CHAPTER-III

Performance Review relating to Statutory Corporation

3.1 Performance Review on Construction and Design Services wing of Uttar Pradesh Jal Nigam

Highlights

Six works costing Rs.212.33 crore were obtained from clients through sub-contractors and the same were awarded to them on back-to-back basis at lower/without centage.

(Paragraph 3.1.7)

27 Works costing Rs.160.75 crore were executed without obtaining technical sanction from the competent authority.

(Paragraph 3.1.10)

C&DS executed 531 works without receipt of any centage and 90 works were executed after receiving centage at lower rates than the prescribed rates resulting in loss of income of Rs.35.99 crore.

(Paragraph 3.1.13)

There was an excess expenditure of Rs.14.87 crore over the funds received from clients which was not claimed from the clients subsequently.

(Paragraphs 3.1.18 and 3.1.30)

Due to non-following of provisions of Manual regarding cost control exercise for procurement of material, the benefit of competitive rates could not be availed with consequential incurring of extra expenditure.

(Paragraph 3.1.19)

Non-deduction of trade tax and royalty at prescribed rates resulted in extension of undue benefit of Rs.2.39 crore to the sub-contractors.

(Paragraphs 3.1.20, 3.1.21 and 3.1.22)

In execution of seven works there was excess consumption of material valuing Rs.1.97 crore over the norms/specification and sanctioned estimates.

(Paragraph 3.1.24)

Introduction

3.1.1 Uttar Pradesh Jal Nigam (Nigam) in order to utilise its idle work-force, set up (April 1989) a commercial wing named as “Construction and Design Services” (C&DS) to diversify its activities in the field of consultancy services, building construction, land development and housing project management, interior designing and furnishing, landscaping, fire protection and air conditioning. C&DS was declared (June 1991) as approved construction agency by the State Government.

During the last five years up to 2006-07, C&DS was primarily engaged in execution of deposit works entrusted by the Government Departments/Organisations (clients) on the basis of cost plus centage. These works were executed in accordance with the procedure laid down in the Working Manual of U.P. Rajkiya Nirman Nigam (UPRNN) as well as according to Uttar Pradesh Public Works Department (UPPWD) and Central Public Works Department (CPWD) specifications and approved Schedule of Rates (SOR) of UPPWD/CPWD.

C&DS is headed by a Director who is the Chief Engineer of the Nigam and is assisted by two Chief General Managers and one Sr. Accounts Officer in headquarters at Lucknow **(Annexure-26).** The execution of works is done by its 50 field units located in different parts of the State as well as in some cities* of other States. The units are headed by Project Managers (PM) under the supervision of nine General Managers (GM).

During the last five years up to 2006-07, five officers held the charge of the Director with tenure ranging from 11 days to 21 months. The frequent change of the Director adversely affected planning for procurement, execution and monitoring of deposit works.

Scope of Audit

3.1.2 The Performance review conducted during November 2006 to April 2007 covers the performance of C&DS regarding planning, execution and monitoring of deposit works during the period 2002-03 to 2006-07.

The selection of 43 completed works costing Rs.248.08 crore (out of 1763 completed works costing Rs.1063.72 crore as on 31 August 2006) and 51 work under execution costing Rs.231.18 crore (out of 1245 works costing Rs.798.97 crore as on 31 August 2006) in 18 units** was made for test check and out of these works, 89 works costing more than Rs.50 lakh each were selected for detailed examination.

Audit Objectives

3.1.3 The Performance audit was conducted to assess whether:

- the works were executed effectively, efficiently and economically in accordance with the provisions of UPRNN Manual (Manual) and specifications and Schedule of Rates (SORs) of UPPWD/CPWD, State Government and Management directives;
- procurement of materials was made in accordance with the prescribed procedures and at a minimum cost without compromising the quality;
- utilisation of materials was as per the prescribed norms and specifications;
- works were properly supervised and monitored, and internal control system prevalent in C&DS was efficient and effective; and
- quality control mechanism was in place for ensuring quality of works.

Audit Criteria

3.1.4 The audit criteria considered for assessing the achievement of the audit objective was to check the extent of adherence to:

- provisions of the Manual and Financial Hand Book Vol. VI (FHB) of the State Government;

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* Ahemadabad, Jammu, Nagpur and Patna

** Allahabad-10 & 33, Bareilly-49, Faizabad-21 & 47, Ghaziabad-31, Gorakhpur-14, Lucknow-6, 13, 26 & 29, Noida-27, 28, 45 & 52, Sitapur-53 and Varanasi-24 &30.

- specifications of UPPWD/CPWD and SORs;
- directives of the State Government and Management decisions/guidelines;
- terms and conditions of purchase orders for procurement of materials; and
- internal control system with respect to planning, execution and monitoring of works.

Audit Methodology

3.1.5 The methodology adopted for attaining audit objectives with reference to audit criteria was examination of:

- provisions in the Manual, FHB, UPPWD/CPWD specifications and SOR;
- delegation of powers to various officers at headquarters of C&DS and in the field units;
- drawing and designs, preliminary and detailed estimates of the works, cash book, Journal and ledgers as well as other related records, decisions of the Purchase Committee, supply orders, works orders, store ledgers, Measurement Books (MB), Material at Site (MAS) register, consumption statement of materials utilised and Physical Verification Reports of stocks and stores and MAS balances;
- system of monitoring and inspection of works by Director/GMs during execution of works and
- interaction with management and issue of audit queries.

Audit Findings

3.1.6 Audit findings arising from the Performance Review were issued (June 2007) to the Management/Government and discussed in the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 29 August 2007. The Director of C&DS and Special Secretary (Nagar Vikas), Government of Uttar Pradesh attended the meeting. The views expressed by the Management/Government have been taken into consideration while finalising the review.

During the last five years up to 2006-07, C&DS executed 1962 works at a cost of Rs.1353.32 crore and 1701 works costing Rs.50.30 crore were in Progress (WIP) at the end of 31 March 2007 as detailed below:

(Rs. in crore)

Particulars	2002-03		2003-04		2004-05		2005-06		2006-07	
	Nos.	Value	Nos.	Value	Nos.	Value	Nos.	Value	Nos.	Value
Works pending at the beginning of the year	1311	102.43	1241	111.85	1501	116.31	1211	134.49	1724	166.76
Works received during the year	373	256.49	594	276.08	330	244.21	733	291.91	612	385.32
Total	**1684**	**358.92**	**1835**	**387.93**	**1831**	**360.52**	**1944**	**426.40**	**2336**	**552.08**
Works completed during the year	443	247.07	334	271.62	620	226.03	220	259.64	345	348.96
Works under progress	1241	111.85	1501	116.31	1211	134.49	1724	166.76	1991	203.12
Percentage of works completed to total works	26.31		18.20		33.86		11.32		14. 77	

Source: Progress reports.

The audit findings regarding obtaining the works from the clients, financial management, planning and execution of works, procurement and utilisation of materials, supervision and monitoring and quality control mechanism in execution of the works are discussed in succeeding paragraphs:

Awarding of works without call of Tenders

3.1.7 C&DS was declared as approved construction agency by the State Government. Hence it got preference for undertaking deposit works. However, it did not formulate any procedure or system to liaise with different Government Departments/Organisations for obtaining works. The works were being obtained either through sub-contractors or Project Managers of the unit. A scrutiny of MsOU executed with sub-contractors in four[*] divisions for obtaining the works from the clients revealed (February 2007) that during the period 2002-03 to 2006-07, six departmental works costing Rs.212.33 crore were obtained through sub-contractors at lower/without centage instead of charging 12.5 *per cent* as fixed by the State Government and the same were awarded to them on back-to-back basis. In the absence of basic records it could not be ascertained as to how many contractors were awarded works on back to back basis without call of tenders.

