 crore only. On these works, the Company earned overhead charges of Rs.2.56 crore (at the rate of 15 *per cent* of value of works executed) against the revenue expenditure of Rs.4.33 crore, as discussed in paragraphs 2.1.8 and 2.1.9 *infra*. Thus, there was a shortfall of Rs.1.77 crore towards recovery of overhead charges.

Value of works executed

2.1.8 The details of value of works executed during the period from 2000-01 to 2004-05 and the funds received are given in the following table:

Year	Funds received	Value of works executed			Unspent balance at the end of the year
		Payment made to contractors for works	15 *per cent* overhead charges	Total	
	(Rupees in crore)				
Upto March 2000					14.74
2000-01	7.24	22.29	3.34	25.63	(-) 3.65
2001-02	16.49	10.75	1.61	12.36	0.48
2002-03	16.74	6.33	0.95	7.28	9.94
2003-04	30.98	19.96	2.99	22.95	17.97
2004-05	47.07	23.70	3.56	27.26	37.78
Total	**118.52**	**83.03**	**12.45**	**95.48**	

The Company executed works valued at Rs.95.48 crore during the years 2000-01 to 2004-05 out of Rs.118.52 crore received during the same period. Cumulative unspent balance at the end of year 2004-05 was Rs.37.78 crore, as discussed in paragraphs 2.1.10 and 2.1.11 *infra*.

Recovery of overhead charges

2.1.9 As per item No.4 of 83rd Board meeting dated 12 September 2003, the revenue expenditure of the Company is required to be met from earning of overhead charges at 15 *per cent* (Agency Charges: 10 *per cent*; Contingencies: 3 *per cent*; Work-charge employees:2 *per cent*) of the value of works executed. The details of value of works executed, revenue expenditure incurred and the *percentage* of revenue expenditure to value of works for the five years upto 2004-05 are as follows:

Years	Value of works excluding overhead charges	Revenue expenditure (excluding value of capital stores wrongly debited to Profit and Loss Account)	*Percentage* of revenue expenditure to value of works executed
	(Rupees in crore)		
2000-2001	22.29	2.22	9.96
2001-2002	10.75	2.20	20.47
2002-2003	6.33	2.13	33.65
2003-2004	19.96	2.42	12.12
2004-2005	23.70	2.45	10.34
Total	**83.03**	**11.42**	**13.75**

The Company was perpetually dependent on State Government

The *percentage* of revenue expenditure to value of works executed (excluding overhead charges) varied from 9.96 to 33.65 during 2000-01 to 2004-05 against 15 *per cent* allowed by the State Government. It would be observed from the table above that the revenue expenditure was almost constant during the period of review, while value of works executed varied, and was very low during the years 2001-02 to 2002-03. In these years only, *percentage* of revenue expenditure to value of works executed was also quite high. Value of works executed is entirely dependent upon the volume of works allocated by the State Government, Home (C) Department. The Company was, thus, perpetually dependant on State government for its economic viability.

The Company, while accepting the facts, stated (August 2005) that efforts were being made to procure works from other departments and Central Public Sector Undertakings.

Remittance of interest on Government funds

2.1.10 The Finance Department had reduced the agency charges from 15 *per cent* to six *per cent* from 31 July 2003. A High Power Committee, constituted by the State Government, in its meeting held on 29 October 2003 had, however, recommended continuance of 15 *per cent* charges subject to the condition that interest earned on fixed deposits made from unspent Government funds should be deposited with the State Government.

Decision taken by the Finance Department on the recommendations of the High Power Committee, if any, was not made available. Inspite of recommendations of High Power Committee, the Company did not make any payment to State Government out of interest earned on fixed deposits amounting to Rs.5.05 crore during 2003-04 and 2004-05. The plan/estimates submitted by the Company upto 2004-05 and administratively approved by Government, however, included 15 *per cent* overhead charges.

The Management while accepting the audit observations stated (July 2005) that at present it was not possible to deposit the interest earnings into the

Government accounts owing to (i) committed liabilities, (ii) non-finalisation of accounts, and (iii) low bank interest resulting in fund constraint. The Company, in its reply of August 2005 only explained the reasons for keeping its funds in fixed deposit.

The reply is not acceptable as committed liabilities, if any, were required to be met from the funds received for the works, and not from interest income. Non-finalisation of accounts and low bank interest was not relevant for payment of interest to Government.

