

SONI & RUSTOGI
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NITYA NIKETAN BUILDING
CHOTTA SHIMLA
SHIMLA-171002

The Managing Director,
H.P. Road Infrastructure Development Corp. Ltd.
New Himrus Building ,
Cart Road
Shimla

Subject- **Internal Audit for the year ending 31st March, 2008**

Sir,

We have completed the internal audit of your corporation for the period ending 31st March, 2008. The Balance Sheet and Profit and Loss Account and the detail required for the purpose of the audit are enclosed. We are giving below our observation and suggestion for your information and necessary action.

1 FIXED ASSETS:

The Schedule of fixed assets include the purchase of computer of Rs 55942.00 which was installed in the subsequent year. Hence, no depreciation has been provided on the assets being the same not in use.

2) Bills Payable Rs 20387403.00

While scrutinizing details of Bills payable, it has been noticed that out of the opening balance of Rs 63769.00, the payment of Rs 27071.00 has been released. The balance amount has not been released and we are giving the detail as under:

SBOP Bonds Issue Transfer Fee	33333.00
Stationery Bill (Satluj Documents)	1597.00
Govt. Printing Press	1768.00

The actual liability may be ascertained and if not payable, the amount should be written back.



3 Payment made to Consultants

We have pointed in our earlier report , the contract of consultancy services for feasibility of 413 kms was awarded to The Luis Berger Inc (USA) . As per agreement the payment of 140250 USD and Rs. 30971775.00 was to be released as per clause 6.4 of the agreement on the execution / submission of various reports on installment bases. As per clause 6.4 (f) 10% of the total amount was to be released upon approval of the interim report, the bid documents due upon completion of the detailed Engineering status of remaining 173 kms of road. Out of these 173 kms , only 116 kms studies was got done for which the payment was released on pro-rata bases as per recommendation of CE Cum PD. The difference of 57 kms study is not to be under taken. In our opinion the cost of 57 kms should be reduced from the overall contract amount and the advance already released on the bases of overall amount should be recovered from the next payment. An amount of Rs. 22686593.00 and 102734 USD have been released being 73.25% of the total amount to the consultants' upto Dec. 2007. As per revised calculations the total amount of the contract comes to Rs. 26697220.00 and 120893 USD and accordingly the entitlement advance is calculated at Rs. 19555514.00 and 88553.21 USD. **Thus Rs. 3131080.00 and 14180 USD have been excess payment made to the party.** The indirect tax like service tax etc. paid on above advance has also been excess deposited to this extent. In our opinion the above amount including service tax should be recovered from the next bill.

4. Tax Deducted at Source : Rs 7316.00

The Corporation has filed income tax return for the year ending 31st March, 2006 and refund of Rs 7316.00 is due and has not been received. The matter should be taken with authorities for the refund of the amount.

5. Advance to HPSEB : Rs 70.00 Lakhs

The corporation has released Rs 70.00 lakhs to Himachal Pradesh State Electricity Board for shifting the utility. No adjustment has been made for want of the utilization certificate.

6. Expenditure on Roads :

We have examined the agreements with contractors and noticed that the implementing agencies have the casual approach in obtaining the papers from the Contractors. The very purpose of asking the contractors to file the papers like Bank Guarantee, insurance policies and indemnity bonds is fully



defeated in case the same are not submitted to the Corporation in time. The corporation has requested HPPWD Division to arrange the relevant papers in time, but there is no response from the Division. In certain cases, the performance guarantee is due for renewal and the HPPWD Division has been requested to arrange the renewal. Non – availability of the renewal may adversely affect the working and is also violation of terms of the agreement. Non submission of the papers may also lead to delay in releasing the payment to contractors and inviting un necessary dispute with contractors. We are giving below certain deficiency and also few examples where the relevant papers are not available in the records of the Corporation:

- a) **Contractor** : **Sh. M.G. Mehta**
- b) **Package No** : **HP- MDR-28-206**
- c) **Road** : **Ani- Dalash- Nirmand- Rampur Road**

i) There is lot of delay in the execution of the work. The agreement was entered on 05/04/2007 with the validity of one year. No running bill was received during the year.

