



**PERFORMANCE AUDIT REPORT
ON
THE ACCOUNTS OF
CONSTRUCTION OF FOUR LANE EXPRESSWAY
(M-4) 184 KM (FAISALABAD-KHANEWAL)**

**NATIONAL HIGHWAY AUTHORITY
MINISTRY OF COMMUNICATIONS
GOVERNMENT OF PAKISTAN**

AUDIT YEAR 2016-17

AUDITOR GENERAL OF PAKISTAN

PREFACE

The Auditor General of Pakistan conducts audit subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Section 8 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. Performance audit of the project "Construction of Four Lane Expressway (M-4), 184 km (Faisalabad-Khanewal)" executed by National Highway Authority, was carried out accordingly.

The Directorate General Audit Works (Federal), Islamabad conducted audit of the Project during September-October 2016 for the period 2007 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 Report indicates specific actions that, if taken, will help the management realize the objectives of the project. Audit observations, included in this report were finalized in the light of written response of the management.

The Audit Report is submitted to the President in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 for causing it to be laid before both houses of Majlis-e-Shoora (Parliament).

Islamabad
Dated: 6th April, 2017

Sd/-
(Rana Assad Amin)
Auditor General of Pakistan

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Abbreviations and Acronyms

ADB	Asian Development Bank
BOQ	Bill of Quantities
CWE	China Water and Electric Corporation
DRB	Dispute Review Board
DNP	Defect Notification Period
ECNEC	Executive Committee of the National Economic Council
EIA	Environment Impact Assessment
EMP	Environmental Management Plan
EOT	Extension of Time
EPC	Escalation Payment Certificate
FBR	Federal Board of Revenue
FEC	Foreign Exchange Component
GFR	General Financial Rules
GoP	Government of Pakistan
GST	General Sales Tax
HQ	Headquarters
IPC	Interim Payment Certificate
Km	Kilo meter
LARP	Land Acquisition & Rehabilitation Plan
MoC	Ministry of Communication
NHA	National Highway Authority
NHC	National Highway Council
NHEB	National Highway Executive Board
NTC	National Trade Corridor
NTCIP	National Trade Corridor Improvement Programme
P&CA	Procurement & Contract Administration
PC-I	Planning Commission Proforma-I
PCC	Particular Conditions of Contract

PEC	Pakistan Engineering Council
PSDP	Public Sector Development Programme
ROW	Right of Way
TOC	Taking Over Certificate

EXECUTIVE SUMMARY

The Directorate General Audit Works (Federal), Islamabad, carries out the audit of Federal Government entities engaged in construction works, namely, Capital Development Authority, Civil Aviation Authority, National Highway Authority, Pakistan Public Works Department, Estate Office, Federal Government Employees Housing Foundation, National Construction Limited, Pakistan Housing Authority Foundation, Higher Education Commission, Workers Welfare Fund/Boards, and Ministry of Planning, Development and Reform (Special Project Cell/Afghan Projects). These entities function under the administrative control of various Principal Accounting Officers and consume major portion of the funds provided under the Public Sector Development Programme.

The office is mandated to conduct regularity (Financial Attest Audit and Compliance with Authority Audit) and Performance/Project Audit of mega projects executed by these Departments/Autonomous Bodies.

This report contains the result of Performance Audit of the Project, “Construction of Four Lane Expressway (M-4) 184 km (Faisalabad-Khanewal)”. The Directorate General Audit Works (Federal), Islamabad conducted audit of the project during September-October 2016, which covered period from the year 2007 to 2016.

The objective of the Performance Audit was to assess whether the project was implemented in accordance with PC-I provisions and stipulated period, utilization of resources for the purposes provided for with due economy, efficiency and effectiveness. The report was intended to analyze the management decisions by highlighting the weaknesses in project performance with recommendations for improvements. The audit was conducted in accordance with the INTOSAI Auditing Standards.

The project is being executed by NHA. The Project starts from Kamalpur near Faisalabad, at the termination zero point of Pindi Bhattian-Faisalabad (M-3). M-4 is an important link of National Trade Corridor (NTC) connecting Torkham with Karachi through a combination of Motorways and Expressways. The M-4 Project crosses north side of Gojra and Toba Tek Singh, passes almost midway between Shorkot City and Shorkot Cantonment, Ravi River to be crossed between old and new Sidhnai and terminated at the start point of M-4 Extension Khanewal-Multan.

After completion of Lahore-Islamabad Motorway (M-2) and Pindi Bhattian-Faisalabad Motorway (M-3), Federal Government planned National Trade Corridor Improvement Programme (NTCIP) connecting Torkham with Karachi through combination of Motorways and Expressways. Faisalabad-Multan (M-4) was an important link of National Trade Corridor (NTC), which was conceived in late 2005 under the direction of the Prime Minister of Pakistan.

PC-I of Land Acquisition and Relocation of utilities for “Construction of Faisalabad-Khanewal Motorway (M-4) 184 km” was approved by ECNEC on 19.09.2007 for Rs 3,956.929 million with direction to NHA/MoC that land acquisition should be completed within six (06) months and work on the main project be started by March 2008.

The PC-I of the Project was approved by ECNEC on 06.02.2008 for Rs 28,564.54 million including Foreign Exchange Component (FEC) of Rs 7,026.45 million.

The Project consists of two lanes of 3.65 meters on each side and divided into following four packages.

Section	Location of Section	PC-I cost (Rs in million)
Package -I	Faisalabad-Gojra Section (58 km)	7,964.768
Package-II	Gojra-Shorkot Section (61 km)	6,811.065
Package-III	Shorkot-Khanewal Section (65 km)	6,641.972
Package-IV	Bridge over Ravi River and Sidhnai Channel along with Approaches	1,078.293
Total civil work cost		22,496.098
NHA Establishment Charges (1%), Construction Supervision, Escalation/Price Contingencies, Taxes & Duties and Interest during Implementation		6,068.430
Total Project Cost		28,564.528

In accordance with the PC-I provisions, all the above-mentioned four packages were required to be completed up-to the year 2010-11. However, NHA was able to award only Package-I (58 km) i.e. Faisalabad-Gojra Section in November 2009 to M/s China International Water and Electric Corporation (CWE) under NTCHIP financed by Asian Development Bank (ADB) through Loan No. 2400 PAK and was required to be completed by February 2013. The section was completed in March 2015 (extended period) with an expenditure of Rs 9,166.553 million on work-done against PC-I provision of Rs 7,964.768 million. An amount of Rs 2,960.532 million was also paid to the contractor on account of escalation against PC-I provision of Rs 2,084.545 million approved for the whole length of 184 km.

The work of Package-II was divided into two Packages i.e. Package-IIA and Package-IIB, which were awarded in January 2016. Similarly, Package-III was also divided into two Packages i.e. Package-IIIA and Package-IIIB, which were awarded in August 2016.

As per PC-I the whole Project of 184 km was required to be completed in three years i.e. upto March 2011 with the below mentioned benefits:

- Saving in vehicle operating cost and travelling time
- Diversion of traffic load from Expressway N-5
- Reduction in environmental pollution due to traffic jam
- National Trade Corridor connection with Torkham–Karachi through traffic to Multan-Khanewal-Faisalabad-Pindi Bhattian-Motorways (M-2) Islamabad and Motorway (M-1) Peshawar

Major issues highlighted in the report are:

- i. There was a cost overrun of Rs 26,922.184 million as compared with PC-I provision due to inadequate funding, improper planning and mismanagement. Economic and social benefits were also delayed due to non-completion of the project in time, as there was time overrun of more than seven (07) years. (Para 4.4.1)
- ii. NHA sustained a loss of Rs 12,987.38 million in shape of increase in per km cost of the project due to delay in award of work in accordance with PC-I provision. (Para 4.3.3)
- iii. A work amounting to Rs 10,305.078 million was awarded to incapable contractor having no key equipment/ machineries required for construction. (Para 4.3.2)
- iv. NHA sustained a loss of Rs 744.068 million on account of Prolongation Claim of the contractor due to mismanagement. (Para 4.4.4)
- v. Extra expenditure of Rs 158.451 million and US \$ 0.734 million (equivalent to Rs 76.346 million) was incurred on construction supervision due to delayed completion by contractor. (Para 4.4.5)
- vi. Irregular expenditure of Rs 145.202 million was incurred due to charging project staff provided for whole the project of 184 km length instead of proportionate deployment for Package-I (58 km) against PC-I provision. (Para 4.1.3.1)

