

BUILDING FOR PERMANENT MISSION
AT NEW YORK

MINISTRY OF EXTERNAL AFFAIRS

PUBLIC ACCOUNTS
COMMITTEE
1996-97

ELEVENTH LOK SABHA



LOK SABHA SECRETARIAT
NEW DELHI

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FIFTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1996-97)

(ELEVENTH LOK SABHA)

**BUILDING FOR PERMANENT MISSION
AT NEW YORK**

MINISTRY OF EXTERNAL AFFAIRS

*[Action Taken on 111th Report of Public
Accounts Committee (10th Lok Sabha)]*



*Presented to Lok Sabha on 18-3-1997
Laid in Rajya Sabha on 18-3-1997*

**LOK SABHA SECRETARIAT
NEW DELHI**

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**COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(1996-97)**

Dr. Murli Manohar Joshi — Chairman

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INTRODUCTION

I, the Chairman, Public Accounts Committee having been authorised by the Committee, do present on their behalf, this Fifth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 111th Report (10th Lok Sabha) on Building for Permanent Mission at New York.

2. This Report was considered and finalised by the Public Accounts Committee at their sitting held on 13 March, 1997. Minutes of the sitting form Part II of the Report.

3. For facility of reference and convenience, the recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
16 March, 1997
25 Phalguna, 1918 (Saka)

DR. MURLI MANOHAR JOSHI,
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

This Report of the Committee deals with the action taken by Government on the recommendations and observations of the Committee contained in their 111th Report (Tenth Lok Sabha) on paragraph 7.1 of the Report of Comptroller and Auditor General of India for the year ended 31 March, 1994 (No. 1 of 1995), Union Government (Civil) on Building for Permanent Mission at New York.

2. The 111th Report which was presented to Lok Sabha on 29 November, 1995 contained 16 recommendations/observations. Action Taken Notes have been received in respect of all the recommendations/observations and these have been categorised as follows:—

(i) Recommendations and observations that have been accepted by the Government:

Sl. Nos. : 1, 4 to 8 and 10 to 12

(ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from the Government:

Sl. Nos. : 2 and 3

(iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:

Sl. Nos. : 13 and 14

(iv) Recommendations and observations in respect of which the Government have furnished interim replies:

Sl. Nos. : 9, 15 and 16

3. The Committee desire that final replies to the recommendations at Sl. Nos. 9, 15 and 16 to which only interim replies have so far been furnished should be submitted to them expeditiously after getting them vetted by Audit.

4. The Committee will now deal with the action taken by Government on some of their recommendations.

Lapses in the execution of the Project (S. No. 14 — Paragraph 80)

5. In September 1980, a plot measuring 610 sq. metres was purchased in Mid-Manhattan, New York at a cost of US \$ 9,90,000 with the intention of constructing a building which would meet the bulk of the office and residential requirements of the Permanent Mission of India to the United Nations (PMI) as well as the Consulate General of India (CGI), New York. The implementation of the Project was afflicted by series of delays

and cost escalation. The Project expected to cost US \$ 5.3 million (1981) was completed in January, 1993 at more than five times the cost, i.e. US\$ 28 million. The 111th Report of the Committee had *inter alia* raised certain important questions relating to the cost effectiveness of the Project and whether the benefits accruing therefrom were commensurate with the scarce foreign exchange reserves appropriated for it. In the opinion of the Committee, the Government's decisions of associating an Indian Architect, adopting Construction Management System and giving precedence to superiority of amoience over economy together contributed to the delays and steep cost escalation. Further, completion of the Project at more than five times the originally estimated cost raised serious questions about the financial prudence of going in for a Project which even at the stage of original estimation was considered financially unviable. The Committee's Report had also highlighted other inadequacies in the execution of the Project which *inter-alia* included lapses in the appointments/engagement of Architects, preparation of designs and estimates, the manner in which changes were kept on being incorporated in the scope of the work, failure to recover additional cost due to errors/omissions on the part of the Architect because of inadequate documentation, non-association of technical personnel etc., inadequate supervision, delay in seeking Cabinet approval for the revised cost of the project. Expressing their dissatisfaction over the manner in which the Project was executed, the Committee in paragraph 80 of their Report had recommended that the facts contained in the Report should be thoroughly looked into with a view to fixing responsibility for the various lapses and also for obviating such recurrence.