Thus, despite preference given to C&DS by the State Government, it obtained departmental works through sub-contractors and also awarded the same to them on back-to-back basis in contravention of codal provisions. This resulted in loss of centage as well as contractor's profit at the rate of 10 *per cent* included in rates of each item of work. Fact is that obtaining departmental works through sub-contractors without any effort and awarding the departmental work to the same contractor was against the standard business practices (awarding works by call of tenders) and unethical, as, in such cases chances of compromising with the quality of work can not be ruled out, resulting in adverse financial implication for the State Government.

Irregular obtaining of works through sub-contractors and awarding the same to them on back to back basis.

The Management stated (August 2007) that liasioning was maintained with the client Departments by the nodal officers of the rank of General Managers. The Management accepted (August 2007) in ARCPSE meeting that six works were procured by the private contractors and the same were sublet to them on back-to-back basis and C&DS got supervision charges for the work. The reply is not tenable because obtaining of the works through sub-contractors and awarding the same to them was against codal provision and C&DS received supervision charges only and centage was either fully foregone or was reduced at a rate less than 12.5 *per cent.*

Financial Management

Despite having sufficient technically qualified staff, C&DS paid Rs.6.96 crore as consultancy and drawing expenses to private architects.

3.1.8 C&DS executes deposit works after obtaining funds from the clients against the sanctioned cost of the works. The funds are provided by the clients either at Headquarters of C&DS or to the executing units. In execution of works, C&DS charges centage on the cost of works for meeting administrative and other overheads as well as to earn income. The financial position and working results of C&DS during last four years up to 2005-06[**] are given in the **Annexure-27**.

[*] Unit-6 and 29, Lucknow, Unit-45 and 52, Noida.

[**] Accounts for the year 2006-07 have not been finalised (September 2007).

It was noticed (January 2007) that:

- C&DS paid Rs.6.96 crore as consultancy, drawings and designs expenses during the last four years up to March 2007 to private architects despite having sufficient technically qualified staff.

The Management stated (August 2007) that preparation of drawings and designs and estimates of the work through private architects and consultants was beneficial to the wing. The reply is not tenable in view of the fact that C&DS was the State Government approved agency to undertake building construction, land development and housing project management, designing *etc.* Further it had sufficient number of technical staff/officers who could have been deployed for the works to avoid the expenditure (on consultancy, preparation of drawings and designs *etc.*) to State Government.

- Current assets, loans and advances include outstanding advances of Rs.1.87 crore against Piece Rate Workers (PRW) in a unit[*], whereas as per accounts records, no advances were outstanding against PRWS.

The unit Management while accepting the facts stated (February 2007) that the discrepancies would be reconciled.

Planning for execution of works

Manpower Planning

3.1.9 The Manual[**] provides that the Director of C&DS shall organise and adopt yardstick for distribution of work to various units to the best advantage of C&DS, keeping in view the cost considerations. A unit should have one PM (unit-in-charge), one Assistant Project Manager (APM) and two or more Resident Engineers (RE) (depending upon number of job-sites/works), one Accountant and one Store Keeper.

It was observed (April 2007) that:

- The deployment of REs at the units was made without taking into consideration the number and volume of works/sites. In Sitapur unit, having 97 works / sites with turnover of Rs.4.19 crore, seven REs were posted (2006-07-average expenditure of Rs.0.15 lakh x 7 every year=Rs.12.60 lakh per year) whereas in Lucknow (unit-29), Aligarh and Varanasi (unit-24) having 102 to 154 number of works / sites with turnover ranging from Rs.12.43 crore to Rs.22.85 crore, four to six REs were deployed during the same period.
- No storekeeper was posted (2002-03 to 2006-07) in any unit and the procurement, custody, issue and utilisation of materials was being done by REs themselves.
- No yardstick had been fixed by C&DS for distribution of work to each unit keeping in view the cost consideration, as a result the allocation of work to each unit was not rational and the works/ sites located in a district were allocated to units located in other districts.

This indicated lack of systematic deployment of staff for execution of works, which hampered the efficient and effective supervision of the works.

The Management stated (August 2007) that the deployment of RE's was made according to the requirement. The works were allotted by the clients at

[*] Unit 45 at NOIDA.
[**] Para 17 B, 860 and 876 of the Manual.

different places hence no distribution of works among the units was made by the headquarters. The reply is not tenable as the prescribed norms for deployment of RE's were not followed and the deployment of RE's was not made at units as per requirement.

Preparation and sanction of estimates

3.1.10 The Manual[1], FHB[2] and decisions of Board of Directors (BOD) of the Nigam (July 2001) stipulate that no works shall be started without obtaining the administrative approval from the clients on the basis of preliminary estimate. After getting the administrative approval from the concerned Government Departments, detailed estimates are to be prepared and sanctioned by the competent authority of C&DS, which is known as Technical Sanction (TS). The TS amounts to a guarantee that the proposal is structurally sound, estimates accurately worked out and are based on adequate data.

The following shortcomings were noticed (March 2007) in this regard:

- 27 works costing Rs.160.75 crore were started by eight units[3] without obtaining TS from the competent authority of C&DS. Of these, 15 works costing Rs.122.99 crore were completed during 2002-03 to 2006-07 as detailed in **Annexure-28.**
- Though C&DS was to provide design services it did not establish the design wing and the drawings and designs and estimates of the works were got prepared from the private consultant and architects. It was, however, noticed (March 2007) that the detailed estimates of 12 works sanctioned by the competent authority were not prepared as per prescribed specifications/norms, and there was over estimation of the cost of the works by Rs.95.47 lakh as detailed in **Annexure-29,** for which revised estimates were not prepared**.**
- Each executing unit was required to maintain an estimate register but the same was not maintained by five units[4]. In the absence of estimate register, the actual status of preparation and sanction of preliminary, detailed and revised estimates of works could not be ascertained. This also indicated adhocism on the part of C&DS in planning for the works.

The Management accepted (August 2007) the audit observation and stated that TS in respect of 15 completed works and 12 work-in-progress had now been obtained (September 2007). The preparation of drawing, designs and estimates of the works through private architects and consultant was beneficial to C&DS. For preparation of estimate register, the necessary instructions had been issued to the units. In ARCPSE meeting (August 2007) the Management accepted that there were some cases, which were executed without TS, but the drawings prepared by private consultant/architects were checked by the Project Managers/GMs.

The reply is not tenable as the date of TS in respect of each completed works was not furnished and TS after completion of works did not guarantee that the works were executed as per approved drawings and specification. The engagement of private architects and consultants for preparation of drawings,

[1] Para 34 and 41 of the Manual.
[2] Para 318 of the Financial Hand Book.
[3] Lucknow-13, Faijabad-21& 47, Varanasi-24, Noida-28,45 &52, and Bareilly.
[4] Allahabad 10&33, Faizabad 21, Lucknow 6 and Gorakhpur 14.

designs and estimate of the work was not beneficial to C&DS in view of the fact that C&DS had sufficient number of technical staff/officers who could be deployed for the work and inaccuracies in design, drawings and estimates could be avoided.

