

## **Chapter 2**

### **Audit of Transactions**

- 2.1 Non-compliance with the rules**
- 2.2 Audit against propriety/Expenditure without justification**
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## Chapter 2

### Audit of Transactions

Audit of transactions of the Economic Sector departments, their field formations as well as that of the autonomous bodies brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs under broad objective heads.

#### 2.1 Non-compliance with the rules

For sound financial administration and financial control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authority. This not only prevents irregularities, misappropriation and frauds, but helps in maintaining good financial discipline. Some of the audit findings on non-compliance with rules and regulations are as under:

#### **PUBLIC WORKS, PORTS AND INLAND WATER TRANSPORT DEPARTMENT**

##### 2.1.1 Mukhyamantri Grameena Raste Abhivrudhi Yojane

The Government launched “Mukhyamantri Grameena Raste Abhivrudhi Yojane” (MMGRAY) in May 2004 for planned maintenance and development of rural roads viz., major district roads (MDR), other district roads (ODR) and village roads (VR). The MDRs are under the jurisdiction of Public Works Ports & Inland Water Transport Department (PWD) while ODRs & VRs are under the jurisdiction of Panchayat Raj Department. Records in 14 divisions, selected on simple random sampling method, were test checked to assess the level of compliance to the scheme guidelines and the findings are brought out in the succeeding paragraphs.

##### *Non-functional SLC/DLCs*

The Government formed (May 2004) a State Level Committee (SLC)<sup>1</sup> for prioritization, preparation of state work plan and allocation of funds. Similarly District Level Committees (DLC)<sup>2</sup> was formed for preparation of annual plans, periodical review & monitoring.

However, both the committees remained non functional from the very formation. The non-functioning of SLC/DLC was commented upon in Paragraph 3.3.6.2 of Report of the Comptroller & Auditor General of India for the year ended 31 March 2006. The Public Accounts Committee (PAC) in its

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<sup>1</sup> SLC – Chief Minister as Chairman and Minister for Rural Development and Panchayat Raj (RDPR), Finance Secretary, Revenue Commissioner, Secretary, PWD and Secretary RDPR as members

<sup>2</sup> DLC - District in-charge Minister as Chairman and Deputy Commissioner of the district and Executive Engineer, PWD as members

report<sup>3</sup> recommended that Government should activate SLC/DLC for monitoring quality and implementation of the scheme in a most responsible manner. However, no meetings were held and consequently the entire expenditure of ₹ 1,449.76 crore on the works taken up during 2007-12 was without planning, prioritization and programming.

### **Grant and Expenditure**

The Government provides grants under 3054-MMGRAY (Plan) for maintenance as well as improvement works under the scheme. The budgetary grant provided by the Government for the scheme and the expenditure incurred thereon during 2007-2012 are as shown in **Table 1**:

**Table 1: Details of grant, expenditure and pending bills**

(₹ in crore)

Year	Grant		Expenditure		Pending bills	
	Plan	Non-Plan	Plan	Non-Plan	No. of bills	Amount
2007-08	300.00	-	302.21	-	8,361	247.46
2008-09	353.00	-	353.13	-	7,540	240.83
2009-10	200.00	-	180.10	-	9,001	277.74
2010-11	350.00	100.00	349.35	98.07	5,452	121.42
2011-12	85.00	100.00	66.91	99.99	4,587	150.37
<b>Total</b>	<b>1,288.00</b>	<b>200.00</b>	<b>1,251.70</b>	<b>198.06</b>		

{Source: Figures obtained from Chief Engineers and Pr Accountant General (A&E)}

The bills pending amounted to 81 *per cent* of the budgetary grant of 2011-12.

### **Diversion of fund**

The guidelines prohibit expenditure on construction of new roads or maintenance & up-gradation of roads other than MDRs. However, an amount of ₹ 61.51 crore was diverted for construction and maintenance of state highways, national highways etc., in violation of scheme guidelines (**Appendix 2.1**).

### **Poor monitoring by Controlling Officers**

The progress of expenditure should be closely watched by the Controlling Officers for the grant administered by them to ensure that the expenditure is limited to the grant allotted through monthly expenditure statements received from implementing officers. A comparison of the expenditure as per the books of the Pr AG (A&E), Karnataka and grants released by FD and by PWD revealed wide variation between grants released and bills paid under the scheme during 2007-12 as shown in **Table 2**:

<sup>3</sup> 13<sup>th</sup> assembly, 6<sup>th</sup> report of January 2011.

**Table 2: Variation in expenditure figure****(₹ in crore)**

Year	Grant released by FD	Grant released by PWD to CE	Expenditure as per the books of Pr AG (A&E)
2007-08	300.00	258.59	302.21
2008-09	250.00	225.89	353.13
2009-10	180.00	99.12	180.10
2010-11	448.07	165.58	447.42
2011-12	166.83	167.47	166.90
<b>Total</b>	<b>1,344.90</b>	<b>916.65</b>	<b>1,449.76</b>

{Source: Information obtained from Government/Department/Pr AG (A&amp;E)}

Reasons for variations as above were not found available in the records produced to Audit.

### ***Deficient allocation of funds for planned development***

The guidelines stipulated the allocation of funds for planned development<sup>4</sup> and emergency works<sup>5</sup> in the ratio 90:10. Scrutiny of records in 14 test checked divisions revealed that the prescribed segregation of funds towards improvement & development of MDR and urgent repairs was not followed while sanctioning the works by SE as out of the total works costing ₹ 393.81 crore carried out during 2007-12, the pothole filling works sanctioned formed 39 *per cent* as against the permissible limit of 10 *per cent* and works were taken up on piece work system.

