CHAPTER-II

Reviews relating to Government companies

2.1 Working of Uttar Pradesh Rajkiya Nirman Nigam Limited

Highlights

Uttar Pradesh Rajkiya Nirman Nigam Limited was established in May 1975 as a Government Company with a view to serve as an agency for speedy execution of works at reasonable rates and replacing private contractors. The Company incurred operating losses in each year, which aggregated Rs.29.49 crore in five years up to 2002-03.

(Paragraphs 2.1.1 and 2.1.7)

There was idle fund aggregating Rs.7.04 crore lying in saving/current accounts, advances with Piece Rate Workers and security deposits with clients in respect of works completed more than five years ago.

(Paragraph 2.1.10)

The success rates in securing the works against tender participation was very poor varying from 3.85 to 10.53 per cent.

(Paragraph 2.1.16)

Losses of Rs.10.02 crore were noticed in execution of eight works due to incorrect estimation of bids, off loading of works to private contractors, recoveries made by the clients for defective works and imposition of liquidated damages for delayed completion of work.

(Paragraphs 2.1.17 to 2.1.24)

The Company purchased shuttering materials valuing Rs.9.49 crore despite having surplus quantity in field units.

(Paragraph 2.1.37)

There was shortage of steel shuttering materials valuing Rs.2.54 crore.

(Paragraph 2.1.38)

No task force has been framed for liquidation of old debts of Rs.7.06 crore against works completed more than 10 years back.

(Paragraph 2.1.41)

There was surplus staff strength of 907 to 1,007 employees having a financial impact of Rs.19.95 crore in five years upto 2002-03.

(Paragraph 2.1.43)

There were 31 employees on deputation for periods varying from 6 to 28 years despite orders of Government for repatriation after a maximum period of five years.

(Paragraph 2.1.44)

Introduction

2.1.1 The Uttar Pradesh Rajkiya Nirman Nigam Limited (Company) was incorporated in May 1975 as a wholly owned State Government Company with a view to serve as an agency for speedy execution of works at reasonable rates and replace private contractors. The Company normally executes construction work under Piece Rate Workers (PRW) system where the PRW contractors arrange necessary labour, minor tools and plants and carry out construction work on output basis.

Objectives

2.1.2 The main objectives of the Company are to:

- carry out construction, maintenance and improvement of roads and buildings, barrages, dams and aqueducts, bridges, culverts, etc.;
- manufacture, buy, sell, install, work, alter, improve, manipulate or otherwise deal in all kinds of building materials, equipment, tools and machinery connected with the construction of roads and buildings of all kinds; and
- purchase, take on lease or otherwise takeover any roads and buildings owned by the State Government for the purpose of construction, maintenance or management thereof.

The Company was mainly engaged in construction and maintenance of buildings and roads at State and National level during the period covered in review.

Organisational set-up

2.1.3 The management of the Company is vested in a Board of Directors consisting of not less than three and not more than 12 Directors including Directors nominated by the Government. At present there are nine Directors including three nominee Directors. The Principal Secretary, Uttar Pradesh Public Works Department (UPPWD) is ex-officio Chairman of the Company. The Managing Director is appointed by the State Government who is assisted, in day-to-day administration, by a Chief General Manager, five General Managers and a Financial Advisor at the head office and nine Assistant General Managers in zonal offices for supervision of field units headed by Project Managers/Assistant Project Managers.

Nine persons held the charge of Managing Director during five years upto 2003-04 for the tenure varying from 20 days to 18 months. The frequent changes of Chief Executive did not permit adequate time for effective planning, implementation and follow up, leading to tardy progress of work.

Scope of Audit

2.1.4 The reviews on ‘Procurement and Utilisation of Material and Machines’ and ‘Recovery of Dues’ in respect of the Company were featured in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1991 and 1996 (Commercial), Government of Uttar Pradesh respectively. The review on ‘Procurement and Utilisation of Material and Machines’ for the year 1991 was discussed by the Committee on Public Undertakings (COPU) during 1994-95 to 1998-99 and the recommendations were made in September 2003 which are summarised in **Annexure-10**. The Management, however, did not furnish (August 2004) the details of action taken by them on these recommendations. The recommendations of COPU on matters included in this review have been dealt with in paragraph 2.1.31. The review on ‘Recovery of Dues’ for the year 1996 was partly discussed during September 1998 to August 2003 by the COPU and the recommendations are awaited (August 2004).

The entire construction activity of the Company is spread over in nine Zones. The present review covering the period of five years upto 2002-03 was conducted by selecting three zones (Central, South Central and Delhi) on the basis of highest turnover.

Audit findings, as a result of review on the working of Uttar Pradesh Rajkiya Nirman Nigam Limited were reported to Government/Management in June 2004 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that viewpoints of the Government/Management were taken into account before finalising the review. The meeting of ARCPSE was held on 10 August 2004 with the Secretary, Public Works Department (representative of the State Government) and the Management of the Company. The views expressed by the members have been taken into consideration during finalisation of the review.

Audit findings

2.1.5 The audit findings on various aspects of working of the Company are discussed in succeeding paragraphs:

Financial position and Working results

2.1.6 The financial position of the Company for the five years up to 2002-03 is given in **Annexure-11.**

2.1.7 The working results of the Company during five years upto 2002-03 are given in **Annexure-12.**

It would be seen from the Annexure that:

- the gross profit (including income from consultancy) of the Company increased from Rs.22.09 crore in 1998-99 to Rs.32.38 crore in 2002-03. This has, however, been off-set due to increase in administrative expenses from Rs.28.78 crore in 1998-99 to Rs.36.97 crore in 2002-03.
- the Company incurred operating losses continuously, which aggregated Rs.29.49 crore during the five years up to 2002-03.
- The net profit/loss may be viewed in the light of interest income earned by the Company on fixed deposits, made out of Government fund, which ranged from Rs.2.64 crore in 1998-99 to Rs.3.73 crore in 2002-03. But for this, the net loss of the Company Rs.1.91 crore in 1998-99 and Rs.3.28 crore in 2001-02 would have been increased by Rs.2.64 crore and Rs.2.62 crore respectively. Similarly net profit of the Company Rs.0.29 crore in 1999-2000, Rs.0.51 crore in 2000-01 and Rs.1.70 crore in 2002-03 would have been converted into net loss of Rs.3.64 crore, Rs. 2.10 crore and Rs.2.03 crore respectively.

The Management stated (August 2004) that the operating losses were because of reduction in centage charges from 15 to 12.5 *per cent* from 1997-98, increase in establishment cost and reduction in work due to awarding of work to other public sector companies by the State Government. The reply of the Management indicates that the Company could not keep pace in securing the work from the State Government vis-a-vis other public sector companies resulting in non-recoupment of the establishment cost. The Company could have avoided the operating losses by increasing its turnover. As regards reduction in percentage of centage is concerned, the Company is being compensated by increase in the cost of material (due to inflationary trend) on which the centage is being paid.

