



Chapter 4

Audit of Transactions

CHAPTER-IV

Compliance Audit of Transactions

Compliance audit of the Government departments, their field formations 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

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

FOREST DEPARTMENT

4.1.1 Abnormal delay in realisation of cess led to loss of interest to the Government

Belated deposit of ₹ 34.97 crore towards forest development cess by MP Forest Produce (Trade & Development) Co-operative Federation Ltd. in violation of rules resulted in loss of interest of ₹ 4.94 crore to the Government.

Rule 29 of Madhya Pradesh Financial Code provides that it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realised and duly credited in the Consolidated Fund or the Public Account of the State Government. Further, Rule 3 of Madhya Pradesh Karadhan (Van Vikas Upkar) Rules, 1982 provides that the cess collected on sale of forest produce during the month shall be paid to the Principal Chief Conservator of Forests, Madhya Pradesh through a crossed cheque latest by the 15th of the following month along with the details of recovery.

We observed (March 2012) that there was no enabling provision in the Rules for levy of penalty for belated payment of cess. We also observed from the records of Principal Chief Conservator of Forests (PCCF), Bhopal that the amount of due in respect of Forest Development Cess (Cess) amounting to ₹ 34.97 crore for the period from 2007-08 to 2010-11 was paid belatedly by 11 to 35 months by M. P. State Minor Forest Produces (Trade & Development) Co-Operative Federation Ltd. (Federation) Bhopal in the office

of the PCCF Bhopal. This not only resulted in loss of interest to the tune of ₹ 4.94 crore, calculated based on the Bank deposit rate time to time (as shown in the **Appendix 4.1**) but also unauthorised financial aid to the Federation. Departmental Controlling Officer neither assessed the amount of cess due vis-a-vis the amount paid by Federation nor did he verify the details of cess collected by the Federation through sale of forest produce.

On the matter being pointed out (May 2012), the Government accepted (July 2012) the delay in payment of cess by the Federation to Forest Department by attributing the reason that the annual accounts of district unions were received late in the office of the Federation which, in turn, resulted in delay in computation of actual amount of cess payable to the Government.

The reply is not in consonance with the provisions of Madhya Pradesh Karadhan (Van Vikas Upkar) rules and M.P. Financial Code. It is recommended that the rules governing Forest Development Cess should be amended by incorporating penal provisions for belated transfer of cess into Government account to act as deterrence against belated remittance.

4.1.2 Loss of revenue due to sale below upset price

Khair wood was auctioned below upset price resulting in loss of revenue of ₹ 13.82 lakh.

According to Para 102(3) of the Madhya Pradesh Forest Manual, forest produce with a commercial demand shall be disposed of preferably by public auction or, in case it fails to secure a reasonable price approximating the upset price¹, by calling for sealed tenders.

Test check of records² relating to disposal of *Khair* wood in Sheopur General Division indicated (February 2011) that in four auctions held between December 2009 and April 2010, 33 lots comprising 11336 items were sold for ₹ 11.35 lakh against total upset price of ₹ 25.17 lakh. Sale below the upset price ranged from 35 to 78 *per cent* for various lots. The process of calling sealed tenders was not resorted to and the Department also did not take cognisance of the high undervalued sale resulting in loss of revenue of ₹13.82 lakh (**Appendix 4.2**)

On this being pointed out in audit, the Government stated (March 2012) that as Sheopur Division is remotely located, the number of bidders did not exceed seven and demand for *Khair* has decreased to almost zero due to sale of artificial *Kattha*. Regarding non-invitation of sealed tenders, it was stated that action was taken according to prevailing departmental orders.

¹ Upset price refers to the minimum reserve price at which forest produce may be auctioned or sold at public scale. It is fixed in April and October each year on the basis of sale price obtained in the preceding year.

² Bid sheets, results of auction, approvals and sale register, cash book etc.

The reply is not acceptable as the provision for calling sealed tenders as prescribed in Rule 102(3) of MP Forest Manual was not adopted even though the rates obtained in the auctions were below the upset price fixed by the Department. The reply also did not explain the reasons for not disposing the produce through centralized Public Auction as followed by the department for disposal of industrial bamboo.

4.1.3 Expenditure on Eco-tourism activities without approval of the Central Government

The department spent ₹ 2.17 crore on promotion of Eco-tourism in forest area in violation of Forest (Conservation) Act, 1980 and without obtaining approval from Central Government.

Forest (Conservation) Act, 1980 (Act) provides that no State Government or other authority shall make, except with the prior approval of the Central Government, any order directing use of any forest land or portion thereof for any non-forest purpose. Ministry of Environment and Forest, Government of India (MOEF), New Delhi categorically clarified (May 2010) that Eco-tourism has been regarded as a non-forestry activity and taking up of any non-forest activity, including permanent structures, amounts to violation of the provisions of the Act. Conservator of Forest (Central), MOEF, Bhopal also reiterated (September 2011) this stating that construction of approach road, *vanaspati vatika*, *udyan van chetna kendra*, log hut, cafeteria and nature trails for eco-tourism requires approval of MOEF under the Act.

We observed (January 2012) from the records of Chief Executive Officer (CEO), Eco-tourism Development Board (Board), Madhya Pradesh, Bhopal that out of 92 eco-tourism activities costing ₹ 6.39 crore, 21 activities were taken up by the Board in forest areas spending ₹ 2.17 crore through respective Divisional Forest Officers and Field Directors of National Parks between June 2005 and January 2012. The activities included construction of approach road, tree huts, platforms, nature trails, cafeteria, boating facilities, development and repair of Forest Rest Houses, etc. (as detailed in **Appendix 4.3**). Approval of Central Government was not taken before undertaking such activities, which resulted in violation of the Act.

