2D. Working of Uttar Pradesh Projects Corporation Limited

Highlights

Uttar Pradesh Projects Corporation Limited (PCL) was incorporated as a Government Company in May 1976 with the main objective to install new tube wells and improve the existing ones and to assist in development of minor irrigation potential in the State. The accumulated loss (Rs.12.18 crore) of PCL at the end of March 2001 completely eroded the paid-up capital of Rs.6.40 crore. Further, the loss was also understated by Rs.14.32 crore due to inadmissible credit of interest income on unutilised Government fund, credit of excessive centage etc.

(Paragraphs 2D.1.1 and 2D.1.4)

Despite recommendations of COPU that the work relating to construction of tube wells should be executed through PCL exclusively, it failed to secure sufficient orders to sustain its overheads.

(Paragraph 2D.1.3)

PCL incurred loss of Rs.7.20 crore on construction of tube wells under NABARD scheme mainly on account of acceptance of works without examining adequacy and reasonability of rates and accepting conditions which were detrimental to the interest of PCL.

(Paragraph 2D.2.1.1)

Under OYT scheme, PCL incurred unfruitful expenditure of Rs.21.60 lakh on 30 partially completed tube wells.

(Paragraph 2D.2.2.1)

PCL incurred loss of Rs.27 lakh due to passing of inadmissible benefit to the client on deposit works. It also incurred extra expenditure of Rs.54.59 lakh on works not contemplated in the estimates.

(Paragraphs 2D.2.4.2, 2D.2.4.3 and 2D.2.4.4)

2D.1.1 Introduction

The Uttar Pradesh Projects Corporation Limited, Lucknow (PCL) was established in May 1976 as a wholly owned Government Company with the main objective to install new tube wells and to improve the existing ones, assist in development of minor irrigation potential in the State and to execute other miscellaneous works.

2D.1.2 Organisational set-up

The overall management of PCL vests in a Board of Directors (BOD) comprising a Chairman, a full time Managing Director (a Chief Engineer inducted on deputation from the Irrigation Department) and six other non-functional Directors[71] appointed by the State Government. Two Senior Staff Officers, six General Managers and a Financial Advisor cum Chief Accounts Officer assist the Managing Director (MD) in managing day to day affairs. Besides, there are 22 Project Managers at field units located all over the State.

The MD was changed five times with tenures ranging from 7 to 24 months against a minimum tenure of three years as per Government directives of December 1979. The rapid rotation of the Chief Executives did not allow adequate time for effective planning, implementation and follow up of the policies and objectives.

2D.1.3 Scope of Audit

The Company failed to obtain sufficient orders despite recommendations of COPU

The review on the working of PCL was featured in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1988 (Commercial), Government of Uttar Pradesh. The review was discussed by the COPU during July to November 1992 and the recommendations made in July 1997. The recommendations included that the work relating to construction of tube wells being executed by Irrigation/Minor Irrigation departments should be taken back and entrusted to PCL exclusively. Management, however, failed to obtain sufficient work by approaching the Government.

The present review, conducted during November 2001 to April 2002, covers the overall performance for a period of five years from 1996-97 to 2000-01 and is based on test check of the records relating to schemes in 20 divisions (out of 22) and the corporate office at Lucknow.

2D.1.4 Financial position, working results and financial outlays

The financial position and working results for the last five years up to 2000-01 are detailed in Annexure-26.

The accumulated losses were understated by Rs.14.32 crore

- PCL showed exceptionally high profit of Rs.1.81 crore during the year 2000-01, as compared to heavy losses in the previous years ranging from Rs.2.73 crore (1999-2000) to Rs.4.04 crore (1998-99). It was due to write back of inadmissible claims of Rs.1.41 crore written off during the year 1999-2000 refused by the Irrigation Department (ID) on NABARD sponsored works. Further, the accumulated losses aggregating Rs.12.18 crore not only completely eroded the paid-up capital (Rs.6.40 crore) but also were understated by Rs 14.32 crore on account of inadmissible credit of interest income (Rs.4.70 crore) on unutilised Government fund pertaining to 1996-97 to 2000-01, credit of excessive centage (15 *per cent* against 12.5 *per cent*) on civil works (Rs.0.89 crore), irregular adjustment of Rs.7.59 crore on District Rural Development Agency (DRDA) works and non-provision towards accumulated balance of earned leave of employees (Rs.1.14 crore).
- PCL incorrectly credited Rs.4.47 crore as share application money, (being the accumulated interest income on unutilised Government fund up to the

[71] Position as on 31 March 2001.

year 1993-94) pending approval of Government since 1994-95. PCL had neither obtained approval nor refunded the same to the Government.

