Chapter II

2. Review relating to Government companies

2.1 Construction activities of Rajasthan State Road Development and Construction Corporation Limited

Highlights

Performance of the Company with regard to procurement of works for execution through competitive bidding, timely and cost bound completion of works and efficient work execution/contract management was poor.

The Company secured less than 24 *per cent* works for which it tendered during 2002-03. This rate further declined to about 20 *per cent* during 2003-04. Despite this being pointed out by Audit earlier, the Company did not evolve any system to analyse the reasons for the poor success rate in tendered works.

During 1999-2004 the Company could complete only 46 (23.5 *per cent*) works at a cost of Rs.107.50 crore (71.3 *per cent*) out of 196 tendered works worth Rs.150.77 crore.

Against a targeted profit of 5 to 10 *per cent*, the Company could earn only 0.84 *per cent* during 1999-2004.

Forty five works (23.19 *per cent*) executed by the Company suffered time overruns ranging between 1 to 39 months. The Company had to pay penalty amounting to more than Rs.80 lakh for delays attributed to it due to deficient planning and contract management.

(Paragraph 2.1.6)

Total contribution of the Company as a percentage of total PWD works declined from 14.96 *per cent* in 1999-2000 to 12.92 *per cent* in 2003-04. The State Government assigned only 1.56 *per cent* works to the Company without inviting tenders during year 2001-04. Though the percentage of contribution in respect of 'Tender Works' increased from 1.11 *per cent* in 2000-01 to 11.70 *per cent* in 2003-04, this quantum jump did not translate into higher returns as the tenders were based on unrealistic estimates.

(Paragraph 2.1.7)

Inadequate planning and ineffective Contract Management by the Company in execution of RJ-13-01 and RJ-13-02 road projects at Dholpur district resulted in extraordinary delay of 12 and 19 months respectively.

(Paragraph 2.1.8)

Un-authorised dilution of the specifications resulted in early failure of the bituminous work, which was rectified at a cost of Rs.3.97 crore without sanction of the Government.

(Paragraph 2.1.10)

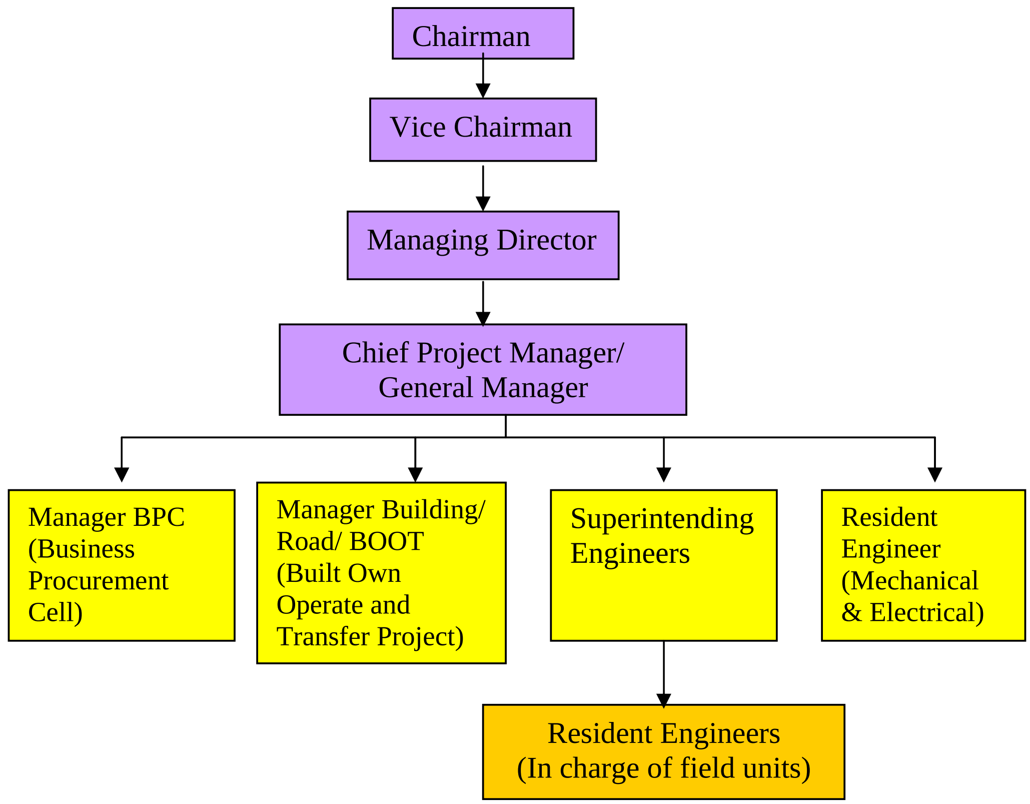
Introduction

2.1.1 Rajasthan State Bridge and Construction Corporation Limited (RSBCC) was incorporated in February 1979 as a wholly owned State Government Company with the main objective to construct roads, paths, streets, bridges, sideways, tunnels etc.

