

# Overview



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This Report contains major findings arising out of Performance and Compliance Audits of various Departments under the Economic Sector of the Government of Madhya Pradesh conducted during 2016-17. The Report is structured in three chapters. Chapter I provides general information about audited entities, audit coverage and responses of the Government to the Audit Inspection Reports/Audit Reports. Chapter II of Report contains Performance Audit of 'Construction of Omkareshwar Sagar Project (Canals)'. Chapter III presents one Compliance Audit Para of 'Construction of Pench Diversion Project' and eight Audit Paragraphs. The audit findings included in the Report have total money value of ₹ 572.27 crore involving issues of systemic deficiencies, irregular expenditure, avoidable extra expenditure, etc.

The audit has been conducted in conformity with the Auditing Standards of the Comptroller and Auditor General of India. Audit samples have been drawn based on statistical sampling. The specific audit methodology adopted has been mentioned in each Performance/Compliance Audit report. The audit conclusions have been drawn and recommendations have been made taking into consideration the views of the Government. A summary of the main audit findings is presented in this overview.

### 1. Performance Audit

#### Construction of Omkareshwar Sagar Project (Canals)

The canal system of Omkareshwar Sagar Project (OSP) aimed at irrigation of 1.47 lakh hectare of Dhar, Khargone and Khandwa districts. The OSP (canals) comprises 362.88 km long main canals including Common Water Carrier, Left Bank Canal (LBC), Right Bank Canal (RBC), Omkareshwar Right Bank Lift Canal (ORBLC) and 1,670.64 km of distribution canals. The project is executed by the Narmada Valley Development Authority (NVDA), which is under Narmada Valley Development Department (NVDD).

The project was taken up in four phases. The phase wise turnkey contracts for construction of canals were executed between May 2006 and March 2011 for completion of the last phase by March 2014. As on March 2017, the expenditure of ₹ 3,076.51 crore was incurred on construction of OSP (canals) and none of these phases were completed. The Performance Audit on 'Construction of OSP (canals)' for the period 2012-13 to 2016-17 revealed the following:

#### ***Project Planning and implementation***

Construction of canals were delayed in all phases due to inadequate monitoring, delays in land acquisition and poor progress in execution of works by contractors. Penalties amounting to ₹ 85.68 crore were not imposed/recovered from contractors for slow progress attributable to them. NVDA also did not initiate action to terminate any of the contracts for slow progress and to retender the works.

#### ***Recommendation***

*NVDD should review all cases of delays in OSP (canals) to fix the accountability of contractors and penalty may be imposed as per provisions of turnkey agreements. NVDD should also review the cases of delay to fix accountability on the CE and EE for not enforcing penalty on delays, as per*

*the contract and orders of superior officers respectively. NVDD should also ensure that progress of works under each turnkey contract are adequately monitored by field engineers so as to complete the entire canal system within the revised target for completion of OSP (canals).*

**(Paragraph 2.1.7.1)**

Against the target to create irrigation potential of 1.47 lakh hectare, irrigation potential of 1.28 lakh hectare had been created as on March 2017 by constructing 96.46 per cent of main canals and 88.60 per cent of distribution system. However, there was shortfall of 66,707 hectare (52 per cent) in utilisation of created irrigation potential due to incomplete distribution network and delays in command area development (CAD), besides deficient water in Omkareshwar Dam. The execution of OSP (canals) and CAD works for development of field channels in the command of canals were not taken up simultaneously. Therefore, the gap between irrigation potential created and utilised could not be minimised.

**Recommendation**

*NVDD should ensure expeditious execution of CAD works, particularly in those commands where irrigation potential was created but remained unutilised so that, the benefit of water available in the canals may reach farmers in minimum time.*

**(Paragraphs 2.1.7.2 and 2.1.7.3)**

Chak planning of ORBLC did not precede the land acquisition, as required under the Madhya Pradesh Works Department (MPWD) manual. This led to avoidable expenditure of ₹ 22.43 crore on acquisition of 207 hectare land for buried piped canal.

