

CHAPTER–II

2. Performance review relating to Government company

2.1 Review of the performance of U.P. Projects Corporation Limited

Executive summary

Introduction

U.P. Projects Corporation Limited (Company) is a wholly owned Government Company under the administrative control of the Irrigation Department of Government of Uttar Pradesh (GoUP). The main objective of the Company was to carry on the business as general and Government contractors, to submit tenders and undertake to do construction work of every nature. During last six years ending March 2013, the Company did not participate in tenders and was primarily engaged in execution of deposit works entrusted by various Government Departments/Organisations on the basis of cost plus centage.

(Paragraphs 2.1 and 2.6)

Execution of works

During the last six years (2007-08 to 2012-13), the Company executed the works of the value of ₹ 3,581.21 crore (69.63 per cent) out of the total available works of ₹ 5,143.40 crore. Ninety-two per cent of the completed works were executed by placing work orders with sub-contractors at composite rates whereas only eight per cent works were executed departmentally. During the five years up to 2011-12, the Company did not appoint architects through competitive bidding in most of the cases. The Company made excess payment of ₹ 93.20 lakh to architects by allowing service tax and architect fee over and above the limit prescribed by GoUP/ Government of India and also by allowing more than 0.25 per cent fee on repetitive nature of works.

(Paragraphs 2.7 to 2.12 and 2.16)

The Company made excess payment of ₹ 6.13 crore to the sub-contractors in 18 works test checked by us, due to finalisation of rates higher than the rates provided in Uttar Pradesh Public Works Department Schedule of Rates of the respective district for concerned period. Further, excess payment of ₹ 1.74 crore to the sub-contractors was allowed due to incorrect preparation of estimates. In these 18 works, the Company also claimed excess centage of ₹ 0.99 crore from the clients.

(Paragraphs 2.17 and 2.18)

Multiple interest free advances of ₹ 22.60 crore were released to 17 sub-contractors executing works under Integrated Housing and Slum Development Programme test checked by us, without adjustment of previous advances and without measurement of works. Moreover, no Bank guarantee was obtained against advances.

(Paragraph 2.19)

Deficient Manpower Planning

The actual available manpower of Superintending, Executive and Assistant engineers was much in excess of the sanctioned strength. No assessment was

made for manpower requirement considering the increase in Units/Zones and also the sub-contracting of majority of the works.

(Paragraph 2.25)

Financial Management

The Company has not devised any system to identify the surplus investible funds and to ensure optimum returns on investments. Due to non-availing flexi facility offered by the Banks, the Company suffered a loss of interest of ₹ 67.17 lakh during the period from 2009-10 to 2011-12. The details of interest earned on Government funds were not maintained department/work wise.

(Paragraphs 2.29, 2.30 and 2.31)

In case of 180 works completed during the period 2007-08 to 2011-12, the Company received funds of ₹ 112.12 crore for direct expenditure on works whereas the expenditure incurred on these works was ₹ 114.93 crore leading to excess expenditure of ₹ 2.81 crore which was not even claimed from client Departments and was met from its centage, adversely affecting its own financial position.

(Paragraph 2.32)

The Company did not maintain basic records viz. work register, material consumption statements after completion of works and index of measurement books. Internal control mechanisms were found to be ineffective and inadequate.

(Paragraphs 2.39 and 2.40)

Introduction

2.1 U.P. Projects Corporation Limited¹ (Company) is a wholly owned Government Company incorporated under the Companies Act, 1956. The administrative control of the Company is with the Irrigation Department (ID), Government of Uttar Pradesh (GoUP). The Company was declared (July 1999 and June 2006) by GoUP as a Government executing agency/ construction agency for construction and reconstruction of shallow and deep tube wells, construction of hydrological structures and works related to irrigation and drainage and for construction of buildings.

The main objects of the Company as per its Memorandum of Association are as follows:

- To investigate, promote, improve, establish, execute, install, manage and administer tube wells and other minor irrigation projects or enterprises and to promote or advance the development of minor irrigation in the State of Uttar Pradesh.
- To install new tube wells and construct their water distribution system and approach roads for direct irrigation and augmentation of water supplies in the existing or future canal systems.
- To carry on the business of general and Government contractors, execute and conduct general contracting business, to submit tenders and undertake to do all sorts of building, manufacturing, producing, surveying, supplying,

¹ The Company was originally incorporated as Uttar Pradesh Nalkoop Nigam Limited in May 1976 and subsequently rechristened as U.P. Projects Corporation Limited in April 2001.

designing, enlarging, repairing, remodeling, managing, administering, controlling and supervising construction work of every nature.

During the six years up to 2012-13, the Company was primarily engaged in execution of deposit works entrusted by the Departments and Organisations of GoUP on cost plus centage basis.

2.1.1 The Management of the Company is vested in a Board of Directors comprising seven Directors including a Chairman and a Managing Director appointed by the GoUP. The Managing Director is the Chief Executive of the Company who looks after the day to day activities with the assistance of three General Managers, a Financial Advisor cum Chief Accounts Officer and a Company Secretary at the Head Office. There are 31 Units² each headed by a Project Manager and distributed among seven Zones³, each Zone being supervised by a General Manager. The organisational set up and zone wise distribution of Units are depicted in **Annexure-7 and 8** respectively.

The activities of the Company were last reviewed and featured in the Audit Report (Commercial) of the Comptroller and Auditor General of India, Government of Uttar Pradesh for the year 2001-02 which has been partially discussed by the Committee on Public Undertakings (December 2013).

Scope and Methodology of audit

2.2 The present Performance Review was conducted during November 2012 to March 2013 covering the activities of the Company for six years' period from 2007-08 to 2012-13. We examined the records of the Head Office and 11 units⁴ out of 31 Units in seven Zones which were selected considering the value of work done by the Units.

In these 11 units, 2,725 works of ₹ 743.60 crore were completed during the five years⁵ up to 2011-12 and 1,362 works of ₹ 1,133.10 crore were in progress as on 31 March 2012. Audit selected 1,319 completed works of ₹ 278.83 crore and 63 works-in-progress of ₹ 156.02 crore for test check.

The methodology adopted consisted of explaining the audit objectives to the top management in the Entry Conference, scrutiny of records at Head Office and selected Units, inter-action with the personnel of audited Units, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft Performance Review to the Management/Government for comments.

We explained the audit objectives to the Management during an 'Entry Conference' held on 17 November 2012. An 'Exit Conference' was held on 13 August 2013 with the Government⁶ and Management. The replies of the Management to our audit findings were received in September 2013 and have been duly considered while finalising the Performance Review. The Government endorsed (January 2014) the reply of the Management.

² 29 Units within the State, one Unit at Roorkee (Uttarakhand) and one Unit at Bhubaneswar (Odisha).

³ Zone 1- Allahabad, Zone 2- Bareilly, Zone 3- Faizabad, Zone 4- Agra, Zone 5- Lucknow, Zone 6- Okhla and Zone 7- Lucknow.

⁴ Unit-1 Sitapur, Unit-2 Allahabad, Unit-3 Varanasi, Unit-4 Agra, Unit-5 Ghaziabad, Unit-8 Lucknow, Unit-11, Faizabad, Unit-14 Lucknow, Unit-29 Gorakhpur, Unit-36 Noida and Unit-37 Roorkee.

⁵ Cost Sheet of the works for the year 2012-13 was not prepared (September 2013), hence, value of works completed during the year 2012-13 and value of works-in-progress as on 31 March 2013 could not be ascertained. However, figures, wherever available up to March 2013 have been taken into account. Cost sheet is a statement which depicts head-wise cost incurred by the Company on various works being executed by it.

⁶ Government was represented by Special Secretary, Irrigation Department, GoUP and the Company's Management was represented by the Managing Director and General Managers.

Audit objectives

2.3 The objectives of the Performance Review were to assess whether:

- works were executed economically, efficiently and effectively;
- procurement of material was made in effective and economical manner;
- there was effective deployment of manpower and was in compliance to the Rules/Orders of manual/Government order;
- financial management of the Company was effective and flow of funds was timely and optimally utilised; and
- efficient monitoring mechanism and internal control system existed.

Audit criteria

2.4 The criteria adopted for achieving the aforesaid audit objectives were:

- Specifications laid down in Schedule of Rates of Irrigation Department and Uttar Pradesh Public Works Department;
- Provisions of the Working Manual of Uttar Pradesh Rajkiya Nirman Nigam Limited and Financial Hand Book (FHB) Volume VI of GoUP;
- Directives of GoUP and Management in regard to execution of works;
- Terms and conditions of purchase orders for procurement of materials; and
- Terms and conditions of Memorandum of Understanding (MOU) executed with the clients viz. Departments/Organisations of GoUP.