- vii. Unjustified payment of Rs 27.870 million was made on account of taxes and duties for import of machinery due to change of legislation regarding custom clearance, despite the fact that contractor delayed the import of machinery due to his own fault. (Para 4.2.3)
- viii. Consultancy contract for Land Valuation Services was enhanced from Rs 4.692 million to Rs 15.661 million resulting into excess of Rs 10.969 million (233.78% above) in violation of rules. (Para 4.3.5)
- ix. NHA sustained a loss of Rs 9.852 million due to delayed payment charges (interest) to the contractor. (Para 4.2.5)
- x. Overpayment of Rs 8.313 million was made fraudulently to an affectee of land by manipulating measurement sheet. (Para 4.2.6)

Recommendations

- i. Time Schedule for progress of work be monitored properly. Critical activities that can affect time schedule be identified and managed properly.
- ii. Availability of funds be ensured as per approved phasing in PC-I to avoid extra expenditure due to delay in shape of price escalation and other overheads.
- iii. In order to maintain progress of work commensurate with the given program, sufficient resources, manpower and essential equipment be ensured.
- iv. Internal controls be strengthened to avoid overpayment due to manipulation, delay in processing of contractor bills to avoid payment of interest and extra expenditure on account of taxes and duties for machinery imported.
- v. Public Procurement Rules be followed in awarding of works/services in its true letter & spirit for transparency.
- vi. Proper measures for protection of environment as provided

in the Environment Impact Assessment Study/Report, approved by the Environment Protection Agency, be adopted.

- vii. A system for independent monitoring and inspection of projects should be in place to ensure quality of the work.

1. INTRODUCTION

1.1 The Directorate General Audit Works (Federal), Islamabad conducted Performance Audit of the project “Construction of Four Lane Expressway (M-4), 184 Km (Faisalabad-Khanewal)” during the year 2016-17.

1.2 Rationale of the Project

The project was included in Medium Term Development Framework (Five-Year Plan) and Public Sector Development Programme. National Highway (N-5) [commonly known as Grand Trunk Road] is the main North South corridor linking main cities of Karachi, Lahore, Rawalpindi and Peshawar. N-5 has experienced tremendous traffic growth during last few years. To cater for the traffic growth, the road has almost been dualized. In order to divert the substantial volume of traffic to an alternate route, the Trans Pakistan Motorway linking Karachi in the South with Peshawar in the North was conceived. On completion of Lahore-Islamabad Motorway M-2 and Pindi Bhattian-Faisalabad Motorway (M-3), Government has planned National Trade Corridor Improvement Programme connecting Torkham with Karachi through a combination of motorways and expressways. Faisalabad-Multan Expressway is an important link of NTC, which was conceived in the late 2005 under the direction of the Prime Minister of Pakistan.

National Highway Authority is the executing agency of the Project. National Highway Authority was established in 1991 through an Act of Parliament. The purpose and functions of the Authority are to plan, promote, organize and implement programmes for construction, development, operation, repair, and maintenance of National Highways and strategic roads specially entrusted to it by the Federal Government or by a Provincial Government or other Authority.

1.3 Project Details

The project (E-4) starts from Kamalpur near Faisalabad. It crosses north side of Gojra and passes Shorkot City and Cantonment. It also crosses midway between Khanewal-Kabirwala Road. The end point is on N-5 to provide access to Multan having total length of 184 Km. The salient features include:

- Design speed of 120 km per hour
- Four-lane expressway
- Maximum grade 04%
- 11 Interchanges
- 25 Flyovers
- 20 Canal/drain bridges
- 120 Subways/underpasses

The Project is divided into following four packages:

- Faisalabad-Gojra Section (58 Km) (Package-I)
- Gojra-Shorkot Section (61 Km) (Package-II)
- Shorkot-Khanewal Section (65 Km) (Package-III)
- Bridge on River Ravi and Sidhnai Bridge (Package-IV)

PC-I of the project was approved for Rs 28,791.70 million by ECNEC in its meeting held on 06.02.2008.

Share-wise break-up of the project cost as per approved PC-I was as under:

	(Rs in million)				
	Foreign Exchange	Local (Rs in million)	Total (Rs in million)	%	US\$ equivalence @ Rs 60.5 in PC-I
ADB	7,026.45	15,074.27	22,100.72	76.8	365.30
GoP	0.00	6,690.98	6,690.98	23.2	110.60
Total	7,026.45	21,765.25	28,791.70	100	475.90

A separate PC-I amounting to Rs 3.9 billion for Land Acquisition and Allied Facilities has also been approved by ECNEC.

2. AUDIT OBJECTIVES

The objectives of the Performance Audit were to evaluate whether the Project has been successfully executed with respect to economy, efficiency and effectiveness, and whether the desired goals and targets were achieved efficiently and effectively. The audit also aimed at reviewing compliance with applicable rules, regulations and procedures.

3. AUDIT SCOPE AND METHODOLOGY

3.1 The audit scope included the examination of the Project documents, record, accounts, etc. The performance audit was conducted as a part of Audit Plan for the year 2016-17. The audit team comprising three members conducted audit in the office of the Project Director, NHA Complex, Faisalabad. Site visits were also conducted.

3.2 Audit methodology included data collection, analysis/consultation of record including previous Audit Reports, discussion with staff, survey, site visits and report writing, etc.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

4.1.1 Review of organizational structure

NHA is the executing agency of the project, “Construction of Four Lane Expressway (M-4) 184 km Faisalabad-Khanewal”. NHA was established in 1991 through an Act of Parliament. The purpose and functions of the Authority are to plan, promote, organize and implement programmes for construction, development, operation, repair, and maintenance of National Highways and strategic roads specially entrusted

to it by the Federal Government or by a Provincial Government or other Authority. NHA is currently custodian of 12,131 kilometers of highways, motorways, expressways and strategic roads. NHA network comprises 4.6% of Pakistan's total road network i.e. 263,775 km but takes country's 80% commercial traffic.

NHA is under the administrative control of Ministry of Communications and is headed by a Chairman. The affairs of the Authority are regulated through National Highway Council (NHC) and National Highway Executive Board (NHEB).

Organizational set up of the Authority comprises five core Wings, i.e. Planning, Construction, Operations, Finance and Administration. Each Wing is run by various Members of NHEB, including Member (Planning) Member (Engr-Coord), Member (Karachi-Lahore Motorway), Member (South Zone), Member (Central Zone), Member (West Zone), Member (North Zone), Member (Finance) and Member (Admn) with the assistance of a number of General Managers.

Project Office (M-4) was established under overall supervision of General Manager (M-4) with Project Director and Deputy Project Director responsible for execution of the project.

4.1.2 Turnover against key posts including post of the Project Director

NHA posted a qualified engineer as Project Director for execution of the project on behalf of the Employer. During currency of the project, three Project Directors performed their duties for different tenures at Section-I of the Project. One Deputy Project Director performed his duties for whole period of Section-I.

The project was designed and supervised by the Consultant. However, NHA should establish a core team of its own experts by associating the departmental cadre in all phases of the project, from designing to completion. Although the overall supervision of the project

was the responsibility of the Project Director, yet, as a matter of fact, he lacked technical support staff for the monitoring of the work. NHA, therefore, remained wholly dependent on the Consultant for supervision of the quality and quantity. No inspection notes of site visits of the General Manager, Project Director and Member (Engineering) were available in the record.

Effective monitoring and reporting is essential to determine the progress, status and achievements of any project. For this purpose, the Project Director should monitor the inputs, processes and outputs, and submit quarterly review/progress reports on the approved format, i.e. quarterly progress report of ongoing project on PC-III, completion report of the project on PC-IV and post completion review of project on PC-V. Audit observed that the project management did not prepare PC-III of the project, which showed that up to date information/data regarding financial and physical progress of the project was not brought on record.

The Project Director, with the assistance of the Consultant was responsible for management of the project. Maintenance of information systems is crucial to effective management of any project. The record relating to the projects, from its feasibility study, designing, approval, awarding and execution to completion, and the finalization of the project was maintained in various Wings of the Authority.