Further analysis in eight test checked divisions revealed that 248 works costing ₹ 45.10 crore were split up into 1,666 estimates by the EEs so as to bring it within their delegated powers and were got executed on piece work basis.

### ***Suspension of works due to mounting pending bills***

The guidelines stipulated the necessity of keeping the work plan for the year within the allotted grants. The provisions were violated and large number of works was taken up every year which had resulted in creation of huge liability in the form of pending bills which rose to ₹ 379.23 crore as of July 2009. The Government noted (August 2009) that the works were not contributing to the development of roads and ordered suspension of all on-going works “as is where is basis” with a view to clearing the bills.

Consequently, in five out of 14 test checked divisions, 47 works costing ₹ 27.29 crore were abandoned after incurring an expenditure of ₹ 8.77 crore without bringing it to a safe stage (**Appendix 2.2**). Absence of bituminous layer rendered these works susceptible to early damages. It was replied (July 2012) by the CEs that no orders were issued by the Government for restarting the abandoned works.

<sup>4</sup> Strengthening works and widening works.

<sup>5</sup> Pot-hole filling works.

The matter was referred (September 2012) to Government; their reply awaited (December 2012).

### **2.1.2 Budgetary lapses leading to creation of pending bills**

#### **Lack of budgetary control resulted in creation of clear liability of ₹ 1509 crore on Government towards pending work bills**

Paragraph 88 and 134 of the Karnataka Budget Manual (KBM) stipulate that the Chief Engineer shall submit consolidated budget estimates for the forthcoming year to the Finance Department (FD) within the prescribed due date (26th November). The FD after scrutinizing the estimate should prepare Appendix 'E' (appendix) showing detailed estimates of expenditure in respect of works costing over Rupees one lakh which shall be submitted to the Legislature along with the budget for discussion. The appendix, after sanction of budget, shall be circulated among the implementing officers not later than April of the relevant financial year.

The Public Accounts Committee (PAC) in its sixth report of 2009-10 (January 2011) while expressing serious concern over the abnormal delay in preparing the appendix observed that it was an integral part of the budget and therefore should be submitted to the Legislature for discussion along with the budget. PAC further observed that the appendix should be considered as a list of works approved by the Legislature and therefore expenditure on works not covered by appendix has to be regarded as unauthorized. PAC also recommended for prioritizing budget provision for completing ongoing works before considering provision for new works.

For the year 2011-12, appendix was approved by FD (26 March 2012) only for three<sup>6</sup> major heads after a lapse of about one year of passing the budget (31 March 2011) that too only for a few minor heads under the said major heads. While the approval itself was delayed, printing was further delayed by more than 5 months (17 September 2012).

Review of expenditure under Grant 20 (Public Works Department) for the year 2011-12 revealed mismatch between grant provided in appendix, budget grant and expenditure as discussed in the succeeding paragraphs.

During the year 2011-12 as against the total expenditure of ₹ 3,595.88 crore under capital major heads - 4059, 4216 and 5054, the grant provided in appendix was only ₹ 1,767.45 crore. As the appendix was meant to ensure Legislative sanction for expenditure on works, an amount of ₹ 1,828.43 crore spent on works was devoid of Legislative approval. Even under the sub-heads provisions in appendix largely varied from the budget grant resulting in inadequate provision on works amounting ₹ 717.35 crore.

Under 5054 - Roads and Bridges (ongoing works) in seven Divisions<sup>7</sup>, audit noticed inadequate provision of grant in appendix aggregating ₹ 246.13 crore

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<sup>6</sup> Major heads - 4059, 4216, 5054

<sup>7</sup> Belgaum, Bagalkot, Chikodi, Gadag, Kolar, Raichur and Sirsi

on 571 works despite the fact that all these works were scheduled for completion during the year. In ten Divisions<sup>8</sup> short release of grants though provided in appendix amounted to ₹ 258.92 crore. This adversely affected timely completion of works besides leading to accumulation of pending bills.

Thus, absence of appendix covering all ongoing and new works as per KBM provisions and delay in issuing the same to the implementing officers was a serious lapse in ensuring Legislative sanction for the list of works before incurring expenditure. Strict expenditure control over the works could not be ensured.

PAC in its sixth report while expressing serious concern over the uncontrolled growth of pending bills, further recommended the necessity of FD to take strict measures to release grants so that works are completed as per time schedule shown in appendix, besides discouraging the tendency of taking up works not provided in appendix. The committee also recommended the necessity of making 70 per cent initial provision in appendix against the prevailing practice of one-third grant, so as to complete the works in time. However these requirements were not complied with. Lack of budgetary control resulted in creation of clear liability of ₹ 1,509 crore on Government towards pending work bills as of March 2012.

The matter was brought to the notice of Government (September 2012); their reply awaited (December 2012).

### **2.1.3 Irregular execution of works**

#### **Executive Engineer, Ramanagaram split up major works into piece works in violation of codal provisions**

The Departmental code prohibits splitting up of major works by an authority just to bring it under their sanctioning power in order to entrust works on piece work basis. Further, the Government had issued instructions (2002) that only repair and other emergent works costing below ₹ 5 lakh should be taken on piece work system.

Scrutiny of records (December 2010) of the Executive Engineer, Public Works Ports and Inland Water Transport Department, Ramanagaram (EE), revealed entrustment of 1,189 piece works to seven contractors during 2009-10 in violation of rules involving an outlay of ₹ 22.46 crore. A test check of records covering an expenditure of ₹ 9.55 crore pertaining to 192 piece work agreements (each costing below ₹ 5 lakh) revealed the following irregularities:

- The Assistant Executive Engineers (AEE) signed the agreement though not authorised and these were subsequently certified by the EE in token of its acceptance.