Execution of works

3.1.11 After obtaining the works from the clients, C&DS is to execute the works through Piece Rate Workers (PRW) as per provisions of the Manual, Government and Management directives as well as terms and conditions of the MOU executed with the clients. The works are executed through PRWs engaged on the recommendation of the Purchase Committee. It was noticed (March 2007) that in execution of works, provisions of the Manual, terms and conditions of MOU and the State Government/ Management directives were not adhered to by C&DS as discussed below:

Subletting of works

3.1.12 The Manual* provides that C&DS should eliminate big private contractors as far as possible so that the works are not sub-let to sub-contractors and are got executed through PRWs by issue of work orders to them. Further, the works can be sub-let to sub-contractors with the approval of the MD who will record full reasons for doing the same under intimation to the BODs in the next meeting. In all cases of subletting, the provisions of the Manual also stipulate that tenders should be invited by advertising in four leading English and Hindi dailies.

It was noticed (March 2007) that 19 works costing Rs.421 crore awarded (August 2000 to July 2006) to C&DS were sub-let to sub-contractors without the approval of the MD and without informing the BOD.

The Audit observed (March 2007) as follows:

- "Development work in Sector 105 and 108 at Noida" obtained (November 2002 for Rs.23.19 crore) by C&DS from the New Okhla Industrial Development Authority (NOIDA) was awarded (November 2002) to 14 sub-contractors at a cost of Rs.19.40 crore on quotation basis without inviting tenders. The sub-contractors executed the works for Rs.11.67 crore till October 2003 when the work was terminated by the client due to poor workmanship. Further, against the total expenditure of Rs.11.67 crore (including centage), the client paid Rs.10.80 crore only. This resulted in excess expenditure of Rs.87 lakh, which had not been paid by the client (March 2007). Thus the award of work to sub-contractors without inviting tenders was not only against codal provisions but also resulted in loss of benefit of competitive rates. Further, due to non-payment of Rs.87 lakh by the client, C&DS also suffered loss of interest amounting to Rs.26.75 lakh (worked out at nine *percent* per *annum*) during October 2003 to March 2007.

- During August 2000 to March 2006 out of 19 works, tenders for execution of 17 works valued at Rs.412.45 crore were not invited and the works were awarded by obtaining quotations from the local contractors for which no reasons were on the records. Hence it could

* Para 20, 21, 467, 468 and 473 of the manual.

not be ascertained whether rates accepted were competitive and the works were awarded to experienced sub-contractors.

The Management stated (August 2007) that awarding of works through tenders was a long drawn process and would invite political influences and intervention of unscrupulous elements. The reply is irresponsible because as per provision of the Manual in all cases of subletting, the tenders should be invited as these procedures had stood the test of time and were well established to get the works completed at economical cost. Further, the works were also awarded to sub-contractors on back-to-back basis without the approval of MD/BOD.

Execution of deposit works at lower/without centage

3.1.13 The BOD directed (October 2005) that C&DS should levy and charge centage at 12.5 *per cent* on all deposit works as prescribed (February 1997) by the State Government. It was noticed (March 2007) that incontravention of the said directives, C&DS executed 531 works costing Rs.272.87 crore without receiving any centage during the period 2002-2007 and 90 works costing Rs.35.35 crore were executed at lower centage ranging from five to 10 *per cent* during the period 2005-2007 against the applicable rate of 12.5 *per cent as* fixed by the State Government/Management, resulting in loss of income of Rs.35.99 crore.

Execution of works without receipt of centage or receipt of less centage than 12.5 *per cent* as prescribed by the State Government resulted in loss of income of Rs.35.99 crore.

The Management stated (August 2007) in ARCPSE meeting that action would be taken to get requisite permission from the State Government for executing works at lower centage. No reply regarding execution of works without receipt of centage was, however, furnished. The fact, however, remains that the Government order/management directives were not followed resulting in loss of income to C&DS.

Award of work at composite rates

3.1.14 An agreement was executed (December 2000) by C&DS with NOIDA for “Construction of Ganga Water Distribution System in Noida” at an estimated cost of Rs.64.97 crore including two *per cent* contingency and 4.4 *per cent* centage. As per terms and conditions of the agreement, C&DS was not to award the work to any sub-contractor and all the materials for the work were to be purchased by it. It was noticed (March 2007) that in contravention of the above terms and conditions, C&DS awarded the work to 15 sub-contractors during 2000-02 at a cost of Rs.33.94 crore with condition to complete the works in 18 months from the date of agreement. The estimates of the works included supply, laying and jointing of pre-stressed concrete (PSC) pipes at a cost of Rs.9.19 crore including 10 *per cent* contractor’s profit. Had the unit procured pipes by itself as per terms of the agreement, it could have saved contractor’s profit to the tune of Rs.30.35 lakh worked out on executed quantity of pipes (18,912.90 running meter). Thus, the award of work to sub-contractors at composite rates in contravention of the terms and conditions of the agreement resulted in extra expenditure of Rs.30.35 lakh.

The Management stated (August 2007) that in the absence of adequate infrastructure with C&DS, the work was awarded at composite rate with a view to get the work completed within scheduled time. The reply is not tenable as the award of work at composite rate was in contravention of the terms and conditions of the agreement. In ARCPSE meeting (August 2007) the Management, however, accepted the facts and stated that matter would be looked into.

Execution of extra items of works without approval of the clients

3.1.15 Three units* of C&DS executed (January 2001 to March 2007) extra items of works valued at Rs.1.79 crore against three works costing Rs.68.84 crore without the approval of respective clients as detailed below:

(Rs. in lakh)

Name of the work	Name of the clients	Estimated cost	Date of start	Date of completion	Value of extra items	Details of extra works
Ganga Water Distribution System, Noida	New Okhla Industrial Development Authority	6497.47	01.01.01	31.01.05	169.53	Extra rate in PCC work, MS work, procurement and laying of CI pipes *etc.*
Construction of CHC Sirathu, Allahabad	Health Department	133.26	28.01.03	31.03.06	2.05	Brick Koba treatment
Construction of Bus Station, Cant, Varanasi	Uttar Pradesh State Road Transport Corporation	253.30	17.11.04	WIP	7.17	Supply and filling of carted earth
Total		**6884.03**			**178.75**	

Source: Progress and completion reports of works.

C&DS did not prepare (September 2007) revised estimates incorporating these extra items of works, resulting in non-realisation of Rs.1.79 crore incurred on execution of extra items and consequential loss of interest of Rs.17.98 lakh (worked out at nine *per cent* up to March 2007).

The Management stated (August 2007) that the extra items were executed as per verbal assurance/instructions of the clients and efforts were being made to get the works accepted from them. The reply is not tenable as neither the approval of the client was obtained nor any document showing assurance of the clients was furnished.

Dredging and Desilting work

3.1.16 With a view to develop inland navigation facilities on river Gomti from Gomti barrage to Gaughat pumping station in Lucknow, the State Transport Department sent (January 2003) a proposal to the GOI for approval. The State Government allotted (February 2003) the work to C&DS at a preliminary estimate of Rs.24.12 crore and allotted Rs.2.40 crore from Urban Infrastructure Fund to be shared equally by Lucknow Development Authority (LDA), UP Avas Evam Vikas Parishad (UPAVP) and Nagar Nigam, Lucknow. LDA and UPAVP, however, released Rs.40 lakh and Rs.50 lakh respectively to C&DS.

It was noticed (November 2006) that C&DS without waiting for GOI sanction or sanction of estimate and without obtaining full amount from LDA, UPAVP and Nagar Nigam, Lucknow executed an agreement (June 2003) with a private company of Kolkata without call of tender for dredging and de-silting work for 1.45 lakh cum at a cost of Rs.1.02 crore. The sub-contractor executed (October 2003) the work for 1.29 lakh cum (*89 per cent*) at a cost of Rs.90.27 lakh (89 *per cent*) when the work was stopped (November 2003) due to non-receipt of balance funds from other Government organisations and non-approval of the project by the GOI (September 2007). The unit had also

* Unit 45, Noida, Unit 30, Varanasi and Unit 26, Lucknow.

incurred an expenditure of Rs.5.90 lakh during January 2002 to May 2003 for carrying out miscellaneous enabling works, prior to execution of the agreement with the sub-contractor. Thus, commencement of work without sanction and approval of GOI resulted in unfruitful expenditure of Rs.96.17 lakh.

