

## Uttar Pradesh State Bridge Corporation Limited

### 2.3 Review on the working of Uttar Pradesh State Bridge Corporation Limited

#### HIGHLIGHTS

*Uttar Pradesh State Bridge Corporation Limited was incorporated in October 1972 for construction of bridges and other civil works. The Company executed contract works obtained through participation in tenders and deposit works entrusted to it by the State Government. The Company suffered operational loss that ranged from Rs.82 lakh to Rs.18.80 crore during five years ending 2001-02.*

*(Paragraphs 2.3.1, 2.3.4 and 2.3.5)*

*The Company completed 36 contract works during the last five years ending 2001-02. In 22 contract works it earned profit while in 14 works it suffered loss.*

*(Paragraph 2.3.7)*

*While quoting the rates in the tender of Moradabad Bypass Project, the Company did not load cost of investment in the tender that resulted in reduction of profit margin by Rs.3.09 crore.*

*(Paragraph 2.3.8)*

*Failure to make base for construction of piers in case of bridge on Ulhas river in Maharashtra led to change of methodology of construction and design of super structure. The extra cost of Rs.3.56 crore involved due to this change could not be claimed from the client.*

*(Paragraph 2.3.11)*

*In left over work of bridges of Government of Gujarat, the Company could not adhere to the time schedule and suffered loss aggregating Rs.4.20 crore.*

*(Paragraphs 2.3.13, 2.3.14 and 2.3.15)*

*The Company suffered loss of Rs.3.67 crore in the contract work of grade separator at Raja Garden, New Delhi by not preferring the claim in Arbitration timely for delays attributable to the client.*

*(Paragraph 2.3.16)*

*Failure to plan and control its expenditure in the execution of works at Safdarjung, New Delhi, resulted in loss of Rs. 7.17 crore.*

*(Paragraph 2.3.24)*

*The Company incurred expenditure in excess of sanctioned cost in 94 deposit works. The Company failed to submit monthly reports to the State Government in 56 completed works, to seek reimbursement of excessive cost over 15 per cent of the sanctioned cost. This resulted in loss of Rs.40.89 crore.*

*(Paragraphs 2.3.25-2.3.28)*

#### Introduction

**2.3.1** The Uttar Pradesh State Bridge Corporation Limited (Company) was incorporated on 18 October 1972 as a wholly owned State Government company. The main objectives of the Company, *inter alia*, include construction, development and maintenance of all type of bridges and approach roads, raise loans to carry out the projects and also undertake civil/mechanical/electrical works.

The pattern of working in the Company is broadly known as “Departmental Construction System”. The construction works are normally done departmentally by technical and other staff of the Company. The necessary machines and equipment, tools and plant, centering and shuttering and material like steel, cement, coarse and fine aggregates, etc. are procured by the Company. The work is executed directly and by engaging required labour on piece rate working system. Thus, the Company has been established with a view to eliminate the middlemen and contractors in execution of works.

At present, the Company is engaged in construction of bridges of the State Government and other Government agencies within India. During the last five years ending 31 March 2002, the Company executed works worth Rs.1169.30 crore (contract/tender works valuing Rs.652.86 crore and deposit works valuing Rs.516.44 crore).

### **Organisational set-up**

**2.3.2** The management of the Company is vested in a Board of Directors consisting of not less than three and not more than twelve directors nominated by the State Government. The Principal Secretary, Uttar Pradesh Public Works Department (UPPWD) is the ex-officio Chairman of the Company. The Managing Director (MD), a professional engineer of the rank of Chief Engineer from UPPWD, is the Chief Executive, who is assisted by a Joint Managing Director, four General Managers (GMs) - GM (Planning), GM (Design), GM (Mechanical) and GM (Development), a Finance Controller (from Uttar Pradesh Finance and Accounts Services) and a Financial Advisor (Chartered Accountants).

### **Scope of Audit**

**2.3.3** The working of the Company was last reviewed by the Comptroller and Auditor General of India (CAG) in 1995 which has been partially discussed and the recommendations of COPU are awaited.

Present review conducted during November 2002 to April 2003 by selecting six deposit units and six tender units out of 55 to 60 units, based on the value of work done and the execution of important works undertaken by the Company with a view to evaluate the performance of the Company in contract/deposit works. In addition, material management and manpower planning by the Company during the last five years ending 2001-02 were also covered.

The audit findings, as a result of test check of records, were reported to the State Government/Company in July 2003 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) to take into account the view points of the State Government/Company before finalising the review. The meeting of ARCPSE was held on 15 September 2003 with Secretary, PWD (representative of State Government) and the Management of the Company. Their view points have been considered and incorporated in the review.

### **Financial Position**

**2.3.4** The summarised financial position and working results of the Company during the last five years ending 2001-02 are given in *Annexures-31 and 32*. The

main financial indicators, depicting the financial health of the Company, as derived from the annexures are given below:

(Rs in crore)

		1997-98	1998-99	1999-2000	2000-01	2001-02
(i)	Capital employed	21.92	26.04	31.75	45.39	58.37
(ii)	Net worth	17.44	21.56	23.29	24.41	22.31
(iii)	Loss after excluding other receipts	3.69	0.82	1.49	2.77	18.80
(iv)	Percentage of cost of work done to the value of work done	98.60	98.14	98.52	99.11	100.89
(v)	Percentage of current assets to total net assets	91.94	91.29	88.55	89.45	82.62
(vi)	Percentage of current assets to current liabilities	107.96	108.14	106.76	111.99	108.84
(vii)	Percentage of quick assets to current liabilities	75.23	74.73	75.07	77.84	74.15

It would be seen from above that:

- Capital employed increased substantially during 1997-98 to 2001-02 due to increase in current/fixed assets.
- Operational activities contributed losses ranging from Rs.82 lakh to Rs.18.80 crore during the five years under review.
- Overall margin were negligible as percentage of cost of work done to the value of work done ranged between 98 to more than 100 *per cent* during the five years.
- Current assets to current liabilities and quick assets to current liabilities (financial/leverage) ranged from 106.76 to 111.99 *per cent* and 74.15 to 77.84 *per cent* respectively.

### **Execution of works**

**2.3.5** The works executed by the Company are divided into two categories:

- Contract /tender works
- Deposit works (cost plus works)

The contract works are obtained by the Company through participation in tenders and negotiations. The decision to participate in tenders is taken by the MD.

The deposit works are mainly entrusted by the State Government and other Government Departments on cost plus basis (i.e. actual cost *plus* centage<sup>1</sup> charges). The Company gets centage charges at the rate of 12.5 *per cent* on works where site survey, drawing and design is to be done by the Company otherwise centage is charged at the rate of 11.5 *per cent*.

### **Contract/tender works**

**2.3.6** The GM posted in the area of site of work is responsible for preparation of price bid. GM can direct any unit under his jurisdiction to inspect the site of work and prepare bid and send the price bid to headquarter with its recommendations. In the price bid, the estimated cost of work and overheads at the prevailing rates are worked out. The expected profit is estimated and added to cost of work to estimate the total bid. At the headquarters, the price bid is examined by the committee constituted for finalisation of bid and its recommendations are finally approved by the MD. Technical bid is prepared at the headquarters by the tender cell.

In order to execute the work and to keep proper control over expenditure, the Company prepares Departmental Construction Unit (DCU) pattern estimate, which is sanctioned by the MD of the Company.

<sup>1</sup> Centage – charges for meeting out overheads of the Company.

