

Chapter 3

Audit of transactions

Audit of transactions of Government departments under General Sector and Economic Sector, their field formations as well as that of autonomous bodies brought out several instances of lapses in management of resources and failure 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 rules and regulations

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, misappropriations and frauds but helps in maintaining good financial discipline. Some of the audit findings on non-compliance with rules and regulations are hereunder:

Public Works Department

3.1.1 Avoidable expenditure of ₹ 1.45 crore

Adoption of a price variation clause in its work contracts by PWD, which was not in line with general conditions of contract resulted in avoidable expenditure of ₹ 1.45 crore in two works.

Rule 204 (ii) of GFR stipulates that standard forms of contracts should be adopted wherever possible, with such modifications as are considered necessary in respect of individual contracts. The modifications should be carried out only after obtaining financial and legal advice.

Payments on account of price variations of labour, materials, petroleum, oil and lubricants (POL) used in work are made to the contractors under Clause 10CC of general conditions of contract. But this clause is not applicable for works where stipulated period of completion is 18 months or less. A new clause 10CA was introduced in September 2004 for escalation in such cases, which was applicable for escalation in respect of reinforcement steel bars and/or cement only whereas clause 10C was applicable for other components (labour etc., the price of which vary due to statutory orders).

Audit conducted a test check of contracts relating to following works awarded by Division F-111 division of PWD:

Sl. No.	Name of Work	Name of Contractor	Date of award	Estima ted Cost	Tendered Cost	Stipulated date of start	Stipulated date of Completion	Actual date of comple tion
				₹ in crore				
1.	Construction of Flyover at Naraina 'T' Point, Ring Road.	M/s Navayuga Engineering Co. Ltd.	20.02.2007	65.77	97.91	14.03..2007	13.12.2008	In Progress
2.	Construction of Bridge over Pond (Neela Hauz) on Aruna Asaf Ali Road, New Delhi	M/s. Valecha Engineering Ltd.	16.04.2008	25.16	34.45	08.05.2008	07.09.2009	25.09.10

Audit observed that though standard Clauses 10CC and 10 CA were available to compensate the contractor for variation in prices, yet these clauses were not incorporated in the NIT/agreements of above works. Instead a new clause, 10CCA, was adopted which was not in line with general conditions of contract issued by the Central Public Works Department (CPWD) and its manual provisions. In this clause, components of material and labour were taken as labour 22 per cent, steel 25 per cent, cement 15 per cent, fuel 5 per cent, machinery and machine tools 18 per cent and payment/ recovery on account of price variation was to be made bill wise. The clause was inserted without taking any legal or financial advice as required under Rule 204 (ii) of GFRs.

Due to inclusion of this clause, 10CCA, in the agreement the department had to pay ₹ 11.54 crore (₹ 8.88 crore for work-I and ₹ 2.66 crore for work-II) to the contractors in the shape of price variation. Audit observed that this amount included ₹ 1.45 crore (₹ 1.16 crore for work-I and ₹ 0.29 crore for work-II) on account of machinery components which was not payable under any provision of CPWD manual. Thus, out of a total of ₹ 11.54 crore paid to the contractors in the shape of price variation, an amount of ₹ 1.45 crore was avoidable.

The Project Manager stated (July 2012) that the NIT approving authority included this clause as per the decision of Engineer-in-Chief, PWD for bridge/flyover works. It was added that as far as component of Machinery and Machine tools was concerned, it plays a major role in works like flyovers and underpasses. Therefore, inclusion of this component in the said clause was more realistic than dividing the total provision in other components.

The reply was not acceptable on the following grounds:

- The payment of price escalation on the machinery and machine tools was not justifiable as these are capital goods, which is one-time purchase and deployed at sites as required.
- The General Conditions of Contract have been formulated with Clauses 10 C, 10CA and 10 CC for price variation. Insertion of a new clause 10 CCA was not justifiable.

Thus, unjustified adoption of a new price variation clause by PWD in above works resulted in extra expenditure of ₹ 1.45 crore.

The matter was referred to the Department (March 2012), their reply was awaited (March 2013).

3.2 Audit against propriety/expenditure without justification

Authorisation of expenditure from public funds has 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 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 detected the following instances of impropriety and extra expenditure.

