CHAPTER – II

Review relating to Government companies

2. Construction activity of Bihar Police Buildings Construction Corporation Limited and Bihar Rajya Pul Nirman Nigam Limited

Highlights

Against the target of 3915 buildings under State Plan and Tenth Finance Commission (TFC), Bihar Police Buildings Construction Corporation (BPBCC) could complete only 2858 buildings and unauthorisedly spent Rs 3.35 crore on the construction of police buildings after the extended currency period of TFC (March 2001) during 2001-05. Under Police Modernisation Scheme (PMS), BPBCC failed to take up 300 jobs costing Rs 34.03 crore.

[Paragraph 2. 6. 1]

BPBCC increased the plinth area of buildings under TFC without approval of the Government and incurred extra expenditure of Rs 15.30 crore. Besides, design of 64 quarters were changed and instead 32 bigger sized quarters were constructed without approval of the Government of India.

[Paragraphs 2. 6.2 and 2. 6.3]

The BPBCC unauthorisedly disbursed advance of Rs 54.33 lakh to Superintendent of Police of five districts.

[Paragraph 2. 6.5]

In contravention of rules, the BPBCC awarded works on nomination basis and incurred avoidable expenditure of Rs 95.77 lakh.

[Paragraph 2. 6.7]

Due to lack of effective supervision/non-revision of estimates and, faulty construction, works valued at Rs 2.78 crore were pending, after expenditure of Rs 1.05 crore, for more than five years.

[Paragraph 2. 6.8]

Due to change in design of Police Academy Building, the BPBCC incurred extra expenditure of Rs 92.24 lakh.

[Paragraph 2 6.11]

BPBCC continued purchasing steel/cement, not immediately required, in disregard of the decision of the Chief Secretary, Government of Bihar and incurred avoidable extra expenditure of Rs 1.86 crore during 2000-05.

[Paragraph 2.6.13]

Against 329 bridges allotted, Bihar Rajya Pul Nirman Nigam (BRPNN) completed 252 bridges and 61 bridges were in progress for periods ranging from one to 22 years after expenditure of Rs 137.19 crore.

[Paragraph 2. 8. 1]

BRPNN spent Rs 48.71 crore on 37 bridges in excess of sanction. Out of which claim of Rs 4.92 crore was submitted to the Government and Rs 43.79 crore remained unclaimed. Besides, BRPNN incurred extra expenditure of Rs 11.68 crore on six incomplete bridges as revised estimates were disallowed by the State Government.

[Paragraph 2. 8.2]

BRPNN sustained loss of Rs 1.10 crore on the High Level bridge at 38 km of Darbhanga-Samastipur road due to expenditure on unauthorised work and expenditure above the schedule of rates.

[Paragraph 2.8.6]

BRPNN, in violation of rules, diverted Rs 39.61 crore from Bridge Development Fund to meet working capital requirements and establishment expenditure.

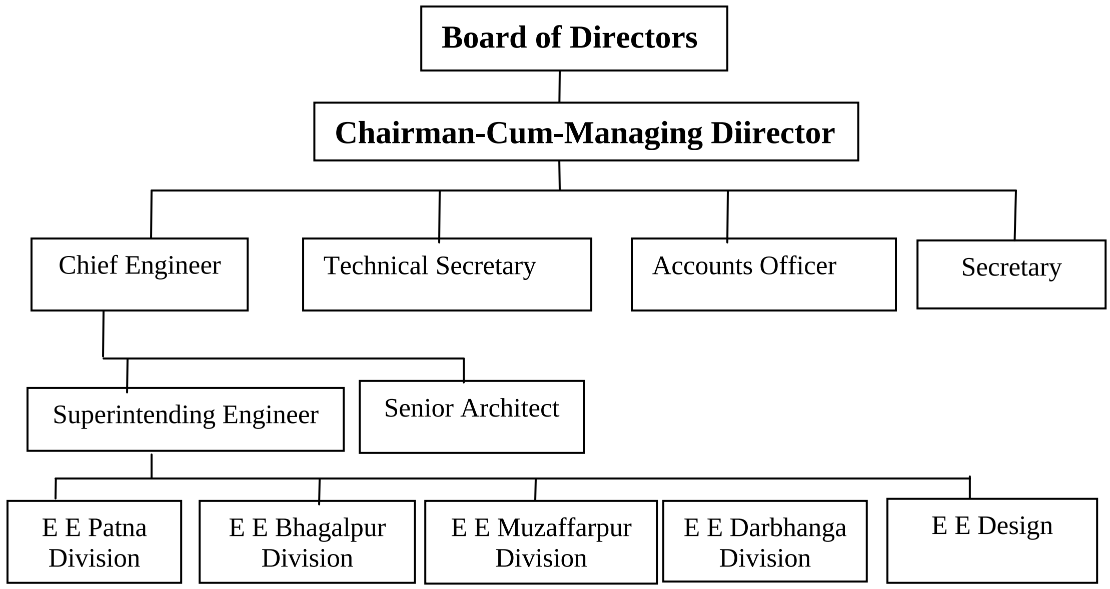
[Paragraph 2.10]

Introduction

2.1 Bihar Police Buildings Construction Corporation Limited (BPBCC) was incorporated on 29 June 1974 as a wholly owned Government Company. The main objective of the Company is to construct buildings required for the Bihar Police and for others on behalf of the State Government. In pursuance of its objectives, the Company undertook (2000-05) the construction of residential/non-residential buildings under the State Plan, Tenth Finance Commission (TFC) and Police Modernisation Schemes (PMS).

The management of the company is vested in the Board of Directors. The Chairman-cum-Managing Director (CMD) who is the Chief Executive is assisted by a Chief Engineer in technical matters and an Accounts Officer in financial matters. The work of five Executive Engineers and one design Executive Engineer in the field was supervised by the Chief Engineer and Superintending Engineer at Headquarters.

The organisation chart for execution of construction activities is as under:



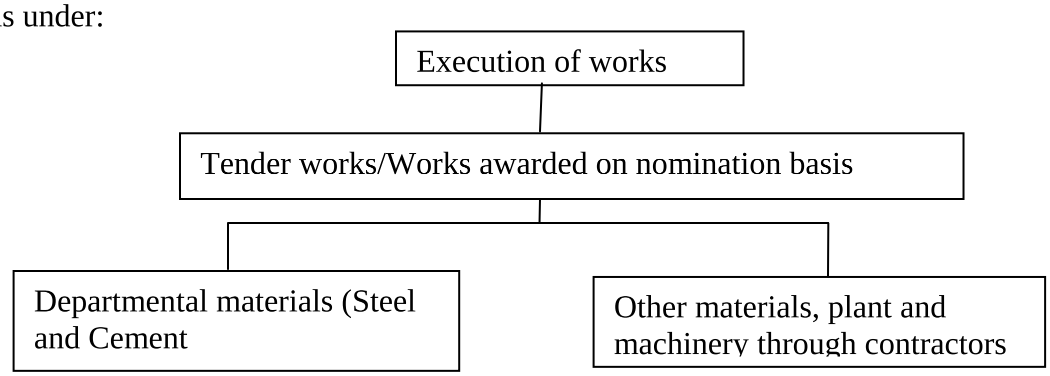
Government decided to wind up the company in July 2003.