4.1.3 Actual vs. sanctioned strength

The approved staff according to the PC-I and actual strength available was as under:

Category	Approved Strength	Actual strength
General Manager (BS 19/20)	1	1
Director (BS-19)	1	1
Project Director (BS-19)	2	1
Deputy Project Director (BS-18)	8	2
Assistant Director (BS-17)	12	4
Superintendent (BS-16)	4	0

Category	Approved Strength	Actual strength
Surveyor (BS-16)	4	2
Senior Lab. Tech (BS-16)	4	0
Stenographer (BS-15)	4	0
Computer Operator/Steno (BS-12)	8	3
Laboratory Technician (BS-16)	8	0
UDC (BS-7)	8	2
LDC/Machine Operator (BS-5)	8	32
Lab. Helper/Helper	8	10
Driver (BS-4)	21	23
Naib Qasid (BS-1)	22	11
Sweeper/Chowkidar/Mali	10	7
LAC	0	1
LAO	0	1
Inspector	0	1
Assistant/Office Assistant	0	15
Junior Accounts Clerk	0	7
Telephone Line man	0	1
Electrician	0	1
Cook	0	2
Quarry Guard	0	3
Social Mobilizer	0	7
Qanoongo	0	2
Patwari	0	13
Total	133	153

The Project Director had no sufficient supporting technical staff for checking the quality and quantity of the executed work. The Project Director was dependent on NHA management and Consultant for administrative/financial and technical matters, as these administrative and financial powers were not delegated to the Project Director.

4.1.3.1 Irregular expenditure incurred against establishment beyond PC-I provision due to excessive deployment of project staff - Rs 145.202 million

As per PC-I of Faisalabad-Khanewal Motorway Project (M-4) 184 Km, establishment charges of construction cost and contingencies were provided for Rs 236.209 million for the whole project.

Audit noted that Project Management could not observe the timelines and provisions of PC-I of the project and awarded work of Package-I: Faisalabad-Gojra Section 58 km, in December 2009, which was completed in January 2015. As per PC-I (on the basis of construction cost of the Package-I) contingencies came to Rs 83.630 million $\{(Construction\ cost\ Rs\ 7,964.768 + 5\%) \times 1\%\}$ against which an expenditure of Rs 228.832 million was incurred. This resulted into an excess expenditure of Rs 145.202 million beyond PC-I provision.

Audit observed that 133 number staff was provided in the approved PC-I for whole the project consisting four (04) Packages. Only Package-I, Faisalabad-Gojra 58 km was executed from December 2009 to March 2015 against which 153 persons were deployed for which an expenditure of Rs 228.832 million as per trial balance of June 2016 was incurred.

Audit held that deployment of a huge number of employees was unjustified except Project Directors and his allied staff because the consultant deployed huge staff for supervision of the work. In view of the above given facts, incurring of expenditure of Rs 145.202 million beyond PC-I provisions stands irregular.

Audit pointed out the irregularity to the management in October 2016. The Authority replied that total provision of establishment charges in the PC-I was Rs 236.0 million and actual expenditure was within the PC-I provision.

The reply was not acceptable because total provision of Rs 236.0 million was for the whole project i.e. from Faisalabad to Khanewal

(184Km), whereas only one section Faisalabad-Gojra Package-I (58 Km) was completed and 1% establishment charges of whole project were utilized which was irregular.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility.

(DP. 312)

4.1.4 Mode of appointment of management and staff

No technical staff was separately hired for the project. Engineering staff including Project Director already working on strength of NHA was deployed. Other ministerial staff was appointed on contingent basis.

4.1.5 Training and capacity development of staff

Training for NHA engineers, especially newly appointed was provided for in the contract agreement.

4.1.6 Quality and periodicity of internal work plan

Under clause 2 of the letter of intent, the contractor was invited to finalize the below-mentioned activities with the employer within two (02) weeks time for early completion of contract documents:

- Construction Schedule (Program of works on Prima Vera)
- Method of performing the works
- Plant & Equipment, requirement and arrangements
- Cash flow, requirements and arrangements
- Resource allocation for mobilization and implementation schedule pertaining to
 - Manpower
 - Financial Resources
 - Material

Audit observed that the contractor failed to mobilize the required resources in accordance with contract provisions.

4.1.7 Internal Audit

NHA has an Internal Audit Wing, which is responsible for pre-audit of all Interim Payment Certificates/final payments relating to the project.

4.2 Financial Management

Overview

The project was financed by ADB and Federal Government on 76.8:23.2 sharing. The General Manager Accounts (Aided Projects), NHA Islamabad, maintained the accounts of the project. Year-wise allocation of funds and utilization was as under:

(Rs in million)

Year	PSDP Allocation			Expenditure		
	FC	LC	Total	FC	LC	Total
2008-09	921.562	1,078.438	2,000.000	0	9.475	9.475
2009-10	2,005.850	1,367.570	3,373.420	948.067	108.628	1,056.695
2010-11	1,646.219	246.933	1,893.152	116.908	69.126	186.034
2011-12	500.000	480.000	980.000	2,030.889	235.094	2,265.983
2012-13	4,000.000	500.000	4,500.000	2,841.977	454.960	3,296.937
2013-14	2,016.000	213.024	2,229.024	4,100.263	741.803	4,842.066
2014-15	3,500.000	500.000	4,000.000	1,580.030	133.402	1,713.432
2015-16	700.000	700.000	1,400.000	507.773	192.162	699.935
Total	15,289.631	5,085.965	20,375.596	12,125.907	1,944.650	14,070.557

Details of phasing of Cash Flow as provided in the PC-I, actual releases and expenditure were as under:

(Rs in million)

Year	PC-I Phasing	Actual Releases	Actual Expenditure
2008-09	5,758.340	2,000.000	9.475
2009-10	10,077.100	3,373.420	1,056.695
2010-11	12,956.270	1,893.152	186.034

Year	PC-I Phasing	Actual Releases	Actual Expenditure
2011-12	-	980.000	2,265.983
2012-13	-	4,500.000	3,296.937
2013-14	-	2,229.024	4,842.066
2014-15	-	4,000.000	1,713.432
2015-16	-	1,400.000	699.935
Total	28,791.71	20,375.596	14,070.557

Note: Above table shows that funds were not released as per phasing provided in the PC-I.

FINANCIAL MANAGEMENT FINDINGS

Following are the irregularities observed in financial management of the project:

4.2.1 Irregular payment without provision in the contract agreement - Rs 338.00 million

According to Rule-10 (i) and (ii) of GFR Vol-I regarding standards of financial propriety, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys, as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted that Project Director paid an amount of Rs 338.00 million to the contractor M/s CWE on account of prolongation cost.

Audit observed that:

- i. the contractor neither served any proper notice of his intention to claim extension of time (EOT) nor prolongation cost with detailed particulars of claim in compliance with provision of sub-clause 20.1 general clause of contract,

- ii. the contractor also neither gave the required notices under sub-clause 2.4 (Access to the site) and clause 8.4 (Extension of Time) nor the Engineer instructed the contractor to suspend the work, as required under sub-clause 8.8 (suspension of work) with prior approval of the Employer for suspension and
- iii. The Engineer did not obtain the formal approval of the Employer before determination of extension of time as required under sub-clause 8.4, 3.5 general clause of contract and 3.1 PEC.
- iv. The Employer gave right of access/possession of site to contractor in January, 2010 without consultation/obtaining requisites permission from development partner i.e. ADB, as provided under sub-clause 1.13 (a) (compliance with law).

Audit further observed that the Employer had not explicitly rejected the Engineer's hypothetical determination of delayed cost claim due to non-deployment of equipment/machineries as requested under contract up-to May 2010. Thus, the Project Management completely failed to defend the hypothetical/unjustified claim to intimate the facts to ADB that machinery under clause was imported by the contractor from December 2010 to December 2012.

The consultant also clearly mentioned in Progress Report that the contractor's performance gave to us the impression that this contract represents of him a situation where he: "bites off more than he can chew".

Audit pointed out the irregular payment to the management in October 2016. The Authority replied that Dispute Review Board (DRB) decided an amount of Rs 744.00 million in favour of contractor. The Authority decided to release only Rs 338.00 million provisionally, instead of Rs 744.00 million. The case was under international arbitration.

The reply was not tenable because the Authority, while contesting the case before Dispute Review Board, had not provided the factual position. The management failed to defend the case properly resultantly the matter was decided in favour of the contractor.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility and making good of loss to public exchequer.

