कार्यालय प्रभाव निदेशक लेखापरीक्षा (केंद्रीय) लखनऊ,
शाखा कार्यालय इलाहाबाद

"सत्यनिष्ठा भवन" 15-ए, दयानंद मार्ग, इलाहाबाद-211001

पत्रांक: ल.प.(कैंस.)/ए.सी.सेल/ए.टी.आई./2015-16/01
दिनांक: 09.10.2015

सेवा में,

अध्यक्ष
उत्तर प्रदेश वाटर सेक्टर रिस्ट्रेक्चरिंग प्रोजेक्ट
वालीभावना, उतरेटिया
लखनऊ -226026

विषय: वर्ष 2014-15 के लिए विश्व बैंक सहायता परियोजना के लेखा परीक्षा प्रमाण पत्र निर्माता किये जाने के सामने में।

महोदय,

उपरोक्त विषयक आपके कार्यालय के वर्ष 2014-15 के लिए विश्व बैंक सहायता उड़ प्रोजेक्ट वाटर सेक्टर रिस्ट्रेक्चरिंग प्रोजेक्ट का लेखा परीक्षा प्रमाण पत्र अशीम कार्यावाही हेतु आपको प्रेषित किया जा रहा है।

यह पत्र प्रधान निदेशक, लेखापरीक्षा (केंद्रीय) के अनुमोदन के उपरांत निर्माता किया जा रहा है।

संलग्नक: उपस्थितानुसार।

भवदीय

(मिश्रितकार गौतम)
उप निदेशक लेखापरीक्षा (केंद्रीय)
Report on the Project Financial Statements

We have audited the accompanying financial statements of the "U.P. Water Sector Restructuring Project" financed under World Bank Cr. No. 5298-IN. which comprise the Statement of Sources and Applications of Funds and the Reconciliation of claims to total Applications of Funds for the Financial Year 2014-15. These statements are the responsibility of the Project's management. Our responsibility is to express an opinion on the accompanying financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards promulgated by the Comptroller and Auditor General of India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement our audit examines; on the test basis, evidence supporting the amount and disclosures in the financial statements.

It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe the audit provides a reasonable basis for our opinion.

In addition, in our opinion,

(a) With respect to Interim Financial Report (IFR), adequate supporting documentation has been maintained to support claims to the World Bank for reimbursement of expenditure incurred and (b) except for ineligible expenditure as detailed in the audit certificate to this audit report, expenditures are eligible for financing under the Credit Agreement 5298-IN.

During the course of audit, IFR and the connected documents were examined and these can be relied upon to support reimbursement under the aforesaid Credit Agreement.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Application No.</th>
<th>Total expenditure (₹ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>16 / PACT/ Claim / 15-16 Dated : 22 April, 2015</td>
<td>1600.789</td>
</tr>
</tbody>
</table>
This report is issued without prejudice to CAG’s right to incorporate the audit observation in the Report of CAG of India for being laid before Parliament / State or UT Legislature.

**Audit Observations**

1. Audit examination of records relating to Flood Division-2 Gorakhpur, revealed that the Chief Engineer (Gandak), Irrigation & Water Resources Department, Uttar Pradesh, Gorakhpur allocated ₹ 20 million (04 February 2015) to the Flood Division-2 Gorakhpur. Against the said allocation, the Engineer-in-Chief, Irrigation Department, surrendered ₹ 17.5 million (13 March, 2015) to the Government of India. Out of remaining ₹ 2.5 million, the advance payment of ₹ 1.826 million was made (March 2015) to the contractors for execution of work but it was treated final expenditure and shown in the Interim Financial Receipt (IFR) statement for the year 2014-15 to obtain claim from the World Bank. Hence, this amount being the advance payment does not qualify for reimbursement claims from the World Bank.

2. As per information made available by the Kanpur Division Lower Ganga, Kanpur, records of PACT Lucknow and Chief Engineer (Ramganga) the Chief Engineer (Rāmgangā) Irrigation Department, U P, Kanpur had allocated budget of ₹ 53.12 million for Survey and Rehabilitation / Modernization Design of Irrigation and Drainage Infrastructure in Lower Ganga Canal System Kanpur under Uttar Pradesh Water Sector Restructuring Project Phase-2 during the year 2014-15. The above division incurred ₹ 53.12 million and it was included under IFR for the year 2014-15 by the PACT and was claimed from the World Bank. During scrutiny of expenditure statement of the said division the following irregularities were noticed as detailed below:

   i) Although the Chief Engineer did not allot budget under Renovation of Field Hostel 52 Cantt, Kanpur for the year 2014-15, the division incurred ₹ 8.22 million on the said work and it was charged on Survey and Rehabilitation / Modernization Design of Irrigation and Drainage Infrastructure in Lower Ganga Canal System Kanpur and amount was claimed by the PACT from the World Bank. As this expenditure has been
incurred without allocation of budget, this expenditure is not admissible for reimbursement by the World Bank.

