# SPECIAL AUDIT REPORT
# ON
# THE ACCOUNTS OF

# CONSTRUCTION OF
# OFFICE BUILDING FOR
# MINISTRY OF SCIENCE AND TECHNOLOGY
# AND ITS ORGANIZATIONS

**MINISTRY OF SCIENCE AND TECHNOLOGY**
**GOVERNMENT OF PAKISTAN**

**AUDIT YEAR 2016-17**

**AUDITOR GENERAL OF PAKISTAN**

# PREFACE

The Auditor General conducts audit subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The Special Audit of project "Construction of Office Building for Ministry of Science and Technology and its organizations" executed by the Ministry of Science and Technology, Government of Pakistan, was carried out accordingly.

The Directorate General Audit Works (Federal), Islamabad conducted Special Audit of the project during February-March, 2017 for the period from 2004 to 2016 with a view to reporting significant findings to the stakeholders. Audit examined the economy, efficiency, and effectiveness aspects of the project. In addition, Audit also assessed, on test check basis, whether the management complied with applicable laws, rules, and regulations in managing the Project. The Audit Report indicates specific actions that, if taken, will help the management to realize the objectives of the project. Audit observations included in this report have been finalized in the light of discussions in the DAC meeting.

The Audit Report has been prepared for submission to the President in pursuance of Article 171 of the Constitution of Islamic Republic of Pakistan, 1973 for causing it to be laid before the Parliament.

Sd/-

**(Javaid Jehangir)**
Auditor General of Pakistan

Islamabad
Dated: 12th June, 2018

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## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| ATS | Automatic Transfer Switch |
| BOQ | Bill of Quantities |
| CDA | Capital Development Authority |
| CDWP | Central Development Working Party |
| Cft | Cubit Feet |
| CI | Cast Iron |
| CPWA | Central Public Works Account |
| DAC | Departmental Accounts Committee |
| DG | Diesel Generator |
| ECNEC | Executive Committee of the National Economic Council |
| ETPB | Evacuee Trust Property Board |
| FBR | Federal Board of Revenue |
| GFR | General Financial Rules |
| GI | Galvanized Iron |
| HVAC | Heating, Ventilation and Air Conditioning System |
| IB | Instructions to Bidder |
| IDC | Inter Departmental Committee |
| INTOSAI | International Organization of Supreme Audit Institutions |
| IPC | Interim Payment Certificate |
| KVA | Kilovolt Ampere |
| LD | Liquidate Damages |
| LED | Light Emitting Diodes |
| MB | Measurement Book |
| MOST | Ministry of Science and Technology |
| NIE | National Institute of Electronics |
| NOC | No Objection Certificate |
| PAC | Public Accounts Committee |
| PC-I | Planning Commission (Proforma-I) |

| | |
|---|---|
| PEC | Pakistan Engineering Council |
| PPRA | Public Procurement Regularity Authority |
| PSDP | Public Sector Development Programme |
| PVC | Poly Vinyl Chloride |
| PWD | Public Works Department |
| Sft | Square feet |
| Sq.m | Square meter |
| PCSIR | Pakistan Council of Scientific and Industrial Research |
| PCST | Pakistan Council for Science and Technology |
| PSF | Pakistan Science Foundation |
| UPS | Uninterruptible Power Supply |

## EXECUTIVE SUMMARY

Ministry of Science and Technology, Government of Pakistan requested Office of the Auditor General of Pakistan in August 2016 to conduct special audit of the accounts of project "Construction of Office Building for Ministry of Science and Technology and its Organizations".

The Special Audit of the project was assigned to the Directorate General Audit Works (Federal), Islamabad vide Auditor General of Pakistan letter No. F.47 (1) / DAG (DSA)/Special Audit dated 17.01.2017. Audit was carried out accordingly in February-March 2017 to evaluate the achievement of the project objectives set out in the PC-I. The audit was conducted in accordance with the INTOSAI Auditing Standards.

The objective of the special audit was also to assess whether planning for construction was appropriate and the resources had been utilized with due economy, efficiency and effectiveness. The report is not only aimed at accountability process but also intends to carry out analysis of management decisions by highlighting the weaknesses in the performance of the project and, thereby, providing recommendations for improvement in future.

As provided in PC-I of the project, the construction of office building for Ministry of Science and Technology and its organizations was carried out to provide permanent office building for different wings of the Ministry of Science and Technology (MOST). The building design of five(5) storeys, Ground Floor and two Basements was designed by the Ministry including facilities like security system, computer/telephone networks, Heating, Ventilation & Air-Conditioning (HVAC), car parking, conference room, fire alarm, etc.

The PC-I of the project was approved by the CDWP in its meeting held on 04.12.2004 for an amount of Rs 198.019 million with the implementation period of 24 months for a covered area of 78,910 Sq. ft. The PC-I was revised to Rs 620.494 million on 22.10.2007 by the ECNEC with the implementation period of 60 months for an enhanced covered area of 175,522 sq. ft. 2nd revision of PC-I for Rs 995.078 million was approved by the CDWP in its meeting held on 18.06.2012 due to further enhancement in covered area of 27,424 sq. ft. for second basement as directed by the CDA. 3rd revision of PC-I for Rs 1,310.083 million was due to provision of Solar Electrification system of 200 KVA, provision of LED lights and additional work for fixing of tiles on terraces, construction of retaining wall, spare parts of HVAC system and additional work of lighting protection, UPS system, Servers equipment and two numbers Tube wells to meet water requirement of the building.

**AUDIT FINDINGS**

Major audit findings include:

i. Unjustified payment on account of compensation of losses to the contractor - Rs 90.850 million (Para 4.2.1)

ii. Undue payment on account of advance for purchase of material - Rs 107 million and non-recovery of interest there-upon - Rs 16.738 million (Para 4.2.2)

iii. Loss due to acceptance of bid at higher rates without tendering for design consultancy - Rs 7.976 million (Para 4.2.3)

iv. Overpayment to the contractor due to execution of work at higher rates - Rs 5.562 million (Para 4.2.9)

v. Irregular expenditure due to execution of entirely new work without competitive tendering - Rs 229.239 million (Para 4.3.1)

vi. Loss due to change in lowest quoted bid by overwriting - Rs 13.965 million (Para 4.3.2)

vii. Execution of excess quantities of items - Rs 11.653 million (Para 4.3.3)

viii. Unauthorized and unjustified payments without recording detailed measurement in measurement books - Rs 789.382 million (Para 4.3.5)

ix. Import of lifts not fulfilling the given specifications according to contract agreement - Rs 23.400 million (Para 4.3.6)

x. Deficient performance of the Consultant, “M/s. NESPAK” during design and construction supervision phases resulting in irregularities - Rs 652.158 million (Para 4.3.7)

xi. Extra payment on account of price adjustment beyond the contract period - Rs 48.287 million (Para 4.4.7)

xii. Unauthorized payment on account of price adjustment - Rs 19.359 million (Para 4.4.8)

xiii. Extra payment due to measurement of inadmissible item of concrete class-C under porcelain tiles - Rs 4.560 million (Para 4.4.9)

xiv. Unjustified payment due to measurement of an item of work beyond the provision of contract agreement - Rs 13.599 million and non-recovery of interest there-upon - Rs 3.988 million (Para 4.4.10)

xv. Non-procurement of equipment from authorized manufacturer - Rs 14.092 million (Para 4.4.12)

**RECOMMENDATIONS**

i. The contractual obligations be strictly observed at every stage of execution of work.

ii. Overpaid amounts be recovered from the contractor.

iii. All losses be made good by recovery from person(s) responsible.

iv. Public Procurement Rules be followed.

v. Proper planning in respect of design/drawing be ensured to avoid any subsequent material changes.

vi. Prior approval of the competent authority be obtained before making any changes in the scope of the work.

vii. All quantities of works be recorded in Measurement Books.

viii. Estimation should be based on detailed workings.

ix. Efforts be made for completing the projects within the stipulated time in order to avoid cost overrun due to fluctuations in market rates.

x. Project Management Guidelines should be implemented.

xi. Consultant be held accountable for design deficiency and government interest be protected by obtaining professional liability insurance from the consultant at their own cost.

# 1. INTRODUCTION

The Directorate General Audit Works (Federal), Islamabad conducted special audit of the project “Construction of Office Building of Ministry of Science and Technology and its Organizations Islamabad” in February-March 2017.

## 1.1 Rationale of the project

The Ministry of Science and Technology has been functioning since 1972. It is the national focal point and enabling arm of Government of Pakistan for planning, coordinating and directing efforts; to initiate and launch scientific and technological programmes and project as per National Agenda for sound and sustainable Science and Technological Research base for the socio-economic development, to achieve the vision for a better Pakistan, in terms of the mandate contained in schedule-II of the Federal Government Rules of Business, 1973. The Ministry deals with all matters relating to the Science and Technology at the National and International level, including:-

a) Establishment of Science cities;

b) Establishment of institutes and laboratories for research and development in the science and technological fields;

c) Establishment of science universities as specifically assigned by the Federal Government;

d) Planning, coordination, promotion and development of science and technology monitoring and evaluation of research and development works, including scrutiny of development projects and coordination of development programs in this fields;

e) Promotion of applied research and utilization of results of research in the scientific and technological fields carried out at home and abroad;

f) Guidance to the research institutions in the Federation as well as the provinces in the fields of applied scientific and technological research;

g) Coordination of utilization of manpower for scientific and technological research;

h) Promotion and development of industrial technology;

i) Promotion of scientific and technological contacts and liaison nationally and internationally, including dealings and agreements with other countries and international organization;

j) Initiate promotional measures for establishment of venture capital companies for technological development and growth;

k) Support to NGOs concerned with development of science and technology;

l) Promotion of metrology Standards, Testing and Quality Assurance System.

The construction of building for the Ministry of Science and Technology was planned to:-

- Enhance efficiency of MoS&T and its Organizations.
- Better co-ordination among the subordinate offices, located in the Science Complex including PCSIR, PCST, PSF & COMSATS.
- Save the heavy rental charges of Rs 17.483 million annually.
- Create a good working environment for employees which will lead to higher efficiency in the performance of their duties.
- Leave good impression on the visitors from private sector, Industrial Associations, Institutes & Multinational Agencies which is necessary for developing cooperation and support for implementation of S & T programs and activities etc.

## 1.2 Approval of the scheme

The PC-I of the project was approved by the CDWP in its meeting held on 04.12.2004 for an amount of Rs 198.019 million. The 1st revision in PC-I was approved by the ECNEC for Rs 620.494 million on 22.10.2007. 2nd revision of PC-I was approved by the CDWP for Rs 995.078 million on 18.06.2012 and 3rd revision in PC-I was made for Rs 1,310.083 million.

## 1.3 Timeline/period of project

Period of completion of the project was provided in the PC-I as under:

| PC-I | Completion Date | Covered Area (Sq.ft) | No. of Storeys |
|---|---|---|---|
| **Original** | 24 months (December 2004 – November 2006) | 78,910 | One basement + GF + 3 floors |
| **1st revision** | 60 months from (December 2004 to November 2009) | 175,522 | Two basements + GF + 5 floors |
| **2nd revision** | 108 months (December 2004 to November 2013) | 201,154 | Two basements + GF + 5 floors |
| **3rd revision** | 126 months (December 2004 to May 2013) | 201,154 | Two basements + GF + 5 floors |

## 1.4 Description of project

Most of the offices of the Ministry of Science and Technology, Islamabad were accommodated from the year 2001 by hiring a complete floor at ETPB Building Islamabad at the rental ceiling of Rs 2.68 million per month.

To save heavy cost of rent and ensure better coordination among Science and Technology organizations, it was felt that a permanent office building may be constructed for which land was available at the Constitution Avenue, Islamabad in the Science Complex.

Initially execution of the project was assigned to Pakistan Public Works Department in December 2004 but due to delay in the process of selection of the Consultant for architectural design as well as preparation of Engineer's estimates the Design Consultancy was awarded to M/s NESPAK whereas the construction supervision was the responsibility of PCSIR. The construction supervision was also assigned to M/s NESPAK on 31.12.2010. The construction work was started in April 2009.