- Current liabilities and provisions in the year 2000-01 increased by 205 *per cent* over the year 1996-97 mainly on account of unadjusted advances received from the Government Departments for execution of works due to non-finalisation of bills.

The Government stated (October 2002) that a sum of Rs.1.41 crore was written back as the BOD considered the same as recoverable from ID. As regards share application money, the Government was yet to accord its approval. The reply is not tenable as the amount had been written off during the year 1999-2000 by the BOD after the claim was rejected by ID. Writing back of the amount s*uo moto* was unjustified.

PCL obtains fund mainly from ID of the State Government, DRDA and from other Government departments for execution of their works. Details of financial outlays for a period of five years from 1996-97 to 2000-01 are given in Annexure-27. The details indicated that huge fund remained unutilised and the closing balances ranged between 15 and 41 *per cent* of the total fund available. Further, the higher management at corporate office, responsible for evolving policies and overseeing the functioning of the field units, did not have any control over the availability and utilisation of fund because the field units were obtaining fund directly from the clients and submitting only the expenditure statements to it.

2D.1.4.1 Physical targets and achievements

PCL had not fixed any targets with reference to availability of machines and manpower. In absence of such target, PCL could not identify its idle capacity and as such could not plan for obtaining more works.

2D.2 Activities

PCL undertook the following main activities during five years up to 2000-01:

Activities	Funding agencies
(i) Construction of deep and shallow tube wells.	✓ *NABARD sponsored schemes funded through Irrigation Department.* ✓ *Own Your Tube well (OYT) scheme funded through Government subsidy and farmers' contribution.* (all the above works executed departmentally)
(ii)Construction of approach roads, culverts, primary school buildings etc.	*DRDA works funded through District Authorities and executed through petty registered/unregistered contractors and engagement of labourers on muster roll.*
(iii)Other civil works like construction of drainage cross channels, canal lining works, drainage improvements and buildings of State Health Department.	*Deposit works funded through Irrigation and other Government departments and executed through registered suppliers/piece rate workers.*

Year-wise expenditure on each activity is detailed in Annexure-28.

2D.2.1 Construction of deep and shallow tube wells

PCL undertook construction of deep tube wells and shallow tube wells under (i) NABARD sponsored works; (ii) the state plan and (iii) special component plan of the State Government funded through ID. The work involved stages of drilling, development, lowering of pump sets, construction of pump house, delivery tanks and connecting gulls, strengthening of field channels and service roads and energisation of tube wells. ID identified the construction sites and construction of tube wells and other connected works was entrusted to PCL. These works were surveyed and feasibility was ensured by PCL before undertaking construction.

It also constructed shallow tube wells under OYT scheme funded through subsidy and farmers' contributions. The tube wells along with other allied works constructed under NABARD sponsored scheme, state plan and special component plan are handed over to ID after execution without any feedback about their operational performance.

It was observed in audit that PCL executed NABARD sponsored works at the estimated rates of ID. The rates of ID did not provide for centage over and above its estimated rates. PCL accepted the work without examining adequacy and reasonability of such rates to absorb fixed overheads in full.

The Government stated (October 2002) that the BOD was informed about non-inclusion of centage in the rates offered. This confirmed the fact that the BOD had not analysed the reasonability of the rates at which these works were accepted.

This caused substantial losses as discussed below:

2D.2.1.1 Loss on construction of tube wells under NABARD sponsored scheme

(i) ID entrusted (March 1996) the work of construction of deep tube wells under NABARD financed State Minor Irrigation Works for which the modalities agreed upon (August 1996) between ID and PCL were to (i) execute work on project estimates, (ii) energise the tube wells before handing over to the ID for operation, (iii) procure materials required for execution of work if not supplied by ID (iv) charge the cost of the same on actual basis in the bills (v) complete the work within a period of 2 years i.e. within March 1998 and (vi) submit claims for reimbursement of expenditure on the basis of accounts at division level only.

The work was executed (1996-99) under the 'Rural Infrastructure Development Fund (RIDF)' scheme in three phases. Under Phases I and II, reconstruction of 150 state tube wells (STWs) which had completed their useful economic life along with allied works was awarded in March 1996 with March 1998 as the scheduled date of completion. Estimated cost of reconstructed tube wells with an average depth of 145 meters with 20 BHP pump set along with allied works worked out to Rs.6.21 lakh per tubewell (based on 1995-96 rates) with a provision of 5 *per cent* price escalation for the year 1996-97 only. In addition, renovation of 194 shallow tube wells at a cost of Rs.3.76 crore was also carried out by PCL simultaneously.