Audit findings

2.5 The Performance Review revealed deficiencies in execution of works, appointment of architects, procurement of material, manpower planning, financial management and internal control mechanism. The audit findings are discussed in the succeeding paragraphs:

Execution of works

2.6 The Company has not prepared its own Working Manual even after 37 years of its incorporation and has adopted the Manual of Uttar Pradesh Rajkiya Nirman Nigam Limited (a State Public Sector Undertaking). The Manual referred to in this Performance Review refers to the Manual of Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN). During the six years' period up to 2012-13, the Company did not participate in tenders although participation in tenders is one of the main objectives of the Company.

All the works were directly awarded to the Company as deposit works by various Government Departments/Organisations (**Annexure-9**), which were executed by the Company through Piece Rate Workers⁷ (PRWs)/sub-contractors⁸. Execution of work includes preparation and sanction of drawings/designs and estimates of works.

Status of works executed

2.7 The position of works executed during the period from 2007-08 to 2012-13 is as follows:

⁷ Para 4 of the Manual defines a PRW as an individual who arranges for necessary labour and manages to take work on output basis while materials and equipment are provided to him by the Company. In case works are sub-let, both labour and material are arranged by the sub-contractor.

⁸ Except the work of Face Lifting/ Interior and New Staff Quarters at ESI Hospital, Sector-24, Noida which was awarded by the Company on back to back basis to sub-contractor after inviting tenders.

Table No. 2.1

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Pending works at the beginning of the year ⁹	603.08	624.93	497.82	1225.84	1290.62	1269.65	-
Works received during the year	392.57	419.17	1581.77	1064.38	581.77	500.66	4540.32
Total available works	995.65	1044.10	2079.59	2290.22	1872.39	1770.31	-
Works executed during the year ¹⁰	354.13	528.43	733.99	912.70	586.61	465.35	3581.21
Available works at the close of the year	641.52	515.67	1345.60	1377.52	1285.78	1304.96	-
Percentage of completion of works to total available works	35.57	50.61	35.29	39.85	31.33	26.29	-

Source: Progress Report and Financial Statements of the Company for the respective year.

We observed that:

- The progress reports of the Company depicted only the financial progress of works and did not depict the physical achievement. In the absence of number of works in the progress report, there was no monitoring of the physical achievement of works.
- During the six years up to 2012-13, the Company received works of ₹ 128.07 crore¹¹ from Irrigation Department (ID) and of ₹ 4,412.25 crore from other departments¹². The percentage of works received from ID to the total works received by the Company during the last six years was only 2.82 per cent.
- The value of works received by the Company in 2007-08 was ₹ 392.57 crore which increased to ₹ 1,581.77 crore in 2009-10 but declined to ₹ 500.66 crore in 2012-13. We noticed that during the performance review period, the Company received deposit works directly from Government departments and did not participate in competitive bidding to obtain works¹³. Thus, the viability of the Company could become uncertain if it does not receive sufficient deposit works in future. The Management did not furnish any reason for not participating in the tendering process.

We noticed irregularities in execution of entrusted works which are discussed in the succeeding paragraphs:

Appointment of Architects

2.8 The Company does not have its own Architectural, Design and Estimate Wing. The work of preparation of architectural and structural drawings/ designs and estimates of the works¹⁴ was done through external architects. The deficiencies noticed in appointment of architects and payment of fee to them are discussed below:

Appointment of architects without competitive bidding

2.9 The Government of Uttar Pradesh (GoUP) order (February 1997) prescribes centage on deposit works of GoUP at the rate of 12.5 per cent of cost of

⁹ Closing balance of previous year and opening balance of current year may differ due to inclusion of revised cost of some works.

¹⁰ As per the Financial Statements of the Company for the respective year except for the year 2012-13 where the value of works executed is as per the Progress Report of the Company for the year 2012-13 as Financial Statements for the year 2012-13 have not yet been prepared by the Company.

¹¹ The Company received works of ₹ 12.24 crore, ₹ 96.93 crore, ₹ 17.05 crore and ₹ 1.85 crore from ID in 2008-09, 2010-11, 2011-12 and 2012-13 respectively. No work was received from ID in 2007-08 and 2009-10.

¹² Health, Family Welfare, Revenue, Basic and Secondary Education, Higher Education, Animal Husbandry, Home, Sports and Youth Welfare, Transportation, State Urban Development Authority, Panchayati Raj, Agriculture, Labour, Minority Welfare and Technical Education.

¹³ Works which are allotted after inviting bids to the lowest bidder.

¹⁴ Except works obtained from Irrigation Department.

construction including 1.5 per cent for preparation of drawings and designs. As per Central Vigilance Commission's guidelines (November 2002), the selection of architects should be made in a transparent manner through competitive bidding. The Company invited (June 2009) Expression of Interest (EOI) for empanelment of prequalified architects. The notice inviting the EOI provided that the Company shall pay fee to the architects as agreed upon for the specific job.

The Company did not appoint architects through competitive bidding and allowed maximum permissible fee to them.

We noticed that the Company appointed 19 architects without resorting to competitive bidding/market survey, of which 14 architects were not even on the selected panel of the Company and architect fee was allowed at the highest permissible limit of 1.5 per cent of project cost.

The Management stated (September 2013) that appointment of architects through bidding was difficult for small works in rural areas.

We, however, noticed that no bidding was done even in case of large works with sanctioned cost ranging from ₹ 50 lakh to ₹ five crore. Further, in four works executed by Unit-14 Lucknow, architects were appointed through market survey in which architect fee obtained ranged between 1.09 per cent and 1.35 per cent of the project cost.

Undue favour to architects

2.10 The Managing Director of the Company directed (January 2008) to fix fee of architects according to the procedure adopted by Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN).

The Company paid full fee at the rate of 1.5 per cent of project cost to architects for repetitive drawings and designs resulting in excess payment of ₹ 34.39 lakh to the architects.

In UPRNN, architects are engaged at the fee of 1.5 per cent of the cost of work for architectural work (detailed architectural drawings, detailed structural drawings, detailed sanitary/electrical drawings and detailed estimates) and at the rate of 0.25 per cent of cost of work for its repetitive use.

We noticed that the Company paid fee to eight architects¹⁵ at the rate of 1.5 per cent of the project cost in 43 cases where the architects had prepared uniform drawings and designs instead of 0.25 per cent as applicable¹⁶ for repetitive drawings and designs. This resulted in excess payment and undue favour of ₹ 34.39 lakh to the architects.

The Management stated (September 2013) that drawings and designs of all works of Primary Health Centres, Beej Godowns, Model Schools and Tehsil buildings etc. were not similar as variations existed in nature of soil and its load bearing capacity on different sites. The Management's contention is not acceptable as the drawings and designs of all these works were similar and also the sanctioned cost of civil work of each unit was the same.

Excess payment to architect

2.11 The Company was appointed (December 2009) as executing agency for construction of dwelling units under Integrated Housing and Slum Development Programme (IHSDP) and Basic Services for Urban Poor (BSUP) Schemes under Jawahar Lal Nehru National Urban Renewal Mission (JNNURM) project of the Government of India (GoI). The GoI fixed (November 2008) the maximum fee payable to architects for preparation of Detailed Project Reports (DPRs) at one per cent of cost of project for IHSDP and two per cent of cost of project for BSUP.

¹⁵ Design Centre (₹ 11.52 lakh), Akriti Consultants (₹ 0.99 lakh), Rajeev Kumar & Associates (₹ 5.03 lakh), Sanjay Kumar Mishra (₹ 0.25 lakh), Vansh Design & Consultants (₹ 11.02 lakh), Global Creations (₹ 0.83 lakh), ANB Consultants (₹ 4.44 lakh) and Vastu Shilp Architects (₹ 0.31 lakh).

¹⁶ As per UPRNN norms and order of the Managing Director of the Company dated January 2008.

Excess payment of ₹ 29.51 lakh was made to the architects in two central projects.

We noticed that Unit-2, Allahabad of the Company made payments to the architect¹⁷ at the rate of 1.5 per cent of cost of project for IHSDP and 2.5 per cent of cost of project for BSUP in six cases resulting in excess payment of ₹ 29.51 lakh to architect.

The Management stated (September 2013) that excess payment to architects was made for additional work of survey of slum areas for preparation of DPR which included work of preparing feasibility report for roads, drainage, pipe lines and water supply. The reply is not acceptable as the work of preparing feasibility report for roads, drainage, pipe lines and water supply was included in the scope of work of architect for preparation of DPRs.

Payment of service tax to architects

2.12 As the order of Government of Uttar Pradesh (February 1997) prescribes centage on deposit works of GoUP at the rate of 12.5 per cent of cost of construction including 1.5 per cent for preparation of drawings and designs, the fee to be paid to external architects should be kept within the prescribed limit of 1.5 per cent of the project cost. In cases, where the client/Company fixes the fee to be paid to architects, the fee should be restricted to the limit so fixed.

The Company paid service tax over and above the fee paid resulting in excess payment of ₹ 29.30 lakh to architects.

