

**Chapter VII**  
**Compliance Audit**  
**State Public Sector Undertakings**



## CHAPTER VII

### COMPLIANCE AUDIT

This chapter contains four paragraphs of Compliance Audit pertaining to two PSUs (Jammu and Kashmir Projects Construction Corporation Limited and Jammu and Kashmir State Power Development Corporation Limited). The observations relate to expenditure incurred in excess of sanctioned cost, non-recovery of excess expenditure, short realisation of administrative overheads and execution of works in excess of approved costs. The monetary implication of these observations is ₹ 16.96 crore.

#### Public Works Department

##### Jammu and Kashmir Projects Construction Corporation Limited

#### 7.1 Expenditure incurred on construction of a bridge in excess of sanctioned cost

**Jammu and Kashmir Projects Construction Corporation Limited did not restrict the work of construction of a bridge and allied works within the sanctioned cost, resulting in non-recovery of expenditure of ₹ 1.88 crore incurred on the work.**

The Jammu and Kashmir State Cabinet approved<sup>1</sup> (July 2005) the construction of a Bridge over river Chenab at *Meri Mendraiya* to provide connectivity to the villages<sup>2</sup> of Akhnoor Tehsil of District Jammu. In terms of the cabinet decision, the Jammu and Kashmir Project Construction Corporation Limited (Company) was to execute the work. The Company submitted (November 2005) an initial cost offer of ₹ 17.50 crore which was subsequently enhanced (February 2007) to ₹ 22.84 crore due to change in the proposal from a steel arch bridge to concrete bridge. Subsequently, the Government of India (GoI) under Central Road Fund (CRF) accorded (September 2007) administrative approval for construction of a balanced Cantilever Pre-Stressed Concrete Bridge over river Chenab at *Meri Mendraya* at an estimated cost of ₹ 21.82 crore.

The Chief Engineer, Public Works (R&B) Department, Jammu (Project Authority) finally awarded (March 2008) the work of construction of the bridge to the Company on a lump sum contract basis at a sanctioned cost of ₹ 21.82 crore. The Company took up the construction of the bridge in October 2008. Subsequently, the Company, submitted (June 2010) a revised cost offer of ₹ 24.25 crore for the work against the approved estimated cost of ₹ 21.82 crore. The enhanced cost was not accepted (May 2011) by the Project Authority stating that the bridge was sanctioned by the GoI under CRF and further funds were being demanded arbitrarily by the Company. The Company was also directed to submit fresh cost offer on factual and work done/ realistic basis.

<sup>1</sup> Vide Order No: 245-PW (R&B) of 2005 dated 07 July 2005.

<sup>2</sup> Bala, Balgarha, Barui, Chakhar, Gorde, Grattal, Karefal Lassu, Majoor Mandrian, Noor, Piyani, Rangani, Tacharwan, Tung etc.

Audit scrutiny (June 2018) of the records revealed that a total amount of ₹ 22.01 crore<sup>3</sup> was received by the Company, and the value of work executed was ₹ 23.89 crore (March 2020) as per Company records. This exceeded the amount received by the Company by ₹ 1.88 crore<sup>4</sup> (8.5 per cent). The Company had again demanded (November 2014) additional funds of ₹ 2.24 crore<sup>5</sup> from the Project Authority for completion of the project. The Project Authority however, informed (November 2014) the Company that excess up to only 10 per cent of the sanctioned cost (₹ 21.82 crore), was permissible under the CRF Guidelines, subject to furnishing of item-wise/ component wise details of cost escalation with full justification. The Company despite lapse of more than 87 months from the date of handing over (December 2012) of the bridge, had not provided the justification (March 2020) for cost escalation leading to non-release of funds by the Project Authority.

Thus, failure of the Company to restrict the value of work done within the sanctioned cost or provide justification for cost escalation within 10 per cent of the sanctioned cost, resulted in non-recovery of ₹ 1.88 crore.

In reply, the Deputy General Manager Unit 7, Jammu and Kashmir Project Construction Corporation, Jammu confirmed (July 2018) that Project Authority had released funds totaling to ₹ 22.01 crore against the proposed revised cost of ₹ 24.25 crore and ₹ 2.24 crore had been demanded. It was further stated that excess cost over sanctioned cost of the project was due to enhancement<sup>6</sup> of service tax from 4.2 per cent to 10.5 per cent and introduction of labour cess.