ii) The Superintending Engineer II Circle Irrigation work, Kanpur had executed an agreement of ₹ 109.36 million on 21-10-2013 with the URS Scott Willson India Private Ltd. in Joint Venture with International Consultants & Technocrats to execute the Survey and Rehabilitation / Modernization Design of Irrigation and Drainage Infrastructure in Lower Ganga Canal System Kanpur. During the year 2014-15, the Division paid ₹ 40.96 million to contractor for the said activities including Service charges of ₹ 6.308 million but the division failed to collect the receipt relating to the service charge and it was not furnished to audit for verification. In the absence of non-production of receipt the veracity of payment could not be ascertained in audit. Therefore, this amount is not admissible for claim from the World Bank.

3. Audit examination revealed that the Chief Engineer (Rāmgangā) Irrigation Department, U P, Kanpur allocated budget of ₹ 679.972 million to Narora Division Lower Ganga Canal, Aligarh under Uttar Pradesh Water Sector Restructuring Project Phase-2 during the year 2014-15. The Division incurred the expenditure of ₹ 679.972 million and it was included by the PACT under IFR for the said year and claimed from the World Bank. The division made advance payment of ₹ 12.169 million to contractor on 21 November, 2014 against agreement no. 1 / NCB / SE/ IWC A / 2014-15 and it was included under the above IFR and was claimed from the World Bank treating it as final expenditure. This expenditure being the advance payment does not qualify for reimbursement from the World Bank.

4. Scrutiny of records relating to the SWaRA, Lucknow and Action Plan for the year 2014-15 revealed that provision of ₹ 3.6 million for computer Operator (contractual) was made and expenditure of ₹ 1.172 million was incurred on account of computer Operator (contractual) during the year 2014-15 and this expenditure has been included in the total expenditure of ₹ 13.948 million and claimed from the World Bank by the PACT. The following payments were included under the expenditure of
₹1.172 million as detailed below:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Details of Employees and Employer (In per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Description</td>
</tr>
<tr>
<td>1.</td>
<td>Contribution is in % of PF Wages</td>
</tr>
<tr>
<td>2.</td>
<td>P.F. Admin. Account</td>
</tr>
<tr>
<td>3.</td>
<td>Employee Pension System (EPS) account</td>
</tr>
<tr>
<td>4.</td>
<td>EDLIS Account</td>
</tr>
<tr>
<td>5.</td>
<td>EDLIS Admin Account</td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

In respect of the above payments no evidence was produced to audit to ascertain the veracity of deposition under the above heads. Due to non production of the requisite records the expenditure of ₹ 1.172 million is not admissible for reimbursement claim from the World Bank.

5. Scrutiny of records of the Executive Engineer, ICD-1, Haidergarh, Lucknow and PACT Lucknow revealed that the provision of ₹ 461.064 million was made for (1) Earthwork and service road on Branch, Distributaries and Minors (2) Lining work on Branch, Distributaries and Minors (3) Construction and Repairs of structure and Gates ( Old and new) of Branch, Distributaries and Minors (4) Earthwork on drains (5) Construction and Repairs of structure of old and new on Drain under the Action Plan for the year 2014-15 and against its budget allocation of ₹ 596.00 million was made by the Chief Engineer, (Sharda Sahayak ) Ganga Irrigation Building, Telibagh, Lucknow during the said financial year. Of this ₹ 246.0 million was utilised and ₹ 350.00 million surrendered.

As per BM-4 the Division has incurred ₹ 246.00 million on B-1 and C-2 component as detailed below:

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Component</th>
<th>Sub component / Activity</th>
<th>Amount utilised in million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>B-1</td>
<td>Rehabilitation of Haidergarh Br. System Km. 22.98 to tail (30.98)</td>
<td>229.222</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recurrent Costs</td>
<td>13.234</td>
</tr>
<tr>
<td>2</td>
<td>C-2</td>
<td>Hiring of retired revenue person &amp; PIM work</td>
<td>3.544</td>
</tr>
</tbody>
</table>

The above expenditure included, Centage charges of ₹16.403 million charged by the Division and included under the IFR for the year 2014-15 and claimed from the World
Bank by the PACT. Centage Charges being the revenue receipts not expenditure hence it was not to be charged from the World Bank. This amount is not admissible from the World Bank.