Government of Bihar decided[•] in July 2003 to wind-up the Company on grounds of failure of the Company (i) to achieve its objective (ii) to pay dividend due to incessant loss and (iii) to discharge its obligations of payment of salaries to its serving employees and pension to retired employees and directed the Company to file petition for winding up in the Hon'ble Patna High Court (October 2004).

The Board of Directors requested (November 2004) the State Government to reconsider its decision to wind up the Company. The decision of the State Government was awaited as of June 2005. In the absence of Government decision the Company has not filed winding up petition in the High Court as directed by the State Government in October 2004.

The Company had not compiled its own works manual and was following the patterns/norms fixed by the State Public Works Department. The Company executes construction works through Government/private contractors by inviting tenders or awarding works on nomination basis (i.e.without inviting any tender).

A flow chart indicating the process of work execution followed by the company is as under:

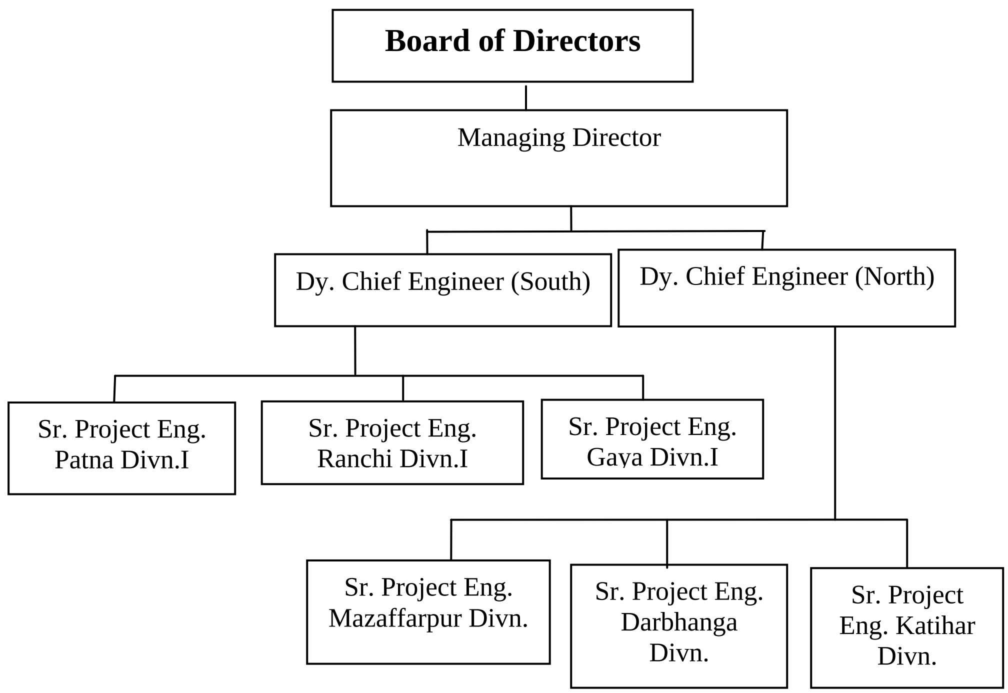


[•] Vide Finance (Bureau of Public Enterprises) Department resolution dated 28 July 2003.

Bihar Rajya Pul Nirman Nigam Limited (BRPNN) was incorporated as a wholly owned Government Company in June 1975, to design, construct, improve, manage, control and maintain bridges, roads and other structures. The Company was also entrusted with collection of toll on bridges notified by the State Government. The Company, however, had confined its activities mainly to construction of bridges assigned by the State Government from Plan, non-Plan, MP/MLA optional funds, and bridges allotted by the National Highways Authority of India (NHAI).

The management of the company is vested in the Board of directors. The Managing Director is the Chief Executive of the Company and is assisted by a Financial Advisor-cum-Chief Accounts Officer (FA-cum-CAO), two Deputy Chief Engineers at Headquarters level and six Senior Project Engineers in the Divisions. The post of FA-cum-CAO is vacant since January 2004.

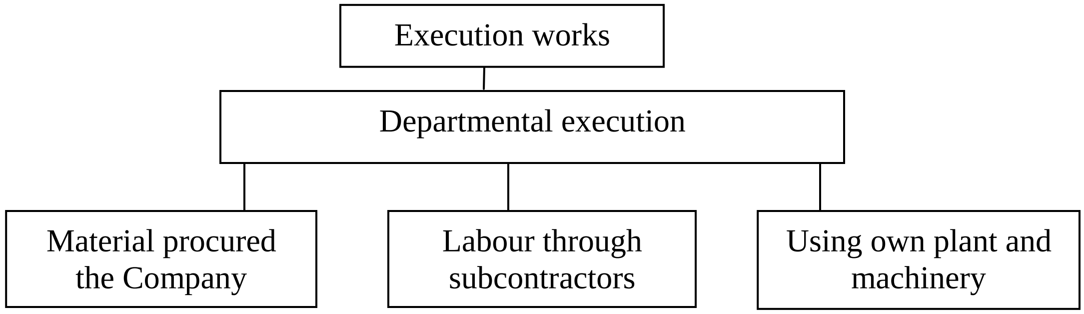
The organisation chart for execution of construction activities is as under:



Pul Nirman Nigam executed only deposit works and did not participate in open tenders.

The works executed by the Company are divided into two categories (i) deposit works and (ii) contract works. The deposit works are entrusted by the State Government to the Company on cost plus basis i.e. scheduled cost plus centage charges (13.5 percent provisional) to meet overhead expenses of the Company. The contract works are obtained by the Company by participating in open tenders. During the period under review the Company executed only deposit works and did not obtain any contract work as the Company did not participate in any open tender.