The Company was renamed (18 January 2001) as Rajasthan State Road Development and Construction Corporation Limited (Company) and the organisation set up was also re-structured with mandate to cover various construction activities in a modern and organised manner. The mandate, *inter alia*, includes obtaining works from the Government on selected projects without tenders, use of land available near flyovers, bridges and expressways with a view to obtain revenue, to construct new bridges/ flyovers costing Rs. 1.00 crore and above with Government funds. In addition 25 *per cent* of the total Build Own Operate and Transfer (BOOT) projects were also to be awarded to the Company without inviting tenders.

The Managing Director is the Chief Executive of the Company and is assisted by a General Manager, Chief Project Manager and Chief Accounts Officer. Implementation is done by field units headed by Resident Engineers (RE).

The organisation chart for execution of construction activities is as under:

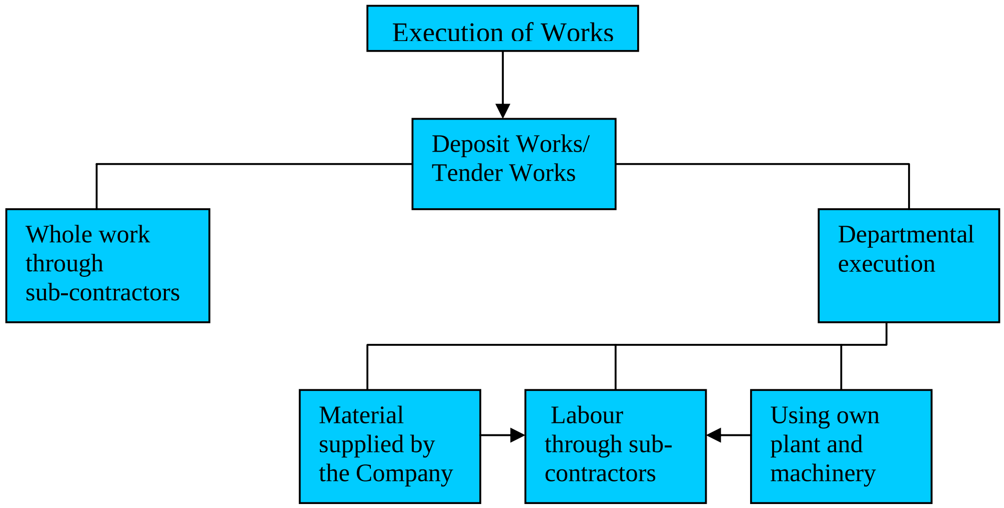


The works executed by the Company are divided into two categories:

- Contract/tender works secured through competitive bidding
- Deposit works awarded mainly by the State Government/Departments without tenders on cost plus basis*.

* actual cost plus centage charges

A flow chart indicating the process of works execution followed by the Company is as under:



Scope of Audit

2.1.2 The working of erstwhile RSBCC was last reviewed and the results were commented upon in the Report of Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000, Government of Rajasthan. This Report has been discussed partly (September 2005) by the Committee on Public Undertakings (COPU).

The construction activities of the Company for the period 1999-2004 were reviewed during July 2004 to February 2005. Audit was carried out through examination of records relating to planning and implementation of works at the Company's Head Office (HO) and six* field units (36 *per cent)* out of total 16 field units as on 31 March 2004 selected on the basis of their turn over and cost of completed works.

The review sample included 31 (67.39 *per cent*) completed competitive bid works out of a total of 46 works completed by the Company during 1999-2004 and 117 (21.31 *per cent*) completed deposit works out of 549 completed deposit works.

The audit findings were reported to the Government/Management in July 2005 and discussed at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 19 July 2005 where the Managing Director of the Company represented the Management. The review was finalized after considering the views of the Management. The Government view point, however, could not be taken into account due to non-participation of the Government representative.