## 1.5 Project objectives and outputs provided in PC-I and achievements

### 1.5.1 Objectives

The objective of the project was to provide sufficient office space as well as other facilities for the Ministry.

### 1.5.2 Outputs

As per revised PC-I, the building structure comprises two basements, ground floor plus five upper floors. The project will provide better coordination among the subordinate offices located in the Science Complex and will save the monthly rental charges of Rs 17.483 million annually.

### 1.5.3 Achievements

Execution status of the project is shown below:

| Sr. No. | Name of Work/Sub-head | Contractor Name | Date of Acceptance Letter/ Agreement | Contract cost (Rs in million) | Upto date payment (Rs in million) |
|---|---|---|---|---|---|
| 1. | **SH:** Civil Works | M/s Usmani Associates | 16.04.2009 | 634.572 | 697.878 |
| 2. | **SH:** HVAC Works | M/s Wular Engineers | 18.02.2013 | 159.823 | 160.179 |
| 3. | **SH:** Lift Works | M/s IITC | 30.05.2013 | 23.400 | 23.400 |
| 4. | **SH:** Tube Well Works | M/s Qazi & Co. | 18.04.2015 | 6.426 | 4.515 |

| Sr. No. | Name of Work/Sub-head | Contractor Name | Date of Acceptance Letter/ Agreement | Contract cost (Rs in million) | Upto date payment (Rs in million) |
|---|---|---|---|---|---|
| 5. | **SH:** UPS Works | M/s CNS Engineers | 10.02.2014 | 10.277 | 10.277 |
| | **Total** | | | | **896.249** |

*Note: This information is based on last IPCs/Invoices paid up to February 2017 to the contractors/consultants.*

All civil works of the office building for Ministry of Science and Technology, including structure of the building, Heating, Ventilation, Lifts and Air-conditioning (HVAC) systems have been substantially completed.

## 1.6 Cost and Financing

The project was financed by the Government of Pakistan through Public Sector Development Programme (PSDP) for the year 2004-05 to 2015-16. After subsequent revisions, the PC-I cost was finalized at Rs 1,310.083 million against which an expenditure of Rs 1,179.028 million was incurred upto February 2017.

## 1.7 Revisions in the project cost

The original PC-I was revised in October 2007 from Rs 198.019 million to Rs 620.494 million and then cost was revised to Rs 995.078 million in June 2012 due to enhancement of covered area. Final revision was made for Rs 1,310.083 million due to provision of solar electrification system of 200 KVA, LED Lights, additional work for fixing of tiles on terraces, Construction of retaining wall, Lighting protection, Servers equipment, UPS system and Tube well.

## 1.8 Actual cost and scope vs original PC-I

**(Rs in million)**

| Description | Const-ruction Comp-onent Cost | Consult-ancy Comp-onent Cost | Trans-formers, Gas, Water & Electric connection & land transfer fee | Departmental Charges / Manpower for Construction Supervision | Contingency Component (5% of Const. Cost) | Escalation Compo-nent | Contrac-tor's claim | Total Project Cost |
|---|---|---|---|---|---|---|---|---|
| **PC-I** | 158.741 | Nil | 13.584 | 10.834 | 7.937 | 6.923 | Nil | 198.019 |
| **PC-I (1st revision)** | 539.262 | 13.153 | 13.840 | 16.202 | 29.547 | 8.490 | Nil | 620.494 |
| **PC-I (2nd revision)** | 782.976 | 39.135 | 13.242 | 3.40 | 19.475 | 46.00 | 90.850 | 995.078 |
| **PC-I (3rd revision)** | 995.409 | 66.621 | 14.572 | 6.300 | 34.331 | 102.00 | 90.850 | 1310.083 |
| **Actual Expenditure (*)** | 896.141 | 55.554 | 15.258 | 1.986 | 18.380 | 100.859 | 90.850 | **1179.028** |

(*)Based on last IPC/Invoice (up to February 2017) provided by Ministry of Science and Technology and Expenditure Statements for the years 2004-05 to 2016-17.

# 2. AUDIT OBJECTIVES

The main objectives of the audit of the project were to see whether:

- Rules, regulations, procedures and government/management's instructions were followed in their true spirit.
- Due care and prudence was applied at all levels.
- The project was completed in time.
- Effective measures were taken by various wings of the Ministry in processing and evaluating bids, cost benefit analysis, etc.
- The required standards of financial propriety were observed while executing agreement and money was spent in accordance with the rules.

- The internal controls were exercised in spending public money and three ‘Es’ i.e. Effectiveness, Efficiency and Economy were kept in mind by the management while executing the project.

## 3. AUDIT SCOPE AND METHODOLOGY

### 3.1 Scope

Project accounts and related activities since its inception in 2004-05 to February 2017 (date of audit) were subject to audit.

### 3.2 Methodology

Audit methodology included data collection, determination of objectives and audit criteria, analysis/consultation of record, discussion with staff, site visits, etc. Following steps were involved:

i. Understanding the auditee/project;
ii. Defining audit objectives;
iii. Developing audit programmes;
iv. Conducting audit as per audit programmes;
v. Evaluating results;
vi. Reporting

## 4. AUDIT FINDINGS AND RECOMMENDATIONS

### 4.1 Organization and Management

Audit observed that Ministry of Science and Technology executed the project at its own without having a proper engineering setup. The project was not properly managed as evident from irregularities and overpayments pointed out in the report. The mismanagement can be attributed mainly to the fact that Ministry of Science and Technology has no engineering background to handle infrastructure development projects, as available with the specialized work executing agency, Pakistan Public Works Department which has the authority to execute all federally financed works under Para 1.02 of Pakistan Public Works Department Code, 1982.

The project was managed by Ministry of Science and Technology under following arrangements:

i. As per policy in vogue, all new posts included in PC-I are treated as sanctioned, after the approval of the project by the relevant forum subject to the availability of development budget against establishment charges. Ministry of Science and Technology deployed its own manpower during construction of the building and no fresh recruitment was made for the project.

ii. The Project Director, under the control of Ministry of Science and Technology was responsible to monitor the execution of work and maintain liaison with the consultant/contractor and executing department regarding the difficulties that may arise during progress of works. M/s NESPAK was the designer of the building and was also entrusted with bid evaluation/ acceptance and approval of variations.

iii. Initially M/s PCSIR was responsible for supervision consultancy upto $5^{th}$ running bill paid to the contractor. The construction supervision was assigned to M/s NESPAK on 31.12.2010. M/s Usmani Associates was awarded execution of Civil, Mechanical, Plumbing, Electrical and External works. M/s Wular Engineers were responsible for HVAC works. M/s IITC was awarded contract for installation of lifts. M/s CNS Engineer completed UPS work and Tube Well Work was assigned to M/s Qazi and Co.

Audit observed following irregularities:

### 4.1.1 Execution of work without obtaining technical sanction of the estimates - Rs 896.249 million

As per Para 6.09 of Central Public Works Department Code (CPWD), a proper detailed estimate must be prepared for the sanction of the competent authority for each individual work. Technical Sanction is a guarantee that the proposals are structurally sound and the estimates are accurately calculated and based on adequate data. As such Technical Sanction ensures that the proposal is structurally sound and estimate is an economical one. As per Para 6.18 of CPWD Code, powers to accord sanction to detailed estimates for work rest with officers of engineering cadre.

Audit noticed that the following works were got executed without obtaining technical sanction of the estimates from the competent forum:

| S. No. | Name of Work | Amount (Rs in million) | Name of Contractor |
|---|---|---|---|
| 1 | Civil, Mechanical, Plumbing, Electrical, Extra items (External & others) | 697.878 | M/s Usmani Associates |
| 2 | HVAC Work | 160.179 | M/s Wular Engineering |
| 3 | Lifts | 23.400 | M/s IITC |
| 4 | UPS | 10.277 | CNS Engineer |
| 5 | Tube-well work | 4.515 | M/s Qazi & Co |
| **Total** | | **896.249** | |

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that no work had been executed till date without proper engineering estimates and provision in the approved PC-I. The reply was not tenable as work was executed without obtaining approval of technical sanction estimate.

The matter was discussed in DAC meeting held on 22.06.2017. DAC directed the Ministry to get the estimates vetted by an engineer from the Pak. PWD Islamabad within a period of 15 days.

The compliance of the DAC's directive was not conveyed till the finalization of the report.

Audit recommends early compliance of DAC's directive.

(AIR Para 26)

### 4.1.2 Non-Production of Record

According to Section 14 (2) of Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with request for information in as complete a form as possible and with all reasonable expedition. Section 14(3) states that any person or authority hindering the auditorial functions of the Auditor General of Pakistan regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

Requisitions for production of record were handed over to the officer concerned of the Ministry of Science and Technology on 03.02.2017, 14.02.2017 and 20.02.2017. The matter was also brought to the notice of the Additional Secretary M/o S&T vide letter dated 07.03.2017, however, record was not provided to Audit for necessary scrutiny up till the end of audit of the project, as detailed below:

1. Rate analysis with back up/supporting detail for the items of work provided in BOQ.
2. Engineering detailed technical sanctioned estimate for execution of work.
3. Rejected tenders of civil work.
4. Completion Report of the Building

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that it was not possible to provide 12 years old record to Audit. The reply was not tenable as the required record was a permanent record and was required to be kept properly for audit. Due to non-provision of record the true picture of the rates paid to the contractor and transparency in tendering cannot be ascertained.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the matter was taken up with M/s NESPAK to provide the relevant record but it had been informed by the consultant that project was 5 years old and most of the record/files had been disposed-off and were not available. DAC viewed the matter seriously and directed Ministry to take up the matter with M/s NESPAK for production of relevant record to Audit for necessary verification.

Record was not produced till finalization of this report.

Audit recommends action against the persons at fault for non-production of record.

(AIR Para 39)

## 4.2 Financial Management

Ministry of Science and Technology, being a government entity, has its financial resources provided by the Government of Pakistan through PSDP.

Cases of financial mis-management observed during audit are as under:

### 4.2.1 Unjustified payment on account of compensation of losses to the contractor - Rs 90.850 million

Rule 10 of General Financial Rules (GFR) Volume-I, provides that every public officer is expected to exercise the same vigilance in respect of government expenditure as a person of ordinary prudence would exercise in respect of his personal expenditure.

The work “Construction of Office Building for Ministry of Science and Technology and its organization” was awarded to M/s Usmani Associates at an agreed cost of Rs 634.572 million on 16.04.2009. There was no provision in the contract agreement regarding compensation of losses to the contractor.

Audit noticed that the contractor submitted a claim of Rs 243.781 million on accounts of compensation/damages due to delay in execution of work. Audit further noticed that a claim of Rs 90.850 million was accepted by the Project Director after evaluation by the consultant, M/s NESPAK on account of losses of overhead and profit and under-utilization of equipment due to holdups, and paid to the contractor as detailed below:

| S. No. | Cheque No. | Amount (Rs in million) | Date | Remarks |
|---|---|---|---|---|
| 1 | 620581 | 42.720 | 29.06.2012 | Payment to contractor |
| 2 | 620582 | 02.880 | 29.06.2012 | Income Tax |
| 3 | 620583 | 02.400 | 29.06.2012 | Deduction of retention money |
| 4 | 620589 | 09.429 | 16.10.2012 | Payment to contractor |
| 5 | 620590 | 02.571 | 16.10.2012 | Income Tax |
| 6 | Nil | 30.850 | 16.10.2012 | Adjustment of Mobilization Advance from claim |
| **Total** | | **90.850** | | |

Audit observed that M/s PCSIR who was the consultant of the project up to 19th January, 2011 did not agree to pay the compensation rather recommended imposition of penalty of Rs 205.90 million due to the following facts:-

i. The contractor was not ready to start the work in May 2009 due to which the date of commencement of work was fixed as 05.08.2009 (as evident from the abstract of 5th running bill).

ii. There was no obstruction of any type to the execution of the work and machinery for excavation work was not deployed by the contractor.

iii. The contractor was behind the schedule from the beginning and up to IPC No. 01 the physical progress was 1.41% instead of required progress of 21%.

iv. Letters regarding slow progress were issued on 12.04.2010 and 06.05.2010.

v. There was no problem of access to the site for installation of batching plant as the contractor himself selected the site at Bhara Kahu and sensitivity of red zone was in his knowledge before tender and the contractor was responsible to make arrangement for the machinery to be used for construction work.

vi. There was no obstruction in the execution of work as evident from the record entries in the 5th running bill and 6th running bill showing date of measurement from 02.06.2010 to 14.10.2010.

vii. The required progress up to January 2011 was 73% against which the achieved progress was 17% only.