The Management stated (August 2007) that efforts were being made by the State Government to get the project approved from the GOI. The reply is not tenable as even after lapse of four years from the stoppage (November 2003) of work, GOI had not accorded approval and LDA, UPAVP and Nagar Nigam, Lucknow had not deposited their share. Thus, commencement of work without sanction of the project resulted in unfruitful expenditure for which no responsibility had been fixed.

Loss due to injudicious decision

3.1.17 Three works costing Rs.6.27 crore started (March1996 to July 2004) and executed through PRWs by C&DS could not be completed and abandoned after incurring expenditure of Rs.1.75 crore as detailed below:

(Rs. in lakh)

Sl. No.	Name of the work	Name of the client	Estimated cost	Date of start	Fund received from client	Expenditure incurred	Date of abandonment
1	Const. of Sports Stadium at Alapur	Yuva Kalyan	60.50	16 March 96	15.00	14.75	May1996
2	Shopping complex at Beniabagh at Varanasi	Varanasi Development Authority	206.15	1 August 01	84.50	64.39	October 2003
3	Construction of C&DS headquarters, Lucknow	Own building	359.85	01 July 04	NA	95.50	September 2005
	Total		**626.50**			**174.64**	

Source: Progress reports submitted by field units.

In this regard, following points deserve mention:

- Expenditure of Rs.14.75 lakh was incurred (March to May 1996) on the construction of "Sports Stadium" at Alapur in Ambedkar Nagar without ascertaining the ownership of land with the client.
- Expenditure of Rs.64.39 lakh incurred on construction of Shopping Complex in Varanasi could not be utilised due to abandonment of the work for which no reasons were available on records.
- The construction of Headquarters building of C&DS at Gomti Nagar, Lucknow was started (January 2004) by the unit 29, Lucknow and stopped (September 2005) after incurring an expenditure of Rs.95.50 lakh by the Chairman of Jal Nigam without assigning any reasons. As the work was stopped, the materials valuing Rs.11.32 lakh were also lying un-utilised at site. Thus, due to injudicious decision of C&DS, the funds to the tune of Rs.95.50 lakh remained blocked causing loss of interest of Rs.12.89 lakh to C&DS.

The Management stated (August 2007) that in respect of construction of Sports Stadium at Alapur, the District Magistrate and owner of the land agreed to make available the site. In respect of shopping complex at Varanasi, the work had been stopped as per direction of the Court. The construction of headquarters' building would be completed from its own funds. The replies are not tenable as no documentary evidence regarding assurance given by the

District Magistrate and owner of the land regarding availability of site for construction of Sports Stadium at Alapur was furnished. The delay in construction of headquarters building had resulted in blocking of funds as well as loss of interest.

Execution of District Rural Development Agency works

Against orders of the State Government, execution of works without centage resulted in loss of income amounting to Rs.2.56 crore to C&DS.

3.1.18 The Government order (March 1999) provides that in the case of deposit works sponsored by the District Rural Development Agency (DRDA) and financed under *Vidhayak* and other *Vikas Nidhis etc.*, the centage of 12.5 *per cent* on the total cost of work shall be charged by the Public Sector Undertakings/Corporations/Nigams.

The following points were noticed (March 2007):

- During 2002-03 to 2006-07, C&DS executed 396 DRDA works costing Rs.20.45 crore without charging any centage. As a result C&DS was deprived of income amounting to Rs.2.56 crore towards centage.
- The terms and conditions of the work awarded by DRDA stipulated that C&DS would carry out the execution of these works by itself by procuring materials and would not engage out side contractors. The DRDA sanctioned the estimates of works on the basis of UPPWD SOR, which include contractor's margin of 10 *per cent* on total cost (material and labour). Four[*] executing units, however, awarded 209 works to PRWs at composite rate (cost of material *plus* labour) which also included contractors' margin and got them executed at a cost of Rs.3.06 crore. As a result, C&DS could not get the contractors' margin of Rs.27.82 lakh resulting in loss to C&DS.
- In execution of 38 works, C&DS incurred expenditure of Rs.2.34 crore during 2002-03 to 2006-07 against the fund of Rs.1.95 crore received from the clients (DRDA) resulting in excess expenditure of Rs.38.97 lakh, which had not been realised from the clients as of August 2007 resulting in loss to that extent.

The Management stated (August 2007) that generally no work was executed without centage but being a State construction agency, on the instructions of the District Administration, the execution of works without centage was inevitable for C&DS to maintain the goodwill. In respect of excess expenditure over the funds received, the Management, while accepting the facts in ARCPSE meeting, assured that responsibility would be fixed against the defaulting officers/officials. The reply is not tenable as execution of the DRDA works without centage was against the Government order for which no responsibility was fixed.

Procurement of Materials

3.1.19 The Manual[**] provides that the material for execution of works shall be purchased by a Purchase Committee (PC) of three members constituted in each executing unit. The members of PC are required to submit their Report (PCR) after proper market survey and cost control exercise of each item according to prevailing SOR of UPPWD/CPWD.

[*] Rampur-2, Moradabad- 18, Farrukhabad- 43 and Sitapur 53.
[**] Para 96 to 119 of the Manual.

The following points were noticed (March 2007):

- The PC submitted its report for purchase of materials by all the 18 units for execution of 94 works for Rs.479.26 crore during 2002-03 to 2006-07 without conducting any cost control exercise of rates of each item to be purchased with reference to prevailing UPPWD/CPWD SOR.
- Unit-47, Faizabad, for construction of "Central School" at Faizabad and "Industrial Training Institute" building at Amethi, purchased materials valuing Rs.2.06 crore (April 2000 to October 2004) directly from the suppliers on the basis of quotations obtained from the suppliers without market survey and preparation of PCR. As a result the benefit of competitive rates could not be obtained.
- The joint PCR at each GM level should be prepared for uniformity in purchase rates of materials in the units located within one district. It was, however, noticed (March 2007) that C&DS had not evolved any system for preparation of joint PCR and the materials were being purchased at different rates for different works by the units located at the same place/district resulting in extra expenditure of Rs.24.75 lakh in 10 cases as detailed in **Annexure-30 and 31.**

Thus, due to non-following of codal provisions regarding cost control exercise with reference to prevailing UPPWD/CPWD SOR, preparation of PCRs and joint PCRs for procurement of materials, C&DS could not obtain the benefit of competitive rates and incurred extra expenditure.

The Management stated (August 2007) that for cost control exercise and preparation of joint PCR, the instructions had been issued to field units but no reply was furnished regarding purchase of material by Faizabad unit without preparing PCR. It was, further, stated that main reason for variation in rates of purchase of items was cost of transportation due to different locations of the sites of works. In ARCPSE meeting (August 2007), the Management stated that the action would be taken for preparation of PCRs at GM level. The reply of the Management, so far as it relates to price variations, is not tenable. Had the system of joint purchase committee been adopted the difference in rates of purchases could have been avoided.

Favour to Suppliers / Sub-contractors

Deduction of trade tax at one *per cent* instead of four *per cent* from the bills of sub-contractor resulted in short deduction of Rs.1.75 crore.