<sup>8</sup> No 1 Bangalore, No 2 Bangalore, ESI Building, Bangalore, PW& IWTD, Bangalore, Chikkaballapur, Kolar, Mysore, Ramanagaram, Sirsi and Tumkur

- The piece work agreements and work order(s) issued by the EE were not dated though stipulated period of completion was shown as 30 days.
- In 17 cases, the works costing ₹ 84.93 lakh were entrusted to/executed by persons other than those mentioned in the work order/sanction communicated by the Chief Engineer (CE).
- Four improvement works<sup>9</sup> (three major road improvements works and one improvement work around the PU College building aggregating to ₹ 4.64 crore) were split into 93 estimates, all below ₹ five lakh, and entrusted to six Class I and II contractors on piece work basis in violation of codal provisions. The nature of works do also not fall into the category of maintenance or repairs.
- Contractors were required to furnish quality control (QC) test certificates for materials. The QC test certificates were not produced by the contractors and department also did not ensure the quality of works executed.
- The works entrusted on piece works were not covered by defect liability clause.
- The EE did not check measure the work in progress and record the fact, as required by the Karnataka Public Works Departmental Code (Volume II). Further, EE also did not check the final measurements of works costing more than ₹ 25,000 to the extent of 25 *per cent* of the total value of the work done, before payment of the bill. The records pertaining to check measurements were not produced to audit.

The EE replied (December 2010/September 2012) that the delegation of financial powers to CE, Superintending Engineer and EE was strictly adhered to while approving the works and that the agreements had been executed between EE and the contractors and the AEE had only recommended the proposals. It was further stated that all the work orders issued to the contractors and sub-division offices had been dated except in the office copies which were missed due to oversight and that the work orders had been issued as per the approval from CE only. However, the statement is contrary to the evidence produced to audit which indicated that the work orders/agreements were undated and the agreements were executed between the AEE and the contractors only. This was not brought to the notice of competent authority even at a later stage for ratification. EE did not furnish reply in respect of works carried out by persons other than to whom it was allotted. Further, *post facto* approval for change in entrustment of work was neither obtained from higher authorities nor brought to their notice by EE.

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<sup>9</sup> Kallya Sripathihalli Road (17 piece works – ₹ 84.86 lakh), Improvements to road from Motaganahalli to NH 48 (51 piece works – ₹ 254.59 lakh), Improvement to Road from Magadi to Nelamangala via Bittasandra in Magadi taluk (13 piece works- ₹ 64.87 lakh) and improvement works around PU College, Bachahalli, Magadi (12 piece works – ₹ 59.61 lakh).

The matter was referred to Government in April 2012; their reply awaited (December 2012).

#### **2.1.4 Potential loss of revenue**

##### **Failure to execute agreement for a plot earlier leased to a public sector undertaking more than three decades ago resulted in arrears of rent of ₹ 3.91 crore**

The Karnataka Public Works Departmental Code provisions envisage that in all cases of tenancy agreement or lease, the tenant should execute a tenancy agreement or lease in the prescribed form and also to make a provision for recovery of arrears of rent due to Government as arrears of land revenue without prejudice to any other remedies open to Government.

Government leased out (February 1974) 4,300 square feet plot in Gandhinagar, Bangalore to M/s Indian Oil Corporation Limited (lessee) for petroleum retail outlet at a monthly rent of ₹ 700 for a period of five years and belatedly renewed (August 1985) the lease period up to 1987. The Government in their order of December 1992 did not extend the lease period beyond 11 December 1992 and enhanced the monthly rent retrospectively from 12 December 1982 to 11 December 1992 at varying rates<sup>10</sup>. Aggrieved, the lessee filed a writ petition in the High Court of Karnataka which in its interim order (September 1993) directed the parties to resolve the matter amicably. Accordingly, in the meeting convened (March 1994) at Government level, the lessee agreed for a hike of 20 per cent of rent every five years, which was subject to Finance Department's (FD) approval and lessee also agreed to vacate the premises.

The Secretary, PWP & IWTD intimated (September 1996) the Chief Engineer (CE) that the FD did not agree to these proposals and instructed to recover rent at 12 per cent of the market rate of the land for the extended period. However, the lessee was paying monthly rent of ₹ 5,200 up to July 2009 and ₹ 8,200 thereafter disregarding the market rates<sup>11</sup> to be fixed as per FD instruction. In the meanwhile, the High Court of Karnataka disposed of (September 1999) the writ petition in favour of the Department but no action was taken to evict despite the order. However, the Department revised the rent to ₹ 3.31 lakh per month and assessed ₹ 3.22 crore as arrears (May 2010) but lessee agreed (September 2010) to pay a monthly rent of ₹ 75,000 from April 2010 and ₹ 20.34 lakh as arrears of rent. The lessee argued that it is a public sector undertaking (PSU) catering to general public and is entitled for lower rate of rent. The request of the lessee was not accepted by the Government but neither effective action was taken to evict the lessee nor recovered the rental arrears of ₹ 3.22 crore.

Review of records revealed that Department had never concluded a formal lease agreement with the lessee though required as per codal provisions.

<sup>10</sup> From ₹ 3,000 pm to ₹ 4,975 pm up to 11 December 1987 and ₹ 12,200 pm up to 11 December 1992.