(DP. 313)

4.2.2 Overpayment due to application of incorrect rates in calculation of price adjustment - Rs 49.888 million

Clauses 13.8 of contract agreement of project “Construction of Four Lane Faisalabad-Khanewal Motorway (M-4) 184 km Package-1: Faisalabad-Gojra Section (58 km)” provides that the amount payable to contractor shall be adjusted for rises and falls in the cost of labour, goods and other inputs to the works, by the addition or deduction of the amounts determined by the formulae prescribed in this sub-clause. If the contractor fails to complete the works within the Time for Completion adjustment of prices thereafter 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.

Audit noted that the above project/work was started on 25.02.2010 with stipulated date of completion on 24.02.2013. The taking over certificate (TOC) of the work was issued on 31.05.2015. The contractor was granted extension of time up to 31.01.2015. The rates for specified material were not frozen while granting time extension to the contractor. The Project Director calculated and paid escalation of Rs 1,917.163 million for IPC 12th to IPC 29th for the period from February 2013 to January 2015.

Audit observed that while calculating price adjustment/ escalation the current rates of the specified material was taken for the period of IPC instead of rates of February 2013, the original completion date. This resulted into an overpayment of Rs 49.888 million.

Audit pointed out the overpayment to the management in October 2016. The Authority replied that extension of time was granted due to the reason that whole land was not handed over to the contractor due to non-clearance by ADB. Therefore, escalation could not be frozen unilaterally without any genuine reason.

The reply was not accepted because the contractor failed in completion of the work even in the extended period. The contractor instead of penalizing, for delay on his part, was granted extension without freezing rates of specified material. The contractor was overpaid on account of escalation due to non-freezing of rates of specified material.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: Overpaid amount be recovered from the contractor.
(DP. 300)

4.2.3 Unjustified payment on account of taxes and duties for import of machinery - Rs 27.870 million

According to Section-4 –Bidding Form, bill of quantities (Preamble) regarding payment of taxes, duties etc. by the contractor are as under:

Para 3 provides that “the rates and prices tendered in the priced bill of quantities shall except in so far as it is otherwise provided under the contract, include all constructional plant, labour, supervision, materials, erection, maintenance, insurance, profit, taxes and duties, together with all general risks, liabilities and obligations set out or implied in the contract”.

Para 11 provides that, “the rates and prices quoted by the contractor in the priced bill of quantities shall include all freight, customs, import duties, taxes, pilotage, landing supplementary condition of charges, wharf age, octroi, excise duties, royalties and all other costs, charges imposed what so ever in respect of any or other thing provided by him for the works.

The prices in the bill of quantities include all additional cost and provisions required for the correct execution of work in compliance with the time schedule and the specifications.

Para-(g) provides inclusion of “All Government and/or Municipal Taxes, Custom Duties Excise Duties, Stamps duties or any other dues taxes or charges”.

The cost of the above shall be deemed to be included in the rates and prices tendered for the works and no separate payment shall be made on this account.

Para 12 provides that, “in respect of any contractor’s equipment in general, except as provided for in this documents, which the contractor shall be required to have available at site for execution of work in accordance with the drawings, specifications or as directed by the employer, he shall make his own arrangements for foreign exchange, import formalities, customs, transport to the site of works and all other formalities what so ever at his own cost and responsibility.

The contractor shall be deemed to have taken into consideration all Government or Local body’s regulations, for the time being enforce, regarding the re-export of any plant and equipment, which he may have to import in connection with the works. Any amendment to the existing rules and/or further regulations imposed in this respect by the Government of Pakistan shall be strictly followed by the contractor.

Audit noted that the General Manager/Project Director Faisalabad-Gojra Section Package-1 made payment of Rs 27.871 million to the

contractor on account of Claim No.3 i.e. changes for legislation regarding custom clearance.

Audit further noted that contractor imported certain machinery/equipment for mobilizing on the work during September 2010 to August 2011.

Audit observed that:

- i. Mobilization advance amounting to Rs 103.051 million for the purpose to mobilize the contractor's staff and equipment on working site was paid in December 2009.
- ii. Site was handed over to the contractor in January 2010.
- iii. In accordance with the Mobilization Schedule provided in the contract agreement, "Mobilization will be started after signing of contract with Employer, the work will be completed within three months, machinery and plant will be shifted in one month".

The contractor delayed the procurement of machinery/ equipment from September 2010 to August 2011, which was his own fault because NHA paid mobilization advance in December 2009. Moreover, the plants/equipment required for the project were already owned by the contractor and required to be made available at site within one month of the signing of the contract agreement.

The agreement has no provision for payment of difference of custom duties on account of procurement of equipment, neither for this purpose any adjustment table having base rates was provided in the agreement. This resulted in unjustified payment of Rs 27.870 million.

Audit pointed out the unjustified payment to the management in October 2016. The Authority replied that only actual increase in the taxation/ duties were paid to the contractor as per clause 14.18 (Particular condition of contract) of the contract as decided by the Dispute Board.

The reply was not tenable because as per clause 14.16 of the contract (particular conditions of contract), the priced bid by the contractor included all custom duties, import duties business taxes, income tax and other taxes that might be levied in accordance with laws and regulation. Furthermore, the increase/decrease in the withholding tax/income tax as per the prevailing laws of Pakistan was not to be adjusted or compensated under any provision of contract.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility, besides recovery of unjustified payment from the contractor.

(DP. 301)

4.2.4 Overpayment due to re-imburement of deducted income tax - Rs 16.713 million

According to Rule-10 (i) and (ii) of GFR Vol-I regarding standards of financial propriety, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted that the General Manager/Project Director, Package-1 Faisalabad-Gojra Section (58 km) deducted income tax of Rs 116.988 million @ 7% in the IPC No. 24 to IPC No. 29 and EPC No. 24 & 25 and 28 & 29, but later on, reimbursed the difference of 1% deducted income tax equivalent to Rs 16.713 million in IPC 29 to the contractor which was paid to the Federal Board of Revenue (FBR) by the NHA. This resulted in an overpayment of Rs 16.713 million.

Audit pointed out the overpayment to the management in October 2016. The Authority replied that income tax @ 6% was deducted from the contractor as per clarification from Tax Advisor/Chartered Accountants from the payment of a permanent establishment of non-resident person under section 152 (IA). The reply was not tenable because Government of Pakistan enhanced the rate of income tax deduction without distinction between permanent establishment of non-resident person and any other person. Moreover, as per clause 14.18 of contract (Particular Condition of Contract) increase/decrease in the withholding tax/income tax as per prevailing laws of Pakistan was not to be adjusted or compensated under any provision of the contract.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility besides, recovery from the contractor.

(DP. 302)

4.2.5 Loss due to delayed payment charges (interest) to the contractor - Rs 9.852 million

Clause 14.8 of the contract agreement provides that, “If the Contractor does not receive payment in accordance with Sub-Clause 14.7[Payment], the Contractor shall be entitled to receive financing charges compounded monthly on the amount unpaid during the period of delay. This period shall be deemed to commence on the date for payment specified in Sub-Clause 14.7 [Payment] i.e. simple interest @ 6% per annum.

Audit noted that Project Director, Faisalabad-Khanewal Motorway M-4, Package-1: Faisalabad-Gojra Section (58 km) NHA Faisalabad paid interest of Rs 9.852 million due to delay in making payments of GoP share of IPCs/EPCs to the contractor.

Audit observed that the NHA authorities delayed the payment of GoP share of the IPCs/EPCs abnormally to the contractor due to mismanagement in processing contractor's claims despite the allocation and availability of funds for GoP share. Due to unnecessary delay in making payments to the contractor, the project authorities paid interest of Rs 4.101 million and Rs 5.751 million in IPC-22 and IPC -29 respectively. This resulted into loss of Rs 9.852 million.

Audit pointed out the irregularity to the management in October 2016. The Authority replied that no such payment has been released as yet. The reply of the authority was not tenable. The project authorities paid interest of Rs 4.101 million and Rs 5.751 million in IPC-22 and IPC -29 respectively for unnecessary delay in making payments to the contractor.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: Audit stresses to investigate the matter for fixing responsibility against person responsible for delay in making payment despite of allocation of funds in GoP share.

(DP. 317)

4.2.6 Overpayment due to manipulation in measurement sheet - Rs 8.313 million

Award No. 13 announced for village Jalla Pohre Tehsil Kabirwala District Khanewal for acquisition of land for the project, Construction of Faisalabad-Khanewal Motorway (M-4) 184 km, indicates that under Square No. 28 Killa No. 22, eighty four (84) different kind of trees of different ages were measured for an amount of Rs 1.087 million on page No. 17 of the Assessment Sheet.