The scrutiny for payment of claim of Rs 90.850 million disclosed that:

a. An overpayment of Rs 23.497 million was made on account of income tax on the total amount of Rs 389.226 million which was not payable as no work had been executed at site by the contractor.

b. Payment made on accounts of idle charges of machinery was on higher side. The payment of Rs 33.05 million was made for under-utilization/idling of equipment (rent) due to holdups. A sum of Rs 23.631 million out of Rs 33.05 million was not payable as detailed below:

| | | |
|---|---|---|
| i) Payment for batching plant<br>ii) Payment for transit mixture | Rs 1.660 million<br>Rs 2.016 million | {The amount was not payable to the contractor as no plant had been installed by the contractor and material was being purchased on commercial basis by the contractor (Reference contractor letter for approval regarding purchase of material)}. |
| Total (i) | Rs 3.676 million | |
| i) Payment for Generator 200 KVA<br>ii) Payment for Generator 167 KVA<br>iii) Payment for Generator 27 KVA<br>iv) Payment for Generator 2.5 KVA | Rs 4.682 million<br>Rs 0.517 million<br>Rs 0.926 million<br>Rs 0.371 million | {The amount was not payable to the contractor as it was the property of the contractor as shown in the bidding document and work was not executed. So payment of rent was quite unjustified. |
| Total (ii) | Rs 6.496 million | |
| i) Payment for form work (Sft)<br>ii) Payment for Scaffolding pipes (Rft)<br>iii) Payment for Scaffolding Joints | Rs 1.091 million<br>Rs 9.422 million<br>Rs 2.946 million | -Do- |
| Total (iii) | Rs 13.459 million | |
| Grand total (i, ii, iii) | Rs 23.631 million | |

From the above given facts it was clear that payment was made irregularly against the recommendation of consultants, M/s PCSIR.

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that due to delay in payment of mobilization advance/IPCs, obstructions in passage for project site and revision of foundation design the contractor submitted a claim of Rs 243.780 million on account of compensation of losses but M/s NESPAK recommended a sum of Rs 90.850 million. After seven months of the commencement of the project the contractor served termination notice which was withdrawn on the request of Ministry on the assurance that the claim would be reviewed. The payment on account of underutilization of plant and equipment was justified in accordance with the daily progress reports of the contractor as the equipment remained underutilized and owning/ operating cost was taken. An amount of Rs 17.895 million overpaid on account of income tax shall be recovered from the final bill/retention money of the contractor.

The reply was not tenable because the earlier appointed consultant M/s PCSIR who supervised the work during the period of claim did not agree for payment of claim on the basis of slow progress. Moreover, no obstruction was evident because work was measured from June 2010 to October 2010 upto $6^{th}$ running bill. Furthermore, batching plant and transit mixture were not to be considered for payment of idle charges as the material was being purchased on commercial basis from another source. Claim for idle charges of machinery/scaffolding was on higher side.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the contractor claimed an amount of Rs 243.78 million on account of compensation of losses due to obstruction-free site, unobstructed passage for project site, revision of foundation design, delay in Mobilization Advance and IPCs. The claim was reviewed by M/s NESPAK, the consultant, to the tune of Rs 90.850 million and was paid to the contractor accordingly. However, an amount of Rs 17.895 million on account of extra amount of income tax paid to the contractor would be recovered. Audit stressed that admitted amount be recovered immediately and further the other claims paid for idle charges of plant, machinery and equipment was required to be scrutinized properly in the light of audit observation. DAC directed the Ministry to get the matter inquired by 15.07.2017.

However, inquiry report was not produced till the finalization of this report.

Audit stresses early recovery of the admitted amount of Rs 17.895 million along with an inquiry into the matter regarding inadmissible payment and recovery form the person at fault.

(AIR Para 10)

### 4.2.2 Undue payment on account of advance for purchase of material - Rs 107 million and non-recovery of interest there-upon - Rs 16.738 million

As per particular conditions of the contract for the project, financial assistance was to be provided to the contractor as under:-

a) Clause 60.11 (a). Mobilization advance up to 15% of the contract price on provision of guarantee for the full amount in the specified form from a scheduled bank in Pakistan acceptable to the employer.

b) Clause 60.14 (a). Secured advance on non-perishable material (Cement, Reinforcement steel bars, Metallic false ceiling, Floor tiles, CI/GI Pipe, Sanitary fixtures, Electric cables, D.G. Sets) brought at site up to 75% of the invoice value or 50% value of the items as per priced BOQ.

No other financial assistance to the contractor was available according to the provisions of the contract agreement.

i. Audit noticed that at the close of the financial year 2012-13, the contractor applied for a financial assistance of Rs 115.00 million in shape of advance payment duly verified by the consultant (M/s NESPAK) against bank guarantee for purchase of material (Aluminum composite, Aluminum doors, Aluminum windows, Curtain walls with glass, S.S railing, Marbles, False ceiling, Cables, Lights, Electric panels, Generators).

Audit observed that the Ministry paid an amount of Rs 107.00 million to the contractor on 27.06.2013 and recovery of advance payment was made in three installments without interest of Rs 16.738 million, as detailed below:

**(Rs in million)**

| | **Payment of Principal amount** | | **Recovered** | | | **Total days** | **Rate of interest** | **Amount of interest** |
|---|---|---|---|---|---|---|---|---|
| | **Date** | **Amount** | **Reference of bill** | **Date** | **Amount** | | | |
| | 27.06.13 | 107 | 22nd | 29.08.13 | 20.00 | 62 | 14% | 2.544 |
| Balance | 29.08.13 | 87 | 23rd | 14.10.13 | 33.00 | 45 | 14% | 1.501 |
| Balance | 14.10.13 | 54 | 28th & 29th | 22.06.15 | 54.00 | 613 | 14% | 12.693 |
| **Total recoverable Amount** | | | | | | | | **16.738** |

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that advance was paid against bank guarantee in the best interest and timely completion of building after approval of the competent authority. The contract agreement was silent about charging bank interest on 2nd mobilization advance, however, as advised by the Audit interest amount of Rs 16.738 million would be recovered from the contractor.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the 2nd advance was paid to the contractor after receipt of bank guarantee in best interest and timely completion of building after approval of the competent Authority. The material was purchased and supplied at site by the contractor against the advance payment. Audit informed that advance was paid beyond the contractual provision only to provide undue benefit to the contractor. DAC directed the Ministry to effect recovery of interest alongwith escalation paid to the contractor.

Audit recommends for investigation into the matter and recovery of admitted amount of the interest of Rs 16.738 million along with price escalation at the earliest.

(AIR Para 11)

### 4.2.3 Loss due to acceptance of bid at higher rates without tendering for design consultancy - Rs 7.976 million

Para 38 of Public Procurement Rules, 2004, “Acceptance of bids” provides that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

Audit noticed that the Pakistan Public Works Department (Pak. PWD) was appointed as an agency to execute the project. Audit further noticed that the agency called open competitive tenders for award of consultancy work to prepare design of the building from 08 prequalified bidders and M/s Hassan Associates was the lowest bidder by quoting design consultancy @ 1.57% of the capital cost and supervision consultancy @ 0.89% of the capital cost (total 2.46%). However, work was not awarded to the consultant and the lowest quoted bid was rejected as the consultant was not registered with Pakistan Engineering Council (PEC). The second lowest bidder i.e. M/s Allied Engineering Consultant who quoted design consultancy @ 1.92% and construction supervision @ 1.43% was also not considered for award of work.

The Chief Engineer (North) Pak. PWD, Islamabad also informed the Ministry vide its letter dated 31.12.2005 that the observations raised during the meeting of sub-committee of the Ministry had almost been justified by the lowest bidder (M/s Hassan Associates) and requested for award of work to the lowest bidder.

Audit observed that a summary was sent to the Prime Minister’s Secretariat Islamabad on 27.05.2006 for award of design consultancy work to M/s NESPAK (not participated in bidding) at the lowest bidder project cost of 2.46% for the architectural design of the MoS&T building and approval for award of work to M/s NESPAK was granted by Prime Minister Secretariat vide Ministry of Housing and Works U.O No. 4351/Secy.(H&W)/2006 dated 02.06.2006 @ 2.46% of the project cost. Audit further observed that approval for award of work @ 2.46% for design consultancy to M/s NESPAK was obtained by incorporating an incorrect information about the lowest bidder's rate which was actually 1.57% for design consultancy and the total rate of 2.46% also included construction supervisions @ 0.89 % (1.57% + 0.89%). This resulted in a loss of Rs 7.976 million to the public exchequer as detailed below:

**(Rs in million)**

| **S. No.** | **Award of work** | **Amount of Project** | **Name of contractor** | **Design fee payable @ 1.57% as quoted by lowest bidder (M/s Hassan Associates)** | **Design fee contract awarded to M/s NESPAK @ 2.46%** | **Loss due to higher rates** |
|---|---|---|---|---|---|---|
| 1 | Civil, Mechanical, Plumbing, Electrical, Extra items (External & others) | 697.878 | M/s Usmani Associates | 896.249 x 1.57% = 14.071 | 896.249 x 2.46% = 22.047 | 7.976 |
| 2 | HVAC Work | 160.179 | M/s Wular Engineering | | | |
| 3 | Lifts | 23.400 | M/s IITC | | | |
| 4 | Ups | 10.277 | CNS Engineer | | | |
| 5 | Tube well work | 4.515 | M/s Qazi & Co. | | | |
| **Total** | | **896.249** | | | | |

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that due to delay in hiring of consultant by the Pak. PWD, the Ministry hired M/s NESPAK without tendering @ 2.46% of the project cost after approval of the Prime Minister of Pakistan.

The reply was not tenable as the bench mark for award of work to M/s NESPAK without tendering was the rates offered by M/s Hassan Associates through open competitive bidding arranged by Pak. PWD which was 2.46% of the capital cost of the project i.e. 1.57% for design consultancy and 0.89% for supervision consultancy. However, the Ministry concealed the facts regarding offered rates of 1.57% for the design consultancy and indicated the total cost of 2.46% as design consultancy in the summary submitted to the Prime Minister of Pakistan and got the approval incorrectly at higher rates.

The matter was discussed in DAC meeting held on 18.07.2017 wherein the Ministry apprised that the work was awarded after approval of the summary by the Prime Minister of Pakistan. Audit contended that while submitting summary to the Prime Minister the actual rates of 1.57% offered by the consultant firm in open bidding for design consultancy was not brought to the notice of competent authority and rate including supervision consultancy of 0.89% were included and total rate of 2.46% (1.57% + 0.89%) was submitted to the Prime Minister irregularly. DAC directed the Ministry to investigate the matter regarding concealment of facts while submitting the summary to the Prime Minister for approval and submit its report within 15 days to the Ministry and Audit as well.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit recommends investigation into the matter and fixation of responsibility against the persons at fault.

(AIR Para 15)

### 4.2.4 Non re-validation of performance securities - Rs 81.779 million

As per clause 10.1 of PEC standard bidding documents the contractor shall provide performance security equal to 10% or 5% as the case may be, of the contract price to the Employer in the prescribed form within 28 days after the receipt of the letter of acceptance in the shape of bank guarantee provided in Appendix-A to bid.