On this being pointed out in audit (January 2012), the Government stated (December 2012) that (i) Government of India's clarification of May 2010 stipulating prior permission of Central Government in the matter of use of forest land for non-forestry activities was issued to Government of Haryana and its application cannot be generalised to other states; (ii) the works under eco-tourism activities were executed by the Board after approval by General Body comprising Honorable Minister of Forest and Additional Chief Secretary etc; the activities were in conformity with provisions of various Forest Acts and there was no violation of Forest Conservation Act; (iii) the importance of eco-tourism as an effective tool for management of forests and wildlife has been duly recognized both nationally and internationally and (iv) similar eco-tourism activities have been taken up in a big way by States like Karnataka,

Andhra Pradesh, Kerala, Uttarakhand, Chhattisgarh, Maharashtra, Assam, Sikkim etc.

The reply is not in consonance with the Act and clarification (May 2010 and September 2011) of MOEF. The clarification issued by MOEF to Haryana Government was an interpretation of Forest Conservation Act and those clarifications are equally applicable to all the states throughout India. Further, similar clarification was also issued by the Conservator of Forest (Central), MOEF to the State Forest Department stipulating prior permission from the Central Government before undertaking any eco-tourism activities. The clarification also elaborated the nature of activities constituting violation of Forest Conservation Act and the eco-tourism activities noticed in audit were violative of provisions of Forest Conservation Act.

4.1.4 Irregular parking of funds

Amounts allocated for Joint Forest Management Committee in the budget were drawn and kept in bank accounts instead of in Personal Deposit Account in violation of MP Financial Code.

As part of benefit sharing, the Government of Madhya Pradesh Forest Department decided (February 2005) to spend 10 and 20 *per cent* of the net profit earned from production of timber and bamboo, respectively, for Joint Forest Management Committee³. Net profit for the purpose was to be calculated by deducting the prescribed expenditure from sale proceeds of timber and bamboo. The scheme provided that 80 *per cent* of the aforesaid 10 and 20 *per cent* of the net profit was to be disbursed directly to the Joint Forest Management Committees (JFMC) and the remaining 20 *per cent* was to be spent on training, creation of awareness and development of accommodation facilities etc of the JFMC members. The amount payable to the JFMCs towards benefits sharing was to be provided in the annual budget allocation of the department. According to Rule 6 of the Madhya Pradesh Financial Code (MPFC), moneys should not be withdrawn from the Consolidated Fund and Public account for investment of deposit elsewhere without the consent of the Finance Department.

During scrutiny of records of Additional Principal Chief Conservator of Forests (Development) Bhopal (APCCF), we observed (February 2012) that during the period between 2007-08 and 2011-12, ₹ 39.15 crore was provided in the budget as the allocable share of 20 *per cent* to be spent on training, creation of awareness etc. The department drew these amounts and kept in the bank account opened in the name of Chief Executive Officer, Forest Development Agency, Bhopal. Subsequently, the balances lying in this account were transferred in August 2011 and kept in another bank account in

³ As per Government (Forest Department) Gazette Notification dated 22 October 2001. Forest Committees are to be constituted which comprises of dwellers in the forest area (range) and functions akin to Gram Sabha of Panchayat Raj Institution.

Central Bank of India, Bhopal in the name of APCCF (JFM) without the consent of the Finance Department. Out of this, the department spent ₹ 20.08 crore on activities prescribed under the scheme during the period between 2007-08 and 2011-12. The amount of unspent balance parked in bank account was ₹ 19.07 crore as of March 2012. Drawal of funds and keeping it outside the Government Account is not only irregular but also undermines the budgetary control mechanism of the Government. The Principal Secretary, Finance Department had also instructed (February 2009) all officers to close such bank accounts and transfer the money to Government account in the respective treasuries.

On this being pointed out in audit (February 2012) the Government stated (May and August 2012) that decisions were taken by the Committee from time to time under Rule 4 of MP Development Fund Utilisation Rules, 2006 to utilise the amount and that the human resource development was a continuous process and cannot be bound under the limit of a financial year. The reply is not acceptable as rules did not provide for drawing the funds allotted through budget to be deposited in bank accounts. Further, the Government order dated 28 January 2012 categorically clarified that separate development fund should be created for the purpose of providing training; awareness etc. and the amount pertaining to this activity should be operated through a personal deposit account. Operating the funds through bank accounts outside the Government Accounts thus violated the provisions of financial codes and directions (February 2009) of Finance Department.

4.1.5 Irregular payment for purchase of wireless sets

Amount of ₹ 1.32 crore was paid to DGS&D for procurement of wireless sets and peripherals without obtaining license under Indian Telegraph Act, 1885 and returned amount was kept in Personal Deposit Account of DFO instead of remitting to the Government account.

According to section 4 (i) of Indian Telegraph Act, 1885, the Central Government shall have exclusive privilege of establishing, maintaining and working telegraphs, provided that the Central Government may grant a license, on such conditions and in consideration of such payments as it thinks fit, to any person to establish, maintain or work a telegraph within any part of India.

We observed from the records in office of the Principal Chief Conservator of Forest, Madhya Pradesh (PCCF) that without having license for its establishment and maintenance an amount of ₹ 1.37 crore was paid (March 2010) as advance to Director General of Supplies and Disposal, New Delhi (DGS&D) for supply of Wireless sets and peripherals through M/s Motorola India Private Limited. M/s Motorola supplied peripherals amounting to ₹ 6.09

lakh between March 2010 and August 2011. In September 2010, DGS&D intimated the department that the wireless sets cannot be supplied unless the department obtains the operating license from the Telecommunication Department of Government of India. As the department could not provide the license to DGS&D till March 2012, DGS&D returned the unspent amount of ₹ 1.32 crore to the State Forest Department in March 2012. Instead of remitting the refund amount into Government account, the PCCF irregularly sent the bank draft to Divisional Forest Officer (DFO), Vidisha for crediting the amount in his Personal Deposit Account without seeking the requisite sanction of Finance Department. In violation of Rule 6 of the Madhya Pradesh Financial Code (MPFC), which provided that money should not be withdrawn from the Consolidated Fund and Public account for investment of deposit elsewhere without the consent of the Finance Department.

