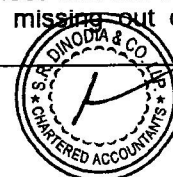


Our Audit Observations

We give below the matters that have come to our attention during the course of audit which might have a significant impact on the implementation of the Project :-

UMB Unit – Ambala Project Unit

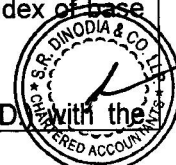
S. No	Unit	Particular												
1.	UMB	<p>Expenses not claimed On reconciliation of expenditure incurred on eligible contracts and the total expenditure claimed in IUFR during FY 2017-18, we noted that expenditure of ₹ 376,860,250 (22% of total expenses claimed during FY 2017-18 in IUFR) eligible for reimbursement under contract have not been claimed in IUFR as tabulated below:</p> <table><tr><th>Unit</th><th>Date</th><th>Vendor Name</th><th>Voucher Type</th><th>BV #</th><th>Net Payment (In ₹)</th></tr><tr><td>UMB</td><td>27-03-2018</td><td>400616238 GIL-TPL (JV)-LDH</td><td>PV-UMB</td><td>BV2017UMB0956</td><td>376,860,250</td></tr></table> <p>As per the defined process, on receipt of expenditure details from project unit, loan division reconciles the same with the payments made to Contractors as reflected in the ledger account taken from accounting team.</p> <p>On root causing the reason for not claiming the above expenditure in IUFR, we noted the following gaps in control procedures:</p> <p>a. As appraised, reconciliation of expenditure details submitted with contractors' ledgers is not performed for every quarterly IUFR by HO. While preparing IUFR for subsequent period, the reconciliation, if performed, is limited to that particular period (e.g. for that particular quarter without covering the previous period for which reconciliation was pending).</p> <p>b. Further, the reconciliation is limited to only those expenditure, details of which are received from Project Unit for claim. Contractors' ledgers for which no expenditure is claimed by Project Unit are not obtained and checked for completeness.</p> <p>Steps already taken by DFCCIL: As appraised, the loan division has appointed a finance officer (FO) during FY 2018-19 to ensure correctness of claims.</p> <p>Recommendation:</p> <p>a. More than 95% of the eligible expenditure is incurred under the approved contracts which are updated in client connection, the liability in respect of such expenditure are recorded under particular contractors' ledgers. Therefore, it is advised that a list of all such ledgers is prepared and obtained from accounts division and checked before submission of IUFR. The checking at HO should not be limited to only those contract ledgers where expenditure is reported by Project Units.</p> <p>b. To reconcile expenditure details submitted by project units with contractors' ledgers while preparing an IUFR. In case, the reconciliation is not performed during a particular period, the same needs to be performed from last reconciliation date to the date of current claim.</p> <p>c. To perform yearly reconciliation of total expenditure in IUFR till date with total expenditure as per subsidiary ledgers maintained by Project units (ie. subsidiary records).</p> <p>Management's Responses The left out expenditure will be claimed in next IUFR for QTR ending Dec, 2018. The Project Unit did sent the expenditure through e-mail but the details in excel sheet was not in date wise order. Also the initial few rows were hidden which resulted in missing out of the expenditure from IUFR claim.</p>	Unit	Date	Vendor Name	Voucher Type	BV #	Net Payment (In ₹)	UMB	27-03-2018	400616238 GIL-TPL (JV)-LDH	PV-UMB	BV2017UMB0956	376,860,250
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S. No	Unit	Particular
		<p>The reconciliation from books of accounts has been a regular phenomenon but it did not happen in few QTRs due to extra work load and absence of assistance to the officer concerned.</p> <p>As an assistance (FO) is now available to the officer concerned, the reconciliation will be done in each QTR. The other recommendation will also be taken care off to avoid such mistakes in future.</p> <p>Name Of Process Owner: MGR/Fin./MA</p> <p>Timeline for completion of activity:- 2nd Week of Feb,2018.</p>
2.	UMB	<p>Delay in achievement of Milestone by Contractor – GIL-TPL (JV)</p> <p>Contractor- GIL - TPL (JV), was awarded contracts of Civil, Structures and Track Works under Lot # 301 for around ` 1769.40 crores.</p> <p>As appraised, the Contractor was supposed to have completed Milestone 1 by August 2017 which was actually completed in May 2018, whereas Milestone 2 which was supposed to be completed in June 2018 have not been completed till December 2018. *Source – PMC Report of October 2018</p> <p>Management's Responses</p> <p>The Ms-1, which was to be achieved within 400 hundred days of commencement date of 14.07.2016, i.e.; 18.08.2017, has been achieved by the contractor on 24.05.2018, with a delay of about 09 Months.</p> <p>The MS -2 which was to be achieved within 700 days, i.e.; 14.06.2018, of the date of commencement, has also been missed by the Contractor and had informed that the same will be achieved by the December 2018, however, as on date against the requirement of MS-2, contractor has achieved;</p> <ol style="list-style-type: none"> 15.3% financial progress against MS-2 requirements of 30%. 11 % (14/129) Minor bridges have been completed against MS-2 requirement of 60%. However, 90% work of 65% (84/129) minor bridges have been completed and should be completed in due course. The Major bridges are yet to be completed against MS-2 requirement of 50%. However, 90% work on 45% (21/46) Major bridges has been completed and should be completed in due course. <p>Now, in recent Interim WB mission, dated 19.12.2018, the Contractor has assured that the MS-2 shall be achieved by end of Feb 2019.</p> <p>Presently the delay damage against the MS-2 is being levied on the Contractor.</p> <p>Name Of Process Owner: GM/EDFC-III-AMB</p> <p>Timeline for completion of activity:- Feb 2019 as promised by Contractor</p>
3.	UMB	<p>Classification errors</p> <ol style="list-style-type: none"> There have been classification errors in IUFR 1. PMC charges paid to DB Consulting & Engineering GmbH (PMC) of ` 78,03,159 (Voucher no. BV2017UMB0969 dated March 28, 2018) has been shown as Civil, Structure & Track (CST) expenditure. Thus, CST expenditure are higher by ` 78,03,159 and PMC expenditure are lower by the same amount. Quality and safety Audit Consultancy Services (QSAC) expenditure amounting to ` 94,07,500 (Voucher no. BV2017UMB0912 dated March 13, 2018) paid to Vogue Construction and Consultancy Services Pvt. Ltd has been shown under PMC services instead of QSAC. <p>Recommendation</p> <p>Care should be taken for capturing correct head of expenses in IUFR.</p> <p>Management's Responses</p> <p>The classification of Account will be checked and changed in the next IUFR i.e. quarter ending Dec'2018. Extra care will be taken while classifying the expenditure in future.</p> <p>Name Of Process Owner: GM/EDFC-III-AMB</p> <p>Timeline for completion of activity:-- Feb 2019</p>



