

CHAPTER VI : MINISTRY OF EXTERNAL AFFAIRS

6.1 Delay in renovation of Indian chancery in Paris

Delay in implementation of project has blocked the capital of ` 18 crore on purchase of new building which has been lying unused since 2006, the Mission has also been forced to incur a recurring liability of ` 26 lakh *per annum* on rent of the Space Wing which was envisaged to be relocated in the new building after its renovation.

Reports of the Comptroller and Auditor General of India have highlighted¹ delay on the part of the Mission/Ministry in renovating properties within a reasonable time frame leading to avoidable expenditure on rent. Despite audit findings reported earlier and assurance given by the Ministry to PAC, it was noticed during audit of the Mission at Paris that it took more than 4 years to complete the formalities in awarding the contract for renovation work. This resulted in blockage of capital of ` 18 crore on purchase of new building and the Mission had to incur recurring liabilities of ` 26 lakh *per annum* on account of rent for the Space Wing, which was to be relocated in the new building.

The Indian Mission in Paris is functioning from a Government owned property² which was acquired in August 1951. In February 2006, the Mission purchased another property³ adjacent to the existing building at a cost of Euro 3.10 million (` 18 crore)⁴. Since the old chancery building was in bad condition and the new property acquired in 2006 was initially designed for residential purpose, the Mission forwarded a proposal to the Ministry in February 2006 for comprehensive renovation and integration of the old chancery building with the adjacent new building. In addition, the Space Wing of the Mission, which had been functioning from a rented accommodation since 1995, was also proposed to be relocated in the new building to save on rent.

With the approval of the Ministry, the Mission engaged M/s Jacques Provenchere as consultant to the project in February 2007 (After 11 Months) whose cost estimates of Euro 1.49 million⁵ (including a fee of 10 *per cent* i. e. Euro 0.127 million) for renovation and integration of both the buildings was not the lowest among the

¹ Para 5.6 of CA No. 1 of 2008

² 15 Rue Alfred Dehodencq

³ 13 Rue Alfred Dehodencq

⁴ Euro 1 = ` 58.16 (Source : Oanda currency converter ; refer to historical exchange rates)

⁵ Temporary cost of work = Euro 1.27million

Payment to control department = Euro 0.091million

Payment to consultant (10 *per cent* of the project cost) = Euro 0.127 million

Total estimated cost of project = Euro 1.49 million

proposals submitted by rest of the three competing consultants. The renovation and integration of both the buildings was initially committed to be commenced in June 2007 and completed by June 2008. The works, however, could not commence by the target date as the structured scope of work was not drawn up by then. It was only in June 2007 that the consultant submitted the detailed scope outlining the itemized works to be executed in both the buildings and assessed the total cost of the project at Euro 3.63 million, including his fee of Euro 0.274 million. Incidentally, the new cost estimates were more than twice the estimates initially submitted by the consultant which formed the basis of his selection in February 2007. Thus, the selection of consultant, on the basis of sketchy estimates initially submitted by him, was ab initio faulty. The financial sanction to the project was accorded by the Ministry after a further delay of nine months in March 2008 at an estimated cost of Euro 3.45 million (` 19.90 crore) which included a fee of Euro 0.261 million (` 1.51 crore) to the consultant.

The Mission drew up (May 2008) a revised schedule which envisaged commencement of project by October 2008. However, the revised schedule could also not be adhered to as the Mission/consultant and the Ministry took eight months to short-list 42 firms for tendering from the date of issue of Expression of Interest (April 2008) till their final pre-qualification in November 2008. The delay was largely due to delay in devising the criteria for pre-qualification and preparation of pre-qualification documents as well as resolving the issue of engagement of a single contractor or multiple contractors for 14 different lots of renovation works such as masonry, plumbing, heating, joinery, electricity, security, fire alarm system, painting, carpeting, lifts etc. as determined by the consultant.

After nearly five months, (April 2009) three member property team comprising the Principal Advisor (Finance), Joint Secretary (Projects) and Superintending Engineer visited Paris and held detailed discussions with the consultant on administrative and technical aspects of tender provisions and recommended that the works be commenced by September 2009.

The Mission submitted (May 2009) the standard tender documents applicable in France along with detailed drawings and specifications to the Ministry for its approval. The Ministry approved the tender documents in August 2009 and the Mission indicated its readiness to float the tenders in October 2009. However, the tenders could not be issued to the short-listed firms until May 2010 due to delay in appointment of a Technical Control Agency for the project. As per French laws, it is mandatory to engage a Technical Control Agency for inspection, technical control and certification of the project at all stages, before undertaking any major renovation/construction project. For this purpose, it was necessary to sign a contract

between the Technical Agency and the employer (Mission in this case) before opening of tender bid documents. The Ministry, however, approved the appointment of the Technical Control Agency⁶ only in March 2010 at a total cost of Euro 54,150 (` 34.74 lakh) which was, incidentally, more than three times the estimates of Euro 18,000 (` 10.38 lakh) sanctioned in March 2008. The contract with Technical Control Agency was signed by the Mission in April 2010. It is pertinent to mention that the mandate of the Technical Control Agency and its inevitable intervention/involvement in the project were known to the Mission and the Ministry as early as October 2007.

Another property team of the Ministry headed by Additional Secretary (FA), Joint Secretary (Projects) and a Senior Architect visited Paris in April 2010 to take stock of the situation. The team advised immediate tendering of the works and pressed that the construction phase should commence by 02 November 2010.

Tenders for the project were finally floated in May 2010 and the sealed bids were received directly both by the Mission as well as by the consultant. The sealed bids were opened in June 2010 by a Tender Evaluation Committee (TEC) of the Mission and the bids were evaluated in consultation with the consultant. Audit observed that while the final tendered cost of the project (comprising 14 different lots of works) increased from the sanctioned amount of Euro 3.45 million (` 19.90 crore) to Euro 3.89 million (` 23.60 crore)⁷, the fee finally payable to the consultant also increased from Euro 0.261 million (` 1.51 crore) to Euro 0.291 million (` 1.77 crore). Incidentally, seven⁸ out of 42 firms, which did not figure in the initial pre-qualification and short-listing process, were allowed to bid for seven⁹ out of 14 lots of works. Of the seven firms, two firms¹⁰ were subsequently declared L 1 by the consultant/TEC for two lots of works viz., millwork/suspended ceilings and painting and one partial work for flooring carpets totaling Euro 0.498 million, thereby seriously jeopardizing the process of pre-qualification and short-listing of the firms undertaken by the Ministry following a protracted exercise of eight months. Further, while two firms (M/s FRADELIZI and DAO THOLOZAN) were initially short-listed by the Ministry for plumbing/heating ventilation work, they quoted for a different work relating to roofing/sheet metal and one of them (M/s FRADELIZI) was declared L 1. The Mission submitted a detailed report to the Ministry on the outcome of tendering in September 2010. Some discrepancies were pointed out to the Mission by

⁶ M/s SOCOTEC

⁷ Euro 1 = ` 60.66 (Official rate of exchange of September 2010)

⁸ M/s Fiducia, Roussiere, Les Charpentiers, DE PARIS ROUFF, SEEI equip indust, MAES and BRIATTE

⁹ Structural works, Plumbing/heating ventilation, Millwork/suspended ceilings, Electric, Painting, Flooring carpets/flooring parquets and Façade renovation,

¹⁰ M/s ROUFF and MAES

the Ministry, who had clarified the same. As of December 2010, the proposal has since been submitted for approval of competent authority. A payment of Euro 53,258 (₹ 30.23 lakh) has been made to the consultant as of June 2010.