It was noticed during audit that the Company confined its activities within India. The position of tenders in which the Company participated and the contracts actually secured during the last five years ending March 2002 is given below:

<b>Year</b>	<b>Tenders in which participated</b>	<b>Contract secured</b>
1997-98	31	5
1998-99	40	7
1999-2000	10	2
2000-01	40	6
2001-02	51	8
<b>Total</b>	<b>172</b>	<b>28</b>

From the above, it may be seen that out of a total of 172 tenders in which the Company participated it was able to secure only 28 contracts. The success ratio in bidding was 16.3 *per cent*. This indicates that the Company was not able to compete with other tenderers. There is nothing on record to indicate that the Company made any effort to analyse the reasons thereof and take remedial measures to secure more contracts.

The State Government stated (September 2003) that the performance of the Company in the participation of tenders was quite competitive as on an average 10 firms/companies participate in one tender. The reasons of failure in previous similar bids and remedial measures, if any, were taken with due care. The market trend has also been seen to the extent required. The Secretary, PWD also stated in the meeting of ARCPSE that the rate of success in obtaining tenders was quite satisfactory and target for the rate of success could not be fixed. The reply is not tenable as the performance of the Company in securing contract is not up to the level expected of a major Government construction company having experience of at least 30 years; remedial measures adopted by the Company were not on record.

During scrutiny of tender files for the year 2000-01, it was noticed that financial bid was prepared only after working out the estimated expenditure and expected profit margin without any consideration of the present market trends in the industry while taking decision for quoting the rates.

It was observed during audit that in the tender (opened in October 2000) of Krishna Bhagya Jal Nigam Ltd. for construction of high level bridge across river Krishna at Karti-Kolhar on SH-63 in Karnataka, the Company was placed in the last position among the 11 tenderers. The lowest quoted rate was Rs.35.77 crore whereas the Company's quoted rate was Rs.66.66 crore which was 86 *per cent* higher than the lowest rate. The Company's rate was even higher by Rs.15.94 crore i.e., 31.4 *per cent* than the tender placed in tenth position (AFCON's Ltd. - Rs.50.72 crore). This indicated that the system of preparing price bid was not based on the market trend and its costs were exceptionally high.

**Performance of Contract works**

**2.3.7** The progress of completion of works against targets during the last five years ending March 2002 is given below:

(Numbers)

Year	Opening balance of works	Works commenced during the year	Total works in hand	Target for completion during the year	Works completed during the year	Closing balance
1997-98	22	8	30	6	6	24
1998-99	24	5	29	7	7	22
1999-00	22	10	32	11	11	21
2000-01	21	5	26	3	3	23
2001-02	23	3	26	9	9	17

The Company executed and completed 36 contract works during the last five years ending 2001-02. It was observed that the Company earned profit in 22 contract works by running the units on commercial prudence but failed to do so in 14 works (*Annexure-33*). The Audit examined five completed works and four incomplete works (*Annexure-34*) which revealed that out of nine works the Company could not recover prime cost in respect of six works, as detailed given in the table on the next page:

(Rs. in lakh)

Name of the work	Prime cost	Administrative overheads		Total Expenditure	Value received (including price variation/escalation)	Other income	Expected Profit	Actual Profit (+)/ Loss (-)	Shortfall in recovery of prime cost
		Site	HQ						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) = (6 + 7) - (5)	(10) = (2) - (6+7)
Grade separator flyover Raja Garden, New Delhi (35) <sup>*</sup>	3845.17	194.55	121.58	4161.30	3767.22	27.36	285.00	- 366.72	50.59
Flyover Peeragarhi, New Delhi (36) <sup>*</sup>	1708.81	95.24	44.82	1848.87	1587.67	67.30	161.00	- 193.90	53.84
Ulhas Creek, Mumbai (29) <sup>**</sup>	1154.51	71.04	34.20	1259.75	1105.32	--	87.00	- 154.43	49.19
Contract 1A NBCC leftover, Baroda (8) <sup>*</sup>	1893.96	97.80	69.28	2061.04	1886.47	--	231.94	- 174.57	7.49
Contract 1B NBCC leftover, Baroda (32) <sup>*</sup>	1786.45	113.24	72.56	1972.25	1727.04	--	230.59	- 245.21	59.41
Bhagwandas Marg subway, New Delhi (13) <sup>**</sup>	119.59	12.50	3.68	135.77	94.70	0.24	NA	- 40.83	24.65

\* Figures in bracket indicate Sl. No. of *Annexure-33*

\*\* Figures in bracket indicate Sl. No. of *Annexure-34*

The irregularities noticed in contract works are discussed in succeeding paragraphs:

**Imprudent submission of bid*****Not considering the opportunity cost of investment in filing the price bid - Moradabad bypass project***

**2.3.8** The Company participated in the tender of National Highway Authority of India (NHAI) for Moradabad bypass project and quoted the price of Rs.77.92 crore.

**The cost of investment was not considered in the price bid. This resulted in reduction of profit margin by Rs.3.09 crore**

The tender of the Company was accepted being the lowest. There was a condition in the tender of NHAI that the bidder would undertake and agree to contribute to the equity of Moradabad Toll Road Company Limited (MTRCL) to the extent of 15 *per cent* of the paid-up capital and the bidder would be unable to withdraw it earlier than five years from the date of commercial commencement of the project. The Company while quoting the rate did not consider the cost of investment but simply quoted the rate expecting profit of Rs.4.50 crore. The Company had to invest Rs.4.50 crore in the equity of MTRCL during April 1999 to April 2000. The cost of investment worked out to Rs.4.45 crore at the interest rate of 13.75 *per cent* for seven and half years (construction period *plus* five years), based on the loan taken by the Company in October 2000 for other purpose, whereas the expected return on the investment as per contract worked out to Rs.1.36 crore. So, the Company was required to load minimum Rs.3.09 crore towards differential cost of investment in the rate quoted but it was not done. Subsequently, after opening of the tender the difference between Company's bid amount and the second lowest was found to be Rs.6.50 crore. This indicates that the incorrect estimation of bid for the tender resulted in reduction of profit margin to the Company by Rs.3.09 crore at the tendering stage itself.

The State Government stated (September 2003) that since there was no cost of investment, hence loading the cost of investment was not pertinent; the estimation of bid was done taking into account the cash flow position of the project which did not envisage any borrowing. Hence, the bid could not be said to be imprudent.

The reply is not tenable as the opportunity cost of the investment was pertinent. Moreover, borrowing is notional whether it is resorted to or not, but cost of investment should have been considered and included in the price bid according to the condition of the tender of NHAI under which equity participation was mandatory and funds of the Company had to remain blocked for years.

***Quoting of rate below the estimated cost – Bridge on Ulhas river (Maharashtra)***

**The rate quoted for bridge on Ulahas river in Maharashtra was not workable resulting in a loss of Rs.1.54 crore**

**2.3.9** The Company participated (June 1997) in the tender of PWD, Thane, Maharashtra for construction of major bridge across Ulhas river. The bridge was to be constructed according to contractor's own design. The Company quoted lump sum rate of Rs.9.41 crore in consultation with the consultant appointed for the purpose. This rate was worked out after estimating the works cost of Rs.8.54 crore and expected profit of Rs.87 lakh. The Company completed the bridge in November 2001. It suffered a loss of Rs.1.54 crore (cash loss: Rs.1.27 crore) in the execution of work.

