



**PERFORMANCE AUDIT REPORT
ON**

**CONSTRUCTION OF
NEW SECRETARIAT BLOCK AT
CONSTITUTION AVENUE, ISLAMABAD**

**PAKISTAN PUBLIC WORKS DEPARTMENT
MINISTRY OF HOUSING AND WORKS
GOVERNMENT OF PAKISTAN**

AUDIT YEAR 2015-16

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 performance audit of work "Construction of New Secretariat Block at Constitution Avenue, Islamabad" executed by the Pakistan Public Works Department, Government of Pakistan, was carried out accordingly.

The Directorate General, Audit Works (Federal), Islamabad conducted Performance Audit during April-May 2016 for the period since inception i.e. 2005-06 to 2014-15 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 to realize the objectives of the project. The report could not be discussed in the meeting of the Departmental Accounts Committee despite efforts made by Audit.

The 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.

Islamabad
Dated: 23rd February, 2017

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

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Abbreviations and Acronyms

ATS	Automatic Transfer Switch
AMF	Automatic Mains Failure
BOQ	Bill of Quantities
CDA	Capital Development Authority
CoC	Condition of Contract
Cu.m	Cubic Meter
Cft	Cubit Feet
DAC	Departmental Accounts Committee
ECNEC	Executive Committee of National Economic Council
FCU	Fan Coil Units
FIDIC	Fédération Internationale Des Ingénieurs-Conseils
GF	Ground Floor
GFR	General Financial Rules
HVAC	Heating, Ventilation and Air Conditioning System
IB	Instructions to Bidders
IESCO	Islamabad Electric Supply Company
INTOSAI	International Organization of Supreme Audit Institutions
IPC	Interim Payment Certificate
JCR	Japan Credit Rating
KIBOR	Karachi Inter Bank Offered Rate
KVA	Kilovolt Ampere
MB	Measurement Book
MoU	Memorandum of Understanding
NIT	Notice Inviting Tenders
PACRA	Pakistan Credit Rating Agency
PC-I	Planning Commission (Proforma-I)
PCD	Project Civil Division
PPRA	Pakistan Public Procurement Rules

PSDP	Public Sector Development Program
PWD	Public Works Department
Sft	Square feet
SH	Sub-Head
TSE	Technically Sanctioned Estimate
VO	Variation Order
VOW	Value of Work Done

EXECUTIVE SUMMARY

The Directorate General Audit Works (Federal), Islamabad carries out the audit of Federal Government Departments/Autonomous Bodies engaged in construction works. At present, the Directorate General deals with Departments/Autonomous Bodies, namely Capital Development Authority, Civil Aviation Authority, National Highway Authority, Pakistan Public Works Department, Estate Offices and Workers Welfare Fund/Boards under the administrative control of Principal Accounting Officers who consume major portion of the Public Sector Development Program funds/budget.

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

Performance Audit of the project was carried out in April-May 2016 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 Performance Audit was 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.

The construction of New Secretariat Block was planned to provide proper space to Federal Government offices for proper and efficient working which were accommodated in private rented buildings to save expenditure being incurred on payment of rent each year. Facilities like

HVAC, Lifts, Standby Generators, car parking, fire alarm, security system, computer / telephone networks, etc. are added in the building.

PC-I of the project was approved by ECNEC on 4th August, 2005 of Rs 1,176.320 million for three blocks (T, U & V) with completion period of 30 months, subject to approval of the design of building by the Prime Minister.

As per approved PC-I, the project comprised of three blocks with Ground + 6 floors having total covered area of 468,590 Sft.

The Prime Minister approved the design of the building as single block comprising two basements and Ground + 9 floors having a total covered area of 769,200 Sft on 26th September, 2006. Accordingly, a revised PC-I was approved by the ECNEC for Rs 3,476.363 million on 30th March, 2009.

2nd revised PC-I was approved for Rs 4,845.412 million on 12th March, 2015.

AUDIT FINDINGS

Major audit findings include:

- (i) Completion of work was delayed due to inadequate professional and financial controls - Rs 2,250.339 million (Para 4.4.2)
- (ii) Air distribution work was awarded to an ineligible firm - Rs 175.248 million (Para 4.3.4)
- (iii) External development/electrical works were awarded at cost beyond the provision of approved PC-I - Rs 118.554 million (Para 4.3.5)
- (iv) Loss of Rs 74.916 million was sustained due to irregular acceptance of bid of lift works. (Para 4.3.6)

- (v) Loss was sustained due to payment of interest on delayed payments to contractor - Rs 24.794 million (Para 4.2.9)
- (vi) Loss was sustained on account of expenditure on rent due to delay in the completion of project - Rs 1,000 million (Para 4.3.1)
- (vii) Payment was made without detailed measurement in Measurement Book - Rs 11, 959.672 million (Para 4.4.1)
- (viii) Work was closed and balance work was not awarded at risk and cost of the defaulting firm - Rs 108.595 million (Para 4.4.3)
- (ix) Liquidated Damages were not imposed/recovered - Rs 213.822 million (Para 4.3.3)
- (x) Overpayment was made due to unauthorized procurement of chillers - Rs 22.950 million (Para 4.3.9)
- (xi) Loss was sustained due to award of work at higher rates – Rs 18.208 million (Para 4.3.10)
- (xii) Recovery was not made on account of defective designing - Rs 16.894 million (Para 4.3.11)
- (xiii) Overpayment was made due to substandard works - Rs 19.129 million (Para 4.4.6)

RECOMMENDATIONS

- i. Proper planning in respect of design / drawing should be ensured to avoid any subsequent material changes.
- ii. Recoveries pointed out should be effected.
- iii. All quantities of works should be recorded in Measurement Book.

- iv. The contractual obligations should be strictly observed at every stage of execution of work.
- v. Prior approval of the competent authority should be obtained before making any changes in the scope of the work.
- vi. Estimation should be based on detailed working.
- vii. Efforts should be made for completing the project within the stipulated time in order to avoid cost overrun due to fluctuations in market rates.
- viii. Laid down rules and procedures must be adhered to in letter and spirit.
- ix. Cases where rules have not been complied with, should be got regularized.
- x. Project Management Guidelines should be implemented.
- xi. All losses may be made good by recovery from person(s) responsible.
- xii. Consultant may 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 audit of the project ‘Construction of New Secretariat Block at Constitution Avenue, Islamabad’ in April-May 2016.

1.1 Rationale of the project

The Construction of New Secretariat Block at Constitution Avenue, Islamabad was planned to:

- Provide sufficient proper space to Federal Government offices.
- Improve existing working conditions and enhance efficiency, effectiveness and productivity of Federal Government Employees.
- Save expenditure being incurred on payment of rent of private buildings.

1.2 Approval of the scheme

PC-I of the project was approved by ECNEC on 4th August, 2005 at total cost of Rs. 1,176.320 million for three blocks (T, U & V) with completion period of 30 months, subject to approval of the design of building by the Prime Minister.

As per approved PC-I, the project comprised of three blocks with Ground + 6 floors having total covered area of 468,590 Sft.

The Prime Minister approved the design of the building as single block comprising two basements and Ground + 9 floors having a total covered area of 769,200 Sft on 26th September, 2006. Accordingly, a revised PC-I was approved by the ECNEC for Rs. 3,476.363 million on 30th March, 2009.

2nd revised PC-I was approved for Rs. 4,845.412 million on 12th March, 2015.

1.3 Timeline / period of project

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

PC-I (Original)	24 months (2005-06 to 2006-07)	Covered area 468,590 sft	Three blocks with one basement, Ground + 6 floors
PC-I (1st revision)	36 months from 2006-07 to 2008-09	Covered area 769,200 sft	Single block comprising two basements, GF + 9 floors
PC-I (2nd revision)	Approved on 12 th March, 2015	Due to additional / substituted items	Rationalized

1.4 Description of project

Presently, a number of offices of Federal Government are housed in hired buildings and a huge expenditure (approximate Rs. 840 million) is being incurred on payment of rent every year. Besides, insufficient space, the rented buildings do not provide atmosphere conducive to proper and efficient working of offices. The private buildings also lack appropriate security measures. Hence, government planned to construct new secretariat block for different Ministries of Federal Government. The project was assigned to Pakistan Public Works Department (executing authority) and the contract for the main building (excluding HVAC System, Lifts and Stand by Generators) was awarded on 19th June, 2007 to M/s Interhom (Pvt.) Ltd.

The stipulated completion time for the building portion was 36 months. The project is still under completion, however, main building including internal electrification has been completed, whereas the HVAC System, Lifts and infrastructure etc has not been completed so far.

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

1.5.1 Objectives

The main objective of the project was to provide sufficient office space to the various Ministries of the Federal Government.

1.5.2 Outputs

The project will contribute in achieving the Medium Term Development Framework's (MTDF) target of providing essential accommodation for federal government offices. The construction of new Secretariat block will provide sufficient office space to the Ministries of the Federal Government and improve working conditions.

1.5.3 Achievements

Execution status of the project is shown below:

(Rs in million)

S. No.	Name of Work/Sub-head	Name of contractor	Date of Acceptance Letter/ Agreement	Contract cost	Upto date payment
1.	Main building, civil & electrical works (excluding HVAC System, Lifts and Stand by Generators)	M/s Interhom (Pvt.) Ltd.	5 th June, 2007	1,883.925	1,959.672
2.	External Development (Civil & Electrical Works)	M/s Construction Management & Engineering Services	19.05.2014	254.286	154.789
3.	SH: Diesel Generating Set	M/s Riaz & Sons	11.11.2009	112.126	63.681
4.	SH: HVAC Works (Chillers & equipment)	M/s M. Z Awan & Co	11.01.2010	194.461	73.077

S. No.	Name of Work/Sub-head	Name of contractor	Date of Acceptance Letter/ Agreement	Contract cost	Upto date payment
5.	SH: HVAC-Air Distribution system	Ch Mubarak Ali	11.01.2010	175.248	194.352
6.	SH: Provision of 32 Nos. Toilets / kitchen for Minister and Secretary	M/s Saleem Engineering Services	30.06.2012	30.297	39.247
7.	SH: Lift works	M/s SAASA Corporation-NFRD (JV)	16.08.2010	223.750	Award of work was revoked on the orders of the Islamabad High Court. New tenders were called and received and under evaluation.

Note: This information is based on last IPCs / Invoices paid up to April 2016 to the contractors / consultants.

Building works of the new Secretariat block including electrification works have been shown substantially completed in June, 2013. Other components of the building i.e. HVAC system, lifts works and external development have not so far been completed.

1.6 Cost and financing

The project was financed by the Government of Pakistan through Public Sector Development Program (PSDP) for the year 2006-07 to 2014-15. After subsequent revisions, the PC-I cost was finalized at Rs 4,845.412 million against which an expenditure of Rs 3,449.262 million upto 2014-15 has been incurred.

1.7 Revisions in the project cost

PC-I of the project was approved by ECNEC on 4th August, 2005 at total cost of Rs. 1,176.320 million for three blocks (T, U & V) having covered area of 468,590 sft subject to approval of the design of building by the Prime Minister.

The Prime Minister approved the design of the building as single block comprising two basements and Ground + 9 floors having a total covered area of 769,200 Sft on 26th September, 2006. Accordingly, a revised PC-I was approved by the ECNEC for Rs. 3,476.363 million on 30th March, 2009.