Budgetary control

Deficiency in budgeting procedure and budgetary control system

2.1.8 According to para 1118 to 1120 of the Manual, for the purpose of preparation of budget at the head office and approval by Board of Directors for the ensuing financial year, the field units are required to send estimated value of work to be done in the ensuing financial year and expenditure on material required for the same on the basis of BAR chart* for each work. It was seen that no such information was sent by the field units and the budgets were drawn at the head office based on pending/expected orders. Thus, the budget was not realistic as would be evident from the wide variations in the budgeted and actual performance (**Annexure-13**). It, therefore, failed to achieve the objective of budgetary control as would be seen from the following:

- The Company did not analyse the variances periodically for exercising cost control;
- Except for 1998-99, the budget provided net operating losses in each year varying from Rs.0.69 crore to Rs.2.09 crore. The actual performance, however, shows net operating losses in each year varying from Rs.3.84 crore to Rs.8.84 crore mainly due to excessive labour cost and high expenditure on salaries and allowances;
- According to para 1121 of the Manual, the expenditure on direct labour shall be 25 *per cent* of the material cost. The budget, however, envisaged the direct labour cost varying from 38.25 *per cent* to 47.02 *per cent* while in actual performance it varied from 43.95 *per cent* to 56.35 *per cent* during the five years ending 31 March 2003. This indicates that the Management has not devised adequate cost control mechanism to keep the labour cost within the acceptable parameters; and
- According to para 1123 and 1125 of the Manual, the salaries and allowances should not exceed 5.65 *per cent* of the direct material and labour cost (pay and allowances to field staff-3 *per cent*, leave salary and PF contribution-1.15 *per cent* and head office and General Manager's office expenses-1.50 *per cent*). The pay and allowances provided in the budget, however, varied from 9.67 *per cent* to 13.54 *per cent* of the direct material and labour cost while in actual performance it varied from 12.80 *per cent* to 20.40 *per cent* during the five years ending 31 March 2003. The main reason for the high expenditure on salaries and allowances as compared to norms, was surplus manpower in the Company as discussed in paragraph 2.1.43 *infra*. Instead of chalking out plans for augmenting its turnover for ensuring better absorption of its overheads, the targets were fixed on lower side during 2001-02 and 2002-03 as compared to earlier years.

The Management stated (August 2004) that budget was prepared on the basis of income/expenditure of units in the previous years as well as works expected in ensuing year and budgetary control was exercised at head office on the basis of returns received from the unit. As regards incurring labour cost in excess of 25 *per cent* of direct material cost, it was attributed to reduction in centage from 15 to 12.5 *per cent* from 1997-98. The reply is not tenable as the provisions of para 1118 to 1120 of the Manual were not adhered to by the

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* A chart with bars showing the proportionate quantity/value of running works and quantity /value of new works that would be undertaken in the ensuing year.

Company while preparing the budgets and so far as centage is concerned it does not have any bearing on the direct labour cost. The Management has also not considered to review and re-fix the norms for labour cost besides determining the break even point for fixation of targets.

Utilisation of fund

2.1.9 The working capital requirement of the Company is met by fund received from clients as mobilisation advances against tender works as well as fund released by the Government for deposit works through budget.

Idle fund lying in field units

2.1.10 The Company is required to consolidate idle fund lying in field units to its optimum utilisation. It was observed during audit that fund amounting Rs.7.04 crore, as per details below, were lying unutilised in the field units at the end of March 2003, in respect of the works which were completed more than five years back. In the absence of details of liability at the head office of the Company, it failed in monitoring and taking action for consolidation of the idle fund for gainful utilisation.

(Rupees in crore)

Particular of fund	No of job sites	Amount
Fund lying in saving banks	141	3.57
Fund lying in current accounts	24	0.13
Unsecured advances outstanding against PRW contractors	83	0.37
Security deposits in respect of tender works	67	2.97
Total		**7.04**

The Management stated (August 2004) that out of above, adjustment of Rs.1.19 crore had been made by closing the bank accounts, adjustment of advances against PRW contractors, obtaining refund of security and action in the remaining cases was in progress.

Personal Ledger Account

2.1.11 The fund for deposit works of the State Government provided in the budget are released in the Personal Ledger Account (PLA) of the Company through the concerned departments. The withdrawal of fund from the PLA can be made against immediate requirement for works on month to month basis with the approval of Secretary (Finance) of the State Government.

The position of withdrawal of fund from the PLA and its allocation to various works during the five years is detailed below:

(Rupees in crore)

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03
Opening balance	32.11	17.79	12.23	24.94	40.08
Release of fund in PLA	42.88	19.89	33.51	57.24	166.73
Total fund available in PLA	74.99	37.68	45.74	82.18	206.81
Withdrawal allowed	57.20	25.45	20.80	42.10	66.77
Closing balance	17.79	12.23	24.94	40.08	140.04
Funds allocated to works	NA	24.63	20.44	37.14	63.68
Percentage of fund allocated to fund withdrawn from PLA	_	96.78	98.27	88.22	95.37

In this connection following points deserve mention:

- The request for withdrawal of fund from PLA was made in lump sum and the permission was also granted by the Government in lump sum without indicating work-wise details.

- No reconciliation is possible in absence of work-wise details of fund released by the Government. Besides, it is fraught with the risk of excess withdrawal and excess expenditure over the sanctioned cost of individual work, as brought out in paragraph 2.1.28 *infra*.
- In absence of work-wise details of release of fund by the Government, the Company allocated the fund to various works on its own.

The Management stated (August 2004) that demand for withdrawal of fund from PLA was made department-wise and proper account of withdrawal and expenditure has been kept by the Company. The reply is not tenable as department-wise withdrawal of fund results in lack of control on the amount of expenditure that is to be incurred on various projects of the departments (the Company executes various projects of a department simultaneously).

Non-refund of unutilised fund to Government/clients

The Company did not refund unspent balance of Rs.9.57 crore to the Government/ clients.

2.1.12 Para 39 of the Manual provides for refund of unspent amount to the Government/client at the close of work. The Company had, however, not refunded unspent balance of Rs.9.57 crore to the Government/clients in respect of 538 works completed and finally merged with the accounts of the head office since 1975 to March 2003.

The Management stated (August 2004) that the refund of surplus fund was not made due to non-receipt of acceptance of expenditure by the clients who were also to pay to the Company in respect of other works. The reply is evasive as there is no such provision in Manual to seek acceptance of expenditure before refunding the surplus fund. Besides, the surplus fund against a work can also not be appropriated for other works.

Contract Management

2.1.13 The Company mainly executes 'Tender works' and 'Deposit works'. Tender works are secured by the Company by participating in open tenders. Deposit works are entrusted by the State Government departments, local bodies, autonomous bodies, public sector undertakings, etc. on cost *plus* 12.5 *per cent* centage charges basis.