6. Ministry of External Affairs have in response to the above mentioned recommendation of the Committee in their action taken note stated as follows:

"Ministry has since streamlined its policy and procedures for acquisition/construction of property for our Missions abroad. Policy guidelines for purchase of built up properties were revised in 1986, and reviewed in 1994. Economic viability of projects are considered in detail before starting construction. Purchase options *vis-a-vis* construction option are also examined thoroughly before launching any project. Local construction conditions and bye-laws are scrutinised in depth before initiating projects. Remedial steps have been taken with regard to appointment of architects and appointment terms revised to the best advantage of the Government. A Technical Cell has been created for monitoring project from its inception to final implementation. Designs and scope of current projects are frozen before award of work to avoid resultant cost and time escalation. Lumpsum fixed value contracts are now awarded to ensure timely completion of projects within approved costs."

7. As regards fixation of responsibility for the lapses, the Ministry in their reply stated:—

“It appears to be clear from the reasons that contributed to cost escalation that these were not due to any individual lapses but due to collusion of a number of factors.”

8. The Committee note that in pursuance of their recommendations, the Ministry of External Affairs have initiated certain steps to streamline the procedures for acquisition/construction of property for the Indian Missions Abroad. They trust that the Ministry will keep a close and continuous watch over the implementation of these measures with a view to not only checking the cost and time overruns but also for adequately protecting the financial interest of the Government.

9. The Committee, however, regret to note that the Ministry of External Affairs have not taken any action to examine the role of the officers for the lapses pointed out by the Committee in the execution of the Project. In their action taken note the Ministry have merely stated that the reasons which contributed to cost escalation were not due to any individual lapses but due to collusion of a number of factors. The Committee are not inclined to accept this explanation in the Light of Specific lapses pointed out by them in their earlier Report particularly in the appointments/engagement of Architects, shortcomings in the preparation of designs and estimates, the manner in which changes were being incorporated continuously in the scope of the work, failure to recover additional cost due to errors/omissions on the part of the Architect because of inadequate documentation, non-association of technical personnel etc., inadequate supervision, delay in seeking Cabinet approval in the revised cost of the project etc. The Committee, therefore, reiterate their earlier recommendation and would like to be informed of the findings of the enquiry made in pursuance thereof and the concrete action taken in the matter.

Delay in obtaining Approval for excess expenditure (S.No 13—Paragraph 79)

10. Commenting on the delay for obtaining approval of the Cabinet for revised cost of the Project, the Committee in Para 79 of their 111th Report (Tenth Lok Sabha) had recommended:

“The Project for construction of building for Permanent Mission in New York was sanctioned by Cabinet in 1988 for a Project cost the US \$ 19.23 million. The actual expenditure incurred on the project was about US \$ 28 million, which is about 9 million in excess of the sanctioned amount. In such cases approval of the Cabinet is specifically required when the actual expenditure exceeds the originally sanctioned amount by more than 10 per cent. The Committee are however, amazed to note that though the Project was completed in January, 1993, the approval of the Cabinet for the excess expenditure incurred is yet to be obtained. In the Ministry’s

own admission, the draft note seeking Cabinet approval for the revised cost of the Project was sent to the Ministry of Finance on 16, January, 1995 only. The Committee cannot but express their displeasure over the delay on the part of the MEA in obtaining the approval of the Cabinet for revised cost of the Project and desire that the reasons for the same should be thoroughly looked into with a view to obviating such lapses in future. They would also like to be informed whether the approval for the purpose has since been obtained."

11. In their action taken note the Ministry of External Affairs, have stated:

"Procedure for seeking Cabinet approval is under process".