Retention of funds

2.1.11 The State Government provides funds to the Company from time to time under Annual Plan/Non-plan Schemes, centrally sponsored non-plan scheme of modernisation of State Police Forces, and Finance Commission Awards for execution of construction works. The funds so received are categorised by the Company as advance from customers.

The advances received were required to be appropriated against actual value of works executed after closure of respective works accounts. Savings, if any, were required to be refunded.

Formal non-closure of works accounts resulted in irregular retention of funds of Rs.5.61 crore

The Company, however, did not formally close the works accounts in respect of works already completed. As per Annual Progress Report, the advances received (since inception) included savings amounting to Rs.5.61 crore as detailed in ***Annexure*-10**.

As on 31 March 2005, the Company had not taken any action to close the works accounts and refunded the amount or otherwise adjusted the unspent balance with the approval of State Government.

The Management stated (August 2005) that the exercise of closing of account had been initiated and that any profit or balance, which remained after detail accounting, would be at the disposal of the Government for refund or construction of additional works.

Execution of works

2.1.12 Details of works undertaken, works completed and spill-over during the five years from 2000-01 to 2004-05 are given in the next page:

Years	Spill-over from previous year (units)	No. of Units* undertaken	Total	No. of units* completed	Reduction in units	Spill-over to next year (units*)
2000-01	1,347	14	1,361	1,001	125	235
2001-02	235	350	585	414	121	50
2002-03	50	78	128	25	4	99
2003-04	99	483	582	90	-	492
2004-05	492	614	1,106	583	-	523

Audit observed that the Company did not prepare completion certificate in respect of all works executed and completed.

Reduction in quantum of work sanctioned under Tenth Finance Commission Awards

2.1.13 The Home Department sanctioned a total amount of Rs.82.91 crore under Tenth Finance Commission Awards (TFCA)—1996-97 to 1999-2000, for construction of 5,102 Lower Supervisory Quarters. The Company, however, received only Rs.74.62 crore during July 1997 to February 2000 in respect of 4,649 L.S quarters; of which the Company constructed 4,389 quarters and another 10 quarters were planned to be constructed. The year-wise break-up is as under:

Head of Account	1999-2000	2000-2001	2001-2002	Total
TFCA, 1996-97	995	58	37	1,090
TFCA, 1997-98	1,233	91	33	1,357
TFCA, 1998-99	744	443	100	1,287
TFCA, 1999-2000	Nil	374	281	655
Total	**2,972**	**966**	**451**	**4,389**

Scope of work reduced by 250 L.S. quarters on the pretext of higher/excess expenditure, however, the Company had an unspent net balance of Rs.2.42 crore

The Company from time to time reduced the scope of work by 250 quarters and hence, did not take up for construction during 2002-03 to 2004-05. As per progress reports submitted to Board for the years 2000-01 to 2002-03, the reduction was made on the pretext that higher/excess expenditure had been incurred (leading to funds constraint) on certain works already executed on certain low-lying lands, as well as construction of 22 R.C.C quarters in place of Assam Type quarters.

Audit noticed that even after incurring higher expenditure, the Company had an unspent balance of Rs.2.42 crore (net) out of the funds received. Hence, reduction in quantum of work was not justifiable.

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* Units refers to number of quarters and administrative buildings.

The Management stated (August 2005) that reduction of quantum of works was not due to shortage of fund but due to site condition and that the balance amount available would be utilised for construction of further quarters as early as possible.

The reply of the Management is not acceptable in view of the fact that reasons for reduction in quantum of works as stated in the reply were at variance with those recorded in progress reports approved by the Board.

Compliance with codal formalities

2.1.14 The Board of Directors decided in March 1989 to follow the rules and regulations of the Assam Government Construction Corporation Limited (AGCC) till the finalisation of its own rules and regulations. Audit noticed (April 2005) that the Company had neither finalised rules/manuals of its works operations nor followed the rules and regulations of AGCC. The Company was following the rules and regulations of Assam Public Works Department since inception.

