

Chapter 3

Audit of Transactions

- 3.1 Non-compliance with the rules**
- 3.2 Expenditure without propriety**
- 3.3 Persistent and pervasive irregularities**
- 3.4 Failure of oversight/governance**

Chapter 3

Audit of Transactions

Audit of transactions of the Government departments, their field formations as well as that of the autonomous bodies brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs under broad objective heads.

3.1 Non-compliance with the rules

For sound financial administration and financial control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authority. This not only prevents irregularities, misappropriation and frauds, but helps in maintaining good financial discipline. Some of the audit findings on non-compliance with rules and regulations are as under:

PUBLIC HEALTH AND FAMILY WELFARE DEPARTMENT

3.1.1 Suspected embezzlement

Failure to observe codal provisions facilitated suspected embezzlement of ₹ 12.52 lakh in the office of the Civil Surgeon cum Hospital Superintendent, Betul.

Subsidiary Rule 53 of the Madhya Pradesh Treasury Code (MPTC) provides that every transaction should be entered in the cash book as soon as it occurs and the same should be attested by the officer-in-charge, maintaining the cash book. At the end of each month, the Drawing and Disbursing officer (DDO) is required to personally verify the cash balance as reflected in the cash book and record a certificate to that effect. Rule further provides that the cash book should be closed either daily or at least, at regular intervals.

A scrutiny of records (January 2010 and February 2011) of the Civil Surgeon-cum-Hospital Superintendent (CS), Betul revealed that during the period from 29 March 2008 to 09 February 2011, the cash book was neither found closed daily nor at regular intervals. Certificate of physical verification of the cash balance was also not found recorded in the cash book during the same period. Non-observance of above provisions of rules resulted in suspected embezzlement of ₹ 12.52 lakh as detailed below:

There was a closing balance of ₹ 46,67,057 in the cash book as on 29 March 2008. Thereafter, a sum of ₹ 13,17,90,345 was shown as having been received ¹ during 30 March 2008 to 10 February 2011 against which

¹ Drawal from treasury ₹ 12,65,82,811, received through Money Receipts (MPTC – 6) ₹ 1,16,975 and through Bank Drafts ₹ 50,90,559.

an amount of ₹ 13,51,66,836 was booked as payment during the same period. Year-wise details of receipts and payment are shown in Table 3.1

Table 3.1

Sr. No.	Year	Opening balance	Receipts	Total	Expenditure	Difference
1	As on 30.03.2008	4667057	8158547 (31/03/08)	12825604	13948961 (31/03/08)	(-) 1123357
2	2008-09	(-) 1123357	37108186	35984829	34694263	1290566
3	2009-10	1290566	39713111	41003677	39713111	1290566
4	2010-11	1290566	46810501	48101067	46810501	1290566
Total			(131790345+4667057 [CB])= 136457402		135166836	1290566

After deducting the amount of expenditure from total receipts as above, an amount of ₹ 12,90,566 should have been shown in the cash book as closing balance as on 10 February 2011 duly matched by physical balance of cash. Contrary to that, only an amount of ₹ 38,390 was lying in the saving bank account of the DDO on that date, while the bank balance was shown to be 'nil' owing to discontinuity in carrying forward of the past cash balances. The cash verification conducted by the Civil Surgeon, Betul as of that date indicating nil physical and book balance was therefore, flawed. Thus, there was suspected embezzlement of ₹ 12,52,176.

On being pointed out in audit, CS replied (February 2010 and February 2011) that matter will be investigated and result will be intimated to audit. No investigation report had, however, been submitted as of November 2011 to either audit or Director of Health Services. The latter stated (December 2011) that consequent to non-cooperation with an investigation team from the Directorate of Health Services, the DDO and the Accountant had been suspended. It is clear that despite the suspected embezzlement of public funds being brought to the notice of the Government, no swift action has been taken to investigate the matter fully, to fix the responsibility for various acts of omission and commission and to recover funds that have apparently been embezzled.

3.1.2 Unauthorised retention of departmental receipts outside the Consolidated Fund of the State

Unauthorised retention of departmental receipts amounting to ₹ 29.83 crore outside the Consolidated Fund of the State against the provisions of the Constitution of India and Madhya Pradesh Treasury Code.

Article 266 of the Constitution of India and Rule 7(1) of Madhya Pradesh Treasury Code (MPTC) provide that all moneys received by or tendered to Government or public moneys raised or received by the State Government shall, without undue delay, be paid in full into the treasury or into Bank and shall be included in the Consolidated Fund of State. No department of the Government may require that any moneys received by it on account of the revenues of the State be kept out of the Consolidated Fund of State. Further if any body or individual entrusted with duty of any work related to Government institution, the amount can be paid back to it as grants-in-aid after valid appropriation by legislature.

Test check (February 2011) of the records of Director Kamla Nehru Hospital, Bhopal and information collected (February 2011 to June 2011) from 11 audited entities² revealed that the user charges³ received as government money amounting to ₹ 29.83 crore⁴ during the years from 1996-97 to 2010-11 instead of being treated as government receipts was deposited in the bank accounts of the Rogi Kalyan Samities (RKS), registered as institutions under M.P. Society Registration Act 1973, despite this having been pointed out in the Audit Inspection Reports of Offices of the Civil Surgeons-cum-Hospital Superintendents (CS), Chhindwara, Jabalpur and Vidisha during the period from March 2005 to February 2009. Since the receipts are in lieu of services provided by utilising government owned infrastructure and the human resource paid out of public funds, these receipts clearly belong to the Government.

On this being pointed out, Director, Health Services stated (February 2011) that MPTC was framed in 1955, i.e., prior to creation of RKS and the financial management of RKS is done in accordance with RKS rules updated in 2010.

The above reply of department was not tenable as MPTC which are applicable to entire set of Government departments would override RKS Rules unless otherwise provided specifically with the concurrence of Finance Department. Besides, the expenditure incurred by RKS from the government receipt is not appropriated under legislative authority. Hence, keeping of user charges, generated from government infrastructure and hospitals, out of Government Account was against Article 266 of the Constitution.

The matter was referred to the Government (June 2011 and September 2011); their reply had not been received (December 2011).

