

CHAPTER-II

ECONOMIC SECTOR

2.1 Introduction

The findings based on audit of State Government units under Economic Sector feature in this chapter.

During 2013-14, against total budget provision of ₹17,923.10 crore, total expenditure of ₹10,690.58 crore was incurred by 18 departments under Economic Sector. Department-wise details of budget provision and expenditure incurred thereagainst are shown in *Appendix-2.1*.

Besides, the Central Government has been transferring a sizeable amount of funds directly to the implementing agencies of the State Government for implementation of flagship programmes of the Central Government. During 2013-14, out of total major releases¹ of ₹14,685.03 crore, ₹6,452.36 crore were directly released to different implementing agencies under Economic Sector. Details are shown in *Appendix-2.2*.

2.1.1 Planning and conduct of Audit

The audits were conducted during 2013-14 involving expenditure of ₹7,823.08 crore of the State Government under Economic Sector. This chapter contains five Compliance Audit Paragraphs.

The major observations detected in audit during the year 2013-14 are given below.

COMPLIANCE AUDIT

Irrigation Department

2.2.1 Wasteful expenditure

Injudicious decision of the Executive Engineer, Irrigation Division, Jorhat to execute a work without ensuring availability of land led to a wasteful expenditure of ₹78.62 lakh.

State Government accorded (March 2007) an administrative approval for ₹1.38 crore to the work "Construction of Kachajan Flow Irrigation Scheme (FIS) at Tekelagaon, Titabor under RIDF-XI of NABARD". The scheme envisaged the construction of a Headwork across the Kachajan river with the Head regulator on the right bank along with a network of canals to irrigate surrounding areas of 400 hectares. Technical

¹ Release worth ₹one crore and above.

sanction of the work was accorded (September 2007) for ₹1.32 crore. The work was allotted to a number of contractors between November 2007 and January 2010 at a tendered value of ₹1.22 crore to be completed within 45 days from the date of written order. As of January 2014, an expenditure of ₹78.62 lakh was incurred on the work with a physical progress of 65 per cent.

Audit of records (February-March 2014) of the Executive Engineer (EE), Jorhat Irrigation Division revealed that the construction of the Head work and Head regulator was allotted (November 2007) to a contractor at a tendered value of ₹81.50 lakh with the stipulation to complete the work within May 2008. Further examination revealed that, although major portion of construction of the head work involved construction over the river, some piece of land on either bank of the river was also required. The division however, did not moot any proposal for the acquisition of the land prior to execution of work presuming it to be Government land. During the course of execution, work on the left bank could not be commenced due to objections from some villagers who claimed that the land belonged to them. The matter remained unresolved till March 2008 and a suit was filed by the aggrieved land owners in the Court² to settle the case. In March 2012, the ownership of the said land was decided by the Court in favour of the land owners since Government's contention regarding acquisition of the land was not established. The Department did not appeal in the Higher Court against the judgment. The work remained incomplete till the date of audit (March 2014). During physical verification by Audit (March 2014), it was seen that construction work was evidenced only on the Head work and on the right bank.



***Only right side Guide bund of Head Work
(4 March 2014)***



***Construction of Head Work
(4 March 2014)***

On this being pointed out, the EE stated (March 2014) that the scheme had been halted due to judgment of the Court (March 2012) against the Department. Further, the EE in May 2014 admitted that although the work had been abandoned, the balance work had been proposed for sanction and completion under RIDF. The reply was not tenable as (i) the Department failed to assess and acquire the required land while initiating the project, (ii) there was no possibility of release of fund for the balance work by NABARD under RIDF beyond the scheduled date of completion; and (iii) fund from

² District Munsiff No. 1, Jorhat.

any other source would also not help, as the required land would not be available for the project until it was acquired.

Thus, injudicious decision on the part of the Executive Engineer, Irrigation Division, Jorhat to commence/execute a work without ensuring availability of land, led to a wasteful expenditure of ₹78.62 lakh as the work remained abandoned for more than five years from the stipulated date of completion and the possibility of its completion was remote.

The matter was reported to the Government in July 2014; their reply had not been received (December 2014).