While four target dates of June 2007, October 2008, September 2009 and November 2010 have already passed by without any work being commenced on ground, the total project cost and the fee payable to the consultant has shot up by ₹ 3.70 crore and ₹ 0.26 crore respectively, if seen in the context of the sanctioned estimates *vis-a-vis* final tendered cost, due to delays. Delay in implementation of project has not only blocked the capital of ₹ 18 crore on purchase of new building which is lying unused since 2006, the Mission is also forced to incur a recurring liability of ₹ 26 lakh *per annum* on rent of the Space Wing which was envisaged to be relocated in the new building after its renovation.

The Ministry (December 2010) stated that the delay occurred due to the cumbersome processes and the relatively slow pace at which each of the processes move in France. However, the chronology of event detailed in preceding paras establish that there were avoidable delays in short listings of firms, in floating tender, appointment of Technical Control Agency most of which could have managed by better planning, coordination and monitoring.

6.2 Delay in construction of chancery-annexe project in Budapest

The chancery-annexe project in Budapest conceived in 1996 took 14 years to materialise. Tenders for the work were initially invited in February 2001 based on erroneous floor area requirement leading to abandonment of the project. Due to shortcomings in planning and inappropriate handling of regulatory and contractual issues by the Mission and the consultant the project was finally awarded in October 2008 and completed in October 2010 at cost of HUF 347.46 million after a year's delay. In particular, failure to firm up the floor area of the project in 2001 itself ultimately placed an additional financial burden of HUF 164.02 million (₹ 3.62 crore) on the exchequer.

The Ministry sanctioned (November 2007) construction of an annexe to the chancery building at Budapest at a total cost of Hungarian Forint (HUF) 348.82 million¹¹ (₹ 7.64 crore) including consultant's fee. The annexe was conceived way back in October 1996 to remedy the inadequacy of existing office space besides accommodating a multi purpose hall, a library, a committee room and additional office space. The project was awarded in October 2008 and scheduled for completion by September 2009.

¹¹ Excluding VAT

Audit scrutiny of the annexe project revealed extraordinary delays and considerable cost overruns arising out of shortcomings in planning and inappropriate handling of regulatory and contractual issues. The audit findings are enumerated below.

Inadequacy in planning leading to increase in project cost

A property team of the Ministry visited Budapest in July 1999 and approved construction of an annexe with 688 square meters (sqm) of space at an estimated cost of HUF 110.08 million¹¹ (` 2.46 crore). A consultant¹² was appointed in May 2000 at a lump sum fee of HUF 7.50 million¹¹ and preparatory work was undertaken for inviting tenders for the work. Initial tenders for the project were called for in February 2001 and the lowest bid was HUF 206.84 million¹¹ (` 3.40 crore). However, the project had to be abandoned as the lowest recommended bid was for a higher net area of 939 sqm. Failure to plan the project within the floor area approved by the property team not only delayed the commencement of the project but also rendered infructuous payments made to the consultant (HUF 10.95 million¹¹) for work done up to 2001. Thereafter, it took more than three years (March 2001 to June 2004) for the Ministry and the Mission to arrive at the final floor area (832.77sqm) of the project. For the scaled down planned area the consultant worked out (September 2005) a revised cost estimate of HUF 230.09 million¹¹. The revised cost estimates sent for approval of the Ministry in October 2005 were not received by it and had to be resent in December 2006 showing inadequate follow up and monitoring by the Mission and the Ministry respectively. This avoidable delay of more than one year led to estimates for the works (excluding consultant's fee) again being revised upwards in February 2007 to HUF 326.35¹¹ million.

The Ministry stated (May 2011) that the tenders had been called for an increased area of 939 sqm in view of the higher FAR¹³ (Floor Area Ratio) permitted by the local authorities and for meeting the long-term requirements of the Mission. However, it added that the space requirements were examined in detail later and scaled down necessitating the development of the project afresh. On the matter of lack of follow up the Ministry stated that while priority projects are processed expeditiously other proposals are examined with a view to making progress on all fronts to the extent possible within the resources available with it. The Ministry's reply is silent on the fact that the Mission unilaterally went ahead and planned and tendered for a higher than approved built up area which had to be reduced on detailed examination. The Ministry has also not explained why it took almost six years (1999 to 2004) to firm up

¹² *M/s Banati + Hartvig Architects Ltd*

¹³ *The ratio of the total floor area of buildings on a certain location to the size of the land of that location*

the floor area requirement of the project as also its failure to follow upon the project during 2005-2006.

Inappropriate handling of regulatory and contractual issues

The first building permission for the project became effective in April 2001 which was repeatedly extended thereafter due to delays in commencing the project. The last such extension was granted up to 27 April 2008. The Mission, however, opted to seek further extension and when this was denied beyond April 2008, it decided to go ahead with the project without a valid permit merely on the basis of submission of 'a note for intention to construct' to the local authorities. Subsequently, when the tenders for the work were opened in March 2008 the consultant and the pre-qualified contractors pointed out that modified European Union (EU) regulations had not been incorporated into the building plan. As a result, the building plan had to be revised in May 2008 involving extensive re-planning of several systems. Fresh bids were then invited from the same contractors in June 2008 and the work was awarded in October 2008 at a cost of HUF 320 million. However, when construction started in November 2008 complaints were made by neighbours and the contractor declined to proceed until a valid permit was obtained. When the Mission belatedly approached the local authorities for a fresh building permission in January 2009 it became aware of several other mandatory regulatory issues (such as modified fire safety system, security system, fire hydrants etc.) that needed to be complied with. Incorporation of the same and approval of the building plan took six more months (January 2009 to July 2009). The work was finally completed in October 2010 at a cost of HUF 347.46 million¹.

The Ministry attributed the repeated changes and modification to the scope of work to changes in EU norms for building construction. The Ministry's reply, however, does not address the question of failure of the Mission and the consultant to submit in time a proposal for fresh building permissions even though it was aware that the project size had changed. It also does not explain the rationale for revision of building plan twice in quick succession despite a categorical assurance given by the consultant that all the changed EU norms had been considered while incorporating the first set of changes in May 2008.

The Mission and the consultant also failed to resolve promptly the contractual issue of installation of an appropriate brand of elevator in the annexe building which delayed the project by 10 months. While the building contractor indicated his intentions (June 2009) to install the 'Miskolc' brand elevator against the tendered specification of 'Schindler' elevator, the Mission and the consultant did not take cognizance of this significant deviation until September 2009. The matter was finally resolved in April 2010 by assigning the task of installation of elevator directly to M/s Schindler Hungaria Kft. Payments were also made directly to the firm which were subsequently adjusted from the net amount payable to the building contractor.

The Ministry stated that the contractor proceeded to procure ‘Miskolc’ make elevator without the knowledge of client and that it was due to its timely intervention that specified lifts were installed. This is not accurate as the contractor had sent a proposal to the consultant as well as the Mission on 03 June 2009 for installation of ‘Miskolc’ brand elevator of which adequate and timely cognizance was not taken. Resultantly it took over 10 months for the matter to be resolved.

To sum up, the Ministry and the Mission failed to manage the Budapest annexe project efficiently and effectively. As a result, the project took an abnormally long period of 14 years to materialise (1996 to 2010) within which time the project construction cost rose from HUF 110.08 million (` 2.46 crore) to HUF 347.46 million (` 7.68 crore)¹⁴. In particular, as a result of failure of the Mission and the Ministry to timely firm up the floor area requirement of the project, an opportunity to award the work in 2001 at a cost of HUF 183.44 million¹⁵ was lost ultimately placing an additional financial burden of HUF 164.02 million¹⁶ (` 3.62 crore)⁴ on the exchequer. The project consultant failed to safeguard the interests of the Mission in timely management of regulatory and contractual issues though his fees increased in the intervening period from a ‘lump sum’ amount of HUF 7.50 million to HUF 27.43 million. (i.e. an increase of ` 44 lakh).