The salient provisions of the Manual governing management of works are summarised below:

- Para 29 lays down control measures to be adopted during execution of works which, *inter alia*, requires to restrict the expenditure on item rates to maximum limit of its prime cost.
- Para 39 requires that the expenditure on works should be restricted to the fund received from the client.
- Para 65 provides to conduct a site survey of work by tender cell to assess the availability of construction material, public utilities, local labour and other local condition, etc. before working out the bid.
- Para 68 requires to obtain a consensus among the heads of technical and financial departments before working out the bid.
- Para 69 and 70 require that for bidding purpose, a realistic prime cost should be worked out for all items of the work by analysis of rates based on site survey and specification of work.
- Para 93 requires constant monitoring during the construction stage of work through various monthly/quarterly/half yearly /annual reports e.g.

viability report (quarterly), cash flow (half yearly), running payments (quarterly), comparison report on agreement rates and actual rates (annual) major deviations report (quarterly), etc.

- Para 468 provides that in cases where the Company is not in a position to take up the work, the Managing Director is authorised to sublet the work to sub-contractors on reasons recorded in writing. All such cases are required to be brought to notice of the Board in next meeting.
- Para 473 provides that in all cases of sub-contracting, it is necessary to invite tenders in most open and public manner after advertising in four leading English and Hindi dailies.

There were 134 running works (42 tender and 92 deposit), each exceeding turnover of Rupees one crore, in three zones selected for test check. Examination of 34 works (17 tender and 17 deposit) revealed that the above provisions of the Manual were by and large not complied with. As a result, loss aggregating Rs.10.02 crore was noticed in eight, out of 34, tender works due to poor monitoring of work, bidding at unworkable rates, rescission of contracts and incorrect computation of claim.

Deficiency in fixation of target and achievements

The shortfall in achievement of target of tender works varied from 49.56 to 69.86 *per cent,* was mainly due to poor success in securing tender works.

2.1.14 Targets and achievement of the Company during the five years up to 2003 is tabulated below:

(Rupees in crore)

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03
Targets					
Turnover (Tender works)	100.00	110.00	110.00	100.00	60.00
Turnover (Deposit works)	170.00	190.00	200.00	160.00	200.00
Total original budgeted turnover	270.00	300.00	310.00	260.00	260.00
Total revised budgeted turnover	245.00	200.00	202.00	205.00	225.00
Achievement					
Actual turnover (Tender work)	50.44	36.30	55.17	30.14	26.26
Actual turnover (Deposit work)	181.53	156.62	146.06	173.78	215.77
Total actual turnover	231.97	192.92	201.23	203.92	242.03
Shortfalls in percentage with reference to:					
Total original budgeted turnover	14.08	35.69	35.08	21.57	6.91
Target Turnover (Tender works)	49.56	67.00	49.85	69.86	56.23
Target Turnover (Deposit works)	--	17.57	26.97	--	--

In this regard following points deserve mention:

- The shortfall in achievement of targets of tender works during the five years ending 2002-03 varied from 49.56 to 69.86 *per cent*, which led to overall shortfall varying from 6.91 to 35.69 *per cent* during the period in achievement of initial targets. It was observed during audit that the low achievement of targets for tender works was mainly due to poor success rates in securing tender works, withdrawal of works by the clients as well as disputes in settlement of bills, etc., as discussed in paragraphs 2.1.16 to 2.1.24 *infra.*
- The Management, instead of striving for achievement of the targets, had adopted diluting approach to revise the targets on lower side in January of each year.

The Management stated (August 2004) that the budgetary targets for deposit works had to be revised due to receipt of lesser fund from client than expected at the time of fixation of targets due to stoppage of certain works in view of administrative/departmental/court orders. The shortfall in tender works was attributed to competition from private agencies. The reply is not acceptable as there were heavy cash balances in PLA, fixed deposits and Bank in each year (**Annexure-11**), which could have been utilised to boost up the turnover in achieving the targets of deposit works. The shortfall in meeting targets of tender works could be made up by improving the bidding through rationalising the financial loading and controlling the cost, as discussed in paragraph 2.1.16 *infra*. In ARCPSE meeting (August 2004) the Secretary, (PWD) directed the Company that cases where the work was not awarded despite being lowest bidder should be brought to the notice of the Government. The Company is yet (September 2004) to take action.

Tender works

The Company did not have any system of maintaining data base of notices inviting tenders and success rate in tenders participated varied from 3.85 to 10.53 *per cent.*

2.1.15 The Company has established a 'Tender Cell' (Cell) at its head office under the control of General Manager (Contracts). The Cell secures tender works by participating in the bidding process. The costing of the tender works is done by the Cell. This Cell is also responsible for monitoring the execution of tender works for ensuring envisaged profits. The irregularities observed in tendering process are discussed in succeeding paragraphs:

2.1.16 The analysis of tenders participated by the Cell and its success during the five years ending 31 March 2003 are as under:

(Rupees in crore)

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03	Total
Tenders participated						
Number	14	52	62	41	19	188
Value	50.47	311.22	572.56	130.25	161.95	1226.45
Lowest of UPRNN						
Number	Nil	9	8	4	2	23
Value	Nil	23.61	59.48	30.25	6.11	119.45
Tenders awarded						
Number	Nil	2	6	3	2	13
Value	Nil	9.99	55.12	23.48	6.11	94.70
Success rate*						
Number	0.00	3.85	9.68	7.32	10.53	6.91
Value	0.00	3.21	9.63	18.03	3.77	7.72

In this regard, following deserve mention:

- The Management did not have any system of maintaining any database of notices inviting tenders (NIT) published in the news papers and recording reasons for not participating in the NIT;
- The success rate in tenders participated varied from 3.85 to 10.53 *per cent*;
- The Company stood lowest bidder in 23 cases but it could finally procure the order in 13 cases only;
- There is no self appraisal system of analysing the cases of tenders lost despite being lowest tenderer so as to elicit the reasons responsible for it and the matter was never brought to notice of the Board of Directors;
- The Management secured the tender works and awarded its execution to contractors/sub-contractors on back to back basis without proper examination of financial benefits;
- Cases of sub-contracting approved by the Managing Director are required to be brought to the notice of the Board of Directors as per

* Percentage of tenders awarded to tenders participated.

para 468 of the Manual. These instructions were, however, not complied with, leading to loss of contractor's margin and carrying out the work departmentally after rescission of contract. Such cases have been discussed in paragraphs 2.1.22 and 2.1.23 *infra*.

- The Company did not participate in any overseas tenders during five years up to 2002-03 due to lack of initiative.
- There was no consistent policy for financial loading in the bids. It would be observed from the following table that it varied from 11.50 to 31.50 *per cent* in finalisation of tenders.

