OFFICE OF THE ACCOUNTANT GENERAL (AUDIT-II), KERALA, THIRUVANANTHAPURAM

No. AG(Au-II)/APCC/1-11/2026-27/
Date:24-08-2026

<u>Circular No.28</u>

Sub: Audit Instructions on Addressing the Risk of Disputes in Contract Management in Infrastructure Projects.

Attention is invited to the Audit Instructions on Addressing the Risk of Disputes in Contract Management in Infrastructure Projects, issued by Headquarters vide PPG OM no. 5I-PPG/2025/ 97 dated 11 August 2026. The audit instructions, which is based on the study of high-value and critical projects involved in disputes, has highlighted systemic deficiencies at various stages of the project lifecycle.
In this regard, the following aspects are highlighted in the OM which shall be examined during audit:

(i) Department of Expenditure (DoE) has emphasized that minimum necessary encumbrance-free land, particularly land essential for execution of critical components, should be ensured prior to award of contract. Verification of land availability should adequately capture critical and contiguous stretches, free from encumbrances and access constraints.

(ii) Delays in obtaining statutory/regulatory clearances and fulfilment of Conditions Precedent should be examined, along with the adequacy of coordination, monitoring and project preparedness.

(iii) Financial Models submitted by concessionaires should be systematically and properly scrutinised, with appropriate comments recorded on critical assumptions such as traffic projections, revenue estimates and financing structure.

(iv) Approvals of drawings, extension of time and other critical contractual decisions should be taken within the timelines prescribed as per applicable SOPs with documented reasons for deviations and fixation of accountability for delays arising from procedural lapses.

(v) Contractual rights, including issuance of deemed termination notices, should be exercised only after due verification of compliance by all parties and proper documentation of defaults and reasons, so as to ensure that such actions are justified and legally defensible during dispute resolution.

(vi) Necessary clearances should be planned and closely monitored. Digital platforms such as PM Gati Shakti (2021) and PARIVESH 2.0 Portal are to be utilised more effectively for integrated planning and streamlining of approval processes.

(vii) Contracting authorities may explore establishing a structured in-house mechanism to capture, analyse and disseminate learnings from dispute cases, including creation of a central repository of arbitral findings, to identify recurring contractual weaknesses and strengthen accountability and future contract management.

The OM further directs that, using the inputs of the above study, audit should identify and flag risks of disputes arising from contract management deficiencies, particularly in infrastructure projects where the risk of disputes is high.

The above audit instructions may be noted for compliance during the planning and conduct of audit of infrastructure projects. A status report comprising the details of units in which these instructions were exercised/no of instances covered and specific findings on the points covered in the OM may be submitted to AG by end of first week of September 2026.

All the Group Officers are directed to closely watch progress of the implementation of above instructions/advisories.

(Vide orders of Accountant General)

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Anish D
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Senior Deputy Accountant General (Admin &AMG I)

Copy to: 1. Sr. Deputy Accountant General/ AMG I, AMG II, AMG III
2. Secretary to Accountant General
3. Sr. AO/AMG I, AMG II, AMG III (For circulation to field parties)

भारत के नियंत्रक एवं महालेखा परीक्षक का कार्यालय
9. दीन दयाल उपाध्याय मार्ग.
नई दिल्ली-110124

SUPREME AUDIT INSTITUTION OF INDIA
लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest

OFFICE OF THE COMPTROLLER &
AUDITOR GENERAL OF INDIA
9, DEENDAYAL UPADHYAYA MARG,
NEW DELHI - 110 124

Professional Practices Group

No.51-PPG/2025/ 97 **Dated: 11 August 2026**

OFFICE MEMORANDUM

<u>Subject: Audit Instructions on addressing risk of disputes in Contract Management in Infrastructure Projects.</u>

1. As we are aware, the CAG's Office in consultation with NITI Aayog and DoE (MoF) had initiated discussions in April 2025 focused on, inter alia, transforming traditional approaches to audit of decisions of public procurement officials, especially with a view to infuse existing audit practices with risk-based and efficiency-based approaches that are increasingly being practiced world-wide so as to maintain a constant focus on timely decision-making and efficiency in implementation of infrastructure projects.

2. With this objective in view, the CAG's Office had constituted a working group to deliberate on such issues. The group was tasked to study high value and critical projects stuck up in disputes and to identify the causes of such disputes and give recommendations to improve contract management aimed at reducing the risk of disputes.

3. As noted in this Study, financial exposure for government agencies arising out of arbitral awards, including interest liabilities related thereto, highlights the need for structural reforms in contract management practices in the Government. The disputes in the reviewed arbitration cases were attributable to certain systemic deficiencies across different stages of the project lifecycle.