The reply is not tenable as, despite directions from the Project Authority (March 2008) that the project cost should not exceed ₹ 21.82 crore, the Company executed the work and incurred an expenditure of ₹ 23.89 crore. Further, the Company is yet to submit (March 2020) the item-wise/ component wise details of cost escalation with full justification for completing the work, to avail the enhanced cost.

The matter was referred to Company/ Government in April 2020; their replies were awaited (September 2020).

***It is recommended that works taken up for construction by the Company should be executed within the sanctioned cost.***

## **7.2 Non-recovery of excess expenditure incurred on construction of a bridge**

**Jammu and Kashmir Projects Construction Corporation Limited constructed a bridge over Darhali Nallah, Ujjhan (Rajouri) without ensuring the approval of revised cost offers and release of funds, which resulted in expenditure of ₹ 6.85 crore not being reimbursed.**

The Public Works Department, the Project Authority (PA) awarded (April 1998) construction of single lane steel super-structure bridge to provide access to the local

<sup>3</sup> The Project Authority had initially released ₹ 1.80 crore upto (2006-07) prior to allotment of work in (2008) under CRF and ₹ 20.21 crore after allotment of work upto 2012.

<sup>4</sup> Difference of value of work done of ₹ 23.89 crore and funds receipt of ₹ 22.01 crore.

<sup>5</sup> Difference of revised cost of ₹ 24.25 crore and funds receipt of ₹ 22.01 crore.

<sup>6</sup> From 4.2 per cent to 8.4 per cent and then from 8.4 per cent to 10.5 per cent.

population of the villages<sup>7</sup> of the District Rajouri, along with the approach roads over Darhali Nallah at Ujjhan (Rajouri) at an estimated cost of ₹ 3.00 crore<sup>8</sup>, to the Jammu and Kashmir Projects Construction Corporation Limited (Company). The work was to be completed within 30 months of the award of the contract (October 2000).

The Company submitted two revised cost offers (between June 2004 and July 2009) of the project to the Project Authority as given in Table 7.2.1. The scope of work was revised in June 2012 from 162 metre single lane to 178 metre (44.5 m x 4) span single lane bridge, and the cost had to be further revised to ₹ 13.75 crore. The revised cost offers were yet to be approved (June 2019) by the Project Authority.

**Table 7.2.1: Periodical cost revisions of the project by JKPCC**

| Particulars      | Date of proposal | Estimated cost<br>(₹ in crore) |
|------------------|------------------|--------------------------------|
| (a)              | (b)              | (c)                            |
| Initial proposal | April 1998       | 3.00                           |
| First revision   | June 2004        | 7.12                           |
| Second revision  | July 2009        | 10.72                          |
| Third revision   | June 2012        | 13.75                          |

Audit scrutiny (October 2018) of the records revealed the following:

- Though revised proposals were not sanctioned and adequate funds were not released (only ₹ 1.55<sup>9</sup> crore released upto 2011-12), the Company started (January 2011) the work of the sub-structure of the bridge at an estimated cost of ₹ 3.40 crore and completed it in May 2011.
- The Administrative Approval (AA) was conveyed (February 2013) by the Project Authority for construction of the super structure of the bridge at a cost of ₹ 6.70 crore under funding from National Bank for Agriculture and Rural Development (NABARD). The AA of the project, *inter alia*, stipulated that the work shall be taken up for execution only after authorisation of funds by the NABARD authority.
- The balance work of the bridge including super-structure was allotted (October 2014) to M/s A.K. Constructions (contractor) at an estimated cost of ₹ 5.75 crore. The work, started by the contractor in March 2015, was completed in September 2016. The total value of work done as booked by the Company was ₹ 8.40 crore.
- Though no further fund was released by the Project Authority, an amount of ₹ 5.66 crore was released by the Company to the contractor between July 2015 and October 2019.

Thus, failure of the Company to restrict the expenditure to receipts of fund led to non-recovery of ₹ 6.85 crore<sup>10</sup> from the Project Authority.