On this being pointed out in audit (March 2012), the Government, inter alia, stated that at the time of placing in the orders necessity of a license was not intimated and as DGS&D was a Government institution advance was paid according to the conditions of supply.

The reply is not acceptable as the department should have been aware of the legal requirement to establish and operate telegraph lines. Besides, parking of funds allotted through the annual budget in Personal Deposit account was in violation of Rule 6 of Financial code and instruction dated 10th February 2009 issued by Finance Department.

NARMADA VALLEY DEVELOPMENT DEPARTMENT

4.1.6 Loss due to non-reduction of value of turn-key contract on substitution of a component

The component of open trough costing ₹ 48.32 crore was deleted from the scope of an on-going composite contract. After absorbing an amount of ₹ 21.15 crore in substituted items of work, the resultant cost saving of ₹ 27.17 crore was also paid by increasing the rates of other items in the work instead of reducing the over all contract price.

The Narmada Valley Development Authority (NVDA) awarded (March 2008) the work of 'Execution of Canal system of Indira Sagar Main Canal from RD 130.935 km to 155 km including distribution network' on a 'turnkey' contract of ₹ 242.55 crore to a joint venture formed by two constructing firms (Contractor). The work was scheduled for completion in 36 months i.e. by March 2011. The contractor started the work in March 2008 and completed only 73 *per cent* work in 48 months as of March 2012. A cumulative payment of ₹ 199.77 crore has been made to the contractor as of March 2012

The contract schedule divided the entire work in to four major components viz

⁴ Running Distance

(i) Complete work of Main Canal	-	₹ 100.73 crore
(ii) Construction of Satak Aqueduct	-	₹ 62.87 crore
(iii) Construction of open trough	-	₹ 48.32 crore
(iv) Construction of distribution network system (disnet)	-	₹ 30.63 crore.

During the course of execution, the entire component of open trough (990 m), was deleted (March 2009) from the scope of work by the Chief Engineer and the length of Satak Aqueduct and main canal was increased by 273 m and 717 m respectively.

We observed that due to change in the scope of work there was net reduction in the cost of work by ₹ 27.17 crore (as detailed in **Appendix 4.4**). The Authority, instead of reducing the contract price, unauthorisedly increased (March 2009) the agreed rate for different sub components of Canal work. Thus, by not reducing the overall value of the turn-key contract, the Government was put to loss of ₹ 27.17 crore resulting in undue financial benefit to the contractor.

We further observed that before deciding on the deletion of work, an expenditure of ₹ 96.63 lakh was already incurred on the work of open trough. As this work stands abandoned due to change in scope of work, the entire expenditure of ₹ 96.63 lakh has been rendered unfruitful.

On this being pointed out in audit (November 2011), the Executive Engineer, Narmada Development Canal Division, Khargone stated (November 2011) that the Project Co-ordination Committee approved the proposal while revising payment schedule. He also stated that the overall value of work was limited to the value of the contract.

The reply is not acceptable because: (i) The turn-key contract was approved by the Government and deletion of distinct component costing ₹ 48.32 crore from scope of work by the Chief Engineer after award of work was improper as it vitiated the entire tendering and contract processes, (ii) As there was a change in scope leading to an overall cost reduction, passing on the benefit of reduction in cost to the contractor by increasing the rates of individual items in other components of work resulted in loss to the government.

4.1.7 Short recovery on excavated hard rock

Recovery of ₹ 1.05 crore was not made for the excavated hard rock required in four canal construction works.

Narmada Valley Development Authority follows the Unified Schedule of Rates issued by Water Resources Department for preparation of estimates and execution of work. Further, according to provisions of Unified Schedule of

Rates, quantity of utilisable hard rock is required to be recorded in material at site (MAS) by multiplying the quantity with 1.3 times.

According to General terms and conditions governing contracts, the material obtained from excavation work was to be used in the work and recovery for such material used in the work shall be made in accordance with the issue rate mentioned in the contract document.

We noticed (November 2011 to December 2011) in four contracts of canal work under two divisions⁵, that the terms and conditions of the contracts for execution provides for recovery at the rate of ₹ 27 per cu m to ₹ 41 per cu m for usable hard rock available from excavation work.

We further noticed that 6,67,427 cu m of hard rock was available from excavation against which, the hard rock required for the four works worked out to be 2,98,917.75 cu m. Thus the entire hard rock requirement could have been met by the contractors from the excavated hard rock, and recovery was to be made at the issue rates determined in the contracts. Recovery for only 14,467.87 cu m quantity of hard rock however effected from the contractors. This resulted in short recovery of ₹ 1.05 crore from the contractors as detailed in **Appendix 4.5**.

The Executive Engineer ND 21 Sanawad stated (November 2011) that recovery was effected only for 14,467.87 cu m hard rock as remaining metal was brought by the contractor from another quarry.

The Executive Engineer ND 24 Khargone stated (December 2011) that amount will be deducted from the contractors running bill.

The reply of the Executive Engineer, Sanawad is not acceptable as the contractor was required to utilise the available hard rock in terms of the contract. As hard rock required in the work was available from excavation, the divisions should have insisted on using the excavated hard rock and the recovery should have been made at the issue rate prescribed in the contract.

Matter was reported to the Government in August 2012; their reply has not been received (March 2013).

4.2 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

⁵ Narmada Development (ND) 24 Khargone, ND 21 Sanawad.