It was noticed by Audit that PCL completed reconstruction of 140 STWs which had completed their useful economic life along with allied works and renovated 194 new shallow tube wells during three years up to March 1999 at a cost of Rs.23.58 crore (including overheads of Rs.6.68 crore). Against this, PCL preferred a claim of Rs.20.08 crore, billed on the basis of estimated quantity at estimated rates, instead of submitting reimbursement claims based on actual expenditure as per divisional accounts. The client admitted and paid only Rs.18.44 crore in full and final settlement of the claims. This resulted in a loss of Rs.5.14 crore due to undertaking the work without built in element equivalent to centage and unfavourable terms and condition of work relating to (a) deduction on account of rebate on old extracted material (though actually not extracted), (b) raising the price to 1996-97 with escalation of only 5 *per cent* over the rates of 1995-96, and (c) no provision for future price adjustment/escalation.

The Government stated (October 2002) that against the expenditure of Rs.27.59 crore[72] (including state plan works and overheads of Rs.7.94 crore thereon), PCL billed for Rs.24.66 crore and received Rs.23.26 crore. This resulted in a loss of 4.33 crore (Rs.27.59 crore - Rs.23.26 crore).

The reply does not address the observation raised. It only shows that PCL failed to bill for actual quantity as per the modalities of the work. Further, the actual overheads could not be met due to undertaking of works without examining the adequacy and reasonability of rates.

(ii) Under Phase III, the work on 2614 STWs involving installation of new pumping sets and modernisation of the depleted distribution systems by improving associated gulls and PVC pipe lines was awarded (March 1998) at a value of Rs. 20 crore. The work was to be completed within 2 years i.e. March 2000 under the same terms and conditions as in phases I & II for which Rs.16.18 crore were released between September 1998 and June 1999.

PCL undertook the work in October 1998 and by September 2002, work relating to only 2311 STWs, out of 2614, could be completed. Against the actual expenditure of Rs.14.99 crore up to 31st March 2001, claims for Rs.14.21 crore (billed at the estimated quantity) only were preferred. PCL, thus, was put to loss of Rs.0.78 crore. Inspite of repeated reminders from ID and availability of fund with PCL, it did not execute the balance work on 303 STWs.

Acceptance of work under Phase-III without examining adequacy and resonability of rates and ascertaining any yield towards centage was an unprofitable business as evident from the following facts:

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72 The loss in case of NABARD work only has been discussed in the review while the Government has mingled the state plan works in reply, hence the difference in figures.

- The billing was done at uniform estimated quantity at estimated rates despite variance in strata, depth of drilling, capacity of pump sets installed etc. for different tube wells.
- PCL accepted condition of rebate per tube well of Rs.0.082 lakh in phase III. Though the extraction work was not executed by PCL, deduction was made by the ID towards cost of extracted material at the estimated rates resulting in a loss of Rs.0.84 crore.
- Non-inclusion of the condition for reimbursement of handling charges for materials arranged by PCL under Phase-III, resulted in rejection of claims amounting to Rs.44 lakh towards handling charges of arranged material during 1998-99 to 2001-02.

The Company suffered loss of Rs.7.20 crore on NABARD sponsored works

Thus, accepting ID's NABARD sponsored works without proper analysis of impact of accepting other financial conditions such as limiting the escalation to 5 *per cent* only instead of relating the same to increase in the price index and rebate on account of old extracted material which were detrimental to the interest of PCL, besides time over run, resulted in loss aggregating Rs.7.20 crore.

The Government stated (October 2002) that the works were undertaken without centage due to non-availability of sufficient works and estimation of inherent built in profits in the item rates. Further, undertaking of the works resulted in partial recovery of fixed over heads by Rs.1.97 crore.

The reply is not tenable as the work was taken up without any analysis/deliberations. If the management continues to take decisions in such a manner, it will not be able to recover from losses. It failed to take advantage of COPU's recommendations of executing entire construction work of tube wells in the State and in securing sufficient cost plus works to sustain its overheads.