As per clause 10.2 of General Condition of Contract the performance security shall be valid until the contractor has executed and completed the woks and remedied any defects therein in accordance with the contract. No claim shall be made against such security after the issue of the Defects Liability Certificate in accordance with Sub-Clause 62.1 and such security shall be returned to the contractor within 14 days of the issue of the said Defect Liability Certificate.

Audit observed that project management of Ministry of Science and Technology did not obtain re-validated Performance securities from the contractors as required under the contractual obligations. The public interest was put to risk. This resulted in non-obtaining of performance security of Rs 81.779 million as detailed below:

(Amount in million)

| Name of Work | Name of Contractor | Contract Amount | Performance Security 10% | Provided for the period | Extension required |
|---|---|---|---|---|---|
| Civil, Mechanical, Plumbing, Electrical, Extra items (External & others) | M/s Usmani Associates | 634.572 | 63.457 | 16.04.09 to 12.04.12 | 13.04.12 to 12.04.18 |
| HVAC Work | M/s Wular Engineering | 159.822 | 15.982 | 01.03.13 to 01.03.15 | 02.03.15 to 01.03.17 |
| Lifts | M/s IITC | 23.400 | 2.340 | 01.06.13 to 31.01.14 | 01.02.14 to 31.01.15 |
| **Total** | | | **81.779** | | |

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that the performance guarantee for lift works was valid uptill the period of completion whereas the amount for performance guarantee on account of HVAC work and Civil, Mechanical, Plumbing and extra items (external and others) would be recovered from the final bill of the contractor.

The reply was not tenable as the performance guarantee for Civil, Mechanical, Plumbing and extra items (external and others) and HVAC work were not got renewed for the year 2012 to 2018 and 2015 to 2017 respectively. Hence, the work remained unsecured during that period.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the performance guarantee for lift works was valid upto 31.01.2015 and no more extension was required. Regarding remaining portion of works, the amount on account of premium would be recovered from the pending final bills of the contractors. DAC directed the Ministry to recover the amount and get it verified from Audit.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit recommends early recovery of the premium for the period for which the contracts remained uninsured.

(AIR Para 24)

### 4.2.5 Overpayment to consultant beyond contract provision - Rs 13.434 million

Clause 6.1 (ii) of the contract agreement with M/s NESPAK provides that "cost of works for the purpose of calculation of payable remuneration shall be the price of works awarded to the contractor(s). Finally consultant's remunerations will be adjusted on the basis of 2.54% of the cost of works on completion of the project less the amount of works supervised by others prior to engagement of consultant at site".

The payment was required to be made to the contractor on percentage (%) basis as per the approval obtained from the Prime Minister Secretariat for award of work to the consultant without tendering.

Audit noticed that works for Design and Supervision consultancies for construction of Ministry of Science and Technology Building were awarded to M/s NESPAK on approval of the summary dated 27.05.2006 and a summary dated 26.11.2010 by the Prime Minister's Secretariat Islamabad @ 2.46% and @ 2.54% respectively. The consultant, M/s NESPAK executed the below mentioned works for design as well supervision consultancy.

**(Rs in million)**

| S. No | Name of Work | Amount | Name of Contractor |
|---|---|---|---|
| 1 | Civil, Mechanical, Plumbing, Electrical, Extra items (External & others) | 697.877 | M/s Usmani Associates |
| 2 | HVAC Work | 160.179 | M/s Wular Engineering |
| 3 | Lifts | 23.400 | M/s IITC |
| 4 | UPS | 10.277 | CNS Engineer |
| 5 | Tube-well work | 4.515 | M/s Qazi & Co |
| Total payable work for Design consultancy | | 896.248 | |
| Less work executed by PCSIR (Consultant) | | 106.000 | |
| Total payable work for Supervision consultancy | | 790.248 | |

Audit further noticed that an amount of Rs 42.120 million, as calculated below, was payable to the consultant in accordance with the approved percentage (%) of the design / consultancy works:

**(Rs in million)**

| Design Consultancy | Amount | Supervision Consultancy | Amount | Total |
|---|---|---|---|---|
| 896.248 x 2.46% | 22.048 | 790.248 x 2.54% | 20.072 | 42.120 |

Audit observed that an amount of Rs 55.554 million on account of design and supervision consultancies was paid to the consultant, as detailed in Annexure-A. This resulted in an overpayment of Rs 13.434 million (Rs 55.554 – Rs 42.120) to the consultant.

Audit pointed out the overpayment in March 2017. The Ministry replied in May 2017 that the work was not completed within stipulated period of 24 months and consultant's remunerations worked out on pro-rata basis equal to the monthly installment amount of the original period (Rs 671,589 per month). The reply was not tenable as it was a percentage contract and was required to be paid accordingly.

The matter was discussed in DAC meeting held on 18.07.2017 wherein the Ministry apprised that the completion period of the project was 24 months for which remuneration was fixed @ 2.5% of the contract cost. However, due to non-completion of work within stipulated time period, the consultant remunerations were worked out monthly on pro-rata basis. Audit contended that monthly payment allowed to the contractor was a post-bid amendment and amount paid was beyond the approved permissible limit of 2.54%. DAC directed the Ministry to effect the recovery in accordance with the percentage as approved through the summary submitted to the Prime Minister of Pakistan.

Audit recommends early recovery of the overpaid amount along with interest.

(AIR Para 28)

### 4.2.6 Non-forfeiture of Bid Security - Rs 0.700 million

Clause IB.34 (Sub-clause 34.1) provides that "the successful bidder shall furnish to the Employer Performance Security in the form and the amount stipulated in Conditions of Contract within a period of 14 days after the receipt award and forfeiture of Bid Security" and Clause 34.2, provides "failure of the successful bidder to comply with the requirement of Sub-Clause IB.34.1 or Clause IB.35 or Clause IB.43 shall constitute sufficient grounds for the annulment of the award and forfeiture of the Bid Security".

Audit noticed that tenders for Lift works at Office Building of Ministry of Science and Technology were invited through open competitive bidding and M/s Emfore Corporation was the lowest bidder with its quoted price of Rs 23.500 million against the engineer's estimate of Rs 34.00 million.

Audit observed that the contractor was directed to furnish performance guarantee equal to 10% of the contract value along with contract agreement vide letter dated 27.03.2013 but the contractor failed to submit the required documents and the offer of contract was cancelled by forfeiting the bid security of Rs 0.700 million. The guarantor i.e. (Summit Bank) was requested to pay the amount of bid security in favour of the Ministry but bank expressed its inability to accept the Ministry's claim for forfeiture as it was received on 02.04.2013 whereas the bid security was valid until 11.03.2013.

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that the acceptance letter issued to the company was cancelled by the competent authority. Bank was requested for encashment of bid security but the Bank refused to do so. Hence, the bid security was not forfeited. The reply was not tenable as the contractor failed to provide performance guarantee within given time period and the bid security was required to be forfeited within given time period but the bank refused to pay the claim of department as it was received from the department after the validity of bid security period.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the concerned bank released the bid security to the contractor before the prescribed period and refused to en-cash the security when requested by the Ministry. The matter had been taken up with State Bank of Pakistan for necessary action against the bank concerned. DAC directed the Ministry to intimate the further progress to Audit.

Audit stresses early recovery.

(AIR Para 31)

### 4.2.7 Loss due to improper assessment of diesel generator power and procurement without obtaining competitive rates - Rs 15.357 million

According to contract agreement, the low voltage diesel generator was to be installed of 1500 KVA, 415 Volt prime rating with all accessories manufactured by Caterpillar USA/UK for Rs 31.500 million.

Audit noticed that above referred generator set was to be installed with all accessories, the required power of 1500 KVA was worked out by the project consultant M/s NESPAK.

Audit observed that the item of generator set of 1500 KVA was deleted and extra item, two (2) Diesel Generator sets of 365 KVA each manufactured by M/s Caterpillar and allied equipment without mentioning manufacturing origin were procured by the Ministry. Scrutiny of documents disclosed that source of procurement/supply was of China made.

Audit further observed that only one generator set was in operation and fulfilling the given requirements of the Ministry. Hence, purchase of another generator was not justified. This reflects that BOQ provision of 1500 KVA power generator was much beyond the actual requirements and resulted into undue expenditure of Rs 15.357 million as detailed below.

(Rs in million)

| BOQ Provision | BOQ Cost | Cost Rs per KVA | Payment made for 02 # 365 KVA Sets | Admissible cost of one set | Extra payment |
|---|---|---|---|---|---|
| 1500 KVA D.G Set | 31.500 | 23,107 (34660000/1500 KVA) | 23.791 | 8.434 (23,107*365 KVA) | 15.357 |
| ATS Panel Total | 3.160 | | | | |

The cost of 1500 KVA was Rs 34.660 million against which Rs 23.791 were paid for two D.G sets procured under extra items without obtaining competitive rates. Moreover, all the allied equipment other than the generator origin locally/China make were installed instead of UK/USA origin.

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that as per contract conditions, client was authorized to delete any item and order for any additional or substituted item to complete the work. Hence, it was decided to delete the 1500 KVA generator from the existing contractor and purchased two 350 KVA diesel generators, Caterpillar of UK origin.

The reply was not tenable as no record regarding shipment of the equipment was provided for necessary verification and the procurement was done without open competitive bidding resulting in loss to the public exchequer.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that due to heavy operational cost of 1500 KVA D.G set and over and above the requirement/capacity, the same was substituted with two 350 KVA D.G sets having Caterpillar make with UK origin and payment was made after scrutiny by the consultant. Audit contended that the substituted items were procured without open competitive bidding and with origin of manufacture China instead of United Kingdom as approved in the substituted items statement. DAC directed the Ministry to investigate the matter and submit its report within a month.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit recommends investigation into the matter regarding provision of incorrect generators in the BOQ and later on purchase of deviated items without competitive bidding.

(AIR Para 37)

### 4.2.8 Payment of Sales tax without availability of documents / invoices record - Rs 3.152 million and inadmissible payment of profit on sales tax - Rs 0.788 million

Para 2 (Sub Para 2) of SRO No. 660 (1) 2007, dated 30.06.2007 provides that a withholding agent shall deduct an amount equal to 1/5th of total sales tax shown in sales invoice issued by the supplier and make payment of the balance amount to him.

Audit observed that the contractor was paid an amount of Rs 3.152 million as detailed below on account of sales tax for supply of equipment / material under extra items of work without deduction of 1/5th amount of sales tax or without availability of the relevant documents for payment of sales tax into the government exchequer.

**(Rs in million)**

| S. No | Items | Qty | Unit | Rate | Amount | Sales tax paid |
|---|---|---|---|---|---|---|
| 1 | Transformer 200 KVA | 01 | No | 4.137 | 4.137 | 0.432 |
| 2 | Generator 365 KVA | 02 | No | 23.791 | 23.791 | 2.626 |
| 3 | PVC Pipe 240 starquad multicore Cable | 150 | Meter | 0.005 | 0.812 | 0.094 |
| **Total** | | | | | | **3.152** |

Audit further observed that an amount of Rs 0.788 million as detailed below was paid to the contractor as 25% overhead and profit on sales tax.

**(Rs in million)**

| S. No | Items | Quantity | Unit | Sales tax paid | Profit / overhead paid @ 25% |
|---|---|---|---|---|---|
| 1 | Transformer 200 KVA | 01 | No | 0.432 | 0.108 |
| 2 | Generator 365 KVA | 02 | No | 2.626 | 0.657 |
| 3 | PVC Pipe 240 starquad multicore Cable | 150 | Meter | 0.094 | 0.023 |
| **Total** | | | | | **0.788** |

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that the contractor was advised to furnish the documents regarding deposit of sale tax with the government and incase of failure the same will be deducted from the final bill of the contractor/retention money.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the contractor had been advised to furnish the documents against the sales tax deposited by him. In case of failure the amount would be recovered from the pending final bill of the contractor. DAC directed the Ministry to provide the documents within 15 days to Audit for necessary verification or otherwise effect the recovery.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit stresses early recovery on account of sales tax.