PUBLIC WORKS DEPARTMENT

3.1.3 Excess payment

By incorrectly classifying the work of embankment filling payable as 'back filling behind abutment', excess payment of ₹ 52.15 lakh was made to the contractor

The work 'Construction of 78 Nos bridges and culverts with WBM renewal and asphaltting work on Shahpura-Vikrampur road' was awarded (November 2006) to a contractor for ₹ 9.75 crore. The work, which was to be completed in

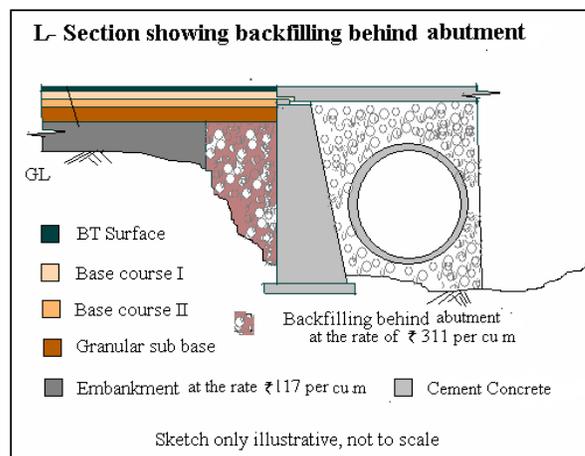
² Civil Surgeon-cum-Hospital Superintendent (CS), Anuppur, Balaghat, Chhatarpur, Datia, Gwalior, Jabalpur, Mandla, Ujjain, Umaria and Jai Prakash Hospital, Bhopal and Chief Medical and Health Officer (CMHO) Ujjain

³ User charges include registration fee, laboratory charges, room charges, operation charges etc.

⁴ Kamla Nehru Hospital, Bhopal: ₹ 156.30 lakh; CS Anuppur: ₹ 7.00 lakh; CS Balaghat : ₹ 192.06 lakh; CS Chattarpur: ₹ 238.60 lakh; CS Datia: ₹ 70.21 lakh; CS Gwalior: ₹ 359.47 lakh; CS Jabalpur: ₹ 657.73 lakh; CS Mandla: ₹ 203.55 lakh; CS Ujjain: ₹ 553.07 lakh; CS Umaria: ₹ 44.26 lakh; CS Jai Prakash Hospital, Bhopal: ₹ 213.89 lakh; CMHO Ujjain: ₹ 287.16 lakh

17 months including rainy season, was still in progress and ₹ 7.72 crore had been paid to the contractor as of March 2011.

The schedule of quantities of the agreement included, *inter alia*, an item of 'construction of embankment and earthen shoulder with selected soil having



California Bearing Ratio (CBR) more than five and with lead up to 250 metre', payable at the rate of ₹ 103 per cu m. If the lead exceeded 250 metre (involving lead and lift), the item was payable at the rate of ₹ 117 per cu m. The contractor executed the said item and was to be paid at the rate of ₹ 103 or ₹ 117 per cu m depending upon the applicable slab for lead.

The schedule included another item 'execution of 10,707 cu m of back filling behind abutment, wing wall and retaining wall with granular material that was payable at the rate of ₹ 311 per cu m. The contractor executed this item and was to be paid at the rate of ₹ 311 per cu m.

We noticed (June 2010) that in the measurement books, 27,896 cu m of 'approach road filling', which constituted the work of embankment construction, was incorrectly classified under the item of 'back filling behind abutment' and was paid at the rate of ₹ 311 per cu m against the payable rate of ₹ 117 per cu m. This resulted in excess payment of ₹ 52.15 lakh⁵ to the contractor.

The EE stated (June 2010) that since the material was not available within a lead of one kilometre, the contractor filled the embankment by carting the material from more than one kilometre. The EE also stated that rate would be decided after site verification.

While the EE, in his reply has accepted the fact that the work involve 'filling the embankment', his justification for paying for the quantities executed at the rate ₹ 311 per cu m is not tenable because the maximum payable rate for the work executed, including all lead and lift, was only ₹ 117 per cu m.

The matter was referred to the Government (November 2010); their reply had not been received (December 2011).

⁵ (₹ 311 minus ₹ 117 = ₹ 194 * 27896) minus 3.63 tender percentage = ₹ 52.15 lakh

3.1.4 Avoidable extra cost

Adoption of incorrect vehicle damage factor (VDF) and consequent incorrect computation of traffic intensity resulted in extra expenditure of ₹ 30.82 lakh

3.1.4.1 According to the Indian Road Congress (IRC-37⁶) specifications, thickness of pavement as well as type of bituminous course is designed on the basis of projected number of commercial vehicles likely to pass over the road during the course of its designed life based on current traffic of commercial vehicles per day and its future annual growth at a specified rate of 7.5 *per cent*. Further, according to paragraph 3.3.1.1 of IRC specifications, the traffic intensity is to be estimated in terms of ‘cumulative standard axles’ and other traffic related factors⁷, including vehicle damage factor (VDF)⁸.

The work of construction of 8.62 km Bindrai-Nagdeo road at probable contract price of ₹ 2.43 crore was awarded (March 2007) to a contractor at 32.51 *per cent* above schedule of rates (April 2005). The work order (March 2007) stipulated that the work should be completed within 10 months including the rainy season. The work was however, completed in September 2009 at a total cost of ₹ 2.92 crore.

We noticed (February 2010) that design of the road was to be based on the designed life of the road (10 years), CBR value of sub grade (four *per cent*), carriage width (3.75 metre- single lane) and VDF based on estimated traffic intensity applicable for rolling and plain terrain. According to IRC-37, the estimated traffic intensity in terms of million standard axles (msa) was to be derived by considering, *inter-alia* the VDF. We also noticed that in the data sheet prepared by the Department for computation of traffic intensity, the VDF was correctly recorded as 1.5 in accordance with clause 3.3.4.4 of IRC-37. While calculating the traffic intensity, the VDF was however, incorrectly considered as 2.5 instead of 1.5. Consequently, the traffic intensity was incorrectly worked out as two msa instead of 0.9 msa. Accordingly, the estimates and agreement erroneously provided for execution of richer bituminous course i.e. 50 mm thick Bituminous Macadam (BM) overlaid by 25 mm thick Semi Dense Bituminous Concrete (SDBC) over the existing crust of 250 mm. Had the correct VDF of 1.5 been adopted, the derived traffic intensity would have worked out to less than one msa, for which 20 mm thick open graded premix carpet (OGPC) overlaid by 6 mm thick seal coat, as prescribed in the specification, *ibid* would have been sufficient. The unwarranted execution of BM and SDBC in place of required OGPC and seal coat resulted in avoidable extra expenditure of ₹ 30.82 lakh⁹.

⁶ Guidelines for the design of flexible pavements.

⁷ Initial traffic after construction in terms of number of commercial vehicles per day, traffic growth rate during the designed life in percentage, designed life in number of years, vehicle damage factor and distribution of commercial traffic over carriageway.

⁸ As per para 3.3.4.1 of IRC, ‘VDF is a multiplier to convert the number of commercial vehicles of different axle loads to the number of standard axle load repetition’. It is number of standard axles per commercial vehicle.

⁹ Provided: B M @ ₹2059 X 1182.59 cu m ₹ 24,34,953.00
SDBC @ ₹ 2458 X 590.73 cu m ₹ 14,52,014.00

The Executive Engineer (EE) admitted (February 2010) that the value of VDF adopted at the time of preparation of estimate was 2.5 in place of 1.50.