2D.2.2 Construction of tube wells under "OYT" scheme

With a view to overcome the problems of non-availability of power and higher cost of installation of STWs, PCL prepared (1993-94) a scheme of construction of shallow type tube wells called "Own Your Tube Well" (OYT) for the benefit of farmers. The scheme was approved (March 1994) by the State Government by subsidising the construction cost by 50 *per cent* of actual cost or Rs.30000 (plains) or Rs.50000 (Bundelkhand region), whichever was lower. For this purpose the State Government released (March 1995 to March 1997) Rs.5.14 crore (as share capital: Rs.1.50 crore and subsidy: Rs.3.64 crore) for construction of 1000 tube wells (at an average cost of Rs.1.17 lakh). To avail the benefit, the farmers were to get themselves registered with PCL after making an initial deposit of Rs.1000 per tube well and thereafter payment of Rs.0.15 lakh per tube well was to be made on demand. After finalising the estimate, the differential cost (i.e. after adjusting farmers' initial deposits and amount of subsidy) was to be deposited by the farmers, either through their own sources or by arranging bank loan through PCL. In case of loan, PCL obtained applications from the farmers and forwarded it direct to the respective banks with the consent letter of the farmers regarding repayment of loan amount. After sanction of loan by the banks, PCL had to incur expenditure from its own source and obtain reimbursement of expenditure through bank loan (sanctioned) on completion and installation of tube well duly energised and handed over to farmers to their full satisfaction. PCL conducted detailed survey to ensure feasibility of construction of tube wells before start of the work.

It was noticed by audit that the work under the scheme that started from March 1995 was stopped (March 1999) after making the following progress:

Items of work	No of tube wells
Target	1000
Drilling work completed	832
Development done	793
Energisation of tube wells	629
Handed over to farmers	789
Tube wells remaining undeveloped	39
Developed but not handed over	04
Partially constructed tube wells remaining as work in progress in addition to above	28

As can be seen from the details above, 39 tube wells remained undeveloped and therefore not capable of being put to use and four tube wells remained with PCL due to some obvious technical problems. In addition to this, 28 tube wells partially completed were shown as work in progress (Rs.14.25 lakh) without any further detail being made available to Audit.

The Government stated (October 2002) that only 823 tube wells (9 nos. bore abandoned) were to be handed over. Out of this, 818 tube wells had been handed over and the balance 5 nos. not considered as handed over because bank loan against these was not received.

The reply could not be verified as PCL did not furnish records in support.

In this connection the following deficiencies were noticed:

2D.2.2.1 Unfruitful expenditure

Expenditure of Rs. 21.60 lakh was rendered unfruitful on 39 partially completed tube wells

(i) Of the 39 tube wells remaining undeveloped, 9 were abandoned (expenditure incurred: Rs.3.55 lakh) in the process of drilling and the expenditure incurred was adjusted through subsidy and farmer's initial contribution. Expenditure incurred on 5 nos. tube wells which failed during development (Rs.5.85 lakh) and 25 nos. drilled but not developed (Rs.15.75 lakh) not only rendered entire expenditure amounting to Rs.21.60 lakh unfruitful (farmers contribution Rs.11.60 lakh) but also deprived the farmers of the benefits for which they already had shared the cost. PCL does not have any policy to refund the money deposited by farmers in cases where it could not construct tube wells for them.

(ii) On four tube wells not handed over to farmers, PCL incurred cost of Rs.4.68 lakh at the rate of Rs.1.17 lakh per tube well. The tube wells financed through subsidy and farmers' contribution could not benefit the farmers rendering the entire expenditure as unfruitful.

No responsibility had been fixed by the Management for the lapses mentioned above.

The Government did not furnish specific reply to these observations while confirming abandonment of 9 tube wells.

2D.2.2.2 Unfruitful expenditure on partially completed tube wells

Against partial construction of 28 tube wells (23 in Banda and 5 in Hamirpur district), Kanpur unit utilised subsidy amount (Rs.14.25 lakh) and incurred expenditure of Rs.14.25 lakh without obtaining further contribution from the farmers. These tube wells were left over after drilling only. The case could not be examined by Audit as the details and case files were not made available.

The Government stated (October 2002) that by mistake above work has been shown as work-in-progress which otherwise had been completed and necessary adjustments would be carried out in the year 2001-02. The reply is not tenable, as PCL could not furnish completion reports, energisation certificate and handing over memos in support of the reply.

2D.2.3 Execution of works under DRDA scheme

Construction of approach roads, culverts, etc.

DRDA works constituted the bulk of PCL's activities since 1996-97. Fund for these works (construction of *kharanja* and *kachha* approach roads, culverts, primary school buildings etc.), financed under various schemes viz. *Vidhayak Nidhi*, Member of Parliament Local Area Development Schemes (MPLADS) and other *Vikas Nidhi* was obtained by the Project Managers of the field directly from the DRDA. DRDA did not allow any centage or contingency charges. In addition, PCL had to meet turnover tax liabilities also. PCL during the five years (1996-2001) incurred expenditure of Rs.141.22 crore (direct expenditure of Rs.126.33 crore, overheads Rs.13.75 crore and turnover tax Rs.1.14 crore) on these works and adjusted Rs.133.92 crore from advances.