It was observed that the Company's rate was 11.56 *per cent* below the estimated cost (Rs.10.64 crore) of the department while the rates quoted by the second (Rs.10.76 crore) and third (Rs.13.56 crore) lowest bidders were above the estimated cost of the department. This shows that the Company did not assess the cost of work properly and simply loaded 10.19 *per cent* profit on its estimated cost. Thus, the rate quoted by the Company was not workable and the Company suffered a loss on this work.

The Government stated (September 2003) that the rate of concrete of Rs.17,238 per cubic meter (*cum*) assessed at the time of tendering was reasonable. The reply is not to the point as concrete is only part of the material to be used for construction of

bridge and the overall quoted rate was 11.56 per cent below the estimated cost even after loading 10.19 per cent profit and overheads in the rate.

***Estimation of offer not based on actual work – Subway at New Delhi***

**2.3.10** The Company submitted offer in August 2000 against the tender of New Delhi Municipal Corporation (NDMC) for construction of subway. The bid quoted was Rs.1.23 crore. The Company reduced the rate to Rs.1.15 crore during negotiation and accepted the work.

It was observed that the Company estimated the cost of work based on the previous subway constructed (March 1996) by the Company and not on actual work involved in this subway and loaded a profit of 10 per cent on it. The rate was further reduced by the Company at the instance of NDMC without any basis, estimating the profit at 3.5 per cent approximately. The cost of opening a new unit for this work and extra overheads to be incurred was not considered while submitting the rate. As a result the Company suffered a loss of Rs.40.83 lakh (cash loss: Rs.39.21 lakh) on this work.

The Government stated (September 2003) that it was presumed that the construction activity would be supervised by the existing construction units BCU-4/Safadarjung. Later on, an independent unit was opened for its close monitoring and speedy completion of the project since the project was to be constructed in the prime location of Delhi. Also continuous dewatering had to be done due to high water table and lot of expenditure was incurred in dewatering operation.

The reply is not tenable as the Company even after close monitoring took 17 months instead of 12 months (scheduled period) to complete the project resulting in higher cost of the project.

**Improper assessment of Bill of Quantity (BOQ)**

The Company failed to assess appropriate BOQ resulting in extra expenditure of Rs.3.87 crore noticed in the following two cases as discussed in succeeding paragraphs 2.3.11 and 2.3.12.

***Bridge on Ulhas river (Thane, Maharashtra)***

**2.3.11** On the recommendation of the GM (Design), the GM (Mumbai) appointed STUP Consultants Ltd. as design consultant for the construction of Ulhas Creek Bridge on the grounds that they were most experienced in designing bridges. The Consultant was required to estimate the BOQ and the rate to be quoted, preparation of drawing designs and obtaining their approval from the PWD, Thane, Maharashtra. The Consultant estimated 4,621 cum concreting for the work, which the tender committee increased to 5,459 cum while quoting the rates. During execution of work, actual quantity of concreting worked out to 7,605 cum. The quantity of concreting had to be increased as the Company failed to make the base for the construction of three foundations (piers) resulting in a change in the methodology of construction for these foundations and corresponding change in the design of superstructure. This not only increased the quantity of concreting but also involved an additional 11.27 MT reinforcement of steel and construction of additional steel casing of 87.949 MT, which was used in the work. This resulted into an extra expenditure of Rs.3.56 crore, which could not be claimed from the PWD, Thane, Maharashtra, as it was a lump sum contract. Thus, the Consultant as well as the Management failed to estimate the BOQ for which the Company had to incur extra expenditure according to site conditions.

**Management failed to estimate BOQ appropriately resulting in extra expenditure of Rs.3.56 crore**

The Government stated (September 2003) that BOQ was finalised on the basis of such type of other work done earlier in Maharashtra and bore charts received with the tender. There was one thick layer of highly weathered and sandy strata available over the hard rock as shown in the bore charts also. They had been successful in completing foundation Pier 1 and Pier 2 with the same strategy but they had to change the construction methodology at foundation Pier 3 as the available weathered rock was washed away during three years due to heavy flood.

The reply is not tenable as there was no weathered rock at the location Pier 3 (as per the bore charts received with the tender) and the Company was to create it artificially for construction of foundation Pier 3. The Company had to switch over from concrete coffer dam method to steel floating cassian method. The Company had also changed the construction methodology at Pier 1 and Pier 2 from sheet pile coffer dam to concrete coffer dam.

It was further stated in reply that the Company had lodged a claim of Rs.1.82 crore for the prolongation period of project to compensate the loss of Rs.1.54 crore. This is not tenable as the client had already granted extension of time and price escalation had been paid. So, further claim on the same ground was not justified.

***Bridge over Shahzad river (Lalitpur, U.P.)***

**2.3.12** A lump sum contract of Rs 2.41 crore for design and construction of bridge over Shahzad river on NH-26 near Lalitpur was awarded to the Company (January 2000) by the PWD on the basis of tender submitted by the Company. The contract bond was executed (March 2000) and the work was to be completed within 18 months i.e., by September 2001. It was observed in audit that the Company worked out priced BOQ of Rs.2.41 crore on the basis of tentative bore logs attached with the tender documents. The Company had opportunity to conduct independent soil investigation. It, however, did not assess the exact nature and complexities of strata in this rocky zone and this formed the basis for lump sum contract. At the time of actual execution, the Company assessed the increase in value by Rs.30.98 lakh due to change in BOQ on account of difference between actual founding level and tentative bore logs supplied by the PWD, Lalitpur, Uttar Pradesh. The Company included an amount of Rs.28.36 lakh (out of Rs.30.98 lakh) on account of variation in BOQ in the running bill, which was not paid by the PWD, Lalitpur, Uttar Pradesh.

The Government stated (September 2003) that the claim of Rs.30.98 lakh for increased quantity due to change in founding level had been forwarded by the Chief Engineer (National Highway), Uttar Pradesh Public Works Department to the Ministry of Road Transport and Highways for according approval.

The reply is not tenable as estimating the BOQ without availing of the opportunity of independent investigation has brought the Company to this situation.

***Ill conceived decision of securing the left-over work – Bridges on Ahmedabad – Vadodra Express Way (Contract IA and IB)***

**2.3.13** Tenders for construction of bridges on Ahmedabad Vadodra Express Way Project (World Bank aided Highway Project) were invited (August 1992) by Road and Building Department (R&B Department) of Government of Gujarat for works left over by National Building Construction Corporation (NBCC). There were two contracts (IA and IB). The contract IA was for remaining construction works of five numbers of major bridges between chainage 1-17 kms across rivers/streams on

Ahmedabad-Vadodra Express Way. The contract IB was for remaining construction work of two numbers of major bridges between chainage 17-38 kms. The period of completion for both the contracts was 27 months. The Company tendered a bid of Rs.15.43 crore for IA and Rs.14.40 crore for IB. Both works were awarded (May 1993) to the Company and agreements signed (June 1993) by the Project Manager for completion of works by October 1995. The Company was required to furnish performance guarantee to the R&B Department in the form of Bank Guarantee within 30 days from the date of issue of acceptance letter but it could be submitted on 30 November 1993, after a lapse of 165 days. The delay in submission of Bank Guarantee was approved by the Government of Gujarat with the condition that the Company should complete the work within original stipulated period (27 months) i.e., up to 19 October 1995. The detailed analysis of the works executed revealed the following:

**Execution of contract IA (Gujarat)**

The Company completed the work after substantial delays due to delay in commencement thereof leading to loss of Rs. 1.75 crore

**2.3.14** The work started in January 1994 could not be completed within the stipulated period and the Company could achieve only 61 *per cent* progress up to March 1996. It was noticed that the Company could not complete sinking of wells in time due to hard strata, and sinking of wells continued up to December 1997 due to which construction programmes fixed by the Company could not materialise. The Company applied thrice for extension of time (i) first up to October 1997 in April 1996 (ii) second up to June 1998 in September 1997 (iii) third up to December 1998 in May 1998, all of which were rejected. The R&B Department intimated (February 1998) that there was no reason for delay in work, rather it clearly showed continuous slippage on the part of the Company in completing the work. The R&B Department, *suo moto* allowed (October 1997) price variation and price escalation only up to 19 October 1995. Work was ultimately completed in December 1998, the total value of work done as certified by the R&B Department, Government of Gujarat up to March 2002 was Rs.18.86 crore. Against this, the total expenditure incurred was Rs.20.61 crore.