On the matter being referred to the Government (June 2011), Government stated (December 2011) that the VDF value given in IRC-37 was only suggestive and VDF was considered as 2.5 on the basis of engineering judgment and experience, which suggests that after construction the road would have to handle unprecedented traffic growth and rampant overloading of trucks.

The reply was not acceptable because design and construction of roads in the State is done as per the IRC guidelines and specifications. The reasons attributed by the Department would only change the assumption on the number of commercial vehicles in a day (CVD), which has been estimated by the department as 129 CVD and for which the applicable VDF was 1.5 in terms of IRC-37. Even in this case, the crust of the road was designed as per guidelines in IRC-37 and the VDF was also correctly determined by the EE as 1.5 for rolling and plain terrain. While computing the traffic intensity, the VDF, which was derived as 1.5, was incorrectly applied as 2.5 (applicable for hilly terrain). This led to derivation of incorrect traffic intensity as two msa as against 0.9 msa and avoidable extra expenditure of ₹ 30.82 lakh.

Adoption of incorrect CBR value of sub-grade soil resulted in excess execution of granular sub-base and extra expenditure of ₹ 92.53 lakh

3.1.4.2 The crust design of roads under Public Works Department (PWD) is required to be in conformity with the specifications in the IRC-37 issued by Indian Road Congress. These specifications provide that the thickness of the pavement is to be designed on the basis of the projected number of commercial vehicles for the designed life of the road and the California Bearing Ratio (CBR) of the sub-grade¹⁰ on which the road formation is aligned¹¹. The IRC-37 further provides laying of only 150 mm thick granular sub-base if traffic intensity is less than one million standard axle (*msa*) and CBR value of the sub-grade exceeds seven.

The Gogapur-Bapaiya-Zutawad-Ranayarpeer road, planned for upgradation and widening, had a thickness of 270 mm sub-grade including 150 mm of

	Total	₹ 38,86,967.00
Add : 32.5 per cent above i.e.		₹ 12,63,264.00
	Total	₹ 51,50,231.00 (A)
As per provisions :		
OGPC @ ₹ 49 per sqm X 23651.8sqm		₹ 11,58,938.00
Seal Coat @ 17 Sqm X 23651.8sqm		₹ 4,02,080.00
Total		₹ 15,61,018.00
Add : 32.5 per cent above i.e.		₹ 5,07,331.00
	Total	₹ 20,68,349.00 (B),
Total Extra Cost =(A) – (B) ₹ 30,81,882.00		

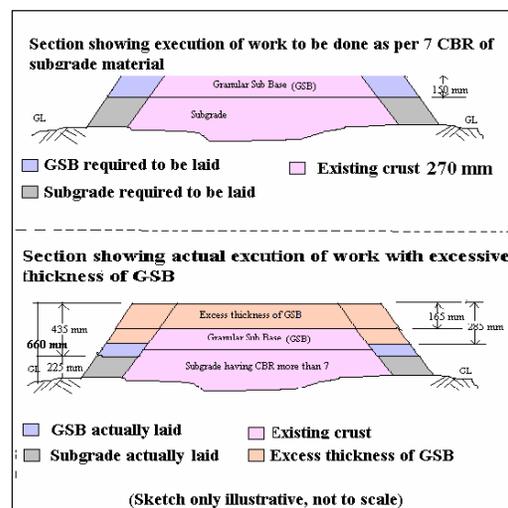
¹⁰ Sub-grade means the embankment at the formation level which includes sub-grade constructed and compacted with externally borrowed soil.

¹¹ The top 50 cm of the embankment at the formation level is to be considered as sub-grade ~ clause 3.4.1 of IRC-37: 2001.

granular sub-base (GSB) of CBR value of more than seven. For the work of up-gradation and widening of the said Gogapur-Bapaiya-Zutawad-Ranayarpeer road, sub-grade was designed on traffic intensity of 0.82 msa based on 57 commercial vehicles per day (CVPD), designed life of 15 years and CBR value of sub-grade as two.

PWD, Ujjain executed the work of up-gradation and widening of the road during July 2006 to August 2008. The sub-grade of the widened portion of the road was prepared by filling and compacting approved material obtained from borrow pits having CBR value exceeding seven. In the widened portion of the road, the final height of the sub-grade after earthwork and compaction exceeded 50 cm and GSB was executed with a thickness of 435 mm. In the existing pavement, additional GSB of 165 mm was executed.

Diagram: I



We noticed that the material of sub-grade used in the work had the CBR value seven¹². Thus, based on the actual CBR value of seven and msa of 0.82 (that is less than one msa) the Division was required to provide 150 mm sub-grade in the design of the widened portion. The Division, however, erroneously reckoned the CBR value of the sub-grade as two. As a result, in the widened portion the granular sub-base was executed with a thickness of 435 mm instead of required thickness of

150 mm. In the existing pavement, additional GSB of 165 mm was executed although GSB was not required to be laid as it already had a thickness of 270 mm sub-grade (including 150 mm GSB). Thus, avoidable excess thickness of GSB in the widened portion of the road was 285 mm and in existing road, it was 165 mm (**Diagram-I**). This resulted in extra expenditure of ₹ 92.53 lakh due to avoidable excess execution of 26865.51 cu m of GSB in the total length of 19.50 km road as detailed in **Appendix-3.1**.

EE stated (August 2008) that the crust design was approved as per the estimate which considered the CBR of sub-grade two *per cent*. Evidently, crust design was based on incorrect CBR value which led to execution of avoidable excess thickness of sub-grade of the road and consequential extra expenditure.

The matter was referred to the Government (July 2011), their reply had not been received (December 2011).

¹² The test reports indicated the CBR value of the constructed sub-grade as seven and above.

WATER RESOURCES DEPARTMENT

3.1.5 Extra Cost

In the work of construction of field channels having low discharge of one cumec, lining work was done based on a costlier specification of using reinforced cement concrete 1:2:4 instead of plain cement concrete 1:3:6, resulting in extra expenditure of ₹ 1.92 crore

Under *Madhya Pradesh Sinchai Prabandhan Mein Krishakon ki Bhagidari Act, 1999 (Act)* - the running and maintenance work of canals in the command areas of various irrigation projects in the State was entrusted to the Water Users' Associations (WUA) of the respective command areas. This was aimed at bridging the gap between the created and utilised irrigation potential in the command areas for higher agricultural growth.

(A) The Executive Engineer (EE) Wainganga Division, Balaghat awarded (2006-07 and 2007-08) 45 works of construction of water courses and field channels costing ₹ 7.49 crore to various WUAs in the command area. Before making payment for these works, the EE was required to verify and measure the work executed by the WUAs.