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 instances of impropriety, extra and infructuous expenditure, some of which are mentioned below:

NARMADA VALLEY DEVELOPMENT DEPARTMENT

4.2.1 Inadmissible payment of incentive

A contractor showing skewed progress of work was sanctioned cash incentive of ₹ 11.68 crore (paid ₹ 5.84 crore) for early achievement of financial milestones despite failure to achieve the specified physical milestones and continued delayed execution.

The Narmada Valley Development Authority (NVDA) awarded (September 2008) the work of Execution of Puna sa Lift Irrigation Scheme including distribution network by pipelines down to 40 hectare *chak*⁶ for irrigation of culturable command area of about 35,008 hectares on a turnkey contract of ₹ 418.50 crore to a contractor . The contract involved 12 distinct items of work and was scheduled for completion in 36 months i.e. by September 2011. Even after expiry of 45 months, the work is still in progress (June 2012). A cumulative payment of ₹ 417.86 crore has been made to the contractor as of September 2012.

According to Clause 71 of the contract conditions, the progress was to be monitored every six months and in the event of achieving early targets during the six months slab, the contractor shall be entitled to get incentive at the rate of 0.2 *per cent* per week during the six month slab. Fifty *per cent* of such incentive was to be released through intermediate payments and balance 50 *per cent* was to be paid at the end of completion of the entire work

The contractor was paid ₹ 234.92 crore for the work done during the first three six monthly periods ending February 2010. He was also additionally sanctioned (March 2010), cash incentive of ₹ 11.68 crore by the Superintending Engineer (SE), Narmada Development Circle, No.8, Sanawad,

⁶ Chak means the size of farm (directly related to intensity of delivery of irrigation water) that can achieve irrigation efficiently entailing minimum wastage of water in lateral or vertical direction

as detailed in the table below:

Table 4.1: Incentive paid to contractor

S.No	Six monthly periods	Targets in terms of Money Value (₹ in lakh)	Achievement (₹ in lakh)	Incentive Sanctioned (₹ in lakh)
1.	September 2008 to February 2009	600	1,625.18	74.76
2.	March 2009 to August 2009	2,400	11,327.84	566.39
3.	September 2009 to February 2010	7,000	10,538.83	526.94
	Total		23,491.85	1,168.09 ⁷

We observed (November 2011) that although the contract conditions categorically specified simultaneous execution of different items of work (12 items) given in the work programme for determining the milestone achieved, the contractor neglected execution of the works as specified in the work programme during the first two six monthly periods and focussed on procurement and supplies. Against the financial target of ₹ 30 crore specified in the work programme for execution of 10 out of 12 items in the first and second six monthly periods ending August 2009, the entire amount of ₹ 129.53 crore paid to the contractor was towards procurement made. In the third six monthly period also against the financial target of ₹ 70 crore, an amount of ₹ 84.21 crore was paid to the contractor against fabrication /procurement of material and only ₹ 21.17 crore was paid against execution of two items of works against the specified 10 items as detailed in **Appendix 4.6**. The expenditure pattern against the specified milestones for all the three six monthly periods (September 2008 to February 2010) was, therefore, skewed. Since the execution failed to demonstrate achievement of the specific milestones prescribed in the work schedule, the contractor was not eligible for any incentive in terms of the contract conditions. The sanction of incentive of ₹ 11.68 crore and payment there against of ₹ 5.84 crore was inadmissible and recoverable from the contractor.

On this being pointed out in audit, the Executive Engineer (EE), Narmada Development Division No. 25, Narmada Nagar replied (November-2011) that the delay in achieving the targets was mainly due to land acquisition problems. He also stated that the payment of incentive is directly linked to achievement of financial targets. He further added that the clause enabling payment of incentive did not stipulate any linkage between financial progress and milestones mentioned in the agreement. It was further stated that since the financial targets were achieved early against the work programme submitted by the contractor, the incentive was paid.

The reply is not acceptable because: (i) the contractor was adequately compensated by way of price escalation (₹ 6.24 crore as of September 2012

⁷ ₹ 5.84 crore was paid in March 2010 and the balance 50 per cent was withheld as cash deposit for eventual release after completion of work

over and above the contract price) for the delay in land acquisition. (ii) achievement of early targets vis-à-vis the achievement of milestones for each item specified in the work programme in each six monthly periods was a pre-condition for grant of incentive as per conditions of contract (iii) the EE in his letter (8, October 2010) to the contractor had also observed that the work done by the contractor was procurement oriented and directed him to follow the proper work sequence and boost up the progress of work, and (iv) the succeeding SE also questioned (November 2010) the justification for the grant of incentive. Thus, grant of incentive was unjustified.

4.2.2 Excess payment on account of price adjustment

Excess payment of ₹ 85.59 lakh was made to a contractor towards price adjustment due to adoption of incorrect ratio of Petrol Oil Lubricant and Material component.

The work of construction of Canal system of Indira Sagar Project (ISP) main canal from RD 206 km to 243.896 km was awarded by the ND division 11, Barwani to M/s Somdutt Builder New Delhi in June 2009 at an estimated cost of ₹ 243 crore with scheduled completion period of 48 months from the date of issue of work order.

As per clause 31.1 of the agreement entered into with the contractor, payments were to be made to the contractor according to quarterly increase or decrease in the cost of steel, material, labour and Petrol Oil Lubricants (POL). For calculation of price variation of POL and material (other than steel, cement), percentage of POL and material component was fixed 15 *per cent* and 29 *per cent* of the work respectively considering the quantum of each component with reference to the overall cost of the work. In terms of the contract, the percentage of different components for the purpose of payment of price adjustment would remain unchanged during the currency of the contract. Any change in the percentage of the components would have an impact on the quantum of price adjustment payable to the contractor.