S. No	Unit	Particular
4.	UMB	<p>Contract details not updated on Client Connection Portal of IBRD</p> <p>The contracts appearing on Client connection are eligible for claiming expense but during the course of audit it was observed payment made to DB Consulting & Engineering is being claimed from IBRD but the Contract name is not appearing in the list of Contracts.</p> <p>Management's Responses The matter was taken up with World BANK. It could not be put on client connection due to some technical problem. However an ID has been provided by World Bank which was available in Older version i.e. IN-DFCCIL-1637-CS-QCBS. The issue is in knowledge of World Bank.</p> <p>Name Of Process Owner: World Bank</p> <p>Timeline for completion of activity: Not provided</p>
5.	UMB	<p>GST Impact Analysis After implementation of GST Law w.e.f. 1st July 2017, contractor is charging GST @12% in their invoice and claiming it as additional cost due to change in legislation as per clause 13.7 but because some taxes are already subsumed in the contract price, amount of claim is reduced by contractor by 4% as approved by PMC.</p> <p>Observation: It has been noticed that no details have been submitted by Contractors on GST impact analysis and payments are still being made on estimated basis. The same has neither been certified by Board of Directors nor by the Statutory Auditor of the Contractors as required by circular 46 read with circular 52 issued by DFCCIL.</p> <p>Recommendation To finalize GST impact in a time bound manner.</p> <p>Management's Responses PMC had forwarded the proposal to employer regarding the GST claim of Contractor vide, ref No. DBEC 3/PMC/CON/12/2017/0777, DATED 12.12.2017, and the same was responded to PMC vide letter dated 03.01.2018, for further clarification on the realistic calculations of the Tax components and to obtain certification form the statutory auditors/tax consultants. However, till date the Contractor has failed to submit/substantiate the same even after repeated reminders. The latest reminder has been sent on 11.12.2018 vide letter no 1904. Apparently, Contractor is yet to obtain the certification from their statutory auditors. The anti-profiteering affidavit have been obtained from the authorized signatory for the Contractor, however, the same form the Board of the Directors (of the Contractor) is yet to be submitted by the Contractor. Presently, the GST is being reimbursed based on the recommendation of the Engineer ref. No 1073, dated 17.03.2018. PMC is also requesting the Contractor for early submission of the certification form the Statutory Auditors of the Contractor for the early determination of the GST implication.</p> <p>Name Of Process Owner: GM/EDFC-III-AMB</p> <p>Timeline for completion of activity PMC/DFCCIL is perusing early submission of the certification form the Statutory Auditors of the Contractor for determination of the GST implication.</p>
6.	UMB	<p>Price Variation Clause (PVC) :-</p> <p>Railway Board under vide notification number 2007/CE-I/CT/18/Pt.19 dated 28-08-2018 has revised the base year of All-India Wholesale Price Index (WPI) from 2004-05 to 2011-12 w.e.f January 2017. Upto January, 2017, indices with base year 2004-05 shall be used to operate PVC clause & contract price shall be updated upto January, 2017. This updated price then be taken as the base price as at January, 2017 and will thereafter index of base year 2011-12 shall be used for further indexation.</p> <p>Vide letter number HQ/EN/Proc/WPI dated 12-09-2018, Mr. Ajay Kumar (E.D.)</p>