Public Works Department

2.2.2 Excess expenditure and non-realization of liquidated damage

The Executive Engineer, Udalguri Rural Road Division incurred excess expenditure of ₹97.02 lakh on the work – “Improvement of Koirabari MPK Road” in Udalguri district and failed to realize liquidated damage amounting to ₹2.57 crore on account of violation of the terms of contract.

The work - öImprovement of Koirabari MPK Road (Andherighat) to Harisinga via Bhergaon Tangla and Purandia (chainage 0.00 m to 34,249.00 m)ö under Udalguri Rural Road Division was administratively approved (March 2007) at a cost of ₹26.50 crore by Secretary, Bodoland Territorial Council under Non-Lapsable Central Pool of Resources (NLCPR). Technical Sanction (TS) to the work was accorded (February 2008) for the same amount. The work was split up into seven groups and awarded (May 2007 to December 2011) to the lowest bidders of each group for completion between eight and 24 months from the date of award. Work of six out of the seven groups (except group C) was completed between August 2009 and February 2013 on which expenditure of ₹25.40 crore³ was incurred till May 2013.

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Group	Chainage	Name of contractor	Original tender value (₹ in lakh)	Date of issue of Work order	Date of Commencement	Target date of completion	Actual date of completion	Amount paid (₹ in lakh)
A	0-5,000 m	G.K. Basumatary	275.40	13.06.07	18.06.07	18 months (12.12.08)	Left incomplete	155.52
A (Balance work)	0-5,000 m	R. Mochahari	127.26	08.12.11	11.12.11	8 months (07.08.12)	07.09.12	126.37
B	5,000 m to 12,000 m	R.K. Jain	476.97	25.07.07	25.07.07	24 months (24.07.09)	31.12.09	462.43
C	12,000 m to 19,000 m	P. Dey	526.72	12.05.07	12.05.07	24 months (11.05.09)	In progress	512.58
D	19,000 m to 27,000 m	J. Brahma	454.73	07.06.07	07.06.07	24 months (06.06.09)	20.08.09	454.38
E	27,000 m to 30,000 m	P.K. Ojha	204.53	04.06.07	04.06.07	18 months (03.12.08)	03.04.11	223.85
F	30,000 m to 33,500 m	N. Basumatary	405.51	07.06.07	07.06.07	24 months (06.06.09)	28.02.13	377.34
G	33,500 m to 34,249 m	J. Brahma	227.66	21.09.07	21.09.07	24 months (20.09.09)	12.03.12	227.61
Total								2,540.08

Source: Information collected through beneficiary survey.

Examination (April - May 2013) of the records of Executive Engineer, Udalguri Rural Road Division revealed the following:

(A) Excess expenditure of ₹97.02 lakh

The estimate of the work was prepared on the basis of Schedule of Rates (SOR) (Road, Bridge and Culvert works) 2005-06. According to para 7.2 of Basic Notes for Preparation of SOR 2005-06, the rates of material included basic cost at locations of stone crushers, loading, unloading, cost for carriage and stacking at plant sites. Further, provisions of the SOR also provided that the rates of quarry material were fixed after considering an initial lead of 5 km from the quarry. As such, estimated costs of the items of work involving quarry material were needed to be arrived at excluding the carriage cost of initial lead up to 5 km from quarry as well as loading and unloading charges.

Scrutiny, however, revealed that the estimated unit rates for the items of GSB, WBM-II and III, OGPS and PSC⁴, which involve quarry material, were worked out without deducting the carriage cost of initial lead up to 5 km from quarry and loading and unloading charges. This had inflated the estimated cost, which led to an excess expenditure of ₹97.02 lakh as shown in Table 2.1.

Table 2.1

(In ₹)

Item of work	Quantity executed (In cum)	Rate allowed in estimate (Per cum)	Allowable rate as per SOR (Per cum)	Difference (3-4)	Excess expenditure (2 X 5)
1	2	3	4	5	6
GSB	29464.505	1271.93	1112.88	159.05	46,86,330
WBM-II	11848.468	1756.34	1570.24	186.10	22,05,000
WBM-III	12053.847	1795.88	1612.81	183.07	22,06,698
OGPS	154421.224	91.38	88.45	2.93	4,52,454
Seal coat	154421.224	32.46	31.48	0.98	1,51,333
Total					97,01,815

Source: Information collected through beneficiary survey.