In the absence of technical sanction, the quality and quantities of works executed with reference to technical requirements could not be ensured

As per Para 229 of the Assam Public Works Department Manual, technical sanction is required to be obtained from competent authority before commencement of work. The Company was, however, executing all works after obtaining administrative sanction from State Government based on lump-sum estimates without obtaining technical sanction. Technical sanction, besides ensuring technical feasibility of work, prevents frequent changes in specification after commencement of work. Since it comprises item-wise quantum of work technically required to be executed, it acts as an important tool for comparing item-wise quantities of work actually executed. In the absence of technical sanction, the quality and quantities of works executed with reference to technical requirements could not be ensured. Instances noticed in audit are discussed below:

- The work of construction of 25 four-storyed R.C.C buildings at various district headquarters of the State was awarded to 25 contractors during August 2002 at a total tender value of Rs.13.97 crore. Subsequent to awarding the work, the tender value of each work was enhanced by total amount of Rs.1.21 crore mainly due to change in specification of foundations from isolated footing to pile foundation/combined footing.

  Out of 25 works, 21 works were completed during 2003 at total cost of Rs.12.83 crore. The remaining four works were in progress (March 2005).

- Under Tenth Finance Commission Awards, the work of construction of a two-storyed R.C.C. residential quarters at Subsidiary Bureau (SB) headquarters at Kahilipara, Guwahati was awarded (March 2000) to a contractor at Rs.14.79 lakh (five *per cent* above 1996-97 SOR). Similarly, the work of construction of a three-storyed R.C.C residential quarters at the same location was also awarded (March 2000) to another contractor at Rs.20.36 lakh (five *per cent* above 1996-97 SOR).

In January 2001, the Chief Engineer of the Company changed the specification of both the buildings to four-storyed buildings and the plinth area when the contractors had already achieved more than 60 *per cent* physical/financial progress. Consequent on change of specification of the buildings, the tender value was enhanced to Rs.22.84 lakh and Rs.39.76 lakh respectively.

The first work was completed on 12 May 2001 at a cost of Rs.22.46 lakh. The second work was completed on 30 June 2001 at a cost of Rs.39.76 lakh.

Non-obtaining of technical sanction resulted in extra expenditure of Rs.15.32 lakh

The cost of both the four-storyed buildings at five *per cent* above the rates prescribed in the APWD SOR for buildings—1996-97 worked out to Rs.46.90 lakh (Rs.15.18 lakh and Rs.31.72 lakh on plinth area basis) against actual expenditure of Rs.62.22 lakh. There was, thus, extra avoidable expenditure of Rs.15.32 lakh.

The Company stated (August 2005) that there were practical difficulties in complying with all Government rules/regulations.

The reply of the Management is not acceptable because technical sanction is an important control mechanism for monitoring execution of work. Further, being a Government Company and not having its own technical operational manual, Company was expected to follow Public Works Manual.

2.1.15 Audit further noticed that the Company also did not comply with requirements of Assam Public Works Manual with regard to the following:

- Non-maintenance of contractors' ledger as required under Para 427 of the Manual.

- Non-maintenance of Check Measurement Book as required under Para 376 of the Manual.

Due to non-maintenance of contractors' ledger, details of payments made and recoveries outstanding were not readily available and hence, could not be vouched in audit. Non-maintenance of Check Measurement Register indicated absence of control on quantum of works executed.

The Company in its reply (July 2005) stated that audit observations had been noted for compliance and in its reply of 10 August 2005, the Company further stated that it would make its own rules/regulations.

Lack of transparency in awarding the works

2.1.16. As per procedure followed, the Company awards the works to contractors registered with the Company after inviting *percentage* rate tender. The estimated costs put to tender are worked out on plinth area basis at rates prescribed in relevant Assam Public Works Department (APWD) schedule of rates (SOR).

Scrutiny of comparative statements of tenders received revealed that all participating tenderers/contractors quoted the same rate above/below the schedule and they all ranked as the lowest (L1). The Company awarded the work to one of the contractors below the quoted rate. Instances noticed are tabulated as follows:

Sl. No.	Particulars of work	No. of tenders	Rate quoted by the tenderers	Rate at which work awarded	Date of award of work
1.	Construction of ground floor of Central Hospital at Police Training Centre, Dergaon.	15	35 *per cent* above	10 *per cent* above	May 2002
2.	Construction of three-storyed R.C.C control room building at Guwahati	8	35 *per cent* above	10 *per cent* above	November 2002
3.	Construction of two-storyed R.C.C building for hostel of trainees at Commando Ballation, Mandakata.	7	15 *per cent* above	5 *per cent* above	November 2002
4.	R.C.C four-storyed buildings at District headquarters under Modernisation grant-2000-01 (23 works out of 25 works).	107	35 *per cent* above	10 *per cent* above	August 2002
5.	Construction of L.S. quarters 20 units (one building) under Tenth Finance Commission Awards—1998-99 (two works)	10	15 *per cent* above	5 *per cent* above	February 2000

The fact that all participating tenderers quoted the same *percentage* rate indicated existence of a cartel among the registered contractors, which restricted competition.