**Recommendation**

*NVDD should fix accountability for not following the prescribed procedure under the MPWD manual for determining the quantum of land acquisition, which led to avoidable expenditure on land acquisition for ORBLC.*

**(Paragraph 2.1.7.5)**

**Contract management**

Turnkey contractors for construction of canals under Phase I and Phase II were paid ₹ 60.17 crore in excess, for value of work done by sub-contractors. These excess payments were treated as loans to the contractors and subsequently, ₹ 55.58 crore was adjusted irregularly against security deposits and inadmissible price escalations. Audit noticed that the EEs were directly dealing with sub-contractors who were not party to the contract executed by Government with the contractors. The entire transaction was beyond the terms and conditions of respective contracts as well as codal provisions and not authorised by competent authority. Though NVDA was aware of the entire issue, it yet chose to allow the payment arrangements for sub-contractors to continue without required approval of the Government.

**Recommendation**

*NVDD may review from vigilance angle the entire procedure for payments to sub-contractors without the approval of competent authority. NVDD may also fix accountability for irregular adjustment of security deposit and payment of*

*price adjustment to contractors in violation of terms and conditions of agreements. The excess payment may be recovered from contractors.*

**(Paragraph 2.1.8.1)**

Deficient contract management resulted in irregular payment of price adjustments (₹ 101.18 crore), irregular refund of security deposit against bank guarantee (₹ 34.52 crore), irregular payments to contractors beyond the approved payment schedule (₹ 6.30 crore) and unauthorised additional expenditure by NVDA on works within the scope of turnkey contract (₹ 1.28 crore).

**Recommendation**

*NVDD may recover the excess payments to contractors and examine the irregular payment of price adjustment to contractors from a vigilance angle. NVDD may examine irregular refund of security deposit against bank guarantee from a vigilance angle. NVDD may fix accountability for irregular payments to contractors in violation of payment schedule under the agreements and examine these irregular payments from a vigilance angle.*

**(Paragraphs 2.1.8.1 to 2.1.8.5)**

Despite completion of 90 per cent of canals, turnkey contractors did not execute plantations in any of the phases of OSP (canals) as required under the agreement. SE had issued the completion certificate for Phase-IV (Group I) without ensuring plantation by the contractor and other incomplete works in the distribution network.

**Recommendation**

*NVDD should ensure plantation by contractors all along the main canals and distributaries, which should also be recorded in the measurement book. NVDD should fix accountability for issuing completion certificate for Phase-IV (Group I) without fulfilment of entire contractual obligation by the contractor.*

**(Paragraphs 2.1.8.7 and 2.1.8.8)**

**Monitoring and Quality control**

Quality control of canal works was inadequate. Copping, which checks the ingress of water below canal linings, was substandard. Audit noticed cases where test results for compressive strength of cement concrete lining and other hydraulic structures were below the prescribed norms. Damages and cracks in the canal lining were also noticed. However, no action was taken for the rectification of these substandard works.

**Recommendation**

*NVDD should ensure that all the defective canal works are corrected urgently so that it does not affect the strength of canals and related hydraulic structures.*

**(Paragraph 2.1.9)**

**2. Compliance Audit**

**(i) Construction of Pench Diversion Project**

Pench Diversion Project is implemented by Water Resources Department (WRD) of Government of Madhya Pradesh (GoMP). The project was taken up

with the objective of providing irrigation facility, water for thermal power projects and water supply in Chhindwara and Seoni districts. In April 2006, Planning Commission approved the project for investment of ₹ 583.40 crore under State Plan. The project was also included for central assistance under the Accelerated Irrigation Benefit Programme (AIBP) in the year 2007-08 with date of completion as March 2012. As on September 2017, expenditure of ₹ 1,978.24 crore was incurred on the project and it was rescheduled for completion during 2019-20.