We noticed (February 2012) in the execution of the work that the division adopted 30 *per cent* for both POL and material components as against the percentage of 15 and 29 determined in the contract. This resulted in excess payment of ₹ 85.59 lakh to the contractor towards price adjustment during the period January 2011 to December 2011.

The divisional officer stated (February 2012) in reply that recovery of excess payment would be made from the contractor.

The matter was reported to the Government (August 2012), their reply has not been received (March 2013).

PUBLIC WORKS DEPARTMENT

4.2.3 Wasteful expenditure due to defective planning

Delay in sanction and execution of a 35 kilometer road under Twelfth Finance Commission grants resulted in abandoning the work mid way due to expiry of scheme period and stoppage of funds, and consequential wasteful expenditure of ₹ 4.94 crore.

As per the guidelines of Twelfth Finance Commission for release of Grants-in-aid for maintenance of roads and bridges issued (May 2005) by the Government of India (GOI), the State Government was required to prepare the project reports by duly ensuring that the work sanctioned could be completed within the stipulated period by utilising the grant in full. The guidelines also provided that the grant will be paid in equal installments for the last four years of the forecast period (2006-10) so that the State gets the first year for making preparations to absorb these funds.

Administrative Approval of ₹ 16.57 crore for renewal of bituminous topped Banda-Baraytha-Girar road (length 35 km) was accorded (30 September 2008) by the State Government for execution under Twelfth Finance Commission (TFC) grants. The TFC grants were admissible only for works executed up to March 2010 and no further funds were admissible after 31 March 2010. Since only 18 months were left for closure of TFC grants, looking to the magnitude of work, it was imperative on the part of the Department to complete the tender approval and tendering processes promptly.

We observed (April 2012) that the draft tender documents submitted by the Chief Engineer, (CE) Public Works Department (PWD), Sagar for approval in May 2009 was found deficient by the Engineer-in-Chief (E-in-C). The documents were, therefore, returned (May 2009) by the E-in-C to the CE for immediate rectification. After rectification, the documents were re-submitted by the CE in June 2009. After completing the tendering process, the work with a probable amount of contract of ₹ 17.53 crore was awarded (October 2009) to a contractor at 13.50 *per cent* below Schedule of Rates (SOR). We further noticed that although the funds under TFC were available only up to 31 March 2010, the work order specified a completion period of 17 months i.e up to April 2011. The contractor executed work costing ₹ 4.94 crore up to March 2010 by uprooting the existing bituminous surface and abandoned the work in semi-finished granular stage, as funds for the work were stopped after 31 March 2010. Neither was the specified bituminous topping executed nor was the semi-finished surface covered by any appropriate protective layer. As such, the work has been rendered vulnerable to rapid deterioration.

Thus, the unplanned and belated execution of the TFC work, compounded with avoidable delays in preliminary processes, rendered the expenditure of ₹ 4.94 crore substantially wasteful.

On being pointed out in audit (April 2012), the EE admitted the facts and stated that the work was to be completed by the end of March 2010 but could

not be completed due to unavoidable delay in fixing contract agency as well as calling of tender in a single group instead of splitting the work in more than one groups.

The matter was referred to the Government (June 2012); their reply has not been received.

WATER RESOURCES DEPARTMENT

4.2.4 Irregular execution of irrigation schemes having common command area

The total command area of 1628 hectares of Rajapur Lift Irrigation Scheme in Rewa district, taken up in 2007, overlapped with the command area of another major Lift Irrigation Scheme at Teonthar resulting in unproductive expenditure of ₹ 1.63 crore.

The Bansagar multipurpose project on the river Sone is an inter-state project of Madhya Pradesh (MP), Uttar Pradesh (UP) and Bihar. The project, inter alia, envisages construction of the Teonthar Lift Irrigation Scheme (LIS), comprising 36 km canal with structures and allied electro-mechanical equipments, for creation of irrigation potential of 11,330 hectares. The Detailed Project Report (DPR) for the Teonthar LIS was submitted to the Central Water Commission for approval in October 2007. The Government permitted (February 2008) the Department to start the work of Teonthar LIS at an estimated cost of ₹ 96.36 crore (as revised in December 2009). The Department started the work in August 2008.

We noticed that the Government of Madhya Pradesh had accorded (November 1984) Administrative Approval (AA) for construction of another LIS (Rajapur LIS project) at a cost of ₹ 41.97 lakh for irrigation of 1628 hectare area, which was fully covered in the projected command area⁸ of 11,330 hectares of Teonthar LIS. Due to non-allotment of funds, the work of Rajapur LIS was not taken up until 2007, when the Chief Engineer, Ganga Basin, Rewa accorded technical sanction for ₹ 40.58⁹ lakh in July 2007 for the head work of Rajapur LIS. The work was awarded to contractors from November 2007 through three agreements at a total contract value of ₹ 1.77 crore. As the end of March 2012, work valued at ₹ 1.63 crore had been completed against which payment of ₹ 71 lakh had been released.

As the DPR of Teonthar LIS was submitted for approval before the work of Rajapur LIS was awarded in November 2007, the entire expenditure of ₹ 1.63

⁸ Rajapur, Bhagwanpur, Chunri, Sohagi, Sahijwar, Pancha, Antsuiya, Khatia and Belloha village.

⁹ A proposal for according revised AA for ₹ 5.62 crore for Rajapur LIS have been submitted in (October 2010) to the Government. Revised AA was awaited (June 2012).

crore¹⁰ thereon could have been avoided. It was also indicative of non coordination amongst different Divisions within the administrative control of the Chief Engineer of Water Resources Department and absence of a control mechanism to identify schemes having overlapping command area.