Audit observed that while brought forwarding the total for overall assessment on the backside of page No. 23, the amount of Page No. 17 was written as Rs 10.867 million instead of the actual amount of Rs 1.087 million duly signed by the Project Director, Land Acquisition

Collector, Surveyor of NHA and other related field staff. The same was included in Award No. 13 announced for village Jalla Pohre Tehsil Kabirwala District Khanewal for acquisition of land and Trees for the project and accordingly paid for Rs 11.632 million on account of compensation for trees and crops to Mr. Khalid Qazi S/o Ahmad Buksh in February 2016. This resulted in an overpayment of Rs 8.313 million as detailed below:

Amount as per actual Assessment	= Rs 1,086,778
Amount enhanced by adding a digit '6'	= Rs 10,866,778
Difference	= Rs 9,780,000
Less 15% wood cost	= Rs 1,467,000
Overpayment	= Rs 8,313,000

Audit pointed out the matter to the management in October 2016. The Authority replied that extra payment made to the affectee was due to clerical mistake during writing the amount. The notices have been delivered to the affectee for return of extra payment. The amount would be recovered through legal procedure if not returned in normal procedure. The award would also be amended as per law. The compensation of a piece of land was still pending due to status-quo by court. Some amount will be adjusted and remaining will be recovered from the affectee. The Authority admitted the overpayment allowed fraudulently and issued notice to the ex-Land Acquisition Collector for revision of the award as well notice alongwith Challan Form to the affectee for deposit of the overpaid amount of Rs 8.313 million in the public exchequer.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility besides early recovery of overpaid amount.

(DP. 318)

4.2.7 Non-deduction of GST from individual consultant for Rs 3.958 million and \$ 24,784

In accordance with Islamabad Capital Territory (Tax on Services) Ordinance, 2001 amended upto date, read with the Government of Punjab, Punjab Revenue Authority Notification dated 20.02.2015, Sales Tax @ 16% is to be levied w.e.f. 01.07.2015 on the services provided by the Technical, Scientific and Engineering Consultant.

Audit observed that an amount of Rs 24.738 million and \$ 154,897 was paid to the Consultant during the financial year 2015-16, however, the required Sales Tax @ 16% was not deducted while making payments of Invoice No. 64 to 74 to the Consultants. This resulted into non-deduction of GST for Rs 3.958 million and \$ 24,784.

Audit pointed out the non-deduction of GST to the management in October 2016. The Authority replied that tax payable by the Supervision Consultants is born by NHA. The reply was not tenable. The required GST was to be recovered as per the Ordinance referred above.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: Recovery of GST be made and deposited in government treasury at the earliest.

(DP. 306)

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. The Consultancy Contract for 'Detailed designing & construction supervision' and a contract for 'Construction' of the project were procured through competitive bidding on PEC Standard Bidding Documents.

Issues relating to non-observance of contractual obligations/rules and regulations are as follows:

4.3.1 Irregular award/implementation of project without revised approval of PC-I from competent forum - Rs 39,224.531 million

Planning Commission guidelines for project management Articles 11(II) 15 Provides that at the time of award of contract if it is found that cost of the project would exceed the approval limits by 15% get the project revised and approved by the competent forum before implementation. Planning & Commission letter No. 21(40) /PIA/PC/200 dated 26th May, 2007 Annexure–XXIII to guidelines referred Cabinet Division’s letter No. 5/CF/75 dated 7th May, 1975 (Annex-I), according to which the executing agency should start preparing the revised scheme immediately when it is known that the cost of the scheme is going to rise beyond permissible limit of 15%.

Audit noted that PC-I of the project, “Construction of Expressway Faisalabad-Khanewal (M-4) 184 km” was approved by ECNEC in its meeting held on 6th February, 2008 for Rs 28,564.450 million with a civil work provision of Rs 22,496.098 million for Packages I to IV.

Audit observed that work for only Package-I Faisalabad-Gojra (Km 00+00 to km 58+200) was executed up-till June 2015. An expenditure of Rs 12,099.893 million (work done + escalation) was incurred against PC-I provision of Rs 7,964.768 million for Package-I. After incurring expenditure of Rs 9,166.886 million on Package-I (58 km) a balance of Rs 13,329.212 million was available in approved PC-I but NHA P&CA Section awarded four new contracts from Gojra-Khanewal Section valuing Rs 39,224.531 million.

The award of these contracts stands irregular due to following observations:-

- i. Escalation/price contingencies was provided for Rs 2,084.545 million in approved PC-I for whole stretch of 184 km whereas an expenditure of Rs 2,923.007 million was incurred on escalation i.e. 40.22% excess against Package-I of 58km only.
- ii. A sum of Rs 13,453.037 million was provided for civil work of Package-II and III (Rs 6,811.065 million and Rs 6,641.972 million) in approved PC-I against which GM (P&CA) Section NHA Islamabad awarded four (04) Nos new contracts i.e. Package-IIA, IIB, IIIA, IIIB for Rs 39,224.531 million which was 191.57% over & above the approved PC-I cost.

Hence, award of works for Rs 39,224.531 million i.e. 191.57% over & above the approved PC-I, without prior approval/revision of PC-I from competent forum was a serious irregularity and violation of Planning Commission Guidelines.

Audit pointed out irregular award of work to the management in October 2016. The Authority did not furnish reply to audit observation.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility for award of work in violation of Planning Commission Guidelines.

(DP. 303)

4.3.2 Irregular award of work to incapable contractor having no key Equipment/Machineries required for construction - Rs 10,305.078 million

As per Section-4 of the bidding documents, “The bidder must demonstrate that it has or has access the key equipment required for construction. The contractor shall provide adequate information to demonstrate clearly, it has capability to meet the requirement for the key

equipment listed in Section-3 (Evaluation and Qualification Criteria). A separate form shall be prepared for each item of equipment listed, or for alternative equipment proposed by bidder.

Audit noted that contractor of work, “Construction of Four Lane Faisalabad-Khanewal Motorway (M-4) Faisalabad-Gojra Section Package-I (58 km)”, M/s China International Water & Electric Corporation (CWE) while submitting its bidding documents gave details of equipment and machinery wherein it was mentioned that different type of machinery & equipment like, Asphalt Concrete Batching Plant, Dumper Truck, Drum Vibrating Roller, Bulldozer, Loader, Grader, Excavator, etc. are working with Punjab Road Sector Development Projects and other required machinery & equipment like, Asphalt paver, Concrete Batching Plant, Crane 20 Ton, Concrete Transit maker, Dumper Trucks, Roller, Concrete Pumps, Bulldozer, will be purchased.

Audit observed that contractor had no basic machinery and equipment required for construction. The machinery claimed available in Pakistan had already mobilized in other construction projects. More than half of the machinery & equipment were not available with contractor at the time of tendering. Hence, it was established, at the time of tendering in December 2009 that the contractor was incapable to execute the work due to non-availability of required machinery & equipment but the contract of Rs 10,305.078 million was awarded irregularly.

Audit further observed that the contractor later on failed to mobilize the required machinery at site and only few Dumper, Loader part time were shifted from the on-going projects. The remaining machinery required to be purchased within one month after signing of the agreement on 3rd December, 2009 was partially purchased from September 2010 to December 2012 despite payment of mobilization advance of Rs 1027.308 million on 16th December, 2009 but contractor failed to purchase and mobilize the required machinery and equipment by September 2010.

Further, the Progress Reports also indicate that the contractor never mobilized the full machinery & equipment at the site of work during

constructions period of five years. This resulted into project cost over-run and time over-run.

Audit pointed out the matter to the management in October 2016. The Authority did not furnish reply to audit observation.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility for award of work to an incapable contractor.

(DP. 316)

4.3.3 Loss due to ill planning and delay in award of work - Rs 12,987.38 million

PC-I of the Project, “Construction of Expressway Faisalabad-Khanewal (M-4) 184-km” was approved by ECNEC in its meeting held on 6th February, 2008 for Rs 28,564.450 million with a civil work provision of Rs 22,496.10 million for Packages I to IV and the Project Construction would be completed in 36 months.