3.1.20 As per UP Trade Tax (UPTT), Act. 1948[•], the contractor while making any payment to the sub- contractor has to deduct trade tax at four *per cent* on the total contracted value of the works. The sub-contractor by providing indemnity bond may obtain permission from UPTT Department for deduction of UPTT at one *per cent* instead of four *per cent* on the total contracted value of the works with the condition that the sub-contractor will not import five *per cent* or more material from out side the State.

It was noticed (February 2007) that the work for 'laying of PSC pipes' for "Ganga Water Distribution System in Noida" was awarded (February 2001) at composite rate (both material and labour cost) to 25 sub-contractors by obtaining quotations from them at a cost of Rs.51.49 crore. The sub-contractors purchased PSC pipes worth Rs.8.05 crore (15.63 *per cent* of the

[•] Section 8 D (1)

total contract value) from two Delhi firms. The Trade Tax was, however, deducted at one *per cent* instead of four *per cent* on the total value of work done (Rs.58.40 crore). As the value of material purchased from outside the UP State was more than five *per cent* of the total value of work, trade tax should have been deducted at four *per cent.* This has resulted in short deduction of trade tax by Rs.1.75 crore.

The Management stated (August 2007) that if the contractor procured the material from outsides the State, it was his liability to pay the differential Trade Tax as per rules. The reply is not tenable as the executing agencies are responsible for deduction of Trade Tax as per rules from the bills of the contractors.

3.1.21 The cost of sand and stone grits includes cost of transportation ranging from 25 to 67 *per cent* of its total cost, hence in supply orders the cost of material and transportation should be separately mentioned so that the payment of trade tax on the transportation cost of material could be avoided. It was noticed (November 2006 to April 2007) that 12 units[*] of C&DS placed (December 1999 to December 2006) supply orders for purchase of 1.42 lakh cum (sand, coarse sand and stone grits) costing Rs.9.13 crore, at composite rate (cost of material and transportation cost) and paid Trade Tax at eight *per cent* to the suppliers on composite cost instead of material cost. This resulted in extra expenditure of Rs.43.85 lakh on payment of trade tax on transportation cost assuming 60 *per cent* of composite rate as transportation cost.

The Management accepted (August 2007) the audit findings but stated that Trade Tax was paid as per rules. The reply is not tenable as Trade Tax was payable on the cost of materials only and not on transportation cost.

3.1.22 According to the Government Notifications issued from time to time under Mines and Minerals (Exchange and Development) Act, 1957, C&DS was required to obtain receipt in form MM-11 from suppliers/contractors in support of payment of royalty on sand and stone grit. If the receipt is not submitted by the suppliers/contractors, royalty should be deducted from their bills. It was noticed (March 2007) that 11 units of C&DS neither obtained receipts from the suppliers/contractors nor deducted the royalty amounting to Rs.19.67 lakh as detailed in **Annexure-32** resulting in undue benefit to suppliers/contractors, besides loss of revenue to the State Exchequer.

Utilisation of materials

3.1.23 The Manual [**]provides that after completion of works and also at the end of every financial year, the material consumption statement for all the works shall be prepared on the basis of measurement of total work done as per prescribed norms of the UPPWD/CPWD. Any excess consumption of material over the norms shall be properly analysed and its reasons shall be recorded in the consumption statement. If actual consumption of material is found to be higher, the PM concerned shall hold an enquiry for such variation and shall fix the responsibility of the defaulting officers/officials.

In this connection, following deficiencies were noticed:

[*] Allahabad unit 10 & 33, Bareilly-49, Ghaziabad-31, Lucknow-6 &13, Noida-27, 28 & 45, Sitapur-53 and Varanasi-24 &30.

[**] Para 159, 160 and 167 of the Manual.

Excess Consumption of materials

3.1.24 A test check of records relating to 94 works executed at a cost of Rs.479.26 crore during 2002-03 to 2006-07 revealed (March 2007) that neither the annual consumption statements nor final statements for consumption of materials were prepared. As a result, the variation in consumption of materials over the prescribed norms could not be assessed and vouchsafed. Further, scrutiny of MBs and estimates of the works revealed excess consumption of materials over the norms as well as over the estimated quantity as detailed below:

- Excess consumption of materials over the norms.

Name of items	No. of works	Period of execution of works	Materials issued as per Store ledger/MAS	Material consumed as per measurement book/norms	Excess consumption of materials	Value of materials (Rs. in lakh)	Percentage of excess consumption over the norms
Bricks	5	April 1999 to May 2006	52.37 lakh	43.15 lakh	9.22 lakh	15.80	21.37
Steel	11	September 1997 to October 2006	1327.80 MT	1002.39 MT	325.41 MT	70.18	32.48
Total						**85.98**	

Source: Measurement books.

The Management stated (August 2007) that main reasons for excess consumption of materials were consumption of material in septic tank, manhole and other enabling works which were not included in the estimates. The reply is not tenable as neither measurement of these items of works were recorded in the measurement book nor the item-wise consumption of the materials were worked out and furnished to Audit.

- Excess consumption over the estimated quantity.

Name of items	No. of works	Period of execution of works	Quantity as per estimates	Material consumed as per measurement book	Excess consumption of materials	Value of materials (Rs. in lakh)	Percentage of excess consumption over the estimate
Bricks	5	May 1997 to December 2006	39.34 lakh	59.67 lakh	20.33 lakh	38.71	51.68
Cement	8	October 1999 to December 2006	102473 bags	135504 bags	33031 bags	59.42	32.23
Fine sand/Coarse sand/Stone grit	3	April 1999 to October 2006	8256.07 CUM	9817.14 cum	1561.07 cum	12.40	18.91
Total						**110.53**	

Source: Measurement books.

Due to consumption of building material in excess of the norms and estimated quantity resulted in incurring of extra expenditure of Rs.1.97 crore.

The Management stated (August 2007) that the main reasons for excess consumption of cement were execution of extra works not included in the estimates and change in drawings and designs as per site condition. The reply is not tenable as neither the revised estimate incorporating the extra works as well as change in drawings and designs were got sanctioned nor the details of such executed works justifying the excess consumption were furnished.

Thus, the excess consumption of building materials (bricks, cement, sand, stone grit and steel) over the norms ranging between 21 and 32 *per cent* and over the sanctioned estimated quantity ranging between 19 and 52 *per cent* in execution of works resulted in incurring of extra expenditure of Rs.1.97 crore.

Utilisation of surplus material

3.1.25 It was noticed (March 2007) that in two works the materials were purchased in excess of the requirement, as a result the materials valuing Rs.69.07 lakh became surplus and were lying unutilised at the site as detailed below:

- The PVR of the unit-30, Varanasi disclosed (March 2006) that the balance material worth Rs.1.24 crore, including surplus material of Rs.32.87 lakh had been lying at the site (Varanasi Main Feeder) since July 2002 *i.e.* the date on which work was completed and handed over to the client. No action was taken to utilise this surplus material at other works.
- The surplus material valuing Rs.36.20 lakh had been lying since 2004 at the site of "Sardar Ballabh Bhai Patel Agriculture and Technical University" at Meerut. This indicated that material was purchased in excess of the requirement. No action had, however, been taken to utilise these surplus materials in other works.

The Management stated (August 2007) that efforts were being made to utilise the surplus materials on other works at different units. The reply is not tenable as the materials were purchased in excess of the requirement and the surplus material continued to be unutilised.