4. At the pre-construction stage, the deficiencies observed were primarily related to inadequate project preparedness, including delays in providing encumbrance-free Right-of-Way, non-availability in time of statutory and regulatory clearances, and lack of timely coordination

with state government authorities. These shortcomings appear to have resulted in commencement of projects without achieving the required level of readiness envisaged at the project planning stages.

5. During the construction stage, issues of concern appear to be largely associated with weaknesses in contract administration: particularly in enforcement of contractual provisions, delays in critical decision-making including approval of drawings, grant of interim/ final Extension-of-Time, and resolution of contractual matters, all of which may have contributed significantly to contractual disputes. In several instances, absence of contemporaneous documentation appears to have further weakened the negotiating position of the government agencies at the stage of dispute resolution. Instances were observed where financial models submitted by concessionaires in terms of the provisions of the relevant Concession Agreement, were not formally approved by public authority within requisite time limits. Further, cases were noticed where deemed/ actual termination notices appear to have been issued without adequate due diligence, including insufficient verification of contractual compliance and lack of proper documentation of defaults, which adversely impacted the defensibility of such actions during dispute resolution and litigation of such disputes.

6. Overall, the Study indicates that disputes in these projects appears to be largely a consequence of systemic gaps in project planning, contract design, and execution, rather than isolated contractual deviations—deficiencies in contract administration that can get further exacerbated by the inherent complexity and scale of infrastructure projects, resulting in more frequent disputes between the departments and contractors/concessionaires.

7. In this connection, it may be noted that the Department of Expenditure (DoE) has issued comprehensive instructions on Procurement and Project Management (October 2021), emphasizing the need for improved project preparedness, timely decision-making, and accountability in contract execution.

8. Based on the instructions of DoE and instances noticed in review of the arbitration cases covered in the Study, the following areas are being highlighted to appropriately enhance ease of doing business and improve contract management practices in government agencies and therefore be examined specifically during audit:

   (i) DoE has emphasized that minimum necessary encumbrance-free land, particularly such land whose non-availability will prevent essential components of work execution, should be ensured prior to award of contract. Also, the Model Concession Agreements generally stipulate that the Appointed Date is to be declared only upon availability of encumbrance-free Right of Way (RoW). However, instances of declaration of Appointed Date despite incomplete ground-level availability of land in sample cases indicate that existing decision-making mechanisms are not effectively reflecting actual site conditions.

This highlights the need to, inter alia, strengthen the quality and reliability of verification of land availability; ensuring that joint memorandum of land inventory captures availability of critical and contiguous stretches required for execution which are free from encumbrances and access constraints, **and that such due diligence is not treated as a procedural formality for declaration of Appointed Date** in order that contractual provisions achieve their intended outcomes in practice.

(ii) The review of selected projects indicated delays in obtaining clearances and fulfilment of Conditions Precedent, reflecting gaps in coordination and project preparedness.

The DoE has already instructed that Public Authorities/Project Executing Authorities should plan for obtaining all necessary clearances quickly and closely monitor the progress. In this context, digital platforms such as the PM Gati Shakti (2021) and PARIVESH 2.0 Portal need to be more aggressively utilized to facilitate integrated planning and streamline approval processes.

It would therefore be important to ensure that the improvements achieved are consistently followed across all projects, with proper monitoring and clarity in responsibilities, so that delays in pre-construction activities are avoided to the fullest possible extent.

(iii) The Financial Models, submitted by the concessionaire, **should be subject to systematic and proper scrutiny**, with appropriate comments recorded on critical assumptions such as traffic projections, revenue estimates, and financing structure, in order that the public authority's position is adequately supported in subsequent contractual and dispute scenarios.

(iv) All contractual decisions, including approvals of drawings, Extension of Time, and other critical matters, **should be taken strictly within defined timelines as per applicable SOPs**, with documented reasons for deviations and fixation of accountability for delays arising from procedural lapses.

(v) **Exercise of contractual rights, including issuance of deemed termination notices, should be undertaken only after due verification of compliance by all parties (including by the public authority itself) and proper documentation of defaults**

and recording of reasons, to ensure that such actions are justified and legally defensible during dispute resolution.

(vi) **Contracting authorities must explore the possibility of establishing an appropriate structured in-house institutional mechanism designed to capture, analyse and disseminate learnings from dispute cases,** including creation of a central repository of arbitral findings, with a view to identify recurring contractual weaknesses, ensure clause-based and evidence-backed handling of claims, record delays attributable to the Authority, and facilitate responsibility mapping for strengthening accountability and improving future contract management across all Project Implementation Units.

Using the inputs of the above study, audit should identify and flag the risk of disputes arising out of contract management deficiencies highlighted in the study. This is more relevant in case of infrastructure projects where the risk of disputes are high. About Rs.1 lakh crore is stuck up in arbitration/disputes in NHAI (2024).