It was observed by Audit that:

(i) PCL did not evolve any system of selection of contractors for execution of DRDA works and had been executing the works through petty registered/unregistered contractors/suppliers;

(ii) PCL increased its overheads by creating new divisions for DRDA works. It was not justified as the works were executed without centage;

(iii) Since no centage/contingencies were payable, payment of turn over tax amounting to Rs.1.14 crore led to loss to PCL;

(iv) In the absence of photographs of work sites before and after completion of work, the status of works could not be verified; and

(v) PCL earned interest of Rs.1.59 crore on unutilised DRDA fund which was not refunded to client.

This indicated that PCL lacked financial prudence in creating new units and executing the works without centage.

The Government stated (October 2002) that partial recovery of overheads Rs.7.30 crore (Rs.141.22 crore minus Rs.133.92 crore) was made by undertaking these works. The reply is indicative of lack of transparency in dealing with clients by irregular adjustments of DRDA fund.

2D.2.4 Other Civil works

PCL had been executing civil works of Irrigation and other Government departments as deposit works on actual cost plus centage (12.5 *per cent*) basis. These works included drainage, cross channels, canal lining, drainage improvement works of Bhoomi Sudhar Nigam, construction of buildings of Community Health Centre (CHC) etc. During five years up to 31 March 2001, it executed such works aggregating Rs.63.47 crore (Annexure-28) through its four civil divisions. The irregularities noticed in execution of civil works are enumerated below:

2D.2.4.1 Loss due to execution of work at higher rates

The Company suffered loss of Rs.13.96 lakh due to rejection of claims of excess expenditure

The Okhla unit signed (March 1997) a MOU for execution of lining work at Sharda Sahayak feeder channel (reach 63 to 64 kms). The work was to be completed by June 1998 at an estimated cost of Rs.1.98 crore. As per MOU, the increase in cost, if any, was admissible during its currency period. Accordingly, earthwork (11977.69 cum. and 27403.15 cum. at differential rate of Rs.22.85[73] and Rs.21.10[74] per cum. respectively) and procurement of tiles (9.74 lakh tiles at the differential rate of Rs.400[75] per thousand) was executed (March 1999 to June 1999) at higher rates beyond the currency of the MOU without obtaining specific prior approval of the client. The claim was subsequently not accepted by the client. As a result, PCL was put to a loss of Rs.13.96 lakh (including centage) due to rejection of claims of excess expenditure incurred by the unit.

The Government reply (October 2002) is silent on admissibility of the claims.

2D.2.4.2 Loss due to short claims preferred

The Company suffered loss of Rs.27 lakh due to inadmissible benefit passed on to the client

In terms of MOU executed (February 1997) with Bhumi Sudhar Nigam Lucknow, PCL was to carry out drainage improvement works as deposit works for which centage at the rate of 13 *per cent* up to 1999-2000 and at the rate of 10 *per cent* from 2000-01 and turnover tax as actually levied was payable by the client. As against the admissible centage amounting to Rs.0.85 crore on the actual expenditure of Rs.6.92 crore, PCL charged centage amounting to Rs.0.63 crore thereby undercharging centage to the tune of Rs.22 lakh. Besides, it also failed to recover turnover tax amounting Rs.5 lakh. This resulted in loss of Rs.27 lakh.

The Government stated (October 2002) that the centage of 13 *per cent* included 2 *per cent* as survey charges and therefore there was no short charge

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73 Rs.69.20 minus Rs.46.35.

74 Rs.67.45 minus Rs.46.35.

75 Rs.2700 minus Rs.2300.

of centage. The reply is not correct as PCL committed mistake by reducing the expenditure on survey charges due to misinterpretation of the clause of the agreement as in another case (Aligarh unit) the amount of centage including expenditure on survey charges was charged.

2D.2.4.3 Higher expenditure on earth filling

The Company incurred extra expenditure of Rs.32.43 lakh on earth filling

The Government accorded (April 1996) administrative and financial sanction for carrying out the construction of a Community Health Centre (CHC) at Bhangel (Gautam Budh Nagar) under Health Department of State Government at an estimated cost of Rs.0.83 crore. This included cost of non-residential administrative building, residential buildings, site development expenditure and other civil and electrical works. It released the entire fund (Rs.0.83 crore) to PCL during November 1996 to March 1998. The site for construction was, however, handed over in July 1997. The estimated cost was based on the PWD schedule of rates for the year 1995-96, therefore a revised estimate based on 1997 schedule of rates for Rs.1.88 crore was submitted (December 1999) to the Government through CMO, Ghazaibad. The approval of revised estimate was awaited (September 2002). The work started in July 1997, had to be stopped (March 2002) for want of fund by which time expenditure of Rs.0.69 crore was incurred on partially constructed CHC. The first running bill for Rs.0.69 crore included earth filling for Rs.38.61 lakh, revised plan for which had not been approved (October 2002) by the client. Thus, earth filling of Rs.38.61 lakh against the originally estimated cost of Rs.6.18 lakh without approval of client and without release of additional fund resulted in extra expenditure of Rs.32.43 lakh.