<sup>11</sup> ₹ 8,530 pm to ₹ 3,31,000 pm

Further, the Executive Engineer (EE) stopped accepting rent from lessee from April 2010 though lessee was still occupying the premises. The contention of the lessee that it is a PSU and entitled for concessional rate of rent was incorrect as it had allotted the dealership to an individual for operating a retail outlet. Hence, the PSU was not the beneficiary of low rentals and this fact was known to the department.

The Government stated (March 2012) that it had finally decided to collect monthly rent of ₹ 3.31 lakh as proposed and arrears of rent of ₹ 3.91 crore. The Government further stated that constant efforts had been made for collection of the arrears. This contention is not borne out by the fact that despite an agreement on rentals being arrived at in March 1994, approval or rejection of the same was not communicated to the CE till September 1996, nor was rent collected at the higher rates till such time that final approval was communicated by the Finance Department. Even after rejection, the EE disregarded Government directions and continued to recover rentals at substantially reduced rate till 13 years after the communication. Further, EE had stopped taking monthly rent from April 2010 and onwards. The recovery of arrears of rent aggregated to ₹ 3.91 crore as of February 2012 is unlikely to be realised in the absence of any agreement leading to potential loss.

## **WATER RESOURCES DEPARTMENT – MINOR IRRIGATION**

### **2.1.5 Inordinate delay in completion of project**

**Failure to acquire land before entrustment of work resulted in locking up of ₹ 4.31 crore on a minor irrigation tank work sanctioned more than a decade ago.**

As per Paragraph 209 of Karnataka Public Works Departmental Code, no work should be commenced by the department unless land for the execution of the work is duly acquired and Paragraph 107 stipulates that revised sanction should be obtained in case of expenditure exceeds by more than 15 *per cent* of the original sanction.

The Executive Engineer, Minor Irrigation Department, Dharwad (EE) awarded (December 2003) construction of a tank at Antravalli village in Ranebennur taluk to a contractor for ₹ 1.65 crore at 42.22 *per cent* below re-casted Schedule of Rates. The scheduled period of completion was 18 months. The project involved acquisition of 60 hectares (ha) of land for construction of bund, approach and tail channel, canals, *etc.* The contractor could not achieve the required progress due to objection from land owners and power lines obstructing the portion of bund work. The contractor achieved progress of ₹ 26.26 lakh during the contract period and Chief Engineer (CE) rescinded (October 2006) the contract at risk and cost. Based on the then Deputy Chief Minister's instruction that Government would benefit from the lower tender rates, extension of time was granted up to March 2008. The overall progress achieved was ₹ 45.30 lakh despite time extension and CE rescinded (July 2008) the contract at risk and cost considering the poor progress. The balance work was entrusted (January 2010) to another contractor on tender basis for

₹ 3.88 crore for completion by February 2011. As of March 2012, all the works were completed but canals could not be completed due to non-acquisition of land. The total expenditure incurred on work including land acquisition cost was ₹ 4.31 crore.

Scrutiny of the records of EE (September 2011) showed delay in acquisition of land and delay in shifting of power lines. The preliminary notifications under Land Acquisition Act for acquisition of land were issued in April 2004 and November 2009 *i.e.* after award of contract. There was considerable delay in shifting of power lines which was shifted only after entrustment of work to second contractor. Thus, the necessary land for execution of work was not available with the department at any point of time. This resulted in non-completion of work even after 11 years.

Further, the total expenditure of ₹ 4.31 crore exceeded the sanctioned estimate (₹ 2.48 crore) by 73.79 *per cent*, however, revised sanction as stipulated under codal provision was not obtained. It was also noticed that action was neither taken to recover the extra cost of ₹ 2.67 crore or blacklist the defaulting contractor.

Government stated (December 2012) that tank work was completed and water could be stored. Further, it was stated that deposit of ₹ 4.26 lakh had been forfeited (December 2012) after being pointed out in Audit and action would be taken to recover the extra cost. The reply was not acceptable as the objective of providing irrigation benefit for 400 ha of land was not fulfilled as only storage capacity had been created.

## **2.2 Audit against propriety/Expenditure without justification**

Authorisation of expenditure from public funds is to be guided by the principles of propriety and efficiency. Authorities empowered to incur expenditure are expected to enforce the same vigilance as a person of ordinary prudence would exercise in respect of his own money and should enforce financial order and strict economy at every step. Audit has noticed instances of impropriety and extra expenditure, some of which are hereunder.

### **PUBLIC WORKS, PORTS AND INLAND WATER TRANSPORT DEPARTMENT**

#### **2.2.1 Excess payment towards price adjustment**

**The mistake in bitumen rate adopted for the base index while calculating price adjustment bills in a road work contract had led to irregular payment of ₹ 1.83 crore.**

The contract for “strengthening and developing Hubli-Gokul Major District Road from Hosur cross to Airport Road under ASIDE<sup>12</sup> scheme” was

<sup>12</sup> Assistance to States for Development of Export Infrastructure and Allied Activities (Centrally Sponsored Scheme).

entrusted (October 2007) to a contractor for ₹ 11.92 crore for completion in 18 months. The agreement included price adjustment (PA) clause for increase or decrease in cost of bitumen, plant & machinery, fuel & lubricants, labour and other materials with different weightages based on the average consumer price index calculated as compared to the base index.

The agreement specified usage of 80/100 grade bitumen for the bituminous items. The Chief Engineer during his inspection of the work instructed (May and July 2008) to provide 60/70 grade bitumen which not only reduces the maintenance cost but also improves the road life. Due to change in the grade of bitumen the rates for the bituminous items were revised and extra financial implication of ₹ 8.28 crore was approved by the Chief Engineer in February 2009. The rates of the bituminous items were revised as per schedule of rates of 2008-09 with tender premium by considering a rate ₹ 43,289 per MT for 60/70 grade bitumen. The total payment made to the contractor was ₹ 17.60 crore which included ₹ 1.80 crore towards price adjustment bills.