The Deputy General Manager, Jammu and Kashmir Projects Construction Corporation Limited Unit 8 Rajouri, stated (May 2019) that the work was taken up and completed

<sup>7</sup> Dhandkot, Kassian and Danna, Khurd, Leeran, Madhoon, Maluth, Nadian and Ujjhan.

<sup>8</sup> Bridge: ₹ 1.50 crore; approach road: ₹ 1.50 crore.

<sup>9</sup> 2003-04: ₹ 0.05 crore; 2010-11: ₹ 0.50 crore and 2011-12: ₹ one crore.

<sup>10</sup> Difference of value of work done (₹ 8.40 crore) and funds receipt (₹ 1.55 crore).

on the verbal directions of the Minister Public Works of the State Government and Project Authority had assured release of funds. It was also stated that despite several reminders Project Authority and NABARD had not released funds after September 2011.

The reply is not tenable as the Company executed the sub structure work without receipt of adequate funds and the super structure work without authorisation of funds from NABARD. Besides, the Administrative Approval on the revised cost offers submitted by the Company from time to time was not obtained even after the execution of the works. Thereby an excess expenditure of ₹ 6.85 crore incurred out of Company's own resources which could not be recovered from the Project Authority.

The matter was referred to Government/ Company in June 2020; their replies were awaited (September 2020).

***It is recommended that adequate steps may be taken to recover the excess expenditure incurred on behalf of the Project Authority and projects be executed after ensuring availability of funds.***

### **7.3 Short realisation of administrative overheads**

**Despite clear instructions of the Project Authority to restrict the value of work to ₹ 20.50 crore for construction of Niki Tawi bridge, the Company exceeded the sanctioned cost, resulting in short realisation of administrative overheads of ₹ 1.64 crore.**

Consequent to the damage of Niki Tawi bridge owing to floods of September 2014, road link to isolated hamlet<sup>11</sup> across the Tawi river was disrupted. To mitigate the problems faced by the public of the area, the Government of Jammu and Kashmir (GoJ&K) allotted (December 2014) construction of a 300-metre span pre-stressed concrete double lane bridge over Niki Tawi river on the upstream side of existing bridge under the Prime Minister Development Package to the Public Works Department, GoJ&K. The Chief Engineer, Roads and Buildings (R&B), Jammu (Project Authority) allotted (December 2014) the work of construction of bridge to Jammu and Kashmir Projects Construction Corporation Limited (Company) for an estimated cost of ₹ 20.50 crore. The Company submitted (December 2014) the cost offer of ₹ 30.25 crore for the project. The cost offer was not accepted by the Project Authority and the Company was instructed (December 2014) to complete the job within the sanctioned cost of ₹ 20.50 crore. Accordingly, the sanctioned amount of ₹ 20.50 crore was released by the Project Authority.

The Company was required to charge administrative overheads at the rate of 10 per cent on the project cost.

Audit scrutiny (June 2018) of records revealed that without the approval of the cost offer of ₹ 30.25 crore submitted to Project Authority, the Company allotted<sup>12</sup>

<sup>11</sup> Consisting of approximately 45 villages namely Ram Bagh, Kullaian, Sura Chack, Ganshau Chack, Kirpollpur, Nandian, Mandal Fillan, Sardare Chack, Wazir Chack, Top, Sumh, HariPur, Takutera, Suanjian, Mukuial, Lohra Kalian etc.

<sup>12</sup> On the recommendations (April 2015) of contract committee of GoJ&K.

(June 2015) the work of construction of the bridge to a contractor<sup>13</sup> at an estimated cost of ₹ 21.72 crore on turnkey basis. The construction work of the bridge was taken up (November 2015) by the contractor and completed in March 2017, for which the Company had incurred (March 2020) an expenditure of ₹ 20.13 crore. Accordingly, the applicable administrative overheads works out to ₹ 2.01 crore.

However, executing the work for construction of bridge without the approval of revised cost resulted in short realisation of administrative overheads of ₹ 1.64<sup>14</sup> crore despite lapse of more than two years from the date of completion of the bridge. This affected the Company's profitability and its ability to meet administrative cost.