It was observed in audit that the Company failed to understand all the aspects of work before submitting the tender. The Company had to revise its own programme of construction from time to time. The Company could not control its expenditure as the work prolonged up to December 1998 i.e., 50 months more than the stipulated date of completion.

Thus, there was a loss of Rs.1.75 crore (cash loss Rs.1.38 crore) in executing the work under this contract due to delayed commencement of work by eight months, where time was the essence of the contract whereas the Company initially estimated a profit of Rs.2.32 crore. The R&B Department recovered Rs.25.99 lakh towards liquidated damages.

**Execution of contract IB (Gujarat)**

**2.3.15** The work, started in January 1999, could be completed in June 2001 i.e. after more than 62 months of scheduled date of completion. The time extension sought for by the Company was not granted by the R&B Department. The Company failed to sink the wells up to required level due to hard strata and bouncing of sand through the bore although the bore data and strata made available by the client was not much different from the actual. The efforts were continued from December 1994 to August 1999 and finally the Company sought (August 1999) permission from the

**Delay in completion of project increased the cost by Rs.2.45 crore**

R&B Department to plug the wells at a shallow stage i.e., above the founding level as per drawings. Thus, drastic delay in construction/completion of project increased the cost of construction. The total expenditure on this work worked out to Rs.19.72 crore, against which the value of work certified by the R&B Department up to March 2002 was Rs.17.27 crore including price variation and price escalation. Thus, there was a loss of Rs.2.45 crore (cash loss Rs.1.83 crore) on certified value.

The Government stated (September 2003) that the cases of extension of time in respect of both the contracts were initially rejected by the R&B Department and the extension of time cases were under scrutiny at the level of Government of Gujarat. Once the time extension has been granted, the losses would be minimised due to release of frozen price escalation and price variation payments. The reply is not tenable as extension of time had already been rejected by the competent authority.

***Failure of the Company in enforcing arbitration clause – Flyover, at Raja Garden, New Delhi***

**2.3.16** The work of construction of grade separator at intersection of Ring Road and Najafgarh Road at Raja Garden, New Delhi was awarded (April 1997) to the Company by Delhi Tourism and Transportation Development Corporation Ltd. (DTTDC) New Delhi at contract value of Rs.34.58 crore. The period of completion of the work was 30 months with the date of commencement as 8 May 1997 and the date of completion as 7 November 1999. The Project was, however, delayed mainly due to shifting of marble market from the area, providing delayed right of way, delay in availability of bearings and working drawings. Since there was delay on the part of DTTDC, so it sanctioned the time extension up to November 2001. The work was completed in November 2001 and the total expenditure incurred on the work was Rs.41.61 crore. The value of the work certified by the DTTDC was Rs.37.67 crore (including price escalation) as per the final bill. Thus, the Company suffered a loss of Rs.3.67 crore (cash loss Rs.3.22 crore) after adjusting miscellaneous income of Rs.27 lakh, whereas the Company estimated profit of Rs.2.85 crore at the time of offer.

**The Company incurred loss of Rs.3.67 crore due to delay in execution of work attributed to DTTDC but failed to enforce arbitration clause**

It was further observed in audit that the Company claimed Rs.5.71 crore towards loss of profit from the DTTDC alongwith other claims in March 2002. The claim had not been considered by the DTTDC (May 2002). The Company did not go for Arbitration in time for compensation of the loss on the work even after knowing the final value of work done certified by the DTTDC and thereafter the case became time barred in terms of the provisions of the contract.

The Government stated (September 2003) that the arbitration claim amounting to Rs.8.97 crore had been lodged in February 2002, which is alive. The reply is not tenable because DTTDC vide its letter dated 15 July 2003 has clearly stated that full and final payment in respect of the above agreement has been made in accordance with the terms and conditions of the contract.

***Award of work to sub-contractors***

**2.3.17** The position of major works awarded to sub-contractors was as under:

<b>Name of work</b>	<b>Value of the work done (Rs. in lakh)</b>	<b>Value of work done by sub-contractor (Rs. in lakh)</b>	<b>Percentage of work done by sub-contractors</b>
Flyover at Raja Garden	3767.22	648.67	17.22
Flyover at Peeragarhi	1587.67	362.80	22.85
Contract 1-B	1727.04	114.79	6.65

Some of the cases where the Company engaged sub-contractors instead of doing the work itself thereby losing profit on the works awarded are discussed below:

***Fly over work at Peeragarhi and Raja Garden, New Delhi***

**2.3.18** The pile work in the construction of flyover at Peeragarhi, New Delhi was awarded (March 1999) to Punj Lloyd Limited (PLL) after observing all the tender formalities at the rate of Rs.4,900 per running metre for pile work, Rs.3,850 per *cum* for pile cap and Rs.17,375 per MT for reinforcement. The firm carried out the above work for Rs.3.63 crore. The work of the same nature was also awarded for the flyover work at Raja Garden. This work was completed for Rs.6.49 crore.

**The Company did not execute the work departmentally and failed to save Rs.2.02 crore on the work**

It was observed in audit that PLL executed the work by applying only drill machine and used the plant and machinery of the Company on hire charges. The Company never explored the possibility of taking the drill machine on hire. It was noticed that to justify the rate of PLL an analysis of rate was prepared for pile work in which the rate was assessed at Rs.4,095.50 per running metre *plus 20 per cent* for overhead and profit. This *20 per cent* of Rs.10.12 crore (i.e., Rs.2.02 crore) could have been saved and losses on this project would have been avoided/reduced had the work been executed departmentally by the Company.

The Government stated (September 2003) that only single hydraulic piling equipment was available with the Company in working order and that too was engaged at Raja Garden. After completion of piling work of Raja Garden, the departmental Rig was to be shifted to work site at Safdarjung flyover. Hence, the work of piling was sublet to Punj Lloyd Limited.

The reply of the Management indicates total lack of professional approach as the Management knew (DTTDC could not award one work in 1997 relating to a site which became disputed and the Company was to be awarded work relating to construction of flyover in lieu thereof by DTTDC) way back in 1997 that the Company would be awarded the work of construction of another flyover and it should have kept both the hydraulic piling equipment in working condition or could have gone for hiring the piling equipment from the market. The tenders for construction of pile work were invited by the Company in September 1998 and PLL was the only eligible bidder. During negotiation it stated that if the scope of work was extended to pile cap level it could consider reduction in rate. Thus, PLL compelled the Company to award the work of pile capping to them and at the time of award of work to PLL competitiveness of its rates was also not established by the Company. Thus, the Company instead of deploying its own resources for the work provided the same to the contractor and the contractor just by deploying its drill machine could complete the entire job.