We noticed that in 85 cases, the Company paid service tax at applicable rates over and above the fee paid within the prescribed limit of 1.5 per cent of project cost resulting in excess payment of ₹ 29.30 lakh to architects.

The Management, while accepting the audit observation, stated (September 2013) that efforts were being done to recover the excess payment made to architects.

Payment for work not done

2.13 The Company executed the works of construction of Gram Panchayat Sachivalayas (449 units), Health Sub-Centres (238 units), Anganwadis (588 units) and Dr. Ambedkar Community Centres (69 units) which involved construction of a number of similar units at different sites. The sanctioned cost of each unit of these works was ₹ 14.72 lakh, ₹ 8.19 lakh, ₹ 2.95 lakh and ₹ 16.39 lakh respectively. The Company appointed architects for these works and paid fee at the rate of 1.5 per cent of project cost for first unit of each work and at 0.25 per cent for remaining units.

The scope of work¹⁸ for architects *inter-alia* includes the following:

- Visiting the proposed site and to prepare detailed designs;
- Preparing necessary drawings of the sketch designs;
- Preparing working drawings and details sufficient for proper execution of work;
- Preparing detailed cost estimates on the basis of current Schedule of Rates (SOR) of Uttar Pradesh Public Works Department (UPPWD)/Central Public Works Department (CPWD);
- Inspect periodically the building/work-site to ensure that the works are completed according to approved drawings.

We noticed the following irregularities in this regard:

- The architects had prepared only one model drawing/ design for each work without considering all essential factors like site conditions, soil conditions,

¹⁷ Snow Fountain Consultants.

¹⁸ As defined in Expression of Interest invited (26 June 2009) from architects for empanelment.

The Company paid ₹ 30.97 lakh to architects for work not done as the architects prepared only one estimate for each work and circulated the same estimate for all units of the work.

layout plan etc. which vary from site to site and the same model drawing/design was circulated to all units of that work.

- The architects, instead of preparing detailed estimates, for each unit of work, on the basis of UPPWD SOR of the concerned district, prepared only one estimate for each work based on the SOR of Lucknow district and circulated the same estimate to all units of the work.
- The architects prepared drawings/designs and estimates in respect of only one unit of each work but were paid fee for all units rather than for one unit only. This resulted in payment of ₹ 30.97 lakh (**Annexure-10**) for work not done by them.

The Management stated (September 2013) that in works of Gram Panchayat Sachivalayas, Health Sub-Centres, Anganwadis and Dr. Ambedkar Community Centres, 1.5 per cent of project cost was paid as architect fee while for repeated drawings in the same district, 0.25 per cent of the project cost was paid as architect fee.

The Management's reply is not based on facts as no separate drawings and designs were made by the architects, hence, no payment should have been made to them for other units.

Deficiencies in execution of work

2.14 After approval of drawings/designs and estimates, the Company is required to execute the works as per the procedures laid down in the Manual. The violation of the procedures prescribed in the Manual regarding execution of works and other deficiencies are discussed below:

Irregular grant of Technical Sanction

2.15 The Government of Uttar Pradesh (GoUP) order of March 2006 states that the authority to grant Technical Sanction¹⁹ (TS) rests with the officers of Engineering Departments of GoUP, Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN), Uttar Pradesh Samaj Kalyan Nirman Nigam Limited (UPSKNN), Uttar Pradesh Avas Evam Vikas Parishad (UPAVP) and Construction and Design Services wing of Uttar Pradesh Jal Nigam (UPJN). It further provides that construction agencies which do not have the authority shall obtain TS from Uttar Pradesh Public Works Department (UPPWD) for works to be executed by them. Since the Company does not have the authority to grant TS, it has to obtain TS from UPPWD for all the works to be executed by it.

We noticed the following deficiencies in this regard:

- TS was obtained from officials of the Company itself (except in works of Irrigation Department) violating GoUP order.

The Management stated (September 2013) that the Board of Directors (BOD) of the Company authorised (December 2009) the officers²⁰ of the Company to grant TS as per the limits prescribed by it. The reply of the Management is not acceptable as granting of TS by the Company itself, is a violation of GoUP order which clearly defines the authorities empowered to grant TS.

Technical sanction from UPPWD was not obtained by the Company in violation of GoUP order.

¹⁹ The Manual (Para 34 and 41) and Financial Hand Book of GoUP (Para 318) stipulate that no work shall be started without obtaining the administrative approval from the clients on the basis of preliminary estimate. After getting the administrative approval from the clients, detailed estimates are to be prepared and got sanctioned by the competent authority, which is known as Technical Sanction (TS). The TS amounts to a guarantee that the proposal is structurally sound, estimates accurately worked out and are based on adequate data.

²⁰ Managing Director, General Managers and Project Managers.

The detailed estimates of 18 works were not prepared as per UPPWD Schedule of Rates of the concerned district for the concurrent period.

- The detailed estimates of 18 works executed in nine districts²¹ were not prepared as per Schedule of Rates (SOR) of UPPWD of the concerned district for the concurrent period. In one such case this resulted in excess payment of ₹ 1.74 crore as discussed in paragraph 2.18.

The Management stated (September 2013) that since the UPPWD SOR of concerned districts were not updated and execution of work on old rates was not possible, the estimates were prepared on the basis of UPPWD SOR of Lucknow district. The reply of the Management is not acceptable as detailed estimates should have been prepared on the basis of UPPWD SORs of the concerned districts after allowing requisite engineering appreciation for any increase in market rates.

By-passing prescribed procedure

2.16 The Manual contains the following provisions regarding the procedure to be adopted for execution of works:

- The works are to be executed directly through the technical and other staff of the Company by procuring necessary materials and arranging for necessary tools and equipments while labour is to be engaged through Piece Rate Workers (PRWs)²² (Para 2 of Manual).
- One of the fundamental aims of the Company is to eliminate big private contractors as much as possible and that being so it should not normally sub-let its works to sub-contractors or contractors (Para 20 of Manual).
- In case it is considered unavoidable to sub-let a part of the work to a sub-contractor due to certain special reasons, it can be done under special written order of the Managing Director (MD) only, who will record full reasons for doing the same and place a list of all such cases in its next Board of Directors (BOD) meeting (Para 21 of Manual).

We noticed the following deficiencies in the procedure adopted by the Company for execution of works:

- During the five years²³ up to 2011-12, 2,725 works of value ₹ 743.60 crore were completed while 1,362 works of value ₹ 1,133.10 crore were in progress as on 31 March 2012. Out of the total completed works, only eight *per cent* completed works (222) of value ₹ 194.35 crore were executed directly through the technical and other staff of the Company. The remaining 92 *per cent* completed works (2,503 works) of value ₹ 549.25 crore were executed by placing work orders with sub-contractors at composite rates i.e. the material was procured and labour engaged by the same sub-contractor.

Similarly, in case of works-in-progress as on 31 March 2012, only six *per cent* works (82 works) of value ₹ 284.04 crore were being executed directly through the technical and other staff of the Company. The remaining 94 *per cent* works-in-progress (1280 works) of value ₹ 849.06 crore were being executed by placing work orders with sub-contractors at composite rates i.e. the material was procured and labour engaged by the same sub-contractor.

²¹ Agra, Allahabad, Faizabad, Gorakhpur, Ghaziabad, Lucknow, Noida, Sitapur and Varanasi.

²² Para 4 of the Manual defines a PRW as an individual who arranges for necessary labour and manages to take work on output basis while materials and equipment are provided to him by the Company. In case works are sub-let, both labour and material are arranged by the sub-contractor.

²³ Cost Sheet of the works for the year 2012-13 was not prepared (September 2013), hence, value of works completed during the year 2012-13 and value of works-in-progress as on 31 March 2013 could not be ascertained.

In 2,503 completed works and 1,280 works-in-progress (as on 31 March 2012), each work was split into several work orders to reduce the mandatory sanctioned limit of the Project Manager of each Unit.

- In 2,503 completed works and 1,280 works-in-progress (as on 31 March 2012), each work was split into several work orders to reduce the mandatory limit of ₹ 10 lakh which was the sanctioned limit of the Project Manager of each Unit.
- While the Company executed a major portion of the works by sub-letting them to sub-contractors, no written orders of the MD were obtained in this regard and the matter was also not put up to BOD.

The Management stated (September 2013) that as the works were of small nature located in rural areas, these have been executed through PRWs at composite rates. The next work order was issued to a PRW only after satisfactory completion of work. It further stated that the works were not sub-let and therefore, permission of MD/BOD was not required.

The reply is not acceptable since as per Manual, the works were to be executed by the Company departmentally i.e. by procuring material itself and engaging labour through PRWs. However, the works were executed at composite rates i.e. both material and labour were arranged by PRWs. Since the Manual does not provide for execution of works at composite rates, execution of works by this method without approval of MD/BOD was in violation of the provisions of the Manual. Further, multiple work orders were issued on the same day to the same PRW (some instances are given in Para 2.19) which corroborates that next work order was issued without completion of previous work order.