After this was pointed out (June 2018) in Audit, the Deputy General Manager Unit 7 Jammu and Kashmir Projects Construction Corporation stated (June 2019) that the allotment for estimated cost of ₹ 21.72 crore was as per decision of the contract committee and the actual cost of the project was ₹ 30.25 crore and work allotted was well within the cost offer.

The reply is not tenable as the initial estimate of ₹ 30.25 crore was not agreed to (December 2014) by the Project Authority, and clear instructions to restrict the job within the sanctioned cost of ₹ 20.50 crore was given. Besides, the administrative overheads amounting to ₹ 1.64 crore were also not recovered.

The matter was referred to Government/ Company in May 2020; their replies were awaited (September 2020).

*The Company may ensure recovery of administrative expenses on projects executed.*

### Power Development Department

#### Jammu and Kashmir State Power Development Corporation Limited

#### 7.4 Execution of work in excess of approved cost

**Failure of the Company to execute work under Rajiv Gandhi Grameen Vidyutikaran Yojana as per the approved cost, led to financial loss of ₹ 1.92 crore, besides, non-receipt of ₹ 4.67 crore from the REC since 2014-15.**

Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched (April 2005) by the Government of India (GoI) through Rural Electrification Corporation (REC) to provide electricity connections free of cost to below poverty line households. The scheme was to be executed in seven districts<sup>15</sup> by the Jammu and Kashmir State Power Development Corporation Limited (Company). The Company, after inviting tenders awarded contract (December 2009) in three districts to M/s Pir Panchal Construction Pvt. Ltd. Joint Venture (contractor). The work was required to be completed in 12 months from the date of issue of Letter of Intent. The District/ Project-wise position is detailed in the Table 7.4.1.

<sup>13</sup> M/s A. K. Construction, Builders and Engineers.

<sup>14</sup> Expenditure incurred ₹ 20.13 crore plus administrative overheads of ₹ 2.01 crore (10 per cent of expenditure of ₹ 20.13 crore) less amount of ₹ 20.50 crore received from the Project Authority is ₹ 1.64 crore.

<sup>15</sup> Anantnag, Baramulla, Doda, Poonch, Pulwama, Kupwara and Rajouri.

**Table 7.4.1: District/ Project-wise position of RGGVY projects**

| (₹ in crore) |              |                         |               |                         |                    |                 |
|--------------|--------------|-------------------------|---------------|-------------------------|--------------------|-----------------|
| Sl. No.      | Project      | Initial sanctioned cost | Awarded cost  | Revised sanctioned cost | Date of completion | Delay in months |
| 1            | 2            | 3                       | 4             | 5                       | 6                  | 7               |
| 1.           | Rajouri      | 29.97                   | 37.77         | 79.97                   | May 2014           | 41              |
| 2.           | Poonch       | 16.96                   | 18.42         | 26.59                   | February 2014      | 38              |
| 3.           | Doda         | 37.64                   | 45.02         | 57.40                   | January 2015       | 49              |
|              | <b>Total</b> | <b>84.57</b>            | <b>101.21</b> | <b>163.96</b>           |                    |                 |

(Source: Allotment orders/ information provided by the Company)

The Company received a total amount of ₹ 156.57 crore from REC as detailed in the Table 7.4.2:

**Table 7.4.2: Status of amounts received for execution of RGGVY works in three districts**

| (₹ in crore) |               |                          |   |                      |  |  |                |                                     |
|--------------|---------------|--------------------------|---|----------------------|--|--|----------------|-------------------------------------|
| Sl. No.      | RGGVY Project | Amount received from REC | Amount approved by REC after the closure of the project | Expenditure incurred | Excess expenditure over the amount approved by REC | Value of inventory transferred to J&K Power Development Department | Financial loss | Amount not received from REC so far |
| 1            | 2             | 3                        | 4   | 5                    | 6= (5-3)   | 7  | 8=(6-7)        | 9 = (4-3)                           |
| 1.           | Rajouri       | 79.76                    | 80.34   | 82.74                | 2.40   | 0.93   | 1.47           | 0.58                                |
| 2.           | Poonch        | 25.65                    | 25.65   | 26.72                | 1.07   | 0.62   | 0.45           | -                                   |
| 3.           | Doda          | 51.16                    | Not Approved  | 55.25                | -  | 1.18   | Nil            | 4.09 <sup>16</sup>                  |
|              | <b>Total</b>  | <b>156.57</b>            | <b>105.99</b>   | <b>164.71</b>        | <b>3.47</b>  | <b>2.73</b>  | <b>1.92</b>    | <b>4.67</b>                         |