* Bikaner, Bharatpur, Jaipur-II, Jodhpur-I, Mechanical and Jodhpur-II

Audit objectives

2.1.3 The performance audit of construction activities of the Company with regard to execution of works was carried out to evaluate the effectiveness, efficiency and economy and to assess whether:

- the Company as per the restructured mandate, could achieve a competitive edge through efficient planning, co-ordination and contract management and whether this efficiency was successfully translated into securing more works through competitive bidding, and whether the Company has devised a mechanism to procure works from various departments,

- the planning for the execution of awarded works, their supervision was consistent with the targets,

- the system for appropriate co-ordination, monitoring and contract management are in place and if yes, whether these were operational as well as cost effective,

- the Company was sensitive to the risks associated with variations in quantities, time and cost overrun and quality of the works executed by it and took remedial action to address such risks,

- the resources available like plant and machinery and materials have been utilised effectively and efficiently to the best advantage of the Company and whether procurement of various materials was made efficiently and economically and losses due to excess purchase/improper storage avoided.

Audit criteria

2.1.4 The performance of the Company with regard to its construction activities was benchmarked with reference to its restructured/redesigned mandate, rules and procedures prescribed by the top Management as also the best practices in Planning, Execution and Contract Management.

Audit Methodology

2.1.5 A pilot study was conducted and the risk in the Company was perceived to be high in the absence of standardised operational, administrative and financial procedures and practices. There was lack of skill development/ know how/organisational capacities/ research and development and non-achieving the time bound completion of projects despite the Company being in business since 1979.

In view of this, the following methodology for analysing the high-risk area was adopted: -

Detailed testing of documents relating to centage charges, profit earned on tendered works, income from hire charges of machinery, expenditure incurred on Toll projects, participation of the Company in various schemes of developments of the State, procurement of inventory and utilisation of Company owned plants and machinery.

Audit findings

2.1.6 Procurement of works through competitive bidding

The table below indicates the details of tenders in which the Company participated and works obtained during the five years ended 31 March 2004:

Sl. No.	Year	Tenders considered for participation	Tenders participated	Tenders accepted	
				Numbers	Value (Rs. in crore)
1	1999-2000	NA	NA	10	8.61
2	2000-01	NA	NA	7	10.68
3	2001-02	NA	NA	22	41.16
4	2002-03	240	102	24	112.10
5	2003-04	221	104	21	108.25
	Total	**461**	**206**	**84**	**280.80**

(Note: Figures for the year 1999-2000 to 2001-02 are pertaining to 13 units only)

The Company could succeed only in 24 and 21 bids during the years 2002-03 and 2003-04 respectively representing 23.53 and 20.19 *per cent* of the total participated bids. The Company did not maintain any record to show the details of tenders considered for participation and tenders participated for the years from 1999-2000 to 2001-02.

Company did not evolve any system to analyse poor success rate of tender work. The tender works decline to 20.19 *per cent* in 2003-04 from 25 *per cent* in 1998-99.

Reference is invited to paragraph 2.12 of the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000, wherein the declining trend in success rate in tender participation was discussed. The declining trend continued and during the year 2003-04 came down to 20.19 *per cent* from 25 *per cent* during 1998-99. Despite this being pointed out by Audit, the Company did not evolve any system to analyse the reasons for the poor success rate in tender works.

During the period 1999-2000 to 2003-04, the Company executed 196 tender works valued at Rs.150.77 crore out of which 46 works valued at Rs.107.50 crore were completed, some of which were awarded prior to 1999-2000.

Audit analysis revealed that against the targeted profit of 5 to 10 *per cent* of the cost of work, the Company earned a net profit of 0.84 *per cent*, which was Rs.90 lakh only on completed works of Rs.107.50 crore which is far below the targeted profits. In the absence of an adequate database, trend analysis of inputs and a mechanism for finalisation of the tender/ bidding process, the Company could not get the desired results and also failed to analyse the reasons of losses on tendered works.

Time over run ranging between 1month to 39 months caused payment of penalty of Rs.80.15 lakh

Scrutiny of 148 works valuing Rs.289.33 crore revealed that 45 works suffered time overrun ranging from 1 to 39 months and cost over run of Rs.5.09 crore in 29 works. Reasons for delays were not on record. It was also noticed that in five cases, the clients imposed penalties of Rs.80.15 lakh for delays attributed to the Company. The main reasons for delay in completion were lack of planning, efficient execution and utilisation of departmental plant and machinery. Some representative cases involving cost overrun/time overrun are discussed in the succeeding paragraphs.