6.3 Inordinate delay in construction/ disposal of Government of India owned property

Despite assurances to the PAC, the Mission/Ministry displayed extraordinary indecision in disposing/ constructing Government of India owned property in Bangkok and Warsaw resulting in continued idling of the plots for over 35 and 22 years respectively. This has resulted in avoidable annual rental expenditure of f ` 2.15 crore and ` 1.28 crore in Bangkok and Warsaw respectively.

Audit Report No. 17 of 2005 on Performance audit of Property Management by Ministry of External Affairs (MEA) *inter alia* revealed the following two instances:

A. Disposal of GOI owned properties: EOI Bangkok¹⁷

Brief of para	Action taken Note submitted by MEA in October 2006	PAC’s views on the matter
MEA purchased a plot of land (1974) measuring 4524 sq.mt. at a cost of ` 25.40 lakh in Bangkok for construction of Embassy	MEA’s property team had recommended retention of plot for constructing the Embassy Residence	a) PAC’s 51 st Report ¹⁸ The Committee took a serious note of the inaction resulting

¹⁴ HUF 1 = ` 0.221 (Official rate of exchange of March 2010)

¹⁵ (HUF 206.84 million ÷ 939 sqm) * 832.77 sqm

¹⁶ HUF 347.46 million – HUF 183.44 million

¹⁷ Paragraph no. 5.7.1 of the Report No. 17 of 2005

¹⁸ 2007-08- 14th Lok Sabha presented to parliament in August 2007

<p>Residence(ER) and accommodating Mission staff. In 1988 MEA concluded that the plot was not suitable for constructing residences as it was hemmed in by other buildings. Investment of ` 25.40 lakh remained idle for 30 years.</p>	<p>and a Cultural Centre and the selection of a consultant was under-process.</p>	<p>in idling of capital. It recommended that the Ministry should list out all the properties lying vacant for long periods and prioritize the same for prompt disposal.</p> <p>Assurance to PAC by Ministry:</p> <p>MEA stated that the property would be utilized for construction of ER and a cultural centre. The consultancy agreement had been signed and the scope of the project was being finalized in consultation with an architect, local authorities and the Mission.</p> <p>b) PAC's 75th Report¹⁹</p> <p>PAC reiterated that MEA should not dither any further in the matter and formulate an action plan forthwith for timely disposal of vacant properties.</p>
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B. Delay in construction on acquired land: EOI Warsaw²⁰

<p>Brief of para</p>	<p>Action taken Note submitted by MEA in October 2006</p>	<p>PAC's views on the matter PAC's 51st Report²²</p>
<p>MEA acquired (1988) a plot of land at a cost of ` 1.21 crore on perpetual lease for construction of chancery and residences for India based officials. MEA/ Mission did not take any action on the project, except appointing an India based consultant in April 1989. Even after almost 15 years of acquisition of land,</p>	<p>A consultant²¹ had been appointed to start the process for construction. However, due to non-availability of funds as a result of Gulf war, further progress got delayed. The project was revived for implementation only in 1998 after financial crunch eased</p>	<p>The Committee noted that the Ministry was not able to commence construction and stressed the need for expediting all the pre-construction activities such as finalisation of design brief, appointment of consultants etc. to ensure execution of</p>

¹⁹ 2008-09- 14th Lok Sabha presented to Parliament in August 2008

²⁰ Paragraph 5.5.4 of the Report No. 17 of 2005

²¹ M/s Sachdev Eggleston

²² 2007-08- 14th Lok Sabha presented to parliament in August 2007

EOI Bangkok

Audit noted (July 2010) that not less than 12 property teams had visited Bangkok since 1982 to inspect and plan for disposal/use of plot.

construction had not commenced. out. A formal agreement with these projects within the the consultant was signed in targeted time-frame through a April 2003. The drawings for specific monitoring plan for local body approvals had been each project. submitted and clearance was awaited. Further action for inviting tenders for civil and other works would be taken once these clearances are in place.

Audit analysis brought out the following:

A. EOI Bangkok

Audit noted that 12 property teams comprising of the senior officials of MEA had visited Bangkok during 1982 to 2011. The details of the visit, composition and recommendations of the property teams are given in **Annexe-II**. Analysis of the recommendations of these teams revealed divergent views on the matter of disposal/use of the plot of land. The table below depicts the various views on disposal/use of plot of land.

Table 1: Recommendations of the various property teams visiting Bangkok

Sl. No.	Recommendation made by the property team	Number of recommendations	Recommendation made by
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EOI Warsaw

Audit noted (July 2010) that even after 22 years of acquisition of land the project had not even reached the tendering stage.

1.	Selling of the plot of land	3	1 st , 3 rd and 9 th team
2.	Construction of flat for India based officers	3	2 nd , 4 th and 12 th team
3.	No specific view expressed	1	5 th team
4.	Developing of the plot of land	1	6 th team
5.	Mixed use selling/development by the local developer for apartments	2	7 th and 8 th team
6.	Construction of the Embassy residence	1	10 th team
7.	Construction of DCM residence	1	11 th team

A. EOI Warsaw

Security of the progress of the construction work of chancery and residences for India based officials was conducted in July 2010. Audit noted the following failures on the part of the Ministry/ Mission:

- **Unrealistic planning and projections** - None of the four target dates²³ set by the Ministry (between April 2000 and April 2007) to complete the project were attained. These targets were highly unrealistic and framed without any well-founded assessment of the situation on ground. For instance, against the target date of 82 weeks (21 months) projected by the property team in April 2000, it took three years to merely engage the consultant in April 2003. Again in April 2007, the Ministry contemplated all local body approvals to be secured by July 2007 followed by completion of project by June 2009. However the local body approvals could only be obtained in April 2008. The Indian consultant along with his local associate completed the pre-qualification process in April 2010 and recommended (May 2010)

²³ 82 weeks (By property team of Ministry in April 2000); June 2007 (As committed to the CNE in June 2004); July 2008 (Worked out in consultation with the Indian consultant in August 2006); June 2009 (Worked out in consultation with the Indian consultant in April 2007)

the names of four pre-qualified contractors to the Ministry for issue of tender documents, which was not approved as of March 2011. In the meantime, the building permit, which was valid for two years, had expired in April 2010. The Mission stated (March 2011) that the building permit from local authorities for construction activity on the embassy plot is still valid.

- **Infructuous expenditure incurred on the plot of land**

MEA had incurred a capital expenditure of ` 1.21 crore on the purchase of the plot 22 years ago (1988). Analysis of the expenditure on the maintenance, up-keep of the plot and other indirect expenses related to the pre-tendering work of the construction revealed that total expenditure of ` 15.07 crore were incurred on the project during the period July 1989 to July 2010.

Table 2: Expenditure incurred on the project

Sl. No.	Item of expenditure	Amount (` in crore)
1.	Cleaning and maintenance of the plot	0.83
2.	Payment made to the Indian consultant	0.23
3.	Opportunity cost incurred on rentals on hiring of chancery building and staff residences	13.86
4.	Expenses on local approvals, surveys, advertisement etc.	0.15

Audit conclusion

EOI Bangkok

Over the last 35 years, extraordinary indecision had been displayed by the Ministry and Mission in utilising the plot. Further, contrary stands with regard to utilization/disposal of the land had also been taken by the Ministry and the Mission. Meanwhile, the Mission continued to incur annual expenditure of ` 2.15 crore towards rent for residential accommodation for its officers and staff.