Scrutiny of records (December 2010) of the Executive Engineer, Public Works Ports and Inland Water Transport Department, Dharwad (EE) revealed an error in the rate adopted for bitumen in the base index leading to irregular payments. As the rates for the bituminous items were revised as ₹ 43,289 and paid accordingly, this rate should have been adopted as the base index while calculating price adjustment bills paid between March 2009 and October 2010. But instead EE had adopted lower bitumen rate of ₹ 30,070.49 per MT and paid ₹ 55.61 lakh towards price adjustment for bitumen. The amount that was recoverable towards price adjustment for bitumen component works out to ₹ 1.28 crore but instead EE had paid ₹ 55.61 lakh. Hence, the total amount recoverable from the contractor was ₹ 1.83 crore.

Government accepted (October 2012) the audit observation that Clause 44 of the agreement exclude extra items from the value of work done for price adjustment and should be separately agreed upon between the parties in case of its application for extra items. Government also stated that the change of grade of bitumen became an extra item and rates were revised as per Clause 13 of the agreement. As per provisions, the base price of bitumen for PA is reckoned at the rate prevailing 30 days prior to date of opening of tender. Hence, the date of approval of extra item was treated on par with the date of opening of tenders and bitumen rate (₹ 30,070.49 per MT) prevailing 30 days prior to date of approval of extra item was adopted as base price of bitumen instead of adopting ₹ 43,289 per MT as observed in audit as none of the contractual provisions stipulates as such. Government also stated that the rates were paid in consultation with the contractor.

The reply was not acceptable for the following reasons:

- The PA Clause accounts for variation in price of labour, material, fuel *etc.*, during the contract period and determined by formulae comprising element of base price and current price among others. The base price and current price needs to be defined in the tender schedules. The contractor is expected to consider the prices of construction materials

and others while submitting the bid which is reflected in the form of tender premium. The contracted amount of this work was accepted with a tender premium of plus 19.48 *per cent*.

- The Government admitted that PA as per clause 44 is not applicable for extra items as per contractual provisions and had to be separately agreed upon *i.e.* separate agreement to be drawn which has no relation to revised agreement. Before entering into separate agreement, financial implication has to be worked out, otherwise would result in unintended benefit to the contractor.
- The bitumen rate considered for revised rates was ₹ 43,289 per MT and after loading tender premium of 19.48 *per cent* as per Clause 13, the effective bitumen rate worked out to ₹ 51,721.70 per MT. However, the bitumen prices came down in the subsequent months as seen from the price adjustment bills which varied between ₹ 31,233.09 and ₹ 38,757.26 against ₹ 51,721.70 per MT actually paid. The decrease in bitumen prices had not resulted in recovery from contractor but instead contractor was paid ₹ 52 lakh for price adjustment of bitumen. Since tender premium was loaded to bitumen rate while working out revised rates for extra items, the adoption of bitumen rate of ₹ 30,070.49 per MT as base price for PA was not justified.

Thus, the adoption of lower base price had resulted in excess payment of ₹ 1.83 crore to contractor. Further, the Government contention that terms were agreed upon with contractor was not acceptable as supplementary agreement was neither concluded nor produced to audit as such binding agreement was not in place.

## WATER RESOURCES DEPARTMENT – MINOR IRRIGATION

### 2.2.2 Unproductive investment

**A minor irrigation project was taken up without examining its necessity which would not increase the storage capacity of the barrage resulting in unproductive investment of ₹ 56.67 lakh.**

The construction of Bridge-cum-barrage (BCB) across Dudhganga river near Barward village in Chikkodi taluk of Belgaum district was approved (May 2006) by Government for ₹ 1.30 crore to provide irrigation to 234 hectare (ha) land. The proposed BCB with a storage capacity of 0.0939 mcum was designed with a length of 54.40 mtr having span width of 4.25 mtr. The work was awarded (December 2006) to a contractor for ₹ 1.65 crore for completion in nine months (January 2008) excluding monsoon period.

During excavation (between January and May 2007) for foundation, the hard strata was not met at the designed depth and alluvial soil was encountered. The contractor, therefore, requested (May 2007) for further instructions for continuation of the work. The Superintending Engineer (SE) during the inspection of the work (May 2007) instructed Executive Engineer to obtain revised foundation designs and drawings for the BCB. The work was stopped

from April 2007 while contractor had achieved financial progress of ₹ 43.72 lakh. The Technical Appraisal Committee (TAC) instructed (February 2008) to get the revised design validated by Indian Institute of Science (IISc) as the foundation was to rest on alluvial soil. The issue was referred (March 2008) to IISc and approval from TAC for revised estimate was obtained (April 2010). The contractor had requested for payment as per Schedule of Rates for 2009-10 with tender premium for execution of balance works which was approved by Government in October 2011. A supplementary agreement for ₹ 3.34 crore was concluded (November 2011) with the contractor for carrying out the balance works.

Scrutiny of the records (November 2011) of Executive Engineer, Minor Irrigation Division, Belgaum (EE) revealed that the conceptualization of the project was ill-conceived and was taken up for execution without conducting initial investigations.

- The project report stated that the BCB was proposed to store the lean flow in the river to supplement *Khariff* season crops and mainly for *Rabi* season crops. The proposed BCB was being built across perennial river and the water flows up to HFL (highest flood level) during rainy season *i.e.*, June to October. During November to May, water is released into river from Kalamawadi Dam by Maharashtra State as per inter-state water agreement.

