

CHAPTER – V

Department of Science and Technology

5.1 Avoidable expenditure towards price escalation

Indian Association for the Cultivation of Science, Kolkata incurred avoidable expenditure of ₹ 52.78 lakh and further liability of ₹ 31.01 lakh towards price escalation in the execution of a short term contract.

Rule 204 (viii) of the General Financial Rules, 2005, stipulates that a Price Variation Clause (PVC) can be provided only in long-term contracts where the delivery period extends beyond 18 months. Firm and fixed prices should be provided for in short-term contracts. In case where the PVC is provided, it should specify cut off dates for material and labour, ceiling on price variations and a minimum percentage of variation of the contract price above which price variations will be admissible.

The Indian Association for the Cultivation of Science, Kolkata (IACS), a scientific research institute under the Department of Science and Technology (DST), awarded (March 2009) the work of construction of upper three floors of its Library Building to M/s Hindustan Steelworks Construction Limited, Kolkata (HSCL), at a cost of ₹ 6.45 crore for completion within 18 calendar months from the date of commencement of work. The site was handed over to the contractor in April 2009 and the work was thus to be completed by October 2010. The work order included a clause providing for Price Variation Adjustment (PVA) due to increase or decrease in the cost of materials and labour on the work executed during the contract period including extensions.

The work was completed in June 2013 after delay of more than two and half years. IACS granted extension of time to HSCL on six occasions for different periods ranging from two to nine months after considering that the said delays were not attributable to the contractor. IACS released ₹ 6.71 crore to HSCL up to February 2017 towards execution of the work.

HSCL claimed a total amount of ₹ 83.79 lakh towards price variation out of which ₹ 52.78 lakh was paid by IACS and the remaining ₹ 31.01 lakh was approved for payment as of February 2017.

Audit observed that inclusion of the PVA clause in a short term contract with duration of less than 18 months was in violation of the GFRs. Further, grant of extensions to the contractor were justified by citing delays on the part of IACS in providing space for execution of work, finalisation of internal layout of electrical works and non-completion of works not within the scope of work of HSCL which was indicative of lack of due attention on the part of IACS in ensuring timely completion of activities

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necessary to avoid cost overrun. This contributed to the price escalation to the extent of ₹ 83.79 lakh.

IACS stated (June 2017) that it was a long term contract as actual date of completion was 18 months. The reply is not tenable as the work order envisaged completion by 18 months and PVA clause could be incorporated only in contracts entered for completion period of more than 18 months.

The matter was reported to the DST in June 2017; their reply was awaited as of December 2017.