(Rupees in crore)

Name of tender work	Date of submission	Estimated cost	Bid of UPRNN	Financial loading (Per cent)	Lowest bid
Replacement of Pathrala dam at Dadupur Irrigation Department	18.5.99	16.25	18.84	15.96	18.50
Construction of non-plant building for NALCO	6.7.99	3.00	4.59	31.50	4.47
Excavation and filling work in Ban Sagar Canal	11.10.99	NA	2.22	18.00	2.21
Construction of office building, 10 bed hospital and quarters for U.P. Forest Research Institute	3.2.2000	1.09	0.99	11.50	0.98
Auditorium for HUDA Haryana	16.4.2002	5.40	6.09	12.50	6.08

The Management stated (August 2004) that:

- status report of tenders received from zonal offices was put up to Managing Director but, in certain cases, the details were not provided by the clients.
- every tender was submitted after detailed examination and decision on subletting on back to back terms was taken at the time of tender submission.
- the decision on the sub-contracting on back to back terms would be put up to Board of Directors in future.
- non-participation in overseas contracts was due to lack of heavy equipment.

The reply is not tenable as the decision to sublet the work was taken subsequent to submission of tender, as discussed in paragraph 2.1.22 *infra*. As regards the heavy equipment it could have been hired in the concerned countries also.

Poor monitoring of work

The loss of Rs.4.34 crore was inevitable in the work as the client disallowed the claim on account of higher rate and incorrect quantity of work.

2.1.17 The construction of Kisan Mandi Bhawan of U.P. Mandi Parishad was completed by the Company in September 1995 and final bill for Rs.24.03 crore was preferred in July 1999 against which the client made advances aggregating Rs.21.51 crore. The client disallowed the payment of Rs.4.89 crore on account of higher rates and incorrect quantity of work. The client withheld an amount of Rs.13.38 crore against the final bill due to non-submission of consumption statement and completion drawing of toilet service line by the company. The amount was being withheld for the last five years. The total expenditure on the work together with outstanding liabilities of Rs.1.22 crore not provided in the accounts worked out to Rs.23.48 crore. Even if the entire amount of Rs.19.14 crore (Rs. 24.03 crore – Rs. 4.89 crore) has been accepted by the client, the loss of Rs.4.34 crore (Rs. 23.48 crore – Rs. 19.14 crore) on the work was inevitable. The loss could not be detected during execution of the contract due to lack of monitoring and follow up during execution of the work as prescribed under para 93 of the Manual.

No responsibility had been fixed by the Company on officials for their failure in preparing the consumption statement and submission of drawings demanded by the client due to which claims of Rs.13.38 crore were lying blocked for the last five years.

It was further noticed in the agreement (August 1991) with Kirat Chandra Jain, sub-contractor that the cost of pile foundation was decided by the Joint Purchase Committee (JPC-comprising of representatives of client and the Company) at Rs.41.80 lakh (Material: Rs.19.65 lakh and Labour: Rs.22.15 lakh) with the condition (clause 6.4 of agreement) that the labour cost of Rs.22.15 lakh would remain the same even if the material cost increased. The Project Manager, however, without concurrence of the client deviated from the decision of JPC and prescribed a formula for determining the labour cost pursuant to increase in material cost. Thus, the labour cost increased to Rs.47.56 lakh as against approved cost of Rs.22.15 lakh. The client did not accept the claim for differential cost of Rs.25.41 lakh as their approval had not been taken. This resulted in incurring an avoidable liability of Rs.25.41 lakh by the Company.

The Management stated (August 2004) that the claims of the Company were under scrutiny by a Committee consisting of representatives of Mandi Parishad and the Company whose decision was awaited.

The Company's fund of Rs.1.68 crore were blocked due to not limiting the expenditure up to the amount of fund received for work.

2.1.18 According to para 39 of the Manual, the expenditure on work should be restricted to fund received from the client. The Lucknow Development Authority (LDA) awarded (September 1993) the construction of Indira Gandhi Prathisthan at an estimated cost of Rs.50.96 crore which was to be completed within 48 months from the date of commencement of work. In July 1996, the Government decided to convert the project into an International Convention Centre to be executed under Tourism Department of the State through private equity participation instead of LDA. Accordingly, the work was stopped from October 1996 after incurring an expenditure of Rs.4.16 crore. The final bill for Rs.1.68 crore (price escalation: Rs.53.69 lakh, refund of trade tax: Rs.9.40 lakh and Rs.1.05 crore on account of amount incurred in excess of fund received) had not been honoured by the client (April 2004). This resulted in blockade of fund of Rs.1.68 crore. This could have been avoided by limiting the expenditure on work to fund received from the client.

The Management stated (August 2004) that the matter for realisation of balance payment was under pursuance with LDA. It was further stated that the Government had now decided to re-start the work. It was observed in audit that the work was not restarted (August 2004).

The Company incurred loss of Rs.52.76 lakh on road work due to delay in completion and defect in work.

2.1.19 The construction of Muradganj-Phaphoond road was awarded (January 1999) by GAIL at a contract value of Rs.4.78 crore. The work, scheduled to be completed by July 1999, was actually completed in July 2000 and bill for Rs.4.25 crore was preferred (July 2000) to the client. It was seen that a sum of Rs.3.72 crore only was paid by the client and Rs.52.76 lakh were recovered towards liquidated damages (Rs.42.48 lakh) and damaged road work (Rs.10.28 lakh). The plea of the Company for delayed execution of work on account of local problem caused by anti social elements and political pressure was not agreed to by the client. This resulted in loss of Rs.52.76 lakh due to late completion and defective work which remained undetected due to lack of monitoring/exercising cost control measures prescribed under Para 93 and 29 of the Manual. No responsibility has been fixed so far (April 2004).

The Management stated (August 2004) that the delay was due to delayed transfer of road by PWD and GAIL had recovered the liquidated damages despite the provisional time extension granted by them. It was also stated that the recovery for damaged road work was made after expiry of defect liability period of one year and matter was under correspondence with the client. Reply is not tenable in view of the facts that the provisional time extension was granted on provisional basis which was not finally agreed to by the client and damage to the road had occurred in July 2000 which was within the defect liability period. No Demand Certificate was issued to the client in July 2003. In view of this, the Company could not recover any amount from the client.

Bidding at unworkable rates

2.1.20 The General Manager (GM) of Delhi Zone of the Company sought (November 2001) approval from Tender Committee to bid for construction of three boys hostels at Netaji Subhash Chandra Bose Institute of Technology (NSIT), Delhi. While seeking approval, the GM suggested for financial loading at 9.50 *per cent* (against minimum 10 *per cent* prescribed in March 2000 by the Board of Directors) over the prime cost but did not intimate the amount of the prime cost with its rate analysis. In the absence of details of the prime cost, the Financial Advisor (member of the Tender Committee), apprehending loss in the work, instantly (14 December 2001) contacted the GM on telephone and asked not to submit the bid. But the GM intimated that the bid had already been sent on that day. The participation in bid by GM was in violation of provisions of Para 68 of the Manual. The bid of Rs.11.55 crore was, however, accepted (February 2002) by the client for Rs.11.40 crore.