Second revised PC-I was approved for Rs. 4,845.412 million on 12th March, 2015 as detailed below:

(Rs in million)				
S. No.	Description	Original Cost	1 st Revised Cost	2 nd Revised Cost
1.	Building portion (civil works)	467.210	1,626.073	1,961.460
2.	Infrastructure (civil)	65.309	98.859	299.323
3.	Electric-Mechanical	428.750	1,008.540	1,365.600
4.	Horticulture	0.600	1.500	11.250
5.	Contingencies @ 3 %	28.556	82.052	82.052
6.	Departmental Charges @ 6.5% / Consultancy charges	64.397	183.113	241.779
7.	Escalation	54.886	308.125	491.073
8.	Soil Investigation	0.300	0.600	0.600
9.	Service Connections (IESCO, Sui Gas, CDA)	36.374	69.077	210.816
10.	Cost of land	29.952	98.324	181.459
Total		1,176.334	3,476.263	4,845.412

2. AUDIT OBJECTIVES

The main objectives of the Performance Audit of project 'Construction of New Secretariat Block at Constitution Avenue, Islamabad' are to see whether:

- 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.
- Rules, regulations, procedures and 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 MoU/Agreement and money was spent in accordance with the rules.

3. AUDIT SCOPE AND METHODOLOGY

3.1 Scope

Project accounts and related activities since its inception in 2005-06 to April 2016 (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.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

4.1.1 Organizational Structure

Pakistan Public Works Department (PPWD) was entrusted construction of the project through its Executive Engineer under the supervision of Superintending Engineer and Chief Engineer competent for bid acceptance and approval of variations.

M/s NESPAK were responsible for consultancy services for designing and construction supervision of the new Secretariat Block. M/s Interhom (Pvt) Ltd were awarded execution of building works. M/s MZ Awan and Ch Mubarak Ali were responsible for HVAC works. The work of Diesel Generating Sets was awarded to M/s Riaz & Sons. Award of lift works to M/s SAASA Corporation was revoked by the Court. External Development is being executed by M/s Construction Management & Engineering Services while provision of 32 kitchens and toilets was awarded to M/s Saleem Engineering Services.

4.1.2 Turnover against key posts

According to Para 3.17 of Guidelines for Project Management, a step involved in the activation of the project is the appointment of a Project Director. As per ECNEC decision dated 18th February, 2004 an independent (full time) Project Director should be appointed for the project costing Rs 100 million and above.

Independent (Full Time) Project Director was not appointed on the project. However, various Executive Engineers of Project Civil Division-II, Islamabad, Project Civil Division-IV, Islamabad, Electrical & Mechanical Division-I and Store & Workshop Division, Islamabad had executed the project. Detailed incumbency has not been provided by Pak PWD.

M/s NESPAK were responsible for consultancy services for designing and construction supervision of the new Secretariat Block.

4.1.3 Manpower, Qualifications and Experience

The PC-I of the project envisages a provision of professional manpower as per Pak PWD setup i.e. Executive Engineer, Assistant Executive Engineer, Sub Engineer and supporting staff.

4.1.4 Mode of appointment of management and staff

As per policy in vogue, all new posts included in PC-I will be treated as sanctioned, after the approval of the project by the relevant forum subject to the availability of development budget against establishment charges. No fresh recruitment was made for the project. Pak PWD having its own setup deployed necessary manpower during construction of the building.

4.2 Financial Management

Financial resources for “Construction of New Secretariat Block at Constitution Avenue, Islamabad” are being provided by the Government of Pakistan through PSDP.

4.2.1 Cost overrun due to mismanagement and late / less releases of funds - Rs 1,369.049 million

According to Project Management Guidelines of Planning Division, Government of Pakistan (Project Management Policy), it is important to watch that progress is not pushed at the cost of quality. It is also equally important that the works are not delayed / suspended or slowed down due to impediments in timely supply of materials, acquisition of land, and / or want of requisite funds at appropriate stages. All these strategic points must be sorted out well in advance by the Project Director in coordination with the concerned quarters to avoid *time and*

cost over runs. Project implementation agencies / departments should seek the approval of the competent authority as soon as any change in scope of work or revision in cost is considered. Sponsoring agencies should also anticipate likely delays. They should also fix responsibility for the delays.

Audit noted that PC-I of the project was approved by ECNEC on 4th August, 2005 at total cost of Rs 1,176.320 million for three blocks (T, U & V) with completion period of 30 months, subject to approval of the design of building by the Prime Minister.

Audit further noted that:

- (i) As per approved PC-I, the project comprised of three blocks with Ground + 6 floors having total covered area of 468,590 Sft.
- (ii) The Prime Minister approved the design of the building as single block comprising two basements and Ground + 9 floors having a total covered area of 769,200 Sft on 26th September, 2006. According a revised PC-I was approved by the ECNEC for Rs 3,476.363 million on 30th March, 2009.
- (iii) Contract of main building, civil & electrical works (excluding HVAC System, Lifts and Stand by Generators) was awarded to M/s Interhom (Pvt.) Ltd at agreement cost of Rs 1,883.995 million on 19th June, 2007. The contractor was paid Rs 1,959.672 million upto 59th running bill paid on 19th June, 2015. The stipulated time for building portion was 36 months. Substantial completion of the building was issued on 30th June, 2013.
- (iv) The work of External Development (Civil & Electrical Works) was awarded to M/s Construction Management & Engineering Services on 20th May, 2014 to be completed upto 19th May, 2015 at agreement cost of Rs 254.286

million. The contractor was paid Rs 156.788 million upto 11th running bill. The work is still in progress.

- (v) The work “Provision of 32 Nos. Toilets/kitchen for Minister and Secretary” was awarded to M/s Saleem Engineering Services on 3rd June, 2012 at agreement cost of Rs 30.297 million with date of start of 3rd June, 2015 to be completed upto 3rd January, 2016. The contractor was paid Rs 39.247 million upto 4th running bill paid on 10th March, 2016. The work is still in progress. The work was not provided even in the 2nd revised PC-I.
- (vi) The works of HVAC System, Lifts and Stand by Generators have not so far been completed despite completion of the civil works of the building in June, 2013.

Audit observed that:

- (a) Year-wise PSDP allocation and releases were not made as per approved phasing in the PC-I which resulted in cost overrun of Rs 1,369.049 million from Rs 3,476.363 million (1st Revised PC-I) to Rs 4,845.412 million (2nd Revised PC-I). The civil works which were to be completed upto June, 2010, were substantially completed in June, 2013 which resulted in time over run of three years.

Detail of approved phasing and actual allocation & releases:**(Rs in million)**

Year	Phasing as per approved PC-I	Phasing as per Revised PC-I	Phasing as per 2 nd Revised PC-I	PSDP provision	Actual amount released	Expend-iture
2005-06	300.000	34.862	34.862	50.000	40.000	34.862
2006-07	472.524	129.929	129.929	300.000	130.000	129.929
2007-08	403.796	540.000	340.000	540.000	340.000	340.000
2008-09	0	869.091	383.486	442.411	383.486	383.486
2009-10	0	1,008.145	505.236	1,000.000	505.236	505.236
2010-11	0	894.336	215.119	636.263	215.119	215.119
2011-12	0	0	560.000	1,200.000	560.000	560.000
2012-13	0	0	694.630	771.816	694.630	694.630
2013-14	0	0	486.000	535.915	486.000	486.000
2014-15	0	0	1,496.150	500.000	500.000	100.000
Total	1,176.320	3,476.363	4,845.412	5,976.405	3,854.471	3,449.262

(b) Other work i.e. external development of civil & electrical works, toilets and kitchens were not foreseen at the time of award of building works due to mis-management. This also resulted in time and cost overrun.

(c) Disputes relating to HVAC System, Lifts and Stand by Generators have not so far been resolved. This also resulted in delay in making the building operational. Non-operation of the building resulted in loss of approximate Rs 1 billion in shape of rent paid for accommodation of offices in private buildings.

Audit holds that cost of the project increased by Rs 1,369.049 million (Rs 4,845.412 million – Rs 3,476.363 million) through second revision due to mis-management, and less/non-release of funds as per approved phasing in PC-I.

Audit maintains that strategic points were not sorted out well in advance by the Divisional management in coordination with the concerned quarters to avoid time and cost overruns.

The department did not respond to the audit observations. The matter could also not be discussed in DAC meeting despite efforts made by Audit.

(Para 27)

4.2.2 Loss due to application of higher rates of steel - Rs 132.099 million

As per Para 6.09 of Central Public Works Department Code, 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.

According to price variation paid on the basis of Statistical Bulletin, the rate of steel was taken as Rs 38,250 per ton at the time of tendering.

Audit noted that Executive Engineer, Project Civil Division No. II Pak. PWD Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue, Islamabad” to M/s Interhom (Pvt) Ltd at the agreement cost of Rs 1,883.926 million. The contractor was paid for Rs 1,959.672 million on account of work done upto 59th running bill.

Audit noted that while framing the TS estimate, the rate of steel item No.1-4C was taken as Rs 62,370 per ton instead of prevailing rate of Rs 38,250 per ton.

Audit observed that the excessive rate of steel was taken in estimate and paid accordingly to the contractor. The contractor was given benefit twice i.e. one by taking higher rate of Rs 24,120 per ton and then allowing price variation between basic rate of steel of Rs 38,250 per metric ton and current market rate (Rs 75,500 per metric ton). Audit considers that admissible rate for payment of the item was Rs 38,250 as

the same was taken as base rate of steel item. This higher rate resulted in overpayment of Rs 132.099 million (5,476.753 tons x Rs 24,120).

Audit maintains that the loss resulted due to non-adherence to prevailing rates of steel at the time of bidding and the canons of financial propriety.

Audit recommends early recovery of the overpaid amount.

(Para 05)

4.2.3 Irregular / premature release of Retention Money - Rs 105.557 million

According to clause 11.4, Retention shall be paid by the Employer to the contractor within 14 days after either the expiry of the period stated in the Contract Data or the remedying of notified defects, or the completion of outstanding work, all as referred to in Sub-Clause 9.1, whichever is the later.

Audit noted that Taking Over Certificate was issued on 7th April, 2014 stating that the contract has substantially completed on 30th June, 2013 and the listed defective / outstanding works have been completed and accordingly building is being taken over. Defect Liability Period has been shown expired on 30th June, 2014.

Audit observed that at the time of issuance of Substantial Completion, a heavy detail of defective civil and electrical works / incomplete works and un-executed works was prepared as Punch List (Part-I-Civil Works) and (Part-II-Electrical Works) and handed over to the contractor for compliance. Audit further observed that the management has released Security Deposit of Rs 105.557 million without comply of instructions regarding removal of defects as per Punch Lists. This resulted in irregular / premature release of Retention Money of Rs 105.557 million.

Audit maintains that retention money was released without removal of defects due to non-adherence to the contract provisions.

Audit recommends action against persons responsible.

(Para 21)

4.2.4 Un-due financial aid to the contractor by granting unauthorized Secured Advance - Rs 84.459 million

According to Clause-60.11(a), Part-II of the Agreement, the contractor was entitled to receive from the Employer, Secured Advance against an Indemnity Bond acceptable to the Employer of such sum as the Engineer may consider proper in respect of the following specified material only.

1. Steel Reinforcement
2. Sanitary Fixtures
3. Aluminum (doors & windows without glass)
4. Water supply & drainage pipe
5. Lighting fixtures without lamps
6. Pumping sets
7. Electric cables/wires

Audit observed that Secured Advance for Rs 84.459 million was allowed to the contractor M/s Interhom (Pvt) Ltd on the items which were not included in the specified materials mentioned in the agreement as detailed below:

S. No.	Item	IPC No.	Amount (Rs in million)
1.	Porcelain tiles	25	42.584
2.	Granite	26	27.179
3.	Ceramics tiles	27	4.646
4.	Aluminium Composite Panel	31	10.050
Total			84.459

This resulted in unauthorized grant of secured advance and undue financial aid to the contractor of Rs 84.459 million.

Audit maintains that undue financial aid resulted due to non-adherence to the provisions of the agreement and weak financial and internal controls.

Audit recommends action against persons responsible.

(Para 07)

4.2.5 Unjustified payment of contractor's claim through post bid change - Rs 55.333 million

According to Clause-60.10 of the Contract Agreement "in the event of failure of the employer to make payment within the times stated due to circumstances beyond his control, the Employer shall not pay to the contractor any interest or compensation of any sort".