2.1.7 Procurement of works from Public Works Department

The details of works valued above Rs.10 lakh sanctioned by the Public Works Department (PWD) for the State and executed by the Company during the period from 1999-2004 are tabulated below:

Year	Total Works sanctioned by PWD		Works executed by the Company					
			Tender works		Deposit works		Total	
	No. of Works	Value (Rs. in crore)	No. of Works	Value (Rs. in crore)	No. of Works	Value (Rs. in crore)	No. of Works	Value (Rs. in crore)
1999-2000	580	172.28	Nil	Nil	70	25.78 (14.96)*	70	25.78 (14.96)*
2000-01	195	174.95	2	1.94 (1.11)*	3	1.92 (1.09)*	5	3.86 (2.21)*
2001-02	543	539.90	12	30.44 (5.64)*	3	4.77 (0.88)*	15	35.21 (6.52)*
2002-03	846	918.84	9	26.22 (2.85)*	20	44.94 (4.89)*	29	71.16 (7.74)*
2003-04	408	438.23	16	51.26 (11.70)*	5	5.35 (1.22)*	21	56.61 (12.92)*
Total	**2572**	**2244.20**	**39**	**109.86 (4.90)***	**101**	**82.76 (3.69)***	**140**	**192.62 (8.58)***

(* Figures in bracket indicate percentage of value of works procured to works sanctioned by PWD)

It can be observed from the above table that the percentage of total contribution of the Company towards PWD works (Tender and Deposit Works) declined from 14.96 *per cent* in 1999-2000 to 12.92 *per cent* in 2003-04. This decline was mainly attributed to sharp downslide of Deposit Works from 14.96 *per cent* in 1999-2000 to 1.22 *per cent* in 2003-04. The State Government assigned only 1.56 *per cent* works to the Company without inviting tenders during years 2000-01 to 2003-04. Though the percentage of contribution in respect of 'Tender Works' increased from 1.11 *per cent* in 2000-01 to 11.70 *per cent* in 2003-04, this quantum jump did not translate into higher returns as the tenders were based on unrealistic estimates.

In the case of Pradhan Mantri Gramin Sadak Yojana (PMGSY) the Company failed to analyse the tender conditions properly, which resulted in the Company being deprived from participation in the tender works of Rs.239.27 crore despite incurring of expenditure of Rs.1.08 lakh on tender forms in respect of the 138 works.

Deficient planning

2.1.8 Wide variations

Preparation of accurate and realistic estimates for road/bridge projects is a critical activity in planning construction activities. In case of widening work of two bridges over Amani Shah Ka Nallah and two bridges over Jawahar Nallah, the Company submitted bids for Item Rate Contracts. It was noticed in audit that the execution costs of 22 items (out of 51 items) and 21 items (out of 37 items) were higher than their bid rates. Thus due to unrealistic estimates, the executed cost of these projects exceeded the awarded cost widely from 1.3 *per cent* to 101 *per cent* which resulted in cost overrun of Rs.28.51 lakh which was a loss to the Company.

In case of Bhilwara Bye Pass project and Jindoli tunnel project, wide variations existed between estimated (Rs.11.71 crore and Rs. 9.34 crore respectively) and actual expenditure (Rs.17.48 crore and Rs. 10.66 crore respectively) resulting in cost overrun of Rs.5.77 crore and 1.32 crore respectively (49.27 and 14.17 *per cent* respectively).

In Jindoli tunnel project, the Company shifted the starting point of tunnel 10 meter behind the due portal point on the request of the contractor resulting in extra expenditure of Rs.5.29 lakh.

The Government stated (August 2005) that the starting point of the tunnel was shifted on technical grounds. The reply is not tenable, as this aspect could have been planned at the initial stage.

2.1.9 Time over run

Inefficient planning and ineffective contract management resulted in extra ordinary delay of 12 and 19 months in execution of works

There were instances of inefficient planning and ineffective contract management by the Company in execution of RJ-13-01 and RJ-13-02 road project at Dholpur district resulting in extraordinary delay of 12 and 19 months respectively.

Execution of projects

2.1.10 Prudent execution of works involves carrying out the works in accordance with prescribed norms to the satisfaction of the clients giving maximum outputs for any given set of resource inputs. The Company failed to adhere to this basic principle as observed in the following cases.

In the Jindoli project, a loan of Rs.66 lakh was availed (31 March 1995) 10 months prior to the commencement of work, which resulted in avoidable interest payment of Rs.6.80 lakh at the rate of 12 *per cent* plus three *per cent* interest tax.

The Government stated (August 2005) that loan was availed prior to the commencement of work to avoid delay in execution on financial grounds. The reply is not tenable as better synchronisation could have saved the interest outgo.

Unauthorised deviation in specifications resulted in extra cost of Rs.3.97 crore on rectification of road work

In the case of Bhilwara Bye pass project, the Company un-authorisedly deviated from the specifications that resulted in early failure of the bituminous work requiring rectification, which was done at a cost of Rs.3.97 crore without sanction of the Government to rectify the poor quality of the road.