Thus, there is hardly lean water flow in the river during any period of the year.

- The BCB was to provide irrigation to 234 ha land from 0.0939 mcum of water for growing semidry crops. However, the quantum of water required for planned irrigation is 1.50 mcum as against storage capacity of 0.0939 mcum<sup>13</sup>, which is 6.26 *per cent* of the water requirement and sufficient to irrigate only 15 ha. Hence, scheme was grossly under designed.
- There would be standing water up to height of 2 to 3 mtrs at the proposed BCB during *Rabi* season due to closure of gates at the Karadaga Barrage which existed at the downstream of the proposed project. The SE during the inspection (January 2008) noticing the presence of standing water at the proposed project opined that the proposed structure would serve only as a bridge.

Thus the project which provides meagre irrigation benefit does not justify investment of ₹ 3.34 crore on which an expenditure of ₹ 50.67 lakh<sup>14</sup> had already been incurred.

The Government stated (December 2012) that the water is let into river by Maharashtra Government from November to May every year as per inter-state agreement. The storage capacity of the barrage shown in estimate for every

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<sup>13</sup> As per project report.

<sup>14</sup> Including RA bill amount of ₹ 43.72 lakh.

month from June to January was sufficient to meet the requirement of *Rabi* crops. The storage capacity of 0.0939 mcum could irrigate required area during the month of February. Further, Government stated that SE's opinion during inspection was not realistic.

The reply was not acceptable as the project was proposed to meet requirement of *Rabi* crop (November to February) and river is perennial till January/February as per project report enclosed to sanctioned estimate. This was due to release of water by Maharashtra as per inter-state agreement *i.e.* November to May. Hence, the standing water was noticed by SE during site inspection.

## **2.3 Failure of oversight/governance**

The Government has an obligation to improve the quality of life of the people for which it works towards fulfilment of certain goals in the area of health, education, development and up gradation of infrastructure and public service *etc.* However, Audit noticed instances where the funds released by Government for creating public assets for the benefit of the community remained unutilised/blocked and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. A few such cases are discussed below:

### **PUBLIC WORKS, PORTS AND INLAND WATER TRANSPORT DEPARTMENT**

#### **2.3.1 Unintended benefit to contractor**

**A contractor took nearly 42 months to complete a work as against stipulated nine months and liquidated damages of ₹ 1.36 crore was not imposed despite abnormal delay in completion of work.**

The balance works of rehabilitation of road work from Sirsi to Mavinagundi (Package M26) was entrusted (December 2005) to a contractor under Karnataka State Highway Improvement Project (KSHIP) for ₹ 13.65 crore for completion in nine months (September 2006). The contractor during the tender period achieved a progress to the extent of ₹ 3.83 crore (28 *per cent* of the contract value) and the shortfall was attributed to unseasonal rains, non-availability of aggregates, road passing through reserve forest area, *etc.* The Steering Committee headed by Principal Secretary to Government, Public Works, Ports & Inland Water Transport Department, approved (November 2006) extension of time for completion of work up to 31 March 2007 and also authorised Chief Project Officer, KSHIP to finalise extension of time proposals at his level as the KSHIP project was scheduled to end in October 2007. Second extension up to 31 March 2008 was granted but the contractor could achieve only 10.70 *per cent* progress in the extended period of 18 months by citing the same reasons for which extension was granted earlier and further extension of 14 months was granted up to 31 May 2009. Finally, the work was completed in May 2009 after a delay of 32 months after granting

extension of time thrice. The final bill of the contractor was paid at ₹ 10.24 crore including variation orders aggregating to ₹ 57.42 lakh.

The agreement stipulated levy of liquidated damages (LD) for each day of delay in completion at ₹ 74,570 per day subject to a maximum of 10 *per cent* of the contract value. Scrutiny of records of Project Director, KSHIP revealed that the extension of time was granted thrice. However, not invoking the provisions of LD for delay of 32 months was not justified for the following reasons:

- The procurement of the aggregates was the responsibility of the contractor and work had to be executed in forest area was also known to the contractor and department.
- The balance works to be completed by the contractor after the first extension was to the extent of 62 *per cent* only and for which the department granted 27 months to complete it, which was three times the original contract period of nine months were unreasonable and not proper. This extension was granted despite reduction in the scope of work by 29 *per cent*<sup>15</sup>.
- The Steering Committee while reviewing the second extension granted (April 2007 to March 2008) had instructed (September 2007) to levy the LD to speed up the progress of work. However, LD was not levied.

Thus, the extension of time granted without levy of LD was not justified and resulted in unintended benefit to the contractor amounting to ₹ 1.36 crore.

The Project Director stated (August 2012) that the contractor could not start the project on time due to the stoppage of work intermittently by the original contractor and required a lot of time to set right the balance work. It was also stated that though the contractor had unduly delayed the completion of work, the LD was not levied as neither revised rates nor compensation in the form of price adjustment were paid. The reply was not acceptable as the objective of a LD clause in a contract was to ensure commitment to deadline and avoid late deliveries. Revised rate and compensation were in any case not payable for delayed works. Also, the LD was not levied despite instructions by Steering Committee which had resulted in extending unintended benefit to the contractor.

The matter was referred to the Government (March 2012); their reply awaited (December 2012).