Excess payment to sub-contractors

2.17 The Manual (Para 96 and 97) provides that works will be awarded to PRWs on labour rates by Purchase Committees (PCs) headed by Project Manager of the Unit after conducting detailed market survey. The Manual (Para 40) further provides that while preparing estimates, five *per cent* is to be deducted from the cost arrived at on the basis of Uttar Pradesh Public Works Department/Central Public Works Department Schedule of Rates (UPPWD/CPWD SOR) as it is expected that construction by the Company shall be five *per cent* cheaper than UPPWD/CPWD SOR. The Government of Uttar Pradesh (GoUP) order²⁴ (February 1997) stipulates that the Public Sector Undertakings executing deposit works shall be allowed centage at the rate of 12.5 *per cent* after deducting five *per cent* from the cost of work. Thus, the rates to be allowed to sub-contractors should be restricted to 95 *per cent* of the rates provided in UPPWD/CPWD SOR.

The rates allowed to sub-contractors were 0.22 *per cent* to 15.95 *per cent* higher than 95 *per cent* of rates provided in UPPWD SOR of the respective districts resulting in excess expenditure of ₹ 6.13 crore.

We test checked 17 works and noticed that the rates finalised by the PCs were 0.22 *per cent* to 15.95 *per cent* higher than 95 *per cent* of rates provided in UPPWD SOR of the respective district for concerned/subsequent period. This resulted in excess expenditure of ₹ 6.13 crore (**Annexure-11**). The cases mentioned here are deposit works in which centage allowed to the Company is 12.5 *per cent* of expenditure made. Thus, due to inflated cost of ₹ 6.13 crore the Company was allowed extra centage of ₹ 0.77 crore²⁵ resulting in loss to the client Departments/organisations. Excess centage due to inflated estimates were irregularly used to meet excess expenditure out of centage as discussed in paragraph 2.32.

The Management stated (September 2013) that the works were executed within the sanctioned cost at rates approved on the basis of market survey. As rates are

²⁴ No. A-2-87/10-97/17(4)-75 dated 27 February 1997.

²⁵ ₹ 6.13 crore x 12.5 *per cent* = ₹ 0.77 crore.

approved on the basis of market survey, rates of various items may vary from the rates provided in the estimates.

The reply is not acceptable as the rates approved by the Company were higher than the rates of current/subsequent UPPWD SOR of the concerned district. Further, no analysis of rates was made and reasons for award of work at higher rates than the rates of UPPWD SOR were not recorded.

Incorrect preparation of estimates

2.18 During 2009-10 to 2011-12, the Company awarded the work of 106 Gram Sachivalaya Buildings (sanctioned cost: ₹ 14.72 lakh each) in Allahabad district to sub-contractors at 95 per cent of the rates provided in estimates instead of finalising the rates on the basis of market surveys. These estimates were based on UPPWD SOR of Lucknow. As the work was to be executed in Allahabad, UPPWD SOR of Allahabad should have been the basis for preparation of estimates. We observed that the rates of UPPWD SOR of Allahabad were 11.25 per cent less than that of UPPWD SOR of Lucknow. Hence, due to taking a wrong SOR, the Company made excess payment of ₹ 1.74 crore²⁶ to the sub-contractors. Further, extra centage of ₹ 0.22 crore²⁷ was charged on these works by the Company which led to loss to the client Department to that extent.

The Company made excess payment of ₹ 1.74 crore to the sub-contractors as the rates allowed were based on SOR of Lucknow district instead of UPPWD SOR of Allahabad district.

The Management stated (September 2013) that since the current UPPWD SOR of Allahabad district was not available, the estimates were prepared on the basis of UPPWD SOR of Lucknow district and the work was executed at lowest rates obtained from market survey.

Management's contention is not acceptable as no market survey was done to finalise the rates and the work was executed at the rates provided in the estimate prepared on the basis of UPPWD SOR of Lucknow district. Further, the work was executed during 2009-10 to 2011-12 when the UPPWD SOR for Allahabad district effective from 1 November 2009 and 1 November 2011 were available.

Irregular grant of advances

2.19 The Company was awarded (June 2010 to August 2010), the work of construction of 4,435 Dwelling Units (DU) under Integrated Housing and Slum Development Programme (IHSDP) in the State of Uttarakhand at a sanctioned cost of ₹ 131.38 crore, which was being executed by Unit-37, Roorkee at composite rates.

The Manual²⁸ provides that the unit incharge may make advance up to 75 per cent of the current value of material brought to site by the sub-contractor after entering into a formal agreement to secure a lien on the materials. It further provides that in urgent cases, where the sub-contractor needs money but measured bill could not be prepared, the unit incharge may release advance to the sub-contractor after an assessment and evaluation of the quantum of the total work done is made and a certificate is signed by him for such assessment. The frequency of such unmeasured advance payments should not be more than two advance payments against one payment on the basis of due measurements.

²⁶ As per audit analysis, cost of work based on UPPWD SOR of Allahabad district was ₹ 12.87 lakh for one unit. Hence, excess expenditure in one unit was ₹ 1.85 lakh (₹ 14.72 lakh - ₹ 12.87 lakh) including centage of ₹ 0.21 lakh. Total excess payment to sub-contractor in 106 units was ₹ 1.74 crore [(₹ 1.85 lakh - ₹ 0.21 lakh) x 106].

²⁷ ₹ 0.22 crore = ₹ 0.21 lakh x 106.

²⁸ Para 553, 557, 558 and 559.

We noticed the following discrepancies:

- During the year 2010-11, the Unit awarded the work of construction of 4,435 DUs to 18 sub-contractors ranging from 22 work orders (Sanya Construction) to 70 work orders (Sunil Enterprises) per sub-contractor. The measurement of work was done on percentage basis i.e. in the ratio of work completed *vis-à-vis* total work, instead of recording detailed measurements of actual work done.
- The Company prescribed (February 2009) the financial limit of Project Manager to issue work orders (for labour component only) up to ₹ 10 lakh. However, multiple work orders (for composite work) were issued to an individual sub-contractor in a single day. Thus, splitting of work was done to keep the work orders within the prescribed limit. Some cases are given below:

Table No.2.2

Name of District	Name of sub-contractor	Date of issue of work orders	No. of work orders issued	No. of DU for which work orders issued	Range of value of work orders (₹ in lakh)	Total value of work orders (₹ in crore)
Almora	Sanya Construction	24.10.2010	13	35	3.30 to 9.90	1.16
		16.01.2011	9	25	3.30 to 9.90	0.83
Haldwani	Sunil Enterprises	22.02.2011	38	75	3.30 to 6.60	2.48
		05.03.2011	22	44	3.30 to 6.60	1.45
		18.03.2011	10	20	3.30 to 6.60	0.66
Total			92	199		6.58

Multiple advances were released to an individual sub-contractor without evaluating the actual quantum of work done.

- During the year 2011-12, the Unit released interest free advances of ₹ 22.60 crore to 17 sub-contractors merely on the basis of application made by the sub-contractors without assessing/evaluating the actual quantum of work done or value of material brought to site by the sub-contractor. Further, the advances were not recorded in Measurement Books and their adjustment was pending (December 2013). Although the work of IHSDP was also being executed by other units, no such irregularity was found in other Units.
- No bank guarantee of equivalent amount was obtained to safeguard Company's interests.
- The Unit released multiple advances ranging from ₹ 58.35 lakh to ₹ 15.55 crore to sub-contractors without adjustment of previous advances which was irregular.

The Management, while accepting the audit observation, stated (September 2013) that an enquiry has been initiated against the Project Manager and Assistant Accountant of the Unit. It further stated that a Committee had been formed (July 2013) by the Government of Uttarakhand for valuation of work done by the Unit to adjust the advances.

Irregular release of payment

2.20 The Government of Uttar Pradesh (GoUP) awarded (September 2009) to the Company, the work of 'construction, renovation and other development works' in various District Hospitals of Uttar Pradesh, which included installation of Modular Operation Theatre (MOT) under National Rural Health Mission (NRHM) scheme.

The Company entered into an agreement (April 2010) with Surgicojn Medequip Private Limited (Supplier) for supply, installation and commissioning of the MOT in 36 District Hospitals in Uttar Pradesh. The work was to be completed within one year from the date of agreement. As per the

agreement, advance payment to the extent of 75 per cent of the cost of material supplied was to be made to the Supplier. An advance payment of ₹ 17.55 crore was made by the Company to the Supplier against materials supplied by him for 36 District Hospitals.

The Company paid ₹ 96.77 lakh to the supplier in excess of 75 per cent of the cost of material supplied in violation of the agreement.

