

**IRREGULARITIES IN RECEIPT AND UTILISATION
OF COMPENSATION; GROSSLY IRREGULAR AND
MANIPULATED AWARD AND EXECUTION OF
WORK RELATING TO THE RENOVATION OF THE
BASEMENT AT INDIA HOUSE, LONDON, LEADING
TO UNDUE BENEFITS BEING EXTENDED TO THE
CONTRACTOR**

MINISTRY OF EXTERNAL AFFAIRS

**PUBLIC ACCOUNTS COMMITTEE
(2023-24)**

EIGHTY SEVENTH REPORT

SEVENTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

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PUBLIC ACCOUNTS COMMITTEE **(2023-24)**

(SEVENTEENTH LOK SABHA)

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MINISTRY OF EXTERNAL AFFAIRS



Presented to Lok Sabha on: 07.02.2024

Laid in Rajya Sabha on: 07.02.2024

LOK SABHA SECRETARIAT
NEW DELHI

February, 2024 /Magha, 1945 (Saka)

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* Not appended to the cyclostyled copy of the Report

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2023-24)

Shri Adhir Ranjan Chowdhury - Chairperson

MEMBERS

LOK SABHA

2. Shri Thalikkottai Rajuthevar Baalu
3. Shri Subhash Chandra Baheria
4. Shri Bhartruhari Mahtab
5. Shri Jagdambika Pal
6. Shri Vishnu Dayal Ram
7. Shri Pratap Chandra Sarangi
8. Shri Rahul Ramesh Shewale
9. Shri Gowdar Mallikarjunappa Siddeshwara
10. Shri Brijendra Singh
11. Shri Rajiv Ranjan Singh *alias* Lalan Singh
12. Dr. Satya Pal Singh
13. Shri Jayant Sinha
14. Shri Balashowry Vallabbhaneni
15. Shri Ram Kripal Yadav

RAJYA SABHA

16. Shri Shaktisinh Gohli
17. Dr. K. Laxman
18. Shri Derek O' Brien*
19. Shri Tiruchi Siva
20. Dr. M. Thambidurai
21. Shri Ghanshyam Tiwari
22. Dr. Sudhanshu Trivedi

Secretariat

1. Shri Sanjeev Sharma - Joint Secretary
2. Smt. Bharti Sanjeev Tuteja - Director
3. Ms. Malvika Mehta - Under Secretary
4. Ms. Khyati - Assistant Committee Officer

* Elected w.e.f. 19.08.2023 consequent upon retirement of Shri Sukhendu Sekhar Ray, MP on 18.08.2023.

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2022-23)

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14. Shri Ram Kripal Yadav
15. Shri Shyam Singh Yadav

RAJYA SABHA

16. Shri Shaktisinh Gohil
17. Shri Bhubaneswar Kalita
18. Dr. Amar Patnaik
19. Dr. C. M. Ramesh
20. Shri V. Vijayasai Reddy[†]
21. Dr. M Thambidurai
22. Dr. Sudhanshu Trivedi

[†] Shri V. Vijayasai Reddy was elected as Member of Public Accounts Committee w.e.f. 13.12.2022.

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2023-24), having been authorised by the Committee, do present this Eighty - seventh Report (Seventeenth Lok Sabha) on "Irregularities in receipt and utilisation of compensation" and "Grossly irregular and manipulated award and execution of work relating to the renovation of the basement at India House, London, leading to undue benefits being extended to the Contractor" based on Para Nos. 5.3 & 5.4 of C&AG Report number 2 of 2021 relating to the Ministry of External Affairs.

2. The Report of Comptroller and Auditor General of India was laid in Rajya Sabha on 11 August 2021 and in Lok Sabha on 29 November 2021.

3. The Public Accounts Committee (2022-23) selected the subject for detailed examination and report. The Committee took oral evidence of the representatives of the Ministry of External Affairs at their sitting held on 10.02.2023. The Public Accounts Committee (2023-24) obtained detailed information in connection with the examination of the subject. The Committee considered and adopted this Report at their sitting held on 17 January, 2024. The Minutes of the sittings of the Committee are appended to the Report.

4. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in **bold** and form Part-II of the Report.

5. The Committee thank their predecessor Committee for taking oral evidence and obtaining information on the subject.

6. The Committee would like to express their thanks to the representatives of the Ministry of External Affairs for tendering evidence before them and furnishing the requisite information to the Committee in connection with the examination of the subject.

7. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Committee Secretariat and the office of the Comptroller and Auditor General of India.

NEW DELHI:
06 February, 2024
17 Magha, 1945 (*Saka*)

ADHIR RANJAN CHOWDHURY
Chairperson,
Public Accounts Committee

REPORT

Part-I

Introduction

The Public Accounts Committee decided to take up for detailed examination and report Paras 5.3 and 5.4 of Comptroller and Auditor General of India's (C&AG's) Report No. 2 of 2021 on the subjects "Irregularities in receipt and utilisation of compensation" and "Grossly irregular and manipulated award and execution of work relating to the renovation of the basement at India House, London, leading to undue benefits being extended to the Contractor" respectively. These paras pertain to the Ministry of External Affairs.

2. C&AG Report 2 of 2021 detailed various significant findings of the compliance audit of financial transactions under civil grants relating to Civil Ministries/Departments of the Union Government. In Para 5.3 of the aforesaid Report, Audit has pointed out that the High Commission of India irregularly engaged a private party, authorising it to: (i) receive and retain government receipts of ₹ 78.41 lakh in its private bank account and (ii) disburse a substantial part of the receipts towards the Mission's own expenditure.