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<sup>15</sup> The item of works in Chainage 35+100 to 35+900 in Link Road-8D and Chainage 12+600 to 14+280 in Link Road-8E etc.,

### 2.3.2 Loss due to non-availment of grant

**Failure to adhere to time schedule as per agreement pertaining to consultancy services for development of road sector in Karnataka resulted in foregoing of grant of ₹ 1.21 crore.**

Government of Karnataka (Government) entered (July 2008) into an agreement with the International Bank for Reconstruction and Development (World Bank), based on which a grant of US \$ 4.40 lakh was extended to Government to facilitate private financing and domestic borrowing for road sector in Karnataka. The closing date for the grant was 29 June 2010 extended up to 31 December 2010 with disbursement deadline of two months after the closing date. The project objectives included support to Public Works, Ports and Inland Water Transport Department (PWD), hiring the services of a financial advisor (FA) to prepare a report outlining options for the proposed World Bank (WB) loan to access additional financing from private sector and local financial institutions for development of roads, expenses related to study tour etc. An advance grant of ₹ 1.02 crore (US \$ 2.11 lakh) was released to Government in August 2009.

The Karnataka State Highways Improvement Project (KSHIP), Bangalore being the Project Implementation Unit (PIU) appointed (June 2009) M/s Price Water House Cooper Private Limited (PWC) as FA for the Public Private Infrastructure Advisory Facility (PPIAF) at a contract price of ₹ 1.03 crore. The scope of consultancy included assessment of public private partnership, establishment of Road fund with rules governing its operation, credit rating for the road fund once established *etc*, and the report to be submitted in six months (December 2009).

Though PWC submitted its report within the stipulated period, the WB team desired (March 2010) that the scope of the PPIAF to be broadened and extended submission of report by six months. The senior officers of the department as part of the project undertook (September/October 2010) study tour at an expenditure of ₹ 0.74 crore. The Government sought (December 2010) further extension up to June 2011. The request was not acceded to and as Government failed to complete the project even during extended period, the WB cancelled (April 2011) the grant of US \$ 2.57 lakh (₹ 1.21 crore)<sup>16</sup> by treating the same as undisbursed grant. The total expenditure incurred on PPIAF was ₹ 1.77 crore including expenses towards international study tour.

Scrutiny of records revealed that the PIU took 11 months for appointment of FA after signing the agreement with WB. There were delays in submission of FA Report by PIU and draft Karnataka Road Fund (KRF) Act was submitted to Government only during November 2010 without consulting Finance Department, Planning Department and Infrastructure Development Department. Only in the meeting chaired by Principal Secretary, PWD in December 2010 it was decided to consult these departments before seeking approval of Legislature for establishment of KRF. The inter-departmental

<sup>16</sup> At exchange rate of ₹ 46.9449 per US \$ as at December 2010.

consultation process was not completed by the administrative department even up to December 2010 *i.e.*, closing date for grant. Further, the reimbursement of ₹ 0.74 crore incurred towards study tour claimed by the department was rejected by WB for delay in submission of claims. Thus, lack of planning and non-adherence to due dates for submission of claims resulted in non-recoupment of expenditure incurred and loss of grant aggregating to ₹ 1.21 crore.

The Chief Project Officer, KSHIP replied (August 2012) that the delay was mainly due to establishment of KRF which was under consideration of Government and giving approval for the establishment of KRF was the prerogative of the legislature. The reply was not acceptable as the formalities to be completed were known to the department but the department failed to complete the process even after extension of time by WB which resulted in loss of grant of ₹ 1.21 crore and non reimbursement of expenses of ₹ 0.74 crore.

The matter was referred to Government (June 2012); their reply awaited (December 2012).

### **2.3.3 Undue haste in award of contract**

**Failure to dovetail different components of the estimate resulted in lingering of a road widening work. Non-encashment of bank guarantee furnished as security for drawal of interest free mobilisation advance of ₹ 7.97 crore despite non-compliance with tender conditions resulted in extending undue benefit to agency.**

The contract for widening of National Highway 234 from km 194.90 to km 234.30 (Banavara – Huliya Section) under Special Projects Scheme of Government of India (GOI) was awarded (February 2011) by Executive Engineer, National Highways Division, Chitradurga (EE) to M/s ASIP Private Limited, Hyderabad (agency) for ₹ 79.74 crore for completion in 24 months (February 2013). The agency was paid ₹ 7.97 crore in March 2011 as interest free mobilisation advance (MA) as per the terms of the contract for procurement of equipments, plant, mobilisation expenses and was required to produce copies of invoices or other documents for having utilised the MA. The agency had given a progress to the extent of ₹ 6.22 crore (9 *per cent*) to the end of April 2012 and scrutiny of records (September 2011) revealed undue haste in award of contract besides improper management of the contract as discussed below:

- Apart from widening to four lane road, the work comprised preparatory activities like shifting of electrical utilities, water supply lines, removal of road side trees, *etc.* However, these preparatory works did not form part of the main road work contract and were to be taken up through other agencies. The GOI while according sanction of work had instructed that the Chief Engineer must ensure completion of shifting of utilities before award of the main contract where as the contract for

shifting the utilities were firmed up after a delay of five to twelve months<sup>17</sup>. The contract for removal of trees was not finalised as of April 2012. Consequently the work relating to widening was affected. Though, the department was aware that obstruction-free land was not available, it still awarded the contract to meet the due date fixed (19 March 2011) by GOI to avoid cancellation of sanction order.