In reply, the EE stated (June 2014) that there was no excess expenditure as objected by audit, rather there was a saving of ₹6.37 lakh as per allowable rate on the basis of SOR. The fact however remained that as per the allowable rate worked out in audit based on the approved DPR, the item rates of the sanctioned estimate involving quarry material were inflated due to non-deduction of carriage cost of initial lead up to 5 km from quarry and loading and unloading charges, which resulted in an excess expenditure of ₹97.02 lakh.

(B) Non-realization of liquidated damage of ₹2.57 crore

The contract provided that in case of delay in completion of the work, liquidated damages up to 10 per cent of the estimated value of the work was recoverable from the defaulting contractors. Scrutiny, however, revealed that neither any extension of

⁴ Granular Sub-base (GSB), Water Bound Macadam (WBM), Open Graded Premix Surfacing (OGPS) and Premix Seal Coat (PSC).

time was granted to the contractors nor the penalty towards liquidated damage totaling ₹2.57 crore (10 per cent of ₹25.72 crore) was realised from the contractors although the work was delayed for a period ranging from 2 to 48 months. It was also seen that the work of one group (chainage 12,000 m to 19,000 m) remained incomplete as of May 2013 despite a lapse of four years from the scheduled date of completion (May 2009). Although final bills from the contractors of all the groups were awaited (May 2013), payments ranging between 93 and 100 per cent were already made leaving hardly any scope of recovery of the liquidated damages.

The EE in reply stated (June 2014) that the delay was due to frequent bandh call and insurgency problem. It was also stated that the contractors were granted extension of time in accordance with the application received from them seeking extension, so question of imposing liquidated damage did not arise. No supporting documents viz., application of the contractors seeking extension of time, grant of extension etc., were however enclosed with the reply. In the absence of the same, veracity of the reply could not be confirmed. Further, reason for delay as shown by the EE was not tenable as one (Group -D) out of the seven groups could complete the work after a delay of only two months under the same working conditions.

Thus, the Executive Engineer, Udalguri Rural Road Division besides incurring excess expenditure of ₹97.02 lakh on the work, also failed to realize liquidated damage amounting to ₹2.57 crore from the contractors, which was leviable in terms of the contract.

The matter was reported to Government in February 2014; their reply had not been received (December 2014).

2.2.3 Loss to Government

Failure to safeguard the interest of the Government while granting advances for the work by the Chief Engineer resulted in loss to Government to the tune of ₹3.82 crore as advances made to the contractor became irrecoverable.

Chief Engineer (CE), Public Works Department (PWD), Roads allotted (February 2009) the work of Construction of road (i) Sildubi to Gagalmari: Ch. 0 to 2.30 km (ii) Dhekiaphala to Karatipam: Ch. 0 to 5.30 km (iii) Santipur to Nelie via Muladhari: Ch. 0 to 4 km (iv) Garmari Bangalpara to Sutiapara: Ch. 0 to 4 km (v) Paliguri to Azari: Ch. 0 to 5.310 km (vi) Jhargaon Khaloni to Garumara Doloni: Ch. 0 to 4.71 km and (vii) Kumopi to Ghagua: Ch. 0 to 2.60 km. The work included cross drainage works and routine maintenance of works for five years under Prime Minister's Gram Sadak Yojana (PMGSY). The works were awarded to a contractor at a tendered value of ₹25.56 crore with the stipulation to complete the work within

24 months *i.e.*, within February 2011. It was noticed that as of June 2014, an expenditure of ₹3.82 crore⁵ was incurred on the work with physical progress of five *per cent* only.