3. In Para 5.4, Audit found that the High Commission of India, London undertook work relating to renovation of the basement at the India House, at a cost of GBP (Great British Pound) 744,971 (approx. ₹ 6.63 crore), without prior approval from the Ministry of External Affairs. The initial award of the work was to an ineligible company through an irregular and manipulated tendering process which was followed by award of extra work without tendering to the same company, thereby extending undue benefit to it. Further, additional work was awarded based on fraudulent quotations, to an associated ineligible company, incorporated immediately prior to the award of work and dissolved after receipt of payments.

4. Public Accounts Committee (2022-23) took oral evidence of the representatives of the Ministry of External Affairs on the aforementioned paras at their sitting held on 10 February 2023. On the basis of oral evidence and written information obtained on various aspects of the two paras under consideration, the Committee made in-depth examination of the subject as detailed in the succeeding paragraphs.

A. Para 5.3 : Irregularities in receipt and utilisation of compensation

5. The Committee understand from the Audit findings that the High Commission of India, London (hereinafter referred to as 'the Mission') took a decision to accept compensation of GBP 90,000 from a property Developer without the approval of the Ministry and without any documented justification for the amount accepted. It also irregularly authorised a private party to receive and retain government receipts by way of the compensation paid by the Developer amounting to ₹ 78.41 lakh in its private bank

account with no record of how and by whom was this decision made. Further, in violation of rules, the Mission allowed use of these receipts directly to incur expenditure. In addition, actions and decisions taken by Mission functionaries were not adequately documented to obscure these gross irregularities and the Ministry was systematically kept in the dark in the matter. The issue has been further detailed in the following paragraphs.

6. "The Nehru Centre" (TNC) and some other properties are owned by High Commission of India, London (Mission) in London. The property adjoining to these was being redeveloped by a developer, M/s Caudwell Properties Limited. The prevalent building laws of the UK required the Developer to notify the Mission (6 April 2016), as the owner of the said properties, of their plan to carry out redevelopment in the adjacent area. The Mission also appointed a Surveyor to safeguard its interest in view of the redevelopment on the suggestion of the Developer.

7. The Mission (on behalf of Union of India) signed a licence agreement with the Developer on 19 December 2016 giving certain rights to the Developer with respect to HCI's adjacent property, which in turn agreed to execute works for the Mission to minimise noise and dust pollution arising from the redevelopment work. The work to be executed by the Developer included provision of secondary glazing and installation of free-standing cooling systems in the Mission's adjacent properties located at 8, South Audley Street i.e. The Nehru Centre and 51, Hill Street i.e. High Commission of India House. The Mission also signed a contract on 21 December 2016 with the Developer for setting up an escrow account (An escrow account is a temporary vault/account of money held by a trusted third party on behalf of two transacting parties that are bound by a contract) for GBP 150,000 as security to be invoked if the GBP 90,000 (based on Return on Equity(RoE) of ₹ 87.12 in December 2017). In this respect, the Developer did not discharge its obligations and no records of the approval of the Ministry were found by Audit regarding the agreements which were approved by the then DHC/Acting HC.

8. The Developer was not able to carry out secondary glazing at The Nehru Centre as required 'Listed Building Consent' from the local Council was not forthcoming and also did not carry out the work of providing cooling systems in lieu of which he agreed to pay compensation to the Union of India through the Mission. The Mission accepted GBP 90,000 as compensation from the Developer wherein the compensation was to be in "an ex-gratia payment" through M/s Bajaj and Sons Limited working in conjunction Mr. Christopher Chaplin.

9. The Committee understand from the audit observations that there was no documentation available in the records of the Mission about how the compensation amount had been worked out and the correctness and adequacy of the compensation agreed to by the Mission could not be ascertained. Further, there was no record of approval of the Ministry sought or the level at which the compensation of GBP 90,000

was agreed upon. It was pointed that the acceptance of compensation was conveyed by the then First Secretary (P&M) of the Mission by e-mail which had also been endorsed to the then Director, TNC and the Head of Chancery (HOC) of the Mission.

10. An Inquiry Committee (IC) was constituted by the Mission to look into issues relating to receipt of compensation which corroborated the audit observations. The Inquiry Committee found that there was neither any record available indicating as to who took the decision in the Mission to receive the compensation in a private account, nor evidence of any reference being made or approval being sought from the Ministry for the arrangement for receiving and holding the compensation by a private entity.

11. The Audit findings highlight that there was no reference to M/s Bajaj and Sons in the earlier communications of the Mission with Developer on compensation, but was later authorised to receive the payment. The said Inquiry Committee reported that M/s Bajaj and Sons Limited were hired to negotiate matters with the Developer (July 2017) on the recommendation of the then First Secretary (P&M) and with the approval of the then DHC, which in turn, hired Mr Christopher Chaplin for liaising. Additionally the Mission could not provide any reference of approval being sought by the Mission from the Ministry for the hiring of these agencies.

12. Audit also noted that in gross violation of rules by the Mission in receiving government receipts in a private bank account, M/s Bajaj and Sons Limited deducted fees of GBP 6,000 (₹ 5.50 lakh) and GBP 9,700 (₹ 9.56 lakh) in March and November 2018 respectively, though the firm was engaged on an understanding that it would not charge any fees, from the compensation it had received.