ii) In term of the agreement, the insurance of machinery and of the employees (Preferably Contractor's all risk Policy) should be made available. More than one year has expired, but the insurance policy is not available. The Corporation has informed the Executive Engineer to provide the copy of insurance policy. We suggest that the basic records like insurance policies, validity of bank guarantees should be available in the records and these records should not be co- related with submission of the bills. In this case, the performance guarantee of Rs 10.43 lakhs has been expired on 22/03/2008 and renewal of guarantee is not available in the records. It is matter of great concern and the Executive Engineer concerned should provide all these papers immediately at the time of agreement and before the commencement of execution of work.

iii) The Company has released Rs 5,25,0000 to the Contractor as advance against the machinery. The contractor has purchased tractors. We suggest that copy of RC should also be called from the contractor for the satisfaction that these tractors are free from any- incumbrance.

- a) **Contractor** : **M/S V.B. Construction Company**
- b) **Package No** : **HP-MDR-42-309**
- c) **Road** ; **Bharwin- Chintpurani-Damtal**



i) The Company has released the mobilization and machinery advance of Rs 909400.00 each to the contractor. The bank guarantee of Rs 1818800.00 from State Bank of India Gagret was made available 17/06/2007, but date of expiry has not been stated in bank Guarantee. The clarification in this regard should be obtained from the concerned Bank.

a) Contractor : M/S Kamla Enterprises
b) Package No : HP- MDR- 17-305
c) Road ; Dharamshala- Palampur-Sandhol

i) The contract work was awarded to M/S Kamla Enterprises and the deviation of Rs 481797.00 and has not been provided for want of the approval of authority.

ii) Term deposit of Rs 7.00 lakhs has been pledged with Executive Engineer Baijnath and is expired on 02/11/2007. Renewal of Term Deposit is not available in the record.

iii) The insurance policy covering the all risk is not available in the record.

iv) The indemnity bond in respect of contravention and violation of labor law is not available.

v) The agreement for the execution of the work has been expired on 07/04/2008, but no bill has been submitted so far.

a) Contractor : M/S Rajindra & Co
b) Package No : HP- MDR- 06-203
c) Road ; Parwanoo- Kaushali- Dharampur - Sabatoo

i) While checking the contractor bill, it was noticed that a sum of Rs 511125.00 was claimed in the bill, which is beyond the scope of the work. The Executive Engineer Kashauli has later on confirmed that the expenditure shall be borne by State Govt. We suggest that the implementing agencies while finalizing the bills should strictly adhere to term of the agreement and scope of the work.

ii) The claim of deviation of Rs 457627.00 has not been provided for want of its approval from competent authority.

a) Contractor : Sh. Pawan Kumar Sood
b) Package No : HP-MDR-19-207
c) Road ; Rampur Mashnoo Sarhan Jeori Road



The performance guarantee of Rs 1404023.00 has been expired on 24/04/2008 and the renewal of the same is not available in the record.

a) Contractor : M/S Chatter Pal Sharma
b) Package No : HP- SH-16-2041
c) Road ; Shimla – Kunihar – Ramshehar – Nalagrah

i) The agreement for the execution of the work was entered on 22/03/2007 between Executive Engineer Arki and the contractor. As per letter of Executive Engineer , the Bank guarantee of Rs 12.06 lakhs was available in the record of the Division. The Division have released the advance of Rs 6.64 lakhs to the Contractor during March, 2007. The Bank guarantees including performance guarantees were not confirmed from the branch/ higher authorities. However, at the later stage, on enquiry from SBOP Sanjauli Shimla , it was informed by bank that no such bank guarantees were issued. The contractor has replaced the bank guarantee of Rs 12.06 lakhs with new bank guarantee effective from 13/10/2007. The bank guarantees effective from 22/03/2007 are not available in the records of the Corporation and also at Divisional level. We understand that facts have been misrepresented by the Office of Executive Engineer Arki and by Contractor. We suggest to take strict action against erring officials and contractor should be taken.

ii) As pointed out in our earlier report , an amount of Rs. 1495709.00 was advanced to the contractor by Executive Engineer HPPWD out of the funds of PWD against this road without any intimation to the Corporation. The fact was known only when the bill of the contractor was sent for payment to the corporation . Since the road is under purview of the corporation no advance should have been released by the department as certain formalities/ documents are to be completed before releasing the advance. In our opinion strict instructions should be issued to the department not to release any payment to contractor directly.

a) Contractor : M/S UNIPRO
b) Package No : HP- MDR-38-108
c) Road ; Sujanpur-Sandhol-Road

The agreement was entered on 29/05/2007, but the performance guarantee was available w.e.f 15/09/2007. In term of the agreement, the said guarantee should be made available within 21 days from the receipt of the award letter. During the absence period, certified cheque of Rs 12.69 lakhs whereas it has



been stated that cheque is valid upto 15/02/2009 which is in contravention to Negotiable Instrument Act. We understand that the Division is not aware that cheque validity is not for more than six months under Negotiable Instrument Act. We suggest to take strict action against erring official and also against contractor.