(AIR Para 40)

### 4.2.9 Overpayment to the contractor due to execution of work at higher rates - Rs 5.562 million

Rule-10 of GFR (Vol-I), provides that every public officer is expected to exercise the same vigilance in respect of government expenditure as a person of ordinary prudence would exercise in respect of his personal expenditure.

Audit noticed that the Ministry of Science and Technology decided to substitute the item of work 16-E, "Fluorescent lighting fixture" work awarded to M/s Usmani Associates with LED lights and awarded the work to M/s National Institute of Electronic (NIE) and signed a contract agreement on 18.11.2013 for Rs 11.150 million.

Audit observed that the work was not got executed from the above said institute and an amount of Rs 16.712 million was paid to M/s Usmani Associates as an extra item resulting in an overpayment of Rs 5.562 million i.e. (16.712 – 11.150).

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that NIE the organization of MoS&T failed to provide the desired quality of LED lights and was also reluctant to provide number of lights in shortest period. Hence, the work was got executed from the already mobilized contractor at site. The rates were recommended by the consultant and approved by the Employer.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry reiterated its earlier reply. DAC directed the Ministry to look into the matter and submit its report to Audit for necessary verification.

The compliance to DAC's directive was not made till finalization of this report.

Audit recommends early recovery of the overpaid amount to the contractor.

(AIR Para 41)

### 4.2.10 Non-deduction of income tax on mobilization advance paid to the contractor - Rs 5.711 million and penalty for Rs 10.389 million

As per Section 153 (1) of Income Tax ordnance 2001, every prescribed person making a payment in full or part including a payment by way of advance shall, at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division III of Part III of the first schedule. Section 86 provides that any person fails to deduct, or having deducted, fails to pay any tax, such person shall, without prejudice to any liability he may incur, be liable to pay additional tax at the rate of twenty four per annum on the amount not paid for the period commencing from the date which he was required to pay such tax to the date of the payment thereof.

Audit observed that the Ministry of Science and Technology, Islamabad paid an amount of Rs 95.187 million to the contractor, M/s Usmani Associates on account of Mobilization advance but recovery of income tax of Rs 5.711 million, as detailed below, was not effected from the payment made to the contractor:

**(Rs in million)**

| S. No. | Cheque No. | Date of payment | Installment | Amount | Tax deducted | Tax to be deducted @ 6% |
|---|---|---|---|---|---|---|
| 1 | 0012414 | 27.05.09 | 1st | 47.594 | Nil | 2.856 |
| 2 | 620501 | 09.09.09 | 2nd | 26.000 | Nil | 1.560 |
| 3 | 0620502 | 20.02.10 | 3rd | 15.000 | Nil | 0.900 |
| 4 | 0620504 | 04.06.10 | 4th | 6.593 | Nil | 0.395 |
| | | | | | **Total** | **5.711** |

Audit further pointed out that officers/officials concerned were liable to pay penalty of Rs 10.389 million due to non-deduction of income tax as detailed in **Annexure-B**.

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that the contractor mobilized at site during the month of June 2009 but mobilization advance was paid from May 2009 to June 2010. The income tax @ 6% was deducted on work done at the time of submission of running bills 1st to 19th and deposited with the tax authorities. The reply was not tenable as income tax was also required to be deducted while making payment of mobilization advance to the contractor.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised the committee that as per works procedure applicable in Pakistan, income tax was not deducted on mobilization advance as it was not the income of the contractor. However, department deducted income tax @ 6% on work done at the time of submission of running bills from 1st to 19th IPC from where mobilization advance was recovered. Audit contented that recovery was required to be effected from the contractor in accordance with the Income Tax Ordinance 2001 as amended to date. DAC directed the Ministry to get the clarification from FBR regarding deduction of income tax on mobilization advance.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit stresses early recovery of the income tax and investigation in the matter for fixation of responsibility against the persons responsible.

(AIR Paras 01, 02)

## 4.3 Procurement and contract management

Contract management relates to implementation of contract clauses and compliance with the procedures for the award and completion of works. Issues relating to non-observance of contractual obligations/rules and regulations are as under:-

### 4.3.1 Irregular expenditure due to execution of entirely new work without competitive tendering - Rs 229.239 million

1. Rule 42 (c) (iv) of Public Procurement Rules, 2004 provides that a procuring agency shall only engage in direct contracting if the repeat orders do not exceed fifteen percent (15%) of the original agreement. According to Rule 50 of ibid Rules, any violation of these Rules constitutes mis-procurement.
2. The Inter-Departmental Committee (IDC) of the Public Accounts Committee (PAC) in its meeting dated 17th July, 2001 decided that the management was not empowered to award a new work as additional work to an existing contractor without calling open tenders. It only allows minor adjustments in the already awarded work so as to complete it in all respect.

Audit noticed that Ministry of Science and Technology awarded the work, "Construction of Office Building of Ministry of Science and Technology and its Organization" to M/s Usmani Associates at an agreement cost of Rs 634.572 million on 16.04.2009. The contractor was paid 31st Running bill on 30.06.2016.

Audit observed that works valuing Rs 468.638 million was got executed from the original BOQ against agreed cost of Rs 634.562 million. Subsequently, some entirely new items of works under Building Work, Electrical Work, Plumbing Work, Mechanical Work & Extra External Civil, Plum & Retaining Wall Work for Rs 229.239 million (48.92% of Rs 468.638 million) were also got executed from the same contractor without calling tenders/competitive biddings **(Annexure-C)**.

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that the total work done for Rs 693.693 million was paid to the contractor including external development work and retaining wall which was 9.3% above the awarded contract cost of Rs 634.572 million and was well within permissible limits of 15% and payment was made after approval by the consultant. The reply was not tenable as the work for an amount of Rs 468.638 million was got executed from the original allotted scope of work and an amount of Rs 229.239 million (48.92% above) was paid for entirely new civil, electrical, plumbing, mechanical, retaining wall and external development works beyond the given scope of work without open competitive bidding.

Audit held that additional works were got executed irregularly without open competitive bidding in violation of PAC/IDC decision and PPRA, 2004.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the work done till date was Rs 693.693 million and increase in the quantum of work was only 9.3% which was well within the permissible limits of 15%. Audit contented that new items of works/extra items were got executed at site for Rs 229.239 million in addition to executed work provided through contract agreement and was 48.92% above the given scope of work. DAC directed Ministry to justify the execution of additional work beyond the given scope of work provided in the contract agreement.

Audit recommends investigation in the matter, fixation of responsibility, against the person at fault for violation of prescribed rules.

(AIR Para 03)

### 4.3.2 Loss due to change in lowest quoted bid by overwriting - Rs 13.965 million

Rule 38 of Public Procurement Rules, 2004 provides that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

Audit noticed that M/s United Engineers and Contractor (Pvt.) Ltd was the 1st lowest bidder with a quoted price of Rs 634.408 million and M/s Usmani Associates was the 2nd lowest bidder with quoted price of Rs 648.373 million.

Audit observed that the quoted bid price of M/s United Engineer and Contractor (Pvt.) Ltd was changed to Rs 694.408 million by overwriting after bid opening and contract was awarded to M/s Usmani Associates for Rs 634.573 million.

Due to non-award of work to the lowest bidder a loss of Rs 13.965 million i.e. (Rs 648.373 million - Rs 634.408 million) was sustained.

Audit pointed out the loss in March 2017. The Ministry replied in May 2017 that validity of bid security submitted by M/s United Engineers and contractors was for 58 days shorter than the required period of 148 days and lowest evaluated bid in pursuance of rules was accepted. The reply was not tenable as clause 26.1 of Instructions to Bidders stated that prior to the detailed evaluation of bids, the Employer would determine whether each bidder was substantially responsive to the requirement of the bidding documents. Hence, opening of bid and signing of bid opening statement by the Committee members and subsequent cutting/overwriting indicated that the bid was fulfilling the given criteria and was required to be considered for allotment of work to the lowest bidder.

The matter was discussed in DAC meeting held on 18.07.2017 wherein the Ministry apprised that the validity of bid security submitted by M/s United Engineers & Contractors was 58 days shorter than the required period of 148 days and in pursuance of Clause No. 15.2 and 15.3 of instruction to bidders of PEC standard documents the bid of M/s United Engineers & Contractors was determined non-responsive and lowest evaluated bid was accepted and contract was awarded accordingly. Audit contended that if bid was not responsive it was required to be not opened. Furthermore documentary evidence i.e. opened bid, copy of bid security was not available on record. Hence, it was clear that cutting on the bid opening statement without any signature was done to award the work to the favorite contractor irregularly. DAC directed the Ministry to investigate the matter and submit its report to Audit.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit recommends investigation into the matter regarding non-acceptance of lowest quoted bid after opening of the bid.

(AIR Para 09)

### 4.3.3 Execution of excess quantity - Rs 11.653 million

Contract agreement / Bill of Quantities provided a quantity of 13,150 Sft of aluminum composite panel and 50,000 sft of weather resistant paint. Both items were to be applied for exterior surface of the building.

Audit noticed that the civil work commenced on 16.04.2009 and the contractor was paid 31st Running bill on 30.06.2016.

Audit observed that items of Aluminum Panel and Weather Resistant Paint were provided for a quantity of 63,150 Sft (13,150+50,000 Sft) with percentage of 21% and 79% ratio respectively. Audit further observed that during execution of work, the costly item of Aluminum Panel was increased from 13,150 to 33,195 Sft and Weather Resistant Paint was increased from 50,000 to 63,218 Sft. Total of both executed quantities was 96,413 Sft. Ratio of 21:79 between two items was not maintained and item of Aluminum panel was executed on higher side. 21% comes to 20,247 Sft whereas actual quantity was paid for 33,195 Sft. Thus a quantity of 12,948 Sft of aluminum panel (33195 – 20247 Sft) was paid beyond agreement ratio and resulted into extra payment of Rs 11.653 million (12948 Sft @ Rs 900 per Sft). It was also pointed out that both the item of exterior surface was increased. The detailed technical estimate was not made available to verify the executed locations of the item.

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that the quantities mentioned in BOQ were estimated which may increase or decrease. The executed quantities were provided in the revised PC-I and was paid after physical execution at site duly checked by the consultant of the project. The reply was not tenable as the items of work having higher rates were increased abnormally as against the quantities provided in BOQ.

The matter was discussed in DAC meeting held on 22.06.2017. The DAC directed the Ministry to get the items re-measured with reference to the detailed approved estimate and submit its report to the Ministry and Audit as well.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit recommends action in light of the report of re-measurement.

(AIR Para 13)

### 4.3.4 Excess payment due to execution of extra work - Rs 8.484 million

i. Para 1100.9.1.2 of the work specification provides that any fill with approved material necessitated by over excavation due to fault or convenience of the contractor will not be payable.

ii. Para 1100.4.16 of the work specification also provides that if for any reason, the levels, grades or profiles of the excavations were changed adversely by the contractor, he shall at his own cost be liable to bring the excavation to required level and profile.

Construction drawing/typical cross section of the building of science and technology covered/constructed area of basement was up to 31,359 Sft which was maximum covered area of a floor provided in 3rd revised PC-I of the building.

Audit observed that total built up area of the building was 201,154 Sft as provided in 3rd revised PC-I, the building consisted of two basements, ground floor plus five floors. The basements have maximum constructed area of 31,359 Sft against which area of 48,500 Sft was excavated as recorded in first IPC and revised in 6th interim payment certificate. Wherein 485 locations shown for excavation having 10 feet length and 10 feet breadth covering an area up to 48,500 Sft (485 Nos x 10 feet x 10 feet) against the admissible covered area of 31,359 Sft. resultantly an area of 17,141 Sft (48,500 – 31,359 Sft) was extra included in the excavation area. This involved extra excavation of 257,115 Cft and its backfilling. The excavation and backfilling were not required for construction purpose and it was done to ease the construction which was not admissible and resulted in an extra expenditure of Rs 8.484 million as detailed below:

**A.**

| Reference bill | No. of excavation location | Length of each | Breadth | Total excavation area |
|---|---|---|---|---|
| IPC No 6<br>IPC No 1 | 485 Nos | 10 feet | 10 feet | 48,500 Sft |

| Admissible area of basement | Extra area | Average depth | Extra Qty of excavation | Rate per Cft | Extra amount (Rs) |
|---|---|---|---|---|---|
| 31,359 Sft | 17,141 Sft | 15 feet | 257,115 Cft | Rs 25 | 6,427,875 |

**B.**

Same quantity 257,115 Cft was refilled against the BOQ quantity of 32,000 Cft (total back filling was 304,000 Cft).