We noticed that in case of 23 District Hospitals, the Supplier was paid in excess of 75 per cent of cost of material by ₹ 96.77 lakh whereas in remaining 13 District Hospitals, the advance payment was within 75 per cent of the value of material supplied. The excess payment of ₹ 96.77 lakh made to the Supplier could not be adjusted till date due to initiation of enquiry (November 2011) by Central Bureau of Investigation (CBI)²⁹.

The Management stated (September 2013) that 75 per cent of the cost of materials and 100 per cent of applicable taxes were paid to the Supplier therefore, no excess payment was made.

The reply is not acceptable since, as per agreement, advance payment to the Supplier was to be restricted to 75 per cent of the billed amount or Bill of Quantity (BOQ) rate, whichever was lower and the billed amount/BOQ rates were inclusive of all taxes. Further, there was no clause in the agreement which provided for 100 per cent payment of taxes. Hence, payment of taxes over and above the limit of 75 per cent was irregular.

Imprudent release of mobilisation advance

2.21 Employees State Insurance Corporation (ESIC) awarded (May 2009) the Company, the work of face lifting/ renovation of ESIC Hospital at Chaudwar, Cuttack, Odisha at a sanctioned cost of ₹ 64.19 crore on cost plus centage basis which was sub-contracted (June 2009) by the Company to Omaxe Infrastructure and Construction Private Limited (Omaxe) on back-to-back basis at a cost of ₹ 59.35 crore. The terms and conditions of agreement entered into by the Company with ESIC provided that 10 per cent of the contract price shall be paid as interest free mobilisation advance by ESIC to the Company after production of bank guarantee. Similar provision was also incorporated in the agreement entered into by the Company with the Omaxe for providing interest free mobilisation advance by the Company to Omaxe.

The Company obtained (July 2009) ₹ 6.41 crore as interest free mobilisation advance against bank guarantee from ESIC and released (July 2009) ₹ 5.91 crore as interest free mobilisation advance against bank guarantee to Omaxe.

As per the terms and conditions of the agreement executed with ESIC, the ESIC was liable to obtain necessary permissions required for renovation of Hospitals. Since the site of work was within the prohibited area of Archeological Survey of India (ASI), a 'No Objection Certificate' (NOC) was to be obtained from ASI to start the work. As the NOC was not granted by ASI, the work could not be started. Consequently, the agreement with Omaxe was terminated (April 2011) and mobilisation advance given to them was taken back (April 2011). The Company also returned (April 2011) the mobilisation advance of ₹ 6.41 crore obtained from ESIC.

We noticed that the Company, despite being aware of the fact that immediate start of work was not possible, obtained complete mobilisation advance from ESIC and released the same to Omaxe. This defeated the very purpose of mobilisation advance as the work could not be started. Further, it also resulted

Undue benefit of ₹ 98.50 lakh was extended to the sub-contractor by releasing mobilisation advance without obtaining NOC from ASI.

²⁹ Our observation on NRHM work is limited to the extent of irregular release of advance payment to the supplier by the Company. Further examination could not be done since an enquiry on NRHM work by CBI is underway and original records relating to NRHM work were in the custody of CBI.

in undue benefit of ₹ 98.50³⁰ lakh to Omaxe in the shape of interest on the interest free mobilisation advance to Omaxe.

The Management stated (September 2013) that it was the responsibility of the ESIC to obtain NOC from ASI and the Company in anticipation of time bound execution of work released the mobilisation advance to Omaxe as per the terms and conditions of the agreement. The fact however remains that the release of the mobilisation advance prior to obtaining the approvals/ clearances which were a prerequisite³¹ to start the work, was irregular and tantamount to extension of favour to the sub-contractor.

Procurement of material

2.22 In order to bring economy in execution of works, procurement of quality inputs at most economic prices is of vital importance.

As per the Manual, the Company should directly procure materials from quarries and manufacturers and execute the works through Piece Rate Workers (PRWs). The rates for supply of materials as well as for awarding the works to PRWs are finalised by a Purchase Committee³² (PC) as per the requirements of the Company. A Joint Purchase Committee (JPC) headed by General Manager should be formed at Zone level to ensure uniformity in rates of materials to be procured by units located in the same district.

The Company procured materials only in works which were executed departmentally³³. We found that the Company did not form any JPC at the General Manager level for finalisation of rates and the same were finalised by PCs at unit level even in case of units located in the same district.

Purchase of material at higher rates

2.23 In order to effect economy and to ensure quality in execution of the projects, procurement of vital inputs such as cement is of utmost importance. The Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN) and Uttar Pradesh State Bridge Corporation Limited (UPSBCL) have been entering into Rate Contracts with the manufacturers for procurement of cement.

We observed that there was no system in the Company to procure cement on the basis of Rate Contracts. As a result, the rates of procurement of cement were on higher side when compared with the procurement rates of cement of UPRNN during the same period.

Cement was purchased from local suppliers at higher rates instead of entering into rate contracts leading to extra expenditure of ₹ 54.04 lakh.

Mention was made vide Para no. 3.3 of Audit Report on Public Sector Undertakings for the year ended 31 March 2012 wherein it was pointed out that three Units³⁴ of the Company purchased cement from local suppliers instead of entering into Rate Contracts and made extra expenditure of ₹ 0.57 crore. We further noticed that two units (Unit-11, Faizabad and Unit-8, Lucknow) of the Company during the period from 2009-10 to 2010-11 procured 1,18,236 bags of cement at rates ranging between ₹ 235 and ₹ 318 per bag on the basis of Purchase Committee Report (PCR) from local suppliers; whereas during the same period UPRNN procured cement at the contracted rate ranging between ₹ 195 per bag and ₹ 275 per bag. The Company could have avoided the extra

³⁰ Calculated at the rate of 10 per cent per annum (being interest rate on short term deposits) on ₹ 5.91 crore for 20 months (from July 2009 to April 2011).

³¹ Para 486 of the Manual.

³² Purchase Committee at unit level consists of (1) Unit Head (2) senior most accounts man of the Unit and (3) concerned Resident Engineer or Assistant Resident Engineer.

³³ Departmental execution of works refers to system in which necessary material is procured by the Company and labour is engaged through Piece Rate Worker (PRW).

³⁴ Unit-13, Lucknow; Unit-14, Lucknow and Unit-17, Lucknow.

expenditure of ₹ 54.04 lakh incurred on procurement of cement by entering into similar Rate Contracts.

The Management stated (September 2013) that UPSBCL and UPRNN execute big works in which large quantities of materials are required at one place, therefore, Rate Contracts could be entered for these works. The Company, on the other hand, executes relatively small works located mostly in rural areas, therefore, entering into Rate Contracts was not practical as taking supply at one place and sending it to different sites would entail extra expenditure on transportation, watch and ward and storage.

As the Company executes both small and big works, the rate contract should have been entered into for big works. During test checks, it was noticed in audit that in case of execution of 12 big works³⁵, the Company did not make any efforts to enter into rate contracts.

Non-realisation of royalty on procurement of material from supplier

2.24 As per order³⁶ of Government of Uttar Pradesh (GoUP), the Company was required to obtain receipt in form MM-11 from suppliers in support of payment of royalty on earth, coarse sand and stone grit. If the receipt was not submitted by the suppliers, royalty should have been deducted from their bills. We noticed that six Units³⁷ of the Company neither obtained receipts from the suppliers nor deducted royalty amounting to ₹ 14.69 lakh resulting in undue benefit to suppliers besides loss of revenue to the State Exchequer.

The Management stated (September 2013) that in case of small works, purchase of materials directly from mines was not practical hence, these were purchased from local market where MM-11 was not provided.

We have, however, noticed in audit that the Company did not obtain form MM-11 even in case of big works³⁸ also.

Deficient Manpower Planning

2.25 Manpower planning includes adequate and efficient utilisation of human resource in an organisation and appointment of capable persons as per requirement of specific job.

The sanctioned strength and men-in-position of the Company is detailed in table below:

Table No. 2.3

Cadre	Sanctioned strength (as on 31 March 2013)	Men-in-position			Excess Staff	
		On Deputation	Company's staff	Total	On Deputation	Company's staff
Superintending Engineer (GM)	03	02	08	10	02	05
Executive Engineer (PM)	10	12	20	32	12	10
Assistant Engineer (APM/RE)	32	24	49	73	24	17
Junior Engineers (ARE)	78	35	30	65	-	-

The Company took officials on deputation even though its own staff was more than the sanctioned strength.

- As would be seen from the above table, the men-in-position was much in excess of the sanctioned strength. The Company did not reassess the manpower requirement even though 92 per cent of completed works and 94 per cent works-in-progress were executed by placing work orders with sub-contractors at composite rates.

³⁵ Value of works ranging from ₹ 0.95 crore (Home guard hostel, Lucknow) to ₹ 49.23 crore (Four lane road, Sharda Nagar, Lucknow).