The matter was referred to the Chief Engineer, Ganga Basin, Rewa and Government (July 2012). The Chief Engineer, Ganga Basin Rewa, admitted (August 2012) the audit observation and stated that the command area of Rajapur LIS is entirely covered under Teonthar LIS and will be no more in use. He also stated that the cost of abandoned works would be required to be written off.

The Government reply has not been received so far (March 2013).

4.3 Persistence 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 reoccurrence 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 weakness of the administrative structure. Cases of persistence irregularity reported in audit are discussed below:

NARMADA VALLEY DEVELOPMENT DEPARTMENT

4.3.1 Non deduction of additional security deposit

Additional Security Deposit of ₹ 3.56 crore were not deducted from contractors against the unbalance rates.

Clause 3.26 of item rate contract agreement provides that in case the approving authority considers that quoted rates for some items are disproportionately high or the tender is unbalanced, he will have the power to limit the payment of such items to the estimated rate of that item plus or minus over all percentage above/below of the tender, as the case may be. The payment not released shall be retained by the Engineer-in-charge as additional security deposit, which shall be released only after completion of entire work.

We noticed (June 2011 and December 2011) in two divisions that the divisional officers short deducted the Additional Security Deposits (ASD) by ₹ 3.56 crore (**Appendix 4.7**) against the items where disproportionately higher rates than the estimated rates were quoted by the contractors. As contractors were not executing the remaining items of works after release of payment for items which were unbalanced, the progress of works were hampered. The works have already been delayed by 21 months to 28 months from scheduled date of completion (December 2012).

¹⁰ ₹ 71.38 lakh already paid *plus* ₹ 91.69 lakh outstanding liability.

¹¹ ND24 Khargone and ND 19 Bhikangaon

The Executive Engineer ND division 24, Khargaon, accepted (December 2011) the fact and assured to recover the amount after due calculation. The Executive Engineer ND division 19, Bhikangaon, stated (June 2011) that the ASD was not recovered as the contractor had simultaneously executed the items of higher rate and lower rate. The reply of Executive Engineer, Bhikangaon does not address the issue of non-recovery of ASD as stipulated in Clause 3.26 of the contract Agreement.

The matter was reported to the Government (August 2012), their reply has not been received (March 2013).

4.3.2 Modification in price escalation clause entailing excess payment to contractor

Extra payment of ₹ 9.33 crore on account of price escalation was made to contractors by adopting revised factor for price escalation prior to approval of the Government.

As per the standard terms and conditions of the contract, whole-sale price index published by the Government of India, Ministry of Industry, office of the Economic Advisor would be the basis for computation of price escalation for various commodities like cement steel and other material. According to the Rule 21 of Madhya Pradesh Financial Code Volume I, Chapter 2, Section IV any change in any clause of Standard Bidding Document (SBD) required prior approval from Law and Finance Department.

We noticed (November 2011 to May 2012) in three contracts under Narmada Valley Development Authority that the terms and conditions in the SBD provided for payment of escalation on the basis of a formula¹² by applying a multiplying factor of 0.75. The department on the demand of the contractors, proposed change in the multiplying factor to 0.85 and sent a proposal to the Finance Department for which approval was accorded in October 2008. In the meanwhile, the department invited tenders in January 2008 adopting the multiplying factor as 0.85. As change in the SBD required prior approval of Finance Department, entering into contracts with multiplying factor of 0.85 for calculation of price escalation before its approval amounted to violation of Rule 21 of MP Financial Code and resulted in excess payment of ₹ 9.33 crore¹³.

The matter was reported to the Government (August 2012); their reply has not been received (March 2013).

¹²

Provision according to SBD	Modified Clause
$V = 0.75 * P_s * R * (X - X_0) / X_0$	$V = 0.85 * P_s * R * (X - X_0) / X_0$

Where Ps = percentage of component i.e. Labour, POL, Material, Cement, Steel
 R = Value of work done during respective quarter
 V = increase or decrease in the cost of work due to material, POL, cement
 X = Average price index of all commodities for respective three months
 X₀ = Base index of all commodities at the time of opening of tender.

¹³ Agreement No. 16/07-08: ₹ 1.73 crore, Agreement No. 07/07-08: ₹ 3.66 crore and Agreement No. 14/07-08: ₹ 3.94 crore.

4.4 Failure of oversight/governance

The Government has an obligation to improve the quality of life of the people through fulfillment of certain goals in the area of health, education, development and upgradation of infrastructure and public service. However, Audit scrutiny revealed instances where in the funds released by the 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:

WATER RESOURCES DEPARTMENT

Long Para on Contract Management issue in units of Chambal Betwa Basin

The Chambal Betwa (CB) Basin is one of the biggest river basins of the State of Madhya Pradesh. Irrigation in the command area of the CB Basin is managed by the Water Resources Department through 11 divisions¹⁴. The contract management in seven out of the 11 divisions of the CB basin was reviewed in Audit between November 2011 and April 2012. Audit examined 61 agreements, in the seven divisions¹⁵ and the deficiencies noticed in Audit resulting in undue financial aid to contractors for unbalanced rates, non/short recovery of liquidated damages, excess payment of price adjustment, non-execution of works as per specifications and extra cost due to inadequate survey are discussed in detail in succeeding paragraphs.

4.4.1 Undue financial aid to contractors for unbalance rate items

Undue financial aid to contractors of ₹ 8.48 crore and loss to Government of ₹ 43.92 lakh occurred due to non-deduction of additional security deposit for unbalanced rate items.

According to Clause 3.28 of agreement, in the case of unbalanced rate items¹⁶ the amount for which the contractor had quoted higher rate as compared to the estimated rate of item plus or minus overall tendered percentage, was required to be withheld from the bills of contractors, as additional security deposit. In the event of default in execution of work, the additional security deposit so deducted shall be forfeited to the Government.