***Contract IB (Gujarat)***

**2.3.19** According to contract agreement entered (June 1993) with the R&B Department for execution of works under contract I B, no sub-contractor was to be employed by the Company. In contravention of the clause, protection work of contract I B estimated for executing departmentally at Rs.76 lakh was awarded (March 2001) by the Company to two<sup>1</sup> sub-contractors who completed (June 2001) the work at Rs.1.15 crore. Thus, besides flouting the agreement clause, by off

<sup>1</sup> Ashish Construction Company and Sri Trading Company.

loading the work to sub-contractors the Company incurred an extra expenditure of Rs.39.09 lakh.

The Government stated (September 2003) that after entering into contract agreement in 1993 this work could be started only in 1999-2000 due to cash flow problem and completion of this work was crucial for getting the extension of time from the client. The reply is not tenable as the sub-contractors were engaged on back to back basis at the contract rate whereas this work could be done by the Company departmentally at lesser cost.

***Undue favour to the sub-contractor - Moradabad bypass project***

In the following two cases there was undue favour of Rs.39.55 lakh to the sub-contractors as discussed in para 2.3.20 and 2.3.21.

**2.3.20** The work of construction of embankment in earthwork for three lakh *cum* (as per Ministry of Surface Transport (MOST) specifications) in first nine kms reach (zero to nine kms) of Moradabad bypass project was awarded (May 1999) to B. Agarwal Stone Product Ltd. by headquarters of the Company at the rate of Rs.44.40 per *cum* (compacted earth). The rate allowed in the agreement (October 1999) was firm and no increase in rate on any account was to be allowed. The contractor started the work in October 1999.

The Company reduced the scope of work of the contractor by off loading the work relating to compaction of earth. The departmental item rate for this item was Rs.12 per *cum*. The effective rate thus, came to Rs.32.40 per *cum*. The contractor was, however, given at the rate of Rs.40.50 per *cum* after giving the benefit of increase in prices of High Speed Diesel (HSD) in violation of the agreement. The increase in rate was not justified as the rate allowed was firm and no increase in rates on any account was to be allowed. The revised agreement was executed on 25 January 2000 in which the quantity was also reduced to 1,75,000 *cum*. The Company should have allowed only Rs.32.40 per *cum* to the contractor whereas the Company allowed the rate of Rs.40.50 per *cum*. This had resulted into an avoidable extra payment of Rs.14.19 lakh on the executed quantity of 1,75,236.104 *cum*. Another quantity of 47,393.246 *cum* for embankment work was got executed at the same rate of Rs.40.50 per *cum* through other contractors resulting into an extra expenditure of Rs.3.84 lakh.

The Government stated (September 2003) that the decision was taken in the best interest of the Company as well as of the work, realising, examining and analysing the ground realities. The reply is not tenable as Company's decision led to undue favour to sub-contractor.

**2.3.21** Two contract bonds were executed (December 1999 and September 2000) with M/s Verma construction, Muzzafar Nagar for construction of embankment in earthwork including compaction for roadwork in 10 to 11 kms and 11 to 12 kms chainage of Moradabad bypass project of NHAI. The rates allowed for complete work were Rs.51.75 per *cum* and Rs.56.93 per *cum*. The period of contract was 22 December 1999 to 10 May 2000 and 1 October 2000 to 25 January 2001. The contractor executed the work measuring 1,77,819.185 *cum*.

It was observed that local Management allowed Rs.42.50 per *cum* for the same work to M/s Bultek India Co., Ghaziabad during the same period i.e., 1 November 1999 to 15 May 2000. Thus, extra rate of Rs.9.25 per *cum* and Rs.14.43 per *cum* was

allowed to M/s Verma construction during the same period. This resulted into extra expenditure of Rs.21.52 lakh and undue favour to the contractor to that extent.

The Government stated (September 2003) that the rate of earth work could vary from section to section of road project. The reply is not tenable as the extra expenditure worked out by the Audit is based on exactly comparable rates.

**Under utilisation of Plant and Machinery**

Under utilisation of plant and machinery was noticed in the following two cases resulting in extra expenditure of Rs.48.32 lakh, as discussed in paragraph 2.3.22 and 2.3.23.

***Purchase of ready mix of Wet Mix Macadam (WMM)***

**2.3.22** In order to construct the grade separator, the Company invited (April 2002) tender for supply of Wet Mix Macadam (WMM). The Company received only one tender of M/s Satya Prakash & Brothers, New Delhi who quoted the rate of Rs.900 per *cum*. The rate of the firm was accepted (April 2002) by the Company and agreement was executed (May 2002) with the firm for supply of 7,000 *cum* WMM. The firm supplied 6,875 *cum* WMM during May 2002 to August 2002.

It was noticed that Dhaula Kuan unit (5 Kms. from BCU Safdarjung site) of the Company produced 1,659 *cum* WMM between February 2002 and December 2002 by installing the batching plant for WMM work at Dhaula Kuan Project. The batching plant was kept idle during March 2002 to June 2002 and remained under utilised thereafter for want of work. Had the Safdarjung unit produced WMM either by installing the batching plant at site or at Dhaula Kuan after proper co-ordination between the units, extra expenditure of Rs.22.48 lakh on taking supply of ready mix WMM would have been avoided.

The Government stated (September 2003) that Pugmill was required for continuous production of WMM. At Dhaula Kuan, the concrete batching plant was utilised for minor quantity of 1,659 *cum* as it could not mix aggregate of 40 mm. size. The reply is not tenable as according to MOST specification WMM could be produced by concrete batching plant by mixing 40 mm size aggregate and WMM produced at Dhaula Kuan also met MOST specification.

***Purchase of ready mix concrete***

**2.3.23** There was no condition in the tender of Ulhas Creek Bridge to use Ready Mix Concrete (RMC) in the bridge. The Company while working out the offer, assessed the rate of Rs.2,698 per *cum* of concrete to be produced departmentally. It was observed in audit that out of total concreting of 7,605 *cum*, only 1,771 *cum* concrete was produced departmentally and remaining 5,834 *cum* was procured from the market for Rs.1.83 crore at the rate of Rs.3,141 per *cum* during November 1999 to November 2001. Thus, there was an extra expenditure of Rs.443 per *cum* on purchase of RMC resulting in total extra expenditure of Rs.25.84 lakh besides under utilisation of plant and machinery.

The Government stated (September 2003) that elements of fixed cost were not considered by the Audit in their assessment of rate and that batching plant was not surplus during the period. The reply is not tenable as for purchase of RMC variable cost only should be considered and unit of the Company had never tried to obtain any batching plant for production of concrete.

***Execution of work without following adequate procedure at Safdarjung, New Delhi.***

There was reduction of 28.46 per cent in the quantum of work but the Company did not prepare DCU estimate for the reduced quantity of work and failed to plan and control its expenditure on the project resulting into loss of Rs.7.17 crore

**2.3.24** The Company participated in the tender of PWD, New Delhi for construction of grade separator at the intersection of Ring Road and Aurobindo Marg near Safdarjung, New Delhi. The negotiated tendered amount of Rs.33.88 crore which was 2.02 per cent below the estimated cost of Rs.34.58 crore, was accepted by the PWD, New Delhi in November 1999. In the tender, the Company estimated profit of Rs.1.07 crore at an estimated cost of Rs.32.81 crore. The date of commencement of work was 7 December 1999 and the date of completion was 6 June 2002. The work was, however, completed in May 2003. The Company incurred a loss of Rs.7.17 crore in this work.