12. The Committee are unhappy to note that the Ministry of External Affairs have neither obtained the requisite approval of the Cabinet for the revised cost of the Project so far, nor intimated the precise reasons for the delay in initiating action for the purpose. This is clearly indicative of lack of seriousness on the part of the Ministry of External Affairs in observing the laid down financial regulations/practices. While deploring the same, the Committee reiterate their earlier recommendation and would like to be informed of the precise action taken in the matter within a period of three months.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation of the Committee

In September 1980, a plot measuring 610 sq. mts. was purchased in Mid-Manhattan, New York at a cost of US \$ 990,000 with the intention of constructing a building which would meet the bulk of the office and residential requirements of the Permanent Mission of India to the United Nations (PMI) as well as the Consulate General of India, New York. The approval of Government for construction of the building was accorded in May, 1981. Notice for registration of Indian Architects for construction of the Project was advertised in September, 1982. Sixteen months later, in January, 1984, the project was offered to an Indian Architect firm who submitted its concept in July, 1984. Thereafter, an agreement with the firm engaging them as Consultant and Construction Manager was signed in January, 1986. Later, the firm came up with a revised report after 17 months in June, 1987 envisaging appointment of a New York based registered firm of architects as their associates and a separate Construction Manager. Approval of the Cabinet for the Project was accorded in May, 1988 and subsequently, a revised agreement was signed with the Indian Architect firm and their associates in New York and the Construction Manager, in September and December, 1988 respectively. The construction commenced in June 1989 and was expected to be completed by January, 1991. Eventually, it was completed in January, 1993. In the process, the project which was expected to cost US \$ 5.315 million in 1981 was completed at more than five times the cost i.e. at US \$ 28 million. The Committee's examination of the Audit Paragraph has revealed several failures/shortcomings in the planning and execution of the Project which are dealt with in the succeeding paragraphs.

[Para 67 of the 111th Report of PAC 1995-96 — 10th Lok Sabha]

Action Taken by the Government

Factual. No comments.

[Ministry of External Affairs F. No. Q/Prop/745/10/95 dated 6.1.1997]

Recommendation of the Committee

The Committee find that one of the main reasons for the delay in execution of the project and the resultant cost escalation was the manner in which Architects were appointed/associated in the project. After purchase of the plot in September 1980 the Ministry short-listed certain Architects in March 1982. But before a firm was appointed a directive

came from the then Prime Minister that reputed Indian Architects should be appointed for Ministry's construction projects abroad. The Government, thereafter, appointed in January, 1984 an Indian firm as the Architect, Consultant and Construction Manager on the premise that with limited permission from the local authorities the firm could execute the Project at New York. They failed to take into consideration that the local insurance rules would have created practical problems in the execution of the project in case of a non-local architect. Considerable time was lost thereafter by the Indian Architect firm associating a local architect so as to appoint the latter as associates also called the "Architect on Record". Consequently, this hampered the progress of the Project until September, 1988. Also, this entailed engagement of yet another firm as Construction Manager at a later date (December, 1988) resulting in additional payment of US \$ 6,73,396 on this account. Since the local architect was to be an associate of Indian Architect firm, the Government had no say in his selection. Soon after construction began, the local Architect firm began to face financial problems and their contribution to the project became negligible, thereby causing further delays in the project. During examination the Ministry admitted that it was only on closer examination of insurance and liability laws in USA when it became clear to them that appointing a local Architect could not be avoided. This clearly shows the casual manner in which the subject was approached by the authorities concerned. The Committee cannot but express their unhappiness over the failure of MEA in ascertaining and examining all the implications of engaging a non-local architect before commencing a Project of this magnitude.

[Para 70 of the 111th Report of PAC 1995-96 — 10th Lok Sabha]

Action Taken by the Government

The Committee's observations have been noted and it is confirmed that for all current projects the implications of engaging non-local architects are ascertained and examined in detail before commencing the project. The current agreements being signed with the architects have been modified to ensure that the architect is entirely responsible for any design defects and that government interests are fully protected before commencing the project. Keeping in view local conditions, Ministry's project in Gaborone has been awarded to a local architect. For the same reasons, it has been proposed to appoint local architects for Ministry's current projects in Berlin, Rabat and Port of Spain.