Audit noted that General Manager (P&CA) NHA Islamabad called invitation for pre-qualification of firms for all the Packages of the Project through press on 18.01.2008 and pre-qualified the firms accordingly but later on the work for only Package-I: Faisalabad-Gojra (Km 00+00 to km 58+200) was awarded on 05.10.2009 with date of start on 25.02.2010 to be completed in three years on 24.02.2013. The work of section-I was delayed and completed in five years on 24.02.2015, up-to date expenditure of Rs 12,077.42 million (work done + escalation) was incurred on Package-I. Construction cost of Package-I (58 km) comes to Rs 208.231 million per km.

Audit observed that Package-II of the project was divided into two Packages i.e. Package-IIA & IIB and awarded in December, 2015 with date of commencement on 25.02.2016 and to be completed by 24.02.2018,

Package-III divided into Package-IIIA, & IIIB, awarded in August, 2016, yet to be started and likely to be completed by the end of the year 2018. Audit further observed that the remaining Packages of the project were awarded in delay at higher rates that escalated per km construction cost of the remaining Packages of 126 km. This resulted into loss of Rs 12,987.38 million as worked out below:

Section	Km	Construction cost as per contract including EPC	Average construction cost
		Total (Rs in million)	Per km (Rs in million)
I	58	12,077.42	208.231
II	61	17,182.56	281.681
III	65	22,041.97	339.107
IV			
Total	184	51,301.95	278.815

Loss per km = Rs 70.584 million
Loss for 184 km = Rs 12,987.380 million

Audit pointed out the loss to the management in October 2016. The Authority replied that each section was sponsored through different loan and the works were awarded accordingly after approval of each loan. Further, to avoid time and cost overrun, each section was sub-divided into two construction packages.

The reply was not tenable. The delay in award of remaining works enhanced the per km cost of the road due to mismanagement and ill planning.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility.

(DP. 319)

4.3.4 Unauthorized/Unjustified enhancement in Consultant agreed cost of Rs 134.513 million and \$ 2.134 million beyond PC-I

As per PC-I of the project “Faisalabad – Khanewal M-4 Motorway 184 KM” cost for construction supervision was provided for Rs 934.200 million.

Audit observed that General Manager (P&CA) NHA, Islamabad awarded consultancy contract to M/s Renardet SA (Philipines) in local association with M/s Hunermand (Pvt), M/s Asif Ali Associates and M/s Technique Consultant Engineers vide acceptance letter No. 6(138)/GM(P & CA)/NHA/2010/104 dated 1st February, 2010 at an agreed cost of US \$1.884 million in Foreign Currency and Pak Rs 570.184 million, for construction supervision of four lane motorway from Faisalabad to Khanewal (M-4) 184 Km. The period of completion of services was 36 months. The Authority failed to implement the project in accordance with provisions of PC-I. Section-I: Faisalabad – Gojra (58 Km) awarded during 2010 was completed in January 2015. The remaining Sections of the project were awarded after that due to which contract cost of construction supervision was enhanced and revised to Rs.704.697 million and US \$ 4.018 million by the Project Director/ General Manager (M-4) without consultation with General Manager (P&CA) NHA Islamabad vide Variation Order No. 08 approved by the Chairman NHA. The revised cost comes to Pak Rs 1,122.582 million. (Rs 704.697 million + Rs 417.885 million (US \$ 4,018,315 x Rs.104) against PC-I provision of Rs 934.200 million i.e. 20.16% above from PC-I). This resulted into irregular enhancement of consultancy agreement for Rs 134.513 (Rs 704.697 – Rs 570.184) million and US \$ 2.134 (\$ 4.018 – \$ 1.884) million without approval of revised PC-I from competent forum.

Audit pointed out the irregularity to the management in October 2016. The Authority did not furnish reply to audit observation.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility.

(DP. 304)

4.3.5 Mis-procurement of consultancy services - Rs 10.969 million

According to Para 20 of Public Procurement Rule 2014, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Para 2.65 of NHA Financial Manual provides that the officers possessing Financial Powers shall be personally and unreservedly responsible for any orders issued under these powers, that cannons of financial propriety are observed while incurring any expenditure.

Audit noted that General Manager Faisalabad-Khanewal Project (M-4), Package-1 awarded the Contract of independent land valuation study of Faisalabad-Khanewal M-4 Section-II, III to M/s NESPAK for Rs 4.692 million.

Audit observed that the contract was enhanced upto Rs 15.661 million (233.78% above) the original awarded contract without retendering through open competitive bidding. This resulted in mis-procurement of consultancy contract amounting to Rs 10.969 million.

Audit pointed out mis-procurement to the management in October 2016. The Authority did not furnish reply to audit observation.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility.

(DP. 314)

4.3.6 Irregular hiring of counsel to defend the case - Rs 2.500 million

Appendix 'F' of Secretariat Instructions, regarding the conduct of cases of the Federal Government in Courts, etc. provides that, "No civil suit or legal proceeding shall be instituted or initiated on behalf of the Federal Government by any Division/Department without the prior consultation with the Law and Justice Division".

Audit noted that NHA hired services of Mr. Rizwan Faiz Associates on lump sum fee of Rs 2.500 million (exclusive of taxes) to defend the arbitration proceedings against a petition filed by a consultant M/s China International Water and Electric Corporation (CWE) in the International Court of Chamber.

Audit observed that hiring of the Counsel and fixation of fee of Rs 2.500 million without approval of the Ministry of Law, Law and Justice Division was irregular. This resulted in irregular hiring of Counsel for Rs 2.500 million.

Audit pointed out the irregularity to the management in October 2016. The Authority did not furnish reply to audit observation.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be got regularized from the competent forum.

(DP. 315)

4.4 Construction and Works

Proper planning, estimation, approval and execution are the benchmarks to ensure economical and sustainable execution of works. Detail of construction of road lengths and major structures, which were component of the project are detailed below:

- Design speed of 120 km per hour

- Four-lane expressway
- Maximum grade 04%
- 11 Interchanges
- 25 Flyovers
- 20 Canal/drain bridges
- 120 Subways/underpasses

The Project is divided into following four packages:

- Faisalabad-Gojra Section (58 Km) (Package-I)
- Gojra-Shorkot Section (61 Km) (Package-II)
- Shorkot-Khanewal Section (65 Km) (Package-III)
- Bridge on River Ravi and Sidhnai Bridge (Package-IV)

Audit, noticed the following irregularities committed during execution of the work:

4.4.1 Cost overrun and delay in economic and social benefits to public due to mismanagement to implement PC-I in given time frame - Rs 26,922.184 million

PC-I of the Project; Faisalabad – Khanewal Expressway (M-4) 184 Km, approved by the ECNEC on 06.02.2008 provides project cost of Rs 28,791.71 million with completion period of construction of the project for 36 months up-to 2011.

Audit noted that invitation for prequalification of firms for three (03) Packages was invited on 18 January 2008 before approval of PC-I. After a lapse of one year and 10 months only Package-I: Faisalabad–Khanewal (58 km) Section was awarded on 07.11.2009 with date of commencement on 25.02.2010 to be completed within 03 years up-to 24.02.2013. The work was actually completed in January 2015.

Audit observed that the project authorities could not complete land acquisition and arrange Funds/Loans for the whole Project of 184 km in

time frame provided for in the approved PC-I. Later on Package II & III were divided into four Section II-A, II-B, III-A and III-B. The contracts for Section II-A and IIB were awarded in December 2015 and the work was still in progress. The bids of Package-IIIA & IIIB have been accepted in August 2016 but the work on site has not yet commenced.

Audit, in view of above-mentioned facts, held that the project management has failed to implement the Project in accordance with time line provided for in the approved Project. This resulted in cost over-run of Rs 26,922.184 million as against the approved cost of PC-I. This delay has also delayed the benefits of economic and social benefits to the general public.

Audit pointed out the matter to the management in October 2016. The Authority replied that the project was delayed due to stringent conditions of ADB regarding Land Acquisition. To avoid further time and cost overruns each Section has been sun-divided into two construction packages to expedite the works.

The reply was not tenable because the project management failed to implement the Project in accordance with time line provided for in the approved Project due to delay in finalization of land acquisition and arrange Funds/Loans for the whole Project of 184 km in time frame provided for in the approved PC-I. This delay has also delayed the benefits of economic and social benefits to the general public.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility.