The Company, however, awarded the works to one contractor in each case at a lower rate without recording the reasons and without analysing the item-wise rates. Thus, the procedure followed by the Company for award of works lacked transparency.

The Company stated (August 2005) that the rates quoted by the contractors were their own decision and also after receipt of tenders, comparative statements were prepared to ascertain the lowest rate and wherever needed, works were awarded after negotiation.

The reply of the Management is not acceptable, as the records of negotiations with the contractors, if any, were not produced to audit. As such, Management's contention cannot be vouchsafed in Audit. Moreover, reasons for which all participating contractors were quoting the same rate could not be explained.

Expenditure on work charged employees

2.1.17 The State Government had allowed 15 *per cent*[*] of the value of work to the Company as overhead charges, which included two *per cent* towards work-charged employees. Details of works executed and payments made to work-charged employees are given in the table as follows:

Years	Bills paid to contractors for execution of works	Two *per cent* charges for work-charged employees	Salary and wages paid to work-charged employees	Extra expenditure (4-3)
(1)	**(2)**	**(3)**	**(4)**	**(5)**
(Rupees in crore)				
2000-2001	22.29	0.45	0.88	0.43
2001-2002	10.75	0.22	0.85	0.63
2002-2003	6.33	0.13	0.83	0.70
2003-2004	19.96	0.40	0.84	0.44
2004-2005	23.70	0.47	0.75	0.28
Total	**83.03**	**1.67**	**4.15**	**2.48**

It may be seen from above that the Company incurred extra expenditure of Rs.2.48 crore towards salary and allowances of work-charged employees during 2000-01 to 2004-05.

The Management in its reply (July 2005) stated that termination notice had been served (February 2001) to work-charged employees who obtained (March 2001) stay orders from the Guwahati High Court, which were not vacated as of September 2005.

The reply of the Management is not tenable as (i) the Company was executing works through contractors and hence, there was no need to employ work-charged employees; (ii) the work-charged employees were recruited between January 1983 to November 1987 and termination notices were served in February 2001 *i.e.* after more than 18 years.

[*] Revised to six *per cent* in July 2003 but not yet enforced by the Government.

Internal control

2.1.18 The system of internal control of the Company was deficient with regard to the following:

- The Company did not have any Accounting Manual of its own. Despite Board of Directors' instructions (March 1989), the Company was yet (September 2005) to finalise its own rules and regulations.

- In the absence of any laid down rules and regulations of their own, the Company was required to follow the APWD codes. The Company, however, did not comply with codal requirements with regard to obtaining technical sanction before commencement of work, maintenance of Check Measurement register and Contractors ledger.

- The Company did not finalise its annual accounts from 1995-96 onwards as on 31 March 2005. The Company did not have a system of internal audit. Consequently, non-compliance with codal formalities, extra avoidable expenditure, non-closure of works accounts, under-recovery of overhead charges, *etc*, were not brought to the notice of the Management for timely remedial action.

The Management stated (August 2005) that internal control system would be reviewed and strengthened. It was also stated that they proposed to introduce an internal audit wing.

The matter was reported to the Government in June 2005; reply had not been received (September 2005).

Conclusion

The Company was incorporated to undertake construction works for Police Department. For its existence, the Company was solely dependent on allotment of sufficient works by the State Government, Police Department. There was, however, shortfall in release of funds by the State Government as compared to its budgetary provision for the works that the Company executes. The Company failed to comply with the codal requirements in respect of execution of works causing frequent changes in technical specifications after award of works. The method of award of work to contractors was not transparent. Cases of extra expenditure and irregular retention of funds were also noticed. The Company did not have an accounting manual and an internal audit system.

Recommendations

- **The Company should ensure that (i) all the codal requirements are followed, and (ii) Government funds are not unnecessarily retained.**

- **The Company should draw up detailed technical specifications and obtain technical sanction for each work to avoid any changes after allotment of work and consequential enhancement of costs.**

- **The system of award of works to contractors should be made more transparent.**

- **The Company should prepare its own accounting manual and introduce the system of internal audit in order to ensure that shortcomings in execution of systems, works, *etc*, are brought to the notice of the higher Management for taking timely remedial action.**