Irrigation and Flood Control Department

3.2.1 Avoidable expenditure of ₹ 86.48 lakh due to rescission of contract

The inconsistency in decision of the government on a project ‘upgradation of the existing Water Bound Macadam road along Najafgarh Drain from Dhansa Bund to Kakraula Regulator’ led to rescission of contract resulting in avoidable extra expenditure of ₹ 86.48 lakh.

Pursuant to the approval (2001) of the Government of NCT of Delhi (GNCTD), the Irrigation and Flood Control Department (Department) prepared a scheme of upgradation of the existing Water Bound Macadam (WBM) road along Najafgarh Drain from Dhansa Bund to Kakraula Regulator. The scheme was forwarded to the Ministry of Rural Development, GOI seeking sanction under the Pradhan Mantri Gram Sarak Yojna. The Ministry released (February 2002) ₹ 5.00 crore to the Government of NCT of Delhi for the project.

The Department awarded (May 2003) the work to M/s Capital Construction Company (the contractor) at a tendered amount of ₹ 3.97 crore with stipulated date of start and completion as 20 May 2003 and 19 February 2004 respectively.

Audit scrutiny of records revealed that the Department had received (29 January 2004) instructions from the Principal Secretary to the Chief Minister, Delhi, not to carry out any work on the proposed road till further instructions, as the work would lead to a large scale plying of trucks and other vehicles, disturbing the calmness of the place which was being developed into a Bird Sanctuary along with water body. Accordingly, the work was suspended by the Department on 5 February 2004. The Department represented the case to the Government for reconsideration of the decision not to carry on the work of 'upgradation of the road along Najafgarh Drain from Dhansa Bund to Kakraula Regulator', justifying the project on the lines that the road was in existence for the last 15 to 20 years and was being used by the cultivators of the nearby villages for transporting their agricultural produce and related inputs for their fields and upgrading the same road would not, all of a sudden, attract a lot of trucks and vehicles, as was apprehended. The GNCTD acceded to the request of the Department and allowed (June 2004) the resumption of the work. Accordingly, the contractor was asked (29 June 2004) to restart and complete the work at the earliest. However, the contractor refused to complete the work at the agreed rates. The Department then rescinded the work (January 2005) at the risk and cost of the contractor on the grounds of slow progress of work and failure of the contractor to execute the work by the extended date. The Department had paid ₹ 67.77 lakh for the work done by M/s Capital Construction upto the stage of rescinding of the work (i.e. upto 3rd RA Bill). The contractor invoked arbitration clause and raised claims against the Department. The Chief Engineer (I&FCD) appointed an Arbitrator to adjudicate the disputes/claims. The Arbitrator gave award (February 2011) holding the Department responsible for breach of contract by not handing over the site in time, stopping the work for a period of nearly five months and unjustified rescission of contract. Accordingly, the Department paid the awarded amount of ₹ 40.53 lakh in addition to ₹ 67.77 lakh already paid to the contractor.

The Department awarded the balance work to M/s Manohar Lal Gupta & Co. (P) Ltd. on 27 July 2005 at a tendered amount of ₹ 4.11 crore with stipulated date of completion 02 March 2006. The rates of items received were higher than the rates in the first contract. The work was finally completed on 11 June 2008 at a cost of ₹ 3.71 crore. It was observed that there were 11 items which were partially executed by the first contractor and the balance of these works was executed by the second contractor. The difference in the cost of work done by the second contractor as compared to the rates of the first contractor worked out to ₹ 86.48 lakh.

The Department while confirming the facts in their reply stated (January 2013) that they made all sincere efforts to get the work executed through the first agency but due to reasons beyond their control i.e. direction from the higher officers, the execution of the work had to be suspended for nearly five months. They further stated that objection of avoidable expenditure of ₹ 86.48 lakh on account of comparison of rates of 2nd agency and the 1st agency on the quantities executed by 2nd agency was not fully justified as the first agency i.e. M/s Capital Construction Company would have got additional payment on account of increase in price/wages due to statutory order(s) under clause 10C of the agreement, had the work not been rescinded. The reply of the Department was not tenable as the stipulated date of completion of the work was 19 February 2004 and had the work not been suspended by the Department on 5 February 2004, the charges of 10C (if applicable) would not have been as extensive as those paid on account of differences between the two contractors.

Thus, the inconsistency in the decision of the Government on the project led to rescission of contract resulting in avoidable extra expenditure of ₹ 86.48 lakh. It also delayed the scheduled completion of the work from February 2004 to June 2008.

