

# **CHAPTER–V**

## **Payment for Works and Accounting of Expenditure**



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### Payment for Works and Accounting of Expenditure

This Chapter deals with the payments made to the contractors for execution of works and accounting of expenditure in the books. Divisional officers had not ensured that the advances paid to the contractors were actually utilised for intended purposes. Secured advances were paid in violation of conditions of contract and payments for execution of work were also made without measurement. Huge differences were noticed between payments made to contractors and expenditure accounted for on the works during respective financial years.

#### Introduction

**5.1** As discussed in **Paragraph 4.2** of Chapter IV, contracts were executed in the State by using Model Bid Document (MBD) or Standard Bid Document (SBD). As per provisions<sup>1</sup> of contracts, the basis of payment will be the actual quantities of works ordered and carried out, as measured and verified and valued at the rates and prices tendered. Further Para 39.1 of MBD and Para 43.1 of SBD provides that payment shall be adjusted for deductions for advance payments, security deposits, other recoveries in terms of the contract and taxes at source as applicable under the law.

#### Advance Payments

**5.2** As per Para 51.1 (Section-3) of SBD, the Employer shall make advance payments such as mobilisation advance, equipment advance and secured advance against non-perishable materials brought at site. However, MBD {Para 45.1 (Section-4)} provides for mobilisation and machinery advance only. Further, both SBD and MBD provides that interest will not be charged on advance payment. The contractor has to provide unconditional bank guarantee of a commercial bank of amount equal to the mobilisation and equipment/machinery advance while no bank guarantee is required against secured advance.

#### *Mobilisation Advance*

**5.2.1** MBD prescribed by the GoUP contained the provision<sup>2</sup> of advance payment of mobilisation advance up to five *per cent* of the contract price. Similarly, SBD provides<sup>3</sup> that the employer shall make advance payment as mobilisation advance up to 10 *per cent* of contract price to the contractor. The contractor shall demonstrate that advance has been used for payment of mobilisation expenses required specifically for execution of works by supplying copies of invoices or other documents to the Engineer.

Scrutiny revealed that the Department paid mobilisation advance of ₹ 89.29 crore to contractors for meeting out mobilisation expenses in 74 out of 111 test checked contracts (**Appendix-5.1**), but not a single contractor had furnished any documentary evidence to demonstrate that the advance payment received was actually utilised for mobilisation of resources for the work.

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<sup>1</sup> Para 2.1 (Section-7) and Para 39.1 (Section-4) of MBD, and Para 2 (Section-7) and Para 43.1 (Section-3) of SBD.

<sup>2</sup> Para 45.1 (a), Section-4.

<sup>3</sup> Para 51.1 and Item No 32 (i) of Contract Data.

Thus, divisional officers had not ensured that the amount of advance paid to the contractors had actually been utilised for intended purposes. Failure of divisional officers in obtaining any documentary evidence to ensure proper utilisation of mobilisation advance led to undue favour to the contractors.

In reply, the Government stated (October 2023) that if the contractor has mobilised the resources related to his contract within the prescribed period and the work has been started, it indicated clearly that advances received by the contractor have been spent only for starting the related work. Commencement of the work after giving the mobilisation advance and its satisfactory completion is the indicator of fulfilment of the objectives of providing mobilisation advance.

Reply of the Department is not acceptable as no documentary evidence in support of mobilising material/machine/labour on sites were produced in cases where these advances were given. As per conditions of contract, the divisional officers should have obtained copies of invoices or other documents to ensure that the contractor has utilised the advance for the concerned work.

#### ***Equipment/Machinery Advance***

**5.2.2** MBD provided for payment of interest-free equipment advance up to 90 *per cent* of the cost of equipment brought to the site, subject to a maximum of 10 *per cent* of the contract price. SBD also provided for equipment advance maximum upto five *per cent* of the contract price. The contractor is required to use the advance payment only to pay for equipment and plant required specifically for execution of the works and furnish evidence to this effect by supplying copies of invoices or other documents to the Engineer.

Scrutiny revealed that the Department paid ₹ 122.53 crore as equipment/ machinery advance to contractors in 66 out of 111 test checked contracts for procurement of machinery/ equipment required specifically for execution of works. Audit observed that in 53 cases divisional officers failed to obtain tax invoices, receipts *etc.*, as evidence for purchase of equipment/ machinery amounting to ₹ 87.13 crore (**Appendix-5.2 A**). Further, in seven cases divisional officers accepted proforma invoices (rate quotation) of ₹ 11.55 crore as documentary evidence for purchase of equipment/machinery (**Appendix-5.2 B**), which cannot be treated as evidence of procurement.