EOI Warsaw

The Mission/Ministry neglected the property since its acquisition in August 1988. A time period of 22 years has elapsed since its acquisition; however the project has not reached the tendering stage. Mission incurred avoidable expenditure of ` 14.69 crore on account of maintenance and upkeep of the plot and rent for the hired chancery premises and staff residences, which continues at the rate of ` 1.28 crore *per annum*.

The matter was referred to the Ministry in November 2010; their reply was awaited as of March 2011.

6.4 Flaws in renovation of Embassy Residence in Brussels and avoidable extra expenditure on lease rent

The project for renovation of government owned Embassy Residence in Brussels could not be completed within the stipulated cost and time frame due to continuous additions/modifications in the scope of work. The final tendered cost worked out to Euro 2.096 million vis-à-vis Euro 1.4 million estimated earlier and the project completion date had to be rescheduled from September 2009 to November 2010. Pending renovation an expenditure of ` 1.49 crore was incurred on hiring of an alternative accommodation for the Ambassador, of which, an expenditure of ` 66.40 lakh was largely avoidable on account of extended stay of the Ambassador in the rented property. Even after the award of work the Mission/consultant carried out large scale additions/modifications amounting to ` 1.57 crore which were beyond the tendered scope and only added to the project cost and led to further delay in completion of the project.

The Embassy Residence property in Brussels built in 1938, was purchased by the Government of India in 1956. As the property was in a considerable state of disrepair, the Standing Finance Committee (SFC) of the Ministry and the Ministry approved (September 2008) its comprehensive renovation at a total estimated cost of Euro 1.618 million (` 10.41 crore). The total approved amount comprised, besides the estimated cost of renovation works of Euro 1.4 million, consultant's professional fee of Euro 0.112 million and lease rent for the alternative accommodation for the Ambassador of Euro 0.096 million. The Ministry also approved a timeline of maximum one year for completion of the project *i.e.*, September 2009.

Audit scrutiny of the implementation of the renovation project revealed the following inadequacies:

Enlargement in scope of work leading to cost and time overruns

The scope of the renovation project was assessed by a property team of the Ministry led by Joint Secretary (Establishment) in July 2008. Based on the inputs of the team and thereafter of the consultant²⁴ the SFC froze the scope of the work in broad terms at a maximum financial limit of Euro 1.4 million. However, it was seen that between September 2008 and till April 2009, a number of additions and changes, several of them being sweeping and significant, were incorporated in the scope of the renovation work by the Mission/consultant. As a result, the cost estimates for the work had to be revised upward from Euro 1.4 million in September 2008 to Euro 2.133 million in May 2009 (eight months). Meanwhile, another property team of the Ministry visited

²⁴ M/s Beauvoir s.a.

Brussels in April 2009 but its report was totally silent on the issue of enlarged scope of work, thus, raising doubts whether the team had deliberated on this critical aspect at all. The Ministry, in fact, obtained an *ex post facto* justification for the change in scope and cost enhancement from the Mission only in October 2009 prior to submitting the revised proposal for the consideration of the SFC. The final tendered cost of the project eventually came to be Euro 2.096 million and the Ministry accorded (January 2010) revised sanction to the project at a total cost of Euro 2.564 million.

Audit scrutiny of the modifications and changes made to the scope of the project revealed that several of these subsume additions in the interior and the exterior of the property which go beyond essential renovation to embellishment and beautification of the property. For instance, in the interior part of the house significant changes were made in the room lay outs and terraces in the first floor, extensive changes were made in lighting and luminaires, provision of wooden floors was made throughout the house instead in the limited areas initially envisaged, provision of new marble floor was made in the main entrance, provision of floor heating was made in almost all portions of the house combined with new fireplaces in the dining/living/family room, kitchen and bathrooms were completely overhauled and new false ceiling was added. In so far as the exteriors were concerned, the paths were completely redone using prefabricated concrete borders/blue stone borders/wooden borders, a water feature was added while landscaping and plantations with lighting were undertaken afresh. While all these additions/modifications significantly added to the project cost, it had an adverse impact on the project completion date as well. The renovation project, in fact, took 30 months to complete from the date of approval (September 2008) as against originally envisaged period of 12 months. Of the 30 months, six months each were taken to finalize the tender documents and award of contract after opening of financial bids.

The Ministry stated (October 2010) that the modified scope of the work was arrived at after detailed investigations of the property and that the initial target date of September 2009 was tentative as it was decided before signing of the agreement with the consultant. However, consultant's engagement had effectively commenced much earlier than his formal appointment (October 2008). It is also not correct on the part of the Ministry to *post facto* portray the initial scope of work and related cost and time estimates as tentative as the consultant had provided cost estimates of Euro 1.4 million in 2008 based on several visits to the property with various contractors/experts. Besides, the consultant had categorically affirmed that the project would be achieved within his initial estimates both with regard to cost and time. It is also pertinent to highlight that the first SFC approval was clear in its stipulation that both the scope of work and the cost estimates would remain firm.

The approach of the Mission and the Ministry was also in distinct contrast to the renovation of Embassy Residence in Dublin. In the case of Dublin, the tendered cost of the work at Euro 1.599 million remained within the project cost estimates at Euro 1.60 million given by the consultant and approved by the SFC (July 2008). This was despite the fact that tenders for the project was invited more than a year later in September 2009. The tenders were also finalised and awarded within 18 days of the opening of the financial bids, as against 183 days taken to complete the same process in Brussels.

Continued additions/modifications to the tendered scope of work

Audit scrutiny of the project showed that changes and modifications continued to be made even after the award of the work (February 2010). The consultant and the Mission carried out as many as 22 additions/modifications to the tendered scope at an estimated cost of Euro 0.244 million (` 1.57 crore)²⁵. The total payments made to the building contractor and other vendors along with pending payments for post-tender modifications amounted to Euro 2.279 million²⁶ (` 14.69 crore)² as of May 2011, against the tendered cost of Euro 2.096 million (` 13.51 crore)². The Mission justified (January 2011) the additions/modifications on the grounds that these could not be foreseen by it and the consultant before finalising the tender documents. However, the number, magnitude and nature of the deviations and additions carried do not support this. The failure on the part of the consultant to plan the project comprehensively and the inability of the Mission/Ministry to control the same is also evident from the post-tender changes. These changes were made despite the consultant having given a certificate (November 2009) that the drawings, BOQ²⁷ and technical specifications prepared by him fully covered the intended scope of work. It was also seen that the Mission sought approval of the Ministry for the changes barely a month prior to the project completion date (November 2010), though it had sufficiently advance information on the need for several of the changes, such as, replacement of fencing with planting of hedges, replacement of fountain with construction of storage facility for rainwater harvesting, installation of electricity meters etc. In effect, the changes were presented to the Ministry as a *fait accompli*. As a result, while the Ministry had granted administrative clearance for some of the changes, financial sanction for the deviations were still due even though all the additional works have been executed.