6. Scrutiny of the records of Works Manager, Irrigation Workshop Division, and Bareilly revealed that a sum of ₹40.00 million was allocated to the said Division during 2014-15. The Division made the advance payment of ₹38.44 million to the firm instead of procuring steel for the work to be executed. These items were not received by the firm till the date of audit and no provision was made in the Annual Action Plan for the year 2014-15. Neither tenders were invited nor any agreement between the firms was executed for the procurement of the steel. This advance payment has been included under the IFR for the year 2014-15 and claimed from the Work Bank by the PACT. As this amount was advance payment not expenditure it was not admissible for payment by the World Bank.

7. Scrutiny of the records of Executive Engineer, Lower Ganga Canal, Etawah, revealed that this Unit received ₹0.792 million for Participatory Irrigation Management (PIM) and ₹37.500 million under the Water Sector Restructuring Project Phase-2 for survey work during the year 2014-15. It was also noticed during the audit that this Unit furnished the adjustment vouchers of ₹0.677 million only and did not produce the adjustment vouchers of ₹0.117 million of PIM. In the absence of the adjustment vouchers of ₹0.117 million, this amount does not qualify for reimbursement by the World Bank.

It was also noticed during the audit that this Unit received ₹37.500 million during 2014-15 under the UP Water Sector Restructuring Project for survey works. The unit executed an agreement with the Korea Rural Community Corporation, Etawah and made the advance payment to this firm amounting to ₹33.542 million (vide voucher No.511 dated 30.3.2015) but the Unit did not furnish Survey report, feasibility report, preliminary estimates, detailed estimates, technical sanction, tender/quotation, comparative chart, sanction letter, work order, agreement, MB etc. for audit scrutiny. In the absence of these records the expenditure could not be verified and hence this expenditure does not qualify for reimbursement by the World Bank.
8. Scrutiny of records of Water and Land Management Institute (WALMI) revealed that ₹ 2.00 million was provided to the Institute for training purposes during 2014-15. The Institute charged ₹0.287 million as overhead out of the grants received from the PACT office. The adjustment vouchers of the charged amount of ₹0.287 million were not produced for Audit. Hence in the absence of the adjustment voucher, the expenditure could not be verified. Therefore, this amount i.e. ₹0.287 million does not qualify for reimbursement by the World Bank during 2014-15.

It was also revealed that a sum of ₹1.066 million was lying with the Institute on 31 March, 2015 and was not surrendered to the PACT office as per provisions mentioned in the PIP.

Other interesting points:

1. Non-deduction of damage charges for slow progress of works resulting in un-due benefit of ₹ 134.662 million to the contractor.

Scrutiny of records of Project Activity Core Team (PACT) and Sharda Sahayak, Executive Engineer, Irrigation Construction Division -1, Haidergarh , Lucknow revealed that the estimate of ₹ 1371.243 million (including 1% contingency charge of ₹ 13.444 million) for Rehabilitation of Haidergarh Branch Canal System including drainage system Km. 22.98 to tail was prepared by the said division (July 2014) and the following work in the said estimate, such as (1) Earthwork and service road on Branch, Distributaries and Minors (2) Lining work on Branch, Distributaries and Minors (3) Construction and Repairs of structure and Gates (Old and new) of Branch, Distributaries and Minors (4) Earthwork on drains (5) Construction and Repairs of structure of old and new on Drains was included. Chief Engineer, (Sharda Sahayak) Irrigation Department , U P, Ganga Irrigation Building, Telibagh accorded technical sanction on 24 July, 2014.

For execution of the above work the Superintending Engineer, XII Circle, Irrigation work, Ganga Irrigation Building, Telibagh , Lucknow executed an agreement of ₹ 1346.625 million on 12 September, 2014 with M/s B.N.R. construction , Anantapur, Andhra Pradesh. The date of start of work was 7 October, 2014 and date of
completion 6 April, 2016. As per fixed milestone in the agreement the Contractor was to execute the work of ₹ 600.00 million till the end of March, 2015 otherwise as per sub-clause of 8.7 and 14.15 (b) of the agreement the delays damages will be levied at the rate of 0.10 per cent of the Contract Price per day and sub-clause of 8.7 of the agreement the maximum amount of damages for delay was leviable at the rate of 10 per cent of the final contract price.