13. The Mission allowed M/s Bajaj and Sons to retain the compensation, received from the Developer in its account, instead of crediting the same into the Government account, in violation of Rule 6(1) of the Central Receipts and Payments (R&P) Rules, 1983. The aforementioned rule mandates that 'all moneys received by or tendered to Government officers on account of revenues or receipts or dues of the Government shall, without undue delay, be paid in full into the accredited bank for inclusion in Government Account'. Further, the Mission had no details of the actual amount received from the Developer by M/s Bajaj and Sons. The Inquiry Committee also observed in its report that no record was found about the reasons for parking the receipts of the Government in a private account and about the person who took the decision. Government money thus irregularly remained outside Government accounts for a period of more than 19 months.

14. As per Rule 6(1) of the Central Receipts and Payments (R&P) Rules, 1983, moneys received as Government receipts 'shall not be utilised to meet departmental expenditure', except under specified circumstances, 'nor otherwise kept apart from the accounts of the Government'. The then acting DHC approved in August 2018 the utilisation of the compensation, received in the account by M/s Bajaj and Sons, for

meeting expenditure on installation of a boiler at TNC which was in violation of the extant rules. It was found that this work was awarded to an agency based on a limited tender for a price of GBP 79,879.8113 (₹ 72.28 lakh) without seeking the approval of the Ministry. It was found that the details of such arrangement to the new incumbents who joined the Mission later, became known when payment of the last installment got delayed. The balance payment of GBP 19,550 for installation of the boiler was made by the Mission from its accounts on 30 January 2019, while M/s Bajaj and Sons Ltd remitted the balance amount held by them in their account, of GBP 14,390 to the Mission on 15 April 2019 which was finally accounted in June 2019.

15. The Ministry was made aware of the matter in October 2019 and based on inputs from the Mission, intimated that the help of the hired Consultant (M/s Bajaj and Sons) was taken to negotiate the compensation who then received the compensation in their account; that the compensation amount was adequate and that the compensation was used for infrastructure development of TNC as it was in lieu of secondary glazing of TNC. However, the Ministry also informed that the matter was being examined but the lack of documentation on the manner of appointment of the Consultants and their terms of engagement, the irregular parking and retention of Government receipts in a private account and the wrongful and unauthorised utilisation of Government receipts to meet expenditure was evident. The Mission also submitted proposal to the Ministry for ex-post facto regularisation of the expenditure which was found to be pending.

16. As the Ministry of External Affairs (MEA) is responsible for handling Indian Missions abroad, the Committee asked the Ministry details of the manner in which the Ministry exercises administrative and financial control over its Missions in other countries. The Ministry in their written submission stated that Periodic inspections of Indian Missions/Posts abroad are carried out by MEA teams and a Performance Evaluation and Monitoring System - PEMS 3.0 has been rolled out for monitoring of Missions/Posts operations, results of which feed into periodic inspections of the Missions/Posts. Regular Audits of Indian Missions/Posts are also carried out, generally on annual basis, by C&AG Audit Teams. Internal Audit of the Monthly Cash Accounts of Indian Missions/Posts abroad are carried out by the Office of Pr. Chief Controller of Accounts, MEA as per approved Annual Audit Plan.

17. MEA further explained that the Missions/Posts abroad are required to strictly adhere to the following rules & regulations covering various administrative and financial aspects:

- (i) IFS (PLCA) Rules – These contain provisions/rules & regulations concerning the Indian Foreign Service, including Missions/Posts abroad.
- (ii) General Financial Rules 2017 – These rules and orders of GOI are required to be followed by Missions/Posts abroad while dealing with matters involving public finances.

(iii) CCS Conduct Rules – As Central Government Employees, the members of Indian Missions/Posts abroad are also bound by the Central Civil Services (Conduct) Rules.

(iv) Delegated Financial Powers of HOMs/HOPs: The Government of India's Representatives Abroad (HOMs/HOPs) have been delegated financial powers in order to streamline the functioning of Missions/Posts by reducing their dependence on the Ministry for their day-to-day operations. All construction/renovation projects involving cost estimates exceeding the delegated financial powers of HOMs/HOPs require prior approval of the Ministry.

18. MEA informed the Committee in their written replies that the Missions/Posts' accounts/payments are recorded in real time basis in the Integrated Mission Accounting System IMAS V.2.0. Regarding administrative control on matters relating to property redevelopment or construction projects, the Ministry has formalized model tender document and standard agreement template for engagement of Architect consultants. Besides this, it is in the process of establishing professional Project and Contract Management Unit in-house, which inter-alia would on real time basis monitor, identify potential defects in the process, contract management, procurement processes etc. in all renovation and construction projects abroad. An online dashboard system has also been envisaged to be developed which will have real time details of all projects of the Ministry in India and abroad and aid in strengthening control systems and real time monitoring of project execution.

19. The Committee during the course of oral evidence enquired from the Ministry regarding the administrative arrangement through which it maintains a check on the activities of its Missions outside India and asked for its comments on the issues highlighted by the Audit. The reply of the Ministry has been reproduced as follows:

"The Ministry prima facie recognises that there has been some laxity in the Ministry's mechanism in the Mission in this specific instance as well as defects in the tendering process. There is also an element of ignorance of rules with regard to receipt of the money outside the Consolidated Fund of India. In this Context, the Ministry sent an enquiry committee headed by senior officer comprising the division which deals with the construction processes, the finance division which looks after the financial proprieties and, most importantly, the vigilance division.