¹⁴ Ashok Nagar, Bhopal, Guna, Narsinghgarh, Raghogarh, Raisen, Rajgarh, Samrat Ashok Sagar (SAS) Vidisha, Sanjay Sagar (Bah) Project Ganjbasoda. Sehore, and Vidisha.

¹⁵ Bhopal, Narsinghgarh, Raisen, Rajgarh, Samrat Ashok Sagar (SAS) Vidisha, Sanjay Sagar (Bah) Project Ganjbasoda and Sehore,

¹⁶ Unbalanced rate item- Items for which the contractor had quoted higher rates as compared to the estimated rate plus or minus overall tender percentage.

We noticed (February 2012 to April 2012) in three divisions¹⁷ (seven works), that additional security deposit of ₹ 9.58 crore arising due to unbalanced rates was required to be deducted from running bills of contractors against which only ₹ 0.66 crore was deducted in five on-going works, resulted in undue financial aid of ₹ 8.48 crore. In respect of two other works, the contractors left the work incomplete resulting in loss of ₹ 43.92 lakh on account of non-recovery of additional security deposit from them as detailed in **Appendix 4.8**.

The Principal Secretary stated (July 2012) that system of contracting had since been modified to percentage above or below the overall estimated contract value instead of item rates contract to avoid recurrence of such situation.

The fact remains that in these cases the recovery of additional security deposit was not made resulting in undue financial aid to the contractors of ₹ 8.48 crore and loss of ₹ 43.92 lakh to Government.

4.4.2 Non/short recovery of liquidated damages

Loss to Government ₹ 1.68 crore occurred due to non-recovery of liquidated damages for delay on the part of contractors in execution of seven works.

Clause 49.1 of the agreement provides that in the event of failure to achieve specified progress, the contractor would be liable to pay liquidated damages to the employer. The maximum amount of liquidated damages (LD) is 10 per cent of the contract amount.

We noticed (December 2011 to April 2012) in four divisions (seven works), the contractors failed to achieve the specified progress as given in the contracts. Therefore, the contractors were liable to pay liquidated damages of ₹ 2.46 crore but only ₹ 78 lakh was recovered from the contractors bills on account of liquidated damages. This resulted in loss to Government ₹ 1.68 crore as detailed in **Appendix 4.9**.

The Principal Secretary stated (July 2012) that liquidated damages would be recovered at the time of completion of works and the amount of liquidated damages was secured because of security/performance guarantee available with the department.

The reply is not convincing as the terms of agreement provided for recovery of liquidated damages on non-achievement of each milestones defined in the agreements. Security/performance guarantee were obtained to secure against damage to and bad performance of the work and appropriation of this amount against liquidated damages was therefore necessary.

4.4.3 Irregular payment of price adjustment for steel

Excess payment was made to contractor ₹ 81.71 lakh due to adoption of higher rates for steel in calculating price adjustment and payment for work not done.

¹⁷ Narsingharh, Raisen, Sanjay Sagar (Bah) Project, Ganjbasoda,

The Divisional Officer, Narsinghgarh awarded (March 2005) the work of supply of radial crest gate including stop log and lifting beam and gantry crane with design, fabrication and erection for Koshalpura tank to Anil Steel, Indore through Madhya Pradesh Laghu Udyog Nigam (MPLUN). The work order was issued to the supplier on 24 March 2005 with stipulated period of completion as 15 months. According to special terms and conditions of the agreement, 85 *per cent* of the payments shall be released after supply of material. The remaining 15 *per cent* shall be released in two installments; first 10 *per cent* after satisfactory erection and second five *per cent* after successful commissioning, testing and trial by the consignee. Price adjustment was payable to the contractor according to the terms of the agreement. Clause 2.40.1 of the agreement provided that rate quoted by the contractor would be based on stock yard prices and if the stockyard prices of the steel were increased by Steel Authority of India Limited (SAIL) subsequently and the contractor procured steel at such increased prices from SAIL or any authority, then the difference shall be reimbursed to the contractor.

The Division paid price adjustment of ₹ 5.48 crore on steel supplied calculated on the basis of difference between the rates of SAIL as prevailing on the date of inviting tenders by MPLUN (July 2004) and the rate on the date of actual supply during March 2005 and December 2011.

We noticed (February 2012) that the rates of steel on the dates of supplies considered for payment were higher than the actual rates of SAIL steel on those dates. Thus, computation of price adjustment by taking into account incorrect (higher) rate for steel resulted in excess payment of ₹ 15.10 lakh.

We further noticed that the division paid price adjustment on erection and commissioning for ₹ 66.16 lakh also although this work had not been done by the contractor. This resulted in total excess payment of ₹ 81.71 lakh vide details given in **Appendix 4.10**.

The Principal Secretary stated (July 2012) that price variation paid in excess would be recovered and directed his officers to examine other cases of payment of price variation. Recovery of excess payment has not been intimated to us (March 2013).

4.4.4 Poor planning resulting in idle expenditure

Deficient planning and non-synchronisation of nalla closure with waste weir construction led to idle expenditure of ₹ 1.53 crore.

Para 7.016 of Madhya Pradesh Works Department (MPWD) manual provides that before taking up the nalla closure¹⁸ work, construction of surplussing arrangements (Waste Weir¹⁹), completion of other portions of dam/saddle dam in all respect, cut-off-trench in nalla bed²⁰, should be completed. In Rajgarh

¹⁸ Nalla closure refers to construction in a portion of dam with a view to stop flow of water in river/ nalla for storing water in upstream of the dam.

¹⁹ Waste weir is constructed to allow discharge of excess water after water level in the dam reached full reservoir level.