Expenditure on labour cost

3.1.26 The Manual[*] provides that for budgetary purposes, the expenditure on labour component should be 25 *per cent* of the direct cost. It was noticed (April 2007) that out of 733 works executed (2005-06) by eight units[**] the labour cost ranged between 26 to 98 *per cent* in respect of 239 works costing Rs.108.31 crore. The expenditure incurred on labour was Rs.35.52 crore against the ceiling of Rs.27.08 crore (25 *per cent* of total cost of Rs.108.31 crore) which resulted in excess expenditure on labour amounting to Rs.8.44 crore**.**

The Management stated (August 2007) that the ceiling of 25 *per cent* on labour cost was only guiding point. The reply is not tenable, had the labour cost been monitored through cost control exercise before award of work, extra expenditure on labour could have been avoided.

Construction of works over and above the prescribed specifications

3.1.27 It was noticed (March 2007) that C&DS incurred an extra expenditure of Rs.12.40 lakh on construction of floors and ceiling plaster in 14 works over and above the specification provided in the UPPWD/CPWD specifications resulting in loss of Rs.12.40 lakh as detailed in **Annexure-33.**

The Management stated (August 2007) that the works were either executed as per provisions made in the estimates or on the request of the clients. The reply is not tenable as the works were executed against the prescribed specification and norms of UPPWD/CPWD for which no claim could be lodged with the clients.

[*] Para 1121 and 1122 of the Manual.
[**] Lucknow-6& 29, Gorakhpur-14, Varanasi-24 & 30, Sitapur-52, Aligarh-25 and Agra 23/35.

Recovery of Empty Cement Bags

3.1.28 According to UPPWD SOR issued from time to time the contractor is allowed to use empty cement (EC) bags for curing purpose subject to maximum of 20 *per cent* of the total cement bags consumed on the works. The balance 80 *per cent* EC bags in good condition are to be returned, otherwise recovery at the rate of Rs.2 *per* EC bag is to be made from the bills of PRW/sub-contractors. It was noticed (March 2007) that, in execution of 37 works, 5.34 lakh cement bags were issued to PRWs/sub-contractors and consumed (September 1997 to February 2007) on the works. But neither 4.27 lakh (80 *per cent*) EC bags were returned nor its cost of Rs.8.54 lakh was recovered from PRWs/sub-contractors.

The Management stated (August 2007) that due to supply of cement in poly bags the cost of empty bags was not recovered. The reply is not tenable as the recovery of cost of empty cement bags was required as per SOR of UPPWD.

Execution of earthwork

3.1.29 In execution (December 2003 to February 2007) of earth works in respect of three works, C&DS incurred avoidable/excess expenditure of Rs.76.18 lakh as discussed below:

- For “Solid Waste Management Scheme" at Bareilly, filling of the carted earth of 0.43 lakh cum at the rate of Rs.99 per cum for Rs.42.57 lakh was done (October 2005 to February 2007) without any provision in the sanctioned estimate or approval of the client. Further against the provision of 0.39 lakh cum excavation of earth work at the rate of Rs.91.50 cum, the actual excavation was carried out for 0.54 lakh cum at higher rate of Rs.114 per cum resulting in excess execution of 0.15 lakh cum over the estimate (38.46 *per cent*) for Rs.3.43 lakh.

The Management stated (August 2007) that work was still in progress and if any variation in the actual quantity over the estimate would arise, the approval would be obtained from the client. The reply is not tenable as neither the reasons for variation in quantity nor justification for awarding the work at higher rate was furnished.

- In construction (December 2003 to March 2006) of “Road in new area and Peripheral Road at SGPGI”, Lucknow, the final bill was raised to client for 0.32 lakh cum earth work against the actual measurement of 0.45 lakh cum resulting in non-preferment of claim of Rs.4.36 lakh for the balance executed quantity. Further, Rs.3.04 lakh was also paid extra to PRWs for mechanical compaction of earth which was already executed along with earth filling work.

The Management stated (August 2007) that the measured quantity 0.45 lakh cum was not correct. The reply is not tenable as details of actual measured quantity were not furnished and the measured quantity had been worked out by Audit as per measurement recorded in the measurement book.

- The work “Beautification of Gomti River Bank at Lucknow” was started in April 2006 and Rs12.61 lakh paid (November 2006) to the sub-contractor for filling of earth in trenches whereas neither the trenches were excavated nor the work orders were issued to PRWs for these works. Further, against the estimated quantity of 4480 cum earth filling of carted earth, the actual filling was measured for 12381 cum resulting in excess expenditure of Rs.9.88 lakh.

The Management stated (August 2007) that in the said scheme there was no provision for excavation of trenches. For excess quantity over the estimates, the provision had been made in the revised estimate. The reply is not tenable as there was provision for excavation of trenches in the estimate and the revised estimate had not been prepared and sanctioned by the client.

Recovery of un-utilised materials

3.1.30 It was noticed that in five works mentioned in the table below, building materials (cement, sand, stone grit, steel and sanitary items *etc.*) valuing Rs.77.95 lakh were lying unutilised (March 2007) at sites since completion (December 2002 to May 2005) of these works. These materials had neither been returned by the respective Resident Engineers nor its cost was recovered from them (March 2007);

Sl. No.	Name of the Work	Date of start	Date of completion	Value of material not returned (Rs. in lakh)
1	Extra room in Art Block at RLS Rajkiya Mahavidhyalaya, Ambedkar Nagar	May 1987	December 2002	10.40
2	Science Block in RLS Rajkiya Mahavidhyalaya, Ambedkar Nagar	June1996	February 2003	15.19
3	Central School, Faizabad	January 2000	July 2003	8.36
4	Govt. Higher Secondary School, Ghazipur	July 2001	October 2004	3.72
5	Non Residential Building at Collectorate Building, Kaushambi	April 2001	May 2005	40.28
			Total	**77.95**

Source: Statement of material at site.

The Management stated (August 2007) that in respect of Central School Faizabad and NR Building at Collectorate, Kaushambi, the balance materials had been adjusted. In other works, the adjustment would be made at the time of closure of accounts of the work. The reply is not tenable as no documentary evidence regarding adjustment of balance material was furnished.

Supervision and Monitoring

3.1.31 The Manual* requires submission of profit and loss account of each work, Monitoring Information System (MIS) and monthly account by the field units to headquarters of C&DS. It also describes the duties of GM and unit in-charge regarding supervision and monitoring of the works.

It was noticed (October 2006 to March 2007) that although the status reports and monthly accounts were being submitted regularly by the field units to the headquarters, but their evaluation was not being done regularly and in proper manner at headquarters. The monitoring mechanism being followed by C&DS was not efficient and effective as discussed below:

Excess expenditure over the funds received from clients resulted in blockade of funds amounting to Rs.14.48 crore with consequential loss of interest of Rs.2.85 crore.

Expenditure over the funds received from the clients

3.1.32 As per provision in the Manual**, the expenditure on deposit works should be incurred to the extent of funds received from the clients. It was

* Para 122, 241and 244 of the Manual.
** Para 39 of the Manual.

noticed (December 2006) that C&DS incurred expenditure of Rs.212.46 crore against the funds of Rs.197.98 crore received from the clients in respect of 186 works completed during 2002-03 to 2006-07 resulting in incurring of excess expenditure of Rs.14.48 crore which had not been recovered from the clients so far (August 2007). As a result the funds of Rs.14.48 crore of C&DS remained blocked with consequential loss of interest of Rs.2.85 crore (worked out at nine *per cent* per annum).

The Management stated (August 2007) that the clients/departments had expectations that the works should not be stopped in the absence of funds, as a result, in some cases the excess expenditure over the funds provided by the clients was incurred. The reply is not tenable as in deposit works the excess expenditure over the funds received was against the provision of the Manual. Further the excess expenditure had also not been recovered from the clients so far (October 2007).