Audit of records (August 2013) of the Superintending Engineer, PWD (HPIU), Nagaon Road Circle, Nagaon revealed that according to the terms of the contract agreement mobilisation advance up to 5 *per cent* and Equipment/Machinery advance up to 90 *per cent* of the cost of new equipment brought to the site, subject to a maximum of 10 *per cent* of the contract price was payable to the contractor against unconditional Bank Guarantee (BG) to be furnished by the contractor from a Scheduled or Institutional Bank.

Accordingly, an amount of ₹3.82 crore was paid (May 2009) to the contractor being Mobilisation Advance (MA) (₹1.28 crore) and Equipment/Machinery Advance (EA) (₹2.54 crore) against two Bank Guarantees of the similar amount valid up to 20 April 2011. Both the BGs were in the name of öUdyogik Samabai Bank Ltd.ö, Jorhat. Although the contractor started the work in February 2009, the physical progress of the work achieved (July 2010) was only five *per cent* and as a result the contract was terminated in September 2010. Consequent upon the termination of the contract, the CE requested (September 2010 and March 2011) guarantor bank to remit the entire amount of ₹3.82 crore as the BGs had been forfeited by the department. The guarantor bank in reply (23 March 2011) to the CE showed inability to release the BGs till settlement of the dispute in termination of the contract as contended by the contractor from time to time.

Similar other cases relating to the Udyogik Samabai Bank Ltd., which were under litigation, were taken up (February 2010) by the CE, PWD (Roads) with the Reserve Bank of India (RBI) for non-payment of BG amounts due to Government after repeated requests. The RBI in March 2010 informed that the Udyogik Samabai Bank Ltd., Jorhat was not a bank but a Samity only which was also confirmed during the visits made to the Bank by the EE, PWD, Jorhat (August 2011 and January 2013).

Thus, payment of advances made to the contractor without safeguarding the interest of the Government by not ensuring the receipt of bank guarantees from the Scheduled Bank as envisaged in the standard PMGSY documents/guidelines, led to a loss to the tune of ₹3.82 crore (₹1.28 crore MA + ₹2.54 crore EA) as the advances made became irrecoverable.

The matter was reported to Government in July 2014; their reply had not been received (December 2014).

⁵ Expenditure towards Mobilisation (₹1.28 crore) and Equipment Advance (₹2.54 crore).

2.2.4 Loss due to fraudulent bank guarantee

Failure to confirm the authenticity of the Bank Guarantees before allowing advance payments by the Lakhimpur State Road Division and to exercise validity checks for timely renewal of the same led to a loss of ₹1.95 crore.

(A) The Chief Engineer (CE), Public Works Department (Roads), Assam entered into an agreement (February 2009) with a contractor for Construction of road from Alimur Dangdhara to Tulsijan Road under Prime Minister's Gram Sadak Yojana (PMGSY) for the year 2007-08 (Package No. AS-15-65) at a tendered value of ₹9.81 crore with the stipulation to complete the work within 18 months from the date of receipt of work order *i.e.*, by August 2010. The terms of contract *inter-alia* provided for payment of mobilization advance up to 5 per cent and equipment advance up to 90 per cent of the cost of new equipment brought to the site subject to a maximum of 10 per cent of the contract price excluding the contract price of routine maintenance.

Scrutiny of records (August-September 2013) of the Superintending Engineer (SE), PWD (HPIU), North Lakhimpur Road Circle, North Lakhimpur revealed that an amount of ₹1.47 crore was paid (April 2009) to the contractor by the Executive Engineer (EE), PWD, Lakhimpur State Road Division towards Mobilisation Advance (₹0.49 crore) and Equipment Advance (₹0.98 crore). The advances were paid to the contractor against the Bank Guarantees (BGs) of equal amounts submitted by the contractor which were valid up to April 2010 and May 2011 respectively. The work was finally cancelled (December 2012) due to slow progress after completion of 21 per cent of works. Meanwhile, an amount of ₹74.76 lakh out of the advance of ₹146.55 lakh was adjusted from the bills preferred by the contractor from time to time. The EE, subsequent to the cancellation of the contract approached (April 2013) the Guarantor Bank (35 months and 22 months after the dates of expiry of the two BGs) to withhold the amount of BGs lying at the credit of the contractor in order to recover the balance amount of ₹71.79 lakh (₹146.55 lakh ó ₹74.76 lakh). The Bank, however, intimated (April 2013) that no such Bank Guarantees were issued by them to the contractor.