During meeting (January 2002) with the Financial Advisor, GM, Delhi zone agreed that the contract would result in loss instead of profit due to excessive overheads in execution of the work departmentally and, therefore, recommended to execute the work on back to back basis. Thus, with a view to avoid loss, the work was off loaded to NUCON India Private Limited (NUCON) in March 2002 at the cost below 8.5 *per cent* of the price agreed by NSIT on back to back terms basis but without approval of the client.

It was observed during audit that advances of Rs.45 lakh received from NSIT (Mobilisation advance: Rs.25 lakh and advance against pledging of batching plant: Rs.20 lakh) was to be released to NUCON on the basis of back to back arrangement. The Company, however, released advances of Rs.70 lakh (Mobilisation advance: Rs.50 lakh and advance against batching plant: Rs.20 lakh) to NUCON. The work remained suspended during August 2002 to July 2003 due to paucity of fund with the client. In the meantime, on recommendation (May 2003) of the Committee formed to resolve the bottlenecks, the head office decided to execute the work departmentally despite apprehending loss of Rs.84.11 lakh (November 2003) so as to save its reputation. The matter of sub-contracting as well as subsequent execution of work departmentally with apprehended loss was, however, not brought to the notice of the Board of Directors as required under para 468 of the Manual.

The Company incurred loss of Rs.84.11 lakh due to irregular bidding at unworkable cost.

Thus, due to irregular bidding at unworkable cost, the Company had to accept execution of the work at a loss of Rs.84.11 lakh. The work was in progress (September 2004).

The Management stated (August 2004) that the loss of Rs.84.11 lakh was due to increase in the rates of steel and other materials. The reply of Management is not tenable as the Company itself attributed (December 2003) it to staff salary (Rs.75 lakh) and directed the GM to transfer this expenditure to other running works of the unit besides making good the balance loss of Rs.9.11 lakh (due to increased rates of materials) by better management of work.

2.1.21 The Company submitted (May 1999) a tender for Rs.3.53 crore for completion of balance work of regional office building of National Bank for Agriculture and Rural Development (NABARD) left out by earlier contractor. The tender was accepted and Letter of Intent for Rs.3.49 crore was issued in August 1999 after deleting some items of work. The work was completed and handed over to the client in December 2001 with a net profit of Rs.5.55 lakh as against envisaged profit of Rs.22.64 lakh. Audit analysis further revealed that the Company could not earn the envisaged profit as:

- the structural steel work (with fireproof paint) was executed at Rs.40.78 per kg as against the ceiling cost of Rs.26.31 per kg which resulted in extra cost of Rs.13.46 lakh. The higher cost of structural steel work was due to considering the cost of fireproof paint at Rs.14 per kg at tendering stage while it was actually purchased at Rs.190 per kg; and
- the turnover tax was not in force at the time of tendering (May 1999) but was imposed from December 1999. No clause was, however, included in the tender for reimbursement of statutory levies to be imposed in future. Consequently, turnover tax of Rs.4.30 lakh had to be borne by the Company.

The Management, while accepting the incorrect analysis of cost of paint, stated (August 2004) that the extra expenditure in this regard was met by the profit earned on the work and the conditional tender incorporating a clause for turnover over tax could have resulted in rejection of bid. The reply is evasive in as much as the extra expenditure on fire paint resulted in reducing the overall profits and incorporating the clause for reimbursement of future statutory levies is a standard business practice.

Sub-contracting resulted in loss of contractor's margin

2.1.22 The Panki Thermal Power Station (PTPS) invited (February 2002) the Company for designing, engineering, raising and commissioning of Ash Dyke for augmentation of the capacity of ash pond and decanting the water within the parameters of pollution control. The Project Manager proposed (February 2002) to bid for the work so as to utilise the available men and machinery of mechanical wing of the Company. Accordingly, the bid submitted for Rs.4.92 crore was accepted by PTPS for Rs.4.89 crore in July 2002. The permission for subletting the work sought by the Company on the ground of tight completion schedule of 18 months was given by PTPS in August 2002 and the agreement was executed in December 2002.

It was observed during audit that the contract was off loaded to four sub-contractors on back to back term basis in February and March 2003 for an aggregate value of Rs.4.61 crore. The work was off-loaded though the

The Company was deprived of the saving of Rs.46.10 lakh as contractor's margin due to off loading the work to sub-contractors.

Company was having working experience of similar work at Harduaganj Thermal Power House in the past as well as availability of men and machinery (shovel, doser, etc.). The reasons for sub-contracting were not given by the Managing Director, in terms of para 468 of the Manual, while approving the proposal for off-loading the work. This deprived the Company of a saving of at least 10 *per cent* contractors' profit amounting to Rs.46.10 lakh.

The Management stated (August 2004) that the Company had no experienced PRW contractors and the shovel, dozer, etc. required for the work had outlived their lives. The reply is not tenable as the decision for participating in the tender was taken by Management with a view to utilise its own men and machinery. Moreover, the subletting of work was against the objective of setting up the Company for speedy execution of work at reasonable rates and replacing the private contractors. The matter of sub-contracting was also not brought to notice of the Board as required under para 468 of the Manual.

Rescission of contract

The Company's fund to the extent of Rs.1.71 crore remained blocked after rescission of contract due to slow progress of work.

2.1.23 The construction of building for Sardar Swarn Singh National Institute of Renewable Energy (SSSNIRE) was awarded to the Company in August 2001 at a cost of Rs.10.82 crore (Civil work: Rs.10 crore and Electrical work: Rs.0.82 crore). The work was to be done by Jallandhar unit of Delhi zone. The work was to be completed by April 2003. Due to slow progress, the contract was rescinded by the client in October 2002. The slow progress of work was attributed by field staff of the unit to delayed availability of required machinery, shuttering materials, etc. by head office besides delay in supply of design/drawings by client. The head office while admitting these reasons, justified the delay for three months only on this account which indicated that the slow progress was mainly due to apathy of field staff. This is further established by the fact that progress of work continued to remain slow despite receipt of Rs.1.10 crore by the unit as mobilisation advance (Rs.50 lakh given by the client and balance by the head office of the Company). At the time of rescission of the contract, the Company was to recover an amount of Rs.1.71 crore from the client. No action had been taken to fix responsibility for slow progress of work leading to rescission of the contract.

It was further seen that the tender was submitted by the General Manager, Delhi Zone in June 2001 with 8.5 *per cent* financial loading without prior approval of head office as required in Para 68 of the Manual. The ex-post facto approval was, however, granted by head office with the condition that the overhead shall be restricted to 3.5 *per cent* of the cost. The actual overheads, however, was 12.5 *per cent* of the works expenditure till rescission of the contract. Consequently, excess overhead of nine *per cent* amounting to Rs.20.07 lakh was incurred. The high overheads were not regularised by the Company.