A flow chart indicating the process of works execution followed by the Company is as under:



The working of BPBCC and BRPNN were last reviewed and incorporated in the reports of the Comptroller and Auditor General of India (Commercial), Government of Bihar for the years ended 31 March 1983 and 1997 respectively which are yet to be discussed by the Committee on Public Undertakings. The construction activities of the Companies for the period 2000-05 were reviewed during March to May 2005.

Scope of audit

2.2 Audit was carried out through examination of records relating to implementation of works at the Companies' Head Offices and eight (53 *per cent*) out of 15 field units as on 31 March 2005 selected on the basis of turnover and completed projects.

Audit objectives

2.3. Audit of performance of the Companies with regard to construction activities was carried out to evaluate and assess whether:

- the Companies were able to mobilise adequate funds for achieving the desired objectives,
- the output was consistent with the targets set/works assigned and the projects were completed within the sanctioned cost,
- the Companies put in place systems and procedures to afford them a framework to assess the reasonableness of the estimated and actual cost of works,
- the Internal Control Systems of the Companies were adequate and sufficiently sensitive to lack of documentation of various transactions and compliance with the controls and procedures prescribed,
- the Companies were sensitive to the risk of time overrun and provided sufficient intervention and oversight in relation to completion and handing over of the completed buildings to the Government.

Audit Criteria

2.4. The performance of the Companies with regard to their construction activities was benchmarked with reference to their mandate, rules and procedures, works code adopted and, other applicable Acts as also the best practices in Planning, Execution and Contract Management.

Audit methodology

2.5. A pilot study was conducted and based on its result the risk in the Companies was perceived to be high in the case of planning, contract management, and procurement of materials, cost overrun and adherence to work rules. In view of this, the following methodology for analysing the risk areas was adopted:

Detailed testing of documents relating to planning, physical progress of works with respect to the targets, procedure followed for award of work, quality and rates of materials procured and expenditure on works.

Audit findings

2.6 The audit findings were reported to the Government/Management in June 2005 and discussed at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 4 October 2005 where the Government was represented by the Special Secretary, Home Department, and the CMD, BPBCC represented the Management. In case of BRPNN the Secretary, Road Construction Department represented the Government, and the MD represented the Management. The reviews were finalised after considering views of the Government/ Management.

Audit findings are discussed in the succeeding paragrphs.

Bihar Police Buildings Construction Corporation Limited

Procurement of works from Government

Target and achievement

2.6.1 The Company did not get any allotment under the State Plan during 2000-2005. It, however, carried out the incomplete/left over works out of total funds of Rs 94.55 crore[•] received during 1996-2000 under the two schemes. Against the target of 3915 buildings the company completed 2858 buildings as of March 2005. The award of the TFC was initially upto 31 March 2000 and was subsequently extended upto 31 March 2001. It was noticed that the company spent Rs 3.35 crore after 31 March 2001, which was unauthorised as unutilised amount was to be surrendered which was not done.

[•] Rs. 33.75 crore under State Plan for 704 non-residential buildings, and Rs. 60.80 crore for 3915 residential as well as non-residential buildings under TFC

The scheme for Modernisation of Police Force, a Centrally Assisted Scheme introduced in March 2001, has 50 *per cent* GOI share (50 *per cent* grant and 50 *per cent* loan in installments) and 50 *per cent* share of the State Government. Under this scheme, the expenditure on construction works was to be initially borne by the Company out of its own resources and subsequently reimbursed by the Government in installments of rupees five crore on submission of expenditure report. Against the available funds of Rs 75.90 crore the Company had obtained reimbursement of Rs 50 crore upto March 2005.

The achievement of the Company against the targets under Police Modernisation Scheme during the period 2004-05 is given below:

(Amount: Rupees in crore)

Scheme/ Works	Period	Target		Achievement (Number of buildings)		
		Capital outlay	No. of buildings	Completed	Incomplete	Not taken up
Lower subordinate (LS) quarters	2000-01to 2004-05	75.90	1070	456	498	116
Upper subordinate (US) quarters			370	186	124	60
District Control Rooms			39	09	18	12
Female Barracks			23	17	05	01
Naxal P.S. Boundry Walls			90	31	20	39
Police Line			05	--	05	00
P.S. Buildings			37	--	07	30
Miscellaneous			42	--	--	42
Total (C)			**1676**	**699**	**677**	**300**

It would be evident from the above table that against the targeted completion of 1676 residential/non-residential buildings under the scheme, the Company had completed 699 buildings, which was only 41.71 *per cent* of the target (March 2005).

The Company failed to take up 300 jobs valued at Rs. 34.03 crore due to delay in invitation of tenders/re-tenders, signing of agreements, obtaining administrative approval, receipt of Government instructions for execution of work and diversion of construction funds, etc.

Deficient planning

Deviation from structural design

The Company incurred extra expenditure of Rs 15.30 crore on construction of 2732 units.

2.6.2 The TFC had approved construction of 3796 units of 435 sqft each, against which the Company constructed 2732 units of 495 sqft raising the unit cost from Rs 1.39 lakh to Rs 1.95 lakh. Due to unauthorised increase in plinth area and unit cost, the Company could complete only 2732 units against the target of 3796 units despite incurring extra expenditure of Rs 15.30♥ crore and could achieve only 72 *per cent* of the targets under TFC.

The Company accepted (September 2005) the facts.

♥ (Rs 1.95 lakh – Rs 1.39 lakh) X 2732 = Rs 15.30 crore

2.6.3 Out of 2732 completed units, the Company changed the design of 64 lower subordinate (LS) quarters (total cost – Rs. 88.96 lakh at Rs 1.39 lakh per unit) and converted them into 32 quarters of different design. The management stated that keeping in view the requirement, the decision to change the design of the (LS) quarters was taken by the then CMD without the approval of the Board of Directors.

The reply of the management is not tenable as CMD was not authorised to change the design approved by GoI.

Non-adherence to the priority list

The Company diverted Rs. 80.62 lakh to buildings not on priority list.

2.6.4 For implementation of the construction schemes, the Government had approved a priority list of *thanas* in certain districts in which the buildings were to be constructed. The Company, however, diverted funds of Rs 80.62 lakh from four• districts for construction of 58 LS quarters, to *thanas* in districts which did not figure in the priority list.

Irregular disbursement of advance

Rs 36.36 lakh were lying unadjusted with SPs.