While checking the contractor's bills, it has been noticed that the following claim were lodged by the contractors/ HPPWD Division. The work is out of the scope of the contract and has been disallowed.

Division	Package No	Amount
Una	HP-39-304	992617.00
Mandi II	HP-26-106	29313.00
	HP-46-308	233142.00

We suggest that the Division should be strictly instructed to verify and recommend the bills as per the scope of the work to avoid any dispute with contractors.

In the following cases, the expenses on the roads have not been accounted for due to non availability sanction for the deviation of the work from competent authority.

Package No	Amount
HP-39-304	760121.00
HP-30-104	193166.00
HP-22-310	95672.00
HP-27-307	50274.00
HP-13-208	103377.00
HP-43-303	74423.00
HP-13-101	4513.00

(7) **Withheld amount**
(liquidated damages: Rs 4081108.00)

We have pointed in our earlier report that certain amounts have been withheld from the bills of various contractors on account of delay in execution of works on milestone bases and have been reflected as Current Liabilities. As explained to us the matter has been taken up with the concerned Executive Engineer and the entries will be passed after their concurrence in the matter



after ascertaining the reasons for delay in the execution of the work. In case the amount is not payable, the amount should be written back.

9. Awarding Contracts (Qualification criteria)

It is one of the conditions of the bid document that the contractor will provide the report of their financial standing such as Balance Sheet , Profit and Loss Account and Auditor's report thereon for the past five years. The contracts for execution of works are awarded by the department of HPPWD on behalf of the Corporation. . We have test checked certain cases for which the record was available with the corporation and observe that only Profit and Loss has been obtained and the auditors report and balance sheets have not been obtained. It is difficult to ascertain the financial status of the contractor without these documents. It seems that the Profit and Loss Accounts are obtained only to complete the formalities as these statements are not analysed properly as the main documents like balance sheets audit reports are not on records.

9. Bills Pending for Adjustment Rs. 5404750.00

The amount is lying payable to Power Finance Corporation since last many years. . As explained to us the amount is subject to approval from the state govt.

10. OUT OF POCKET EXPESNES (CEG) :

The corporation has released out of pocket expenses bills to CEG during the year. We have examined the agreement and noticed that there is maximum limit of re-imburement of expenditure. The consultancy company has submitted the expenditure bills for re-imburement and we have the following observation:

Traveling Expenses :

- a) The limit of hiring vehicles @ Rs 37000.00 per vehicle has been fixed.
- b) The Consultancy Company has procured the Vehicle running expenses from **SHRI KUSHALSURI ENGINEERING SERVICES P LTD** of Rs 37000.00 per vehicle, which is an engineering Company having its office at Rajasthan. We understand that the said company being Engineering



Services can not provide vehicle hiring services. The object clause of the service provider should be checked.

- c) The addresses of both Engineering Company (including Telephone Numbers) and the consultancy Company are the same. (Copy of bill enclosed).
- d) The motor cabs have been hired in the State of Himachal Pradesh but the bills are arranged from Rajasthan. These cabs could have been arranged by the consultants in the State.
- e) The serial number of bills for whole of the year raised to Consultancy firm are enclosed for your ready reference. It can easily be concluded from these bills that no other bill is raised to any other customer by that Company.

We understand from the above, that the consultancy firm has arranged the bills for the sake of re-imburement of expenditure and can not be considered as reasonable expenses. Re-imburement of salary expenses also seems to be on the higher side. In term of the agreement with CEG, the corporation can check the genuineness of expenditure and can arrange the audit and inspection of the accounts. The necessary action in this regard may be taken.

Thanking you and assuring our best attention.

FOR SONI & RUSTOGI
CHARTERED ACCOUNTANTS




(S.K. SONI)
PARTNER