Further scrutiny revealed that in seven cases where tax invoices were obtained, the equipment/ machinery costing ₹ 15.08 crore were hypothecated with banks which shows that these equipment/ machinery were purchased by taking loans from banks. It was also observed that in six cases equipment/ machinery costing ₹ 8.71 crore were already purchased by the contractors before taking advance. This shows that advances taken from the Department to purchase equipment/ machinery were not actually utilised by the contractors for intended purpose.

In reply, the Government accepted (October 2023) the audit observation and stated that instructions are being issued to take action in the cases where invoices have not been received after payment of equipment/ machinery advances and also in cases where machines have been purchased by taking loans from banks. At present, most of the works have been completed and entire amount of equipment/machinery advance have been recovered, thus the Department has not suffered any financial loss.

### ***Secured Advance***

**5.2.3** As mentioned in **Paragraph 5.2** above, MBD provided only for mobilisation and machinery advance and there is no provision of secured advance for the material brought at site for execution of work by the contractor.

Audit scrutiny revealed that five divisional officers paid ₹ 19.65 crore to contractors as secured advance for the material brought at site for execution of eight works (**Appendix-5.3**) though there was no provision for payment of secured advance to the contractors in the contract bond.

Scrutiny of records further revealed that in execution of nine works in three divisions, irregular payment of ₹ 36.02 crore was made to contractors (**Appendix-5.4**) by adding an item of work ‘collection of material’ in running bills which was neither included in BoQ of contract bond/ estimates nor sanctioned by the competent authority to be executed as an extra item. Though these payments were adjusted from subsequent running bills of the contractors, divisional officers extended undue favour to contractors by increasing their liquidity to this extent.

In reply, the Government stated (October 2023) that the secured advances were given as per Paragraph 456 of FHB Vol-VI. The provisions of FHB Vol-VI are paramount and valid in the execution of construction works of the Department. The provisions of MBD do not in any case supersede the provisions of FHB Vol-VI. It was further stated that the advances given have been recovered.

Reply is not acceptable as the contract conditions are binding on both the parties and the contracts did not have any provision of secured advance in these cases. No act of the departmental official beyond the terms and conditions of the contract for benefitting the contractor could be allowed.

### ***Recommendation 7:***

***The Government should examine cases of irregular advances and fix the responsibility on erring officials.***

### **Payments for Execution of Works**

**5.3** MBD/SBD stipulates that the value of work executed shall be determined based on measurements by the Engineer and shall comprise the value of the quantities of the items in BoQ completed, and also include the value of variations and compensation events.

### ***Payments without measurement***

**5.3.1** As per conditions of MBD/SBD, the basis of payment will be the actual quantities of work ordered and carried out, as measured and verified by the engineer. This implies that payment against the work should not be made to contractor without measurement of work done.

Scrutiny of records revealed that four divisional officers<sup>4</sup> had paid ₹ 45.68 crore to contractors before measurement of executed works were recorded by responsible engineer in eight cases (**Appendix-5.5**). Though payment made without measurement were adjusted from succeeding bills of

<sup>4</sup> EE, PD, Kaushambi, EE, CD-3, Prayagraj, EE, PD, Jaunpur and EE, CD-2, Bijnore.

the contractors based on measurement recorded by the competent authority, this was not as per terms and conditions of the contract agreement.

In reply, the Government stated (October 2023) that as per the provisions of paragraph 457 of FHB Vol-VI, the Drawing and Disbursement Officer is competent to make advance payment on his own responsibility without detailed measurement. Further, in all the cases indicated by the Audit, advances paid have been recovered.

Reply is not acceptable as to secure financial interest of the Government, payment without measuring the executed work to benefit the contractor should not be allowed in violation of contract provisions.

***Measurement not as per prescribed method***

**5.3.2** Clause 113.3 of MoRTH specifications stipulates that the finished thickness of sub-base, base and bituminous courses to be paid on volume basis and shall be computed based on levels which shall be taken before and after construction at specified grids<sup>5</sup>. The average thickness of the pavement course in any area shall be the arithmetic mean of the difference of levels before and after construction at all the grid points falling in that area. Measurement by this levelling method is required to ensure that the thickness of layers actually achieved is not less than the designed thickness as shown in the drawings and shortfall in thickness, if any, would not go undetected. The shortfall in thickness beyond tolerance limit<sup>6</sup> would not only result in extending unintended benefit to the contractor but would also compromise the life of the road.