(DP. 307&308)

4.4.2 Unauthorized payments on account of excess quantities/deviations without approval of the competent forum - Rs 1,717.503 million

As per Government of Pakistan Planning and Development Division letter No.20 (1)DA/PC/79-Vol.XIV dated 22nd June, 1980 “If the total estimated cost as sanctioned increases by a margin of 15% or more or if any significant variation in the nature of scope of the project has been made, irrespective of whether or not it involves an increased outlay, the approval of the ECNEC/Competent authority shall be obtained in the same manner as in the case of the original scheme without delay”.

Audit noted that General Manager/Project Director, Faisalabad-Khanewal Motorway Project (M-4) Package-1 Faisalabad-Gojra Section (58 Km) awarded the work to the contractor M/s China International Water & Electric Corporation (CWE) with an agreement cost of Rs 10,305.078 million and completion period of 36 months.

Audit observed that quantities of certain items were increased upto 163.44% of the original BOQ due to a significant variation in the nature of scope of work i.e. change from 4 lanes to 6 lanes and conversion of over bridges to under passes. Thus, approval of the ECNEC should have been obtained in the same manner as in the case of the original scheme without delay. However, the significant variation was approved by the General Manager M-4 through Variation Order No. 02 instead of ECNEC, the competent forum. This resulted into unauthorized payment of Rs 1,717.503 million.

Audit maintains that unauthorized payment occurred due to non-adherence to the rules/regulations and significant weaknesses in the internal controls.

Audit pointed out the irregularity to the management in October 2016. The Authority replied that revision of PC-I was under process and would be shared with the Audit after approval. The reply was not tenable because approval of the ECNEC/Competent authority should have been

obtained in the same manner as in the case of the original scheme without delay.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The abnormal increase in the quantities of items of work be got regularized from ECNEC the competent forum.

(DP. 299)

4.4.3 Non-imposition and recovery of Liquidated Damages - Rs 1,030.507 million

Contract clause 8.7 provides that, “if the Contractor fails to comply with Sub-Clause 8.2 [Time for Completion], the Contractor shall pay liquidated damages @ 0.05% per day of delay maximum upto 10% of the contract cost.

Audit noted that National Highway Authority awarded a contract, “Construction of Expressway Faisalabad-Khanewal (M-4) 184-km, Package-I: Faisalabad-Gojra Section (58 km)” to M/s China International Water & Electric Corporation (CWE) at an agreed cost of Rs 10,305.078 million on 07.11.2009 and signed agreement on 03.12.2009 with date of commencement on 05.12.2009 which reckoned as on 25.02.2010. The possession of land was handed over to the contractor in January 2010. The work was to be completed within three years upto 24.02.2013.

Audit observed that the contractor failed to mobilize the required machinery even upto June 2011. Further, the machinery that he had claimed in his profile was already engaged in other highway projects till December 2012. The other machinery, which he was to purchase within one month of the contract, was also not purchased despite payment of Mobilization advance in December 2009. The Progress Reports of the project also revealed that the contractor could not mobilize the required machinery during the whole construction period.

The contractor because of his incapability failed to complete the work within stipulated period of three years. He was granted first Extension of Time (EOT) upto December 2013, without referring any contract clause, on the basis of prolongation, in violation of contract, because neither the contractor served any notice under clause 20.1 and 2.8 nor Engineer suspended the work under clause 8.8. The contractor again failed to complete the work even in the extended period; he was thus liable to be penalized. The contractor instead of penalizing for delay on his part, was granted extension twice upto January 2015 which was not justified. This resulted into non-imposition and recovery of liquidated damages for Rs 1,030.507 million.

Audit pointed out non-imposition/non-recovery of liquidated damages to the management in October 2016. The Authority replied that EOT was granted to the contractor on justified grounds that ADB did not clear the land due to its stringent policies of land acquisition.

The reply was not tenable because the contractor failed to complete the work even in the extended time period. However, the contractor, instead of penalizing for delay on his part, was granted extension twice upto January 2015 which was not justified.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility.

(DP. 320)

4.4.4 Loss on account of Prolongation Claim to contractor due to mismanagement of project authorities - Rs 744.068 million

According to Rule-10 (i) and (ii) of GFR Vol-I regarding standards of financial propriety every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of

his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted that Land Acquisition & Rehabilitation Plan (LARP) of Faisalabad–Gojra Section M-4 (58 km) was finalized and approved in November 2009. Construction Contract was accepted on 07.11.2009 after completion of LARP. The agreement between NHA and the contractor M/s CWE was signed on 03.12.2009 with date of commencement as on 05.12.2009, which was reckoned as on 25.02.2010. The possession of land of the whole strip was handed over to the contractor during January 2010.

Audit observed that the contractor failed to mobilize construction machinery/equipment at site upto May 2010. The work could not be commenced due to non-fulfillment of conditions of the Asian Development Bank's (ADB) regarding implementation of LARP by the NHA upto 02.07.2010. The completion date was revised upto 31.12.2013. The contractor submitted his prolongation claim of Rs 1,836.577 million on 12.09.2011, which was returned and revised claim for Rs 1,452.045 million was resubmitted on 07.01.2012.

Audit further observed that the claim was laying pending in NHA Headquarter. The Dispute Review Board decided a claim of Rs 744.068 million in favour of the contractor. The Employer agreed to pay Rs 338.129 million and accordingly paid vide IPC No. 26 as provisional payment to the contractor. After receiving provisional payment of Rs 338.129 million the contractor submitted its claim of the full amount of Rs 744.068 million in Arbitration. The case was still pending in the International Court of Arbitration/ International Chamber of Commerce.

In view of above-mentioned facts, mismanagement on the part of project authorities regarding award of work without permission and approval of the ADB caused a huge loss of Rs 744.068 million in the shape of prolongation claim. Further NHA management also failed to defend the case properly as the contractor failed to deploy the machinery/equipment at site upto January 2011 as the machinery of the contractor was engaged in work of Provincial Highway at Toba Tek Singh

and Sargodha. Hence while contesting the case before Dispute Board, the authority had not provided the factual position and evidence regarding above-mentioned facts and the matter was decided in favour of the contractor due to negligence of the authority.

Audit pointed out the overpayment to the management in October 2016. The Authority replied that the Dispute Board decided a claim of Rs 744.00 million in favour of contractor but was not paid. The matter is now in International Arbitration Court.

The reply was not tenable because the authority, while contesting the case before Dispute Board, had not provided the factual position and evidences regarding failure of the contractor in timely deployment of machinery and equipment at site upto January 2011. The machinery of the contractor was actually engaged in works of Provincial Highway at Toba Tek Singh and Sargodha. The record showed that all the required machinery was imported later on in the year 2011-12. The management failed to defend the case properly resultantly the matter was decided in favour of the contractor due to negligence of the authority.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility for huge loss to public exchequer.

(DP. 311)

4.4.5 Extra expenditure incurred on construction supervision due to delayed completion by contractor - Rs 158.451 million and US \$ 0.734 million (Rs 76.346 million)

The contract agreement for construction of Faisalabad-Gojra Section (58 km) Package-I was signed between M/s CWE Contractor and NHA on 3rd December, 2009 with date of commencement on 25.02.2010 and to be completed in 36 months up to 24.02.2013.

Audit noted that the contractor failed to complete the work within stipulated time period of 36 months and only achieved 36.47% progress in the stipulated time period. Subsequently three (03) time extensions were granted upto 31.12.2014 for the completion of work but the contractor achieved 99% progress upto January 2015. Taking over certificate was issued on 30.01.2015.

Audit observed that extra services of construction supervision were extended for two years from March 2013 to March 2015 due to non-completion of the work in given time period by the contractor. This resulted into an extra expenditure of Rs 158.451 million in Local Currency and US \$ 734,097 (equivalent to Pak Rs 76.346 million @ Rs 104 per US \$) incurred on the construction supervision for extended period.

Audit pointed out the extra expenditure to the management in October 2016. The Authority replied that extension of time (EOT) was granted to the contractor by the competent authority on justified grounds, accordingly Consultancy Services were extended. The reply was not tenable as the contractor failed to complete the work in stipulated time period due to which the consultancy services were enhanced.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The recovery of the extra expenditure incurred due to delay in completion of work be made from the contractor.

(DP. 309)

4.4.6 Overpayment due to inadmissible payment beyond contract provision - Rs 6.443 million

Clause 3.4 (e) (i) of the consultancy agreement of Faisalabad–Khanewal M-4 (184 km) with M/s Renardet SA, provides that “the liability of consultants expires after one year from the stipulated date of completion of services”.