The Government stated (October 2002) that revised estimate has been sent (October 2001) for sanction.

2D.2.4.4 Excess expenditure

The Company incurred extra expenditure of Rs.22.16 lakh on works not contemplated in the estimates

The work of construction of siphon and aqua duct at Tarabganj, Gonda was awarded (March 1998) as deposit work to the Gonda unit of PCL at an estimated cost of Rs.3.14 crore. The MOU clarified, *inter alia*, that the total actual cost was not to exceed the revised estimated cost as per work actually executed and calculated on the rates of labour and material duly updated. If the actual cost exceeded the revised estimated cost, excess had to be borne by PCL from its own resources. The work was started in November 1999 and completed in March 2001. Scrutiny of the records revealed that the unit had preferred the bills at rates far in excess of revised estimated rates and extra items of works not approved by the client. This resulted in extra expenditure of Rs.22.16 lakh on execution of works.

The Government stated (October 2002) that there was no dispute between PCL and ID regarding items and rates. The final bills have been submitted in April 2001. The reply is not tenable as the extra items of works executed by PCL were not approved in the revised estimate in terms of MOU (October 2002).

Similarly, against the total estimated cost of Rs.26.01 lakh (including centage of Rs.3.33 lakh) for construction of balance work of Khedar aqua duct at Upper Rajghat Canal (work started in November 1999 and completed in March 2001), final bill amounting to Rs.45.23 lakh was preferred by the Lalitpur unit resulting in an excess expenditure of Rs.19.22 lakh over the estimated cost. Excess expenditure was mainly attributable to execution of extra items of work and excess quantity for which approval from the client was not obtained (October 2002).

The Government stated (October 2002) that out of Rs.45.23 lakh, Rs.41.06 lakh has been received. For excessive expenditure of Rs.19.22 lakh, it did not offer any comment.

From above it is evident that the ID released advance payment on adhoc basis, without due approval for extra items executed.

2D.3 Procurement of material

PCL had not framed any purchase manual. It, however, followed the procedure of procurement of material prescribed in the manual of Uttar Pradesh Rajkiya Nirman Nigam Limited. According to the manual, construction materials are to be procured direct from the market after following the purchase procedures and at the rates finalised by the purchase committee constituted at the unit level under the chairmanship of the respective unit in-charges.

Deficiencies noticed in procurement of material are discussed below:

2D.3.1 Avoidable expenditure on purchase of cement

Compared to the manufacturer's negotiated rates obtained by a sister Company, the Company incurred extra expenditure of Rs.18.18 lakh on procurement of cement at higher rates

PCL diversified its activities into construction of gigantic hydraulic structures such as drainage cross-channels, aquaduct, concrete lining works of canals, silt ejector etc., which required massive consumption of cement. Generally, cement and steel were supplied by the ID, but in the works carried out by Aligarh and Saharanpur units, cement was not supplied by ID and the respective units procured cement from the authorised dealers at much higher rates, than the manufacturers rates for bulk purchases. In this connection it was noticed that Uttar Pradesh State Bridge Corporation Limited (UPSBC) finalised rate contract with manufacturer and thus minimised the expenditure on procurement of cement. Had the same procedure been followed, PCL would have saved Rs.18.18 lakh on procurement of 5050 MT of cement (Aligarh: 2375 MT @ Rs.355[76] per MT and Saharanpur: 2675 MT @ Rs.364.60[77] per MT) during the period from April 2001 to March 2002 (difference as per UPSBC's rate contracts applicable for the respective destinations).

The Government stated (October 2002) that comparison of UPSBC's rates could not be made with Aligarh and Saharanpur units of PCL. The reply is not

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[76] Rs.2580 minus Rs.2225 (FOR site).
[77] Rs.3076.20 minus Rs.2711.60 (FOR site).

tenable as PCL did not evaluate economy in centralised procurement of cement from the manufacturer as was done by UPSBC.