Extra cost of backfilling: 257,115 Cft @ Rs 8 per Cft =
Rs 2,056,920

**Grand total: (A+B) (Rs 6,427,875 + 2,056,920) =Rs 8,484,795**

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that the excavation was paid to the contractor in accordance with the spot level sheet and building layout plan. The reply was not tenable as excavation was paid abnormally higher than the provision.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry reiterated its previous reply. DAC directed the Ministry to get the relevant record verified from Audit within 15 days.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit stresses early recovery from the person at fault.

(AIR Para 14)

### 4.3.5 Unauthentic payments without recording detailed measurement in Measurement Books - Rs 789.382 million

Para 209 (d) of CPWA Code provides that all payments for work or supplies are based on quantities recorded in the Measurement Book. It is incumbent upon the person taking the measurements to record the quantities clearly and accurately. He will also work out and enter in the MB the figures for the "content or area" column. Para 208-211 of CPWA Code further provides that Sub-Divisional Officer will be responsible for all entries of work done and test check of 50% of the entries and accept the accuracy of all Measurement/Payment.

Audit noticed that the project management recorded measurements up to IPC No. 5, for construction of MoS&T building for value of wok done of Rs 106.507 million.

Audit observed that the detailed measurements of the building work from IPC No. 6 to 31 as well as other works as detailed below were not recorded in MBs as required under above mentioned rules. This resulted in unauthentic payments of Rs 789.382 million as detailed below:

(Rs in million)

| S. No | Name of Work | Name of Contractor | Amount entered in Measurement Books | Remaining Amount to be entered |
|---|---|---|---|---|
| 1 | Civil, Mechanical, Plumbing, Electrical, Extra items (External & others) | M/s Usmani Associates | 106.507 | 591.011 |
| 2 | HVAC Work | M/s Wular Engineering | Nil | 160.179 |
| 3 | Lifts | M/s IITC | Nil | 23.400 |
| 4 | UPS | CNS Engineer | Nil | 10.277 |
| 5 | Tube well work | M/s Qazi & Co. | Nil | 4.515 |
| **Total** | | | | **789.382** |

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that the entries and calculation of the work done at site were made in the interim payment certificate by the consultant given all kinds of information and measurement books as required in the public works departments were not being maintained. The reply was not tenable as measurement book was a permanent record of the project and was required to be maintained.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the work was designed and was being supervised/executed in accordance with the PEC standard forms and not upon Pak. PWD Codes. DAC directed the Ministry to get the work measured and detailed entries recorded in Measurement Books being the permanent record of execution.

The compliance of DAC's directive was not made till the finalization of this report.

Audit recommends early action for recording of the measurements in the measurement books being a permanent record.

(AIR Para 29)

### 4.3.6 Import of lifts not fulfilling the given specification according to contract agreement - Rs 23.400 million

The technical data for import of passenger lifts from Korea manufactured by Hyundai Company indicates that the lifts will be with 8 stops and opening (2 basement + Ground floor + 5 upper floors).

Audit noticed that Ministry of Science and Technology Islamabad awarded a work "Supply, Installations, Testing and Commissioning of lift work at office Building of Ministry of Science and Technology Islamabad" to M/s Islamabad Industrial & Trading Corporation at an agreement cost of Rs 23.400 million on 30$^{th}$ May, 2013.

Audit observed during scrutiny of bill of lading that the lifts imported from Korea had 6 doors/stops as against the agreement specifications of 8 doors and stops. Audit was of the view that the installed lifts were not actually imported and four lifts were arranged from a local manufacturer. This resulted in non-payment of duties and taxes in the public exchequer by the contractor (the breakup of cost of lifts was not available on record).

Audit further observed that clause 5, contract agreement section-9000, of Special Provisions required that all equipment would be subject to inspection and testing by the one representative of Employer and one representative of Engineer at its point of original manufacture or final shop assembly before its packing and dispatch to site. The contractor was responsible for necessary arrangements and provision of all the facilities required for conducting such inspection, at contractor's cost.

Audit was of the view that due to non-availability of the proper bill of landing and non-inspection by the Employer as well as Engineer's representative (non-availability of inspection report) import of the equipment could not be substantiated.

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that due to delay in provision of necessary documents for visa processing as requested by the contractor the manufacturer was not willing to keep the lifts in its store and dispatched to Pakistan so instead of pre-shipment inspection a detailed inspection was carried out at site by the consultant and representative of the Ministry and found lifts as per technical specification. A sum of Rs 7 lac had been withheld to adjust the expenditure of pre-shipment inspection.

The reply was not tenable as per available record lift had 6 doors/stops instead of 8 doors and stops, as mentioned in the specification.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the contractor requested for provision of essential documents i.e. passport, CNIC, NOC and photographs, etc. for processing of visa applications which were not provided timely and lifts were dispatched to Pakistan by the manufacturer and the same were inspected by the consultant and Ministry's representative at site and found in accordance with the technical specification. An amount of Rupees seven lac was withheld and would be adjusted from the contractor's bill. Audit contended that the bill of lading provided during Audit clearly indicated six doors/stops lift, as against the agreement specification of 8 doors and stops. Admitted amount of Rupees seven lac for pre-shipment inspection was also required to be recovered. DAC directed the Ministry to get the relevant record i.e. pre-shipment document verified from Audit and recovery on account of pre-shipment inspection may also be effected.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit recommends investigation into the matter regarding non-import of the required lifts in accordance with the given specification and payment of taxes and duties into public exchequer and recovery for not visiting the manufacturer country for pre-shipment inspection.

(AIR Para 32)

### 4.3.7 Deficient performance of the Consultant during design and construction supervision phases

The contract agreement for design consultancy signed in between MoS&T and M/s NESPAK, Appendix-A, Scope of Services Para A.2.4 “tender documents” provides that:

a. Preparing specifications and such particulars as may be necessary for the preparation of bills quantities.

b. Preparing detailed bills of quantities and conditions of contract as per standard document of PEC.

c. Preparing final cost estimates on the basis of Pak. PWD Schedule of Rates and on current market rates for items not available in Pak. PWD Schedule of Rates.

d. Preparing Tender documents in respect of the project.

The contract agreement for Supervision consultancy signed in between MoS&T and M/s NESPAK, Para 3, obligation of the consultants, Sub-Para 3.1, “General” provides that:

“The consultant shall perform the services and carry out their obligations with all due diligence, efficiency, and economy, in accordance with generally accepted professional techniques and practices, and shall observe sound management practices, and employ appropriate advance technology and safe methods. The consultants shall always act, in respect of any matter relating to this contract or to the services, as faithful advisers to the client, and shall at all times support and safeguard the client’s legitimate interests in any dealings with sub-consultants or third parties”.

Audit noticed that M/s NESPAK while preparing the bidding documents issued addenda No. 01 and 02 without approval of the competent authority i.e. Secretary M/o S & T and provided undue benefit to the bidders/contractor as under:-

i. Change in payment of Mobilization Advance from 10% to 15% as against prescribed bidding documents of PEC and provided undue benefit of Rs 31.787 million to the contractor (Rs 95.187 million – Rs 63.400 million).

ii. Payment of mobilization advance on provision of insurance guarantee instead of prescribed bank guarantee as per bidding documents of PEC and provided undue benefit to the contractor for Rs 95.187 million.

iii. Changed Appendix-C to the contract in fixed and variable portion from 0.610 to 0.52 and from 0.392 to 0.48 (variable factor) resulting in undue benefit of Rs 19.359 million to the contractor.

iv. Overpayment on account of supervision consultancy beyond contract provision - Rs 13.434 million.

v. Certified extra payment on account of price adjustment beyond the contract period - Rs 48.287 million.

vi. Certified extra payment due to measurement of inadmissible item of concrete Class-C under porcelain tiles - Rs 4.560 million.

vii. Incorrect bid for civil work due to acceptance of 2nd lowest bidder, by over writing resulting in a loss of Rs 13.965 million.

viii. Irregular authentication of the contractor's claim on account of compensation of losses resulting in unjustified payment of Rs 90.850 million.

ix. Recommendation of undue payment of advance for purchase of material (beyond contract clauses) - Rs 107.00 million

x. Certified extra execution of sub-base item under porcelain tiles resulting in excess payment of Rs 2.020 million.

xi. Irrational execution of excessive quantities of aluminum panel and Weather Resistant Paint as against the provision of contract agreement resulting in excess payment of Rs 11.653 million.

xii. Certified payments for execution of deleted scope of work for Granite wall cladding by fictitious measurement still to be recovered from the contractor from last two years - Rs 6.805 million.

xiii. Providing undue benefit to the contractor by certifying incorrect payment of Rs 13.599 million on account of the work, "Flexible connection for duct work and exhaust fans connection" with duct works and recovery after period of 2 years.

xiv. Non-recommendation of imposition of penalty due to slow progress of the contractor - Rs 63.457 million.

xv. Certified procurement of equipment from un-authorized manufacturer - Rs 14.092 million.

xvi. Recommended payment of spare parts of HAVC work without availability on record - Rs 9.675 million.

xvii. Recommended for payment of deleted items - Rs 10.632 million.

xviii. Certified procurement of HVAC machinery without pre-shipment inspection and non-availability of bill of lading - Rs 80.439 million.

xix. Providing loss due to improper assessment of diesel generator power and procurement without obtaining competitive rates - Rs 15.357 million.

Audit pointed out the issue in March 2017. The Ministry replied in May 2017 that addendums were issued after approval of the competent authority. Supervisory consultancy was received in accordance with the approved monthly rate and the work was executed according to site requirements. Advances were paid to the contractor after receipt of bank guarantee. Recovery of Rs 15.947 million, overpaid to the contractor on account of income tax and recovery for concrete Class-C for Rs 4.560 million would be effected in final bill of the contractor. The reply was not tenable as no documentary evidence for approval of addendums was provided to audit. Recovery of Rs 20.057 million for income tax and concrete Class-C was admitted to be effected from the final bill of the contractor which indicated itself the poor performance of the contractor.

The matter was discussed in DAC meeting held 22.06.2017 wherein the Ministry apprised that addendums were issued after approval of the competent Authority, payment on consultancy was received in accordance with contract agreement and necessary recoveries on account of deleted items paid to the contractor and extra payment of income tax in claim will be effected from the final bill of the contractor. DAC was not satisfied with the consultant performance and directed the Ministry to look into the matter.

Audit recommends early investigation in the matter on the above mentioned irregularities of M/s NESPAK committed during execution of work and fixation of responsibility.

(AIR Para 38)

## 4.4 Construction and works

### 4.4.1 Site selection

Capital Development Authority (CDA) provided a plot for Science Complex at the Constitutional Avenue Islamabad, where the office building of Pakistan Science Foundation (PSF), Pakistan Council for Scientific & Industrial Research (PCSIR), Pakistan Council for Science and Technology (PCST) and Pakistan Medical Research Council (PMRC) were already constructed and a portion of the plot was available which could be utilized for the construction of new offices of MoS&T and some of its organizations.

### 4.4.2 Preparation of drawing and design

The Ministry appointed M/s NESPAK as consultants for drawing, design and construction supervision of the project. CDA approved the drawings on 05.08.2009.

### 4.4.3 Construction schedule

The construction schedule for the project was prepared by the contractor and approved by the Consultant and the Employer.

### 4.4.4 Monitoring of construction

The consultant M/s Engineering Associates were responsible for monitoring of construction work for timely completion.