2.6.5 In contravention of the provisions of the Bihar PWD code adopted by the Company, the Company allowed Executive Engineers of various divisions to give work advances to the Superintendents of Police (SPs) for construction of Female *Hazat* and Rural *Thana* buildings under the State Plan for various *thanas* under them. The work was to be executed at the estimated cost (Bills of Quantity) sanctioned by the management within two to three months. It was noticed in audit that against the advances of Rs 54.53 lakh given to five SPs♥ through four divisions during 1998-2003, adjustment bills for works valuing Rs. 18.17 lakh only had been received in two divisions leaving Rs 36.36 lakh unadjusted (September 2005). It was also noticed that the advances were given to SPs without any instruction from the State Government. Final bills in respect of 17 construction works (estimated cost – Rs 23.17 lakh) had not been received (September 2005).

The management stated (September 2005) that the advances were disbursed to the SPs for execution of work in *thanas* and that the advances would be adjusted shortly. The reply is not tenable as the Company had disbursed advances unauthorisedly for which responsibility was required to be fixed.

Deficient contract management

2.6.6 Successful implementation of a project depends upon proper contract management system, maintenance of quality, sound financial management and financial propriety while incurring expenditure. The following instances indicate that the contract management system was deficient and failed to protect the interest of the Company.

• Kishanganj, Patna, Sahebganj and Singhbhoom.

♥ SPs of Araria, Khagaria, Kishanganj, Madhepura and Purnia.

Award of work

The Company awarded 198 works valuing Rs 16.60 crores on nomination basis in violation of PWD code provisions.

2.6.7 Rule 158 of the Bihar PWD code *inter alia* stipulates awarding works to contractors on open tender basis so as to obtain most competitive rates. The Company, however, awarded works between Rs 0.75 lakh to Rs 24.69 lakh on nomination basis (upto Rs 10 lakh by CMD, and above Rs 10 lakh by the Monitoring Committee). The works were awarded to various contractors including Government agencies at 2 to 10 *per cent* above the Schedule of Rates in most cases, on the pretext of either the response of bidders to the tender invitation being poor, or urgency of works. This had resulted in avoidable expenditure of Rs 95.77 lakh on 198 works (Rs 16.60 crore) out of 237 works (Rs 19.90 crore) awarded on nomination basis during 1999-2001.

The management stated (September 2005) that the works were awarded on nomination due to (i) works being confined to police stations and the sites being in rural and interior including extremist affected areas (ii) non receipt of tenders against notice inviting tenders and (iii) receipt of tenders from unqualified contractors, etc.

The reply of the management is not tenable as the rule does not permit any exemption on these grounds.

Incomplete works

2.6.8 Audit scrutiny revealed that 43 jobs for which agreements for Rs 2.78 crore were executed up to 2001-02 under TFC were pending after spending Rs 1.05 crore due to lack of effective supervision, non revision of estimates and awarding the work to contractors whose performance in the past had been unsatisfactory, as per details given below:

Sl. No.	Name of the work	No. of Jobs	Expenditure (Rs in lakh)	Audit findings
1	Eight classrooms for Constable Training School, Nathnagar	1	21.33	Though, the design was changed the estimate was not revised. As a result payment to the contractor was stopped and the contractor left the work incomplete (July 2000). The work was incomplete as of September 2005.
2	Residential/Non-residential buildings in 4 districts♣	9	8.27	The work was transferred from Bhagalpur division to Hazaribagh division (October 2002) and was again transferred back to Bhagalpur division (April 2003). Due to frequent change of division there was no progress in the work.
3	Construction of Rural	32	53.74	Lack of monitoring, delay in taking

♣ Dumka, Godda, Pakur and Sahebganj districts of the state of Jharkhand

	Police Station and LS quarters in Muzaffarpur division			action against the defaulting contractors and awarding the leftover works to other contractors.
4	Three blocks of 12 LS quarters at Khagaria Police Line	1	21.75	Though the execution of work with respect to the first block was unsatisfactory, the contract was awarded to the same contractor for two other blocks which are still incomplete.

The management stated that efforts would be made to complete these buildings at the earliest.

Extra payment to contractors on account of materials issued

2.6.9 The Company issues materials (cement and steel) to contractors for use in the works. Rules of the Company stipulate that in case of agreements entered into with contractors at rates above the estimated rates, enhanced rates are not admissible on materials issued departmentally at fixed rates mentioned in the bid documents. It was noticed in audit that in clear violation of rules, in 45 jobs executed between 2002-03 to 2004-05, the Company paid Rs 22.57 lakh to contractors on account of enhancement on departmentally issued materials.

The Management stated (September 2005) that the same practice was being followed in PWD/Irrigation and other Government Departments.
Reply of the management is not tenable as rules do not permit such payment.

Unauthorised payment to contractors

2.6.10 The PWD code provides for recovery of materials, issued in excess of requirement and not returned by the contractor, at twice the issue rate. Similarly in case of breach of contract, penalty is to be levied. It was, however, observed in audit that the Company failed to recover Rs 19.20 lakh from the contractor during 2001-05 on account of cost of materials (Rs 8.15 lakh) in Police Training Academy Hazaribagh and penalty (Rs 11.05 lakh) in case of construction of Rural Police Station and 12 LS quarters in Muzaffarpur.

Construction of the Police Academy Building at Hazaribagh

2.6.11 Construction of the Police Academy Building Training Centre at Hazaribagh under the TFC and State Plan was undertaken in Hazaribagh Division at an estimated cost of Rs 3.88 crore. Administrative approval was accorded (February 2000) by the Government of Bihar. The Monitoring Committee decided (February 2000) to award the work to National Building Construction Corporation Ltd., (agency) Patna, at Rs 2.89 crore i.e. at 14 per cent above BoQ value. Accordingly, an agreement was executed (September 2000) with the agency for completion of the work by June 2001, which was extended several times upto December 2003. The work of construction was incomplete (April 2005) after an expenditure of Rs 3.04 crore. Revised estimate for Rs 4.41 crore was prepared by the Company, technical sanction of which was still awaited (April 2005).

Audit scrutiny revealed that:

- Though acquisition of land is a pre-requisite for any construction activity, the availability of land was not ensured. The site originally selected was at Padma, which was subsequently changed to Matwari Ground without any recorded reasons. Further, Matwari Ground was under litigation and as such, the site finally selected (June 2000) was near the existing V.B. University Office on the main National Highway at Hazaribagh. Consequently the expenditure of Rs 4.68 lakh on construction of boundary wall at Matwari Ground and earthwork for construction of building was rendered wasteful. The Company did not submit its claim for reimbursement to the Government.
- A cafeteria not originally provided in the estimate was included in the course of execution of work in Block 'D'. Further, granite flooring and Dholpur stone skirting in place of Kota stone were provided. This resulted in extra cost of Rs 45.51 lakh upto 28 running bill and is likely to increase further.
- It was further observed that the Company incurred total extra expenditure of Rs 92.24 lakh due to execution of work beyond BoQ on items of the work viz. earth and masonry (Rs 41.63 lakh), flooring and plaster (Rs 10.97 lakh), re-inforcement and aluminium (Rs 38.91 lakh) and Carriage (Rs 0.73 lakh).