S. No	Unit	Particular
		<p>concurrence of Director Finance and MD of DFCCIL has clarified that:-</p> <p>"Change in the WPI shall not only be change of base indices but there shall also be a change of PVC formulae itself. In case there is change in commodity Index change of PVC formulae to incorporate new commodity indices is a matter which the contracting authority has to decide."</p> <p>As informed, in Ambala unit, 100% of price adjustment for the contract Nos. 301 with GIL-TPL, has been released in Interim Payment certificate (IPC) 17-A in November, 2018. Our observations are as under:-</p> <ol style="list-style-type: none"> 1) Effect of the price variation has not been taken in the IUFR of the Project for the financial year ended March 31, 2018. 2) During the course of audit, we have observed that uniform policy with respect to payment of price variation claim (PVC) has not been followed. Allahabad (east & west) unit have paid 90% of the total price variation where the Ambala unit has paid 100% of total price variation and Tundla unit has not paid anything. <p>Recommendation:-</p> <ol style="list-style-type: none"> 1) To take approval of the contracting authority for change in price adjustment. 2) As and when prices are changed, its impact on the financial of the Company should be considered. <p>Management's Responses:-</p> <p>On the change of Base year from 2004-05 to 2011-12, some indices were discontinued/replaced by the Economic Advisor in their monthly Price index publications. Following instructions were issued:</p> <ol style="list-style-type: none"> i. Implementation of PVC on the basis of 2011-12 series to be made through amendments in the contract as per powers delegated in SOP, and ii. Adoption of 2 part PVC determination in line with the Railway Board letter No. 2007/CE-I/CT/18/Pt.19, dated 28.08.2018. <p>Accordingly, determination of the PVC implications by the PMC, based on the Railway Board letter No. 2007/CE-I/CT/18/sPt.19, dated 28.08.2018 has been adopted under Sub. Clause 13.8 by the Competent Authority and the same is being followed.</p> <p>Name of Process Owner:- GM/EDFC-III-AMB Timeline for completion of activity:- At earliest possible date</p>