³⁶ Order No. 4020/77-5-2003-1(216)/93 dated 12 August 2003.

³⁷ Unit-1, Sitapur; Unit-8, Lucknow; Unit-11, Faizabad; Unit-14, Lucknow; Unit-29, Gorakhpur and Unit-37, Roorkee.

³⁸ Value of works ranging from ₹ 0.83 crore (Primary Health Centre, Orwara, Basti) to ₹ 3.25 crore (Community Health Centre, Munderwa, Basti).

The Management stated (September 2013) that the sanctioned strength was old and based on seven units and two zones while at present there are 32 units and nine zones.

The fact remains that sanctioned strength was last assessed in 2006-07 and no revision was made despite increase in number of Units/Zones and also considering the sub-contracting of majority of the works. Moreover, officials have been taken on deputation even though the Company's own staff was more than the sanctioned strength.

Unsystematic distribution of work among units was made as works located 71 kms to 454 kms away were allocated to Units.

- The Manual (Para 17B) provides that the Managing Director of the Company shall organise and adopt yardsticks for distribution of works to various units to the best advantage of the Company keeping in view the cost considerations. We noticed that despite existence of a unit in the same district, works relating to that district were allocated to other units located 71 kms to 454 kms away from the place of work as given below:

Table No. 2.4

Name of work	Nearest available unit which was not given the work	Name of the unit to which far away work was given	Distance in kms between site of work and unit executing the work
College of Forestry, Kanpur	Kanpur	Noida	454
CSA University, Kanpur	Kanpur	Noida	454
ITI building, Raibareli	Raibareli	Lucknow-8	77
CHC, Jatuajapra, Raibareli	Raibareli	Lucknow-8	77
Mahamaya IT Polytechnic, Ramabai Nagar	Ramabai Nagar	Lucknow-14	130
Rudauli Non-residential building, Basti	Basti	Faizabad	71
IHSDP, Basti	Basti	Faizabad	71
Renovation in ITI Basti	Basti	Faizabad	71

The deployment of excess staff and unsystematic allocation of works among units was an indication of lack of proper manpower planning and absence of adequate internal control. Management, while accepting the audit observation, stated (September 2013) that territorial jurisdiction of units has now been defined.

Financial Management

2.26 Efficient fund management serves as a tool for decision making for optimum utilisation of available resources and borrowings at favourable term at appropriate time. The main source of finances of the Company are the funds received from clients for execution of deposit works. We scrutinised the management of funds by the Company with regard to above objectives and instructions/orders of Government/Board of Directors and the following deficiencies were noticed:

Arrears in finalisation of accounts

2.27 The accounts of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. The accounts of the Company were in arrears for the years 2011-12 and 2012-13 (September 2013). The main reason for arrears in accounts was delay in completion of basic records at unit level such as cost sheet³⁹.

³⁹ Cost sheet is a statement which depicts head-wise cost incurred by the Company on various works being executed by it.

Financial position and working results

2.28 Financial position and working results of the Company for the five⁴⁰ years up to 2011-12 have been depicted in **Annexure-12** and are summarised below:

Table No. 2.5

Particulars	(₹ in crore)				
	2007-08	2008-09	2009-10	2010-11	2011-12 (Provisional)
Net worth	24.55	55.57	74.49	42.50	51.92
Value of total available works ⁴¹	995.65	1044.10	2079.59	2290.22	1872.39
Value of target fixed for execution of work	450.00	450.00	750.00	1000.00	1100.00
Value of work done (VOWD)	354.13	528.43	733.99	912.70	586.61
Percentage of VOWD to total available works	35.57	50.61	35.3	39.85	31.33
Percentage of VOWD to target fixed for execution of works	78.7	117.43	97.87	91.27	53.33
Net Profit transferred to Balance Sheet	15.11	31.01	18.59	17.93	9.73
Interest received from banks	13.13	26.22	3.72	3.94	3.73
Interest earned on Government funds treated as liability	-	-	29.31	39.88	35.50
Percentage of net profit to VOWD	4.27	5.87	2.53	1.96	1.66

Source: Progress Report and Annual Accounts of the Company for the respective financial year.

Our analysis of the financial position and working results of the Company revealed the following:

- Up to 2008-09, the Company was showing interest earned on unutilised Government funds as its own income in violation of GoUP order (December 1993). However, at the instance of CAG's observation, the Company changed its accounting policy from 2009-10 and started treating this interest income as liability⁴². This was the main reason for decline in net profit of the Company from ₹ 31.01 crore in 2008-09 to ₹ 18.59 crore in 2009-10.
- In 2010-11, the Company also reversed the interest earned on unutilised Government funds which was treated as income of the Company during the period 2005-06 to 2008-09 amounting to ₹ 49.90 crore⁴³. As a result, the net worth of the Company decreased from ₹ 74.49 crore in 2009-10 to ₹ 42.50 crore in 2010-11.
- The percentage of net profit to value of work done increased from 4.27 per cent in 2007-08 to 5.87 per cent in 2008-09 but has steadily declined thereafter. After the Company started treating interest income as liability from 2009-10 onwards, the percentage of net profit to Value of work done declined. This indicates that actual profit from operation was on a declining trend.
- The sundry debtors of the Company were ₹ 11.67 crore in 2007-08 which reduced to ₹ 7.47 crore in 2011-12. The reason for reduction in sundry debtors was writing off of debtors of ₹ 6.51 crore in 2008-09 (discussed in Para 2.33).

Non-assessment of periodical requirement of funds

2.29 The Company executes deposit works after obtaining the funds from clients against the sanctioned cost of works. The funds are provided by the clients either at Head Office of the Company or to the executing Units. The funds provided by the clients are either kept in bank accounts or in the form of

⁴⁰ The figures for the year 2011-12 are based on Provisional Accounts.

⁴¹ Sanctioned cost of work-in-progress at the start of the year plus sanctioned cost of work received during the year.

⁴² As per GoUP Order (December 1993), interest earned on unutilised funds is to be credited to the Government, hence, such interest income was treated as liability by the Company.

⁴³ 2005-06- ₹ 2.52 crore, 2006-07- ₹ 8.03 crore, 2007-08- ₹ 13.13 crore and 2008-09- ₹ 26.22 crore.

term deposits based on assessment of requirement of funds. Financial prudence requires that surplus funds are invested in such a manner that maximum interest is earned without compromising liquidity of funds. The Board of Directors directed (June 2007) that management of the available finances of the Company should be done after ascertaining periodic requirement of funds in order to maximise interest earnings without affecting the progress of works. The status of available funds as on 31 March of the five years ending 2011-12 was as follows:

Table No. 2.6

(₹ in crore)

Particulars	Funds position as on 31 March of each year				
	2007-08	2008-09	2009-10	2010-11	2011-12 (Provisional)
Savings Accounts	64.84	127.41	266.54	221.70	245.70
Current Accounts	4.40	5.45	18.02	15.75	0.43
Fixed Deposits (FDs)	252.71	326.90	501.24	439.54	335.54
Total Funds	321.95	459.76	785.80	676.99	581.67
Per cent of funds in FDs to total funds	78.49	71.10	63.79	64.92	57.69
Per cent of funds in Savings Accounts to total funds	20.14	27.71	33.92	32.75	42.24
Per cent of funds in Current Accounts to total funds	1.37	1.19	2.29	2.33	0.07

Source: Balance Sheet of the Company for the respective financial year

The Company did not devise a system to identify surplus investible funds and parked huge funds in savings/current bank accounts.

We noticed that the Company has not devised any system to identify the surplus investible fund after ascertaining periodic requirement of funds. As a result, the Company failed to invest its funds in an optimum manner. It would be seen from the above table that the Company parked huge funds in saving bank accounts which increased from ₹ 64.84 crore in 2007-08 to ₹ 266.54 crore in 2009-10 and marginally decreased to ₹ 245.70 crore in 2011-12. The loss of interest due to parking huge funds in saving bank/current accounts has been discussed in Para 2.31.

The Management replied (September 2013) that the funds received by the Company were invested in fixed deposits/saving accounts in such a manner that maximum interest could be earned without affecting the progress of work. Further, large amount of funds are received in the month of March every year. Therefore, the percentage of funds invested in fixed deposits in comparison to total funds was not depicted correctly.

We, however, noticed in audit that the funds remained parked in savings bank accounts for period from four to six months after receipt in March every year.

Interest on Government funds

The Company could not contest arbitrary deduction of ₹ 1.62 crore by Health Department due to non-maintenance of department-wise/work-wise details of interest earned.

2.30 The Government of Uttar Pradesh (GoUP) order⁴⁴ (December 1993) *inter alia* stipulates that interest earned on deposit of funds withdrawn but not utilised due to unforeseen circumstances shall be credited to the Government.