It was further noticed that the work was started in December 1999 and expenditure incurred even before preparation of detailed estimates (DCU pattern estimate). The DCU estimates were sanctioned by the MD for Rs.36.99 crore in May 2002. The estimated cost of work in the tender (at Rs.32.81 crore) was not worked out properly as there was a loss of Rs.4.18 crore in the DCU estimate stage itself.

It was also observed that after the commencement of the contract, the PWD, New Delhi revised (January 2000) drawings and designs as a result of which the quantities were reduced by 28.46 per cent. The Company estimated the reduced value of work at Rs.24.24 crore based on the contract price of Rs.33.88 crore. Since there was reduction in quantum of work, the DCU estimate should have been prepared for the reduced value of work for controlling purpose instead of for full value of work. This was, however, not done and the Company failed to plan and control its expenditure on the project resulting into loss of Rs.7.17 crore.

The Government stated (September 2003) that DCU estimate was prepared simultaneously alongwith the execution of work. The estimate was sent to Headquarters for technical sanction in July 2000. The reply is not tenable as the DCU estimate was sanctioned in May 2002 and the basic purpose of DCU estimate was defeated.

**Deposit works**

**2.3.25** During 1997-98 to 2001-02 the Company completed 259 deposit works as detailed below:

Year	No. of works	(Rs. in crore)	
		Sanctioned estimated cost (Rs.)	Total expenditure (Rs.)
1997-98	48	73.57	83.40
1998-99	51	57.10	69.15
1999-00	51	106.61	106.17
2000-01	43	63.04	61.35
2001-02	66	181.73	156.69
<b>Total</b>	<b>259</b>	<b>482.05</b>	<b>476.76</b>

Audit observed that in 94 out of 259 works, the total expenditure exceeded the estimated cost.

The Government stated (September 2003) that where the expenditure was more than the sanctioned cost, revised estimates were under process.

***Technical sanction***

**2.3.26** Once the work is awarded to the Company, technical sanction is to be granted by the MD and only thereafter work should be started and expenditure

The technical sanction was not issued in respect of 37 works completed at a cost of Rs.44.79 crore

incurred. It was observed in audit that in all cases technical sanction was issued after the start of work, while 37 works were completed at a cost of Rs.44.79 crore where technical sanction has not been issued at all.

The Government stated (September 2003) that normally the technical sanction is issued for all the works.

**Excessive administrative overheads**

2.3.27 As mentioned in paragraph 2.3.5, deposit works were being executed on centage of 11.5 and 12.5 per cent to cover the administrative overheads and profit against which the percentage of overheads in works actually executed ranged between 11.32 to 16.67 per cent during the period under review, resulting in an extra expenditure of Rs.16.65 crore as can be seen from the table below:

Administrative overheads of Rs.16.65 crore remained unrecovered from the centage earned

(Rs. in crore)

Year	Value of deposit works executed (Rs.)	Administrative overheads incurred (Rs.)	Percentage of overheads to value of deposit works (Rs.)	Centage earned through the estimates (Rs.)	Un-recovered overheads (Rs.)
1997-98	87.96	9.96	11.32	9.07	0.89
1998-99	107.06	12.93	12.07	10.78	2.15
1999-00	106.74	13.27	12.43	11.01	2.26
2000-01	110.86	15.77	14.23	11.43	4.34
2001-02	103.82	18.37	17.69	11.36	7.01
				<b>Total</b>	<b>16.65</b>

In spite of the increasing trend of overheads the Company did not take any corrective action apart from intimating (April 2002) the factual position to State Government for its consideration.

The Government stated (September 2003) that the matter was being examined.

**Non-submission of Form-44 and 45 to the State Government**

Management failed to get reimbursement of Rs.40.89 crore incurred on 56 bridges

2.3.28 The Company is required to send monthly completion reports of completed bridges under different schemes in Forms 44 and 45 to the State Government through Public Works Department. In order to expeditiously secure revised sanction for timely recovery of excess expenditure from the Government, the Company is required to submit these reports timely.

It was noticed that as on 31 March 2002 there were 56 bridges where the expenditure incurred exceeded 15 per cent of the sanctioned cost. The excess expenditure amounted to Rs.40.89 crore. The Company failed to submit Forms 44 and 45 to the State Government in respect of all 56 bridges and, therefore, it could not get any revised sanction. This caused a strain on the financial health of the Company due to non-recovery of Rs.40.89 crore. The Management's inaction also invited unnecessary interest burden, which would not be reimbursed by the State Government.

The Government intimated (September 2003) that they had sent the forms in respect of 24 bridges to Superintending Engineer 31 Circle, PWD, Lucknow but these were returned with the remark that these be sent through the respective Chief Engineers of PWD and they were taking action to submit it.

In deposit works the following irregularities were noticed.

***Violation of fundamental design in the construction of Railway Over Bridge (ROB), Kanpur***

**2.3.29** Indian Road Congress (IRC) norms stipulate that for high level bridges constructed for the use of road traffic only, the width of roadway shall not be less than 4.25 metre for single lane bridge and 7.5 metre for a two lane bridge which shall be further increased by 3.5 metre for every additional lane of traffic for a multilane bridge. Furthermore, the norms specified that the Road bridge shall provide for either one lane, two lane or multiple of two lane and that three lane bridge with two directional traffic shall not be constructed.

It was observed in audit that the Company was the executing agency for Design and Construction of Railway Over Bridge (ROB) on Eye Hospital- Medical College Road, Kanpur. Funding of the project was to be done jointly by the State Government and Railways. For construction of this bridge, the Company prepared an estimate for three lanes bridge with 11 metre carriage way which was sanctioned by the Expenditure Finance Committee (EFC) of which the Managing Director of the Company was a member. During execution, design of the bridge was changed disregarding the stipulated norms and a carriage way of 10.5 metre was constructed, which neither belonged to two lanes category nor to three lane category. The bridge was constructed (November 2002) at a cost of Rs.8.14 crore.

The Government stated (September 2003) that the decision to construct three lanes bridge with 10.5 metre carriage way taken by the Commissioner Kanpur Mandal on 27 April 1996. The reply is not tenable as the decision of the Commissioner was only for three lane bridge with service lane and not for the width of 10.5 metre clear carriage way. As the Commissioner was not technical expert in the field of bridge design and construction, the Company was required to point out the technical design violation to the appropriate authority wherein safety norms prescribed by IRC were disregarded.

***Excess sanction of loan to the Company under Build Operate and Transfer (BOT) Scheme – Bridge on river Sone, Chopan***

**2.3.30** The State Government sanctioned (July 1996) project cost of Rs.51.30 crore for construction of bridge over river Sone, Chopan under BOT scheme with the stipulation that 70 *per cent* of the project cost was to be met by taking loan from financial institutions and 30 *per cent* of the project cost was to be financed by the State Government. The Company was given (July 1996) the responsibility for the work and was also authorised to collect toll from the bridge for 12 years. The Expenditure Finance Committee (EFC) sanctioned (December 1999) the revised project cost of Rs.43.42 crore with the following conditions.

- The State Government would make available Rs.14 crore as loan.
- For obtaining loan from the Bank, the State Government was to give guarantee on the following conditions:
  - (a) The Company would give undertaking to complete the construction work in 2 years 6 months starting from April 2000. In case of delay, penalty was payable and in case the project was completed before time, 25 *per cent* of the State Government loan was to be waived off;
  - (b) The loan of the Bank along with interest as well as principal amount of the Government loan was to be repaid from the toll revenue; and
  - (c) Toll rate was to be decided by the Company.