(B) Similarly, the work Construction of road from Bahpara to Giamoria and Alimur Dandhara to Tulshijan including Cross drainage works and routine maintenance of the works for five years under PMGSY 2006-07 (Package No. AS-15-40) was awarded (September 2007) to a contractor at a tendered value of ₹9.66 crore. The work was scheduled to be completed within 9 months from the date of receipt of work order *i.e.*, by May 2008.

Scrutiny of records (August-September 2013) of the SE, PWD (HPIU), North Lakhimpur Road Circle, North Lakhimpur revealed that an amount of ₹134.65 lakh was paid (March-April 2008) to the contractor towards Mobilisation Advance (₹47 lakh) and Equipment Advance (₹87.65 lakh). The advances were paid to the contractor against the Bank Guarantees of ₹47 lakh and ₹94 lakh respectively

submitted by the contractor which were valid up to November 2009. However, the work was finally cancelled (December 2012) due to slow progress after the completion of only 24 *per cent* of the work. Meanwhile, an amount of ₹11 lakh out of the advance of ₹134.65 lakh was adjusted from the bills preferred by the contractor from time to time. After the dates of expiry (41 months) of the BGs, the EE approached (June 2013) the Guarantor Bank to withhold the amount of BGs lying at the credit of the contractor in order to recover the balance amount of advance of ₹123.65 lakh (₹134.65 lakh ó ₹11.00 lakh). The Bank, however, in July 2013 intimated that it had not issued any of such Bank Guarantees to the contractor.

As per PMGSY Manual, the authenticity of BG should be verified by the Divisional Officer with the issuer before accepting the same. However, in the instant cases, it was evident that the authenticity of both the above mentioned BGs was not verified by the EE concerned.

Thus, failure to confirm both the authenticity of the Bank Guarantees before allowing advance payments by the EE and the validity checks for timely renewal of the same, led to a loss of ₹195.44 lakh (₹71.79 lakh + ₹123.65 lakh) and deprived the Government of an opportunity to recover its dues before the works were rescinded due to slow progress.

The matter was reported to the Government in March 2014; their reply had not been received (December 2014).

2.2.5 Unproductive expenditure

Construction of RCC Bridge by the Hailakandi Rural Road Division without adequate survey and proper planning for the approaches to the bridge rendered the expenditure of ₹4.19 crore incurred unproductive.

Rule 304 of Assam Public Works Department Manual envisages that ñno work should be commenced on land, the possession of which has not been duly delivered by responsible civil (revenue) authoritiesö.

Government of Assam (GOA) accorded (November 2006) administrative approval to the work ñConstruction of RCC Bridge over Katakhal on Srikona-Mohanpur Road including approaches and protection works under RIDF-XI of NABARDö for ₹5.33 crore. The objective was to provide accessibility to a number of arterial roads around the locality and thereby increasing the mobility of rural people. The work was awarded (March 2007) to a contractor at a tendered value of ₹4.83 crore with the stipulation to complete the work within 15 months.

Scrutiny (November 2013) of records of the Executive Engineer, PWD, Hailakandi Rural Road Division revealed that the work of the bridge proper including 40 *per cent* of the approaches was completed in November 2011 at an expenditure of ₹4.19 crore. The reason



Incomplete approach and protection work of RCC bridge over Katakhal River on Srikona-Mohanpur Road (17-11-2013)

for delay in completion was attributed to the issue relating to land acquisition. As land compensation was not paid in time, some of the land owners submitted a Writ Petition before the Gauhati High Court seeking justice. Since construction of the remaining 60 *per cent* of the approaches and protection work was not possible before finalization of the court case, the work was foreclosed without completion in June 2013.

Thus, construction of the bridge proper without adequate survey and ensuring availability of land for the approaches before sanction/execution of work, rendered the entire expenditure of ₹4.19 crore incurred unproductive.

The matter was reported to Government in April 2014; their reply had not been received (December 2014).