...Currently, the consequent enquiry and vigilance process is undergoing. "

20. The Committee desired to know the reasons for the failure of the Mission to forfeit the security amount of GBP 1,50,000 when the Service Provider did not discharge its obligation under the license agreement. The Ministry furnished the following in their written replies:

"In the absence of official records elucidating reasons for receiving compensation in private party account, investigation & vigilance team could not ascertain thought process or reasons for such an approach by the Mission. "

21. The Committee further asked the Ministry the reasons for allowing M/s Bajaj and Sons, a private party, to receive and retain government receipts amounting to ₹ 78.41 lakh even though there was no reference to the same in earlier communications. The Ministry furnished the following in response to this in their written replies:

"In the absence of official records elucidating reasons for receiving compensation in private party account, investigation & vigilance team could not ascertain thought process or reasons for such an approach by the Mission. "

22. The Committee observed that an inquiry Committee was constituted by the Mission to look into the issues relating to receipt of compensation. The Committee desired to know the findings of the inquiry Committee and what follow up action had been taken on the findings of the Inquiry Committee's report. The Ministry submitted the following in their written replies:

"The findings of the Inquiry Committee set up by the Mission (via report dated 22.08.2019) are as follows:

- a) From the records, it is not clear who took the decision to accept the compensation from M/s Caudwell Properties. It is apparent that then Director (TNC), then HOC and then SS (P&M) were aware of receipt of that compensation.
- b) There are sufficient records which suggest that Shri Sunil Kumar, the then HOC was well aware of the receipt of GBP 90,000 by the Mission and hiring of various consultants for negotiation.
- c) The estimate prepared by Ms. Amanda, M/s Caudwell suggested a compensation of GBP 70,000 for secondary glazing and A/C fittings at 8 Audley Street, however, the Mission received higher amount than the estimate.
- d) There is no record available with the Mission indicating about who took the decision regarding accepting the compensation amount in a private account and the reasons for the same. However, an email asking for GBP 90,000 was initiated by Shri Jagjit Singh, SS (P&M) the then SS(P&M) with Shri S. Gotru, the then Director (TNC) and Shri Sunil Kumar, the then FS (HOC) in cc.
- e) The contract for installation of new boiler system was awarded to M/s TSS Facility without following due tendering process, but through limited tender.

Thereafter, a physical inspection of the Mission was taken up in August 2021 by an inspection team from Headquarters and disciplinary proceedings were initiated against the erring officers. The proceedings are under progress right now. The final decision will be taken in consultation with UPSC."

23. The Committee also wanted to know from the Ministry if any vigilance inquiry had been ordered in the matter, to which the Ministry gave the following reply:

"An Inspection Team was sent to London to investigate into the circumstances of the case and on the basis of their findings Disciplinary/Vigilance proceedings have been initiated against the erring officers. These proceedings are currently underway and final decision will be taken in consultation with UPSC."

24. The Committee during oral evidence desired to know the time period that was taken for inquiry since the incident was reported to which the following reply was given by the Ministry:

"As the hon. Members have asked the timeline for the inspection committee and the report, the inspection team visited London in August 2021. It had submitted its Report in September, 2021. The decision was taken by the disciplinary authority in January, 2022. The charge sheet was served to the officer in January, 2022 itself. The charge sheet was issued on the same date to all the officers."

B. Para 5.4 : Grossly irregular and manipulated award and execution of work relating to the renovation of the basement at India House, London, leading to undue benefits being extended to the Contractor

25. Rule 139 of General Financial Rules (GFR), 2017 read with Para 17 of Central Public Works Department (CPWD) Works Manual, 2014 states open bids should be called for all works above value of ₹ five lakh which must be well advertised in the press/website. GFRs also do not allow splitting of a work or procurement, to avoid requirement of approval of a higher authority or for open bidding. Additionally, as per the orders of the Ministry of External Affairs (Ministry), the delegated financial powers of the High Commission of India (Mission) for undertaking repair & maintenance works with respect to the Chancery premises, Embassy Residence and DCM's residence taken together, was limited to USD 2 lakh (approx. GBP 150,000) per annum. The Ministry orders also state that Missions and Posts are not expected to undertake renovation works for properties abroad which is beyond their delegated financial powers, and where expenditure is debitable to the capital budget without prior approval of MEA.

26. The Audit findings highlighted that to increase overall security of the Indian Mission premises in London, the Mission decided to relocate all the Consular services operating from the basement of the India House to the ground floor and shift entry for visitors from the main entrance to the basement. This decision entailed conversion of

the basement into a reception area involving partial demolition of existing structures, and renovation and refurbishment of the area as also modifications in the ground floor for relocated consular and visa sections. These works involved substantial revamping and renovation of the premises and went beyond just repair & maintenance. These were of a capital nature as it led to upgrade and increase in the asset value of the premises. Examination by the Committee of gross irregularities and violations of rules at all stages covering approval, tendering and execution of the works relating to renovation of the Consular Service area and related works at HCl, London, revealed via the Audit scrutiny has been detailed in succeeding paragraphs.

27. Notwithstanding the orders of the Ministry's orders as mentioned above wherein Ministry's approval was required at all stages, the Mission did not obtain approvals from the Ministry and even the financial powers delegated to the Mission for undertaking repair & maintenance works were exceeded. Further, the Mission disguised the real nature of the works by classifying the entire expenditure on the works as 'minor works' and 'office expenses' instead of as 'capital works', which was a violation of Rule 84 of the GFR, 2017.

28. The Audit findings revealed that the Property & Maintenance wing of the Mission initially prepared a Notice Inviting Tender (NIT) for executing the abovementioned works but the Mission, thereafter, abandoned the tender process without assigning any reasons. Instead, in blatant violation of rules, it allocated a part of the work viz., "shifting of consular wing" and "demolition work" (April to June 2017) to a single company (M/s Zon Associates Ltd.) by splitting the said part work into seven piecemeal orders. It was observed that invoices for all the works were submitted within a four-day period and processed on the same day. Subsequently, the Mission issued a NIT in August 2017 for "Renovation of the Basement Area" covering renovation of the reception area, renovation of toilets, electric works and internal works corresponding to one part of the originally conceived renovation project which was taken up at a bid cost of GBP 129,800 (₹ 1.07 crore). Five months later i.e., in January 2018, the Mission issued another NIT for "Design and furnishing of the consular service area", which was again a part of the original project scope, and awarded this work at a cost GBP 345480 (₹ 3.14 crore).