Excess expenditure over sanctioned cost

3.1.33 The Manual[*] provides that if the expenditure on any work exceeds or is likely to exceed the sanctioned cost by more than 10 *per cent*, the revised administrative approval must be obtained from the clients. It was noticed (January 2007) that out of 177 completed works in which excess expenditure over the sanctioned cost was incurred (2002-2007), in 51 works (sanctioned cost Rs.27.32 crore), the excess expenditure of Rs.3.20 crore was more than 10 *per cent* of its sanctioned cost for which neither the revised administrative approval was obtained nor the excess expenditure was reimbursed by the client (March 2007).

The Management stated (August 2007) that during 2006-07, about 200 revised estimates were got sanctioned from the clients. In cases, where the revised estimates were not sanctioned by the clients, the action against the defaulting officers/officials would be taken. The reply is not tenable as neither the date of sanction of revised estimate against each work was furnished nor any action was initiated against the defaulting officers/officials.

Expenditure incurred on handed over completed works

3.1.34 The executing units incurred (2006-07) expenditure of Rs.1.32 crore on material, labour and other overheads in respect of 64 works sanctioned for Rs.107.44 crore, despite the fact that these works had already been completed and handed over to the clients (2002-03 to 2005-06) as detailed below:

Year of completion / handed over the works	Number of works	Expenditure incurred after handing over (Rs. in lakh)
2002-03	2	6.57
2003-04	6	15.94
2004-05	15	25.02
2005-06	41	84.14
Total	**64**	**131.67**

Source: Progress reports.

The extra expenditure incurred had not been claimed from the clients so far (October 2007) resulting in loss of Rs.1.32 crore.

[*] Para 317 and 320.1(b) of the Manual.

The Management stated (August 2007) that the expenditure on completed and handed over works till the closure of accounts of that works was incurred for clearance of pending liabilities on the works. The reply is not tenable as expenditure on labour, material should not be incurred after completion and handing over the works. Further, the accounts of these works should have been closed after handing over the works. It is pertinent to add that the expenditure had been incurred even on works which were completed more than two years back.

Delay in completion of works

Diversion of funds resulted in non-completion of 504 works for two to 14 years.

3.1.35 The State Government orders (October 2004) stipulate that no diversion of the sanctioned funds from the work of one client to the work of other client shall be made by the executing units. It was, however, noticed (March 2007) that four[1] units of C&DS, in execution of seven works[2] (sanctioned for Rs.50.66 crore) diverted Rs.3.39 crore (May 2002 to August 2006) from work of one client to the other, resulting in delay in completion of these works ranging from six months to five years.

Further, 504 works sanctioned for Rs.868.52 crore remained incomplete (1992-93 to 2004-05), despite the availability of sufficient funds. The reasons for delay in completion of these works were attributable to diversion of funds from one work to other work thereby indicating lack of supervision, monitoring and financial discipline by the Management.

The Management stated (August 2007) that the diversion of funds was made in the works before issue of the Government order (October 2004) and the main reasons for delay were non-availability of funds, local influence, and disputes. The reply is not tenable because the diversion of funds from the work of one client to the work of other client, is against financial norms, notwithstanding issue of Government order.

Refund of unutilised balance funds to clients

3.1.36 The Manual[3] stipulates that after completion of each work, the clients shall be intimated about the total expenditure incurred on the work and if any amount remains unspent, the same shall be refunded to them. It was noticed (March 2007) that 63 works sanctioned for Rs.20.56 crore were completed at a cost of Rs.19.40 crore and handed over (2002-03 to 2005-06) to the clients against which amount of Rs.20.70 crore was received from the clients but the unspent balance of Rs.1.30 crore had not been refunded to the clients so far (October 2007).

The Management stated (August 2007) that unutilised funds would be refunded to the clients after closure of accounts of the works. The reply is not tenable because as soon as the work was completed, the accounts should have been closed and unutilised funds should have been refunded to the clients.

[1] Allahabad (Unit-10&33), Noida (Unit-45) and Faizabad (Unit-47).

[2] NR building at Kaushambi, Science block Saidabad Degree College Allahabad, Express Highway/Electrification work Noida, Resurfacing of Roads in Noida, ITI building Amethi, Dr. Bhim Rao Ambedkar International Stadium Faizabad and CHC Araila Allahabad.

[3] Para 39 of the Manual.

Advances against PRWs /Sub-contractors/Suppliers

3.1.37 The Manual[*] stipulates that the short-term advances may be given in urgent cases where the sub- contractors or PRWs need money against their work measured but not paid for. The unit-in-charge shall ensure that such advances are recovered as early as possible. It was noticed (April 2007) that the recovery of advances was not monitored either by the units or by the headquarters of C&DS, as a result, advances against PRWs/Sub-contractors/Suppliers to the tune of Rs.14.69 crore at the end of 31 March 2006 were lying unadjusted/un-recovered (October 2007) as detailed below:

(Rs. In crore)

Advances outstanding at the end of the year	2002-03	2003-04	2004-05	2005-06
PRW's /sub-contractors	58.05	15.46	13.20	10.86
Suppliers	8.89	7.60	8.33	3.83
Total	**66.94**	**23.06**	**21.53**	**14.69**

Source: Works account.

In this connection, the following points deserve mention:

- Advance of Rs.5.09 crore was given (2000-01 to 2002-03) to sub-contractors against three works[**] in Noida, of which Rs.5.03 crore remained un-adjusted / un-recovered since 2002-03. As a result, C&DS suffered loss of interest of Rs.1.81 crore worked out at nine *per cent* per annum for the period 2003-04 to 2006-07.

- C&DS signed (December 2002 to February 2003) MOUs with 14 sub-contractors for "Development Work at Sector 105 and 108 at Noida". According to clause 14 of the MOUs mobilisation advances were to be given to them against a Bank Guarantee (BG) of equal amount. However, Rs.1.05 crore was given (December 2002 to February 2003) as advance against the BG of Rs.9.60 lakh only. Providing of mobilisation advance to the sub-contractors for the work was against the provision of the Manual. Further, these advances were, however, lying un-adjusted/un-recovered as of March 2007. As a result C&DS suffered loss of interest of Rs.21.11 lakh worked out at nine *per cent per annum*. No responsibility was fixed against the defaulting officer/ officials so far (March 2007)

- Out of the total outstanding advances of Rs.3.83 crore against suppliers at the end of March 2006, the advances to the tune of Rs.16.29 lakh were lying un-adjusted/un-recovered from 1994-95 to 2003-04 in respect of unit 29, Lucknow. The possibility of recovery of these advances was remote as the whereabouts of the suppliers were not available in the records of C&DS.

The Management stated (August 2007) that in respect of Noida works, an enquiry was under process with C&DS as well as with the State Government.

Works completed but not handed over to the clients

3.1.38 228 works sanctioned for Rs.204.66 crore and completed (2002-03 to 2005-06) at a cost of Rs.146.51 crore were not handed over to the clients (October 2007). The reasons for non-handing over the works to the clients were attributed mainly to non-preparation of consumption statement of

[*] Para 558 and 652.
[**] Providing and laying of Sewerline at Express Highway, Ganga Water Distribution Scheme and NOIDA Development Works at Sector 50, 51 and 65.

materials. In respect of 55 works valued at Rs.1.96 crore, the reason was, however, non-receipt of amount incurred in excess of the funds received from the clients. C&DS neither examined the reasons for non-handing over of these completed works nor took any action against the defaulting officers/officials.

The Management stated (August 2007) that the meetings were held with the clients by the nodal officers of C&DS and efforts were made to complete and handover the works to the client. The fact, however, remains that 228 completed works costing Rs.146.51 crore were not handed over to the clients thereby defeating the purpose or objective for which these works were executed.