Audit observed that an amount of Rs 55.619 million has been paid to the contractor M/s Interhom (Pvt) Ltd on account of claim for idle charges of contractor's staff and machinery etc in violation of the provision of the agreement. This resulted in unjustified payment of Rs 55.333 million.

Audit maintains that the payment was made due to non-adherence to the provisions of the agreement and weak financial and internal controls.

Audit recommends action against persons responsible.

(Para 01)

4.2.6 Non-extension of Advance Payment Guarantee - Rs 46.540 million

According to Clause 14 of agreement, mode of payment will be observed as under:

- (a) 50 % of the agreed cost of Diesel Generating Set and ATS / AMF panel shall be paid against Bank Guarantee.

- (b) 20% of the agreed cost of Diesel Generating Set and ATS / AMF panel shall be paid on receipt of copy of bill of lading duly attested by concerned bank against Bank Guarantee.
- (c) 20% payment will be made when it arrives at the site of work.
- (d) Remaining payment will be made as per actual recorded measurement and above advance payment will be adjusted on installation of Generating Set in the running bills. However, accounts of the contractor shall be finalized after commissioning of the Generating sets.

Audit noted that Executive Engineer, Store & Workshop Division, Pak PWD Islamabad awarded the work "Construction of New Secretariat Block at Constitution Avenue Islamabad (SH- Diesel Generating Set)" to M/s Riaz & Sons at agreement cost of Rs 112.126 million on 11th November, 2009. The contractor was paid Rs 63.682 million upto 4th running bill paid on 15th June, 2015 which included advance payment of Rs 46.540 million on account of 50% agreement cost of four Diesel Generating Sets and ATS / AMF penal against a Bank Guarantee.

Audit observed that validity of the Bank Guarantee expired on 21st April, 2016. The Silk Bank Limited in letter No. MBL/TPC/LG/16/057-A dated 11th May, 2016 intimated the divisional management that since no demand had been received by the bank under the guarantee upto the expiry date of 21st April, 2016, hence the bank stands discharged and released of all claims, demands or liabilities and all of its obligations of any kind or character whatsoever under the captioned guarantee. Audit further observed that the contractor has neither provided / installed the equipment against which the advance payment was received nor the guarantee was got revalidated. This resulted in non-extension of Advance Payment Guarantee of Rs 46.540 million.

Audit maintains that the Bank Guarantee has not been got re-validated due to poor monitoring system, weak internal and financial controls.

Audit recommends action against persons responsible besides corrective action.

(Para 30)

4.2.7 Un-due payment of escalation resulted in overpayment - Rs 32.686 million

Sub-Para-5 of Standard Procedure and Formula for Price Adjustment, 2009 issued by the Pakistan Engineering Council provides that except labour and POL, if any other adjustable item(s) is not used in a particular billing period then the ratio of current date price and base date price for that particular adjustable item(s) shall be considered as one.

Audit observed that the Divisional Management paid price escalation to contractor on the work done relating to electrical works in 40th running bill. Audit further observed that no cement and steel was used in the electrical work in the specific billing period. Therefore, component of the cement and steel included in the formula was required to be taken as one (1) whereas, escalation was paid on the work done amount which also includes the component of cement and steel. This resulted in overpayment of escalation of Rs 32.686 million.

Audit maintains that the overpayment resulted due to non-adherence Price Adjustment Formula, weak internal and financial controls.

Audit recommends recovery of overpaid amount.

(Para 42)

4.2.8 Non-recovery due to withdrawal of recovery orders - Rs 32.221 million

GFR-23 provides that every Government officer should realize fully and clearly that he would be held personally responsible for any loss

sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Audit observed that the management of Pak. PWD imposed recovery of Rs 32.221 million to contractor M/s Interhom (Pvt) Ltd due to some reasons. The Employer (Chief Engineer North), Pak. PWD has withdrawn this recovery vide letter No. SW/W-19/3597 dated 17th November, 2015. This resulted in non-recovery of Rs 32.221 million.

Audit held that non-recovery occurred due to mismanagement, setting aside organizational interest and inadequate implementation of internal and financial controls.

(Para 19)

4.2.9 Loss due to payment of interest on delayed payments to contractor - Rs 24.794 million

According to Clause 60.10, the amount due to the contractor under any Interim Payment Certificate issued by the Engineer pursuant to this Clause, or to any other terms of the Contract, shall be paid by the Employer to the contractor within 28 days after such IPC has been delivered to the Employer or in case of the Final Certificate within 56 days after such Final Payment Certificate has been delivered to the Employer. In the event of failure of the Employer to make payment within the times stated due to circumstances beyond his control, the Employer shall not pay to the contractor any interest or compensation of any sort.

Audit noted that pursuant to the agreement signed between Chief Engineer Pak PWD and M/s Interhom (Pvt) Ltd on 14th day of June, 2007, an Amendment No. 3 to the agreement was signed between the parties on 14th February, 2012 and Clause 60.10 (Time for payment) was amended as “In the event of the failure of the Employer to make payments within the times stated, the Employer shall pay to the contractor compensation at the

28 days, rate of KIBOR + 2% per annum, upon all sums unpaid from the date by which the same should have been paid. Such compensation shall be admissible on the payments which become due after the date of signing of this Contract Amendment No.03.

Audit observed that the management revised agreement clause No. 60.10 through post bid amendment in favour of the contractor irregularly. Audit further observed that the Divisional Officer failed to make timely payments to the contractor after amendment of the Clause and resultantly, made payment of interest/compensation of delay of Rs 24.794 million. This resulted in loss of Rs 24.794 million.

Audit maintains that the loss occurred due to irregular post-bid amendment of agreement clause, slackness in making timely payments and week financial management.

(Para 23)

4.2.10 Non-adjustment of overpaid amount - Rs 9.292 million

According to Paragraph 220 of Central Public Works Account Code, before the bill of a contractor is prepared, the entries in the Measurement Book relating to the description and quantities of work or supplies should be scrutinized by the Sub-divisional Officer and the calculations of "Contents or area" should be checked arithmetically under his supervision. The bill should then be prepared, from the measurement entries, in one of the forms prescribed in paragraphs 212 to 219 applicable to the case. The rates allowed should be entered by the Sub-divisional Officer, either in the abstract of measurements, *vide* paragraph 209 (c), or the bill itself. Full rates as per agreement, catalogue, indent or other order should be allowed only if the quality of work done or supplies made is up to the stipulated specification.

Audit observed that M/s NESPAK pointed out overpayment of Rs 9.292 million upto 58th IPC to the contractor on 20th October, 2015 without recording reasons of overpayment. The overpayment was to be adjusted in the final IPC but the divisional management has not so far

passed the final IPC. This resulted in non-adjustment of overpayment of Rs 9.292 million.

Audit maintains that overpayment resulted due to weak internal and financial controls.

Audit recommends early recovery of overpaid amount.

(Para 16)

4.2.11 Overpayment of escalation - Rs 5.966 million

Sub-clause 58 (Particular conditions of contract) provides that “it must be clearly understood by the contractor that no claims on account of price fluctuation will be entertained during the currency of this contract for items of the work as per schedule of quantities attached to the agreement except item of steel, aluminum, copper metals and addendum thereby. Escalation clause incorporated in all the ongoing works as on 01.12.2004 and all future contracts, following procedure will be adopted to implement the said clause.

The Executive Engineer in-charge would acquire the basic rates of steel billet, aluminum metal and copper metal announced by the Pak. Steel & London Metal Exchange or any other authentic source on the day of acceptance of NIT and incorporate the same in the NIT which shall become the basis for calculation of escalation or recovery at a later stage which would be reckoned on the day of delivery of material at a site as & when required.

Para 04 of Variation Order (V.O.) No.1 dated 20th April, 2012 provides that “since unit rates are based on current market rates hence, no price adjustment will be admissible for works to be carried out under this V.O.

Audit noted that the Executive Engineer, Store & Workshop Division, Pak. PWD, Islamabad awarded the work “Construction of New

Secretariat Block at Constitution Avenue, Islamabad (SH: Air Distribution System)” to M/s Ch. Mubarak Ali for Rs 175.248 million.

Audit observed that the payment was made on account of escalation on G.I Sheet for Rs 5.966 million on work of Air distribution system. In the contract agreement (Appendix C to the agreement), no weightage / basic rate was shown in the agreement. Allowing escalation on the basis of difference of steel rate issued by the Pakistan Steel Mill without provision of weightage in the Appendix-C to the contract agreement resulted in overpayment of escalation of Rs 5.966 million.

Audit maintains that overpayment resulted due to disregard to the provision of the agreement, weak internal and financial controls.

(Para 38)

4.2.12 Unjustified re-imburement on account of Performance Guarantee through post bid change - Rs 5.536 million

According to clause 10.2 of agreement, Performance Security shall be valid until the contractor has executed and completed the works and remedied any defects therein in accordance with the contract. Clause 32.1 and 31.2 (IB) provides that the successful bidder shall furnish to the Employer a Performance Security in the form and the amount stipulated in the bidding data and the conditions of contract within a period of 28 days after the receipt of Letter of Acceptance. Failure of the successful bidder to comply with the requirements shall constitute sufficient grounds for the annulment of the award and forfeiture of the Bid Security.

Audit observed that the contractor M/s Interhom (Pvt) Ltd provided Performance Guarantee of amounting to Rs 376.785 million which expired on 11th June, 2011. Instead of obtaining revalidated / fresh Performance Guarantee from the contractor, an amount of Rs 5.536 million was paid to the contractor as reimbursement of Performance Guarantee through post bid change. This resulted in unjustified payment of Rs 5.536 million.

Audit maintains that the payment was made due to post bid change, inadequate financial and internal controls.

Audit recommends action against persons responsible.

(Para 02)

4.2.13 Overpayment of escalation due to taking higher value of work done - Rs 3.893 million

According to Standard Procedure and Price adjustment Formula, the billed amount of the Works for each calendar month will be obtained from the checked bills submitted by the contractor. In case the billed amount is for more than one month, the amount of the bill shall be segregated for actual work done in each month.

Audit observed that overpayment of Rs 9.292 million was made to the contractor upto 58th IPC without execution of work or execution of below specification work and while making calculation of escalation bills upto 58th IPC, value of work (VOW) done was not decreased to the extent. This resulted in calculation of higher value of work done and overpayment of Rs 3.893 million (Rs 9.292 million x 0.419 average factor).

Audit maintains that overpayment resulted due to weak internal and financial controls.

Audit recommends early recovery of the overpaid amount.

(Para 17)

4.2.14 Non-recovery of Income Tax - Rs 4.051 million

According to Clarification issued by Commissioner of Income Tax, Enforcement & Collection Division-IV, Karachi on 8th July, 2009, no tax under section 153(I)(a) of the Income Tax Ordinance, 2001 has to be deducted in respect of goods which have already been subjected to withholding tax under section 148 of the said in terms of clause (47A) of the Part-IV of Second Schedule read with sub-section 5(I)(a) of Section

153 to the Income Tax Ordinance, 2001 by the withholding agent / purchaser on production of necessary documents provided goods are sold in the same condition when imported.

Audit noted that Executive Engineer, Store & Workshop Division, Pak PWD Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue Islamabad (SH - Diesel Generating Set)” to M/s Riaz & Sons at agreement cost of Rs 112.126 million on 11th November, 2009. The contractor was paid Rs 63.682 million upto 4th running bill paid on 15th June, 2015.

Audit observed that the contractor was paid Rs 54.014 million upto 2nd running bill and while making payment of 2nd running bill, income tax of Rs 448,446 deducted from the 1st running bill was refunded to the contractor and no Income Tax was deducted from the payment made in 2nd running bill. This resulted in non-deduction of Income Tax of Rs 4.051 million (Rs 54.014 million x 7.5%).

Audit holds that the contract is not only for sale of Diesel Generating Sets in the same condition but also includes installation of the Diesel Generating Sets at the New Secretariat Building for which the contractor offered bid after adding labour, other material and overheads, installation charges, testing, commissioning and maintenance. Thus, the contractor has cushion of profit in the rates, hence deduction of income tax at source is applicable in this case.