We noticed that:

- All the 45 works were awarded by EE in a piecemeal manner to WUAs by splitting up compact works of higher value (as shown in **Appendix -3.2**) which was a violation of the provisions of M. P. Works Department Manual (Manual) that provided that all works in excess of ₹ 20 lakh should be technically sanctioned by the Chief Engineer.
- While at the time of splitting, the technical sanction of each of these works was kept below ₹ 20 lakh. In 13 works, while the technical sanction was for value less than ₹ 20 lakh, the actual expenditure incurred was above ₹ 20 lakh and up to ₹ 45 lakh.
- WUAs had outsourced these works to contractors without executing any agreement with them. In the absence of an agreement between the WUAs and the contractors, payments made for the work done lacked a clear basis and no guarantees were available to ensure value for money spent quantitatively as well as qualitatively.

Thus, the entire process of award of work was non transparent and in violation of the laid down tendering process as described in the Manual.

(B) According to technical circular (May 1990) issued by Irrigation Department, RCC¹³ Half Round Hume pipes¹⁴ shall be used for construction of water courses and field channels. Further, irrigation specification and USR-2007¹⁵ specify that canals carrying up to three cumecs discharge with a depth

¹³ Reinforced cement concrete

¹⁴ Hume pipes of NP-2 type conforming to IS: 458

¹⁵ General Note 7 of chapter 25 of USR (July 2007)

of less than one metre should be lined with M-10 Cement Concrete (CC 1:3:6).



A view of lined water course near Waraseoni Sub-Jail in District Balaghat, where RCC lining work was stated to be done.

Scrutiny (January 2009) of records, revealed that in the estimation and execution of water courses and field channels having discharge as low as one cusec (0.028 cumec) and a shallow depth of less than 0.33 m, richer and costlier item of M-15 (1:2:4) RCC, instead of M-10 (1:3:6) plain cement concrete or RCC Half Round Hume Pipes, was adopted. This resulted in extra expenditure of ₹ 1.92 crore as detailed in the **Appendix-3.2**.

On this being pointed out in audit (January 2010), the Government stated (August 2011) that instructions in the USR were not specific and that RCC: M-15 with nominal mix 1:2:4 was laid as per Chapter 16 of the USR. The reply is not acceptable because chapter 16 provides CC and RCC works for irrigation structures and not for canal lining work, which is specifically dealt with in Chapter 25 of the USR.

3.1.6 Avoidable expenditure

The Department incurred avoidable expenditure of ₹ 2.64 crore due to execution of 75 mm cast *in situ* lining instead of 50 to 60 mm lining.

Technical circular issued (January 1984) by the Engineer-in-Chief (E-in-C), Water Resources Department and paragraph 25.6.3.2 of specifications for irrigation projects (December 1995) stipulates that canal having carrying capacity between zero and five cumec should be lined in bed and side slopes with 50 to 60 mm cement concrete cast *in situ* (M-10 strength).

Contrary to the above provision, 75 mm thick cast *in situ* lining in canal bed and side slopes was provided in lining works in three divisions¹⁶. This resulted in avoidable expenditure of ₹ 2.64 crore, as detailed in **Appendix -3.3**.

The EEs stated that the work was executed as per estimates sanctioned by the Chief Engineer. The reply of the EEs is not acceptable because the estimates for the work were made without considering the provisions given in the technical circular and the specifications issued by E-in-C.

The matter was referred to the Government (August 2011), their reply had not been received (December 2011).

¹⁶ Pipariya Branch Canal Dn. Pipariya, WR Dn. Shajapur and Rockfill Dam Dn. Deoland

3.1.7 Extra cost due to improper estimation

Increase in quantities of item of work due to improper survey and estimation resulted in extra cost of ₹ 3.83 crore on work

Provisions contained in Madhya Pradesh Works Department (MPWD) Manual envisage that, estimate of works should be prepared realistically after conducting field investigation and survey to avoid any undue variation in the quantities at the stage of execution. According to clause 4.3.13.3 of the agreements, if the quantity of any item exceeds by more than 10 *per cent* of the quantity shown in the tender document, payment for such excess quantity shall be made at the estimated rate of the item *plus* or *minus* overall tender percentage.

In Water Resources (WR) Division, Harda, the work 'Construction of Imlidhana tank' awarded to contractor 'A' in November 2006 was scheduled for completion by August 2007. The work was completed (March 2010) and final bill of the contractor 'A' was paid for ₹ 7.54 crore in March 2010.

In Bah Project Division, Ganjbasoda, the work 'Construction of dam of Bhagru medium project' was awarded to contractor 'B' in May 2008. The work was to be completed by August 2009. The work was in progress and ₹ 8.09 crore had been paid to the contractor till June 2011.

For the item 'Excavation of hard rock' of the work 'Construction of Imlidhana tank', the quoted rate was ₹ 65 per cu m whereas the estimated rate was ₹ 270.23 per cu m. For the two sub items of the item 'providing and laying cement concrete (CC) M-15' of the work 'Construction of dam of Bhagru medium project' the quoted rate was ₹ 1800 and ₹ 2500 per cu m whereas the estimated rate was ₹ 2075 and ₹ 2714 per cu m respectively.

Scrutiny in audit revealed (July 2010) that as per approved estimate, quantity of excavation of hard rock in respect of Imlidhana tank work was 9,562 cu m but during execution, the quantity increased abnormally by 542 *per cent* to 61,402 cu m. Similarly, in respect of Bhagru dam work, as per the approved estimate, quantity of providing and laying cement concrete (CC) M-15 was 1,926 cu m, during execution the quantity again increased abnormally by 586 *per cent* to 15,155 cu m. This abnormal variation in quantities was indicative of inadequate survey and investigation before preparation of detailed estimate and resulted in extra expenditure of ₹ 3.83¹⁷ crore due to higher estimated rate of the items of the two works.

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Estimated plus ten <i>per cent</i> quantity	Rate as per agreement	Executed quantity	Excess quantity executed	Rate paid	Extra cost
10518.20 cu m	₹ 65 Per cu m	61402 cu m	50883.86 cu m	₹ 270.23* per cu m	₹ 1,37,50,345
* Estimated rate ₹ 682 cu m	216.41 plus tender percentage ₹ 2500 Per cu m	2201 cu m	24.87 = ₹ 270.23 1519 cu m	₹ 2500 Per cu m	₹ 37,97,500
1437 cu m	₹ 1800 per cu m	12954 cu m	11517 cu m	₹ 1800 Per cu m	₹ 2,07,30,600
Total		15155 cu m			₹ 2,45,28,100

On this being pointed out in audit (July 2010), the EE, WRD, Harda stated (September 2011) that sufficient time was not available to carry out detailed survey and investigation and also that the competent authority had not permitted such investigation. The EE, Bah Project Division, Ganjbasoda, stated (September 2011) that the quantity of CC M-15 had increased due to deepening of the foundation level.

In both the cases, the Principal Secretary accepted (September 2011) the observations and stated that the works were now being sanctioned only on the basis of the report of detailed survey and investigation and these issues would not recur in future.

The reply was however, silent on extra financial burden on the Government and the measures proposed to safeguard Government interests in case of such abnormal variations arising in future.