Delay in handing over residential quarters to the department

Avoidable payment of HRA.

2.6.12 The Company handed over 1128 residential quarters (LS and US) constructed during January 1998 to February 2005 under TFC and Modernisation schemes to the Police Department after delays of upto 34 months, resulting in avoidable payment of House Rent Allowance (Rs 19.84 lakh) by the State Government.

The management stated (September 2005) that reluctance on the part of Police officials/Staff to accept transfer of completed buildings which were not of their choice/convenience as the reason for the delay. The reply is not tenable as test check of one out of five divisions disclosed that despite readiness of the transferee division (April 2002) to take possession of the completed buildings, no action was taken by the Company for nearly nine months upto January 2003.

Irregular procurement of materials

2.6.13 Bihar PWD had discontinued the system of central purchase of cement and steel from 1997-98. The Company, however, continued with the old system of departmental purchase of cement/steel, and consequently incurred avoidable extra expenditure of Rs 1.86 crore on storage, cartage and maintenance of godowns for storing cement/steel valuing Rs 23.87 crore during 2000-01 to 2004-05.

The Management stated (September 2005) that the Government allowed departmental purchase. The reply is not correct as in a meeting of the Authorised Committee held in (September 2001) under the chairmanship of the Chief

Secretary it was communicated to the Company that the system of centralised purchase of cement and steel had been discontinued.

Purchases made at higher rate

2.6.14 Tenders were invited (October 2001) for the supply of steel of various specifications in quantities ranging from 30 to 100 MT as per actual requirement for 19 godowns. Rates (Rs 14,574 to 16,374 per MT) offered by a Public Sector Undertaking of West Bengal were rejected by the Monitoring Committee on the ground that the supplier was new to the Company and information regarding production capacity and quality of product was not available. The certificates from Government companies/private companies regarding the PSU's good service and quality, submitted by the bidder were ignored. Subsequently the tender was cancelled and on limited quotation basis the Company purchased (November 2001) the required quantity of steel (1,054 MT) at higher rates (Rs15,028 to 17,615 per MT) from other suppliers thereby incurring extra expenditure of Rs 11.39 lakh.

Undue favour to supplier

2.6.15 Two supply orders on limited quotation basis for the supply of 354 MT cement (OPC[♠]) were placed (February 2001) on two firms[*]. The supply order did not provide any penalty for sub-standard material. The supply against first order was found sub-standard which was replaced by the firm. Supply against second order (300 MT) was also found to be sub-standard. In this case, the Company refused to accept replacement and decided to purchase the required quantity of cement from another firm. Due to this various works of the Company got delayed by about four months and the Company sustained loss of Rs 44.66 lakh on account of time extension, agency charge, salary of staff and difference in cost of cement procured at higher rate which could not be claimed from the supplier for want of penal clause in the supply order.

It was further noticed in audit that the test reports of cement in which the quality was found to be sub-standard by three recognised institutions[♣] were ignored, and the Company placed on the same firm 16 supply orders for 1453.55 MT OPC valuing Rs 40.66 lakh during 2002-03, on the basis of a certificate of satisfactory quality from the Bureau of Indian Standards issued after one year. The BIS certifies only the general quality of the cement and not of the specific lots delivered and found sub-standard. On the other hand the reports of the institutions were more pertinent as they were with respect to the specific lots used in the construction work by the Company.

[♠] Ordinary Portland Cement.
[*] Jay Pee Rewa Cement and Century Cement Company.
[♣] BIT Mesra, National Council for Cement and Building Materials, Haryana and Bihar College of Engineering,Patna

Internal Control

2.7 The Internal Control System of the Company was inadequate and not sufficiently sensitive to the risks associated with non-documentation of various transactions and compliance with the controls and procedures prescribed.

The Company did not have its own Internal Audit wing. Firms of Chartered Accountants were appointed for internal audit and the work of compilation of accounts, reconciliation of bank accounts etc. The Internal Audit Reports did not include detailed technical audit and propriety of expenditure as a result of which the purpose of Internal Audit to ensure adequacy of Internal Control and to enforce internal check on financial and stores transactions was frustrated.

It was also observed in audit that the accounts of the Company were in arrears since 1990-91 and despite Government instructions (November 2002) no effective measures were taken by the management to clear the arrears in accounts. It was also observed that though the accounts of the Company for the year 1989-90 were approved by the Board in January 2004, the same were authenticated by the nominated Directors only in February 2005 i.e. after 13 months of the date of approval by the Board. Also, there was a delay of 7 months (November 2004) in the adoption by the Annual General Meeting of the accounts of the Company for the year 1988-89.

Non maintenance of records

Scheme/Job-wise expenditure was not maintained.

2.7.1 Job/unit-wise allocation of expenditure was not available with the Company. The entries in the works ledgers/contractor ledger maintained by the divisions of the Company were as per agreements and not as per individual jobs. Due to accounting of expenditure on the basis of agreements entered into on the basis of combined bills of quantity consisting of more than one job, job-wise and scheme-wise allocation of expenditure was not readily available.
Management replied (September 2005) that action was being taken to maintain job-wise expenditure.

Audit further noticed that an amount of Rs 146.31 crore on account of capital works-in-progress included in the Current Assets, Loans & Advances as on 31.3.2004, remained unadjusted though some of the works (construction of 1128 LS and US[♦] residential quarters during 1998-2005) had been completed and also handed over to the Government. As a result, Current Assets and Liability were overstated.

Audit scrutiny further revealed that final bills against 304 jobs under State Plan and Seventh to Tenth Finance Commission (TFC) undertaken by four divisions[*] during 1979-80 to 2000-01 were not submitted (September 2005). Out of these 304 cases of construction, 89 completed buildings had already been handed over to the Government. Information regarding the remaining 215 jobs was not on

---

[♦] Upper subordinate
[*] Bhagalpur, Darbhanga, Muzaffarpur and Patna.

record. In the absence of final bills, the loss to the Company on account of non-adjustment of departmental materials issued and advances disbursed to the contractors could not be vouched in audit (September 2005).

The management in its reply admitted (September 2005) the audit observations and assured to take necessary action.

Poor fund management

2.7.2 The Company received funds from the Central/State Government through Home Department, Government of Bihar for construction of residential/ non-residential buildings for the State Police. The position of funds received and cash balances at the end of each financial year during the last five years are given in **Annexure -11.**

Unauthorised retention of unutilised funds.