Scrutiny of records in test checked divisions revealed that divisions took the thickness of layer on left, centre and right side of the road at an interval of 50 meters length and averaged them to arrive at the thickness of sub-base, base and bituminous courses instead of taking measurement at all the grid points as per the prescribed method.

Thus, method prescribed by MoRTH was not followed to calculate the quantity actually executed in the works and it was not ensured by the departmental officers that the thickness of layers actually achieved was not less than the designed thickness to rule out any possibility of compromise with life of the road.

During Exit Conference (October 2023), the Department accepted the audit observation and assured to consider adoption of procedures of measurement prescribed by MoRTH.

***Labour Cess not/ less deducted***

**5.3.3** As per conditions of contract, the rates quoted by the contractor shall be deemed to be inclusive of sales and other levies, duties, royalties, cess, toll, taxes of Central and State Government, local bodies and authorities that the

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<sup>5</sup> Levels shall be measured before and after construction, at the grid of points 10 m centre-to-centre longitudinally in straight reaches but 5 m at curves. Normally, on two-lane roads, the levels shall be taken at four positions transversely, at 0.75 and 2.75 m from either edge of the carriageway and on single-lane roads, these shall be taken at two positions transversely, being at 1.25 m from either edge of the carriageway.

<sup>6</sup> As specified in table 900.1 of MoRTH specifications Section 900.

contractor will have to pay for the performance of this contract. The employer will deduct such taxes at source as per applicable law.

The Building and Other Construction Workers' Welfare Cess Rules, 1996 stipulates that where the levy of cess pertains to building and other construction work of a Government or of a Public Sector Undertaking, such Government or the Public Sector Undertaking shall deduct or cause to be deducted the cess payable at the notified rates<sup>7</sup> from the bills paid for such works.

Scrutiny of records of test checked works revealed that:

- For execution of 32 works, divisional officers made a payment of ₹ 721.31 crore to the contractors from which ₹ 7.21 crore was to be deducted as labour cess from the bills but only ₹ 3.14 crore was deducted from the contractors' bills (**Appendix-5.6A**).
- Divisional officers had not deducted labour cess amounting to ₹ 0.88 crore before payment from the bills submitted by the contractors for execution of five works (**Appendix-5.6B**).
- In 19 cases, divisional officers first added labour cess to the amount claimed by the contractors for execution of work and subsequently deducted the same from the bills. Due to this, labour cess amounting to ₹ 2.64 crore was finally borne by the Department instead of by the contractors (**Appendix-5.7**).

Thus, the divisional officers failed to perform their duties regarding deduction of labour cess from contractors' bills and extended undue favour to the contractors to the tune of ₹ 7.59 crore.

In reply, the Government assured (October 2023) to examine and take action in the cases where labour cess has been deducted after adding it in the amount payable to contractors and also in the cases where labour cess has not been deducted.

**Recommendation 8:**

***Payment should be made only after measurement of executed work duly recorded by the officials. Further, the Government should examine the cases of short or non-deduction of labour cess and fix the responsibility on erring officials.***

**Accounting of Expenditure**

5.4 Paragraph 93 of FHB, Vol-VI envisages that it is not sufficient that an officer's accounts should be correct to his own satisfaction. A disbursing officer has to satisfy not only himself, but also the Audit Department, that a claim which has been accepted is valid, that a voucher is a complete proof of the payment which it supports, and that an account is correct in all respects. It is necessary that all accounts should be so kept and the details so fully recorded, as to afford the requisite means for satisfying any enquiry that may be made into the particulars of any case, even though such enquiry may be as to the economy or the *bona fides* of the transactions. It is further essential that the records of payment, measurement and transactions in general must be so

<sup>7</sup> One per cent of the total construction cost

clear, explicit and self-contained as to be producible as satisfactory and convincing evidence of facts, if required in a court of law.