- The copies of tax invoices for having utilised the MA of ₹ 7.97 crore were belatedly produced by the agency and the same were rejected (December 2011) by the department as the machinery/equipments purchased were found hypothecated to various other financial companies. However, even after noticing the irregularity the department neither took any action against the agency nor did they encash the bank guarantee. The agency submitted (May 2012) the copies of another set of invoices for having utilised the MA which were accepted by the EE. Scrutiny of the second set of invoices made available to audit revealed that the invoice numbers, date of purchases, chassis number/engine number of the machinery/ vehicles were the same as in the previous set of invoices submitted, except for the details of hypothecation, which had been deleted now. However, there cannot be more than one invoice with same number with same date for the same goods in terms of Rule 11 of Central Excise Rules 2002. Therefore, the acceptance of second set of invoices by EE as satisfactory was incorrect which otherwise would have attracted penal action against the agency for non-compliance/submission of forged documents. It was also ascertained (July 2012) by audit from Regional Transport Office (RTO), Hassan that the ten vehicles procured by the agency were hypothecated to financial institutions proving that the second set of invoices submitted by the agency were fabricated.

Thus, failure to dovetail different components of the estimate resulted in lingering of work and non-encashment of bank guarantee furnished as security for drawal of interest free MA of ₹ 7.97 crore despite non-complying with tender conditions resulted in extending undue benefit to agency.

The Government stated (September 2012) that:

- the work had to be awarded within six months of sanction in order to avoid de-sanction of work as stipulated in GOI guidelines.
- earnest efforts were initiated for shifting of utilities soon after sanction of work by GOI and could not be completed as co-ordination of different departments was involved. The Government furnished calendar of events for shifting of utilities to justify that there was no undue haste in award of work.
- the agency had utilised the MA for establishment of site offices and also utilised ₹ 65.37 lakh as margin money for procuring machineries with

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<sup>17</sup> The contracts for shifting of electrical utilities were awarded in July 2011 and shifting of water supplies work was awarded in February 2012.

the loan from the bank. For submission of fabricated invoices, the Government stated that the agency had requested to condone by treating as a genuine error.

- the penal clause was not operated as department had not made available encumbrance free site to agency for execution of work.

The reply was not acceptable as GOI guidelines stipulated that shifting of utilities should be completed before award of contract. The department was aware of the fact that shifting of various utilities involved several departments and process was still in preliminary stages but department awarded the work even when there was no reasonable prospect of completion of work within the scheduled period and overall progress achieved by the agency was ₹ 7.86 crore *i.e.*, ten *per cent* of the contract amount. Further, agency for the work relating to removal of trees was not finalised as of September 2012 *i.e.* three years after sanction by GOI.

Also, the Government contention of not operating penal clause for non-handing over of encumbrance-free site was not relevant as audit observation related to non-enforcement of penal clause for agency's failure to comply with MA provisions and for submission of forged invoices.

## **WATER RESOURCES DEPARTMENT – MINOR IRRIGATION**

### **2.3.4 Delay in completion of work**

**Failure on the part of the department in conducting necessary survey and investigation and ensuring availability of land resulted in non-completion of work even after more than four years leading to blocking up of ₹ 1.26 crore.**

Departmental codal provisions<sup>18</sup> stipulate that no work should be commenced unless the land required for construction is made available by the responsible civil offices and detailed design and estimate have been prepared after conducting necessary survey and investigation.

Construction of lift irrigation scheme<sup>19</sup> at Salgunda village in Sindhanur taluk to irrigate 690 ha of land was entrusted (May 2007) by Executive Engineer, Minor Irrigation Division, Kushtagi (EE) to an agency for ₹ 2.44 crore for completion by October 2008. The total land required for construction of intake well, raising main, delivery chamber and irrigation canals was assessed at 4 *acres 26 guntas*. This quantum of land was not in possession of department at the time of entrustment of work. The agency supplied pumping machinery, motor, panel board, PSC pipes and was paid ₹ 1.05 crore (March 2008). The contract was rescinded (May 2011) at the risk and cost of the agency by the Chief Engineer based on the recommendation (January 2010) of Superintending Engineer. The grounds for rescinding were that the contractor

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<sup>18</sup> Paragraphs 209 and 211 of Karnataka Public Works Departmental Code Volume-I.

<sup>19</sup> Estimated cost ₹ 2.20 crore.

did not complete the work relating to construction of jack well, raising main, canals, installation of machinery *etc.*, and had not sought for extension of time. The total value of work done by the contractor as per fourth and part bill was ₹ 1.26 crore (January 2011). The work had remained incomplete as tenders for balance work are yet to be finalised (December 2012).

Audit scrutiny revealed the following:

- The land acquisition proposals forwarded in June 2007 were revised subsequently in September 2008 and land acquisition was not completed even to the end of September 2011.
- The location of the jack well was changed after entrustment of the work.
- The drawings for confirmed levels, alignment and approved designs were not handed over to the agency even to the end of July 2010.
- The agency was allowed to supply (October 2007) pumping machinery and electrical accessories (₹ 53.47 lakh) even though the stage of work had not progressed requiring their installation. The pumping machineries were not tested and certified about working condition as trial run could not be conducted.

Thus, failure on the part of the department in conducting necessary survey and investigation and ensuring availability of land resulted in non-completion of work even after more than four years and thereby blocking up of ₹ 1.26 crore.

Government stated (December 2012) that the contract had to be rescinded due to poor progress by the contractor and there was no delay in issue of design/drawing by department or land problems. The trial run would be conducted at appropriate stage and action would be taken against the contractor if machinery fails to perform satisfactorily. Government further stated that security of ₹ 12.92 lakh was forfeited.

The reply was not acceptable as the location of the jack well was changed after the entrustment of work which shows inadequate survey and investigation. The contractor in his letters (June and August 2010) had requested for extension of time as encumbrance free land and confirmed levels, alignment and approved design & drawings were not made available. The land required was not in possession of department. Tendering for balance work was not finalised even after two years of rescinding the work leading to blocking up of funds.