29. The Mission took up "additional works" in August/September 2018 valuing GBP 107,694 (₹ 99.06 lakh), by splitting the total work into 19 piecemeal orders. The Audit findings reveal that the Mission resorted to indiscriminate sub division of work with the intention of evading seeking approval of higher authorities/Ministry and avoiding open bidding.

30. The first part of the project i.e. "shifting of consular wing" and "demolition work", was split into seven works which were awarded during April-June 2017, to one company i.e., M/s Zon Associates Ltd on quotation basis in two cases and on nomination basis in

the rest. The company was not eligible as it was not registered with the Government of UK for the business of construction activities and thus, not authorised to carry out any construction and related activities. The other companies submitting quotations were also associates of M/s Zon Associates Ltd.

31. In the case of the work "Renovation of the Basement Area" tendered in August 2017, six companies bid for the work; of which, bids of three companies were accepted. The work was awarded to the L1 bidder M/s Zon Associates Ltd, at a cost of GBP 129,800 (₹ 1.07 crore) excluding VAT even though it was ab initio ineligible for being considered for the work. Additionally, the three of the six original bidders whose bids were not accepted, were associated with the final L-1 bidder. The Inquiry Committee subsequently formed by the Mission, also found that most of the bidders were not technically eligible for the award of work.

32. In the case of tender for the work "Design and furnishing of the consular service area", as per records, three bidders participated in the bidding process, with M/s Zon Associates Ltd. being shown as the L1 bidder. The work was awarded to M/s Zon Associates Ltd. by way of two separate contracts, aggregating GBP 345480 including VAT (₹ 3.14 crore). It was found that bidding in this case had been totally manipulated. Out of the three bidding companies, one company (M/s Kensington International Development Ltd.) had been dissolved in 2014 itself which showed that the bid made on its behalf was fraudulent. Further, the remaining two companies i.e., M/s Zon Associates Ltd. and M/s RH Renew Homes Ltd, were associated with the same person, who had acknowledged them as being 'sister' companies. It was noted that in case of other works in the Mission, invoicing of M/s RH Renew Homes Ltd, itself was being done in the name of M/s Zon Associates Ltd, and both companies shared the same bank account. The Audit findings reveal that the work was effectively awarded on the basis of a single bid.

33. In the case of "additional works" taken up in August-September 2018, works were awarded on nomination or quotation basis, to M/s Orient Design and Build which had been set up by the same person, who was associated with M/s Zon Associates Ltd. as its Director and as a person with significant control. The company also had the same registered address as M/s Zon Associates Ltd. The company was also ineligible for the said work as it was not registered with the Government of UK for the business of construction activities. It was further observed that all the companies that had apparently participated in the quotation process (i.e., M/s Zon Associates Ltd, M/s RH Renew Homes Ltd, M/s Orient Design and Build Ltd and M/s Glades Construction Ltd) were associated with the same person. M/s Orient & Design Build Ltd. had submitted quotations for the additional works in May 2018, even though it had come into existence only on 27 July 2018, indicating that the quotations submitted in its name were fraudulent. This reveals that the Mission had entertained a sham company which was

set up only to bag these works on behalf of another contractor which had been entrusted almost all the works in relation to the renovation project.

34. The Committee understand from the audit findings and as detailed above that there was blatant subversion of the tendering process to influence outcomes in the favour of a Contractor in all the works undertaken. Despite a delay of 10 weeks (minimum) in completion of the work, the Mission did not recover liquidated damages amounting to GBP 7,78834 (₹ 6.85 lakh) from the company. Audit Findings show that despite the work of "Renovation of Toilets" and "Supply and Installation of Air Conditioning Units" being included within the scope of awarded work, the Mission made additional payments to the company for demolition of old toilets (GBP 5,940 in September 2017) and for supply and installation of air conditioning units (GBP 23,450, during October-November 2017) and allowed undue benefit to the contractor and made an excess payment (₹ 25.01 lakh) to that extent. It was also found that the Mission belatedly (1 December 2017) decided to undertake wooden flooring in the basement area instead of carpeting included in the original scope of internal works. This new item of work was also entrusted to M/s Zon Associates at an additional cost of GBP 36,288 (₹ 31.24 lakh), but the cost of carpeting included in the contract price was not deducted from the payments finally made to the Contractor. It was found that the Contractor was allowed undue benefit on this account.

35. Further, the Committee find that during the period October-November 2017, the Mission awarded additional works relating to construction of cloak room, removing BT connection wall and demolition of existing counters to M/s Zon Associates at a cost of GBP 16,780 on nomination/quotation basis. In addition, on account of a decision (November 2017) to use the basement for large gatherings, works relating to supply & installation of acoustic fans were awarded on quotation basis to M/s Zon Associates (installation of duct sand fans at a cost of GBP 5400) and M/s H&C Aircon Ltd (supply of Acoustic Fans at a cost of GBP 6,000). Additionally, the payment to M/s H&C Aircon Ltd was made into the same bank account used for receiving payments by M/s Zon Associates.

36. The Mission awarded (May-June 2018) five additional items of work, at a cost of GBP 16,680 (₹ 15.08 lakh), to M/s Zon Associates Ltd without any tendering. Of these, four items related to furnishing the old HCI Commissariat that had been converted into an "Officers Mess". The belated addition to the scope of the project and award of the additional work without tendering, was irregular and resulted in a particular Contractor being favoured.