2D.3.2 Extra expenditure on transportation of materials

The Company incurred extra expenditure of Rs.29.14 lakh on transportation of material at higher rates

Gonda and Lalitpur Units had been executing the works of DRDA and ID simultaneously during 2000-01 and 2001-02. The Unit in charges awarded higher rates of transportation charges (based on ID rate schedule) for ID works as compared to the economical rates of DRDA works (based on PWD rate schedule). This resulted in extra expenditure of Rs.29.14 lakh as detailed in Annexure-29.

The Government stated (October 2002) that due to non-approachable road in the works of ID, the same could not be executed at PWD rates. The reply is not tenable as the same unit had awarded both contracts (under DRDA and ID) simultaneously for similar work sites. Payment of transportation charges at higher rates for identical sites lacked prudence.

2D.4 Inventory control

PCL during five years carried inventory equal to 2 to 9 months' consumption and incurred carrying cost ranging between Rs.1.07 crore to Rs.1.16 crore as detailed below:

Year	Closing stock including material at site (Rs. in crore)	Consumption during the year (Rs. in crore)	Closing stock in terms of months consumption	Inventory[78] carrying cost (Rs. in crore)
1996-97	7.10	9.64	9	--
1997-98	7.15	10.28	8	1.07
1998-99	7.36	13.40	7	1.09
1999-2000	7.51	34.52	3	1.12
2000-01	7.99	54.44	2	1.16

The inventory control mechanism suffered from deficiencies like absence of item and age-wise analysis

The system suffers from deficiencies that include absence of item-wise and age-wise analysis to determine the items requiring attention for disposal or for proper use. Thus, due to absence of proper records relating to inventory which was also confirmed by the Management in their reply, the adverse effect could not be calculated. In addition physical verification of material at site (MAS) was totally absent. During test check of records, MAS amounting to Rs. one crore in the year 2000-01 was shown as consumed instead of showing it as MAS in Basti unit.

The Government stated (October 2002) that age-wise analysis of items and action for physically verifying the material at site at close of the year is being done.

2D.4.1 Blocking of fund on unutilised stock materials

Absence of the system of physical verification resulted in blocking of inventory worth Rs.49 lakh for over 18 years

PCL retained stock materials of Gandak Canal Pariyojna worth Rs.0.64 crore in Faizabad division (including 125 nos. of 30 BHP capacity pump sets worth Rs.49 lakh) procured during 1983-84 for above work. These materials had neither been returned to ID nor utilised for other purposes resulting in

[78] Calculated @ 15 *per cent* on the average holding of inventory.

blocking of Government's fund to that extent. With the lapse of over 18 years, usage of the pump sets lying in the store was open to doubt. However, in the absence of any system of physical verification the condition of the above store items could not be ascertained by Audit.

The Government stated (October 2002) that a committee under the Chairmanship of Principal Secretary, Irrigation Department had been formed in June 2002 for disposal of these materials. The recommendations of which were still awaited.

2D.4.2 Store materials missing from stock

PCL had completed construction work of 462 tube wells under Indo Dutch Scheme during 1988-89 to 1993-94 at a cost of 38.10 crore. Against the final claim of Rs.2.69 crore lodged by PCL with ID, a committee constituted to review the above claim recommended (March1997) net payment of Rs 0.83 crore only due to the following:

i. deductions of 0.74 crore on account of material of ID missing from store records.

ii. rejection of balance claim of Rs.1.12 crore on account of (a) difference in consumption of material Rs.0.78 crore, (b) excess expenditure on bore abandonment Rs.0.18 crore and (c) excess claim over improvement of gulls Rs.0.16 crore.

Further, against the outstanding claims (Rs.0.83 crore), Rs.0.55 crore only could be realised in September 1999. No effective steps were taken to realise the balance amount.

The Government stated (October 2002) that reconciliation of the stores was made which could be verified. Further, the efforts were being made to realise the outstanding claims. The reply is not tenable as PCL failed to submit (October 2002) details of reconciliation to the audit.

2D.5 Sundry debtors and advances recoverable

The amount recoverable from debtors increased from Rs.2.60 crore in 1996-97 to Rs.4.67 crore as of October 2002. Similarly, the advances recoverable increased from Rs.0.57 crore in 1996-97 to Rs.1.32 crore in 2000-01. PCL had not prepared age-wise break-up thereof to identify chronic cases of recoverable amount for vigorous pursuance.

The Government stated (October 2002) that action to recover the advances was in progress as of October 2002.