3.1.8 Undue financial aid to contractors for unbalance rate items

Undue financial benefit of ₹9.44 crore to contractors and loss to Government due to non deduction of additional security deposit for unbalanced rate item

According to general condition (Clause 3.28) of agreement and Government Order (November 1994), in item rate tenders¹⁸, the items for which contractor had quoted disproportionately higher rates as compared to the estimated rate, the payment for such items should be limited to the estimated rates of the item, plus or minus over all tendered percentage. The difference amount was required to be withheld from bills of contractors as additional security deposit. In the event of default by contractors in discharging contractual obligations, the additional security deposit so deducted is forfeitable to the Government.

We observed that in 11 divisions (14 works), additional security deposit of ₹ 10.12 crore arising due to unbalanced rates was required to be deducted from running bills of contractors. As this was not done in 10 on going works, non deduction of additional security deposit resulted in undue financial benefit of ₹ 9.44 crore to contractors. In respect of four other works, the contractors abandoned the work midway resulting in loss of ₹ 67.69 lakh on account of non recovery of additional security deposit from them as detailed in **Appendix-3.4**.

The Principal Secretary assured (September 2011) that corrective measures would be initiated in this regard. Particulars of corrective measures initiated have not been intimated to us (December 2011).

3.2 Expenditure without propriety

Authorisation of expenditure from public funds is to be guided by the principles of propriety and efficiency of public expenditure. Authorities empowered to incur expenditure are expected to enforce the same vigilance as

¹⁸ Unbalanced rate item- Items for which contractor had quoted higher rates as compared to estimated rate plus or minus overall tender percentage.

a person of ordinary prudence would exercise in respect of his own money and should enforce financial order and strict economy at every step. Audit has detected several instances of impropriety in making expenditure out of public funds. Significant cases are discussed below:

PUBLIC HEALTH AND FAMILY WELFARE DEPARTMENT

3.2.1 Irregular and extra expenditure on purchase of medical equipment

Irregular purchase of medical equipment costing ₹ 2.15 crore and non-observance of purchase rules resulted in extra expenditure of ₹ 1.36 crore.

Madhya Pradesh Stores Purchase Rules (Annexure B of Rule 14) provide that certain articles mentioned therein should be purchased from Madhya Pradesh Laghu Udhog Nigam (MPLUN) only. Further, Rule 119 of Madhya Pradesh Financial Code (MPFC) provides that purchase order should not be split up to avoid obtaining the sanction of higher competent authority.

Test check (October 2007) of the records of Joint Director, Health Services, Ujjain (JDHS) and further information collected (June 2011) revealed that contrary to above provisions, medical equipment including surgical items and laboratory equipment costing ₹ 2.15 crore were not purchased through MPLUN. Purchases were made by JDHS between December 2006 and May 2007 from Madhya Pradesh State Co-operative Consumer Federation Limited (Sangh) without mentioning specifications in the purchase orders. Out of total purchase of ₹ 2.15 crore, purchase orders of ₹ 1.80 crore were split up (each below ₹ one lakh) to avoid scrutiny of purchase proposals by higher authorities (See **Appendix-3.5**). Consequently, an extra expenditure of ₹ 1.36 crore was incurred due to higher rates charged by the Sangh. (**Appendix-3.6**)

On this being pointed out (October 2007) in audit, JDHS admitted (July 2011) that the loss was avoidable had the then Joint Director, Health Services followed the purchase rules.

The matter was referred to the Government (June 2011 and September 2011); their reply had not been received.

WATER RESOURCES DEPARTMENT

3.2.2 Excess payment for disposal of excavated material

Excess payment of ₹ 85.52 lakh was made to a contractor executing work of Mahan Main Canal at Sidhi towards lead charges for disposal of un-utilisable excavated material, although the payment for excavation was inclusive of all lead and lift

The work of 'Construction of Mahan Main Canal from RD 22.50 km to 28.56 km' was awarded (January 2007) by the Executive Engineer (EE), Mahan Canal Division, Sidhi to a contractor at a cost of ₹ 14.45 crore. The work that was to be completed within 18 months including rainy season was still in

progress. An amount of ₹ 18.86 crore had been paid to the contractor through RA bills till September 2011.

The agreement provided excavation in all types of rock other than hard rock and disposal of un-utilisable material at places as directed, including all lead and lift. The payment for this item of work was to be made to the contractor at his quoted rate of ₹ 83 per cu m.

We noticed that the Division, in addition to the payment towards excavation, also paid to the contractor ₹ 85.52 lakh (as of December 2010) as extra item towards lead charges for disposal of 1,95,779 cu m excavated material. As the item of work of excavation in the agreement included all lead and lift for disposal of the excavated material, this payment was inadmissible.

On this being pointed out in audit (June 2011), the Engineer-in-Chief (E-in-C), Water Resources Department, while confirming (September 2011) the audit observation, justified the payment of lead charges on the ground of shifting the disposal point of un-utilisable excavated material to a new location.

The reply of E-in-C is not acceptable because as per the agreement, the contractor was to dispose of the un-utilisable excavated material at sites as directed by EE. Besides, sanction of Government for payment of ₹ 85.52 lakh as extra item was also not obtained (December 2011).

The matter was referred to the Government (February 2011); reply had not been received (December 2011).

3.2.3 Irregular payment in MNREGS works

In MNREGS works in Shahdol, audit noticed irregular payment of ₹ 45.29 lakh towards transportation charges by unregistered tractors through muster rolls. Besides, excess payment of ₹ 22.80 lakh was also noticed

According to the Guidelines of the Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS), the ratio of wages and material has to be maintained in the proportion of 60:40. Only actual labour payments for work done are permissible through muster rolls of MNREGS works for which appropriate evidence like names, father/husband's name, name of village, job card number, and actual daily attendances are recorded on muster rolls itself. Execution of MNREGS works through contractors and payment of hire charges for machinery deployed for MNREGS works through muster roll are not permissible. The payments for MNREGS are to be regulated as per the rates specified in the current Schedule of Rates (SOR) of Rural Engineering Services, Government of Madhya Pradesh.

Executive Engineer (EE), Water Resources Division, No. 2, Shahdol accorded (November, 2007) technical sanction for the work of construction of three minor tanks viz. Ratga, Kanadi and Kudratola tanks for ₹ 35.82 lakh, ₹ 34.54 lakh and ₹ 33.91 lakh respectively, for execution under MNREGS. A total

payment of ₹ 79.89¹⁹ lakh was made through muster rolls to labourers and tractor owners between February 2008 and June 2009.

During scrutiny of measurement books (MB)²⁰ and Nominal Muster Rolls (NMR), it was noticed that transportation of material for these tanks was shown as carried through new tractors without indicating their registration number. Even temporary registration numbers were also not indicated either in NMR or in the MB. Payment of transportation of material through tractors on NMR was irregular. Further, the measurements of transportation of material for the aforesaid tanks, as recorded in MBs as well as in the NMR (Part III) at SOR rates worked out to ₹ 22.50 lakh, whereas the actual payment as recorded in the NMR was ₹ 45.29 lakh. This resulted in excess payment of ₹ 22.79 lakh, besides irregular payment of ₹ 45.29 lakh on NMR for transportation of material through tractors as detailed in **Appendix-3.7**.