Audit maintains that deduction of Income Tax was not made due to non-adherence to the contractual clauses and poor internal control systems.

Audit recommends early recovery of income tax and its remittance into Treasury.

(Para 28)

4.3 Procurement and contracts 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 & regulations are as under:-

4.3.1 Loss to Government due to delay in the completion of project - Rs 1,000 million

As per commitment of the DG Pak PWD and the contractor, the balance works of HVAC and Lifts were to be completed upto 23rd March, 2015. As per Planning Commission Ministry of Planning Development & Reform (Projects Wing) letter No. 1 (2)/M (I & M)/PC/2014 dated 6th April, 2015, the important project of Pakistan Secretariat is dormant since 2011, due to bad intents of former Director General, Pak PWD. As per his erroneous perceptions / commitments to complete the project by 23rd March, 2015 was never possible due to pending jobs of HVAC & Lifts installation which needs minimum 6 months to complete.

Audit noted that the work “Construction of new Secretariat Block (TUV)” was awarded to M/s Interhom which is still incomplete.

Audit observed from the record produced during audit that the works could not be completed and financial losses incurred on the public money due to delay in completion of the project as rent for official accommodation which comes to approximately Rs 1.00 billion besides wear and tear of the completed works.

Audit holds that loss occurred due to bad planning, lack of coordination among the stakeholders.

Audit pointed out the loss in October 2015. The department replied that a Committee was constituted by the Planning Division under Chairmanship of Member Monitoring & Implementation to complete critical pending HVAC and Lift issues of the building on 6th April, 2015 comprising of seven (7) members. A number of meetings were held in this

regard and then the recommendations were issued on 30th June, 2015. The recommendations were further endorsed by the Secretary Housing on 13th July, 2015 for implementation. The Committee also roughly calculated the loss based on monthly rent being not received to the Government due to delay in completion of building. As far as financial aspect of HVAC equipment and installation of lifts is concerned, that will be calculated on completion of these works. The department admitted the Audit Observation.

The matter was discussed in DAC meeting held on 21st January, 2016 wherein the department informed the Committee that the matter is being investigated by NAB and final decision is awaited. The DAC directed department to pursue the case with NAB and provide updates to Audit.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 58/2015-16)

4.3.2 Non-obtaining of Insurance of Works and contractor's Equipment worth Rs 292.429 million and non-recovery of 2% insurance premium Rs 5.848 million

Clause 21.1 – 25 of agreement provides to insure the work together with materials and plant by contractor. The contractor was also required to get third party insurance (including employer's property) against liabilities for death of or injuries to any person or loss or damages to the property arising out of the performance of the contract. The contractor shall provide evidence to the Employer as soon as practical but in any case, prior to the start of the work at site that the insurances required under the contract have been affected and shall provide the insurance policies to the Employer. The contractor shall also submit original receipts of all the premiums paid by the contractor in connection with the insurances.

Audit noted that Executive Engineer, PCD-II Pak.PWD, Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue Islamabad (SH: External Development & Electrical Works)” to M/s Construction Management & Engineering Services at contract cost of Rs 254.286 million. The work was started on 20th May 2014 to be completed in 12 months upto 19th May, 2015.

Audit observed that the work was started on 20th May 2014 but the management failed to get Insurance covers as per provisions of agreement. In this way, the contractor saved about 2 % of contract cost of Rs 5.848 million {(Contract cost Rs 254.286 million + 15%) x 2% of premium included in the bid offered}. This resulted in non-provision of Insurance cover to the property of the Government costing Rs 292.429 million and non-recovery of Rs 5.848 million.

Audit maintains that non-obtaining of insurance cover was due to non-adherence to the contractual clauses, poor internal and financial control systems.

(Para 10)

4.3.3 Non-imposition and recovery of Liquidated Damages - Rs 213.822 million

4.3.3.1 According to Item No. 3.4 of MoU signed between Chief Engineer (North) Pak PWD and M/s Interhom Pvt. Ltd. regarding revalidation and revision of contract of the work “Construction of New Secretariat Block at Constitution Avenue Islamabad” dated 10.06.2011, the contractor was required to complete the project within 364 days of signing of the MoU.

The Executive Engineer, PCD-II Pak. PWD Islamabad neither imposed nor recovered Liquidated damages of Rs 188.393 million (Rs 1,883.925 million x 10%) due to non-completion of the work in agreed period of completion under item 7 of Appendix-A to bid @ 0.10% for each day of delay subject to maximum of 10% of contract price. Only substantial completion certificate was issued in 2013 with a punch list. Neither the defects pointed out in the punch list have been removed nor

have incomplete works been got executed. This resulted in non-recovery of Liquidated damages for Rs 188.393 million.

Audit maintains that liquidated damages were not imposed and recovered due to non-adherence to the conditions of the MoU signed between Pak PWD and the contractor.

(Para 04)

4.3.3.2 Clause-47.1 of the Contract Agreement provides that if the contractor fails to complete the work, then the contractor shall pay to the Employer the relevant sum stated in the Appendix to tender as liquidated damages for such default and not as a penalty (which sum shall be the only monies due to the contractor for such defaults) @ 10% of the contract price stated in the letter of acceptance. The payment or deduction of such damages shall not relieve the contractor from his obligation to complete the works, or from any other of his obligations and liabilities under the Contract.

Audit noted that Executive Engineer, PCD-II Pak. PWD, Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue Islamabad (SH: External Development & Electrical Works)” to M/s Construction Management & Engineering Services at contract cost of Rs 254.286 million. The work was started on 20th May 2014 to be completed in 12 months upto 19th May, 2015.

Audit observed that the contractor could not complete the work within stipulated period of completion of 12 months from the date of issuance of acceptance letter to contractor i.e. 20.5.2014. Thus the contractor made him liable to be penalized @ 10% of the Contract Price stated in the letter of Acceptance but the divisional management failed to impose and recover liquidated damages amounting to Rs 25.429 (Rs 254.286 million x 10%) million from the contractor for non-completion the project within the stipulated period.

Audit holds that the liquidated damages were not imposed and recovered due to non-adherence to the contractual clauses which also reflects undue favour to contractor and poor internal controls.

(Para 13)

4.3.4 Award of work to an ineligible firm - Rs 175.248 million

According to Registration No. 3638 issued by Pakistan Engineering Council, M/s Ch. Mubarak Ali were registered in Category C-3, hence the firm was eligible to execute the works having cost below Rs 100 million. Further, a procuring agency while engaging in pre-qualification may take into consideration the following factors, namely:-

- (a) Relevant experience and past performance;
- (b) Capabilities with respect to personnel, equipment, and plant;
- (c) Financial position;
- (d) Appropriate managerial capability; and
- (e) Any other factor that a procuring agency may deem relevant, not inconsistent with these rules.

Audit noted that the Executive Engineer, Store & Workshop Division, Pak. PWD, Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue, Islamabad (SH: Air Distribution System)” to M/s Ch. Mubarak Ali for Rs 175.248 million.

Audit observed that the contractor was not eligible for pre-qualification / execution of work having cost of Rs 175.248 million. This resulted in award of work to an ineligible firm of Rs 175.248 million.

Audit maintains that contract was awarded to ineligible firm due to weak internal and financial controls.

(Para 39)

4.3.5 Award of work beyond the provision of approved PC-I - Rs 118.554 million

As per office memorandum issued by the Planning Commission vide No.6(9)PIA-II/PC/2005 dated 12th March, 2015, 2nd Revised PC-I was approved for the Project “Construction of New Secretariat Block at Constitution Avenue, Islamabad” including component of External Site Development / Retaining Wall, Plumbing work and Electrification (external) as under:

Description	Quantity (Sft)	Rate (Rs per sft)	Amount (Rs in million)
Site development Civil work	319,000	280	89.320
Electrification (External)	202,000	75	15.150
Plumbing Works	319,000	98	31.262
Total			135.732

Audit noted that Executive Engineer, PCD-II Pak. PWD, Islamabad awarded External Development & Electrical Works to M/s Construction Management & Engineering Services at contract cost of Rs 254.286 million at 2% above on the NIT cost of Rs 249.300 million against PC-I provision of Rs 135.732 million. The work was started on 20th May, 2014 which was to be completed in 12 months up to 19th May, 2015. The work is still in progress.

Audit observed that contrary to the provision of the 2nd revised approved PC-I, the divisional management awarded the work at 87.35% over and above the approved scope of work which resulted in extra burden of Rs 118.554 million on the public exchequer in violation of approved scope of work as calculated below:

S. No	Description of work	Cost as per 2 nd Revised PC-I	Cost as per award including 2% above	Difference	%age over & above PC-I
1.	Civil works	89.320	153.711	64.391	72%
2.	Plumbing Works	15.150	31.313	16.163	106.68 %
3.	Electrical Works (Ext)	31.262	69.262	38.000	121.55 %
	Total:-	135.732	254.286	118.554	87.35 %

Audit holds that extra expenditure incurred due to defective designing, poor planning, mismanagement and non-adherence to the approved scope of work.

(Para 25)

4.3.6 Loss due to irregular acceptance of bid of lift works - Rs 74.916 million

According to Clause IB 13.3 and IB 13.4 of the agreement, the documentary evidence of the bidder's qualification to perform the Contract if its bid is accepted, shall establish to the Employer's / Engineer's satisfaction:

- (a) That, in the case of a bidder offering to supply goods under the Contract which the bidder did not manufacture or otherwise produce, the bidder has been duly authorized by the goods manufacturer or producer to supply the goods to Pakistan;
- (b) That the bidder / manufacturer has the financial, technical and production capability necessary to perform the Contract; and
- (c) That, in the case of a bidder not doing business within Pakistan, the bidder is or will be (if successful) represented by an agent in Pakistan equipped and able to carry out the Supplier's maintenance, repair and spare parts stocking obligation prescribed by the Conditions and / or Technical Provisions.

As per Clause IB 13.4 (a) of the agreement, Bidder/Manufacturer must possess and provide evidence of 10 years proven experience in installation / design & manufacture of lifts of the type required for the project. Clause IB 13.5 provides that in order for a joint venture to qualify, at least one of the partners of joint venture shall satisfy the relevant experience criteria specified in Sub-clause 13.3 and 13.4.

Clause IB 30 provides that the Employer will award the Contract to the bidder whose bid has been determined to be substantially responsive to the Bidding Documents and who has offered the lowest evaluated Bid Price, provided that such bidder has been determined to be qualified to satisfactorily perform the Contract in accordance with provision of Clause IB 29.

As per Clause 34.1 & 34.2 of the agreement, the successful bidder shall furnish to the Employer a Performance Security in the form and the amount stipulated in the Conditions of Contract within 14 days after the receipt of Letter of Acceptance. Failure of the successful bidder to comply with the requirements of the Clause shall constitute sufficient grounds for the annulment of the award and forfeiture of the Bid Security.

Clause IB 2.1 of the Contract, only bidders duly licenced by the Pakistan Engineer Council (PEC) in the appropriate category relevant to the nature / value of the works and duly enlisted / pre-qualified by the Employer were eligible for participation in the tendering.

Audit noted that following four (04) firms were prequalified for the Lift Works (Supply & installation of 12 number passenger and 02 passenger cum service lifts) of the New Secretariat Building at Constitution Avenue, Islamabad:

- (a) M/s Merin (Pvt.) Ltd.
- (b) M/s Riaz & Sons
- (c) M/s Emfore Corporation
- (d) M/s SAASA (Pvt.) Ltd.

Audit further noted that tenders were called from pre-qualified firms and opened on 18th June, 2010. The Lift Work was awarded to M/s SAASA-NFRD (JV) at cost of Rs 223.750 million being lowest bidder at 12% above the NIT cost of Rs 199.777 million vide Acceptance Letter No. SW/AB-II/2048 dated 16th August, 2010.