Deficiencies noticed regarding accounting of expenditure are discussed in detail in succeeding paragraphs:

***Expenditure incurred during financial year not accounted for on actual works***

**5.4.1** As stipulated in FHB, Vol-VI<sup>8</sup>, an account of all the transactions relating to a work during a month whether in respect of cash, stock or other charges, should be prepared in one of the Work Abstract forms. The permanent and collective record of the expenditure incurred in the division during a year on each work estimated to cost more than ₹ 20,000 is the Register of works. The Register of works are posted monthly from Works Abstracts.

Audit noticed that none of the test checked divisions maintained the works abstract and register of works and in absence of works abstract, it was not possible for Audit to ascertain that payment made against a bill submitted by the contractor for execution of work is debited on the same work or misclassified in the book of accounts.

For execution of 66 test checked works in 21 divisions, payments of ₹ 817.24 crore were made to contractors against the bills submitted by them in respective years during 2016-17 to 2021-22. Audit scrutiny, however, revealed that as against payments of ₹ 817.24 crore, only ₹ 631.51 crore were accounted for as expenditure on works in the accounts of respective financial years by the divisional officers. Therefore, an amount of ₹ 185.73 crore incurred was not accounted for as expenditure on respective works during the respective years but debited on other works<sup>9</sup> in the books of accounts **(Appendix-5.8)**.

In reply, the Government accepted (October 2023) the audit observation and stated that payment against the works executed by the contractor does not necessarily have to be equivalent to the allocation received for that work in a year. In such a situation, debiting the excess expenditure to other works or compensating the lesser expenditure on works with the expenditure of other works during the year was a common practice in earlier years. Presently, the CCL system has been abolished and the treasury based budgetary system has been implemented, therefore, recurrence of such instances is not possible in future.

Reply itself indicates that amount accounted in the books as expenditure on a works was different from the expenditure actually incurred on the execution of the work during the year. Thus, the accounting of expenditure in the Department was not based on expenditure actually incurred as per the vouchers/documents available in the divisional offices.

***Accounting of excess expenditure than actually incurred on works during financial year***

**5.4.2** The Government issue sanction orders with the condition that sanctioned amount only be drawn from the Government account as per actual requirement

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<sup>8</sup> Paragraph 485, 509, 510, 511 and 512 of FHB, Vol-VI.

<sup>9</sup> Details of works on which the differential amount was accounted were not ascertainable in audit due to non-maintenance of works abstract in divisions.



and not to deposit in bank or post office, and only to be utilised on work/ item for which it was sanctioned.

Gross expenditure at division level on a work sanctioned under CRF includes cost of work executed (including GST); three *per cent* towards contingency; one *per cent* for meeting the cost of devising and operation of a quality assurance system and monitoring of the works by a State Quality Monitor and training of the State's officials in quality awareness by the executing agency, one *per cent* for meeting the cost of quality control, for monitoring of works and towards training, research and development by Central Government; and half *per cent* towards work charged establishment.

During scrutiny of records, Audit noticed significant differences (more than ₹ 50 lakh in each case) between actual payment made to contractor plus maximum admissible other expenses (5.5 *per cent*) and expenditure recorded in the books of accounts in respective years during 2016-17 to 2021-22. Payment of ₹ 846.39 crore was made to contractors for execution of 77 test checked works in 23 divisions, but an amount of ₹ 1,226.64 crore was accounted for as expenditure in the book of accounts of respective financial years (**Appendix-5.9**). As maximum debitible amount on these works was ₹ 892.94 crore<sup>10</sup> including permissible other expenditure (5.5 *per cent*) of ₹ 46.55 crore, against which an amount of ₹ 1,226.64 crore was recorded in the books, it can be observed that expenditure of ₹ 333.70 crore pertaining to other works were classified on these works during the respective years.

In reply, the Government stated (October 2023) allocation to the Department is made quarterly and released in instalments. In such a situation, there is difficulty in keeping the quantity of work done equal to the allocation as the contractor cannot be forced to restrict their work from scheduled progress mentioned in the contract. All final adjustments are made before the work is completed, due to which the actual expenditure can be estimated only after completion of the work. The total expenditure on all works is kept within their sanctioned cost only. Further, as the CCL system has been abolished and the treasury based budgetary system has been implemented, recurrence of such instances is not possible in future.

Reply itself indicates that amount accounted in the books as expenditure on a work was different from the expenditure actually incurred on the execution of work during the year. Thus, the accounting of expenditure in the Department was not based on actual expenditure incurred as per the vouchers/documents available in the divisional offices. As per para 174 of Uttar Pradesh Budget Manual, expenditure incurred without allotment of adequate funds and misclassification of expenditure are defined as financial irregularities.