For the purpose of this report, Audit examined the records of 'Construction of Pench Diversion Project' in WRD and its concerned field offices covering the period from 2012-13 to 2016-17. Important findings are given below:

#### ***Financing of the project***

Due to delays on the part of WRD in providing requisite information to Government of India, the project was not included under AIBP during the years 2012-13 to 2016-17. Thus, out of total expenditure of ₹ 1,679.70 crore on the project during 2012-13 to 2016-17, WRD could not ensure the release of proportionate central assistance of ₹ 419.92 crore under AIBP.

***(Paragraph 3.1.2)***

#### ***Project implementation***

The dam work of the Pench Diversion Project was completed by November 2017. However, the canal system remained incomplete due to delays in land acquisition and slow progress in construction works by contractors. The land acquisition, which was essentially a statutory process, was delegated to contractors under the turnkey agreement who delayed the preparation of proposals for land acquisition.

Three out of six contracts for canal construction were eventually rescinded in August 2017 and December 2017. Out of this, Superintending Engineer unauthorisedly revoked (January 2018) the termination order of the contract for construction of Dhamaniya and tail distributary. The field level officers (Chief Engineer, Superintending Engineer and Executive Engineer) had adopted flexible approach towards contractors and granted time extensions without adequate analysis of reasons for delays. Penalty of ₹ 41.35 crore was not imposed on contractors for delays attributable to them.

#### ***Recommendation***

*WRD should review all cases of delays in construction of canals to fix the accountability of contractors and penalty may be imposed as per provisions of agreements. WRD should also review all instances of inaction/failure to levy penalty by departmental officers for appropriate departmental action. WRD should also review the irregular revocation of contract's termination order in the construction of Dhamaniya and tail distributary from a vigilance angle.*

***(Paragraphs 3.1.3 and 3.1.3.1)***

The physical progress in construction of main canals was 81 per cent, whereas only 32 per cent of distribution system could be completed as on March 2017. Low priority of construction of distribution network affected creation of irrigation potential. As against planned/designed irrigation potential of 85,000 hectare for the entire project, WRD could create irrigation potential of 30,000 hectare and the utilisation of irrigation potential was 20,256 hectare during 2016-17.

**Recommendation**

WRD should ensure timely construction of distribution system of canals under Pench Diversion Project and fix the accountability for non-inclusion of appropriate clause in the agreement for simultaneous execution of main canal and distribution networks.

**(Paragraph 3.1.3.2)**

**Contract management and quality control**

The payments were made to turnkey contractors without recording detailed measurement of work done in the measurement book, which was in contravention of provisions of the MPWD manual.

**Recommendation**

WRD should ensure that detailed measurements of the works, including those of hidden items are recorded in turnkey contracts and payment to contractors should not be passed without due verification.

**(Paragraph 3.1.4.1)**

Chief Engineer unauthorisedly revised the payment schedule in three turnkey contracts in favour of contractors, which resulted in irregular payment of ₹ 13.41 crore to contractors. Non-adherence to agreement clauses and provisions of schedule of rates resulted in undue financial benefits to contractors and extra cost amounting to ₹ 14.11 crore.

**Recommendation**

WRD should take appropriate departmental action on the officers responsible for undue favour to contractors.

**(Paragraphs 3.1.4.2, 3.1.4.3, 3.1.4.4, 3.1.5.1 and 3.1.5.3)**

Audit also noticed substandard and defective works, which were rectified neither by contractors nor by WRD.

**Recommendation**

WRD should ensure that provisions relating to rectification of defects within the stipulated period are scrupulously followed.

**(Paragraph 3.1.5.2)**

**Internal Control and monitoring mechanism**

The records prescribed in the MPWD manual were not maintained. As a result, hard rock of ₹ 1.46 crore was not accounted in Material-at-Site account. Bank guarantee of ₹ one crore for performance security was not renewed due to which WRD could not forfeit the performance security on the termination of contract.

**Recommendation**

WRD should fix the accountability of departmental officers for non-maintenance of records prescribed under the MPWD manual and for failure to extend bank guarantee.