37. In the case of the additional works taken up in August-September 2018, it was noticed that the Contractor M/s Orient Design and Build, obtained these works, completed the same and submitted invoices, all within a span of 15 days from its incorporation. Soon after (21 February 2019), the process of dissolution of the company

was initiated. Further, the Mission paid the company GBP 17,929 (₹ 16.49 lakh) towards VAT, even though the company was not in possession of VAT registration from the UK Government. Thus, post-tender additions and alterations were made in the scope of the works on multiple occasions without any tendering. This combined with non imposition of LD, failure to make adjustments in contract price following substitution of carpeting and double payment for some items of work, amounted to granting undue favours to the Contractor.

38. The Committee during its examination found that the Ministry in its action taken reply (25 November 2019), has stated that the matter was being examined by the Mission wherein the Mission, informed (February 2020) Audit that based on its findings an Inquiry Committee had been setup which had forwarded a report after investigation to the Ministry for appropriate action. The report of the Inquiry Committee highlights that:

- (i) despite the renovation work being well beyond the delegated powers of the Mission, no approval from the Ministry was obtained. Instead, to accommodate the project within the delegated powers of the Mission, and to circumvent GFR/relevant rules, officials resorted to "piece-mealing" the project;
- (ii) there was a nexus between the then HoC, a local staff of the Mission and the Contractor (owner of M/s Zon Associates Ltd.);
- (iii) the tender process was rigged to favour the Contractor's companies;
- (iv) the work was split into several sub-works in such a way that all such sub-works were below five lakh to avoid open bidding;
- (v) the companies that participated in the quotation/bid process were either linked to the same person or were non-existent companies; and
- (vi) several works were awarded on nomination basis without any justification thereby blatantly violating GFRs.

39. The Mission undertook renovation works costing GBP 744,971 (approx. ₹ 6.63 crore) without authority and due approvals, and resorted to irregular splitting of works to evade approvals from higher authority and open bidding. It adopted a grossly manipulated process for award of works to the same person, and made post facto additions and alteration in the scope of work which led to undue benefits being extended to Contractors. Such blatant subversion of rules and processes indicates supervisory failure and possible collusion between Mission officials and the agencies.

40. The observation of Audit that the Mission resorted to indiscriminate sub division of work with the intention of evading seeking approval of higher authorities/Ministries and avoiding open bidding, also indicates that the process of approval from the Ministry as well as tendering might be cumbersome and complex. In view of this, the Committee desired to be apprised if the Ministry contemplated any action to simplify existing

procedures so that Missions are not forced to resort to such evasive practices. The Ministry submitted as under in their written replies:

"The standardization of tender documents/agreements templates as well as transmission of detailed guidelines to Missions/Posts regarding the tendering process etc. has considerably shortened the processing time in the Ministry. The delegated financial powers of the HOMs/HOPs were also enhanced recently (in April 2020), so that fewer proposals were required to be referred to Ministry for approval."

41. The Mission undertook work relating to renovation without prior approval from the Ministry, that too well beyond the delegated power of the Mission; awarded the work to an ineligible company; resorted to multiple splitting and issue of piece-meal orders; and violated the terms and conditions of tenders, etc. The Committee asked the Ministry if it had taken any action to ensure that such lapses/irregularities do not recur in Missions/Posts, to which the Ministry gave the following reply:

"Detailed updated instructions and guidelines are regularly being transmitted to Missions/Posts regarding the tendering process etc. in respect of construction/renovation projects abroad. Ministry is in process of establishing online dashboard on boarding all major construction & renovations projects for real-time monitoring, addressing queries, challenges, taking remedial measures etc. Further, a Contract cum project management unit is also being established for aiding Missions/Posts in contract & project management."

42. The Committee also enquired if the Ministry had investigated the reasons for failure of the oversight mechanism. The Ministry gave the following reply:

"Yes. An Inspection Team comprising of members from Vigilance Unit, GEM Division and Finance Division was sent to London to investigate in August 2021 and in March 2023. Disciplinary proceedings against the erring officers have been initiated."

43. The Committee asked the Ministry if it had taken suitable action against the officers responsible for the irregularities/lapses to which they replied:

"Disciplinary proceedings against the erring officers are underway and final decision would be taken in consultation with UPSC."

44. The Committee enquired from the Ministry if it had taken action on the findings of the Mission's Inquiry report, to which the Ministry gave the following reply:

"Yes. An Inspection Team comprising of members from Vigilance Unit, GEM Division and Finance Division was sent to London to investigate in August 2021

and in March 2023. Disciplinary proceedings against the erring officers have been initiated."

45. The Committee desired to know if the process of awarding the tender had been violative of the rules. If so, the Committee asked the Ministry if the responsibility had been fixed and on whom. The Ministry responded with the following in their written submission:

"A vigilance cum inquiry team was constituted and deputed to London in August 2021, to investigate circumstances & reasons for conduct of officials in deviation to extant Rules & due process. The inquiry report has been submitted and vigilance proceedings in the matter are underway in consultation with UPSC."

46. The Committee was informed by the Audit that a minor penalty has been fixed against the officers *vide* the inquiry conducted by the Ministry. In view of this, the Committee desired to know during the oral evidence from the Ministry whether the chargesheet was issued under Rule 14 of the Central Civil Service (Classification, Control & Appeal) Rules to which the Ministry stated as follows. (Rule 16 of the CCS (CCA) Rules deals with the minor penalty and Rule 14 deals with the major penalty.)