Additional rent liability

²⁵ Euro 1= ` 64.47 (Official rate of exchange for May 2011)

²⁶ Euro 2.035 million (paid up to May 2011 including pending bill of Euro 11,419.05) + Euro 0.244 million (total post-tender additions/modifications)

²⁷ Bill of quantities

Total project cost (Euro 2.564 million) included an element of hiring of an alternative accommodation for the ambassador during the duration of the renovation. The period of rental which was originally approved for 12 months (February 2009 to January 2010) at a cost of Euro 10,000 per month by the competent authority stood finally extended up to 22 months (November 2010) at an enhanced rent of Euro 10,350. From February 2009 till November 2010, the Mission incurred total expenditure of ` 1.49 crore²⁸ on lease rent for the hired Embassy Residence. The expenditure on rent (` 66.40 lakh) for the later part of 10 months (February 2010 to November 2010), could be avoided if planning for the project had been done scrupulously and the work awarded expeditiously. The Ministry justified the extended stay due to an increase in the time frame for project completion on account of the need to observe required procedures even though the preceding paragraphs have clearly established that inordinate delays had occurred in achieving the key milestones viz., formulation of scope, finalisation of tenders, award of work etc.

Thus, failure to formulate a definitive scope for renovation project in Brussels led to large scale additions/modifications in the scope of work, post-approval and even following the award of work. As a result, both the initial time and cost estimates of the project approved by the Ministry in September 2008 had to be revised upwards which also entailed additional expenditure on hiring of an alternative accommodation for the Ambassador. This clearly revealed failure on the part of both the Mission and the Ministry to control and supervise the project efficiently and effectively.

6.5 Irregular expenditure under the head Publicity

Despite Ministry's instruction and earlier audit observations, the Six Indian Missions/Posts incorrectly classified expenditure of ` 93.06 lakh under the head 'Publicity' during 2008-2010 which resulted in the Missions understating the expenditure under the head Office Expenses besides violating the government's instructions on economy in expenditure.

Expenditure on Publicity head of account is intended for furthering the image of India either directly or indirectly. Financial Powers of Government of India's Representatives Abroad (FPGOIRA) regulates the type of expenditure to be classified under Publicity. Instruction issued by the Ministry (March 1997) further elaborate the items qualifying for booking under the publicity head. Despite these instructions and the mention in the previous reports of the Comptroller and Auditor General, six Missions/Posts wrongly classified expenditure worth ` 93.06 lakh under the Publicity head of account, which was incurred on items not qualifying under the same.

²⁸ ` 82.21 lakh from February 2009 to January 2010+ ` 66.40 lakh from February 2010 to November 2010= ` 1.49 crore

S. No	Mission/Post	Month/year	Nature of expenditure	Amount (₹)	Items booked under Publicity
1	EOI Washington	April 2008 to Nov. 2009	OE booked in Publicity	8856000	Vouchers of PIC wing erroneously debited
2	HCI Kingston	April 2009 to March 2010	Minor work booked in Publicity	83984	Tiles for swimming pool, Purchase of Garden tools, Repair main gate
3	EOI Mexico	May 2008 to March 2009	OE booked in Publicity	119033	Annual subscription for magazine, newspaper, cable charges and purchase of plants and fertilizer
4	EOI Brazil	July 2008 to Oct 2009	---do---	80239	Purchase of books, cartridges, toner, wages of hiring of two messengers, subscriptions and cable TV etc.
5	EOI Columbia	April 2008 to July 2009	---do---	19039	Renewal of subscription, cable TV subscription, magazine etc.
6	CGI New York	April 2008 to Sept. 2009	---do---	148094	Purchase of books, honorarium, hiring of labour, hiring of car etc.
				9306389	

EI Washington alone had incorrectly booked an amount of ` 88.56 lakh between April 2008 and November 2009. In their reply (June 2010) EI Washington accepted the audit finding and requested not to insist on regularization of expenditure under the correct head of account keeping in view the financial account for the year 2009-2010 has been closed. After appropriation accounts are passed by the Parliament, any change in heads of accounts by way of regularization is not possible. Mission also stated that they had put in place procedures to correctly classify the items of expenditure indicated, in future.

The fact remains the same that the items authorized under Office Expenses were booked under publicity, which resulted in understatement of actual expenditure on other items especially under the head OE and therefore violated the laid down regulations. To ensure that such lapses do not recur and that financial discipline as embodied in sanctions and appropriations is enforced, MEA needs to strengthen the internal controls in the Missions/Posts.

6.6 Irregular expenditure due to non-adherence to sanctions and scales

28 Missions/Posts incurred an irregular expenditure of ` 1.22 crore on visiting delegations by extending various facilities, such as, hotel accommodation, hired transport, cash allowance, VIP Lounge etc, which were beyond the scope of sanction/without the sanction of the Competent Financial Authority. In addition, Embassy of India, Suriname constructed a Swimming Pool at

Embassy Residence at a cost of ` 64.15 lakh not covered under the laid down scale.

The Missions/Posts abroad receive a large number of delegations from India which include Ministers, government officials/officers from the Armed Forces, artists, cultural troupes etc. The Missions/Posts are responsible for overseeing all logistical arrangements relating to their stay and travel in the foreign country as well as for payment of cash allowance. For making payments to visiting delegations on behalf of other Ministers/Departments, the Missions/Posts act as a multi departmental pay and accounts offices, and the expenditure is subsequently debited to the respective Ministries/Departments. While incurring such expenditure the Missions/Posts are expected to ensure that the expenditure so incurred is based on valid sanctions issued in advance by the competent authority of the sponsoring Ministries/Departments, indicating the items/services or facilities the delegation members are permitted to avail themselves of. Canons of Financial propriety necessitates that there is strict adherence to the laid down scales while authorizing the expenditure.

Audit however, observed that 28 Missions/Posts incurred an irregular expenditure of ` 1.22 crore during the period April 2008 to March 2011 on visiting delegations which did not conform to the provision of the sanctions issued by the Competent Financial Authority (CFA). The Missions/Posts extended various facilities to the visiting delegations, such as, hotel accommodation, hired transport, cash allowance, VIP lounge etc. even though the purpose of visits, period of stay, adherence to approved route, payment of cash/daily allowance etc. were inconsistent with the provisions of the sanctions. In addition, the Embassy of India, Paramaribo, Suriname had constructed a swimming pool at the Embassy Residence at a cost of 0.1 Million Euro (` 64.15 lakh) in violation of the laid down norms. The Mission/Post-wise details indicating such omissions and extent of irregular expenditure amounting to ` 1.86 crore are detailed in **Annexe III**. These omissions/irregularities are discussed below:

Expenditure on visiting delegations without sanction

The Missions/Posts extended various facilities to the visiting delegations as discussed above. A total 99 cases were noticed in 16 Missions/Posts under which amount of ` 69.62 lakh were incurred without the sanction of the CFA. In eight cases ex-post approval was received after being pointed out by Audit. Some of the significant findings are highlighted below:

- The Minister of Petroleum and Natural Gas along with his Personal Secretary (PS) transited through Paris for both inward and outbound journeys while on official tour to Venezuela during May 2010. The transit stay in Paris was for four nights while the stay at the final destination was two days. The Mission

in Paris incurred an expenditure of ` 6.75 lakh on hotel accommodation and a chauffeur driven car though transit through Paris was not provided for in the sanction accorded by the Ministry of Petroleum & Natural Gas. The Mission did not furnish any reply with regard to the deviation from the sanction.