The Management stated (August 2004) that a profit of Rs.13.02 lakh was expected on the work if the payment of the final bill of Rs.65.39 lakh was made by the client against the work-in-progress of Rs.52.37 lakh at the time of close of the work. The reply is not convincing as the profit of Rs.13.02 lakh was against work-in-progress only and did not reflect the overall position of work showing total expenditure and receipts on the work as brought out in the paragraph.

Incorrect computation of claim

2.1.24 The New Okhla Industrial Development Authority (NOIDA) appointed (September 2002) the Company as consultants for construction of various

The Company incurred loss of Rs.27.73 lakh due to not submitting claim as per the agreed terms.

categories of houses in NOIDA at a fee of 4.4 *per cent* of the actual cost of work executed. In addition, 2 *per cent* of the cost of work was payable by NOIDA towards site survey, soil testing, drawing, designing etc. The Company is having well equipped team of architects in its organisation backed by sustained long experience of executing many prestigious works of high magnitude. Despite this, the Company hired (December 2002) the services of Architects Studio, Lucknow as consulting architects at a fee of 0.51 *per cent* of the total project cost. Up to February 2004, the Company preferred bills for Rs.13.59 lakh for reimbursement towards soil testing (Rs.2.88 lakh) and architect fee (Rs.10.71 lakh). The Company, instead, should have claimed Rs.41.32 lakh being 2 *per cent* of the cost of work done (Rs.20.66 crore up to February 2004) as per the terms of contract. This resulted in loss of Rs.27.73 lakh to the Company.

The Management stated (August 2004) that the Company was entitled to reimbursement of expenditure on site survey, design etc. up to a maximum of two *per cent* of the actual cost of work and the bills were raised accordingly. The reply is not tenable as the agreement provided for reimbursement of cost of site survey, design etc. at the rate of two *per cent* of actual cost of work.

Work-in-progress

2.1.25 The work-in-progress aggregating Rs.8 crore (March 2003) remained unadjusted for more than five years due to non-acceptance of bills by the client in 11 cases against which clients advances amounting to Rs.6.82 crore only were available with the Company (**Annexure-14**).

It was seen in this connection that four works of New Delhi Municipal Committee under Delhi Zone were handed over to them during March 1992 to 1995-96. The final bills for Rs.83.49 lakh were, however, belatedly submitted to the client in July 2000 which had not been accepted by the client as the Management of the Company had not provided details for checking of the accuracy of the ceiling cost as yet (August 2004).

The Management stated (August 2004) that bills had been submitted to the clients which were under pursuance.

Deposit works

2.1.26 For every work (except petty work and repairs), it is necessary to obtain the administrative approval of the concerned administrative department on the basis of preliminary estimate. After getting the administrative approval the detailed estimate has to be prepared and sanctioned by the competent authority of the Company, which is known as technical sanction. The technical sanction amounts to a guarantee that the proposal is structurally sound, estimate accurately calculated and are based on adequate data. The work should not be commenced unless administrative approval and technical sanction is accorded. Shortcomings noticed in deposit works are discussed in succeeding paragraphs:

Technical sanctions

The Company executed works valuing Rs.39.40 crore for which technical sanctions from the appropriate authority were pending.

2.1.27 As per para 320 (24) of the Manual, a detailed estimate for every work has to be prepared and technical sanction accorded by the Managing Director/General Managers before commencement of work as per delegation of power made by the Company. It was seen that four works with an aggregate estimated cost of Rs.17.94 crore, sent for availing of technical sanction during May 1996 to August 1999, were pending (March 2004) for approval by the Managing Director, although three of these works (cost Rs.12.32 crore) had already been completed by the Company. Besides, expenditure of Rs.27.08 crore had been incurred up to April 2004 against 37 works under Dehradun and Delhi zones, as intimated (August 2004) by the Management, for which the technical sanction was pending at the level of respective General Manager. The details of cases of technical sanction pending at General Managers' level in other zones called for in audit were not furnished by the Company.

Expenditure in excess of fund received and sanctioned estimates

2.1.28 Para 39 of the Manual of the Company restricts the expenditure to the extent of fund received only. It was seen that an expenditure of Rs 9.22 crore was incurred in excess of fund received from the clients in respect of 50 jobs under Delhi, Central and South Central Zones, which was contrary to the provisions of Manual. The excess expenditure was incurred in anticipation of release of fund from the client, in violation of the provisions of the Manual.

An expenditure of Rs.12.63 crore in respect of 39 works had been incurred in excess of sanctioned estimates in anticipation of approval of revised estimates. As a result fund of Rs.12.63 crore was locked up.

Expenditure of Rs.95.59 lakh had been incurred in excess of sanctioned cost against five jobs but the revised estimates had not been submitted to the client for approval.

The above indicates lack of control on allocation of fund to field units for various jobs.

Closure of works

2.1.29 After physical completion of works, these have to be closed by observing the formalities prescribed under paras 588 to 598 of the Manual regarding merger of accounts and preparation of consumption statements.

Non-observance of formalities under the provisions of above referred paras of the Manual are discussed below:

Non-merger of accounts

Accounts for 229 completed works were not merged with the head office accounts.

2.1.30 After auditing the accounts of the concerned work on its completion, the head office is required to take over assets and liabilities of the work in head office accounts for further clearance/pursuance. No time limit has, however, been prescribed in the Manual for merger of works with head office after its completion.

It was seen that 83 tender and 538 deposit works were completed during the five years upto March 2003 out of which 229 works had not been merged with the head office, which were causing unnecessary preparation of accounts each year and incurring expenditure on payment of audit fee to Statutory Auditors without any work involved therein.

The Management stated (August 2004) that 14 works had been merged and 62 works could not be merged due to disputes with the clients while remaining works would be merged after completion of audit for the year 2003-04.

Non-preparation of consumption statements

2.1.31 In terms of para 591.C.5 of the Manual, at the time of closure of work for merger with head office accounts, a consumption statement of total work with detailed reasons for variation is required to be submitted by field units duly checked/approved by the General Manager. The COPU recommended (September 2003) to issue charge sheet to officers/officials responsible for non-preparation/submission of consumption statement and make recoveries in cases where the consumption was in excess of norms. It was, however, seen that out of 621 works completed during the five years upto March 2003, only 392 works had been merged with head office accounts but consumption statement was submitted in 17 cases only. An examination of these consumption statements revealed that though the excess consumption was negligible in three cases, in 14 cases, excess consumption of material aggregated Rs.36.88 lakh for which no responsibility was fixed (April 2004).

The Management stated (August 2004) that information was being collected and would be submitted to audit.

Material management

2.1.32 The entire plant and machinery in the Company has been divided into listed and unlisted categories. The listed machinery comprising of major plant and machinery (Steel shuttering materials, Concrete Cement Mixers, Tower Cranes etc.) are kept in common pool under the charge of Listed Machinery Unit (LMU) while the unlisted machinery comprising of petty items are purchased by the unit and remain under their custody.