Audit noted that consultancy services were commenced w.e.f 01.04.2010 and were required to be completed within 39 months (36 months + 03 months) up-to June 2013.

Audit observed that consultancy services were extended up to December 2014 due to non-completion of the Project by the construction contractor within stipulated period. The construction of Package-I “Faisalabad-Gojra 58 km” awarded during December 2009, was completed and taken over on 30.01.2015, against which IPC No.29 was paid to the contractor in March 2015. After that, no services were required up-to the award of contracts of Package-IIA & IIB in December 2015. However, during this period an amount of Rs 6.443 million was paid against consultancy services, which was not admissible, because after completion/taken over of Faisalabad–Gojra Section Package-I (M-4), if any services render was the liability of the consultant without any payment under above referred agreed clause. This resulted into an overpayment of Rs 6.443 million.

Audit pointed out the overpayment to the management in October 2016. The Authority replied that few Skelton Staff of Supervision was required during Defects Notification Period (DNP) for completing the formalities such as finalizing as built drawings and quantities and rectification of any defects if developed during DNP.

The reply was not tenable because after completion/taken over of Package-I (M-4) Faisalabad–Gojra Section, if any services render was the liability of the consultant without any payment under above referred agreed clause.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility besides early recovery of amount involved.

(DP. 310)

4.4.7 Site Visit

Audit team visited the Project Site along with the project management and observed that:

- Package-I Faisalabad-Gojra Section (58 Km) was completed and taken over by the NHA.
- Earthwork and structure was being executed at Package-IIA and IIB Gojra-Shorkot (61 km) Section.
- Contract for Package-IIIA and IIIB (including Bridges) Shorkot-Khanewal (65) Section was under process of award after tendering.

4.5 Asset Management

Improper asset management was observed during performance audit as discussed hereunder:

4.5.1 Unjustified purchase of vehicles - Rs 64.500 million

According to Rule-10 (i) and (ii) of GFR Vol-I regarding standards of financial propriety every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted that the General Manager/Project Director, Faisalabad-Khanewal Motorway Project (M-4) Package-1 Faisalabad-Gojra Section (58 km) purchased 10 vehicles for Engineer's and 06 Employer's vehicles for Rs 67.218 million. Five (5) vehicles were transferred from the project to Head Office irregularly.

Audit observed that the management after shifting of above-mentioned vehicles purchased ten (10) vehicles for Rs 51.00 million under Package IIA and five (5) vehicles for Rs 13.500 million under Package IIB in addition to already available vehicles for the Engineer and the Employer. This resulted in unjustified purchase of vehicles of Rs 64.500 million.

Audit pointed out the matter to the management in October 2016. The Authority replied that Project Vehicles are property of the Employer (NHA) who can shift the vehicles wherever required within its Organization after completion of the project. Therefore, some vehicle were shifted to NHA HQ after completion of Section-I.

The reply was not tenable because it was quite unjustified to shift the vehicles from the project for which it was purchased and put further burden on the public exchequer for purchase of new vehicles beyond its actual requirements.

The matter could not be discussed in DAC meeting despite efforts made by Audit on 20th, 30th, 31st December, 2016 and 12th January, 2017.

Recommendations: The matter be investigated for fixing of responsibility.

(DP. 305)

4.6 Monitoring and Evaluation

Internal checks such as inspection, monitoring, supervision, mechanized testing/laboratory test reports of executed works are also vital to ensure proper execution of works.

The Consultant hired for the project was responsible for exercising qualitative and quantitative checks, including laboratory tests, to ensure proper execution of the project. Overall supervision of Contractor's work rested with the Project Director but on ground, he had no technical supporting staff for monitoring of the work. NHA was completely dependent upon the Consultant for construction supervision. NHA had its

own Inspection Wing for inspecting projects in order to ensure the quality checks but as per record, no periodical inspection notes by the Inspection Wing were available which showed that no such inspection were carried out.

4.7 Environment

According to the Environment Protection Act, 1997 an Environment Impact Assessment (EIA) comprising collection of data, prediction of qualitative and quantitative impact, comparison of alternatives, evaluation of preventive, mitigatory and compensatory measures, formulation of environmental management and training plans and monitoring arrangements and framing recommendations, etc. shall be carried out for each project.

In order to assess the environmental impacts of the proposed project Consultant's Environmental Specialist visited construction site at regular intervals for environmental inspection of the site, camp sites, and borrow areas inspection and suggested the contractor to make compliance in true manner of the EMP by mitigating environmental, safety, labour and social issues at the sites.

The contractor improved overall environmental health and safety condition of the project area as directed by the Consultant's Environmental Specialist.

4.8 Sustainability

Sustainability is an integral part of operational performance. Sustainability of the project depends mainly upon the sufficient flow of financial resources, both during implementation and operation.

- i. Funding for completion of project has been arranged from ADB and counter part funding is being arranged by Federal Government.

- ii. Operational & Maintenance cost of Rs 1,965.18 million for twenty years after completion has been provided in the approved PC-I.
- iii. NHA will be responsible for maintenance of the project, which will be arranged through Road Maintenance Account of NHA

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

4.9 Overall Assessment

- i. **Relevance:** The project activity is within the overall Medium Term Development Framework and in line with government's sectoral policies.
- ii. **Efficacy:** Physical outcome and financial performance is behind the original plan. Audit noticed issues of contract management from planning to execution, allowing excess quantities, award of additional work without open bidding, extra expenditure on construction supervision due to delayed award and completion of work and payment of interest for delayed processing of contractor's bills etc. This reflected inefficient internal controls towards implementation of contract clauses.
- iii. **Efficiency:** As per PC-I provision whole the project of 184 km was required to be completed by the year 2011 but upto January, 2015 only Package-I Faisalabad-Gojra (58 km) was completed and remaining portions will be completed by the end of the year 2018 so there was a time over run of seven (07) years. Due to delay in award of work in accordance with the provision of approved PC-I a cost overrun of Rs 26,922.184 million was observed.
- iv. **Economy:** Works have been awarded in accordance with Public Procurement Rules and ADB's Procurement Guidelines.

- v. **Effectiveness:** Economic and social benefits of Rs 26,941.184 million were not achieved due to non-completion of the project in time. However, final comments on achievements of the desired objectives cannot be offered at this stage as major part of project is still under execution.
- vi. **Compliance with rules:** Major stances of non-compliance with rules are:
 - a. Works were awarded for Rs 39,224.531 million i.e. 191.57% over & above the approved PC-I, without prior approval/revision of PC-I from competent forum in violation of Planning Commission Guidelines.
 - b. An amount of Rs 338.00 million was paid to the contractor M/s CWE on account of prolongation cost without provision in contract agreement.
 - c. An amount of Rs 24.738 million and \$ 154,897 was paid to the Consultant during the financial year 2015-16, however, the required Sale Tax @ 16% was not deducted while making payments.
 - d. Unjustified payment was made on account of taxes & duties for import of machinery - Rs 27.870 million
- vii. **Performance Rating of Project**
 - a. Moderately Satisfactory
- viii. **Risk Rating of Project**
 - a. Medium

(Note: Performance rating and risk rating is judgmental/generalized on the basis of audit observations)

5. CONCLUSION

5.1 Key issues for the future

Proper planning and assurance of funds availability are the basic requirement for success of any project. The project was to be completed in three years up to February 2011 but only package-I having length of 58km Faisalabad – Gojra was completed upto the year 2015 and the remaining portion from Gojra to Khaniwal (126 km) will be completed by the year 2018.

The delay in achievement of the set objectives also delayed the desired benefits of the project valuing Rs 26,941.184 million, besides public inconvenience.

Audit noticed that most of the irregularities were either due to absence of, or weak internal controls and lack of proper monitoring system. The management needs to strengthen internal controls in the light of following recommendations:

- i. Availability of funds as per phasing given in PC-I be ensured for timely completion of the project besides avoiding extra expenses due to delay.
- ii. In order to maintain progress of work commensurate with the given program, sufficient resources, manpower and essential equipment should be deployed.

5.2 Lessons identified:

- i. Proper planning based on accurate survey and feasibility studies be undertaken to avoid unnecessary delays during execution.
- ii. NHA should systematically track and analyze the revisions issued on construction projects to identify the types of revisions and their causes.

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