Closure of accounts of completed / handed over works

3.1.39 The Manual[1] and FHB[2] stipulates that as soon as the work is completed and handed over to the clients, the accounts of these works should be closed as early as possible. It was noticed (March 2007) that out of 1617 works completed at a cost of Rs.1004.36 crore and handed over (2002-03 to 2005-06) to the clients, accounts of 1034 works valued Rs.594.14 crore were not closed (March 2007). The reasons for non-closure of accounts were attributable to non-completion of store ledgers/MAS by respective REs, non-clearance of outstanding liabilities against works, non-preparation of consumption statement of materials, non-completion/closure of MBs and work orders issued, transfer of REs from one work to other work without handing over the charge of work and MAS materials and non-receipt of excess amount spent over the funds received from clients.

The Management stated (August 2007) that closure of accounts was a continuous process and targets for each financial years were fixed. Further the accounts of 1513 works had already been closed. The reply is not tenable as no details of closure of accounts of these completed works were furnished.

Physical verification of stores and stock

3.1.40 The Manual[3] stipulates that stores ledger and MAS should be checked by the unit in-charge once a year and the discrepancies, if any, must be brought out clearly in Physical Verification Report (PVR). Up to the year 2002-03, the physical verification of stores and MAS balances of different works was being carried out by the firms of Chartered Accountants. After 2002-03, the REs were entrusted with the work of physical verification of stores and MAS balances.

In this connection, the following deficiencies were noticed:

- In the 18 units test checked, the Unit in-Charge had never checked the physical balances of stock / MAS balances at any time during the year.
- In PVR of the unit 24, Varanasi at the end of March 2006, there was a shortage of stock worth Rs.6.22 lakh in 10 works but neither the recovery was made from the RE concerned nor the reasons for shortages were investigated.

The Management stated (August 2007) that it was not the shortages of materials, but it was due to non-adjustment of materials in the records. The

[1] Para 589 and 591 of the Manual.
[2] Para 514 of FHB.
[3] Para 422 of the Manual.

reply is not tenable because the shortages had been worked out by the Management itself in the PVR.

- There were variations in the value of stock as per PVR and the value of stock as per accounts of eight units during 2005-06 as detailed below:

(Rs. in lakh)

Unit code	Name of Unit	Value of stock as per PV report	Value of stock as per accounts	Variations (+)/(-)
02	Rampur	71.83	68.26	(+) 3.57
08	Rampur	3.49	Nil	(+) 3.49
15	Mahoba	48.85	50.73	(-) 1.78
22	Ranchi	28.88	23.77	(+) 5.11
28	Noida	130.56	Nil	(+) 130.56
49	Bareilly	94.59	28.75	(+) 65.84
52	Noida	162.03	Nil	(+) 162.03
53	Sitapur	58.60	57.13	(+) 1.47
	Total	**598.83**	**228.64**	**(+) 370.29**

Source: Physical verification reports and stock accounts.

The above indicates that differences noticed during physical verification of stores/MAS balance were not reconciled efficiently and effectively and reasons for which were also not analysed by the Management.

The Management stated (August 2007) that the main reason for differences was non-completion of store ledger and MAS and the effort were being made to reconcile the differences. The reply is not tenable as the figures were compiled in the accounts after completion of store ledger/MAS register.

- C&DS did not formulate any system of physical verification of stores/MAS balances of one unit by the RE of other units. The PVR of six units[*] for the year 2005-06 did not indicate the book balance of each item of stores, as a result, excess and shortages in stock could not be worked out. Thus, the possibility of shortages/ misappropriation could not be ruled out.

In ARCPSE meeting (August 2007), the Management stated that in some cases the RE procured the store, and himself physically verified the materials. However, necessary instructions regarding physical verification had been issued to units. The reply is self-explanatory.

Quality Control

3.1.41 Quality control mechanism constitutes a vital element for ensuring qualitative execution of works. The works executed by C&DS are mostly based on UPPWD/CPWD specifications and are executed through PRWs/sub-contractors, hence the quality control exercise in respect of material and works should be done by the Unit in-Charge. It was noticed (April 2007) that the units neither maintained test reports of materials (bricks, sand, coarse sand, grit, cement *etc.*) nor followed the specifications in execution of works, which indicated lack of concern for quality of the work.

The Management stated (September 2007) that directions had been issued to units for maintaining the prescribed register at site of the works.

[*] Allahabad, Deoria, Farrukhabad, Gonda, Lucknow and Sonebhadra.

Internal Control and Internal Audit

3.1.42 Internal control is a process designed to provide reasonable assurance for efficiency of operations, reliability of financial reporting and compliance of applicable rules and regulations for achieving management objective in an efficient and effective manner. The Manual prescribes norms for internal control procedures for planning, execution and monitoring of works.

The internal control mechanism prevalent in C&DS was inadequate and ineffective, some of the deficiencies noticed are:

- Incorrect preparation and sanction of estimates, execution of works without technical sanction;
- Non-preparation of PCR and cost control reports and non-preparation of consumption statement of material consumed;
- Excess expenditure over funds received from the clients;
- Non-closure of accounts of completed works;
- Irregular diversion of funds from one work to other works resulting in delayed completion of works;
- Non-recovery of advances given to PRWs/ sub-contractors/suppliers; and
- Deficiencies in physical verification of stores.

Internal audit

3.1.43 Internal Audit is the system designed to ensure proper functioning as well as effectiveness of internal control systems and detection of errors and frauds. C&DS neither established its own internal audit wing nor formulated any internal audit manual for conducting internal audit. The internal audit is conducted annually by the firm of Chartered Accountants. It was noticed (March 2007) that the compliance to internal audit observations for the period 2002-03 to 2005-06 was pending in seven units.

The Management stated (August 2007) that efforts were being made for compliance to the provisions of the Manual.

Acknowledgement

3.1.44 Audit acknowledges the cooperation and assistance extended by different level of officers of C&DS/Nigam at various stages of conducting the performance audit.

Conclusion

C&DS did not maintain regular and proper liaison with the clients to obtain the works, as the works were obtained through the sub-contractors on back to back basis. The planning of works was characterised by lack of an institutional mechanism as the estimates were prepared by private architects resulting in incorrect preparation and sanction of detailed estimates and the works were executed without preparation of estimates and technical sanction resulting in extra expenditure of Rs.20.63 crore. Due to sub-contracting of works, C&DS failed to eliminate private contractors. The works were executed at lower/without centage in contravention to the prescribed procedures and Government and

Management directives resulting in loss of income of Rs.38.55 crore. The procurement of material was made in disregard to the prescribed procedures and codal provisions resulting in extra expenditure of Rs.69 lakh. The utilisation of the materials against the prescribed norms/specifications led to excess consumption of materials valuing Rs.1.97 crore. Besides, systemic deficiencies were noticed in physical verification of stores, monitoring, supervision and quality control mechanism. The internal control mechanism was not adequate and effective.

Recommendations

- **The Management should maintain regular and proper liasioning with the clients for obtaining works without involving the private contractors.**
- **The Management should submit full justification and obtain prior permission from the State Government / BOD for execution of works at lower / without centage.**
- **The Management should make concerted efforts to execute works strictly in accordance with the prescribed procedures and the Government directives.**
- **The procurement of material should be made in accordance with the prescribed procedures and provisions of the Manual.**
- **The Management should ensure the application of the prescribed norms and specifications in utilisation of materials in execution of works.**
- **The monitoring and quality control mechanism should be strengthened and streamlined.**
- **The internal control system should be efficient and effective.**
- **The responsibility and duties of the General Managers and Project Managers should be spelt out clearly.**