Vishal Bansal

Vishal Bansal
Additional Deputy Comptroller and
Auditor General

To
All DAIs/ADAIs
All DG/PDs at Headquarters
Heads of Department of Field Offices

महालेखाकार)लेखापरीक्षा-II(का कार्यालय, केरल, तिरुवनंतपुरम
OFFICE OF THE ACCOUNTANT GENERAL (AUDIT-II), KERALA, THIRUVANANTHAPURAM

सं.मले) .लेप.II)/एपीसीसी/1-11/2026-27/
No. AG(Au-II)/APCC/1-11/2026-27/
दिनांक/Date:24-08-2026

परिपत्र सं./Circular No.28

विषय: अवसंरचना परियोजनाओं में संविदा प्रबंधन में विवादों के जोखिम को निपटने के संबंध में लेखापरीक्षा अनुदेश ।
Sub: Audit Instructions on Addressing the Risk of Disputes in Contract Management in Infrastructure Projects.

कृपया उपर्युक्त विषय पर मुख्यालय कार्यालय द्वारा पीपीजी कार्यालय ज्ञापन सं. 51-PPG/2025/97 दिनांक 11 अगस्त 2026 के माध्यम से जारी लेखापरीक्षा अनुदेशों की ओर ध्यान दें । उक्त लेखापरीक्षा अनुदेश उच्च-मूल्य एवं महत्वपूर्ण परियोजनाओं, जिनमें विवाद उत्पन्न हुए हैं, के अध्ययन पर आधारित हैं तथा इनमें परियोजना के विभिन्न चरणों में विद्यमान प्रणालीगत कमियों को उजागर किया गया है । इस संबंध में, कार्यालय ज्ञापन में निम्नलिखित पहलुओं को रेखांकित किया गया है जिनकी लेखापरीक्षा के दौरान जाँच की जानी है :
Attention is invited to the Audit Instructions on Addressing the Risk of Disputes in Contract Management in Infrastructure Projects, issued by Headquarters vide PPG OM no. 5l-PPG/2025/ 97 dated 11 August 2026. The audit instructions, which is based on the study of high-value and critical projects involved in disputes, has highlighted systemic deficiencies at various stages of the project lifecycle. In this regard, the following aspects are highlighted in the OM which shall be examined during audit:

(i) व्यय विभाग ने इस बात पर जोर दिया है कि संविदा प्रदान किए जाने से पूर्व न्यूनतम आवश्यक भारमुक्त भूमि, विशेष रूप से महत्वपूर्ण घटकों के निष्पादन के लिए आवश्यक भूमि, सुनिश्चित की जानी चाहिए । भूमि की उपलब्धता के सत्यापन में भारमुक्त एवं पहुँच संबंधी बाधाओं से मुक्त महत्वपूर्ण तथा सन्निहित भू-खंडों को पर्याप्त रूप से शामिल किया जाना चाहिए ।
Department of Expenditure (DoE) has emphasized that minimum necessary encumbrance-free land, particularly land essential for execution of critical components, should be ensured prior to award of contract. Verification of land availability should adequately capture critical and contiguous stretches, free from encumbrances and access constraints.

(ii) वैधानिक/नियामक स्वीकृतियाँ प्राप्त करने तथा पूर्ववर्ती की पूर्ति में होने वाले विलंब की जाँच की जानी चाहिए । इसके साथ ही, समन्वय, निगरानी तथा परियोजना की तैयारी की पर्याप्तता का भी परीक्षण किया जाना चाहिए ।
Delays in obtaining statutory/regulatory clearances and fulfilment of Conditions Precedent should be examined, along with the adequacy of coordination, monitoring and project preparedness.

(iii) रियायतग्राहियों द्वारा प्रस्तुत वित्तीय मॉडलों की व्यवस्थित एवं समुचित रूप से जाँच की जानी चाहिए तथा यातायात के अनुमान, राजस्व के आकलन एवं वित्तपोषण संरचना जैसी महत्वपूर्ण धारणाओं पर उचित टिप्पणियाँ अभिलिखित की जानी चाहिए।

Financial Models submitted by concessionaires should be systematically and properly scrutinised, with appropriate comments recorded on critical assumptions such as traffic projections, revenue estimates and financing structure.

(iv) आरेखों के अनुमोदन, समय-सीमा में विस्तार तथा अन्य महत्वपूर्ण संविदात्मक निर्णय लागू एसओपी के अनुसार निर्धारित समय-सीमा के भीतर लिए जाने चाहिए तथा विचलन के कारणों को अभिलिखित किया जाना चाहिए और प्रक्रियागत चूकों के कारण होने वाले विलंब के लिए उत्तरदायित्व निर्धारित किया जाना चाहिए।

Approvals of drawings, extension of time and other critical contractual decisions should be taken within the timelines prescribed as per applicable SOPs with documented reasons for deviations and fixation of accountability for delays arising from procedural lapses.