- Ministry of Commerce & Industry accorded sanction for the visit of Commerce & Industry Minister to attend and address United States India Business Council's 34th anniversary "Synergies Summit" at Washington DC and New York during June 17-22, 2009. Test check of the records of CGI, Chicago revealed that the Post incurred expenditure of US \$ 5121.68 (` 2.47 lakh) towards hotel accommodation and transportation of the Minister in Chicago. CGI, Chicago replied that a proposal has been sent to the Ministry of Commerce for issuance of appropriate sanction. Similarly during four conferences²⁹ and bilateral meetings abroad, the Minister of Commerce and Industry along with his PS made routine halts in London though the sanctions did not provide for such halts and were also not part of the approved route fixed for travel by the Ministry of External Affairs. The Mission in London had to bear an expenditure of ` 10.40 lakh to meet the expenses towards hotel accommodation, hiring of cars, mobile phones, cash allowance etc. The Mission stated (March 2010) that the concerned Ministry was being requested for their comments/issue of *ex post facto* sanction for regularization of expenditure.
- Ministry of Youth Affairs and Sports sanctioned the visit of Secretary, Sports for making a presentation on Commonwealth 2010 at "Sports Breakfast at CHOGM retreat" at Port of Spain from 27 November to 29 November 2009. Audit found that three more members from the Organizing Committee of Commonwealth Games-2010(CWG), including its Chairman also accompanied the Sports Secretary. The Mission incurred an expenditure equivalent to ` 3.18 lakh on the members of CWG for a stay of three nights by the Chairman and one member and five nights by the third member. The visit was however not covered under the sanction issued by the Ministry. HCI Port of Spain, Trinidad and Tobago pursued the case with the Ministry of Youth Affairs and Sports for regularization and justification for a four member delegation for just one breakfast presentation.
- Lt. Governor, Delhi accorded sanction for the extra jurisdictional journey outside India by Hon'ble Speaker Delhi Legislative Assembly to attend the 54th Commonwealth Parliamentary Association Conference to be held in

²⁹ Geneva, Senegal, France-Finland and Paris

Kuala Lumpur and pre/post conference study tour to USA, Italy and France. Sanction provided to make necessary arrangements for stay of Hon'ble Speaker. Audit observed that based on the directives of the Delhi Legislative Assembly (DLA) Secretariat, two suites, including one for the stay of son and daughter in law of the Speaker were booked in a hotel at New York resulting in payment of inadmissible amount of US\$960 (` 0.43 Lakh). CGI New York informed that a proposal had been sent to Delhi Legislative Assembly Secretariat for recovery of US \$ 960, since it was not covered in the sanction.

- In another case the sanction issued by the Government was flouted by a pre-planned diversion in travel route by a delegation headed by the then Army Chief visiting Chile. Though the sanction for the visit specifically stated that the journey be performed on the approved route i.e. via New York, the delegation adopted the return route via Sao Paulo and Rio which had been planned and arranged by the Army Headquarters a month in advance of issue of sanction. The diversion, in defiance of the sanction, caused an extra expenditure of ` 1.59 lakh on the stay and local conveyance of the delegation at Rio and ` 1.83 lakh on the team deputed from Brasilia for organizing the visit.
- The Minister of State (MoS) for External Affairs and her PS visited New York during October 2010 to attend the 65th Session of UN General Assembly. The travel to New York was performed from Delhi via London which was not covered by the sanction issued by the Ministry in September 2010. The Mission incurred an expenditure of ` 4.80 lakh for arranging hotel accommodation, cash allowance, hiring of transport etc.

Expenditure in-violation of laid down scales

Heads of the Mission are authorized a furnished residential accommodation, when serving outside India. The scales, however, do not provide for construction of swimming pool in the Embassy Residences (ER). Audit found that in violation of the laid down norms, the Embassy of India Paramaribo at Suriname had constructed a swimming pool at the Embassy Residence at a cost of Euro one lakh (` 64.15 lakh). The pool was constructed after acquisition of an existing property in March 2010 for the ER. Embassy of India, Paramaribo stated that the Mission had signed an agreement with the seller for construction of a water body and not a swimming pool. The fact however, remains that the Embassy had constructed a swimming pool at the Embassy Residence, which is not covered under the laid down scales.

Expenditure on VIP Lounge without sanction

Six Missions/Posts hired VIP lounges at airports for visiting Ministers and special dignitaries on 88 occasions and incurred an expenditure of ` 40.47 lakh. Incidentally, no provision for VIP lounge facilities existed in the sanctions accorded by the CFA. The extent of breach was highest in London at ` 23.43 lakh in respect of 47 visiting delegations, followed by Munich where an irregular expenditure of ` 8.61 lakh was incurred on 21 visiting delegations. The Mission in London stated (March 2011) that it would be very difficult to secure regularization of expenditure incurred on VIP lounges in the past from different Ministries. However, in future, it would request all Ministries for specific sanction and ensure that each booking of VIP lounge is approved by competent authority.

Expenditure on ICCR sponsored troupes without sanction

Ministry's circular of January 2004 authorize only 33 Missions to utilize their 'publicity' budget for one ICCR sponsored troupe per financial year on:

- (i) Hiring of auditorium and technical facilities; and
- (ii) Printing of publicity material related to cultural events. However, the Missions in Milan, Bratislava and Prague spent ` 3.17 lakh from their publicity budget to meet the expenses on ICCR sponsored troupes towards hiring of halls, payment to musicians, printing of leaflets etc. though these Missions did not feature in the list of Missions communicated by the Ministry in August 2004 to incur such expenditure. Further, the Mission in Vienna and the Cultural Centre in London incurred an expenditure of ` 6.87 lakh on local transportation of dance troupes while the sanction did not provide for the same.

Non-deduction of daily allowance

The IFS (PLCA) Rules stipulate that the daily/cash allowance shall be reduced by 10 *per cent* if hotel charges include breakfast charges. It was observed that 12 Missions/Posts in 132 cases did not reduce the daily allowance payable to delegation members though the hotel tariffs were inclusive of breakfast charges, thus, leading to excess payment of ` 2.04 lakh.

The instances of incurring of unauthorized expenditure by the Missions point at inadequate internal controls in the Missions. Government funds are required to be spent in accordance with the sanctions and scales and any expenditure not so authorized in accordance with rules is violative of the laid down financial regimen and indicative of circumvention of the Government orders. Post-facto regularization obtained in response to audit objections can in no way be accepted as substitute for adherence to proper authorization and approvals. There is a definite need to put in

place effective financial controls to prevent such irregular expenditure by the Missions and Posts.

The matter was referred to the Ministry in December 2010 ; their reply was awaited.

6.7 Avoidable extra expenditure on hiring of excess space for chancery building

The Indian Mission in Minsk hired a significantly large property for its chancery without the prior approval of the Ministry. The hired premises consisting of three floors including large basement area was 344 sq m more than the space norms prescribed by the Ministry and would result in an avoidable extra expenditure of atleast ` 42.12 lakh.

The Ministry of External Affairs (Ministry) issued comprehensive guidelines in August 1986 for purchase of built up properties by the Missions/Posts abroad. The guidelines, inter alia, laid down the authorized space entitlements for a medium size Mission for the purpose of purchase or renting. Further, in December 1994, the Ministry also issued detailed instructions regarding renting of accommodation by the Mission/Posts abroad. The Ministry emphasized that all proposals for initial/continued/alternate hiring should be sent by the Missions/Posts well in advance along with all relevant documents/information, which included the following:

- Proposal in the prescribed rent proforma for hiring of chancery/office premises duly recommended by Head of Mission/Head of Post and signed by the Head of Chancery; and
- Details of staff strength and space required as per norms fixed by the Ministry, in case additional space is proposed to be rented for the chancery.

The Indian Mission in Minsk had been functioning from a rented building³⁰ since November 1992, leased from the government of Belarus. Initially, an area of 906 sq m was hired which was subsequently reduced to 638.60 sq m in June 1997 due to withdrawal of certain posts from the Mission. The Mission paid a monthly rent of USD 8,934 for the property (which included a refundable VAT of USD 1,363 @ 18 per cent) till December 2007. The effective rent of the chancery building (excluding VAT) was USD 7,571 per month.