The unutilised funds were kept in various banks either in fixed deposits or savings bank accounts with a view to earn interest instead of depositing the same in Government Personal Ledger Account, as per the directions of the Finance Department (March 2000). By unauthorised retention of unutilised funds ranging from Rs 35.58 lakh to Rs 61.98 crore in fixed deposits and savings/current accounts, at interest rates of 4.5 to 8 *per cent*, the Company earned interest of Rs 16.67 crore during 1999-2004, which was utilised as revenue income to meet deficit of Rs 13.39 crore on establishment and other miscellaneous expenses (salary, traveling allowance, repairs, etc.), in contravention of the provisions of the Bihar Financial Rules.

The Management stated (September 2005) that the Company has adopted the correct laid down procedure for keeping the construction funds in short term deposits with banks as (i) the construction funds were made available to the Company as advance (ii) there will be loss of liquidity and delay in getting the amount released if the funds are kept in Government Personal Ledger Account due to which the progress of work including works monitored by the court could be affected and (iii) the Company did not receive any instruction from Government to deposit the unutilised funds in Government Personal Ledger Account.

The reply of the management is not correct as the Company received instructions from Government (March 2000) to deposit the unutilised funds in Government Personal Ledger Account which the Company did not comply with. Besides, the State Government was paying interest for the loan received from Government of India under the Modernisation of Police scheme.

By executing works, the Company realised agency charges (departmental charges) at the rate of 15 *per cent* on works expenditure, for meeting establishment and other miscellaneous expenses. The table below indicates the position of funds available, value of work done, agency charges earned and establishment and other miscellaneous expenses incurred during four years up to 2003-04:

The Company utilised 18 to 26 per cent of funds available.

(Amount: Rupees in lakh)

Year	Funds received	Total funds	Value of work done			Closing balance	Percentage of work done to total funds	Establishment, Administrative and other expenses
			Works Expenditure	Agency charges	Total			
(1)	(2)	(3)	(4)	(5)	(6) (4+5)	(7) (3-6)	(8)	(9)
1998-99	---	---	---	---	---	4128.39	---	---
1999-00	5213.44	9341.83	1473.47	221.02	1694.49	7647.34	18.13	688.64
2000-01	9.93	7657.27	1763.40	264.51	2027.91	5629.36	26.48	439.43
2001-02	0.26	5629.62	1120.60	168.39	1288.99	4338.63	22.93	418.59
2002-03	7090.00	11428.63	2032.38	304.86	2337.24	9091.39	20.45	438.38
2003-04	---	9091.39	1519.90	227.99	1747.89	7343.50	19.23	472.25
Total♠	**12313.63**		**7909.75**	**1186.77**	**9096.52**			2457.29

It would be seen from the above table that though sufficient funds were available with the Company, it could utilise only 18 to 26 *per cent* of available funds for execution of works during the last five years up to 2003-04. Though, the funds were made available in advance by the Government, the Company did not achieve the targeted level of construction of buildings. Funds ranging between Rs 43.39 crore and Rs 90.91 crore remained unutilised during the period 1999-2004.

The Management stated (September 2005) that non-availability of land and delayed receipt of construction funds were the reasons of underutilisation of funds. The reply of the Management is not tenable as in the case of projects under State Plan, the Company received funds in advance. Further, the reasons for underutilisation of funds as seen in audit were:

- delays in finalisation of tenders, awarding works, approval of revised estimates, execution of works by contractors and non-availability of land;
- non-availability of cement resulting in stoppage of works;
- execution of agreements, disputes with contractors resulting in stoppage of work, awarding works on nomination basis to unwilling contractors resulting in delay;
- irregular diversion of construction funds for payment of salaries.

2.7.3 For payment of arrear salary (Rs 5.70 crore) for the period December 1993 to December 1997, the staff of the Company had moved the High Court (1998), and the Court ordered payment of salary from the Company's own resources and if the Company had no resources, to take assistance from the Government for the payment of salaries. The Company paid (March 2003) Rs. 5.28 crore as salaries by diverting construction funds as it did not receive any assistance from the Government.

The Management stated (September 2005) that payment of salaries out of construction funds was not irregular. The reply is not acceptable as payment of salary from the fund for construction was not admissible.

♠ The provisional account for 2004-05 has not been prepared.

Financial position

2.7.4 The financial position of the Company for the last four years up to 2003-04 is given in **Annexure - 12.**

It would be seen from the annexure that against capital of Rs 10 lakh, the accumulated losses of the Company were Rs 4.63 crore as on 31 March 2004 which have completely eroded the paid-up capital of the Company. The reasons for losses as analysed in audit were the failure of the Company to utilise available funds for completion of works and diversion of funds for establishment expenditure.

Against potential earning of Rs 16.06[♣] crore on the fund of Rs 123.14 crore, the Company could earn agency charges to the extent of Rs 11.87 crore only which was 48.29 *per cent* of the total establishment and other miscellaneous expenses during the last five years.

Bihar Rajya Pul Nirman Nigam Limited

2.8. Procurement of works from Government

Deposit works

2.8.1 Funds for construction of bridges under Plan, non-Plan and other heads are made available by the State Government through the Road Construction Department. Some bridges allotted to the Company by the State Government are financed from the Bridge Development Fund (BDF) maintained by the Company on behalf of the State Government.

9 bridges were under construction for more than 10 years.

Since inception of the Company, the State Government had allotted 329 bridges at an estimated cost of Rs 689.21 crore. Of these, the Company had completed 252 bridges at a cost of Rs 246.92 crore which included a sum of Rs 23.67 crore met from BDF. Works were in progress for 61 bridges, on which the Company had spent of Rs 137.19 crore and work on 16 bridges was not taken up. These bridges were under construction for periods ranging from one to 22 years. Audit scrutiny of records relating to 57 bridges revealed that seven, two, and nine bridges were under construction for more than 15, 10 and five years respectively whereas 39 bridges were under construction for less than five years.

During the period of the review, 2000-05 the Government allotted 20 bridges under the Plan head, out of which total estimated amount in respect of 16 bridges was made available. But the Company could complete only 3 bridges. Reasons for delay in completion of 13 bridges were not on record.

Cost over-run

2.8.2 The table below indicates the number of works completed, their estimated cost and expenditure thereon during the period 2000-04.

[♣](Rs 123.14 crore X 15) divided by 115 = Rs 16.06 crore.

The Company incurred excess expenditure over sanction.