" It was reissued under Rule 16. "

47. The Committee during oral evidence expressed that the file of investigation may be called and seen and enquired on reasons for putting only a minor penalty under rule 16. The reply of the Ministry has been stated as under:

"...major penalty is normally pursued when there is conclusive mala fide intent established with evidence. "

and the Ministry during the oral evidence further stated that :

" Sir, no mala fide intent could be found."

48. While taking oral evidence, the Committee desired to know from the Ministry the steps it has taken to rectify the situation and avoid repetition of such kind of lapses, the Secretary of the Ministry replied as follows:

"...in December 2021, we have issued very clear instructions to all the Missions that no additional works or variations are to be undertaken without the Ministry's prior approval. Secondly, I have taken it upon myself to chair the Ministry's own audit committee, rather than it to be chaired by the Additional Secretary dealing with these matters. Then, a circular for the abnormally high rate of the lump sum contracts etc. was issued in June 2022. Our Establishment Division is also putting up a dashboard now whereby we know of it in every mission that is due for renewal of annual maintenance contracts of any kind, well in time, in advance. Right now, the process is very Mission-specific. ...We, of course, try to

reconcile the gaps between the GFR provisions and the local regulations that might prevail. ...the team, which came back after the detailed inquiry, could not establish evidence of the mala fide. That is why the provisions were invoked of the Rule 16."

49. The Committee pointed to the review in 2014 that raised a number of deficiencies with respect of the property management system by the Ministry. The Committee desired to know what steps were taken thereafter to plug these gaps and to ensure that these deficiencies were corrected. The Ministry submitted as under in their written replies:

"Detailed updated instructions and guidelines are regularly being transmitted to Missions/Posts regarding the tendering process etc. in respect of construction/renovation projects abroad. Ministry is in process of establishing online dashboard on boarding all major construction & renovations projects for real-time monitoring, addressing queries, challenges, taking remedial measures etc. Further, a Contract cum project management unit is also being established for aiding Missions/Posts in contract & project management."

50. The Committee enquired from the Ministry on the number of such other incidents that internal audit had flagged in the last five years. The Committee also desired to know the actions taken on those examinations conducted by internal audit wherein any action had been flagged as major or minor and whether anyone was charge sheeted. The Committee desired to know the punishments that were provided in such matters and whether these were systematic or isolated instances. The Ministry replied with the following in their written replies:

"The internal audit has not flagged any specific case to Ministry. This case has been flagged by the external Audit (C&AG). Such cases are only isolated instances and are taken seriously by Ministry. A perusal of last 10 years of C&AG Audit Report would reveal an average of 4-5 observations have been made, essentially on issues of contract management and fees consideration in consular passport & visa services. Ministry has 206 Missions/Posts spread in different geographical regions of the world. Ministry through its Performance Evaluation and Monitoring System has not found any systemic vulnerability in its administrative and financial controls and processes."

51. The Committee asked the Ministry regarding the action taken by it if something is brought to the notice by Internal audit and the parameters based on which such action is initiated. The Ministry during the oral evidence provided the following reply:

"...all four kinds of steps are taken. In some cases, after the internal audit points out an objection, ex-post facto regularizations are done wherever the expenditure is of a nature where the process correction is needed. Wherever admonishment

is needed, that is done. Wherever action is to be taken, Memo has to be given, explanation has to be sought, that is done. Wherever that translates into systemic correction, then that circular is issued."

Part-II

Observations/Recommendations of the Committee

The Committee note that in the two paras pertaining to High Commission of India, London, gross irregularities in receipt and utilization of compensation as well as award and execution of work by the Commission have been found by Audit. In Para 5.3 of the C&AG Report no. 2 of 2021, the Committee note that the High Commission of India irregularly engaged a private party, authorising it to receive and retain government receipts of ₹ 78.41 lakh in its private bank account and disburse a substantial part of the receipts towards the Mission's own expenditure.

In Para 5.4, the Committee observe that the High Commission of India, London undertook work relating to renovation of the basement at the India House, at a cost of GBP (British Pound) 744,971 (approx. ₹ 6.63 crore at that time), without prior approval from the Ministry of External Affairs. The initial award of the work was to an ineligible company through an irregular and manipulated tendering process which was followed by award of extra work to the same company without tendering, thereby extending undue benefit to it. Further, additional work was awarded based on fraudulent quotations, to an associated ineligible company, which was incorporated immediately prior to the award of work and dissolved following receipt of payments.

Based on in-depth examination of the subjects, the Committee have recorded their observations and recommendations on issues highlighted in both paras that merit consideration, in the succeeding paragraphs.

Criminal case/ major penalty

1. The Committee note Audit's findings that the Mission took a decision to accept compensation of GBP 90,000 from a property Developer without the approval of the Ministry and without any documented justification for the amount accepted. It also irregularly authorized a private party to receive and retain government receipts by way of the compensation paid by the Developer amounting to Rs. 78.41 lakh in its private bank account. Further, in violation of

rules, the Mission allowed use of these receipts directly to incur expenditure. In addition, actions and decisions taken by Mission functionaries were not adequately documented to obscure these gross irregularities and the Ministry was systematically kept in the dark in the matter.

In the other case, the Mission undertook renovation works costing GBP 744,971 (approx. Rs. 6.63 crore) without authority and due approvals, and resorted to irregular splitting of works to evade approvals from higher authority and open bidding. It adopted a grossly manipulated process for award of works to the same person, and made post facto additions and alteration in the scope of work which led to undue benefits being extended to Contractors.