Further, in absence of works abstract, audit was not in a position to ascertain the reasons for the differences between actual payment made to contractor and expenditure recorded in the book of accounts in respective years. However, in two divisions, Audit noticed the reasons of differences as discussed below:

#### ***Advances for supplies***

**5.4.2.1** Paragraph 196 of FHB, Vol-VI envisages that all transactions of receipt and issue of materials should be recorded strictly in accordance with the rules,

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<sup>10</sup> ₹ 846.39 crore + ₹ 46.55 crore = ₹ 892.94 crore.

in the order of occurrence and as soon as they take place. Fictitious stock adjustments are strictly prohibited, such as (i) the debiting to a work of the cost of materials not required or in excess of actual requirements, (ii) the debiting to a particular work for which funds are available of the value of materials intended to be utilised on another work for which no appropriation has been sanctioned, (iii) the writing back of the value of materials used on a work to avoid excess outlay over appropriation *etc.* Any breach of this rule constitutes a serious irregularity.

Audit scrutiny, however, revealed that the Divisional Officer, CD, Lalitpur had made an advance payment of ₹ 2.60 crore to Indian Oil Corporation, Mathura and ₹ 28.70 lakh to Hindustan Petroleum Ltd. for procurement of bitumen and debited in the accounts as expenditure on works<sup>11</sup> instead of debiting to Miscellaneous Public Works Advances. It is pertinent to mention here that bitumen was to be procured by the contractor and not to be supplied by the Department in these works. This implied that expenditure was accounted for by the divisional officers in the book of accounts without actual expenditure being made on the concerned works.

In reply, the Government accepted (October 2023) the facts and stated that the advance paid has been adjusted by the concerned division. Further, as the CCL system has been abolished and the treasury based budgetary system has been implemented, recurrence of this will not be possible in future.

Facts remains that advances were made for supplies not required for the above mentioned works but accounted as expenditure on these works in the book of accounts.

***Parking of funds outside Government account shown as actual expenditure***

**5.4.2.2** As per Para 155 (2) of FHB Vol-VI, it is a serious irregularity to draw cheques and deposit them in the cash chest at the close of the year for the purpose of showing the full amount of grant as utilised.

Audit scrutiny revealed that Executive Engineer, PD, Varanasi made demand drafts for ₹ 5.22 crore<sup>12</sup> in his favour and accounted for the amount in the book of accounts as expenditure on execution of works and kept the amount outside the Government account.

Further, it was observed that though there was no land acquisition required for two works an amount of ₹ 30 crore was transferred to Special Land Acquisition Officer, Varanasi (SLAO) and debited in the book of accounts as final expenditure on execution of these works<sup>13</sup>.

Thus, parking of funds outside the Government accounts by recording it as actual expenditure in the book of accounts led to incorrect depiction of expenditure in the Government accounts.

In reply, the Government accepted (October 2023) the audit observation and stated that as the CCL system has been abolished and the treasury based

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<sup>11</sup> Lalitpur Deogarh Marg- ₹ 2.60 crore in 2017-18 and Lalitpur Rajghat Marg- ₹ 28.70 lakh in 2018-19

<sup>12</sup> Works of Bela Pahadiya Marg: ₹ 2.72 crore; Dharsauna Niyar Marg: ₹ 1.65 crore and Sarnath Raunakhurd via Munari: ₹ 0.85 crore.

<sup>13</sup> ₹ 25 crore on Babatpur Chaubepur Bhagatua Baluaghat Bridge Marg and ₹ 5 crore on Bhojuveer Sindhaura Marg.

budgetary system has been implemented, recurrence of such cases is not possible in future.

The fact remains that funds were parked outside the Government accounts and accounted as expenditure in the book of accounts.

### **Conclusion**

**Divisional officers could not ensure that the amount of mobilisation and equipment advance paid to the contractors had actually been utilised for intended purposes. Secured advances and payments for items not included in BoQ were made in contravention of the contract conditions.**

**Instances of payment without measurement of work done were noticed. There were significant differences between amount paid to contractors and expenditure recorded in book of accounts in the respective financial years during 2016-17 to 2021-22. Instances of parking of funds outside Government account by recording it as actual expenditure in the book of accounts were also noticed.**