Audit observed that the bids were not evaluated as per Bidding Criteria / Bidding Documents and work was awarded to a non-responsive bidder irregularly as detailed below:

1. M/s SAASA-NFRD were conditionally pre-qualified subject to production of valid PEC licence, JV agreement and access to financial resources. None of the partner of the JV satisfied the conditions as mentioned in Clause 2.1 (a). M/s SAASA Corporation were authorized to work in C-5 Category (Rs 30 million) at that time while JV partner M/s NFRD was not enlisted in Pakistan Engineering Council. The issuance of bidding documents and award of work was not in line with the bidding criteria.
2. The firm did not meet the conditions of Clause IB13.3 and IB 13.4 of the agreement. M/s SAASA Corporation have offered the ThyssenKrupp Elevators but they were not authorized representative of the said elevators in Pakistan since, 23rd July, 2009. Clause IB 13.3 of bidding documents was violated by acceptance of their tender. Following specification as asked in the bidding documents were also lacking in their offered bid:
 - (a) Earthquake control missing
 - (b) Instead of 7/8 segment type, red LED Dot matrix has been quoted.
 - (c) Automatic rescue devices were not as per specification.
 - (d) Emergency features lacking.

3. Terms of payment were changed through addendum-1. Change in terms of payment after issue of bidding documents was against the bidding criteria.
4. As per comparative statement, M/s SAASA Corporation quoted the rates on behalf of their firm and not for M/s SAASA-NFRD (JV) which was against the spirit of JV.
5. As per clause IB 34.1, the successful contractor did not furnish Performance security within 14 days from the receipt of Letter of Acceptance issued on 16.08.2010 but his contract was not annulled in accordance with Clause IB 34.2. After expiry of specified period, the firm submitted Performance Security from Askari Insurance Company having "A" rating instead of "AA" rating.
6. At the time of opening of tenders, third lowest firm M/s Riaz & Sons reduced their rate to 11 % above. His offer was neither forwarded to the competent authority nor considered while accepting the tender.

Audit further observed that the award of Lift Work was revoked due to violation of bidding criteria and specifications. The department could not re-tender the works due to involvement in litigation upto 18th February, 2016 in the Islamabad High Court, Islamabad. The court decision was also against the Firm as the irregularities in award of work were proved.

Audit also observed that tenders were again called and opened after decision of the High Court on 25th May, 2016. As per comparative Statement, M/s Riaz & Sons stood first lowest quoting bid price of Rs.298,666,428 which was 49.50 % above the NIT cost of Rs 199.777 million and 37.50% above than the rates of the work awarded in 2010.

Audit holds that the Government has to sustain loss of Rs 74.916 million (298.666-223.750) due to improper evaluation / acceptance of bid

in violation of rules in 2010 and loss of millions of rupees due to delay in completion and operation of the building.

Audit maintains that the loss was occurred due to non-adherence to the provisions of the bidding documents, improper evaluation of bids and codal rules.

(Para 35)

4.3.7 Non-obtaining / non-revalidation of Performance Security - Rs 55.291 million

Clause 10.1 of conditions of contract states that the contractor shall provide performance security to the employer in the prescribed form. The said security shall be furnished or caused to be furnished by the contractor within 28 days after the receipt of the Letter of Acceptance. The performance security shall be of an amount equal to 10 percent of the contract price stated in the Letter of Acceptance. Such security shall at the option of the bidder be in the form of either (a) Bank Guarantee from any Schedule Bank in Pakistan or (b) bank guarantee from a bank located outside Pakistan duly counter-guaranteed by a Schedule Bank in Pakistan or (c) an insurance company having at least AA rating from PACRA/JCR. Clause 10.2 of FIDIC provides the Performance Security shall be valid until the contractor has executed, completed and remedied defects in the Works in accordance with the Contract.

Audit noted that the Executive Engineer, Store and Workshop Division, Pak PWD Islamabad awarded different electrical and mechanical works of Rs 552.913 million to different contractors relating to “Construction of New Secretariat Building at Constitution Avenue, Islamabad”.

Audit observed that the department did not obtain required Performance Securities and did not seek revalidation from contractors. This resulted in non-revalidation / obtaining of Performance Guarantees of Rs 55.291 million as detailed below:

Sr. No.	Name of work	Agreement Amount (Rs in million)	Performance Security @ 10%
1	Construction of New Pak Secretariat Block Constitution Avenue Islamabad (S.H. Diesel Generating Sets)	112.946	11.295
2	Construction of New Secretariat Block at Constitution Avenue Islamabad (SH: MOR Panels and Power Cables for Diesel Generating Sets)	20.756	2.075
3	Construction of New Pak Secretariat Block Constitution Avenue Islamabad Sub Head HVAC Work (Part-II) Equipment	194.461	19.446
4	Construction of New Pak Secretariat Block Constitution Avenue Islamabad Sub Head Lift Works	224.750	22.475
	Grand Total	552.913	55.291

Audit maintains that the violation occurred due to inadequate oversight mechanism for exercise of relevant internal controls.

(Para 32)

4.3.8 Non-obtaining of Insurance of Works and contractor's Equipment worth Rs 30.297 million and non-recovery of 2% insurance premium Rs 0.605 million

According to clause 21.1 – 25 of agreement, the contractor shall prior to commencement of the Works, insure works and equipment etc in the joint names of the Employer and contractor against all loss or damages from whatever cause arising for which he is responsible under the terms of the contract and for the contract period and period of maintenance. The contractor was also required to get third party insurance (including employer's property) against liabilities for death of or injuries to any person or loss or damages to the property arising out of the performance of the contract. If the contractor fails to effect and keep in force the insurance or any other insurance which he may be required to effect under the terms of the contract, then and in any such case the Employer may effect and kept in force any such insurance and pay such premium or premiums as may be necessary for that purpose and from time to time deduct the

amount so paid by the Employer from any monies due or which may become due to the contractor, or recover the same as a debt due from the contractor.

Audit noted that the Executive Engineer, Project Civil Division No. II Pak PWD awarded the work “Construction of New Secretariat Block at Constitution Avenue, Islamabad (SH-Providing of 32 bath/kitchens for Minister/ Secretary at 1st floor to 8th floor) to M/s M. Saleem Engineering and Company at agreement cost of Rs 30.298 million. The work was started on 3rd June, 2015 to be completed in 6 months upto 3rd January, 2016. The contractor was paid Rs 39.246 million upto 4th running bill paid on 10th March, 2016.

Audit observed that the work was started on 3rd June, 2015 but the management failed to get Insurance covers as per provisions of agreement. In this way the contractors saved about 2 % of contract cost Rs 0.605 million (Rs 30.297 million x 2 %) of premium included in the bid offered. This resulted in non-provision of Insurance cover to the property of the Government costing Rs 30.297 million and non-recovery of Rs 0.605 million.

Audit maintains that non-obtaining of insurance cover was due to non-adherence to the contractual clauses and poor internal control systems.

(Para 08)

4.3.9 Overpayment due to unauthorized procurement of Chillers - Rs 22.950 million

According to Schedule-1 to Bid - List of Recommended Manufactures of Equipment / Material and as offered by the tenderer and Summary of Cost, the contractors were required to submit their bid in compliance to the list of equipment, make and country of origin of equipment and material. The bidder will have to quote separate rate of Chiller under Option-1 and Option-II as under:

- | | | |
|-----------|-----|-----------------|
| Option-I | (a) | Kawasaki, Japan |
| | (b) | Sanyo, Japan |
| Option-II | (a) | LS, Korea |
| | (b) | York, Korea |
| | (c) | Carrier, Korea |
| | (d) | Samjung, Korea |

Audit noted that Executive Engineer, Store & Workshop Division, Pak. PWD Islamabad called and opened tenders of the work “Construction of New Secretariat Block at Constitution Avenue, Islamabad (SH - HVAC Work) on 24.12.2009. M/s M.Z. Awan & Co quoted his rate 1% below the NIT cost of Rs 199.857 which they further reduced to Rs 2.70% below. The work was awarded to the firm at agreement cost of Rs 194.461 million vide letter No-SW/AB-II/93 dated 11th January, 2010. The work was to be completed within twelve (12) months. Audit further noted that the contractor quoted his rates 2.70% on the Engineer Cost Estimate for work HVAC Work (SH-II-Equipment) comprising of three parts viz Part-1 locally procured equipment, material & services Rs 62.167 million, Part-2-Imported equipment & material Rs 137.170 million and Part-3 Fuel oil supply system Rs 0.520 million for Chillers.

Audit observed that while making payment of 5th running bill, the Executive Engineer, Central E/M-I Division recorded under heading “Imported items 18-2.01 Direct Fired Absorption Chiller with dual fuel burner and Gas pressure regulator Code CH/1-1 to CH/1-4” that “the contractor has procured and brought at site four (04) Chillers of LS Korea make instead of Japanese Chillers as per provision of the agreement”. The Divisional Engineer reduced the cost of the Chillers by 25%. Audit further observed that the contractor, while quoting his rates, did not mention on the bid documents the option against which the rate was offered. Audit called TS alongwith detailed estimates and basis of rates provided in the NIT which were not provided to Audit. Audit thus considers that the contractor quoted his rates against Japanese brand (Option-I).

Later on, the work was transferred to Store & Workshop Division where new 5th running bill was prepared and passed for payment without

deduction of 25% cost of chillers as per recommendations of the Executive Engineer, CE/M-1 which resulted in overpayment of Rs 22.195 million (Rs 22.195 million x 4 cooling tower x 25% reduction).

Audit holds that overpayment resulted due to non-adherence to the specification of the Chillers and evaluation of the Divisional Engineer of Pak PWD, weak contract management, internal controls and financial management.

(Para 36)

4.3.10 Loss due to award of work at higher rates – Rs 18.208 million

According to Rule 10 (i) of GFR Volume-I, 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.

Audit noted that the work “Construction of New Secretariat Block at Constitution Avenue” was awarded to M/s Interhom (Pvt) Ltd on 5th June, 2007. The work included external works of underground services tunnel / trenches and plumbing work at cost of Rs 20.788 million. (Premium @ 37.80% above included). Audit further observed that Variation Order No. 04 for external development works (Civil and Plumbing works) was also approved in July, 2010 for Rs 163.546 million which was not got executed.

Audit observed that the Executive Engineer, PCD-II Pak. PWD Islamabad awarded another work of “Construction of New Secretariat Block at Constitution avenue” (SH-External Development Civil and Electric work) in May, 2014 to M/s Construction Management & Engineering Services at 2% above the bid cost of Rs 249.300 million. This included Civil works of Rs 150.698 million and Plumbing works for Rs 30.699 million and Electrical / Mechanical works for Rs 67.904 million. Due to non-implementation of BOQ of original contractor and

Variation Order No. 04 of July, 2010, the Government has been put to loss of Rs 18.208 million as shown below:

(Rs in million)			
Sub-head	Cost of Variation Order	Cost of new work	Difference
Civil Works	136.400	150.698	14.298
Plumbing Works	27.146	30.699	03.553
Sub-Total	163.546	181.397	17.851
Add 2%			0.357
Grand Total			18.208

Audit maintains that the loss resulted due to non-adherence to the approved Variation Order, weak internal and financial controls.

(Para 03)

4.3.11 Non-imposition of penalty for defective designing - Rs 16.894 million

According to Para 2 of Clause 3.4 of the agreement, “Liability of the Consultant” provides “if the client suffers any losses or damages as a result of proven fault, errors or omissions in the design of a project, the Consultants shall make such losses or damages subject to the conditions that the maximum liability as aforesaid shall not exceed twice the total remuneration of the Consultants for design phase in accordance with the terms of the Contract”.

Audit noted that Executive Engineer, Project Civil Division No. II Pak. PWD Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue, Islamabad” to M/s Interhom (Pvt) Ltd at the agreement cost of Rs 1,883.926 million. The contractor was paid Rs 1,959.672 million on account of work done upto 59th running bill (IPC-58). The Department has also made payment of Rs 168.946 million to the Consultant M/s NESPAK on account of consultancy charges upto 18th running bill.