The State Government while according administrative approval (March 2001) for Rs.43.42 crore intimated that the loan of Rs.30 crore was to be taken from Union Bank of India by the Company and Rs.13.42 crore was to be provided by the State Government. The Company received the whole amount of loan of Rs.13.42 crore from the State Government during 2000-01 and 2001-02 and had drawn Rs.14 crore from the Bank during 2000-01. The total funds available with the Company were Rs.27.42 crore. The work was started in January 1999 and completed in December 2001 at a cost of Rs.20.02 crore.

The capital cost of the bridge was Rs.17.87 crore. The Company required loan funds only for capital cost of the bridge. This resulted in excess sanction of loan to the Company by Rs.25.55 crore (Rs.43.42 crore - Rs.17.87 crore).

In this connection it was further observed in audit that:

- (i) Company withdrew an excess loan amount of Rs.9.55 crore (Rs.27.42 crore – Rs.17.87 crore) which was beyond its requirement. In addition to this, Rs.4.75 crore was also withdrawn from the Union Bank of India after completion of the bridge without obtaining any permission from the State Government. This resulted in excess interest liability of Rs.45.84 lakh.
- (ii) Company, on its own adjusted a waiver of Rs.3.35 crore from the repayment of loan to the State Government on account of early completion of the bridge. Neither completion certificate nor utilisation certificate indicating the utilisation of the entire loan amount was furnished to the State Government. This was in contravention of existing rules.

The Government stated (September 2003) that the Company withdrew Rs.18.75 crore (70 per cent of the completion cost i.e. Rs.26.80 crore), as loan on the basis of the cost of the project and excess amount was not withdrawn and hence no extra interest liability had been incurred. The reply is not convincing, as the actual cost of the bridge was Rs.20.02 crore as per Company's records.

***Undue burden on State Government due to non-transfer of idle labours***

The departmental labour of the Company remained idle resulting in undue burden of Rs.2.57 crore on the State Government as discussed in the succeeding paragraph 2.3.31.

***ROB, Hardoi***

**2.3.31** The construction of Railway over bridge in Hardoi city which was sanctioned for Rs.3.46 crore in October 1989 was started by the Company in March 1997. The Company incurred expenditure of Rs.3.57 crore against the allotment of Rs.3.46 crore up to March 1999 and physical progress of the work was 58 per cent. Thereafter no work was done by the Company up to March 2003 due to non-availability of funds. The State Government sanctioned the revised estimates for Rs.7.30 crore in February 2003.

It was observed in audit that the Company did not know as to when the work on this project would be restarted, yet it continued to keep the labour force and plant and machinery deployed on the site since April 1999 to March 2003 instead of transferring the manpower and machinery to another site. As a result, an amount of Rs.1.13 crore was incurred on the wages of departmental labour, rent of site and expenditure on machine. This resulted in undue burden on the State Government.

The Government stated (September 2003) that the work was expected to be started and so only necessary expenditure was incurred. The reply is not tenable as the expenditure was charged on this work without any work.

**The Company continued to keep the labour force and plant and machinery deployed on the site without work resulting in undue burden of Rs.1.13 crore on the State Government**

***Bridge on Chambal, Etawah***

It was noticed that the work of Chambal bridge was held up during 1991 to 1994 and 1996-97 due to fund problem. However, during this period the labour force and machines which were deployed/engaged on this work were not transferred/shifted to another site. As a result of which Rs.96 lakh was paid to departmental labours as idle wages.

The Government intimated (September 2003) that machines and departmental labour could not be shifted to other sites at unit level as these were not required at other sites and they had to pay idle wages to departmental labour.

***ROB, Kanpur***

It was noticed that salary and wages amounting to Rs.48.02 lakh of idle departmental labour of another deposit work (Birma Bridge) was charged to expenditure of ROB Kanpur. This extra expenditure resulted in irregularly passing on a burden of Rs.48.02 lakh to the State Government and suppressed the expenditure actually incurred on other works.

The Government stated (September 2003) that the departmental labour of Birma bridge were shifted to ROB, Kanpur. These were instrumental in speedy completion of the ROB project. The reply is not tenable as there was no shortage of labour at ROB, Kanpur and to overcome the problem of disbursement of their salaries the funds available at ROB Kanpur were utilised.

***Violation of State Directives***

The Company did not deposit the royalty of Rs.35.88 lakh with the State Government in violation of State directives as discussed in paragraphs 2.3.32 and 2.3.33.

***Non-deduction of royalty on earth used in construction of embankment and approach road – BCU, Gorakhpur***

**2.3.32** The Company is constructing bridges alongwith approach road under NABARD Scheme of the State sector. For construction of bridges, the Company is required to arrange earth for embankment and approach road. According to U.P. Mineral (Parihar) (22<sup>nd</sup> Amendment) Rule 1997, the royalty on ordinary earth was payable at the rate of Rs.4 per cum to the State Government and so the Company is required to pay royalty on the excavated earth for construction of embankment and approach road whether arranged by it or purchased from contractor.

It was observed in audit that the Company at Gorakhpur executed (October 2000 to March 2003) earth work of 4.43 lakh cum through contract bond/departmentally through supply orders on 21 works but no royalty was deducted from the bills of contractors and deposited in Government Account. This had resulted into non-deposit of royalty of Rs.17.72 lakh in Government account and depriving the State exchequer of revenue to that extent.

The Government stated (September 2003) that the earth did not come under mining operation and so did not attract royalty. The reply is not tenable as the Government of India in its notification dated 8 February 2000 clarified that royalty was payable on earth used in embankment. The earth was purchased after the notification date.

***Non-realisation of royalty on minerals used in construction works***

**2.3.33** According to U.P. Sub-Minerals (Parihar) Rule 1964 (22<sup>nd</sup> Amendment 1997) and the Mines and Minerals Development Regulation Act, 1957, the mining

without payment of royalty and the use of such materials to be consumed in construction work like stone, boulder, fine sand, coarse sand, grit and stone ballast is cognizable offence under Rule 57 of U.P. Sub-Minerals (Parihar) Rule, 1963. Thus, no material could be mined and used without deposit of royalty.

The field units of the Company had purchased stone grit and stone ballast of 90,800.40 cum during 1997-98 to September 2002 through contractors. The units had neither deducted the amount of royalty from the bills of contractors nor sought the royalty clearance certificate from appropriate authority before releasing the final payment. The royalty was payable at the rate of Rs.20 per cum. This had resulted into loss of Rs.18.16 lakh to the Government and undue benefit to contractors.

The Government stated (September 2003) that the rate paid to suppliers were including royalty and it made purchases from crushers. Therefore, there was no liability of the Company for payment of royalty. The reply is not tenable as the State Government had issued directives for payment of royalty to appropriate authority and otherwise the amount of royalty was to be deducted and deposited in the Government account.

#### **Irregular use of Form III-D**

**2.3.34** There are two type of works i.e. tender works and deposit/cost plus works. As per order of Commissioner, Sales Tax, the Company is entitled for use of Form III-D in purchase of material in respect of work allotted by the Government for construction on deposit/cost plus works i.e., where the status of the Company was of executing agency. In the Moradabad bypass project, the status of the Company was not of an executing agency but was of a contractor. Therefore, use of Form III-D in the contract work was not regular.