(Amount: Rupees in crore)

Year	No. of works completed	Estimated cost	Expenditure incurred	Excess expenditure	Percentage of excess expenditure to the estimated cost
2000-01	37	39.11	76.65	37.54	96
2001-02	13	2.01	6.21	4.20	210
2002-03	7	8.35	13.82	5.47	66
2003-04	13	10.66	12.16	1.50	14
2004-05	Nil	Nil	Nil	Nil	Nil
Total	**70**	**60.13**	**108.84**	**48.71**	**81**

It would be seen from the above table that the actual expenditure on completed works exceeded the estimated cost in all the years, by percentages ranging between 14 and 210. As per the provisions of the Government Financial Rules, expenditure in excess of the estimates requires prior sanction of the Government. It was noticed that 70 works were completed by the Company during the last five years ended 31 March 2005, at a cost of Rs 108.84 crore. Thirty seven out of 70 bridges completed suffered cost overrun of Rs 48.71 crore. The Company submitted revised estimates for Rs 7.48 crore in respect of five completed bridges against the original estimate of Rs 2.56 crore during 1999-2000 to 2001-02. But the excess expenditure had not been sanctioned as of 30 September 2005. The Company did not prepare and submit the revised estimates for Rs 43.79 crore in respect of remaining 32 completed jobs.

Cost over run of Rs 48.71 crore on 37 completed bridges.

In respect of six incomplete bridges, the Company had submitted revised estimates for Rs 64.04 crore. Out of the above, revised estimates for only Rs 52.36 crore were sanctioned by the Government and expenditure of Rs 11.68 crore was disallowed on account of the higher rates of material and labour having been claimed over and above the schedule rates and expenditure having been incurred on inadmissible items.

Delay in submission of revised estimates.

The Company stated (September 2005) that the revised estimates would be submitted and the expenditure incurred by the Company would be claimed from the Government. This appears unlikely as expenditure beyond estimates prepared on the basis of the SoR♣ had earlier been disallowed by the Government.

Execution of projects

Working procedure

2.8.3. The Board of Directors of the Company decided (December 1986) that the departmental procedure would be adopted for execution of works. Estimates of the works awarded to the Company by the Government were based on the prevailing SoR and 10 *per cent* contractor's margin. The Board decided to fix ceiling rates of all items of supply and labour relating to concerned bridges. The ceiling rates in all cases were to be seven *per cent* less than the estimated cost approved by the Government. The ceiling rates were to be revised as per revision

♣ Schedule of Rates

in SoR. The Managing Director was competent to sanction work at 15 *per cent*[*] above the ceiling rate. For allotment of work to any agency on nomination basis, the maximum prescribed limit was fixed at Rs 2.5 lakh at a time. In this regard Audit scrutiny revealed as under:

Working procedure was inadequate to protect from loss.

- The works were allotted to agencies at more than the limit of Rs 2.5 lakh at a time, in violation of the Board's decision.
- Awarding works at 15 *per cent* above the ceiling rate caused loss to the Company as in each such case it was eight *per cent* above the estimate approved by the Government. Audit analysis revealed that the company sustained loss of Rs 27.74 lakh due to allotment of works at 15 *per cent* above the ceiling rate in 218 agreements valued at Rs 3.96 crore.

The management while accepting the audit observation stated (September 2005) that the same work for more than Rs 2.5 lakh was not allotted to a single agency and allotment of work at 15 *per cent* above the ceiling rate was made depending on individual situations and needs of the bridge. The reply is not correct as different rates were allowed to the same agency after splitting the bridge work to keep the excess amount limited to Rs 2.5 lakh.

Works appraisal

Audit observations pertaining to four test checked cases are given below:

Babhanaul adda bridge

2.8.4 Construction of a bridge over river Kao along with approach road and work of development of 3.5 Km Bhabnaul Koath road was awarded (August 1996) to the Company by the State Government at an estimated cost of Rs 93.34 lakh. The work was to be completed by the year 1998-99. Against this, the Government disbursed Rs 47 lakh during 1996-98. Due to non-availability of additional funds the bridge remained incomplete.

The Company sustained loss of Rs 79 lakh on construction of bridge.

The Company proposed revised estimate of Rs 1.11 crore for the bridge and the approach road (pre-revised cost Rs 66.24 lakh). The bridge was completed (December 2001) at a cost of Rs 1.72 crore. Thus the Company sustained loss of Rs. 79 lakh (Rs 1.72 crore – Rs 93.34 lakh).

The Company, while accepting the facts stated (September 2005) that the revised estimate had been submitted in August 2005 after audit was completed in May 2005 but no such revised estimate was made available to Audit for verification of the reply.

Bridges at 29, 30 and 35 KM of Motihari -Dhaka -Belwaghat road

2.8.5 Construction of three bridges at Motihari-Dhaka-Belwaghat road was allotted to the Company under flood damage rehabilitation scheme in 1997-98 at a

[*] This would be eight *per cent* above the estimate approved by the Government.

cost of Rs 31 lakh. The work was started in April 1999. The estimates were revised to Rs 1.12 crore in October 1999, which had not been approved by the Government (May 2005). The Company intimated the Government that the bridges were completed in 2001-02. It was noticed in audit that the Company misreported to the Government as the bridges were still incomplete (May 2005) for want of fund.

The Company incurred loss of Rs 83 lakh on construction of bridge

The Company spent Rs 1.14 crore against receipt of Rs 31 lakh in violation of the Government order to complete the work within the fund received.
The Company stated (September 2005) that due to time overrun there was cost overrun. Thus, due to incurring expenditure in excess of the fund received the Company sustained loss of Rs 83 lakh.

High Level bridge at 38 KM of Darbhanga - Samastipur road (Magardahi bridge)

Loss of Rs 1.10 crore due to unauthorised expenditure and expenditure above the scheduled rate.

2.8.6. A high level bridge on Gandak at 38 KM of Darbhanga Samastipur road was allotted (February 1995) to the Company at an estimated cost of Rs 2.20 crore. Due to non-availability of funds the bridge could not be completed in time (1998-99). Revised estimate of Rs 8.41 crore submitted by the company was approved by the Government for Rs 6.41 crore. The bridge was completed in 2003-04 at a cost of Rs 6.97 crore and the work of approach road was in progress for which Rs 54 lakh more were required (April 2005). Therefore, against the sanction of Rs 6.41 crore expenditure incurred was Rs 7.51 crore (including additional Rs 54 lakh required) and the Company sustained a loss of Rs 1.10 crore due to expenditure on unauthorised works like foot bridge, desiltation work, salvaging of pier, repair of machines, etc.