On this being pointed out in audit (September 2010), the EE stated that the expenditure on account of transportation was in accordance with the rates for the quantities of material transported. It was further stated that the tractor owners were not aware of the registration process and un-registered tractors were deployed for timely completion of work. Subsequently, the Divisional Commissioner, Shahdol, initiated (November 2010) disciplinary action against the delinquent officer. Particulars regarding recovery of excess payment and other developments in the matter were awaited (December 2011).

The matter was referred to the Government (June 2011); reply had not been received (December 2011).

3.2.4 Extra cost due to change in type of structure

Replacement of RCC aqueduct to steel aqueducts without any justification resulted in extra cost of ₹ 13.91 crore

In terms of technical circular 70/1 issued by E-in-C, Water Resources Department, only Reinforced Cement Concrete (RCC) aqueducts have been prescribed for providing cross drainage for canal works. RCC aqueduct has the distinct advantage over any other type of aqueduct in terms of strength, durability, economy as well as low maintenance cost.

Scrutiny of two canal works²¹ revealed (July 2010) that steel aqueduct has not been prescribed in any specification issued by E-in-C. Therefore, the detailed estimates for construction of aqueducts duly approved by the Government originally provided RCC aqueducts. Subsequently, the Chief Engineer (CE) substituted these by steel aqueducts without assigning any reason. In the work of Ganjbasoda division, even the number of aqueducts was increased by the CE without obtaining revised administrative approval. The works of steel aqueducts were completed at a cost of ₹ 15.17 crore, while the corresponding

¹⁹ This includes amount of ₹ 45.29 lakh paid for transportation of material through tractors on Nominal Muster Rolls.

²⁰ Measurement book Nos. 1617, 1618 and 1619

²¹ Sanjay Sagar Project Dn. Ganjbasoda~ (four aqueducts), and Dam Safety Dn. Gwalior, ~(six aqueducts)

cost of RCC aqueducts would have been only ₹ 1.26 crore²². Thus, irregular substitution of RCC aqueducts by steel aqueducts during execution resulted in extra cost of ₹ 13.91 crore.

On this being pointed out in audit (September 2010), the EEs of the Divisions stated that the work was executed as per technical sanction accorded by the CE. The Principal Secretary, however, stated (September 2011) that matter was being investigated and assured to furnish reply.

Final reply of the Government has not been received (December 2011).

3.2.5 Extra payment of price escalation

Price escalation amounting to ₹ 2.42 crore was paid to contractors in violation of provision of agreements

The general condition of the work related agreements provides that ‘the price adjustment clause shall be applicable for the work that is carried out within the stipulated period of contract and for such extended period for which reasons are not attributable to contractor’.

We noticed inadmissible payment on account of price escalation in four works as detailed below:

(i) Two works, viz. ‘Construction of four aqueducts between km 21 and 65 of Purva main canal’ and ‘Balance work of construction of structures at km 22 to 75 of Sinhawal main canal’ were awarded to two different contractors in April 2004 and October 2004 for contract price of ₹ 8.84 crore and ₹ 13.80 crore, with scheduled completion by October 2005 and January 2006, respectively. Both the works were still in progress (December 2011). An amount of ₹ 10.51 crore and ₹ 12.98 crore were paid to the contractors, respectively, in February 2009 and September 2008.

In the former case, while granting time extensions up to April 2008 under penal clause of the agreement, the Chief Engineer (CE) had directed that the contractor would be eligible for price escalation only up to the stipulated period of completion (i.e. October 2005) and had categorically observed that the contractor was fully responsible for the delays occurring thereafter. In the latter case also, the CE had granted time extensions up to March 2008 under penal clause of the agreement and reserved department’s right to levy liquidated damages on the contractor for the period of delay.

We observed that in contravention of aforesaid directions of the CE, the Executive Engineers (EE) of both divisions had paid ₹ 1.44 crore and ₹ 56.70 lakh, respectively on account of price escalation against payable amount of ₹ 8.40 lakh and ₹ 10.60 lakh. This resulted in excess payment of ₹ 1.36 crore and ₹ 46.10 lakh to the contractors.

²² Ganjbasoda Dn. five aqueducts @ ₹ 18.58 lakh each = ₹ 92.9 lakh and Dam Safety Dn. six aqueducts costing ₹ 32.60 lakh Total cost of RCC aqueduct = ₹ 1.26 crore

In the former case, EE stated (June 2008) that the matter would be investigated and results communicated to us in due course. In the latter case, the EE stated (May 2009) that excess amount would be recovered after verification.

The reply is not acceptable as the payment of price escalation for the period beyond contractual period was not payable and was in clear violation of the instructions of the CE. Recovery, if any made, has not been intimated to audit till December 2011.

(ii) The work 'Construction of Right Bank Canal of Bansagar Project (km 18 to 30.20) including structures' was awarded (May 2002) to a contractor at a cost of ₹ 2.09 crore for completion by August 2003, which was completed in May 2006. Another work 'Construction of Purwa main Canal km. 68.22 to 84' was awarded (September 2006) to a contractor at a cost of ₹ 21.08 crore for completion by March 2008. The work was in progress (February 2011).

We noticed that in both the works, at the time of inviting tender, the clause relating to price adjustment was excluded by deleting/scoring out clause 2.40.1 from the NIT documents. Nevertheless, amounts of ₹ 49.61 lakh (February 2011) and ₹ 10.49 lakh (May 2006) were paid to the contractors towards price variation, which was beyond the scope of agreement.

The Principal Secretary stated (September 2011) that recovery would be made from the contractors.

Recovery particular was not intimated to us (December 2011).

3.3 Persistent and pervasive irregularities

An irregularity is considered persistent if it occurs year after year. It becomes pervasive, when it is prevailing in the entire system. Recurrence of irregularities, despite being pointed out in earlier audits, is not only indicative of non-seriousness on the part of the Executive but is also an indication of lack of effective monitoring. This, in turn, encourages willful deviations from observance of rules/regulations and results in weakening of the administrative structure. Cases of persistent irregularity reported in audit is discussed below:

FOREST DEPARTMENT

3.3.1 Unnecessary withdrawal of money and keeping it in Bank Account

Irregular drawal of grant-in-aid of ₹ 5.11 crore without requirement for immediate disbursement

According to subsidiary rule 284 of the Madhya Pradesh Treasury Code Volume-I, no money shall be drawn from the treasury unless it is required for immediate disbursement. It is a serious irregularity to draw advances from the treasury in anticipation of demands or to prevent lapse of budget grants.