The Ministry's response on the matter that no mala fide intent could be established with evidence is intriguing. Evidently there has been an open violation of rules and processes which is also indicative of supervisory failure and possible collusion between Mission officials and the agencies. Further, the Inquiry Committee that was formed by the Ministry also concurred with Audit's findings. Considering the facts of the matter in entirety, a far more stringent action should have been initiated and taken in the matter, whereas the Ministry merely restricted it to disciplinary proceedings. The Committee, therefore desire that action be taken for initiating criminal proceedings against those involved in such irregularities and the Committee be apprised thereof.

Mandatory Training on GFR, 2017 and other relevant Government Rules and regulations

2. The Committee find that both the cases examined reveal that there has been blatant violation and disregard of administrative & financial rules by the Commission. The Ministry, in its reply has stated that it has formalized the model tender document and standard agreement template for engagement of Architect Consultants for matters of property redevelopment or construction projects. Yet, the Committee find it surprising to note the obvious lack of documentation on the manner of appointment of Consultants and the irregular parking/retention of Government receipts in a private account. The Committee are aghast to note the

statement of the representatives of the Ministry that there was an element of lack of understanding of rules with regard to maintenance and utilisation of the money received outside the Consolidated Fund of India. Concerning the second instance, the Committee note from the audit findings that not only was there irregular piece-mealing of the expenditures and manipulation of the tendering process, but the Mission also engaged with a 'fly-by-night' company that was set up solely to secure these works for another contractor to whom nearly all of the renovation project's work had been entrusted. As being unaware of rules cannot be used as an excuse for violating the statutory stipulations, the Committee recommend that henceforth, training may mandatorily be given on General Financial Rules, 2017 and other relevant rules and regulations such as the Central Receipts and Payments Rules, 1983; CCS Conduct Rules; Delegated Financial Powers of HOMs/HOPs etc. to all Officials concerned who are posted in the Missions so as to obviate recurrence of such irregularities.

Revamping and strengthening of the Internal Audit Mechanism

3. The Committee, in their earlier reports (30th and 61st Reports (16th LS) and 112nd Report (16th LS) and 17th Report (17th LS)) have continuously emphasized on the need for a strong and robust internal audit mechanism within the Ministry of External Affairs to audit its Missions abroad. However, the Committee are extremely disappointed to note that the response of the Ministry has been very casual. In the instant cases, the Ministry found out about such irregularities after Audit highlighted them. Apart from this, the Ministry's response, which states that the internal audit set up has not brought any particular cases to the Ministry's attention is a matter of concern to the Committee. It appears from the Ministry's response that they are oblivious of the state of affairs of the Missions, given that the Audit has pointed to a widespread prevalence of such irregularities in almost all Missions. Furthermore, the deplorable state of affairs continuing in the Ministry's monitoring is revealed by the Ministry's statement that its performance evaluation and monitoring system has not discovered any systemic vulnerability in its administrative and financial controls and processes among its 206 Missions/Posts spread throughout the world. Had Audit not pointed out the

irregularities, the Ministry would have remained unaware of such acts of embezzlement being carried out right openly. The Committee are of the considered view that the extant internal audit mechanism within the Ministry/ Missions needs to be urgently revamped and strengthened. The Committee while noting from the reply of the Ministry that Internal Audit of the Monthly Cash Accounts of Indian Missions/Posts abroad are carried out by the Office of Pr. Chief Controller of Accounts, MEA as per approved Annual Audit Plan desire that the mandate/ terms of reference of internal audit be extended to include transaction and compliance audit and specific timelines for taking action on the observations of internal audit may also be prescribed.

Measures being taken for monitoring of projects and functioning of Missions

4. The Committee observe that the instant cases have revealed a severe short coming in the monitoring of Missions by the Ministry. Despite the efforts of the Ministry to simplify the procedural complexity by standardization of documents/templates and detailed guidelines, the Committee are of the view that the irregularities pointed out here which reveal open subversion of rules and processes are indicative of persistent failure in Monitoring by the Ministry. The Committee note from the reply of the Ministry that a Performance Evaluation and Monitoring System - PEMS 3.0 has been rolled out for monitoring of Missions/Posts operations, results of which are made part of periodic inspections of the Missions/Posts. The Committee also note that Ministry is in process of establishing an online dashboard on boarding all major construction & renovations projects for real-time monitoring, addressing queries, challenges, taking remedial measures etc. Further, a Contract cum project management unit is also being established for aiding Missions/Posts in contract & project management. The Committee expect the Ministry to appropriately accommodate in the proposed system necessary measures for avoiding lapses such as the ones pointed out by Audit. The Committee desire that the aforesaid dashboard and project management unit may be established on priority within a strict timeframe, the impact of the measures taken may be assessed and the Committee be apprised thereof.

Comprehensive check in all Missions of India

5. The Committee note that Audit through these two paras highlighted instances which came to their notice in the course of test audit for the period. The Committee have also in their reports presented earlier, recommended conducting a review of functioning of all the missions so to ensure adherence to stipulated rules and guidelines. The Ministry has also recognized that there has been laxity in the mechanism for monitoring activities in the Missions. The Committee are of the view that the irregularities highlighted by Audit point towards prevalence of systemic lapses and subversion of rules in the Missions. As the nature of these irregularities is very serious and has grave ramifications in terms of misuse of money of the public exchequer, the Committee recommend that a special audit of the Missions may be carried out and appropriate action may be taken against defaulters on the basis of findings of such an audit, and the Committee may be apprised thereof.

NEW DELHI:

06 February, 2024

17 Magha, 1945 (Saka)

ADHIR RANJAN CHOWDHURY

Chairperson

Public Accounts Committee