### 4.4.5 Physical Progress

The original time for completion of project was 24 months from 2004-05 while the civil work was started on 16.04.2009 and was to be completed up to 15.04.2011. The contractor did not complete the work on due date and only achieved less than 50% progress up to the stipulated date for completion. All civil works of the office building for Ministry of Science and Technology, including structure of the building, Heating, Ventilation, Lifts and Air-conditioning (HVAC) systems were substantially completed but neither completion certificate issued by the consultants nor the building had been taken over from the contractor. However, last extension in time limit was granted upto 31.12.2015.

### 4.4.6 Procedures to ensure quality of work

The consultant was hired to ensure the quality of work. His responsibility was to inspect the site from time to time, properly test the material through laboratory tests and to ensure execution of work as per approved drawing and specifications.

Proper planning, estimation, approval and execution were the benchmarks to ensure economical and sustainable execution of works. Audit, however, noticed the following irregularities relating to construction and works:

### 4.4.7 Extra payment on account of price adjustment beyond the contract period - Rs 48.287 million

Clause 70 (e) of the contract agreement provides that, "if contractor fails to complete the works within the time for completion prescribed under Clause 43, adjustment of price thereafter until the date of completion of the Works shall be made using either the indices or prices relating to the prescribed time for completion, or the current indices or prices, whichever is more favorable to the Employer, provided that if an extension of time is granted pursuant to Clause 44, the above provision shall apply only to adjustments made after the expiry of such extension of time".

Audit noticed that letter of acceptance was issued on 16.04.2009 with completion period 728 days (Appendix A to bid). The stipulated completion date was April 2011. The contractor was paid 31st Running bill on 30.06.2016.

Audit observed that the contractor executed the work valuing Rs 142.957 million up to stipulated completion period i.e. April 2011 vide 7th running bill paid in May 2011. The Price Adjustment was Rs 4.179 million up to May 2011, the escalation factor in May 2011 was @ 1.108 (detail of price adjustment refereed for May 2011). This factor was required to be frozen and applied at the remaining value of work done of Rs 470.585 million (Rs 613.544 million – Rs 142.958 million). Accordingly the admissible amount of price adjustment was Rs 55.002 million (as detailed below) against that paid amount of price adjustment of Rs 103.249 million.

| | **(Rs in million)** |
|---|---|
| Total work done up to IPC # 31: | 613.544 |
| Less work executed up to April 2011 (7th bill) | 142.958 |

| | |
|---|---|
| Work executed beyond stipulation period | 470.586 |
| Price adjustment factor applied in May 2011 as calculated above with reference to the Annexure-D | @ 1.108 |
| | 521.409 |
| Less work done | (-) 470.586 |
| Price adjustment admissible beyond contract period | 50.823 |
| Added price adjustment paid during currency of contract | 4.179 |
| Total admissible price adjustment | 55.002 |
| Total adjustment paid up to 31st IPC | 103.249 |
| Extra amount of price adjustment | **48.247** |

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that time extension was granted to the contractor upto the actual taking over date of the project and price adjustment was paid using the current indices. The reply was not tenable as the extension granted to the contractor was not supported with the relevant documents/record because the consultant M/s PCSIR and Ministry time and again intimated the contractor regarding slow progress beyond the given schedule. Hence, escalation on current indices was not payable to the contractor.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that time extension was granted to the contractor upto the actual taking over date of the project and price adjustment was paid using the current indices in accordance with the contract conditions. Audit contended that the given time extension was not supported with the documentary evidence as Ministry informed the contractor time and again regarding slow progress of work and contractor failed to complete the work within given time period despite providing financial support in shape of advance of 107 million over and above the contract provisions and stoppage of mobilization installments hence extra payment on account of price adjustment was not admissible and required to be recovered. DAC directed the Ministry to hold an inquiry in the matter within 15 days and submitted report to the Ministry/Audit.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit recommends early recovery of Rs 48.247 million.

(AIR Para 04)

### 4.4.8 Unauthorized payment on account of price adjustment - Rs 19.359 million

As per Appendix-C to the Contract Agreement the fixed factor of price adjustment was 0.61 and variable was 0.39.

Audit observed that fixed factor of price adjustment was decreased from 0.61 to 0.52 and variable factor was increased from 0.39 to 0.48 through unapproved addendum. In pre-bid meeting it was also decided that factor of steel and cement would not be changed and remained as provided in bid document i.e. 0.12 and 0.07 which were changed to 0.14 and 0.09 and made part of unapproved addendum (without approval of the employer). Unauthorized change of bidding documents resulted into unauthorized/irregular payment of Rs 19.359 million as detailed below:

Amount of price adjustment on 48% variable factor:= Rs 103.249
Amount of price adjustment on 39% variable factor: = 103.249/48% x 39% = 83.890

(Rs in million)

| Price adjustment paid 48% | To be paid 39% | Difference / overpaid |
|---|---|---|
| 103.249 | 83.890 | **19.359** |

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that the given coefficient was changed in light of the pre-bid meeting with the contractor and after approval of the competent authority. The reply was not tenable as addendum in the contract was issued by the consultant itself without approval of the Employer.

The matter was discussed in DAC meeting held 22.06.2017 wherein the Ministry apprised that the consultant issued addendum No. 01

regarding change in factor before opening of the tender in response to pre-bid meeting with the contractors and obtained approval of the employer in a meeting held in June 2015. Audit contended that the approval of employer was not obtained by the consultant regarding change in the variable factor and incorporated changes itself, opened tender during December 2008 with changed factor irregularly. Hence, post-bid approval was not justified. DAC directed the Ministry to inquire the matter and submit its report to Audit.

Audit recommends recovery of Rs 19.359 million from the persons responsible.

(AIR Para 06)

### 4.4.9 Extra payment due to measurement of inadmissible item of concrete class-C under porcelain tiles - Rs 4.560 million

Item No. 1 – 32 C of contract agreement provides 2 feet x 2 feet matt finished porcelain floor tile (imported UAE) @ Rs 300 per Sft including concrete Class 'C' laid under the tiles.

Audit observed that the item of floor 2 feet x 2 feet, porcelain tiles included cost of Class 'C' concrete and measurement of the item of providing/laying 1-1/4 inches concrete Class 'C' and its payment for a quantity of 76,000 Sft at rate of Rs 60 per Sft for Rs 4.560 (76,000 Sft @ Rs 60 per Sft) stood unjustified as execution of the extra quantity under the tile was not admissible. This resulted in an extra expenditure of Rs 6.560 million.

Audit pointed out the extra payment in March 2017. The Ministry replied in May 2017 that recovery of Rs 3.896 million would be effected from the final bill of the contractor.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that recovery of Rs 3.896 million would be effected from the final bill of the contractor. However, recovery was not reported till the finalization of this report.

Audit recommends early recovery of admitted amount.

(AIR Para 07)

### 4.4.10 Unjustified payment due to measurement of an item of work beyond the provision of contract agreement - Rs 13.599 million and non-recovery of interest there-upon - Rs 3.988 million

Para 3.1 "General" under sub head 3 "Obligation of the Consultant" of the contract agreement for supervision of the construction work of MoS&T building with M/s NESPAK provides that "the Consultant shall perform the services and carry out their obligation with all due diligence, efficiency, and economy in accordance with generally accepted professional techniques and practices, and shall observe sound management practices, and employ appropriate advance technology and safe methods. The Consultants shall always act, in respect of any matter relating to this Contract or to the Services, as faithful advisers to the Client, and shall at all times support and safeguard the Client's legitimate interest in any dealings with Sub-consultants or third parties".

Audit noticed that in accordance with the contract agreement for HVAC work awarded to the contractor M/s Wular Engineers on 18.02.2013, the item of work 1.04 "Flexible connection for duct work and Exhaust fans connection with duct work" were provided as 01 lot against which the contractor quoted the rate of Rs 0.200 million for whole the duct works and was to be paid accordingly.

Audit observed that the said item was paid for Rs 13.525 million irregularly. However, the same was deducted later on without recovery of interest of Rs 3.988 million on the incorrect payment made to the contractor as detailed below.

**(Rs in million)**

| IPC No | Balance Amount | Amount paid | Amount admissible | Excess paid | Date of payment | Amount adjusted | Date of adjustment | Interest @ 14% |
|---|---|---|---|---|---|---|---|---|
| 7th | Nil | 12.470 | 0.200 | 12.270 | 24.06.14 | 5.666 | 14.06.16 | 3.436 |
| | 6.605 | Nil | Nil | Nil | 15.06.16 | 6.605 | 21.10.16 | 0.319 |
| 8th | Nil | 0.697 | Nil | 0.697 | 15.06.15 | 0.697 | 21.10.16 | 0.129 |
| 10th | Nil | 557,440 | Nil | 0.557 | 22.06.15 | 0.557 | 21.10.16 | 0.104 |
| **Total** | | **13.725** | | **13.525** | | | | **3.988** |

Audit pointed out the issue in March 2017. The Ministry admitted recovery on account of interest for Rs 3.988 million due to overpayment of Rs 13.599 million to the contractor.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry agreed to recover the interest on account of payment made to the contractor beyond the contractual provision. DAC directed to effect the recovery and get it verified from the Audit.

Audit stresses early recovery of admitted amount of Rs 3.988 million.

(AIR Para 22)

**4.4.11 Non-imposition of liquidated damages due to non-completion of work in stipulated time period - Rs 63.457 million**

As per Appendix "A, Special stipulations, liquidated damages to be deducted / imposed under clause 47.1, @ 0.10% (one tenth of one percent) for each day of delay in completion of works subject to a maximum of 10% of the contract price stated in letter of acceptance.

Audit noticed that gross value of work done of Rs 135.323 million was paid to the contractor up to IPC No. 6 dated 03.06.2011.

Audit observed that, the work was awarded to M/s Usmani Associates with completion period of 2 years ending April 2011, the average monthly progress was required to be achieved 4.17% per month, but after lapse of 20 months physical progress at site was only 18% instead of 83.33%. The contractor failed to complete the work in stipulated period and could achieve progress of less than 50% up to completion date. As per contract provision the contractor was required to submit completion certificate on completion of works but contractor had not been issued completion certificate up till now. Hence, contractor was liable to be penalized/imposed liquidated damages @10% of contract cost of Rs 63.457 million (634.572 x 10%).

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that time extension was granted by the competent authority and imposition of liquidated damages was not in accordance with the contract conditions. The reply was not tenable as progress of the contractor was not upto the mark and grant of extension in completion period was unjustified.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the extension of time was granted by the competent authority, hence, imposition of liquidated damages on the contractor was not justified. Audit contended that the given time extension was not supported with the documentary evidence as Ministry informed the contractor time and again regarding slow progress of work and contractor failed to complete the work within given time period despite providing financial support in shape of advance of Rs 107.00 million over and above the contract provisions and stoppage of mobilization installments. Hence, the contractor was liable to pay liquidate damages in accordance with the contractual provision. DAC directed the Ministry to hold an inquiry into the matter within 15 days and submit report to Audit.

The compliance to DAC's directive was not conveyed till finalization of this report.

Audit recommends imposition of liquidated damages and early recovery thereof.

(AIR Para 23)

### 4.4.12 Non-procurement of equipment from authorized manufacturer - Rs 14.092 million

Contract agreement provides submersible drainage pumps and deep well turbine pump vide item No. 30, 46, 47 and 48 manufactured by "Grundfos".

Audit noticed that submersible drainage pumps, deep well turbine and fire water jockey pumps were provided and executed.

Audit observed during scrutiny of record that the project engineer M/s NESPAK approved the manufacturer M/s Grundfos as provided in the contract agreement whereas the technical submittal of the Engineer M/s NESPAK reflected that the pumps procured were of HMA make / manufactured. This was a clear violation of the contract agreement and led to purchase of below specification items valuing Rs 14.092 million.

It was further added that record entries of all the items made at the time of actual measurement of the installed equipment, machinery and civil works were silent about name/brand of their approved manufacturer.