The Government stated (August 2005) that due to financial constraints specifications had to be lowered. The reply is not tenable as deviation in specification was not got approved from the client and resulted in extra cost of Rs.3.97 crore on rectification.

Construction of Indira Stadium, Jaisalmer was allotted to the Company on cost plus contract basis. The Company incurred an extra expenditure of Rs.8.32 lakh on this work. The client withheld the amount of extra expenditure on the ground that there were deviations from the original drawings and irregular payments.

DRDA Building, Alwar was constructed by the Company on cost plus contract basis incurring an extra expenditure of Rs.4.85 lakh without the consent of the client, which resulted in rejection of claim by the client.

2.1.11 Deviations from the sanctioned design

In the case of Bhilwara bye pass, there were unauthorised variations in sub-base work (70 *per cent* excess), hard shoulders (133 *per cent* excess) and bituminous concrete (50 *per cent* less) which led to cost over run by Rs.1.80 crore and poor quality.

In the case of widening of bridges over Amani shah Ka Nalla on Sikar and Ajmer road, the contract was awarded on pile foundation design of the bridge, but the Company approached the client to change the design from pile foundation to well foundation. The client declined but on the request of the Company, the matter was referred to third party i.e. Malviya Regional Engineering College (MREC), who suggested adoption of either design for this project, and finally the pile foundation design as sanctioned in original was adopted. The attempt of the Company to deviate from the original design plan resulted in time overrun of 12 months.

In the case of Road Up-gradation Project (RUP phase-I) road works of Dholpur district, the sand seal coat was to be done as per the original estimates, but due to ban on Chambal sand, Company did the liquid seal coat, a costlier item, without the written consent of the client department, which contributed to cost overrun in the project.

Deficient Contract Management

2.1.12 Successful implementation of a project depends upon a proper Contract Management system, ensuring that adequate safeguards exist for controlling time overrun, maintenance of quality, sound financial management and financial propriety while incurring expenditure. The following instances indicate that Contract Management system was deficient in protecting the interest of the Company.

2.1.13 Cost controls

In the case of road construction in Dholpur district (RUP phase I), the Company could not complete the work economically within the agreed cost that is BSR* *plus* 15 *per cent* rates. The cost overrun of Rs.57.44 lakh on centage work, was not reimbursed by the client.

The Government stated (August 2005) that due to increase in grit prices the cost increased and that the client department was informed from time to time and efforts were made to get the actual cost plus 7.5 *per cent*. The fact remains that the client department did not accept the plea and allowed cost on BSR *plus* 15 *per cent* only which caused loss of Rs.57.44 lakh.

Extra excavation beyond prescribed pay line caused extra expenditure of Rs.78 lakh

In Jindoli tunnel project, the Company incurred extra expenditure of Rs.78 lakh on account of extra excavation beyond the prescribed pay line despite the fact that the rock was so hard that it did not require supports as provided in the detailed estimate. Further, departmental expenditure of Rs.3.45 lakh was incurred on engagement of beldar/chowkidar and mason despite the fact that whole of the work was executed by the sub-contractor.

While accepting the fact the Government stated (August 2005) that the length of the tunnel was increased due to difference in levels provided by the consultant on the basis of initial survey and actual level checked at site during execution, and the length was enhanced to 485 meter against the original estimate 415 meter. It was further stated that expenditure of Rs.3.45 lakh was incurred for executing necessary allied works. The fact, however, remains that proper planning and prudent action could have avoided extra expenditure.

* Basic Standard Rates.

2.1.14 Delayed completion

The Company had no pre-defined methodology for execution of tender works. As and when the Company obtained contracts, the Company used to sublet the works to sub contractors, which caused delay in commencement and final completion of works.

Delay in execution of works caused payment of liquidated damages of Rs.53.33 lakh

The client (JDA[$]) imposed liquidated damages (LD) of Rs.30.15 lakh in case of two contracts of widening of bridges for not maintaining the *pro rata* progress of the work. Since both the contracts were completed with delays of 12 months and 15 months respectively, the client did not refund LD.

While accepting the fact the Government stated (August 2005) that the Company is pursuing the matter with JDA to release the amount.

In case of contracts of road works in Dholpur District (package RJ 13-01 and RJ 13-02) due to inefficient contract management, the Company failed to plan and monitor the execution of work so as to complete the work in a time bound manner, which resulted in client's dissatisfaction and liquidated damages of Rs.23.18 lakh.

While accepting the fact the Government stated (August 2005) that the Company is pursuing the matter with the PWD to release the amount.