Audit observed that design of the false ceiling at three entry points of the TUV block was not prepared keeping in view of the weather and location of the prestigious building. Resultantly, the whole false ceiling at entry points has deteriorated / collapsed with the wind and rain before operation of the building. Thus, design consultant was liable to be penalized for the defective designing @ 10% of the amount received by them. Audit further observed that the Consultants were not penalized for the improper designing of the false ceiling which resulted in loss of Rs 16.894 million (Rs 168.946 million x 10%).

Audit holds that loss resulted due to improper designing of false ceiling and approval of the defective design.

(Para 06)

4.3.12 Non-recovery of premium of un-insured period from the contractor - Rs 5.53 million

As per Clause 21.1 of the standard bidding documents, contractors were required to insure works, equipment and liabilities for death or injury to any person. As per Clause 25.3, in case of failure to do so the employer may effect and keep in force any such insurance, and pay any premium as may be necessary for that purpose and from time to time deduct the amount so paid from any moneys due or to become due to the contractor. The amount to be insured is contract amount plus 15%. As per clause 43 of the bidding documents, the contractor shall procure and submit the insurance cover within a period of 28 days from the date of receipt of Letter of Acceptance from the Employer”.

Audit noted that the Executive Engineer, Store and Workshop Division, Pak PWD Islamabad awarded different electrical and mechanical works of Rs 552.913 million to different contractors relating to “Construction of New Secretariat Building at Constitution Avenue, Islamabad”.

Audit observed that the Divisional Management could not obtain / revalidate Insurance Policies as required under the contract provisions.

The government works remained un-insured for long period but neither the mandatory insurances of the works were obtained / re-validated nor the amount of premium included in the bid rates for the un-insured period was deducted from the contractors. This resulted in non-recovery of Rs 5.53 million (1% of Rs 552.913 million).

Sr. No.	Name of work	Amount (RS in million)	Premium @ 1%
1	Construction of New Pak Secretariat Block Constitution Avenue Islamabad (S.H. Diesel Generating Sets)	112.946	1.13
2	Construction of New Secretariat Block at Constitution Avenue Islamabad (SH: Panels and Power Cables for Diesel Generating Sets)	20.756	0.21
3	Construction of New Pak Secretariat Block Constitution Avenue Islamabad Sub Head HVAC Work (Part-II) Equipment	194.461	1.94
4	Construction of New Pak Secretariat Block Constitution Avenue Islamabad Sub Head-Lift Works	224.750	2.25
	Grand Total	552.913	5.53

Audit maintains that recovery of inbuilt cost of insurance for the un-insured period was not effected due to poor contract management, weak internal and financial controls.

(Para 31)

4.3.13 Provision of higher cost of Diesel Generating Sets due to separate payment of inbuilt item – Rs 4.466 million

According to Technical Sanction No. 139 of 2007-08 accorded by Chief Engineer (North) Pak PWD, Item No. 1 of Sub-head I, II, III and IV for “Providing, installation and commission of standard skid mounted Diesel Generating Sets etc”, cost of *Canopy* was included in the item.

Audit noted that Executive Engineer, Store & Workshop Division, Pak PWD Islamabad awarded the work “Construction of New Secretariat

Block at Constitution Avenue Islamabad (SH- Diesel Generating Set)” to M/s Riaz & Sons at agreement cost of Rs 112.126 million on 11th November, 2009. The contractor was paid Rs 63.682 million upto 4th running bill paid on 15th June, 2015 which includes 90 % cost of four Canopies of Diesel Generating Sets paid under Item-II (Full rate of each canopy Rs 1,116,500).

Audit observed that Item No. 1 of sub-head I, II, III and IV includes cost of Canopy whereas, separate item of Canopy was approved in the TS estimate as Item-II @ Rs 1,116,000 each for four sub-heads. Audit further observed that in the approved NIT, the word “Canopy” was deleted without decreasing the cost of Canopy included in the rate of Item No.1 of sub-head I, II, III and IV. This resulted in higher cost of Diesel Generating Sets in the NIT of Rs 4.466 million (Rs 1,116,500 x 4).

Audit maintains that TS and NIT of the work were not prepared with due diligence which resulted in inclusion of duplicate item due to ineffective internal and financial controls.

(Para 33)

4.3.14 Irregular acceptance and non-extension of Performance Security Bond - Rs 3.029 million

According to clause-10.1 of the agreement, the contractor shall provide Performance Security to the Employer in the prescribed form. The said Security shall be furnished or caused to be furnished by the contractor within 28 days after receipt of the Letter of Acceptance. The Performance Security shall be of an amount equal to 10 % of the Contract Price stated in the Letter of Acceptance for the period of contract plus defect liability period. Such Security shall be in the form of either (a) bank guarantee from any Scheduled Bank in Pakistan or (b) bank guarantee from a bank located outside Pakistan duly counter-guaranteed by a Scheduled Bank in Pakistan or an insurance company having at least AA rating from PACRA/JCR. The cost of complying with requirements of the sub-clause shall be borne by the contractor.

Audit noted that the Executive Engineer, Project Civil Division No. II Pak PWD awarded the work “Construction of New Secretariat Block at Constitution Avenue, Islamabad (SH-Providing of 32 bath / kitchen for Minister / Secretary at 1st floor to 8th floor) to M/s M. Saleem Engineering and Company at agreement cost of Rs 30.298 million. The work was started on 3rd June, 2015 to be completed in 6 months upto 3rd January, 2016. The contractor was paid Rs 39.246 million upto 4th running bill paid on 10th March, 2016.

Audit observed that the contractor submitted Performance Security Bond from United Insurance Company for Rs 3.029 million having “A” rating instead of “AA” rating. The Performance Security was issued on 15th June, 2015 which was valid from 3rd June, 2015 to 2nd December, 2015. Audit further observed that the Performance Guarantee has expired on 2nd December, 2015. The work is still in progress but the Performance Security has not been got extended by taking up the matter with the contractor. In this way, the interest of the Government was not watched. This resulted in un-authorized acceptance and non-extension of Performance Guarantee of Rs 3.029 million.

Audit maintains that non-extension of Performance Security and un-authorized acceptance was due to negligence and non-adherence to the agreement provisions which indicates weak internal controls.

(Para 09)

Recommendations

- i. Completion of the project may be ensured without further delays.
- ii. Liquidated damages may be imposed for delay.
- iii. Principles of financial propriety and PPRA rules may be observed in procurements.
- iv. The contractual obligations should be strictly observed at every stage of execution of work.

4.4 Construction and works

Site selection

The entire work was executed at Plot measuring 10,240 sq yds in F-5, Islamabad allotted by CDA.

Preparation of drawing and design

The Ministry appointed M/s NESPAK as Consultants for drawing, design and construction supervision of the project.

Construction schedule

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

Monitoring of construction

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

Physical Progress

The project was to be completed in 36 months from 2005-06 while the civil work was started on 05th June, 2007 and was to be completed up to 4th June, 2010. The contractor could not complete the work in stipulated time. The work has been substantially completed on 30th June, 2013. HVAC, Lift, Stand by Generators and external development works have not so far been completed due to which the building could not be made operational.

Procedures to ensure quality of work

The Consultants were hired to ensure the quality of work. Their 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 are the benchmarks to ensure economical and sustainable execution of works. Audit, however, noticed the following irregularities relating to construction works:

4.4.1 Unauthentic payment without detailed measurement in Measurement Book - Rs 1,959.672 million

As per Para 208 of Central Public Works Accounts Code, payments for all work done are made on the basis of measurements recorded in the Measurement Book (Form 23) in accordance with Para 209 (d) of CPWA code which 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 furthers that sub-division officer will be responsible for all entries of work done and test check @ 50% of entries and accept the accuracy of all Measurement / Payment. The Measurement Books should, therefore, be considered as very important accounts record.

Audit noted that Executive Engineer, Project Civil Division No. II Pak. PWD Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue, Islamabad” to M/s Interhom (Pvt) Ltd at the agreement cost of Rs 1,883.926 million on 5th June, 2007. The contractor was paid Rs 1,959.672 million on account of work done upto 59th running bill (IPC-58).

Audit observed that the Divisional management allowed payments to M/s Interhom (Pvt) Ltd on the basis of abstract only upto IPC-58 without recording detailed measurements in the Measurement Book on standard forms. Audit further observed that pre-measurement forms, computer forms were used for making payments, without exercising test check by the PPWD. This resulted in un-authentic expenditure amounting to Rs 1,959.672 million.

Audit maintains that veracity/authenticity of payment could not be verified due to non-maintenance of Measurement Books. The department adopted an irregular method of work measurement/record keeping by dispensing with an approved and established method of permanent record keeping for all public sector infrastructure works. The department adopted a highly unreliable MS Excel based record keeping method in place of accounting and record keeping forms approved by Auditor General of Pakistan and Finance Division. An irregular decision by the management also resulted in compromise of mandatory oversight and internal controls of 100% work done certification by the Engineer In-charge and 10% test check by the Supervisory Engineer. The department has, by manipulating and compromising public interest, committed an act of grave negligence.

(Para 20)

4.4.2 Delay in execution of work due to frequent transfer of works - Rs 2,250.339 million

According to Pakistan Public Works Department Code 1982, Para 4.01 (i) denotes that the Director General shall be responsible to the Works Division, Government of Pakistan for the efficient administration and general professional control of Public Works Department. He shall carry out, periodically adequate inspections for efficient administration, technical and financial control.

Guidelines for Project Management issued by the Projects Wing, Planning Commission, Government of Pakistan, Para 5.4 - Monitoring Methodology denotes that the methods or techniques adopted for project monitoring should effectively measure the progress of a project, in

comparison to its approved cost, scope, time schedule and objectives and be capable of producing the information, according to the requirement of all concerned.

Audit observed that the Project comprising on the following sub-heads was initially executed by the Store and Workshop Division. During execution of works, it was transferred to E/M-III Division in 2009. After incurring expenditure of Rs 109.395 million, it was again transferred to Store and Workshop Division. This state of execution of the work shows inefficient administration and technical / professional controls of the departmental authority as well as ineffective monitoring methodology which resulted in financial indiscipline, delay in execution of works due to frequent transfer of works between Pak PWD Division. This resulted in irregular execution of work Rs 2,250.339 million as calculated below:

(Rs in million)

Providing and Installation of Generators	112.127
External Development Civil & Electrical Works	254.286
Civil & internal electrification	1,883.926
Total	2,250.339

Audit maintains that execution of work was delayed due to ineffective monitoring methodology, financial indiscipline, and frequent transfer of works between Pak PWD Division.

(Para 41)

4.4.3 Irregular closure of work and non-award of balance work at risk & cost of the defaulting firm - Rs 108.595 million

According to Schedule-1 to Bid - List of Recommended Manufactures of Equipment / Material and as offered by the tenderer and Summary of Cost, the contractors were required to submit their bid in compliance to the list of equipment, makes and country of origin of equipment and material. The bidder will have to quote separate rate of Chiller under Option-1 and Option-II as follows:

- Option-I
- (a) Kawasaki, Japan
 - (b) Sanyo, Japan

- Option-II
- (a) LS, Korea
 - (b) York, Korea
 - (c) Carrier, Korea
 - (d) Samjung, Korea

Audit noted that Executive Engineer, Store & Workshop Division, Pak. PWD Islamabad called and opened tenders of the work “Construction of New Secretariat Block at Constitution Avenue, Islamabad (SH - HVAC Work) on 24th December, 2009. M/s M.Z. Awan & Co quoted his rate 1% below the NIT cost of Rs 199.857 which they further reduced to Rs 2.70% below. The work was awarded to the firm at agreement cost of Rs 194.461 million vide letter No-SW/AB-II/93 dated 11th January, 2010. The work was to be completed within twelve (12) months. Audit further noted that the contractor quoted his rates 2.70% on the Engineer Cost Estimate for work HVAC Work (SH-II Equipment) comprising of three parts viz Part-1 locally procured equipment, material & services Rs 62.167 million, Part-2- Imported equipment & material Rs 137.170 million and Part-3 Fuel oil supply system Rs 0.520 million for Chillers.