Records of Field Director, Satpuda Tiger Reserve Hoshangabad revealed (November 2009) that grants-in-aid amounting to ₹ 11.24 crore was released (August 2008) by the Government of India, Ministry of Environment and Forests, National Tiger Conservation Authority New Delhi for the year

2008-09 for relocation of Bori village in the Satpuda Tiger Reserve. The amount was to be utilised before the end of financial year 2008-09 and unspent balance, if any, refunded to the Govt. of India. An expenditure of ₹ 6.13 crore was incurred on various items of rehabilitation. Unspent balance of ₹ 5.11 crore was deposited between January 2009 and March 2009 in two bank accounts of Rehabilitation Committee, Bori. Amount of ₹ 5.11 crore was neither utilised nor refunded to the Government of India up to the end of 2008-09. Keeping the unspent amount in bank account indicates that the amount was not required for immediate disbursement and was drawn from treasury in advance only to prevent the lapse of budget grants.

On this being pointed out, the department stated (July 2011) that the amount has been deposited in bank account as per the instructions of M.P. Government Forest Department and in accordance with the relocation plan approved by district level committee with a view to maintain continuous availability of funds for the works under execution. If the balance amount would have been returned to the Government of India, implementation of relocation scheme would have to be discontinued.

The reply is not tenable as amount was drawn in excess of immediate requirement and the unspent amount of ₹ 5.11 crore was neither utilised in the next two years of its drawal nor refunded to the Government of India (July 2011).

3.4 Failure of oversight/governance

The Government has an obligation to improve the quality of life of the people for which it works towards fulfillment of certain goals in the area of health, education, development and upgradation of infrastructure and public service *etc.* However, Audit noticed instances where the funds released by Government for creating public assets for the benefit of the community remained unutilised/ blocked and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. A few such cases have been discussed below:

HOUSING AND ENVIRONMENT DEPARTMENT

3.4.1 Unsold real estate property costing ₹ 12.68 crore

Due to lack of proper planning, site selection, adequate registrations and due to quality issues, the real estate properties costing ₹ 12.68 crore were lying unsold.

The Madhya Pradesh Housing and Infrastructure Development Board (MPHIDB) provides houses / plots / commercial plots to all sections of society at reasonable cost and good quality. The MPHIDB reiterated (November 1996) its instructions that sanctioned schemes of construction works may be implemented after registering 50 *per cent* beneficiaries/applicants so that the constructed assets may not remain unsold.

Test check of records of Estate Manager (EM), MPHIDB, Guna (October 2010), Hoshangabad (May 2010) and Executive Engineer (EE), MPHIDB,

Ratlam (April 2011) and Division-3, Bhopal (June 2011) revealed that 37 commercial buildings, 38 commercial plots, 49 residential buildings and 580 residential plots costing an aggregate amount of ₹ 12.68 crore²³ constructed/developed between 1989 to 2008-09 are lying unsold as of March 2011 due to various reasons shown in **Appendix-3.8**. Delay in selling these properties was attributed by MPHIDB to pending approval of layout from Town and Country Planning Department, seizure of property by Tehsildar due to non-deposition of premium (Guna); lack of demand, pendency of court case for compensation, technical defects in shops (Hoshangabad); site being far away from the town and the rates fixed by MPHIDB being higher than the prevailing rates in the area (Ratlam); and lack of demand (Bhopal).

It is clear from the replies of different field offices that the real estate properties remained unsold and money blocked due to lack of proper planning viz. site selection, ill-execution, quality issues and inadequate registrations.

The matter was referred to the Government (July 2011 and September 2011); their reply had not been received.

NARMADA VALLEY DEVELOPMENT DEPARTMENT

3.4.2 Short recovery of mobilisation advance and penalty for delay

Short levy of penalty ₹ 8.66 crore for delay in achieving milestones, inadmissible payment of price adjustment of ₹ 13.88 crore and loss of interest of ₹ 41.73 lakh due to irregular and delayed recovery of mobilisation advance

The work of execution of “Canal system of Indira Sagar Project (ISP) main canal²⁴ from RD 130.93 km to RD 155 km” was awarded to a contractor on turnkey basis. The work order for ₹ 242.55 crore was issued (March 2008) for completion of the entire work in 36 months including rainy season. The work remained suspended for 116 days between 11 November 2009 and 6 March 2010 owing to stay order from Madhya Pradesh High Court. An amount of ₹ 146.05 crore was paid to the contractor as of August 2011. Following short levies and short recoveries were noticed by Audit.

A. Short levy of penalty for delay in achieving milestones

According to clause 115.1 of the agreement, the programme²⁵ of work submitted by the contractor was to be monitored every six months. In the event of any shortfall in the progress of work by more than 20 per cent of the scheduled programme for the respective six months²⁶ slab, penalty was to be

²³ EM MPHIDB, Guna ₹ 1.88 crore, Hoshangabad ₹ 1.07 crore, EE MPHIDB, Ratlam ₹ 6.57 crore, Division-3, Bhopal ₹ 3.16 crore

²⁴ Comprising the work of survey, planning, design, estimation, preparation of land acquisition cases, forest cases, canal excavation/ earthwork, CC lining with paver machine with all structures, aqueduct, super passage, fall head/ cross-regulators and escape outlets”

²⁵ In terms of clause 71.1 and 8.3.1 of special conditions of the agreement.

²⁶ 1st Six month period 27.03.08 to 26.09.08; 2nd Six month period 27.09.08 to 26.03.08

imposed on the contractor at the rate of 0.1 *per cent* per day of the shortfall in the projected value, till it is made up. The penalty was to be deducted from the intermediate payments to the contractor. The cumulative penalty was, however, to be limited to ten *per cent* of the contract value. Besides, delay beyond 100 days was to be reckoned as a cause for termination of the contract and forfeiture of all security deposits and performance securities.

We observed (August 2010) that;

- Even after lapse of 77 *per cent* of targeted period, the contractor had achieved only 20.46 *per cent* of physical/ financial progress. The status of work *vis-à-vis* the target fixed²⁷ up to the end of the fourth six monthly slab i.e. up to 26 March 2010, showed a delay of 478 days, attributable to contractor and cumulative shortfall of ₹ 54.93 crore in the work. Consequently, in terms of the agreement, a penalty of ₹ 9.73 crore was recoverable from the contractor up to the end of fourth six monthly period i.e. as of March 2010, as detailed in **Appendix-3.9**.

After this being pointed out by Audit (August 2010), the division recovered a penalty of only ₹ 1.07 crore (September 2010). The balance amount of ₹ 8.66 crore was yet to be recovered (December 2011).

- The contractor was also paid ₹ 13.88 crore on account of price adjustment as of August 2011, which was not admissible as the delay was entirely attributable to him.