It was observed that an amount of ₹ 119.09⁴⁵ crore being interest earned on unutilised Government funds was shown as liability in the Annual Accounts of the Company for the years 2005-06 to 2010-11⁴⁶. However, details of interest earned have not been maintained by the Company either department-wise or work-wise. In the absence of department or work-wise details of interest and non-maintenance of separate bank accounts, the Company has no details of interest income to be credited to various client departments. In a case study, we noticed that the Health Department released (May 2011) ₹ 4.17 crore only out

⁴⁴ No.138411/44-2/93-98/93 dated 4 December 1993.

⁴⁵ ₹ 49.90 crore (2005-06 to 2008-09), ₹ 29.31 crore 2009-10, ₹ 39.88 crore (2010-11) calculated on the basis of following formula- Interest on Government funds = Total interest earned-[(Share Capital + Free Reserves – Fixed Assets) x Average interest rates received on fixed deposits during the year/100].

⁴⁶ Accounts for the year 2011-12 are not yet finalised.

of sanctioned amount of ₹ 5.79 crore after deducting ₹ 1.62 crore for interest earned by the Company on funds of the Department received earlier. In the absence of department-wise/ work-wise details of interest, the Company could not contest the arbitrary deduction and accepted this deduction *in toto*.

The Management accepted (September 2013) that it did not have details of actual interest earned on the funds of Health Department and did not maintain department-wise/work-wise bank accounts during the period of audit. The Management further stated that the details of ₹ 1.62 crore deducted for interest earned by the Company were being sought from Health Department and department-wise bank accounts have now been opened. The fact remains that work-wise bank accounts have still not been opened.

Non- availing of flexi facility

2.31 The Banks provide minimal⁴⁷ interest on savings accounts but extend flexi facility to its savings/ current accounts customers on their demand wherein they provide interest rates applicable for term deposits on balances exceeding certain limits that may vary from bank to bank.

Additional interest of ₹ 67.17 lakh could not be earned due to not availing flexi facility in bank accounts.

We noticed that balances ranging from ₹ 25 lakh to ₹ 11.51 crore were lying in bank accounts between 2009-10 and 2011-12. Despite these huge balances, the Company did not avail flexi facility offered by banks on its accounts and as a result, the Company could not earn additional interest⁴⁸ of ₹ 67.17 lakh⁴⁹ during the period from 2009-10 to 2011-12 in case of 12 bank accounts test checked in audit.

The Management stated (September 2013) that flexi facility was not available in all the banks earlier. It further stated that all the banks are offering this facility now and as such instructions have been issued (February 2012) to avail this facility.

The reply is not acceptable as flexi facility in all these banks⁵⁰ was available during the period pointed out in audit.

Excess expenditure over fund received

2.32 As per the provisions of the Manual, expenditure on deposit works should be restricted to the extent of funds received from the clients. In order to ensure compliance of the above provision, the Company was required to maintain appropriate control records⁵¹ to show work-wise availability of funds.

The Company did not maintain such control records in the absence of which it had no mechanism to restrict the expenditure on works to the extent of funds received resulting in excess expenditure as mentioned below:

- In case of 45 running works as on March 2012 in six Units⁵², the Company incurred an expenditure of ₹ 104.11 crore against funds received of ₹ 73.97 crore resulting in blockade of its own funds of ₹ 30.14 crore.

⁴⁷ At the rate of 3.5 per cent per annum up to April 2011 and 4 per cent per annum thereafter.

⁴⁸ Additional interest = (Amount in excess of minimum balance remaining in bank accounts for more than lock-in period x Rate of interest applicable x period for which amount remained in bank account/100) – Actual interest earned.

⁴⁹ ₹ 24.43 (2009-10), ₹ 29.10 (2010-11) and ₹ 13.64 (2011-12).

⁵⁰ Allahabad Bank, Punjab National Bank, Oriental Bank of Commerce, Canara Bank and Union Bank of India.

⁵¹ As per para 511 and 512 of the Financial Handbook Volume-VI, Register of works containing details of sanctioned cost, funds received and expenditure incurred is to be maintained.

⁵² Unit-1, Sitapur; Unit-2, Allahabad; Unit-8, Lucknow; Unit-11, Faizabad; Unit-14, Lucknow and Unit-29, Gorakhpur.

Expenditure was not restricted to the extent of funds received from clients resulting in excess expenditure of ₹ 2.81 crore.

- In case of 180 works completed during the period 2007-08 to 2011-12, the Company received total funds of ₹ 126.13 crore. Out of this, ₹ 112.12 crore was meant for direct expenditure on works and balance ₹ 14.01 crore was the centage portion of the Company. The Company, however, incurred direct expenditure of ₹ 114.93 crore on these works resulting in excess expenditure of ₹ 2.81 crore. The excess expenditure was not even claimed from client Departments and was met by the Company from its centage, adversely affecting its own financial position.

The Management stated (September 2013) that majority of works were executed within the sanctioned cost. In some cases, it had to incur expenditure out of centage in view of the image of the Company since it is a commercial organisation.

The reply is not acceptable as incurring expenditure out of centage not only resulted in direct loss to the Company but was also against the provisions of the Manual which require that expenditure on any work should be restricted to the extent of amount deposited by the client. This also reflects absence of control over the expenditure due to non-maintenance of proper records and total lack of financial management of Government funds.

Write off of excess expenditure

The Company had to write-off ₹ 6.51 crore as bad debts during 2008-09 as it failed to recover excess expenditure from clients.

2.33 The Company had incurred excess expenditure of ₹ 6.88 crore⁵³ over funds received/sanctioned cost on 51 works⁵⁴ without prior approval of the clients. As the Company failed to recover the amount of excess expenditure, it had to write off ₹ 6.51 crore out of the total ₹ 6.88 crore during the year 2008-09 on account of bad debts.

This expenditure in excess of funds received/sanctioned cost was a clear violation of the provision of the Manual⁵⁵. Further, failure to restrict the expenditure incurred on a work to the extent of funds received without prior approval also indicates ineffective internal control mechanism.

The Management stated (September 2013) that necessary instructions have been issued in this regard.

Non-refund of unspent fund to clients

Unspent balance of ₹ 2.64 crore was not refunded to respective clients.

2.34 The Manual (Para 39) stipulates that after completion of each work, the clients should be intimated about the total expenditure incurred on the works and if any amount remains unspent, the same should be refunded to them.

We noticed that 129 works sanctioned for ₹ 73.75 crore were completed at a cost of ₹ 71.11 crore but the unspent balance of ₹ 2.64 crore ranging between 1.5 per cent and 10.71 per cent of funds received (**Annexure-13**) had not been refunded to the clients.

The Management stated (September 2013) that most of the works were incomplete and expenditure on these works had been made in later years also. After completion of works, bill shall be finalised and any surplus fund shall be returned to client departments after taking decision at the competent level.

The reply of the Management is not acceptable as the cases pointed out in audit relate to completed works only where unspent fund had been accounted for and included in profit of the Company.

⁵³ Irrigation Department - ₹ 6.28 crore; Other Departments - ₹ 0.60 crore.

⁵⁴ Nature of works: Construction of tubewells, bunds, passage, drain work, canal work etc.

⁵⁵ Para 39 of the Manual provides that the expenditure on a work should be restricted to the extent of funds received from the client.

Some individual interesting cases

Violation of Insecticides Act, 1968

2.35 As per the provisions of Section 13 of the Insecticides Act, 1968 and Rule 10(3A)(i) of the Insecticides Rules, 1971, a person who desires to undertake commercial pest control operation with the use of any insecticide has to obtain a license from the licensing officer. Thus, anti-termite treatment being a work of specialised nature, should be got done through specialised firms having valid license and requisite expertise and experience.

The work of anti-termite treatment was got done through persons not having valid license violating the provisions of the Insecticides Act, 1968.

We noticed that seven units⁵⁶ of the Company, in case of 41 works, awarded the work of anti-termite treatment to sub-contractors executing civil works during 2007-08 to 2012-13 and paid ₹ 22.35 lakh to them, instead of getting the same done from specialised firms having valid license. Since the sub-contractors did not hold valid licenses for commercial pest control operations, they were not authorised to execute the said work. We, however, observed that Agra Unit of the Company got the work of anti-termite treatment done through specialised firms.

The Management stated (September 2013) that necessary instructions have been issued (September 2013) to Units to carry out the work through licensed firms.

Avoidable payment on appointment of third party consultants

2.36 As per best practices adopted by Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN), material testing charges are deducted from the bills of sub-contractors for which a suitable clause is incorporated in the agreements itself.

The construction agencies also arrange third party inspection at the request of the client departments. Since the Manual does not provide for appointment of third party consultants (TPCs) and their appointment entails extra expenditure on payment of their fee, it should be ensured that appointment of such consultants is strictly in accordance with the terms and conditions of agreement/MOU executed with the client departments and their fee is paid by the client departments.