Some of the cases, as analysed by the audit, revealed the following:

(i) Civil work of Lucknow University

It was noticed that Unit I, Lucknow completed the work of construction of CPMT building (G/F and F/F) and Ist and IInd block of Kailash Women's Hostel building of Lucknow University (LU) during March 1995 to February 1996 and final bills of above works were submitted to the LU authorities for payment during May 1995 to March 1996. Out of the bills preferred, an amount of Rs.31.94 lakh was withheld mainly due to execution of extra items of works in Block-II of Kailash Hostel, extra quantities of items of works in other buildings and inadmissible escalation claim which were not approved/verified by the LU authorities.

Failure to obtain approval of the client for over six years resulted in non-recovery of Rs.31.94 lakh

Thus, failure of the unit in getting the extra item of civil work and other claims approved from LU authorities after a lapse of six years, resulted in non-recovery of claims amounting Rs.31.94 lakh.

The Government stated (October 2002) that there had been some differences in the quantity of work as mentioned in the bills vis-a-vis measurement books (MBs) and some escalation which had not been accepted by the client, and action is being taken for examination/revision of bills.

(ii) Construction of tube wells at SGPGI, Lucknow

Similarly PCL through its Unit-I, Lucknow had also executed the work of augmentation of water supply system and construction of one no. 1000 ltrs. capacity, 25 meters staging overhead tank (OHT) at a cost of Rs.1.03 crore during May 1993 to December 1995. The bills were preferred during December/January 1996. The client, however, deducted Rs.14.31 lakh from the bills on account of excess laying of cables, cost difference of steel and cement, inadmissible claim for clearing slush and excess expenditure on security staff, jeep and other incidentals etc. which had not been approved so far (October 2002).

Thus, due to non pursuance of the pending claim, chances of recovery became remote and for which no responsibility had been fixed against the officers/officials responsible for the loss so far (October 2002).

The Government stated (October 2002) that there had been some errors in the bills and a committee at the Corporation level had been formed to revise the bills after examination of records.

(iii) Construction of tube wells in PHED, Rajasthan

Public Health Engineering Department (PHED) entrusted the work of construction of 170 tube wells to the Etawah unit of PCL in June 1993 which were constructed during 1995-96 to 1998-99 at an expenditure of Rs.3.68 crore against which reimbursement claims amounting to Rs.3.41 crore was only recovered from PHED, Rajasthan so far (October 2002) leaving a balance of Rs.27.11 lakh.

An analysis of outstanding claims revealed that the outstanding claims for Rs.27.11 lakh included claims for 12 tube wells constructed at a cost of Rs.20.70 lakh for which no payment was made by the client. Remaining amount of Rs.6.41 lakh was against nine tube wells which had been deducted from the bills, for which reasons were not available on records.

No responsibility had been fixed by the Management against the officers/ officials for the loss/non- realisation of long outstanding claims.

The Government stated (October 2002) that action for recovery of the amount is in progress.

2D.6 Court case

PCL terminated (November 1995) services of its Company Secretary without serving any charge sheet. High Court, however, stayed (October 1996) the termination order and directed payment of salary with or without work. PCL paid Rs.10.53 lakh from November 1996 to October 2002 without assigning any work.

The Government stated (October 2002) that integrity and credibility of the Company Secretary was in serious doubt as reflected in his Annual Confidential Reports for many years. Despite these being communicated to him, he neither responded nor improved his working. However, the reply was silent on PCL's action of terminating the services without following the prescribed procedures of serving charge sheet etc. that ultimately resulted in staying of the termination order. There was inadequate follow-up of the court proceedings and even first hearing had not taken place (October 2002).

2D.7 Internal audit

As per Companies Act, 1956, a Company having paid-up-capital of Rs.25 lakh and above is required to have an internal audit system. The Board of Directors' sanctioned (1987) one post of Audit Officer and one Senior Auditor for the internal audit wing. However, no recruitment was made and the charge of internal audit was handed over to an Accountant (now Audit Officer) as an additional charge from July 1992 making it non-functional and non-effective. The statutory auditors have commented (1996-1999) upon the lack of internal audit system and reiterated (1999-2000) the need for its improvement.

The Government stated (October 2002) that PCL had decided to assign the work to firms of Chartered Accountants from 2001-02.

Conclusion

The Company was executing works without sufficient contribution to mitigate the fixed overheads in full. Despite recommendation of COPU that the work relating to construction of tube wells should be executed through PCL only, sufficient orders were not secured to sustain its overheads. It ventured into various construction activities without ensuring recovery of overheads.

In order to improve performance, the Management needs to make concerted efforts to (i) reduce fixed overheads (ii) get sufficient cost plus works and (iii) effect economy in the use of resources.