**(Paragraph 3.1.6.1)**

**(ii) Audit Paragraphs**

Audit has reported on several significant deficiencies in critical areas which impact the effectiveness of the State Government. Some important findings arising out of Compliance Audit (eight paragraphs) are featured in the Report. These observations relate to non-compliance with rules and regulations, audit against propriety, cases of expenditure without adequate justification and failure of oversight/governance, which are mentioned below:

**Forest Department**

Principal Chief Conservator of Forest delayed the inclusion of the compensatory afforestation works under Rajiv Sagar Irrigation Project in 'Annual Plan of Operations' despite availability of sufficient fund in State Compensatory Afforestation Fund Management and Planning Authority (State CAMPA), which resulted in delayed commencement of afforestation work and increase in cost by ₹ 2.00 crore.

*(Paragraph 3.2.1)*

**Horticulture and Food Processing Department**

Directorate of Horticulture and Farm Forestry released funds to implementing agencies for implementation of three horticulture schemes without assessing actual requirement of funds, which resulted in blocking of funds amounting to ₹ 10.63 crore as on March 2017, besides non-recovery of interest of ₹ 3.85 crore earned on unspent balances by these implementing agencies. On this being pointed out in Audit, Department recovered unspent amount of ₹ 8.92 crore from agencies under two schemes.

*(Paragraph 3.2.2)*

Directorate of Horticulture and Farm Forestry released excess financial assistance of ₹ one crore to MP State Co-operative Dairy Federation Limited (MPSCDFL) in violation of the guidelines of National Mission on Food Processing. Besides, the failure of the Directorate to ensure utilisation before release of subsequent instalments of financial assistance during March 2014 to May 2015 led to accretion of unutilised fund of ₹ 2.97 crore with MPSCDFL.

*(Paragraph 3.2.3)*

**Narmada Valley Development Department**

In the work of Nagod branch canal with distributary systems, Narmada Valley Development Authority did not impose penalty of ₹ 13.14 crore for delays attributable to the contractor. The contractor was also granted mobilisation advance of ₹ 2.30 crore in violation of the agreement, besides the interest of ₹ 2.17 crore on mobilisation advance was also not recovered.

*(Paragraph 3.2.4)*

**Water Resources Department**

Failure of the Chief Engineer (Dhasan Ken Kachar, Sagar) in complying with the instructions of Major Project Control Board for verification of pre-qualification documents led to entering into agreement with an ineligible contractor for construction of earthen dam of Pawai Medium Irrigation Project. The agreement was subsequently terminated and re-tendering of the work resulted in extra cost of ₹ 11.08 crore, out of which



extra cost of ₹ 7.47 crore was already incurred on the work as on March 2018.

***(Paragraph 3.2.5)***

Failure of Executive Engineer, Water Resources Division, Pawai to ensure rectification in the bill of quantity (G-schedule of the contract) in the canal works of Pawai Medium Irrigation Project before entering into agreement resulted in extra cost of ₹ 1.34 crore on execution of M-10 grade canal lining which was paid at the higher rate applicable for M-15 grade canal lining.

***(Paragraph 3.2.6.1)***

Failure of Chief Engineer (Dhasan Ken Kachar, Sagar) to finalise technical estimates of the canal works of Pawai Medium Irrigation Project before publishing Notice Inviting Tender (NIT) resulted in substantial increase in the estimated quantity during execution of works. A portion of the work was subsequently withdrawn from the contractor and re-awarded to another contractor at higher cost resulting in extra contractual obligation of ₹ 6.49 crore.

***(Paragraph 3.2.6.2)***

Adoption of incorrect rates for earth work of canal with lead resulted in extra cost of ₹ 7.05 crore on works of cement concrete lining of Tawa Project and Barna Project.

***(Paragraph 3.2.7)***

Executive Engineer, Keoti Canal Division, Rewa did not regulate payment to the contractor as per the payment schedule under the agreement for construction of Bahuti canal, which resulted in irregular payment of ₹ 153.25 crore to the contractor without achieving milestones for creation of irrigation potential.

***(Paragraph 3.2.8)***