Third Party Consultants were appointed without request from clients and avoidable expenditure of ₹ 1.15 crore was incurred on their fee.

We noticed that the Company appointed TPCs on a fee ranging from 0.3 per cent to one per cent of cost of work done, to undertake quality control of 80 works of various departments⁵⁷ and incurred an expenditure of ₹ 1.15 crore thereon.

The payment of fee to TPCs amounting to ₹ 1.15 crore could not be recovered from the client departments in absence of a suitable clause in the agreement.

The Management stated (September 2013) that appointment of third party consultants has now been stopped.

Non-deposit of Building and Other Construction Workers' Welfare Cess

2.37 Under Section 3 of the 'Building and Other Construction Workers' Welfare Cess Act, 1996' (Act), Cess is to be levied and collected from the employer at the rate of not less than one per cent, of the cost of construction incurred by an employer. The Building and Other Construction Workers' Welfare Cess Rules, 1998 (Rules) provide that where the levy of Cess pertains to building and other construction work of a Government or of a PSU, such

⁵⁶ Unit-1, Sitapur; Unit-5, Ghaziabad; Unit-8 Lucknow; Unit-11, Faizabad; Unit-14, Lucknow; Unit-29, Gorakhpur and Unit-36, Noida.

⁵⁷ Deposit works of following departments: Health, Family welfare, Revenue, Basic and Secondary Education, Higher Education, Home, Sports and Youth Welfare, Panchayati Raj, Minority Welfare and Technical Education.

Government or the PSU shall deduct or cause to be deducted the Cess payable at the notified rates from the bills paid for such works. Section 8 of the Act specifies that if the employer fails to pay the Cess, he will be liable to pay interest on the amount to be paid at the rate of two *per cent* for every month or part of the month from the date on which such amount is due till such amount is actually paid.

The aforesaid Act and Rules were made applicable (February 2009⁵⁸) in the State of Uttar Pradesh by notifying (February 2009) the Uttar Pradesh Building and Construction Workers (Regulation of Employment and Conditions of Service) Rules, 2009 by the State Government. The State Government also constituted (November 2009⁵⁹) the Uttar Pradesh Building and Other Construction Workers' Welfare Board (Welfare Board). The State Government also clarified (February 2010⁶⁰) that the amount of Cess shall be deducted from the bills and deposited with the Welfare Board in the same manner and spirit as is done in case of income tax deducted at source.

There are two methods by which the Company executes construction works:

- By engaging sub-contractors.
- Without engaging contractors i.e. by procuring necessary material and engaging necessary labour itself.

In both conditions it was the responsibility of the Company to deposit the cess with the Welfare Board and deduct the same from the bills of contractors wherever applicable.

The Company did not deposit labour cess of ₹ 9.34 crore with the Welfare Board in violation of the 'Building and Other Construction Workers' Welfare Cess Act, 1996'.

We noticed that the Company incurred an expenditure of ₹ 934.13 crore (₹ 425.83 crore departmentally and ₹ 508.30 crore through sub-contractors) on construction work during the period April 2009 to December 2012 but did not deposit Cess of ₹ 9.34 crore (₹ 4.26 crore on departmentally executed works and ₹ 5.08 crore on works executed through sub-contractors). The failure of the Company to deposit the amount of Cess resulted in non-compliance with the provisions of the Act and consequently non-augmentation of the resources of the Welfare Board. Besides, the Company also became liable for paying interest and penalty on the defaulted amount.

The Management stated (September 2013) that in case of old works, provision for labour cess was not made in the estimates hence, Cess could not be deposited. It further stated that at present, provision for Cess is being made and Cess is being deposited in all works.

The reply of the Management is not acceptable as the Company was required to ensure compliance of the Act since February 2009.

Internal Control and Internal Audit

2.38 Internal control is a process designed to provide reasonable assurance for efficiency of operations, reliability of financial reporting and compliance of applicable rules and regulations for achieving the objectives in an efficient and effective manner.

Improper maintenance of basic records

2.39 Financial Hand Book (Para 434) and the Manual (Para 492) provide that payments for all works done which are susceptible of measurement and for all

⁵⁸ Notification No. 143/36-2-2009-251 (एसएम)/95 dated 4 February 2009.

⁵⁹ Notification No. 1411/36-2-2009-251(एसएम)/95 dated 20 November 2009.

⁶⁰ Order No. – 392/36-2/2010 dated 26 February 2010.

supplies, should be made on the basis of measurements recorded in Measurement Books (MBs).

Further, the Manual (Para 161) stipulates that Material Consumption Statement (MCS) for all works in a unit shall be prepared by the unit in-charge at the completion of work and at the end of every financial year.

The Company did not maintain index of MBs and did not prepare Material Consumption Statement after completion of work.

We noticed that the Company recorded measurements of one work in several MBs without maintaining index of MBs⁶¹. Further, Work Registers⁶² (containing details of receipts and expenditure of funds of individual works) were not maintained. Thus, due to recording of measurements of a single work in MBs ranging from nine to 21 and in the absence of any summary made by the Units mentioning MB numbers and page numbers of MBs where measurement relating to a particular work was recorded, exhaustive examination of works executed *vis-à-vis* their estimates could not be done in Audit. Moreover, due to above, the following essential components of internal control mechanism were not effectively enforced by the Company:

- Total quantity of actual work executed could not be compared with the bill of quantity provided in the estimates.
- Material Consumption Statement after the completion of work and at the end of the year as required in the Manual⁶³ could not be prepared by the Company. Therefore, the total consumption of material in a work could not be compared with theoretical consumption worked out in the estimates.
- Instances of double payment cannot be easily detected.
- Manipulation in MBs may be possible in view of deficiency in maintaining MBs.

We noticed that only Unit-4, Agra in works of Community Health Centre, Ankola, Community Health Centre, Bichpuri, Office of Additional Director Health, Agra and District Female Hospital had maintained separate MBs⁶⁴ for recording of measurement of works.

The Management stated (September 2013) that instructions have now been issued to Units to maintain separate MBs for big works and mention therein the details of materials consumed after completion of work.

2.40 We noticed that the internal control mechanism prevalent in the Company was inadequate and ineffective which resulted in the following losses to the Company:

- Excess payment to sub-contractors due to allowing higher rates than the rates of UPPWD SOR of the concerned districts. **(Para 2.17)**
- Irregular release of advances to sub-contractors and non-recovery thereof. **(Para 2.19)**
- Non-payment of royalty on materials used in construction leading to loss to State exchequer. **(Para 2.24)**
- Expenditure out of centage on execution of works. **(Para 2.32)**
- Excess expenditure over funds received from the clients resulting in creation of bad-debts and their write-off. **(Para 2.33)**

⁶¹ As required in Para 435 (g) of Financial Hand Book Volume-VI.

⁶² As required in Para 511 and 512 of Financial Hand Book Volume VI.

⁶³ Para 160, 166, 169.

⁶⁴ MB No. - 6634 for measurements and MB No. - 6628 for payment of work.

Internal audit

2.41 The Company does not have its own internal audit wing and has outsourced the work of internal audit to firms of Chartered Accountants. We noticed that the internal audit was conducted only up to 2010-11 and was in arrear since then. The internal audit reports were of routine nature and no major irregularity was reported by the internal auditors.

Conclusion

Though, the Company was set-up with the main objective to carry on the business as general and Government contractors, to submit tenders for works and undertake construction work of every nature, our review of the performance of the Company revealed that the Company was entirely dependent on deposit works directly awarded by various Government Departments and did not participate in tenders to obtain works. During the period reviewed by us, only eight *per cent* of the completed works were executed directly through its own staff, whereas remaining 92 *per cent* were got executed through sub-contractors.

Deficiencies in the execution of works were noticed relating to irregular grant of technical sanction, by-passing prescribed procedure, incorrect preparation of estimates and excess payment to sub-contractors. The Company released interest free advances to sub-contractors without adjustment of previous advances or obtaining bank guarantees. The actual manpower was much in excess of the sanctioned strength. Cement was procured from local suppliers on higher rates instead of entering into Rate Contract. The financial management was also found to be deficient as expenditure on works incurred was in excess of the fund received in number of cases. The surplus available funds were not judiciously invested. Work registers containing details of receipt/expenditure of funds of individual works were not maintained. The Company failed to deposit labour cess regularly and made itself liable for payment of penalty. Internal controls relating to financial management, execution of works and procurement of materials were also found to be deficient.

Recommendations

- The Company should strictly adhere to the prescribed procedures for execution of works, engagement of architects and payment of architect fee;
- Advances to sub-contractors should be made as per laid down procedure;
- The financial management needs to be streamlined to ensure that expenditure incurred on works does not exceed the funds received/sanctioned cost and also to invest its surplus funds judiciously in order to maximise the yield; and
- The Company should strengthen its internal control mechanisms relating to financial management, execution of works, procurement of materials and maintenance of necessary control records.