Audit observed that the contractor procured and brought at site four (04) Chillers of LS Korea make instead of Japanese Chillers as per provision of the agreement. The management withdrawn rejection letter of Chillers (LS Korea) and recovery letter of Rs 32.221 million and accepted the low quality Chillers. The contractor did not execute the balance work relating to Chilled / Condenser water piping including fittings, supports, fixing accessories etc. and closed the work of the contractor in June, 2015 for retendering. Audit further observed that neither any action was taken against the contractor for non-execution / non-completion of works as per agreement nor tenders for the balance work of Rs 108.595 million has so far been called despite expiry of one year. Resultantly, the work has been delayed and the building could not be made operational. This will also result in loss due to award at higher rates due to time gap of seven (07) years from 2009 to 2016.

Audit maintains that contract was closed and balance work was not awarded at the risk and cost of the defaulting firm even after expiry of a

year due to poor contract management, internal controls and financial management.

(Para 37)

4.4.4 Execution of work without provision in the approved PC-I - Rs 39.247 million

According to Project Management Guidelines, during implementation of project, if it is felt that there will be *major change in the scope of work* or increase in the approved cost by more than 15%, then the project has to be revised and submitted for approval by the competent authority. It is essential that the revised cost estimates are prepared in a realistic manner. Project implementation agencies/departments should seek the approval of the competent authority as soon as they consider change in scope of work or revision in cost.

Audit noted that work “Construction of New Secretariat Block at Constitution Avenue, Islamabad (SH: Provision of 32 Toilets/Kitchens for Minister and Secretary offices at 1st floor to 8th floor) was awarded to M/s. Muhammad Saleem Engineering Company at agreement cost of Rs 30.298 million which is 10.86 % below the NIT cost of Rs 33.999 million. The contractor was paid Rs 39.247 million against agreed cost of Rs 30.298 million upto 4th running bill paid on 10th March, 2016.

Audit observed that the contract for provision of 32 Toilets/Kitchens was awarded without provision in the approved PC-I of the project. This resulted in award of work without due process and approval from the competent forum.

Audit maintains that the irregularity occurred due to non-adherence to the instructions of the Planning Division and inadequate oversight mechanism in exercising the relevant internal controls.

(Para 24)

4.4.5 Non-carrying out test load and pre-shipment inspection of Diesel Generating sets in the country of origin and payment - Rs 34.221 million

According to Special Condition No. 16 to the agreement, the contractor will arrange to test the Generating Set in the factory on full load by arranging the dummy load in the presence of Engineer- in-charge and representative of the manufacturer in the country of origin for which he shall arrange visit of two Engineers to supervise the said test and also pre-shipment inspection. The cost of boarding, lodging and transportation shall be borne by the contractor. The condition for pre-shipment inspection will be embodied in the concerned L.C documents.

Audit noted that Executive Engineer, Store & Workshop Division, Pak PWD Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue Islamabad (SH- Diesel Generating Set)” to M/s Riaz & Sons at agreement cost of Rs 112.126 million on 11th November, 2009. The contractor was paid Rs 63.682 million upto 4th running bill paid on 15th June, 2015.

Audit observed that the contractor was paid Rs 34.221 million on account of 50% agreement cost of four Diesel Generating Sets on 17th April, 2015 in accordance with agreement clause 14 (a) but the contractor could not arrange load test and pre-shipment inspection in the country of origin. The work has been held up due to non-fulfilment of the provision of the agreement. This resulted in non-completion of the work due to failure of the contractor of load test and pre-shipment inspection despite payment of Rs 34.221 million in April, 2015.

Audit maintains the work has been delayed due to non-adherence to the special conditions of the contract, poor monitoring and internal control system.

(Para 29)

4.4.6 Overpayment due to substandard works - Rs 19.129 million

According to Clause 39.1 of agreement, the Engineer shall have authority to issue instructions from time to time, for:

- (a) the removal from the Site, within such time or times as may be specified in the instruction, of any materials or Plant which, in the opinion of the Engineer, are not in accordance with the Contract,
- (b) the substitution of proper and suitable materials or Plant, and
- (c) the removal and proper re-execution, notwithstanding any previous test thereof or interim payment therefor, of any work which, in respect of (i) materials, Plant or workmanship, or (ii) design by the contractor or for which he is responsible, is not, in the opinion of the Engineer, in accordance with the Contract.

As per Clause 39.2, in case of default on the part of contractor in carrying out such instruction within the time specified therein or, if none, within a reasonable time, the Employer shall be entitled to employ and pay other persons to carry out the same and all costs consequent thereon or incidental thereto shall, after due consultation with the Employer and the contractor, be determined by the Engineer and shall be recoverable from the contractor by the Employer, and may be deducted by the Employer from any monies due or to become due to the contractor and the Engineer shall notify the contractor accordingly, with a copy to the Employer.

Audit noted that Executive Engineer, Project Civil Division No. II Pak. PWD Islamabad awarded the work "Construction of New Secretariat Block at Constitution Avenue, Islamabad" to M/s Interhom (Pvt) Ltd at the agreement cost of Rs 1,883.926 million on 5th June, 2007. The contractor was paid Rs 1,959.672 million on account of work done upto 59th running bill (IPC-58). Audit further noted that Taking Over Certificate was issued on 7th April, 2014 *stating* that the contract has substantially completed on 30th June, 2013 and the listed defective /

outstanding works have been completed and accordingly building is being taken over. Defect Liability Period has expired on 30th June, 2014.

Audit observed that at the time of issuance of Substantial Completion, a heavy detail of defective civil and electrical works / incomplete works and un-executed works was prepared as Punch List (Part-I-Civil Works) and (Part-II-Electrical Works) and handed over to the contractor for compliance. Audit further observed that the contractor neither complied with all instructions regarding removal of defects as per Punch Lists nor recovery on account of defective works / below specification work /defective material having approximate cost of Rs 19.129 was made from the contractor as detailed in the Annexure-A.

Audit maintains that recovery was not made due to weak internal and financial controls.

(Para 18)

4.4.7 Excess payment due to defective estimation - Rs 18.590 million

As per agreement / BOQ item-EXT-23 “Providing and laying 2 inch thick Class-C concrete in panels including steel trowel finish etc” was provided for a quantity 750 sft @ Rs 50.71 per sft and Item No-EXT-24 “Providing and laying Class-C concrete in 8’ x 8’ panels including broom finish at top” for a quantity of 1,630 cft @ Rs 195.88 per cft.

Audit noted that Executive Engineer, PCD-II Pak.PWD, Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue Islamabad (SH: External Development & Electrical Works)” to M/s Construction Management & Engineering Services at contract cost of Rs 254.286 million. The work was started on 20th May 2014 to be completed in 12 months upto 19th May, 2015.

Audit observed that the divisional management prepared estimate and was technically sanctioned by the competent authority. Audit further observed that quantity of item No-EXT-C-23 was provided 750 sft 2” thick Class-C concrete in panels and quantity of another item EXT-C-24

was provided 1,630 cft. During execution of the work, quantities of the agreed / BOQ items were abnormally increased by 17,671% and 3,487% respectively. This reflects that the estimates were prepared without site visit and soil investigations. This poor estimation and abnormal increase in quantities resulted in excess payment of Rs 18.590 million to the contractor upto 11th running bill:

Description of item	Quantity provided (sft)	Quantity executed (sft)	Difference (sft)	Rate Paid (Rs p/sft)	Excess paid including 2% premium (Rs in million)
P/L 2" thick Class-C concrete ...	750	132,532	131,782	50.71	6.816
P/L Class-C concrete in 8'x8' panels ...	1,630	60,650	59,020	195.58	11.774
Total					18.590

Audit maintains that excessive quantities were executed due to non-adherence to technically sanctioned estimates (TSE), agreed quantities and provisions of contract.

(Para 11)

4.4.8 Un-authorized / irregular payment - Rs 17.471 million

According to Letter of Acceptance No. No.SW/AB-Agt/1288 dated 26th June, 2015, the work "Construction of New Sectt. Block at Constitution Avenue, Islamabad (SH: More Panels and Powers Cables for Diesel Generating Sets)" was awarded to M/s Riaz & Sons with date of start of 26th June, 2015 to be completed within ninety (90) days.

Audit noted that the Executive Engineer, Store & Workshop Division, Pak. PWD, Islamabad awarded the work "Construction of New Secretariat Block at Constitution Avenue, Islamabad (SH: More Panels and Powers Cables for Diesel Generating Sets.)" to M/s Riaz & Sons for Rs 20.775 million.

Audit observed that the work was started on 26th June, 2015. The work of Rs 17. 471 million “Providing installing connecting testing and commissioning of 2000 A3 pole, Supply and drawing of single core, including providing and installation of fuel day tank having capacity of 10,000 liters and cement concrete foundation etc” was shown measured on 29th June, 2015 and certified for payment to the contractor. Audit further observed that 84% work was shown executed in three days from the date of issuance of Letter of Acceptance. Audit considers that execution of the work to the extent was not possible in only three days. The work was only measured and paid to utilize the funds at the end of the year. It is worth mentioning that no further work has been executed and paid after 29th June, 2015.

Audit holds that the work worth Rs 17.471 was measured and paid just to utilize the funds and to avoid lapse.

(Para 43)

4.4.9 Overpayment due to un-authorized revision of rates of electrical works – Rs 6.919 million

According to Appendix-C to the agreement signed with M/s Interhom (Pvt) Ltd, price variation of the following material / inputs was to be adjusted under Clause 70.1 of the agreement:

1. Labour (unskilled)
2. Cement in bags
3. Reinforcing Steel and
4. High Speed Diesel (HSD)

As per clause 70.1 of COC part-II, the amounts payable to the contractor, pursuant to sub-clause 60.1 shall be adjusted in respect of the rise or fall in the cost of labour, material, and other inputs to the works, by applying to such amount the formula prescribed in the this sub-clause. 70.1(a) to the extent that full compensation for any rise or fall in costs to the contractor is not covered by the provisions of this or other clauses in the contract, the unit rates and prices included in the contract shall be

deemed included amounts to cover the contingency of such other rise or fall of cost.

Audit noted that in an MOU signed with M/s Interhom (Pvt) Ltd, the parties agreed to increase quoted rates of outstanding electrical works due to increase in foreign currency exchange rate.

Audit observed under the contractor submitted claim for reimbursement for increase in quoted rates of outstanding electrical works due to increase in foreign currency exchange rates beyond July 14, 2011 till the date of signing of MOU dated 14th February, 2012. Audit further observed that the claim of Rs 6.919 million due to increase in foreign currency exchange rates has been recommended by the Consultants and included for payment in the final IPC of the contractor in violation of the provisions of the agreement clauses. This may result in overpayment of Rs 6.919 million in final IPC.

Audit maintains that overpayment resulted due to non-adherence to the provisions of the agreement clause 70.1, weak internal and financial controls.

(Para 22)

4.4.10 Overpayment due to higher rate - Rs 5.682 million

As per item No. 16-2.04 (Imported Equipment & Materials) of BOQ “Fan Coil Units complete with all sections as defined in specification and equipment schedule were provided as under:

(a)	Code: FCU/1-1 to FCU/1-8 {08 No. @ Rs75,000}	= Rs 600,000
(b)	Code: FCU/2-1 to FCU/2-72 {72 No. @ Rs80,000}	= Rs 5,760,000
(c)	Code: FCU/3- {1 No. @ Rs 82,000}	= Rs 82,000

Audit noted that the Executive Engineer, Store & Workshop Division, Pak. PWD, Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue, Islamabad (SH: Air Distribution System)” to M/s Ch. Mubarak Ali for Rs 175.248 million. Audit further noted that in Variation Order No. 01, the rate of above items was changed on the plea that the make was substituted in order to meet with the

specifications of the contract and the FCUs were added due to provisions of HVAC System in Machine Room after award of HAVC works.