²⁰ Cut off trench be provided to minimise seepage losses both below and above nalla bed.

division, we noticed (February 2012) that the nalla closure of Chountra Tank was done (June 2010) before the construction of Waste Weir. As a consequence, the flood water spread in the villages during the monsoon 2011 and the dam had to be cut in 80 metre length on the left side in emergency to save the inhabitants of nearby areas and also to save the dam. Although the canal of the said dam was completed (February 2011), non-reconstruction of cut portion of dam as well as non-completion of Waste Weir before rainy season (2012) resulted in idle expenditure of ₹ 1.53 crore.

The Divisional Officer stated (February 2012) that when the nalla closure was done (June 2010), there was sufficient time for excavation since it was not expected that the strata would vary as much and the quantity of hard rock excavation will increase. The reply is not acceptable. The Manual prescribed that the Waste Weir construction should be completed before taking up nalla closure, which was not followed.

4.4.5 Non-execution of works according to specifications

Earth work was done without watering and rolling resulted in substandard work costing ₹ 49.59 lakh.

According to para 2.028 of MPWD Manual, an officer according technical sanction to an estimate is responsible for soundness of design and for incorporating all the items required for conclusion in the estimate with reference to the drawings. Para 4.9.9 (section-II, volume-I) of specifications for irrigation projects (of the Unified Schedule of Rates for works) provides that in the earth fill embankment watered, rolled and compacted at optimum moisture content and at dry density, settlement allowance of one *per cent* and two *per cent* of designed height for unyielding (rock) and compressible (soil) foundations, respectively shall be deducted from the executed quantity and also provides that if the item of earthwork is neither rolled nor watered, deduction of 25 *per cent* is to be made from the executed quantity of earthwork. Irrigation Specifications provides that the earthwork on bund includes the laying of earth in 15 centimeter layer, watering and compaction of earthwork at optimum moisture content to achieve maximum dry density.

In Water Resources Division, Narsinghgarh, the work of Restructuring and Modernisation of Shamsheerpur Tank under MPWSRP was awarded to contractor in December 2010 scheduled to be completed by December 2011. The work was still in progress and an amount of ₹ 1.74 crore had been paid to the contractor through RA bills till November 2011. The agreement provides that item earthwork for canal in 161436.65 cu m and item for canal lining in 1076.59 cu m. The executed work included execution of earthwork for 159441.85 cu m and execution of lining of 810.65 cu m at a cost of ₹ 68.99 lakh and ₹ 36.48 lakh respectively.

We noticed (March 2012) that the earthwork (filling quantity) of 134024.59 cu m quantity was executed for which payment was made after deduction of 25 *per cent* shrinkage allowance. This indicates that earthwork was done without rolling and watering, which is an essential part of the complete earthwork.

Thus, the execution of earthwork valuing ₹ 49.59 lakh²¹ was below specification which may result in rapid depletion of water due to seepage. Besides, possibility of premature deterioration of canal lining cannot be ruled out.

The Principal Secretary stated (July 2012) that the height of canals was less than three metre or it was unlined canal and therefore, watering and compaction was not necessary. The Principal Secretary further assured that for future works, the specification would be changed to provide for watering and compaction in earthwork of all canals.

The reply is not acceptable as work is related to a lined canal hence watering and compaction of the earth work was essential components of earth work.

4.4.6 Extra cost due to inadequate survey and estimation

Increase in quantities of item of work due to improper survey and estimation resulted in extra cost of ₹ 57.55 lakh.

According to Para 2.028 of the Madhya Pradesh Works Department (MPWD) Manual, estimate of the works should be prepared realistically after conducting judicious field investigation and survey to avoid any undue variation in the quantities at the stage of execution.

We noticed (December 2011 to February 2012) in Sehore and Rajgarh divisions that actual quantity of excavation in all strata of rock other than hard rock in Titoriya tank (Sehore) and actual quantity of excavation of hard rock in Chountra tank (Rajgarh) was found to be abnormally higher than the estimated quantities as detailed in **Appendix 4.11**. The divisional officer, Sehore invited fresh tender for additional quantities and the divisional officer, Rajgarh executed the additional quantity by Heavy Earth Mover (HEM) division of the department after refusal by the contractor to execute the additional quantity. Thus, inadequate survey and estimation resulted in extra burden of ₹ 57.55 lakh²² to the Government due to higher rate of the item for balance quantity of the works.

The Divisional Officer, Sehore stated (December 2011) that excavation in quantity of hard rock increased by nearly 10,000 cu m and therefore, the contractor refused to execute the work beyond the agreement quantity. The Divisional Officer, Rajgarh stated (February 2012) that the quantity was estimated as per excavated trial pits but the strata of excavation did not follow the expected result of trial pits. It was further stated that abnormal increase in quantity might be due to variation of strata and improper site selection of trial

²¹ Narsinghar division (Ag No.6/10-11) 134024.59 cu m at the rate ₹ 37.00 per cu m.
²² Sehore Division-Agreement No 172/2007-08 ₹ 13.19 lakh (Qty 10608 cu m at the rate ₹ 205.80 ₹ 81.46 (Estimated rate ₹.79.47/cu m +1.86 tender *per cent*), Rajgarh Division- Agreement No 11/2008-09 ₹ 44.36 lakh [31000 cu m at the rate ₹ 143.10 [Rate levied by HEM ₹ 307.74 per cu m -₹ 164.64 per cu m {Estimated rate ₹196 per cu m 16 *per cent* (Tender percentage)}]

pits. The Principal Secretary stated (July 2012) that cumulative quantity of excavation for different kinds of strata did not change for the work.

The replies of Divisional Officers are not acceptable as the reply confirms the fact that there were inadequacies in selection of site for survey, which resulted in abnormal increase in quantities. The improper survey had a consequential impact in foreclosure of contract, which was further awarded to other agencies at higher rates.

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