Plant and machinery

Avoidable purchase of Concrete Cement Mixers

2.1.33 LMU does not centrally maintain data base regarding capacity utilisation of various plants and machinery to facilitate identification of idle plant and machinery lying with field units and its immediate transfer to needy sites for their optimum use with lowest cost of investment.

The Company purchased 15 new CC mixers for Rs.10.39 lakh although it had under utilised/idle capacity of mixers.

The LMU had 314 CC mixers at the end of 2001-02 for its use by field units. It was seen that 35 mixers remained idle (Delhi Zone: 25 and Central Zone: 10) during 2001-02 based on the norm of utilisation of 100 hours per mixer in a month. In the absence of adequate management information system, LMU failed to identify under utilised/idle capacity and purchased 15 new CC mixers in the year 2002-03 for Rs.10.39 lakh on the basis of requirement sent by filed units, which could have been avoided.

The Management did not furnish any plausible reason for purchase of CC mixers despite the idle capacity but stated (August 2004) that the mixers were idle due to hold up of work on account of disputes with the clients, shortage of fund, lack of work, etc.

Idle plant and machinery

2.1.34 It was seen that 65 plant and machinery items (compressors, crane, loaders, tractors, road rollers, tripper trucks, DG sets etc. purchased for Rs.1.08 crore) were lying idle for last 20 to 25 years at Machinery Repairs and Fabrication Workshop, Naini due to which its useful life had completely expired with the passage of time. As per report of Surveyor (January 2004) the realisable value of these plant and machinery items was estimated at Rs.53 lakh due to the highly derogated condition.

The Management stated (August 2004) that six items of machinery were sold in tender invited in January 2004 and action for the remaining machinery was in progress.

Shuttering materials

2.1.35 The LMU is responsible for procurement and maintenance of steel shuttering for use by field units. The wooden shuttering is purchased by the zonal offices as per requirement of units under them. The records of steel shuttering are maintained by the LMU and records of wooden shuttering are kept by the concerned units. The availability of both steel and wooden shuttering vis-a-vis the shuttered area is reported by each zonal offices through monthly monitoring reports which is consolidated by Monitoring Cell at the head office.

Availability and utilisation of shuttering materials (including wooden shuttering materials) during five years upto 2002-03 as reported by the Zonal Offices of the Company in monitoring reports have been summarised in **Annexure-15**. In this regard, following deserve mention:

Irregular hiring charges on idle steel shuttering materials

2.1.36 The capacity utilisation of shuttering material during the five years varied from 40.54 to 64.93 *per cent* (**Annexure-15**). The LMU recovers hiring charges on steel shuttering materials made available at various works irrespective of their actual usage. The Company debited Rs.2.35 crore to various works representing charges for unutilised capacity which resulted in increasing the cost of work.

Avoidable purchase of shuttering materials

The Company purchased shuttering valuing Rs.9.49 crore during the five years up to 2002-03 without proper assessment of its availability in the field units.

2.1.37 The Company had surplus useable steel shuttering plates, steel props (**Annexure-16)** as compared to the norms during all the five years up to 2002-03. Despite having surplus steel shuttering materials, the Company purchased steel shuttering materials for Rs.1.38 crore (**Annexure-16**) and wooden shuttering materials for Rs.8.11 crore during the five years without proper assessment of their availability in the field units.

The Management stated (August 2004) that the purchase of shuttering was made against replacement as well as when there was no surplus in the field units. The reply is not tenable as the availability of steel shuttering was not considered while deciding the purchases as there was no co-ordination between LMU and monitoring cell at head office where the monthly reports on availability of shuttering in field units are received. Further, the bulk purchase relates to wooden shuttering where the General Managers of the zones decide the purchases who are not aware of the availability of surplus shuttering in other zones.

Shortages of steel shuttering materials

2.1.38 LMU is responsible for keeping account of steel shuttering material and its transfers from one unit to other. It was seen that availability of steel shuttering materials reported by the field units through zonal offices to head office as at the end of March during five years upto March 2003 was far less than that was appearing in the books of LMU which indicated shortages (**Annexure-17**) valuing Rs.2.54 crore (March 2003). This included stolen steel shuttering materials of Rs.14.75 lakh in the field units. No responsibility had been fixed so far (April 2004) for the shortages/thefts.

The Management stated (August 2004) that physical verification of steel shuttering was carried out annually by LMU which was correct and physical quantity reported by field units in monitoring reports was only indicative. The reply is evasive in as much as no reconciliation of the balances in the books of LMU and field units is made to ascertain the correct position.

Inter-unit transfers of materials

The unreconciled inter unit transfer balances increased up to Rs.12.04 crore during the last five years up to 2002-03.

2.1.39 The transfer of building material, shuttering materials and tools and plants is made from one job site to another through Inter Unit Transfer (IUT) as per provisions of para 448 of the Manual for which debit advices are required to be raised/accepted so as to ensure proper accountal of transfer of material and to square up the balances. These provisions, however, have not been strictly complied with. The unreconciled balance under IUT during the five years upto 2003 was as under:

(Rupees in crore)

Year	Debit balance	Credit balance	Net debit balance
1998-99	1586.85	1584.59	2.26
1999-00	1667.70	1664.00	3.70
2000-01	1780.21	1777.54	2.67
2001-02	1916.90	1911.81	5.09
2002-03	2071.69	2059.65	12.04

It would be seen that the unreconciled IUT balances have substantially increased from Rs.2.26 crore in 1998-99 to Rs.12.04 crore in 2002-03. No task force had been framed for reconciliation as a result of which misappropriation/non-accountal of stores, if any, remained undetected.

The Management stated (August 2004) that target for complete reconciliation of IUT balances has been fixed for 2003-04.

Inventory Management

2.1.40 The Manual provides for procurement of steel and cement for six months requirement and other materials for three months requirement. The Company had maintained the level of inventory efficiently well within the prescribed norms in all the five years as is evident from the table below:

(Rupees in crore)

Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
Material consumed	120.22	98.19	84.38	97.77	124.27
Inventory	14.32	12.54	12.44	12.74	12.92
Inventory equivalent to months consumption	1.43	1.53	1.77	1.56	1.25

Further analysis, however, revealed the following:

- Material valuing Rs.44.54 lakh representing shortages was lying as on 31 March 2003 against 30 works which had neither been investigated nor responsibility fixed in this regard.

The Management stated (August 2004) that adjustment of Rs.0.86 lakh had been made and investigation in remaining cases was in progress for fixation of responsibility.

- There was a dead inventory (unusable) of Rs.35.49 lakh (July 2004) which had not been disposed off. The yearwise break up showing the age of the dead inventory was not available.
- The inventory included petty materials valuing Rs.5.53 crore in respect of 255 jobs which were completed more than five years back. No action has been taken by the Management either to transfer this inventory to other work sites or to dispose it off, if not required.