Kao II bridge, Nawanager

2.8.7. Government of Bihar allotted three bridges, one high level bridge (Rs 65.88 lakh) and two small bridges (Rs 40.87 lakh) at 16 and 17 mile of Bikramganj -Dumraon road on the river Kao (November 1989) at an estimated cost of Rs 1.07 crore. The revised estimate of Rs 1.78 crore was pending with the Government for approval (May 2005). The Company completed the bridges (December 2001) at a cost of Rs 2.18 crore against fund of Rs 1.28 crore.

The Company sustained loss of Rs 40 lakh and Rs 50 lakh remained blocked.

The excess expenditure had not been sanctioned by the Government as of September 2005. As a result the Company sustained loss of Rs 40 lakh against the revised estimates and fund of Rs 50 lakh remained blocked due to awarding work on nomination basis at higher rates than the schedule rate.

The Company, while accepting the facts stated (September 2005) that revised estimate had been submitted in August 2005 but during verification of reply no revised estimate was made available by the Company.

Delay in utilisation of bridges

2.8.8. Mention was made in the Reports of the Comptroller and Auditor General of India (Commercial), Government of Bihar, for the years 1988-89 and 1996-97, about the delayed utilisation of bridges. The table below indicates delays in utilisation of bridges completed between 1999 to 2004, at a total cost of Rs 14.25 crore:

Sl. No.	Name of bridge	Year of completion of bridges	Year of completion of approach road	Cost of bridge (Rupees in crore)
1	Lagmadhar	1999-00	Incomplete	2.03
2	Magardahighat	2003-04	- do -	6.97
3	Motihari-Dhaka-Belwaghat road - 29 KM	2000-01	- do -	0.27
4	-do- 30 KM	2000-01	- do -	0.56
5	-do- 35 KM	2000-01	- do -	0.28
6	Kohuaghat	1999-00	2000-01	4.14
			Total	**14.25**

It is seen from the above table that the Company failed to complete the work in a synchronised manner and delayed the completion of approach roads to the bridges leading to their non-utilisation.

The delay in opening of the bridges resulted in blocking of Rs 14.25 crore for periods ranging from one to five years and denial/deferment of benefit to the public, apart from deferment of revenue from toll, the quantum of which could not be assessed.

The Company stated (September 2005) that due to non receipt/delayed receipt of funds, approach roads could not be completed. The reply is not tenable as the Company did not plan for construction of approach roads alongwith the bridges. Further, the Company could have used BDF for completion of approach roads.

Other points of interest

Financial management

2.9 The Company received funds for construction of bridges from the State Government under Plan, non-Plan, additional central assistance, MP/MLA fund, and from the NHAI♦. Details of funds received during last five years ended 31 March 2005 and utilisation thereof are detailed below:

(Amount: Rupees in crore)

Head	2000-01	2001-02	2002-03	2003-04	2004-05	Total
Plan	19.48	14.28	44.99	36.90	61.68	177.33
Non plan	5.58	6.73	0.27	7.90	7.07	27.55
MP/MLA fund	1.25	1.55	2.48	1.57	0.67	7.52

♦ National Highways Authority of India

NHAI	3.58	1.35	2.10	0.21	--	7.24
NABARD*	--	--	1.51	5.19	0.80	7.50
Total	29.89	23.91	51.35	51.77	70.22	227.14
Fund utilised	44.83⊗	30.05	18.15	36.79	39.28	169.10
Fund unutilised	--	--	33.20	14.98	30.94	58.04

Funds of Rs 58.04 crore remained unutilized.

It would be seen from the table above that out of funds of Rs 227.14 crore received during 2001-05, the Company utilised Rs 169.10 crore and the balance of Rs 58.04 crore remained unutilised.

The Company stated (September 2005) that due to receipt of funds at the end of years, the same could not be utilised during the year. Reply of the Company was not correct as it failed to utilise the balance fund of the previous year alongwith fund received before last month of the year, during 2003-05.

Bridge Development Fund (BDF)

2.10 According to rule 10 (a) of the Bihar Toll Rules 1979, the Company on behalf of the State Government was to collect toll on bridges. The amount collected was to be deposited in a separate head viz. Bihar Bridge Development Fund (BDF) after adjustment of direct expenditure on collection and 15 *per cent* for overhead charges. The amount deposited in the BDF was to be utilised for repair, maintenance and construction of new bridges approved by the Government. Prior approval of the State Government was required for utilisation for any other purpose.

Rs 39.61 crore were diverted from Bridge Development Fund in violation of rules.

It was noticed in audit that the Company collected Rs 65.27 crore from toll on bridges up to 31 March 2005. Out of the amount collected, Rs 24.27 crore were utilised for construction of 17 bridges. The balance in BDF account as on 31 March 2005 was Rs 1.39 crore. Thus, the Company diverted Rs 39.61 crore from BDF account to meet working capital requirements and establishment expenditure, in violation of rules and without approval of the State Government.

Conclusions

Bihar Police Buildings Construction Corporation Limited

The Company failed to utilise funds received for construction. As a result, the Company was not able to meet even the establishment expenditure, and had to divert funds meant for construction. The PWD code was violated and contracts were awarded on nomination basis, thereby losing the advantage of competitive rates. The Company did not have any scheme wise details of expenditure and thus there was lack of internal control. Large number of works were lying incomplete much beyond their targeted completion date.

---

* National Bank for Agriculture and Rural Development

⊗ Excess fund utilised from balance of previous year/diversion from BDF.

Recommendations

- **Funds available should be optimally utilised to complete unfinished jobs**
- **Contracts should be awarded to the lowest bidder after inviting tenders**
- **Scheme wise and job wise details of expenditure should be maintained to monitor financial progress and to prevent cost overruns**

Bihar Rajya Pul Nirman Nigam Limited

The Company failed to utilise the funds received for construction works. As a result the Company was not able to meet even the establishment expenditure and had to divert funds from the Bridge Development Fund meant for construction, towards establishment working capital requirements. Thus, the Company has inadequate funds to meet capital expenditure from the Bridge Development Fund. There was cost over-run in construction as the Company failed to restrict expenditure to approved estimates. Thus, Company failed to generate fund in BDF from collection of toll on bridges. 18 bridges were under construction for more than five years and despite availability of fund construction of 16 bridges was not taken up.

Recommendations

- **Funds available should be optimally utilised to complete works within the approved estimates. The Company should generate funds from toll on bridges.**
- **Funds should not be diverted without proper sanction.**
- **The Company should take appropriate action to restrict expenditure on works to cost/estimate approved by the Government.**