2.1.15 Relaxation in the condition of contract

The Company awarded (August 2003) a rate contract for supply of two lakh bags of 43-grade cement at Rs.107.70 per bag and 0.50 lakh bags of 53-grade cement at Rs.108.70 per bag. The contract was valid up to 31 May 2004.

During the currency of the rate contract, the supplier intimated (February 2004) the Company (by that time, he had supplied 2.2 lakh cement bags) that after supplying the balance quantity of the supply order, he would not supply any further quantity.

Audit review revealed that the Company instead of asking the supplier to supply the cement till the validity period, entered into a fresh rate contract with effect from 13 April 2004 with the same supplier. The rates in the later contract were Rs.129.91 and Rs.131.91 per bag for 43 grade and 53 grade cement respectively. The Company purchased 46,155 bags of cement (43 grade: 43,695 bags and 53 grade: 2,460 bags) during the period from 13 April 2004 to 31 May 2004 and incurred avoidable extra expenditure of Rs.10.28 lakh.

The Government stated (August 2005) that the firm had completed the supply of overall specified quantity as per the supply order. The reply is not tenable as it was a rate contract valid up to 31 May 2004 and the supplier was under contractual obligation to supply as much quantity as was ordered at the fixed rate upto the date of validity of the rate contract. Hence, the Company should have insisted on supply of the required quantities up to the contract period.

[$] Jaipur Development Authority.

2.1.16 Utilization of Plant and Machinery

The Company had machinery like Hot Mix Plant, Paver Finisher, Road Rollers, Batch Mixing plants etc. for use on its works and also for hiring out to contractors when not in use. GOI had prescribed (May 1998) norms for utilisation of construction machinery.

Audit review revealed that due to non-utilisation /under utilisation of machinery in comparison to norms of the GOI, the Company could not earn revenue to the extent of Rs.1.75 crore during the five years ended 31 March 2004 as indicated in the **Annexure-10**. Further, no system was devised to monitor the utilisation and take remedial measures to ensure full utilization with the result that the machinery remained idle.

The Government stated (August 2005) that these machineries are required for qualifying in tenders for various works. This, however, does not explain why the machineries were under utilised, resulting in revenue loss of Rs.1.75 crore.

2.1.17 Stock lying at site

Materials valued at Rs.16.73 lakh consisting mainly of steel bars of various sizes, stone grit, diesel, sand, explosive and other miscellaneous items were lying at 10 different work sites, works of which had been completed one to six years back at the end of 31 March 2004. Further, materials worth Rs.16.01 lakh pertained to works completed up to 2001-02. The Company had not initiated any action either to dispose off or utilize the materials on other works.

While accepting the fact the Government stated (August 2005) that in future a strict mechanism would be employed to reduce the un-utilised inventories lying at site.

Financial management

2.1.18 Re-setting of loan

Delay in reconciliation of loan account and non pursuation of the matter led to extra interest payment of Rs.1.27 crore

In case of five building projects allotted by the Government, it was seen during audit that despite Government consent on 11 March 2003, the Company could not avail the benefit of resetting of loans in the first quarter of 2003 due to delay in reconciliation of loan accounts and non pursuance of the matter. The resetting was sanctioned with effect from 1 April 2003. Had the Company got resetting of loans in the first quarter of 2003, an amount of Rs.1.27 crore could have been saved by way of interest, which ultimately became an undue burden on the projects.

The Government stated (August 2005) that the sanction was received on 19 March 2003 and thereafter setting up of loan accounts was not possible upto 31 March 2003. The reply is not tenable as the Company took two months time to convey the scheme to the Government and one-month time to convey the details of their loan position to the Government despite the fact that the Company acknowledged the scheme in November 2002. Thus due to delay in reconciliation of loan accounts as well as delay in approaching the Government by the Company resulted in undue burden on Government projects.

2.1.19 Excess payment of Interest on HUDCO loans

The Company made premature repayment of Rs.10.19 crore on 7 August 2003 and Rs.4.02 crore on 16 December 2003 against outstanding loans of bridge and by pass scheme despite the fact that there was an option available to the Company for resetting of loans at lower rate of interest with HUDCO. On the request (January 2003) and subsequent pursuance of the Company, however, the resetting of other loans (excluding of this scheme) was approved (November 2003) by HUDCO with effect from 1 April 2003. Had the Company got these loans reset and made repayment of outstanding loan after resetting of interest rate an amount of Rs.15.33 lakh (April to December 2003) could have been saved on repayment.