(Source: Physical/ Financial progress reports/ information furnished by the Company)

The works were completed with delays ranging between 38 and 49 months from the scheduled date of completion, incurring a total expenditure of ₹ 164.71 crore. Out of this expenditure of ₹ 164.71 crore, the Company had incurred an expenditure of ₹ 109.46 crore in respect of RGGVY Projects of Rajouri and Poonch districts. The closure proposals of Projects of Rajouri and Poonch districts were approved by REC for ₹ 105.99 crore. The RGGVY works in Doda district was closed in January 2015 after incurring an expenditure of ₹ 55.25 crore by the Company. The closure proposal was yet to be approved by REC (July 2020).

Audit scrutiny (May 2017) of the records revealed that the reasons for delay as recorded in the reply of the Company included, *inter alia*, delay in tendering process, Right of Way (RoW) issues, public hindrance during execution, inclement weather and snow prone or inaccessible areas etc. The Company had incurred an expenditure of ₹ 164.71 crore against the amount of ₹ 156.57 crore received from REC as indicated in the Table 7.4.2 above. The closure proposals in respect of RGGVY Projects of Rajouri and Poonch districts on which Company had incurred the expenditure of ₹ 109.46 crore were approved by REC for ₹ 105.99 crore. After taking into account the value of surplus inventory of ₹ 1.55 crore transferred or recoverable from Jammu and Kashmir Power Development Department (JKPDD), the Company had to bear financial loss of ₹ 1.92 crore due to expenditure beyond the approved cost. In addition to this, in the closure proposal of Rajouri only ₹ 79.76 crore had been received from REC so far against the approved amount of ₹ 80.34 crore, thereby resulting in non-receipt of ₹ 0.58 crore.

The closure proposals of RGGVY works in Doda district was, however, not approved by REC despite a lapse of 64 months from the date of closing of work (January 2015)

<sup>16</sup> Closure proposal of Doda not approved, therefore expenditure incurred (₹ 55.25 crore) less by amount received (₹ 51.16 crore) is equal to ₹ 4.09 crore.



by the Company. Audit noticed (May 2017) that the work in respect of Doda district was not completed due to non-availability of alternate land after land slide at the earmarked site and for want of Forest clearance. Final expenditure of ₹ 55.25 crore in Doda district had been booked by the Company against which REC released funds amounting to ₹ 51.16 crore, resulting in non-receipt of ₹ 4.09 crore. Further, an amount of ₹ 1.18 crore is recoverable from Jammu and Kashmir Power Development Department in respect of surplus inventory transferred.

In reply, the Chief Engineer, Generation Wing, Jammu stated (July 2020) that the closure proposal of Doda project is pending as the five receiving stations (33/ 11 KV) constructed by the contractor have not been handed over to the concerned utilities so far. It was also stated that the surplus material handed over to Power Development Department had not been approved by REC but was procured by Company out of its own resources to be recovered from Power Development Department.

The reply is not tenable as the Company had incurred excess expenditure on Rajouri and Poonch projects beyond approved financial cost accorded by the REC, which has led to financial loss of ₹ 1.92 crore. Besides, the Company had not completed the works of Doda project and could not receive the amount of ₹ 4.67 crore (Rajouri: ₹ 0.58 crore; Doda: ₹ 4.09 crore) from REC since 2014-2015.

The matter was referred to Government/ Company in May 2020; their replies were awaited (September 2020).

*It is recommended that the Company/ Government should ensure timely execution of work within the approved cost.*

Srinagar/ Jammu  
The 11 February 2021



(ILA SINGH)  
Principal Accountant General (Audit)  
Jammu & Kashmir and Ladakh

Countersigned

New Delhi  
The 02 March 2021



(GIRISH CHANDRA MURMU)  
Comptroller and Auditor General of India