Audit observed that the make of the Fan Coil Units (Interklima, Greece) was changed to meet with the specifications of the contract with make having higher rate in Variation order No.01. Audit further observed that the contractor was bound to provide the Fan Coil Units as per specification provided in the agreement at the BOQ rates. The New make was also not mentioned in the V.O. Unjustified change of make of the Fan Coil Units resulted in overpayment of Rs 5.682 million as calculated below:

Item No.	Description	Qty	Unit rate as per BOQ	Unit rate as per V.O	Difference	Amount (Rs in million)
16-2.04	Fan Coil Units FCU/1-1 to FCU/1-8	08	78,750	133,052	54,302	0.434
	FCU/2-1 to FCU/2-72	72	84,000	154,462	70,462	5.073
	FCU/3	01	86,100	261,032	174,932	0.175
Total						5.682

Audit maintains that the overpayment resulted due to non-adherence to the provisions of the BOQ of the agreement, weak internal and financial controls.

(Para 40)

4.4.11 Overpayment due to execution of work beyond approved scope – Rs 2.168 million

As per agreement / BOQ, Fiber glass skylight as per design and elevation comprising 5mm thick fiber glass sheet (transparent) including frame and all accessories was provided for a quantity of 5,760 sft @ Rs 572.19 per sft.

Audit noted that Executive Engineer, Project Civil Division No. II Pak. PWD Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue, Islamabad” to M/s Interhom (Pvt) Ltd at the agreement cost of Rs 1,883.926 million on 5th June, 2007. The

contractor was paid Rs 1,959.672 million on account of work done upto 59th running bill (IPC-58).

Audit observed that a BOQ item No. 01-57C “Fibre glass skylight as per design and elevation comprising 3mm thick fibre glass sheet etc” for a quantity of 5,760 sft @ Rs 574.19 per sft for Rs 3.307 million was provided in agreement. CE (North) Pak PWD approved Variation Order No. 06 regarding substitution of agreement item with two-way aluminum curtain wall etc for a quantity of 5,760 sft @ Rs 5,317.36 per sft for Rs 28.515 million vide letter dated 15th March 2013. The divisional management got executed 6,198.76 sft of against the approved substituted item for a quantity 5,760 sft which resulted in execution of the item beyond the approved scope of the item and overpayment of Rs 2.168 million to contractor as calculated below:

(Rs in million)

Two-way aluminum curtain wall (438 sft x Rs 5,317.36)	2.329
Less rebate (6.90%)	0.161
Overpayment	2.168

Audit maintains that the overpayment resulted due to non-adherence to the approved Variation Order, weak internal and financial control.

(Para 14)

4.4.12 Unjustified/avoidable expenditure of Rs 2.042 million due to inclusion / superfluous item of work

According to specification, Clearing and Grubbing was not to be executed and paid where general excavation / cutting is to be done.

Audit noted that Executive Engineer, PCD-II Pak.PWD, Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue Islamabad (SH: External Development & Electrical Works)” to M/s Construction Management & Engineering Services at contract cost of Rs 254.286 million. The work was started on 20th May 2014 to be completed in 12 months upto 19th May, 2015. Audit further noted that

BOQ item No. EXT C-1 (Clearing & Grubbing etc) was provided for 168,570 sft @ Rs 4 per sft. BOQ item No. EXT C-2 (General excavation in all kinds of soil including disposal etc) was provided for 1,134,850 sft @ Rs 5.97 per sft.

Audit observed that the quantities of BOQ item NO. EXT C-1 and EXT C-2 were increased from 168,570 sft to 500,475.03 sft and from 1,134,850 cft to 6,775,054.50 cft respectively through Variation Order No.1 dated 26th March, 2015. Audit further observed that the whole area to be developed involved general excavation / cutting of soil and as per specification, clearing and grubbing was not required to be executed and paid where cutting is to be done. Further, while recording measurement of clearing and grubbing, lump sum area was written and no reference to the grid / location / RD of the site was given. This resulted in provision and measurement of superfluous item of work and overpayment of Rs 2.042 million ($[500,475 \text{ sft} \times \text{Rs } 4] + 2\%$).

Audit maintains that the overpayment resulted due to non-adherence to the provisions of specification, weak internal and financial controls.

(Para 15)

4.4.13 Overpayment due to inclusion of component regarding disposal of surplus earth – Rs 1.373 million

Nomenclature of the BOQ item-EXT-C-2 under head “Earthwork” provides “general excavation in all kinds of subsurface material including disposal of surplus excavated material within Islamabad capital territory or stockpiling at designated places as directed by the Engineer at the rate of Rs 5.97 per cft. Another item of work EXT-C-4 Fills including compaction upto all depths with selected excavated material obtained under any item of excavation” was provided Rs 4.44 per cft respectively.

Audit noted that Executive Engineer, PCD-II Pak.PWD, Islamabad awarded the work “Construction of New Secretariat Block at Constitution Avenue Islamabad (SH: External Development & Electrical Works)” to

M/s Construction Management & Engineering Services at contract cost of Rs 254.286 million. The work was started on 20th May 2014 to be completed in 12 months upto 19th May, 2015.

Audit observed that the contractor executed item of general excavation EXT-C-2 for a quantity of 1,782,695 cft @ Rs 5.97 per cft. Out of which, a quantity of 1,077,061 cft was shown filled and compacted in the filling of area under BOQ item; EXT-C-4 and paid @ Rs 4.44 per cft. Hence, transportation cost component included in the BOQ item No. EXT-C-2 in respect of the earth which was filled under BOQ item No. EXT-C-4 was not payable as per nomenclature of the BOQ item.

Non-deduction of cost of dumper / trolley resulted in overpayment of Rs 1,373,253 to the contractor which needs recovery as calculated below:

Total quantity filled	1,077.061 cft
Rate of disposal P.cft	Rs 1.25 per cft
Overpayment	Rs 1,373,253 =(1,077,061 x Rs 1.25) + 2%)

Audit maintains that overpayment resulted due to non-adherence to the in-built provision of disposal / fill factor in both items, poor internal and financial control system.

(Para 12)

Recommendations

- i. All quantities of works should be recorded in Measurement Books.
- ii. Recoveries pointed out should be effected.
- iii. The contractual obligations should be strictly observed at every stage of execution of work.
- iv. Estimation should be based on detailed workings.

4.5 Monitoring and Evaluation

M/s NESPAK were appointed for detailed design and monitoring / supervision of construction works executed by the contractor. The Consultant and PPWD were responsible for monitoring the satisfactory and timely completion of the project.

4.6 Environment

As per PC-I, no environmental pollution effects are likely to be encountered as all the arrangements are available in area for proper disposal of waste water and sewerage, etc.

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.

Audit observed that Environment Impact Assessment report was not got approved from Pakistan Environment Protection Agency as their approval was not available on record. Chances of adverse effect on environment cannot be ruled out. This resulted in construction of building without approval of EIA report from PEPA.

Audit maintains that the irregularity occurred due to weak internal controls.

(Para 26)

4.7 Sustainability

4.7.1 Probability of funding for project completion

Initially, the PC-I of the project was approved for Rs 1,176.320 million and was revised to Rs 3,476.363 million due to revision of design and changes in scope of work. 2nd revision of the PC-I was approved for Rs. 4,845.412 million on 12th March, 2015.

Sustainability of the project depends mainly upon the sufficient flow of financial resources, both during implementation and operation. Revised PC-I cost of Rs 4,845.412 million was to be spent from 2005-06 to 2014-15 as per financial phasing but the project has not so far been completed as the funds were not provided / utilized as per schedule.

4.7.2 Estimated annual recurring cost

An amount of Rs 172.314 million has been provided in PC-I (2nd revised) as annual operating and maintenance cost after completion.

Recommendations:

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

4.8 Overall Assessment

Project remained lagging behind the planned progress. Progress reports were not prepared by the consultant monthly. Due to above mentioned the reasons physical progress at different stages cannot be ascertained. Main causes attributed to the delay were post bid changes, slow progress in releasing of funds by Finance Division besides hurdles in carrying of material to the red zone of Islamabad. Keeping in view the physical progress, the project has witnessed time / cost overruns.

4.8.1 Compliance with rules

Ministry of Housing & Works and Pak PWD as government departments are under the administrative control of the Government of Pakistan. The rules and regulations set out by the Ministry and the instructions issued from time to time by the Federal Government are binding on the Ministry. Scrutiny of the record pertaining to the project revealed that certain rules, regulations, procedures and instructions were not followed.

5. CONCLUSION

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. The management should determine the causes of slow progress and take measures for remedy. Correspondence with contractor / consultant indicates that contractor's performance is poor. Management should, therefore, take prompt action for enhancement of contractor's performance. Following lessons were identified:

- Proper feasibility study be carried out before processing PC-I
- Executive should take necessary steps to evaluate and strengthen internal controls, i.e. internal system/checks in the organization based on rules & regulations, in order to ensure achievements of the objectives.

Acknowledgement

We wish to express our appreciation to the management and staff of Pakistan Public Works Department for the assistance and cooperation extended to the auditors during this assignment.

Annexure-A
Ref to Para 4.4.6

Overpayment due to substandard works

Item No.	Qty paid	Qty to be paid	Diff	Rate	%age of rate recommended	Amount (Rs)
01-5E (b)	1,396	1356	40	800	100%	32,000
01-5E (c)	440	426	14	2500	100%	35,000
01-5E (e)	127	85	42	1,400	100%	58,800
01-5E (i)	269	193	76	2,550	100%	193,800
01-21E	80	40	40	1,660	100%	66,400
01-22E	40	20	20	1,800	100%	36,000
01-27E	165,410	132,215.04	33194.96	43	75%(0%)	5,334,473
	85,199.29		85,199.29	52	75%(0%)	3,321,986
01-33E	1,600	0	1600	52	100%	83,200
01-36E	3,259	3107	152	800	20%	24,320
	3,259	2,998	271	800	80%	173,440
01-40E	7,600	5,113	2,487	35	100%	87,045
01-41E	24	24	0	24	100%(70%)	60,178
01-42E	12	12	0	12	100%(80%)	8,400
01-43E	60	0	60	1500	100%	90,000
01-44E	3,340	2540	800	142	100%	113,600
01-45E	36	34	2	3,000	100%(80%)	26,400
01-48E (a)	3	0	3	1,500	100%	4,500
(b)	2	0	2	1,500	100%	3,000
©	1	0	1	5,000	100%	5,000
(d)	4	0	4	5,000	100%	20,000
01-53E	2,790	2,656	134	2,670	100%	357,780
01-53E	2,790	2,656	134	670	100%	89,780
01-58E (a)	2,116	2,060	56	345	100%	19,320
01-59E	2,648	1,650	998	200	100%	199,600
01-60E	200	85	115	200	100%	23,000
01-65E	6,200	2,798	3,402	950	100%	3,231,900
01-66E	134	131	3	12,500	100%	37,500
01-67E	214	127	87	1,076	100%	93,612
01-69E	7,300	6400	900	135	100%	121,500
01-71E	10,260	9,344	916	23	100%	21,068
01-74 E	4	2	2	35,500	100%	71,000
01-82E	1	0	1	15,815	100%	15,815

Item No.	Qty paid	Qty to be paid	Diff	Rate	%age of rate recommended	Amount (Rs)
01-83E (a)	60	60	0	74,500	90%(100%)	447,000
01-83E (b)	2	2	0	257,000	90%(100%)	51,400
01-90E	21,500	13057	8443	32	100%	270,176
01-92E	2	0	2	490,000	80%(0%)	784,000
01-95E (a)	58	0	58	3190	100%	185,020
01-97E (a)	55,053	49,053	6,000	24	100%	144,000
Sub-Total						15,941,012
Add 20% above						3,188,202
G. Total						19,129,215