It was noticed that the unit at Moradabad executing the work of Moradabad bypass project purchased 21 lakh litres HSD worth Rs.3.26 crore by using Form III-D. The concessional rate of Trade Tax was 4 per cent against regular rate of 12 per cent. Thus, by irregular use of Form III-D, the Company evaded payment of Rs.26.08 lakh Trade Tax (differential amount of Trade Tax) which was payable to the State Government.

The Government stated (September 2003) that HSD was purchased from Hindustan Petroleum to get an assured delivery schedule for huge quantities. Since the Company is a State Government company and the work belongs to NHAI, so saving by using Form III-D was saving of public money. The reply is not tenable as there was revenue loss to the State Government besides irregular use of Form III-D.

#### **Material Management**

##### **Inventory of construction materials store and spares**

**2.3.35** The position of consumption of material and inventory at the end of five years is as under:

Year	Construction Material and stores consumed on work	Inventory of construction materials and stores	Inventory in terms of months consumption
1997-98	8316.06	1746.38	2.52
1998-99	9162.69	1883.08	2.47
1999-2000	10570.42	1683.79	1.91
2000-01 (Provisional)	10713.32	2009.89	2.28
2001-02 (Provisional)	8162.95	1169.49	1.72

It was noticed that the inventory includes stock worth Rs.43 lakh, which was not physically available. This was reported by branch auditors of the Kanpur unit in their reports for the year 1997-98 to 2001-02 stating that they were unable to check and verify this stock.

Management had not taken any action to fix responsibility for misutilisation/loss of stock by the concerning staff/officers. The Government intimated (September 2003) that they were taking action against the staff/officers concerned.

### **Consumption of construction material**

#### ***Non-preparation of Form -37***

**2.3.36** Every organisation in construction industry has to keep control over the consumption of material as it normally constitutes almost 60 *per cent* of cost of work. In order to assess the efficiency in utilising material a consumption statement should be prepared according to norms fixed for consumption of material. The Company had made it mandatory that after completion of bridge/projects, material consumption statement in Form 37 should be prepared by the engineers associated. In test check of records of the six deposit units of the Company, it was noticed that units of the Company completed construction of 40 bridges at a cost of Rs.67.79 crore but consumption statement in Form-37 was not prepared. Headquarters of the Company has also not monitored it. This not only resulted into lack of control of Management over consumption of material but audit could also not exercise test check on excess consumption of material if any.

The Government intimated (September 2003) that Form-37 in respect of all the completed bridges are being prepared.

#### **Manpower planning**

**2.3.37** The engagement of excess departmental labours was commented upon in para 2B.9 of Audit Report (Commercial) for the year ended 31 March 1995. The Company did not evolve a system for deploying departmental labours according to actual requirement. At present there are 5,948 such labours in the Company. According to information furnished by the Company to the State Government in April 2002, 66.5 *per cent* labours normally deployed in the deposit works and 33.5 *per cent* labours deployed in contract works i.e., the ratio of deployment of labours in deposit works and contract works worked out to 3,955: 1,993. The following table would reveal that deployment by the Company was not in accordance with the quantum of work and the output per labour would reveal that most of these labours remained idle in deposit units as discussed in para 2.3.32 and more labours were engaged from the market in contract units.

(Rs. in lakh)

Year	Value of work done (deposit works)	Output per labour	Value of work done (contract works)	Output per labour
1997-98	8796	2.22	10102	5.07
1998-99	10706	2.70	11474	5.76
1999-00	10674	2.70	15692	7.87
2000-01	11086	2.80	16479	8.27
2001-02	10382	2.62	11539	5.79

#### **Provision for write off of shuttering and centering on works**

**2.3.38** According to policy of the Company the provision of shuttering and centering is done in the works expenses on the basis of concreting done at rates

**The Company did not evolve a system for deploying departmental labour according to actual requirement**

fixed by the Management. During the period under review the rate applicable up to 2000-01 was Rs.250 per cum of concreting which was increased to Rs.400 per cum of concreting from April 2001. The table given below would reveal that shuttering and centering written off in the accounts was not according to rates fixed by the Management and there was short provision of Rs.5.58 crore.

(Rs. in lakh)

Year	Total concreting in cum	Shuttering and centering written off	Average rate	Applicable rate	Difference in rate	Short provision
1997-98	171033	381.31	222.95	250	27.05	46.26
1998-99	198681	476.52	239.90	250	10.10	20.07
1999-00	248616	527.40	212.10	250	37.90	94.22
2000-01	240354	447.10	186.00	250	64.00	153.83
2001-02	167514	426.99	254.90	400	145.10	243.06
					<b>Total</b>	<b>557.41</b>

During scrutiny of records of deposit units and tender units it was noticed that provision of shuttering and centering had been made at the fixed rates in case of deposit work but lesser rates were applied in case of contract works. Thus, due to charging of lesser rate towards shuttering and centering in works expenses of tender works, the same had been shown less and profit was over reflected, which has an impact of Rs.5.58 crore during the five years. It indicated that there was no uniform policy of the Company in this regard.

The Government stated (September 2003) that contract works were secured by the Company through the process of tendering. Considering the rates of shuttering charges taken into account at the time of tendering, the rates of shuttering charges were provided in the estimate of work and accordingly expenditure in this head was booked. The reply is not tenable because expenditure under this head should be based on uniform policy irrespective of tender or deposit work.

#### **Internal Audit/Internal Control**

**2.3.39** The Company was not having any Internal Audit Wing during the year 1997 and 1998. The Company established its Internal Audit Wing in 1999. This wing is headed by Finance Controller who is reporting to MD of the Company. The Internal Audit Manual could be approved in December 2001 by the Board of Directors. According to Internal Audit Manual every unit is to be audited once in every year. It was, however, noticed that only 46 units could be audited during 1999-2000 to 2001-02 whereas in these years there were 55-60 working units in the Company. Although there is Internal Audit Manual in which prescribed checks have been laid down but the Management have not taken effective steps for internal audit of units every year. The Statutory Auditors in their report also reported that the Internal Audit system of the Company was generally not commensurate with its size and nature of its business.

There has been no internal control in the operation of Bank Accounts of the units as well as Headquarters. It was observed that the Bank Accounts of Company were being operated under single signature of unit incharge while it should be operated under joint signatures of at least two officers (one of whom may be from finance/accounts department) in order to have internal control.

The Government stated (September 2003) that the matter of joint signature in the operation of bank account would be submitted to Board of Directors for approval. In respect of internal audit, it was intimated that in future efforts would be made to conduct internal audit of each unit every year.

#### **Conclusion**

**The Company earned marginal profits up to 2000-01. It turned into loss during 2001-02. There were operational losses in each year as the value of cost of work was very high (98 to 100 per cent) in relation to the value of work done. The Company never achieved the envisaged profits in the contract work mainly due to high administrative expenses and time /cost overrun in completion of work and increased dependency on sub-contracts. In deposit works the Company was unable to control its overheads up to the limit of centage income. The Company totally failed in submission of Form 44 and 45 in respect of completed bridges to the State Government to obtain revised sanction. In case of both the contract works and deposit works, the Company quoted/accepted the works without properly assessing the scope of works resulting in incurring of excess expenditure in most of the contracts and deposit works which was not paid/reimbursed by the clients/Government.**

**The Company could achieve better performance by adopting realistic and competitive bidding for contract work, arresting the overhead expenses, optimising the use of available infrastructure and make all endeavour to complete the work within the stipulated time.**