As the existing property was not considered suitable from the point of view of location and poor physical condition, the Mission subsequently shifted to a new property³¹ in January 2008 at a monthly rent of USD 8,000. The Mission paid the rent partly by bank transfer (USD 3,000) and partly in cash (USD 5,000). However, no specific prior approval of the Ministry was obtained before resorting to payment of

³⁰ 4, Koltsova Street, Building 5, Minsk

³¹ 63 Sobinova Street, Minsk

rent in cash. The lease agreement for the new chancery building was initially signed (November 2007) for a period of three years from January 2008 to December 2010, which was subsequently renewed (June 2010) for a further period of three years up to December 2013, without any escalation in the rent.

Audit scrutiny of documents related to hiring of new chancery building revealed the following:

- i. In accordance with the Ministry's guidelines of August 1986, the space entitlement for a Mission like Minsk should not be more than 774 sq m even after factoring in the area required for circulation and provision for future expansion as indicated in **Annexe-IV**. However, the new chancery building hired by the Mission had a total area of 1,118 sq m, which was not only 344 sq m (44 *per cent*) more than the space norms prescribed by the Ministry but also appeared to be extravagant considering the small size³² of the Mission. The area of the new chancery building (comprising three floors including a large basement) was on the higher side further stems from the fact that one post of security guard was transferred to PMI, New York way back in March 2006 which, in fact, reduced the requirement of space in the chancery by at least 40 sq m³³.
- ii. The Mission also did not adhere to the instructions issued by the Ministry in December 1994 regarding renting of accommodation by the Missions/Posts abroad. The prescribed rent proforma for hiring of chancery premises, duly recommended by the HOM and signed by the HOC, along with requisite details of staff strength and space required as per the approved norms were not furnished to the Ministry. These were vital management information system data which could have facilitated decision-making at the apex level. The Mission, however, informed the Ministry about the hiring of new chancery building only in December 2007, after signing the initial lease deed.

While doing so, the Mission also misinformed the Ministry that the monthly rent of the new chancery (USD 8,000) was less than the rent being paid for the old premises (USD 8,934). In fact, the effective monthly rent of the old chancery premises was USD 7,571 only (excluding VAT). Whereas, the rent of the new chancery premises was fixed at USD 8,000 per month and did not entail any payment of VAT or its reclamation by the Mission (the property belonged to a private person). The rent of the new chancery premises, thus, exceeded the sanctioned rent of the old premises by USD 429. Consequently, the Mission should have referred the case to the Ministry for

³² The Mission has only 08 India based officials and 09 locally recruited staff

³³ Area of quarter for one security guard in the Mission

its approval before hiring the new premises at an enhanced rent, in terms of item no. 20 (I) (3) of Financial Powers of Government of India's Representatives Abroad. However, this pre-requisite was also by-passed by the Mission.

- iii. The Mission did not consider any alternative property (other than the one which was finally hired) for the chancery building. In fact, there was no evidence on record to indicate that the Mission had explored other properties which were smaller in area and within the space entitlement prescribed by the Ministry. Incidentally, the rented chancery building and the rented India House (the official residence of the Indian Ambassador) in Minsk belonged to the same person.

The Mission stated (August 2010) that the excess space in the new chancery building was being used for cultural and entertainment activities. The Mission added that it has written to the Ministry seeking its ex post facto sanction for all deviations pointed out by audit. The letter was sent on 19 August 2010. The Ministry accorded its *ex post facto* sanction in April 2011 (after a time lag of more than three years) for hiring of new chancery premises at a rent of USD 8,000 per month (USD 5,000 in cash and USD 3,000 by bank transfer) for the entire period of lease from January 2008 to December 2013.

Evidently, the Mission took Ministry's approval for granted and posed a *fait accompli*, which was not appropriate. The Mission's argument for usage of excess space also does not justify its non-adherence to the prescribed norms which were determined by the Ministry after taking into account all relevant factors. Moreover, there was abundant space available in the big hall (where a small library is located) to conduct cultural and entertainment activities.

Thus, hiring of space for the chancery building in excess of the norms prescribed by the Ministry has resulted in extra expenditure of ` 42.12 lakh up to December 2010. The avoidable extra expenditure, by the time the lease agreement for the chancery expires in December 2013 would be at least ` 84.24 lakh³⁴.

The matter was referred to the Ministry in October 2010; their reply was awaited as of March 2011.

6.8 Unauthorised expenditure on purchase of stationery

Despite assurance given to PAC by the Ministry, Missions continued to incur excess expenditure on purchase of stationery. Ten test checked Missions during

³⁴ (8000/1118) *344*72 months (USD 1 = Rs. 47.50 at official rate of exchange for the month of August 2010)

2009-10 exceeded the permissible limit by ` 41.04 lakh without prior approval of Ministry.

Paragraph No. 7.3 printed in Audit Report No. 2 of 2007 pointed out violation of financial limits³⁵ by 17 Missions in purchase of stationery items. The Ministry in its Action Taken Note in January 2009 gave the following assurances to the Public Accounts Committee.

1. To minimize such cases, the delegated financial powers for purchase of stationery has been enhanced from USD 7700 *per annum* to USD 11935 *per annum* in case of Missions/Posts in UK and USA and USD 3850 *per annum* to USD 5967 *per annum* in case of other Missions/Posts with effect from October 2006.
2. All Missions/ posts have been issued instructions in July 2007 that any purchases in excess of the delegated powers on stationery have to be approved by the Ministry in advance.

Subsequently, Audit noted (June–July 2010) that ten Missions/Posts had incurred excess expenditure on stationery amounting ` 41.04 lakh during 2009-10 as detailed in the **Annexe-V**. The excess expenditure in these Missions ranged between 36 *per cent* and 350 *per cent* of the delegated powers.

In response, the Missions at Colombo and Kuwait stated (June-July 2010) that the Ministry would be requested to regularise the excess expenditure, while the Missions/Posts at Tokyo, Tehran and Abu Dhabi stated (June-July 2010) that the matter had already been taken up for regularisation. The Missions/Posts at Dubai and Dhaka stated (June-July 2010) that they had requested the Ministry for raising the admissible limit of expenditure on stationery.

Audit noted from the reply of the Missions that the assurances given to the PAC were not complied.

The matter was referred to the Ministry in September 2010; their reply was awaited as of March 2011.

6.9 Systemic failure of internal controls leading to embezzlement of government money

Failure to follow good practices in handling and accounting of receipts coupled with ineffective monitoring and systemic failure of internal controls resulted in embezzlement of government money amounting to ` 26.23 lakh in Embassy of

³⁵ Fixed as per item no. 26 of schedule I of the Financial powers of the Government of India's representatives abroad

India, Rome.

The Central Treasury Rules³⁶ lay down the general rules for receipt of Government money and payment of such money into the government account. The Consular Manual³⁷ also prescribes an elaborate procedure for receipt and accounting of consular fee to safeguard against leakage of government revenue. These are proven and generally accepted good practices in transacting government business while ensuring accountability commensurate with responsibility.

The Indian Mission in Rome entrusted the task of handling cash and writing the cash book to a local clerk. However, due to absence of effective monitoring and supervisory control over handling and accounting of receipts in the Mission an opportunity for fraud and manipulation was created which was exploited by the local clerk with impunity. Audit scrutiny of the accounts of the Mission (November 2009) revealed that the local clerk violated financial and administrative rules and practices and misappropriated Euro 38,784.95 (` 24.60 lakh) between June and July 2009. This included short-deposit of consular fee (Euro 22,876.25); unsettled advances (Euro 5,627.68); sale proceeds of official car (Euro 4,000); and over-drawn cash/net excess withdrawal (Euro 6,281.02). The local clerk tendered his resignation just a few days before the commencement of the annual audit of the Mission in November 2009.