Other points of interest

2.1.20 Centage charges

In the case of nine work orders placed by the Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL) Audit analysis revealed that despite the Government clarification (August 2003) regarding applicable rate of centage charge, the Company did not raise (July 2005) bills of Rs.3.01 crore on the client even after lapse of a period of one and half years. The reasons for not raising the bills were not on record.

The Government stated (August 2005) that in respect of various works at RRVUNL the bills for centage charges had been raised and entire amount had been received. The reply is not tenable as no bills of centage charges as per the Government clarification were lodged with RRVUNL, and there remained under recovery of centage charges.

2.1.21 Non- collection of storage charges

Rule 177 of Public Works Finance and Accounting Rules (PWF&AR) stipulates that storage rate be fixed annually for each division or sub division on the principle that the total estimated annual expenditure on storage is as far as possible, recovered from the issues made during any year. Such storage charges should be fixed at the beginning of a year and added on a percentage basis so as to form part of the issue rate.

A review of the records pertaining to receipts and issues of steel and cement revealed that the Company was charging one *per cent* storage charges in respect of steel issues while the same was not done in respect of cement for reasons not on record. Audit analysis of the information obtained in respect of seven units revealed that the Company was deprived of storage charge of Rs.15.77 lakh on 73,116.8 tonnes of cement valued Rs.15.77 crore due to non charging of storage charge on cement issued to works during the period from 1999-2000 to 2003-04. Charging of storage charge on steel and non-recovery of the same on cement is indicative of lack of mechanism to monitor sources of collection.

The Government while accepting the facts stated (August 2005) that storage charges on cement would be considered.

2.1.22 Changing the hiring base from hourly basis to output basis

The Company fixed the hiring charges for hiring machinery/ plant on running hours basis. In case of work of Rail Over Bridge (ROB) Rasala Road, Jodhpur, however, machinery like Batching & Mixing Plant, Diesel Generating Set and Transit Mixer were issued to the contractor at rates based on cost per cubic meter of ready mix concrete instead of on hourly basis as indicated below:

Sr. No	Name of machinery	Approved rate of hire charges	Period	Amount recoverable on running on hourly basis	Amount actual recovered	Short recovery (Rs. in lakh)
1.	Cement Batching & Mixing Plant of 15Cum./Hr.capacity	Rs.455 per hr.	21.8.03 to Dec. 2004	873600	-	-
2.	D.G. Set 100 KVA	Rs.250 per hr.	21.8.03 to Dec. 2004	480000	-	-
3.	Transit Mixer capacity 4 cum.	Rs.630 per hr.	12.5.04 to Dec. 2004	529200	-	-
4.	Tata Crane	Rs.45000 P.M.	25.9.03 to Dec. 2004	675000	-	-
5.	Additional D.G. Set 62 KVA	Rs.200 per hr.	21.8.03 to Dec. 2004	384000	-	-
	Total			**2941800**	**734537**	**2207263**

This resulted in short recovery of hire charges to an extent of Rs.22.07 lakh.

The Government stated (August 2005) that the machineries were issued to the contractor at the rates based on cost per cubic meter of ready mix concrete as per the condition of the contract. The reply is not tenable in view of the fact that the Company recovered the hiring charges without finalizing the rate which caused loss of revenue of Rs. 22.07 lakh.

2.1.23 Use of uneconomical fuel

The Company has six Hot Mix Plants (HMP) consisting of two sets of burners for heating the stone aggregate and bitumen tank.

According to guidelines prescribed by the Indian Road Congress as well as technical specifications of the plant, both the burners can be operated with Light Diesel Oil (LDO) or furnace oil or High Speed Diesel (HSD) with same output heat. The price of LDO is lower than HSD and is easily available with the oil refineries and can be procured directly or through dealers. Audit analysis revealed that instead of LDO, HSD was purchased at higher cost during May 2003 to March 2005 as indicated below:

	Period	**HSD (Ltrs)**	**LDO (Ltrs)**	**Extra expenditure (Rs.)**
HMP-2 (Alwar)	February 04 to July 04	81,000	96,000	3,80,220
HMP-3 (Dholpur)	May 03 to April 04	94,980	18,000	3,71,428
HMP-4 (Sawai Madhopur)	October 03 to March 05	1,39,500	36,000	6,62,595
HMP-5 (Alwar)	February 04 to March 05	1,51,000	1,14,000	7,11,800
		4,66,480	**2,64,000**	**21,26,043**

Due to procurement of HSD instead of LDO for hot mix plants, the Company incurred extra expenditure of Rs.21.26 lakh which could have been avoided with proper planning for assessment of requirement and procurement of fuel.