Details of pumps were as under:

**(Rs in million)**

| Item No | Description of items | Quantity | Rate | Amount |
|---|---|---|---|---|
| P-30 | Submersible drainage pumps | 8 Nos | 1.069 | 8.554 |
| P-46 | Deep wall turbine pumps | 2 Nos | 1.282 | 2.565 |
| P-48 | Deep wall turbine pumps | 2 Nos | 1.203 | 2.406 |
| P-47 | Fire water jockey pump | 1 Nos | 1.310 | 1.310 |
| **Total** | | | | 14.834 |
| Less Rebate 5% | | | | (7.418) |
| **Total** | | | | **14.092** |

Audit pointed out the irregularity in March 2017. The Ministry replied in May 2017 that M/s HMA was the authorized distributer of M/s Grundfos Pumps in Pakistan and equipment was purchased accordingly. The reply was not tenable as the license agreement of M/s HMA Pumps and M/s Grundfos was valid till December 2010 and as per agreement expired automatically. Hence, purchase from unauthorized dealer was not justified.

The matter was discussed in DAC meeting held on 22.06.2017 wherein the Ministry apprised that the equipment was purchased from authorized manufacturer. Audit contended that license validity for authorization as distributer was upto 31.12.2010 and equipment was purchased after expiry of the validity period. DAC directed the Ministry to get the extension in time period verified from Audit.

No record was produced for necessary verification till finalization of this report.

Audit recommends early compliance of DAC's directive.

(AIR Para 27)

## 4.5 Monitoring and Evaluation

The Ministry appointed a Consultant M/s NESPAK for detailed design and supervision of construction works executed by the Contractor. The consultant was responsible for monitoring the satisfactory and timely completion of the project. However, poor performance of the consultants has been explained in the preceding paragraphs.

## 4.6 Environment

The building was designed by M/s NESPAK keeping in view the entire environmental factor and the project would not create any adverse impact on the environment.

## 4.7 Sustainability

### 4.7.1 Probability of funding for project completion

Initially, the PC-I of the project was approved for Rs 198.016 million, but was revised to Rs 1,310.00 million due to enhancement and changes in scope of work and hike in prices and some necessary additional work the cost estimate were likely to increase. Sustainability of the project depends mainly upon the sufficient flow of financial resources, both during implementation and operation. The revised PC-I cost of Rs 1,310.00 million was to be spent over eight years from 2006-07 to 2014-15 as per financial phasing.

### 4.7.2 Estimated annual recurring cost

An amount of Rs 9.677 million has been provided in PC-I (3rd revised) as annual operating cost after completion.

Steps need to be taken to ensure smooth funding for operation/maintenance of the project as provided in PC-1.

## 4.8 Overall Assessment

i. **Relevance:** The project was part of Public Sector Development Programme (PSDP) of the Federal Government which aims at achieving the long term development objectives.

ii. **Efficiency:** Project remained lagging behind the planned progress. Progress reports were not prepared by the consultant monthly. Due to the reasons physical progress at different stages cannot be ascertained. Main causes attributed to the delay were post-bid changes, slow progress in releasing funds by Finance Division besides hurdles in supplying of material to the red zone of Islamabad. The project had witnessed time/cost overruns. The original PC-I was revised in October 2007 from Rs 198.019 million to Rs 620.494 million and then cost was revised to Rs 995.078 million in June 2012 due to enhancement of covered area. Final revision was accorded by ECNEC for Rs 1,310.083 million due to provision of solar electrification system of 200 KVA, LED Lights, additional work for fixing of tiles on terraces, Construction of retaining wall, Lighting protection, Servers equipment, UPS system and Tube well. After subsequent revisions, the PC-I cost was finalized at Rs 1,310.083 million against which an expenditure of Rs 1,179.028 million upto February 2017, had been incurred.

iii. **Economy:** Public Procurement Rules were followed while procuring main civil works. However, additional works were awarded without competitive bidding. Design consultancy was also awarded without competitive bidding at higher rates.

**iv.** **Effectiveness:** The objective of the project was to provide sufficient office space as well as other facilities for the Ministry. All civil works of the office building for Ministry of Science and Technology, including structure of the building, Heating, Ventilation, Lifts and Air-conditioning (HVAC) systems had been substantially completed. However, project objectives regarding accommodating the offices were delayed due to delayed execution of work.

**v.** **Compliance with Rules:** Major stances of non-compliance of rules include:

a. Unjustified payment on account of compensation of losses to the contractor - Rs 90.850 million (Para 4.2.1)

b. Undue payment on account of advance for purchase of material - Rs 107 million and non-recovery of interest there- upon - Rs 16.738 million (Para 4.2.2)

c. Loss due to acceptance of bid at higher rates without tendering for design consultancy - Rs 7.976 million (Para 4.2.3)

d. Overpayment to the contractor due to execution of work at higher rates - Rs 5.562 million (Para 4.2.9)

e. Irregular expenditure due to execution of entirely new work without competitive tendering - Rs 229.239 million (Para 4.3.1)

f. Extra payment on account of price adjustment beyond the contract period - Rs 48.287 million (Para 4.4.7)

g. Unauthorized payment on account of price adjustment - Rs 19.359 million (Para 4.4.8)

## 5. Conclusion

### 5.1 Key issues

Physical progress of civil work remained far behind the planned schedule. The contractors could not complete the construction works despite extension in the original completion period. As evident from correspondence with contractor/consultant, contractor's performance was poor. The management should, therefore, determine the causes of slow progress and take remedial measures to improve performance of the contractors and consultants by invoking relevant contract clauses.

### 5.2 Lessons identified

i. Non-compliance of contractual obligations and codal provisions are the critical areas which need to be improved. Audit observed that project was not properly managed. The mismanagement can be attributed mainly to the fact that Ministry of Science and Technology has no engineering background to handle infrastructure development projects. Such works should, therefore, be entrusted to specialized department like Pak PWD for successful implementation of the projects.

ii. Internal controls system including internal audit be strengthened to ensure proper planning, execution and monitoring of the development projects.

## Acknowledgement

We wish to express our appreciation to the management and staff of Ministry of Science and Technology Islamabad for the assistance and cooperation extended to the auditors during Audit of the Project.

Annexure-A
Ref to Para 4.2.5

Overpayment to M/s NESPAK beyond contract provision Rs 13.434 million

| **Payment made to contractor NESPAK Islamabad on account of design and supervision consultancy for the work construction of building for Ministry of Science and Technology Islamabad** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Details** | **Cheque no.** | **Payment** | **Income Tax** | **Net Payable** |
| 29.09.2006 | 10% advance payment for design consultancy | 0012401 | 390,000 | - | 390,000 |
| 26.02.2008 | Do | 0012407 | 1,590,000 | - | 1,590,000 |
| 16.09.2011 | Do | 0012437 | 7,482,400 | - | 7,482,400 |
| 22.06.2010 | Do | 620509 | 6,000,000 | - | 6,000,000 |
| 08.10.2012 | Do | 620584 | 3,689,000 | - | 3,689,000 |
| 01.04.2013 | Do | A039303 | 968,263 | - | 968,263 |
| 28.06.2016 | Do Cheque partly paid for design consultancy | A331232 | 1,274,341 | - | 1,274,341 |
| **Total amount of design consultancy** | | | 21,394,004 | | **21,394,000** |
| 19.12.2011 | Supervision of Construction Work | 0012446 | 2,827,430 | 169,646 | 2,657,784 |
| 04.06.2012 | Do | 620565 | 2,261,944 | 135,717 | 2,126,227 |
| 25.06.2012 | Do | 620572 | 2,261,944 | - | 2,261,944 |
| 04.12.2012 | Do | 620594 | 2,827,430 | 169,646 | 2,657,784 |
| 18.04.2013 | Do | A039314 | 2,261,944 | 193,812 | 2,068,132 |
| 27.06.2013 | Do | A039326 | 1,130,972 | - | 1,130,972 |
| 11.02.2014 | Do | A039357 | 4,833,310 | - | 4,833,310 |
| 23.06.2014 | Do | A039376 | 1,622,636 | 97,358 | 1,525,278 |

| | | | | | |
|---|---|---|---|---|---|
| 26.06.2014 | Do | A039387 | 2,631,058 | 157,863 | 2,473,195 |
| 22.06.2015 | Do | A256404 | 7,129,370 | 427,762 | 6,701,608 |
| 28.06.2016 | Do | A331232 | 517,281 | 107,497 | 517,281 |
| 28.06.2016 | Do | A331236 | 462,117 | 27,727 | 434,390 |
| 29.06.2015 | Do | A256423 | 3,392,916 | 203,575 | 3,189,341 |
| **Total amount of Supervision consultancy** | | | **34,160,352** | | |
| **Grand total for design and supervision consultancy** | | | **55,554,356** | | |

Annexure-B
Ref to Para 4.2.10

**Recoverable sum on account of penalty due to non-deduction of income tax since 2009- Rs 10.389 million**

| Install ment No. | Cheque No/ Voucher No | Amount | Date of payment | Required tax deduction @ 6% | Lapse period upto February 2017 | Rate of penalty @ 24% per annum | Penalty Amount |
|---|---|---|---|---|---|---|---|
| 1 | 012414/14 | 47,593,936 | 27.05.2009 | 2,855,576 | 7.9 years | 24% PM | 5,414,172 |
| 2 | 620501/01 | 26,000,000 | 09.09.2009 | 1,560,000 | 7.5 years | 24% PM | 2,808,000 |
| 3 | 0620502/02 | 15,000,000 | 20.02.2010 | 900,000 | 7 years | 24% PM | 1,512,000 |
| 4 | 0620504/04 | 6,593,000 | 04.06.2010 | 395,580 | 6.8 years | 24% PM | 655,080 |
| | **Total** | | | | | | **10,389,252** |

Annexure-C

Ref to Para 4.3.1

Irregular expenditure due to execution of entirely new work without competitive tendering Rs 229.239 million

| S. No | Name of Work | Original work as per BOQ | Less saving | Value of work to be executed after savings | Work Executed | Excess |
|---|---|---|---|---|---|---|
| 1 | Building Work | 489,509,250 | 86,792,288 | 402,716,962 | 513,388,596 | 110,671,634 |
| 2 | Electrical Work | 134,781,674 | 80,786,482 | 53,995,192 | 68,122,325 | 14,127,133 |
| 3 | Plumbing Work | 43,360,110 | 6,991,897 | 36,368,213 | 54,144,737 | 17,776,524 |
| 4 | Mechanical Work | 320,000 | 97,223 | 222,777 | 211,784 | (10,993) |
| 5 | Extra work executed (external, Civil, Plum & Retaining wall) | Nil | Nil | Nil | 12,468,955 | 12,468,955 |
| Total | | | | 493,303,144 | 648,835,397 | 155,033,253 |
| Less 5% Discount | | | | (24,665,157) | (32,416,820) | (7,751,663) |
| Total value work after discount on BOQ items | | | | 468,637,987 | 615,919,577 | 147,281,590 |
| Extra work done for building, Electrical, LED Lights & Retaining walls | | | | ______ | 81,957,794 | 81,957,794 |
| | | | | 468,637,987 | 697,877,371 | 229,239,384 |
| | | | | | | **48.92% Above** |

Annexure-D

Ref to Para 4.4.7

Extra payment on account of price adjustment beyond the contract period Rs 48.287 million

Detail of Price adjustment by applying current rate of May 2011

**Material**

| **Fixed portion** | **Base rate** | **Current rate** | **Factor 0.520** | **Formula F x CR/BR** | **Net increase / Decrease** |
|---|---|---|---|---|---|
| Labour (Unskilled) | 300 | 375 | 0.200 | 0.250 | 0.520 |
| Cement | 380 | 410 | 0.090 | 0.097 | 0.250 |
| Steel | 59500 | 68000 | 0.140 | 0.160 | 0.160 |
| High Speed Diesel | 57.14 | 92.10 | 0.050 | 0.081 | 0.081 |
| Price adjustment factor | | | | | 1.108 |