(v) संविदात्मक अधिकारों का प्रयोग, जिसमें मानी गई समाप्ति सूचनाएँ जारी करना भी शामिल है, सभी पक्षों द्वारा अनुपालन के समुचित सत्यापन तथा चूक एवं उसके कारणों के उचित दस्तावेजीकरण के बाद ही किया जाना चाहिए ताकि यह सुनिश्चित किया जा सके कि ऐसी कार्रवाइयाँ विवाद समाधान के दौरान न्यायोचित एवं विधिक रूप से बचाव योग्य हों।

Contractual rights, including issuance of deemed termination notices, should be exercised only after due verification of compliance by all parties and proper documentation of defaults and reasons, so as to ensure that such actions are justified and legally defensible during dispute resolution.

(vi) आवश्यक स्वीकृतियों की योजना पहले से बनाई जानी चाहिए तथा उनकी निकटता से निगरानी की जानी चाहिए। एकीकृत योजना बनाने तथा अनुमोदन प्रक्रियाओं को सुव्यवस्थित करने के लिए पीएम गति शक्ति (2021) और परिवेश 2.0 पोर्टल जैसे डिजिटल प्लेटफॉर्मों का अधिक प्रभावी ढंग से उपयोग किया जाना चाहिए।

Necessary clearances should be planned and closely monitored. Digital platforms such as PM Gati Shakti (2021) and PARIVESH 2.0 Portal are to be utilised more effectively for integrated planning and streamlining of approval processes.

(vii) संविदा प्राधिकारी विवाद संबंधी प्रकरणों से प्राप्त सीखों को संकलित करने, उनका विश्लेषण करने तथा उनका प्रसार करने के लिए एक सुव्यवस्थित आंतरिक तंत्र स्थापित करने की संभावनाओं को खोज सकते हैं, जिसमें बार-बार उत्पन्न होने वाली संविदात्मक कमियों की पहचान करने तथा उत्तरदायित्व और भविष्य के संविदा प्रबंधन को सुदृढ़ करने के लिए मध्यस्थता संबंधी निष्कर्षों का एक केंद्रीय भंडार तैयार करना भी शामिल है।

कार्यालय ज्ञापन में आगे यह निदेश दिया गया है कि उपर्युक्त अध्ययन से प्राप्त इनपुट का उपयोग करते हुए, लेखापरीक्षा में संविदा प्रबंधन में विद्यमान कमियों से उत्पन्न होने वाले विवादों के जोखिमों की पहचान कर उन्हें चिह्नित किया जाए, विशेष रूप से ऐसी अवसंरचना परियोजनाओं में जहाँ विवाद उत्पन्न होने का जोखिम अधिक है।

उपर्युक्त लेखापरीक्षा अनुदेशों को अवसंरचना परियोजनाओं की लेखापरीक्षा की योजना बनाने तथा लेखापरीक्षा के संचालन के दौरान अनुपालन हेतु ध्यान में रखा जाए। इन अनुदेशों के अनुपालन में जिन इकाइयों में कार्रवाई की गई है, वहाँ कवर किए गए प्रकरणों की संख्या तथा कार्यालय ज्ञापन में उल्लिखित बिंदुओं पर प्राप्त विशिष्ट निष्कर्षों का विवरण सम्मिलित करते हुए एक स्थिति रिपोर्ट सितंबर 2026 के प्रथम सप्ताह के अंत तक महालेखाकार को

प्रस्तुत की जाए । सभी समूह अधिकारियों को उपर्युक्त अनुदेशों/परामर्शों के कार्यान्वयन की प्रगति पर निकटता से निगरानी रखने का निदेश दिया जाता है ।

Contracting authorities may explore establishing a structured in-house mechanism to capture, analyse and disseminate learnings from dispute cases, including creation of a central repository of arbitral findings, to identify recurring contractual weaknesses and strengthen accountability and future contract management.

The OM further directs that, using the inputs of the above study, audit should identify and flag risks of disputes arising from contract management deficiencies, particularly in infrastructure projects where the risk of disputes is high.

The above audit instructions may be noted for compliance during the planning and conduct of audit of infrastructure projects. A status report comprising the details of units in which these instructions were exercised/no of instances covered and specific findings on the points covered in the OM may be submitted to AG by end of first week of September 2026. All the Group Officers are directed to closely watch progress of the implementation of above instructions/advisories.

(महालेखाकार के आदेशानुसार / Vide orders of Accountant General)

वरिष्ठ उप महालेखाकार (प्रशा. व एएमजी I)
Senior Deputy Accountant General (Admin &AMG I)

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