The Government stated (August 2005) that LDO is not available locally and is arranged from Delhi/Mathura by issuing advance payment for minimum 12,000 liters. Further, the HMPs were not running in full swing due to small quantum of work and LDO could not be stored for more than 15-30 days as it becomes semisolid. The reply is not tenable, as the LDO can be easily purchased from agents of the Oil Company. The LDO can also be purchased in small quantities i.e. 6,000 liters as purchased by the Company a number of times. Management's reply that the plants were not running in full swing is also not correct. The plants operated in full swing with monthly fuel consumption of 18,000 to 45,000 liters. In view of heavy consumption of fuel, there was no possibility of fuel remaining in stock for more than 15-30 days.

2.1.24 Disposal of material at throw away rates

As per the conditions of the contract regarding under ground excavation of tunnel, the useful material excavated was to be collected and stacked in 150-225 mm nominal size. A rate of Rs.80 *per cubic meter* (*cum*) was prescribed for material utilised (out of excavation) by the contractor on the work. It was noticed during audit that without wide publicity, a quantity of 38,351.30 cum was sold to other contractors at a very low rate of Rs.13 *per cum* despite the fact that the market rate was exceptionally high due to ban imposed by the Apex Court on mining operations. This decision of the engineer in-charge put the Company to a loss of Rs.19.94[*] lakh.

2.1.25 Non-reconciliation of loan accounts.

As per the certified accounts of the Company, a loan of Rs.15.03 crore, under Bridge By Pass scheme was outstanding as on 31 March 2003. In full settlement of the loan, the Company paid (August 2003 & December 2003) Rs.15.39 crore as per the accounts of the lender. Thus, an amount of Rs.36.17 lakh was paid in excess due to non-reconciliation of loan accounts. The Company while accepting the facts stated that an independent Chartered Accountant was deployed for reconciliation of accounts.

2.1.26 Non-observation of contractual formalities

In a case of contract awarded for toll collection (Lunawas bridge; Km 34), the Company could not recover its due amount from the defaulting contractors due to non-obtaining of sufficient security deposit as per contract conditions. The Company filed a legal suit for recovery. Despite the court decision (December 2002) in favor of the Company, no amount could be realized so far (July 2005) for the reasons not on record. Thus due to non-observance of contractual formalities, the Company was deprived of Rs.11.57 lakh.

2.1.27 In the absence of standardized operational, administrative and financial procedures and practices, there was lack of skill development/ know how/organisational capacities/ research and development and non-completion of projects in time.

The Company did not maintain important details like number of projects delayed beyond schedule and the period of delay, number of revisions made in the target date for completion of project and comparative data of physical and financial achievements to facilitate initiation of timely corrective action.

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[*] Quantity 38,351.30 *cum* × Rs. 52 (BSR rate Rs. 65 *per cum* - Rs.13 *per cum*; rate of actual disposal) = Rs. 19,94,268

In the absence of a full-fledged Internal Audit wing with sufficient staff strength the internal audit was inadequate and the Internal Audit Reports did not cover detailed technical audit and propriety of expenditure. The statutory auditors also observed in their Reports that the Internal Audit of the Company was grossly deficient and needed to be strengthened. No efforts, however, were made to strengthen the Internal Audit.

Conclusion

The performance of the Company with regard to its construction activities was not oriented towards a competitive approach. The Company failed to secure contracts through competitive bidding resulting in progressively declining size and number of contracts secured.

The Company suffered large scale variations in quantities of works indicating inadequate and deficient Planning and Contract Management. There were cost and time overruns attributable to the Company and the clients imposed penalties. The Company failed to plan and manage materials resulting in loss due to wastage/ obsolescence of material. In the absence of a proper planning and monitoring mechanism, the Company failed to execute works in time and within the financial estimates/sanction.

Lack of planning and inadequate procurement of works resulted in under utilisation of plant and machinery.

The Company lacked adequate internal controls and standardized operational, administrative and financial procedures and practices were not in place.

The Company, thus, could not achieve its underlying objective the intention behind restructuring its mandate to cover construction activities in a modern and organized manner.

Recommendations

The Company should:

- **Strengthen its planning regime and monitoring mechanism and interface with various authorities/agencies so as to avoid delays and consequent cost overruns.**
- **Evolve a system of correct estimation and planning before the commencement of the tendering process so as to avoid large variations, sub-standard construction quality and inefficient project management on account of insufficient and inaccurate information/data etc.**

- **Put in place an efficient Control Management system to ensure utilisation of materials and plant and machinery in an optimum and efficient manner.**

- **Focus on its revised mandate/objectives in the backdrop of globalisation/privatization and take advantage of the emerging opportunities in the sector.**