The contractor executed the work of ₹215.204 million against the fixed milestone of ₹ 600.00 million as per 12th Running Bill of the Contractor, dated: 31st March, 2015. Thus the Contractor achieved less milestone of ₹ 384.796 million in contravention of the agreement but damages for delay in execution of work of ₹134.662 million @ 10% on the final Contract Price of ₹ 1346.625 million was not levied by the Executive Engineer of ICD-1. Due to non-levy of final Contract Price as per agreement the contractor was financial benefited to the extent of ₹ 134.662 million.

2. Non-levy of penalty of ₹ 16.510 million on account of non-completion of project by the contractor within stipulated time frame resulting in undue benefit to the contractor.

Scrutiny of records of Project Activity Core Team (PACT) and Executive Engineer, Irrigation Division, Lalitpur revealed that the provision of ₹ 1000.008 million for earth work, masonry/concrete work, lining work and road work of Rohini Dam Canal System, Jamini Dan Canal System and Jamini Canal System were made under the Action Plan for the year 2014-15.

Executive Engineer, Irrigation Division, Lalitpur prepared the estimate of ₹ 1573.565 million (Year 2012-13) under UPWSRP –II for the above works. Technical Sanction of the said estimate was accorded on 19-03-2015 by the Chief Engineer (Betwa), Irrigation Department, Jhansi accordingly.

Superintending Engineer, Work Circle, Lalitpur executed an agreement of ₹ 165.107 million on 15-11-2015 with M/s Srinivasa Construction Corporation Pvt. Ltd, Nagpur for execution of the above works. The bid of contractor was accepted on 10 October,
2013 at the rate of 4.93% above. As per terms and conditions of the agreement the date of start was 15-1-2014 and date of completion was 14-07-15.

As per 8th Running bill dated: 23 January, 15 the Contractor executed the work of ₹236.594 million against the agreement of ₹1651.074 million and the work was not completed up to 15 July, 15 as per terms and conditions of the agreement and contractor executed the work 14.32 per cent only and 85.68 per cent work remained pending. The progress of work was very slow. However, no action was taken against the contractor to get work completed as per terms and conditions of the agreement.

The contractor failed to achieve the milestone as fixed in the agreement to complete the work. Despite this penalty of ₹16.510 million at the rate of 10% of contract price was not levied against the contractor by the Irrigation Department in violation of the terms and condition of agreement and no efforts were made by the Division to get work executed with stipulated period. Thus, non-levy of penalty of ₹16.510 million on account of non-completion of project by the contractor within stipulated time frame resulted in undue benefit to the contractor.

3. Possibility of doubtful expenditure of ₹22.11 million due to non-production of records

Scrutiny of the expenditure statement and Action Plan for the year 2014-15 relating to the PACT, Lucknow revealed that the allocation of ₹21.667 million was made and against it the expenditure of ₹20.11 million was incurred under the Vehicles + POL heads of the Grant No. 94 and 95 during the year 2014-15 as detailed below:

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Allotment in million</th>
<th>Expenditure in million</th>
<th>Grant No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>20.000</td>
<td>18.503</td>
<td>94</td>
</tr>
<tr>
<td>2.</td>
<td>1.667</td>
<td>1.607</td>
<td>95</td>
</tr>
<tr>
<td>Total</td>
<td>21.667</td>
<td>20.11</td>
<td></td>
</tr>
</tbody>
</table>

PACT did not furnish the following records/details:

i) No. of the Vehicles

ii) Log books of all the vehicles

iii) Name of the Travel Agent with whom the agreement was executed and copy of agreements
iv) Name of the officer with whom the vehicles are attached or allotted
v) No. of visits made by the Officer and their Inspection reports
VI) Registration Nos. of all the vehicles
vii) Insurance papers of the vehicles

In the absence of the aforesaid records the veracity of expenditure could not be ascertained in audit.

4. We observed that UPWSRP (Phase-2 was launched on 25 October, 2013. The total budget allocation of ₹3577.917 million for 15 organizations was made under Grant 94 and 95 during the financial year 2014-15. Against this budget, ₹ 1599.723 million (44.71 %) was utilised by the organizations on the approved project by the Governing body during the said financial year and the unutilized budget of ₹ 1220.55 million was surrendered to the Government instead of incurring the expenditure as per approved Action Plan for the year 2014-15. Thus, the Chief Engineer of PACT failed to achieve the target as fixed by the Governing Body of the PACT. Due to non-achievement of the target, State Government was deprived of the claims receivable from the World Bank against the approved Project implementation Plan and Annual Action Plan for the year 2014-15.

5. No meeting of Steering Committee was held in order to assess the progress of UP Water Sector Restructuring Project Phase II during the year 2014-15.

(Nishi Kant Gautam)

Dy. Director of Audit (CE)