3.3 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. However, Audit noticed instances where the funds released by Government for creating public assets for the benefit of the community remained unutilized/ 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 as follows.

Public Works Department

3.3.1 Unfruitful expenditure of ₹ 0.73 crore on Solar Water Heating Systems

Unfruitful expenditure of ₹ 0.73 crore deprived Dr. Baba Saheb Ambedkar Hospital of benefits of anticipated savings in energy bills even after an investment of like amount.

In pursuance to Delhi Government guidelines on mandatory installation of Solar Water Heating System (SWH System) in Hospitals and after discussion with Medical Superintendent, the Executive Engineer, Electrical Maintenance Division-352, Public Work Development (Department) prepared a preliminary estimate of ₹ 0.84 crore for supply of 27 SWH Systems to be installed in Dr. Baba Saheb Ambedkar Hospital (Hospital). Accordingly, Medical Superintendent of the Hospital issued (July 2008) an Administrative Approval and Expenditure Sanction (A/A & E/S) for ₹ 0.84 crore subject to regular submission of monthly physical and financial progress report to the Hospital by the Department till the completion of work. The terms and conditions of AA & ES also required the Department to obtain a certificate of satisfactory execution of work from the Hospital, before recording the completion certificate of the work.

After obtaining approval from the Chief Engineer- Z-III, PWD, the Executive Engineer, M-352 issued three supply orders for 26 SWH Systems for ₹ 0.75 crore to three DGS&D approved firms in July 2008. The stipulated delivery period was 45 days from the date of receipt of supply order by the suppliers.

All three agencies supplied the systems during August and November 2008 and a payment of ₹ 0.68 crore (90 per cent of supply order plus taxes) was made during September 2008 and March 2009 to suppliers in accordance with the terms and conditions of the rate contract. Audit scrutiny revealed that Junior Engineer (E), Division M-352, PWD informed (June 2009) the Hospital and the Assistant Engineer of the Division that Solar panels installed at the terrace of Hospital building had been broken and the copper parts stolen from the panels, but neither the Hospital nor PWD initiated any action in the matter. After one year, Junior Engineer again informed (June 2010) the Hospital as well as the Assistant Engineer about the theft. This time, Assistant Engineer intimated the Executive Engineer (June 2010) that the work of installation of SWH Systems had been completed except testing and commissioning to be done by the concerned agencies, but about 196 panels of systems had been damaged and copper tubes stolen. Executive Engineer further passed on the information to the Superintending Engineer (25 June 2010). Instead of taking any concrete action (i.e. lodging FIR with the Delhi

Police, ordering departmental enquiry, taking steps for making the systems functional etc.), the department wrote as a routine drill (30 July, 13 August, and 26 October 2010) to the Hospital about the theft of copper tubes from the systems.

Thus, even after a lapse of 38 months (July 2009 to August 2012), PWD neither lodged FIR with the Police nor initiated any action except preparation of estimate of ₹ 44.58 lakh, to make the systems functional. It resulted in an unfruitful expenditure of ₹ 0.73 crore (including ₹ 0.05 crore on other related works like pipe lines etc.) and the Hospital was deprived of benefits of anticipated savings in energy bills, even after an investment of like amount.

In its reply to Audit, the Hospital stated (November 2011) that the watch and ward was responsible for the systems only after these were handed over to it and as the systems were not handed over, it was not responsible for any theft/loss. PWD neither informed the Hospital about the installation of the systems, nor asked for any security for that purpose. It further added that PWD did not submit any monthly physical and financial progress report of work, which was in violation of terms and conditions of AA & ES.

On being pointed out, the Department stated that the watch and ward of the building was under the medical authorities and that area had a restricted entry and the lock and key arrangement was with security of the Hospital.

The Department's reply was not acceptable as before the theft came to their notice, PWD did not intimate the Hospital about the status of the work, though it was required to do so under the terms and conditions of AA & ES. Moreover, the systems were not handed over to the Hospital before they were stolen. As per the Hospital version, the PWD maintained the civil and electrical works of the hospital building and had its civil and electrical office within the hospital premises. PWD undertakes various civil and electrical works simultaneously, without the knowledge of hospital administration. The main access to the roof of building where the systems were installed is through the Lift Machine Room and the key of the same was with PWD staff. Therefore, security and safety of the materials during execution of work was the responsibility of PWD.