Audit examination disclosed that the embezzlement was a consequence of a general environment of lax internal controls which enabled several infractions of financial and administrative rules and instructions. These were:

- utilisation of consular receipts for meeting day-to-day miscellaneous expenses, which otherwise should have been paid by cheques. The receipts so utilised were made good subsequently by issuing cash cheques;
- contrary to administrative instructions which mandated that consular receipts should be deposited on the same /next working day in the bank, these receipts were not deposited in the order in which they were received and entered in the cash book. In fact, cash was allowed to accumulate in the accounts section and used for defraying various regular expenditures. Only the balance was deposited with delays of varying periods. The overall laxity that prevailed in the handling of cash receipts facilitated misuse and embezzlement of government money by the local clerk;

³⁶ Rule 77 (ii) and (v) of CTR

³⁷ Paragraph 31 and 32 (Chapter-I)

- the then Head of Chancery (HOC) did not comply with instructions requiring him to ensure that there is no discrepancy between the cash reflected in the consular cash book and the monthly cash accounts. In fact, the embezzlement of consular receipts escaped detection as this check was not performed while preparing the cash accounts of June 2009;
- the consular fee shown as deposited in the bank account was not verified by the then HOC from the bank deposit slips before attesting the respective entries in the cash book, as prescribed in the rules. As a result, the local clerk could cover up the short deposit of cash in the bank by understating the totals of the bank receipt column in the cash book;
- the Mission failed to exercise normal checks to ensure that amounts shown in paid vouchers and amounts drawn through cheques tally and that cheques were drawn only against duly authorised vouchers. The HOC also failed to perform basic cross checking between paid vouchers and cash book/cash account entries before attesting and verifying them. As a result, the local clerk was able to overdraw significant sums of money;
- at the time of audit the key accounting task of bank reconciliation was in arrears in the Mission since July 2009. As a result, no cash accounts could be sent to the Ministry since July 2009; and
- advances were not drawn in a proper manner and were allowed to remain outstanding for unduly long periods. This enabled the local employee to hold and misappropriate unspent balances from the advances handled by him.

On the recommendations of Audit, the Mission appointed a three member committee to investigate the circumstances leading to misappropriation of government money by the local employee. This committee after a thorough investigation confirmed the fact of the embezzlement of government money by the local employee. It also corroborated audit findings with regard to gross violation of rules, regulations and administrative instructions and the complete subversion of supervisory control and monitoring in the Mission during the relevant time.

The Ministry accepted the facts and stated (August 2010) that the extent of embezzled Government money was, in fact, of the order of Euro 41,359.60 as some other advances that had not been adjusted had subsequently come to light. The Ministry further stated that the entire embezzled amount of Euro 41,359.60 had since been recovered³⁸ from the local clerk and credited into government account in April 2010.

³⁸ Euro 33,430.51 recovered from terminal benefits and other dues; and Euro 7,929.09 recovered in cash

The Ministry added that a non-recordable warning had also been issued to the then Head of Chancery for his failure to keep an efficient and effective supervisory control over the Mission's accounts.

The stated adjustment of terminal benefits of the errant local employee to make good the loss due to embezzlement of government money is questionable as involvement in an act of fraud and cheating would normally disentitle any employee to any form of terminal benefits. Further, there is no evidence that the Ministry and the Mission has pursued any criminal action against the errant employee so as to establish a strong deterrent against similar fraudulent conduct on the part of its employees.

Thus, ineffective monitoring and supervisory control combined with a general dilution of internal controls in the Mission led to embezzlement of government money amounting to Euro 41,359.60 (` 26.23 lakh)³⁹, by a local employee. Further, action taken to close the matter by adjusting the losses caused due to the embezzlement against the "terminal benefits" of the employee without pursuing criminal action, appears to be inadequate.

³⁹ Euro 1 = ` 63.43 (Official rate of exchange of April 2010)

6.10 Unauthorised expenditure due to non-adherence to prescribed rental ceiling in hiring residential accommodation

In disregard of Ministry's rules and delegated powers, Missions at Singapore, Tokyo and Port Moresby paid rent for residential accommodation in excess of the prescribed rental ceiling without the approval of the Ministry resulting in unauthorised expenditure of ` 21.20 lakh during 2009-10.

As per item no. 4(18) (i) of Annexure-X of the IFS (PLCA) Rules, Missions for which rental ceilings have been prescribed should not exceed the rental ceilings without prior approval of the Ministry.

It was noticed during audit that Missions at Singapore, Tokyo and Port Moresby paid rent on residential accommodations at rates higher than the prescribed rental ceiling during the period 2009-2010, without approval of the Ministry. Consequently, the Missions had incurred an unauthorized expenditure of ` 21.20 lakh. The details are shown in **Annexe-VI**.

On it being pointed out Mission at Singapore stated (August 2010) that the concerned official was entitled for higher accommodation due to the increased scale of pay under the ACPS⁴⁰. The reply is not acceptable as financial upgradation under ACPS does not entitle beneficiaries to claim a higher rate of Foreign Allowance and/or other compensatory allowances applicable while serving in Missions/Posts abroad⁴¹, who would continue to serve as non-representational officers. In the instant case the official continued under the category Gazetted non-representational and therefore was entitled for the maximum rental ceiling up to S\$3000 per month in terms of Ministry's orders.

The Ministry (February 2011) accepted the audit findings and clarified that accommodation norms in Missions/ posts abroad were rank based and not on the basis of pay/grade pay. Further, the Mission at Singapore has been asked to take remedial action.

The Mission at Tokyo stated (August 2010) that renting of houses for short periods were extremely difficult in Tokyo whereas, the Mission at Port Moresby stated (August 2010) that actual rentals prevailing in Port Moresby were much more than the rental ceiling fixed by the Ministry. The replies do not address non-compliance to government orders.

⁴⁰ Assured Career Progression Scheme

⁴¹ As per Paragraph -6 of the Office Memorandum on the subject Financial upgradation of Section Officers under the ACPS issued by MEA

Thus, instances of Missions not adhering to the prescribed rental ceilings resulted in unauthorised expenditure. Such instances indicate the weak internal control mechanism in Missions and lack of oversight by the Ministry. The Ministry has failed to check the continued occurrence of such cases.

6.11 Recovery at the instance of Audit

Short recovery of penalty of ₹ 8.00 lakh from the service provider. This was subsequently recovered at the instance of audit.

The Ministry of External Affairs entered into an agreement with M/s Tata Consultancy Services to launch Passport Seva Project in Bangalore by October 2009. In terms of the agreement delay in implementation of the project attracted a penalty of ₹ 2 lakh for each week of delay. Audit noted that the project was launched in March 2010 i.e. after a delay of 24 weeks. The Ministry, invoking the provisions of the agreement, erroneously calculated the period of delay as 20 weeks instead of 24 weeks. As a result, it recovered ₹ 40 lakh from the firm, instead of the correct sum of ₹ 48 lakh. There was short recovery of penalty of ₹ 8 lakh. Upon being pointed out by audit (May 2010), the Ministry recovered the balance amount of ₹ 8 lakh from the firm in June 2010.

The instance indicate the need for the Ministry to strengthen its internal controls to ensure that the terms of agreement complied with.