On this being pointed out in audit, EE initially determined a penalty of ₹ 4.43 crore for the third six monthly period. Subsequently (October 2011), the Government in its reply stated that the amount of penalty for the third six monthly period had been reduced to ₹ 31.09 lakh on the ground that the work remained suspended from 11 November 2009 to 6 March 2010 due to stay order from Madhya Pradesh High Court, Jabalpur.

The reply is not acceptable because in consequence of stoppage of work from 11 November 2009 to 6 March 2010 (116 days in 4th six monthly period) the contractor was adequately compensated by the targeted value of work executable during that six monthly period being reduced from ₹ 55 crore to ₹ 18 crore. Hence, reduction of penalty was not in accordance with the provisions of the agreement. As regards inadmissible payment of price adjustment, no reply was furnished.

B. Short recovery of advances and loss of interest thereon

According to clause 113.6 of the agreement, recovery of mobilisation advance was to commence from the next payment as soon as the total interim payment had reached 10 *per cent* of contract price. This recovery was to be made at rate of 12.50 *per cent* of all interim payments. As per clause 109 (e) of the

^{3rd} Six month period 27.03.09 to 26.09.09 ; ^{4th} Six month period 27.09.09 to 26.03.10

^{5th} Six month period 27.03.10 to 26.09.10

²⁷ Clause 10.9.1 of agreement provides for fixing of six monthly targets

agreement, the interim payment included any additions²⁸ or deductions²⁹ which may have become due for payment in accordance with the provisions of the contract.

The contractor was paid (September 2008) mobilisation advance of ₹ 24.26 crore. While computing the installment for recovery of mobilisation advance, the amounts of price escalation and withheld payments subsequently released were incorrectly excluded by the department. Besides, initial payments aggregating 10 *per cent* of contract value were also excluded from the cumulative value of work done for the purpose of recovery of mobilisation advance. This resulted in short recovery of mobilisation advance of ₹ 3.33 crore as well as loss of interest of ₹ 39.37 lakh³⁰ accrued till July 2010 (as detailed in **Appendix-3.10**).

The Government stated (October 2011) that mobilisation advance of ₹ 3.03 crore recovered short and interest of ₹ 38.44 lakh as of February 2011 had been recovered. Particulars of recovery of balance amount of interest of ₹ 0.93 lakh and document relating to actual recovery effected were not furnished to us (December 2011) though bill-wise details were specifically demanded by us.

PUBLIC WORKS DEPARTMENT

3.4.3 Fraudulent payment to a contractor

Contractor, who had submitted fake bank guarantees and manipulated Government records, was paid ₹ 47.88 lakh by the Executive Engineer Public Works Division, Singrauli, despite being timely cautioned by another Division against making the payment

The Public Accounts Committee (PAC) in its 260th Report (March 2003) recommended that the Government should take appropriate and effective steps to stop recurrence of frauds by the contractors in submission of fake instruments towards earnest money and security deposits.

The Executive Engineer (EE), Public Works Division (PWD), Sidhi in 2001-02 awarded the work of construction of Harfari-Dhani-Khaira road (27 Km in length) to a contractor at a cost of ₹ 3.34 crore. The work was to be completed by March 2006.

The EE in charge of the work noted that the contractor, who had failed to complete the work despite grant of time extension up to June 2007, had submitted two fake bank guarantees in terms of security deposit for the above works and had also committed forgery in Government records. The EE, PWD, Sidhi Division lodged (October 2008) a complaint with the Police Station Kotwali, Sidhi. As the contractor was also executing two other road works in

²⁸ e.g. price escalation

²⁹ e.g. recoveries of mobilisation, machinery advances, taxes etc.

³⁰ Worked out on the basis of average borrowing rate (at the rate of 6.94 *per cent*) of the State Government for 2009-10.

PWD Dn. Singrauli, the EE, PWD Dn. Sidhi requested (2 February 2009) the former to stop all payments to the contractor. EE, Sidhi Division again reminded the EE Singrauli Division on 16th February 2009 stating that '*despite categorical verbal and written intimation of forgery of government records and submission of fake bank guarantees by the contractor, payments were being made to the said contractor by his Division and such action would be detrimental to the Government's interest*'

After receiving the information from EE, PWD, Sidhi about the frauds allegedly committed by the contractor in that division, EE PWD, Singrauli should have got the documents, FDRs, bank guarantees etc. furnished by the contractor, verified in his division too. He did not take cognizance of the matter and released payments amounting to ₹ 47.88 lakh to the contractor between 11 February 2009 and 28 March 2009. On the failure of the contractor to achieve the progress in execution of these two works, the EE, PWD Singrauli invoked (May 2009) the bank guarantees but discovered that one bank guarantee of ₹ 16 lakh was fake and the other for ₹ 10 lakh had already expired on 12 December 2008. The case is indicative of the fact that despite strict directions from the PAC, the department had not formulated any effective mechanism to establish the authenticity of the instruments submitted by the contractors before releasing any payment to them.

The failure of EE, PWD, Singrauli to verify the genuineness of documents, FDRs and Bank Guarantees submitted by the contractors despite being duly cautioned by the EE, PWD, Sidhi resulted in irregular payment of ₹ 47.88 lakh to contractors.

The EE, PWD, Singrauli replied (May 2010) that the matter was being investigated. No further developments in the matter had been reported to audit (July 2011).

The matter was referred to the Government in June 2010 and again in December 2010; their reply had not been received (December 2011).

WATER RESOURCES DEPARTMENT

3.4.4 Award of composite work without inviting tender

Civil and Mechanical works were irregularly awarded directly to MPLUN in non-transparent manner without inviting tenders, thus denying the opportunity to derive benefit of competition

Works Department Manual requires that for each work valued at ₹ two lakh and above, the department should invite tender in a transparent manner through publicity in newspapers so as to obtain reasonable and competitive rates. According to MP Store Purchase Rules, the Madhya Pradesh Laghu Udyog Nigam (MPLUN) was an approved indenting agency only for supply of the reserved items of stores specified therein. It was not the agency mandated for procurement of civil construction or for erection of new mechanical works, as these procurements are not reserved under the MP Store Purchase Rules.

Scrutiny in audit (September 2009 to June 2011) revealed that five divisions³¹ placed orders on MPLUN for supply, erection & commissioning of MS pipes, dam gates and construction of allied civil works valued at ₹ 147.01 crore (**Appendix-3.11**) without inviting tenders and without assessing reasonability of rates. Award of works to MPLUN not only was irregular but also resulted in losing an opportunity to secure competitive rates.

On this being pointed out in audit, the EEs stated that the works were awarded to the firms through MPLUN as per sanctions of SE and CE who were competent to issue such sanction. The Principal Secretary, however, stated (September 2011) that responsibility would be fixed and action would be taken.

Final reply from the Government was still awaited (December 2011).

³¹ WR Dn Shivpuri, Sanjay Sagar Project Ganjbasoda, Harsi High Level Canal Dn-2 Gwalior, Mahi Project Dn Petlawad and WR Dn. Khajwa Rajnagar