The Management stated (August 2004) that instructions had been issued to transfer the materials to other working sites.

Liquidity of debts

2.1.41 The position of debtors representing the amount receivable from client against works done during the five years ending 2002-03 is as under:

(Rupees in crore)

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03
Value of work done	231.97	192.92	201.23	203.92	242.03
Debtors	38.98	39.19	41.93	40.21	47.37
Debtors in terms of months' value of work done	2.0	2.4	2.5	2.4	2.3

It would be seen that the debtors in terms of equivalent months' value of work done varied between 2 to 2.5 months during the five years upto 2002-03 which shows lack of concerted efforts for quick liquidation of dues.

An examination in audit revealed that the debtors of Rs.47.37 crore (March 2003) included:

- Rs.45.47 crore against deposit works (March 2003) which represented expenditure incurred in excess of fund received from the clients. According to the provisions of para 39 of the Manual the expenditure on deposit works is to be restricted to the amount deposited by the concerned departments of the Government. Had these instructions been strictly followed the accumulation of debtors to the extent of Rs.45.47 crore could have been avoided. No responsibility has been fixed against the defaulting officers in this regard.

The Company had not framed any task force for liquidation of the debtors of Rs.7.06 crore outstanding for more than 10 years.

- Rs.7.06 crore were outstanding for more than 10 years against works completed and merged at head office (1978-79 to 1992-93). The Company has not framed any task force for liquidation of these old debts.

The Management stated (August 2004) that the action for recovery through arbitration was in progress and recovery targets had been fixed for zones.

Quality control

2.1.42 It is seen that the Company had been accredited with ISO 9001:2000 by Bureau of Indian Standards, New Delhi in July 2003 for a period of three years for design (structural and architectural) and construction of all types of buildings and roads. The detailed instructions for meeting the standards as per Quality Manual were circulated by the Company to all the General Managers in September 2003 who were required to ensure the compliance in field units.

The Company had, however, not established Technical Audit Cell to ensure that all the field units were following the instructions without deviation from the technical parameters designed to maintain the accreditation intact.

Manpower Management

2.1.43 The position of sanctioned strength vis-à-vis actual men-in-position in the Company at the end of March during the five years upto 2002-03 was as under:

Year	Sanctioned post			Men in position			Surplus staff strength	Percentage of surplus to sanctioned strength
	Regular	Muster roll/work charge	Total	Regular (including deputationists)	Muster roll/ work charge	Total		
1998-99	1901	1005	2906	1499	2414	3913	1007	34.6
1999-00	1901	1005	2906	1492	2409	3901	995	34.2
2000-01	1901	1005	2906	1477	2382	3859	953	32.8
2001-02	1901	1005	2906	1453	2362	3815	909	31.3
2002-03	1901	1005	2906	1492	2321	3813	907	31.2

The financial impact of excess staff during the five years aggregated Rs.19.95 crore. The surplus staff strength was mainly under the muster roll and work charge categories due to engagement of staff in excess of sanctioned strength in these categories. No reply was furnished for excess engagement of staff.

2.1.44 According to State Government Order (G.O.) of December 1982, all Government servants should be repatriated on completion of five years on deputation in State Public Sector Enterprises. The G.O. also states that the deputation allowance shall not be paid for period beyond five years. It was noticed that there were 31 employees on deputation from UPPWD/UP Jal Nigam/National Building Construction Corporation/State Planning Institute/UP Irrigation Department etc. who were continuing with the Company for 6 to 28 years (**Annexure-18**). The period upto which these employees had been paid deputation allowance was not intimated by the Company and as such, excess payment of deputation allowance, if any, could not be worked out in audit.

The Management stated (August 2004) that deputation allowance in excess of five years was paid to six persons who were still on the rolls of the Company. The amount of over payment to these employees and to the employees who were repatriated to their parent departments in the past or the employees who retired has not been intimated by the Company.

Internal control and Internal audit

Internal control

2.1.45 Internal control is a process designed to provide reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and statutes. The Statutory Auditors of the Company also emphasised the need for improvement in the internal control mechanism. The Manual of the Company provides for the internal control procedures. The procedure was not followed effectively in as much as cases of deficient budgetary control, idle fund, technical sanction before commencement of work, expenditure in excess of fund received and sanctioned estimates and non-preparation of revised estimates were noticed, as discussed in the foregoing paragraphs. As a result the internal control system needs to be strengthened.

Internal audit

2.1.46 Internal audit is a system designed to ensure proper functioning as well as effectiveness of the internal control system and detection of errors and frauds.

Internal Audit of the Company is being carried out departmentally as well as by hiring the services of Chartered Accountants. As per Para 875 of Manual of the Company, the Internal Audit team is required to work under a Chief Internal Auditor (CIA). The post of CIA has not been created so far (May 2004). The internal audit wing of the Company, during the five years period upto 2002-03, was manned by two to four auditors headed by an Assistant Controller of Accounts accountable for reporting to the Financial Advisor. Further, it was noticed in audit that:

- there was no system of preparing Annual Audit Plans indicating periodicity of audit and required staff strength for coverage of all the field units and head office of the Company.

- audit of various wings of the head office of the Company had never been conducted.
- the percentage of audited units (including audit by Chartered Accountants) to total number of field units deteriorated from 58.6 in 1998-99 to 20.5 in 2002-03 as depicted in table below:

Year	Total No. of units	Units audited			Percentage of units audited to total No. of units	No. of outstanding paras
		Own staff	Chartered Accountants	Total		
1998-99	70	39	2	41	58.6	72
1999-00	65	20	14	34	52.3	150
2000-01	66	13	3	16	24.2	214
2001-02	69	14	5	19	27.5	160
2002-03	78	09	7	16	20.5	170

- No 'Exception Report' highlighting major discrepancies and serious irregularities noticed in internal audit were prepared as required in para 156 of the Manual.

The Management stated (August 2004) that action for strengthening the internal audit wing was being taken.

The matter was reported to the Government in June 2004: the reply is awaited (September 2004).

Conclusion

The Company earned intermittent marginal profits, but there were operating losses in each year caused by its lack of dynamic growth oriented approach in fixation of targets which too were never attained due to poor success rates in securing tender works. Incorrect estimation of bids in tender, off loading of works on back to back basis, delay/disputes in settlement of final bills due to non-compliance with clients requirements, avoidable procurement of shuttering materials, shortage of shuttering materials, unrealisable debtors and surplus manpower led to reduction in profit margin despite being well equipped with men and infrastructural facilities.

In order to improve its performance, the Company should adopt a growth oriented approach in fixation of targets and its achievement by improving bidding for tender works based on realistic aggressive market surveys, rationalise the financial loading, eliminate off loading of work to private contractors so as to ensure optimum utilisation of men and machinery of the Company, rationalise manpower with respect to work load to reduce the overheads and enforce observance of Working Manual of the Company to strengthen internal control and internal audit for system improvement.