[Ministry of External Affairs F. No. Q/Prop/745/10/95 dated 6.1.1997]

Recommendation of the Committee

Another serious shortcoming observed by the Committee related to the adoption of the open ended management approach in the execution of the project. The Government chose to execute the project through "Construction Management System" coupled with the "fast track method" rather than award the entire contract on a turn key basis to a contractor

after firmly determining the detailed technical specifications, *i.e.* the Prime Contractor Method. This resulted in the Architect being treated as Consultant and the contractor supervising the work as a Construction Manager and the Government through the PMI, remaining continuously responsible for the execution of the project. This further resulted in creating a situation in which there were repeated changes in design and other specifications with the inevitable and concomitant delays and cost escalations. Explaining the reasons for selection of this method, the MEA stated that it was felt to be cost effective and time saving and was also in line with the construction practices prevalent in the United States. The Ministry, however, admitted that the twin advantages visualised could not eventually be derived. They also stated that in the light of the New York experience, this method has not been repeated in any other similar project elsewhere. Obviously, this is a self-admission on the part of MEA of the incorrect method adopted in this case. The Committee deplore the lack of prudence on the part of the Ministry in the application of this untried experiment in such a major project having substantial financial implications without undertaking any analysis in all its ramifications. They expect the Ministry to draw suitable lessons from this unsatisfactory experience and take appropriate corrective measures in the future.

[Para 71 of the 111th Report of PAC 1995-96 — 10th Lok Sabha]

Action Taken by the Government

The Construction Management Method is not being adopted for any other projects now. The current projects under implementation are fixed value lumpsum contracts which ensure timely completion of projects within approved costs.

[Ministry of External Affairs F. No. Q/Prop/745/10/95 dated 6.1.1997]

Recommendation of the Committee

The Committee find that as against the Cabinet approval for the Project with the floor area ratio (FAR) of 12, the building was actually constructed with the FAR of 10 and thus resulting in a shortfall of 19 residences and 16 car parking slots. As against the original plan for 36 floors, the actual number of floors constructed was only 26. The Ministry stated that it was decided to abandon the idea of 12 FAR and concentrate on 10 FAR since it was realised in September, 1988 that application for and approval of 12 FAR would involve considerable negotiations with the local authorities which would entail a period of not less than 12 months and even then there was no surety of getting it. They also maintained that even with the reduced FAR, the Project was economically viable. The Committee consider the Ministry's reply as untenable since Government had ample time between 1984 and 1988 to obtain the necessary approval. The committee have also no doubt that this reduction would have also upset the economic cost, since the remaining residential accommodation would continue to be hired by the Mission. The Committee regret to point out

this as yet another aspect of inadequate planning and unsatisfactory execution resulting in reduction of available benefits from the project.

[Para 72 of the 111th Report of PAC 1995-96 — 10th Lok Sabha]

Recommendation of the Committee

Another aspect which engaged the attention of the Committee related to the variations in the total plinth area actually constructed *vis-a-vis* what was envisaged. The note for Cabinet in 1988 sought approval for construction of specified built up floor area for Chancery, residences, accomodation including circulation area, parking and service area calculated at unit rate per sq. mtr. The Committee, however, found that while there was an increase of 419 sq. mts. in the accomodation actually constructed for Chancery, residences, basement and service actually constructed underwent reduction of 1723 and 180 sq. mts. respectively. As against the proposed built up area of 9237 sq. mts. the actual area constructed was 7824 sq. mts. The Ministry of External Affairs were unable to offer any convincing explanation for the variations. The Committee consider it disturbing that while the total floor area constructed was less by 1413 sq. mts. there was an increase in the cost of construction by about US \$ 9 million instead of pro-rata reduction (approximately US \$ 2.2 millions).

[Para 73 of the 111th Report of PAC 1995-96 10th Lok Sabha]

Action Taken by the Government

The Committee's observations have been noted. Ministry has explained before the Committee and in subsequent notes thereafter that calculations done now, even with the reduced FAR of 10 and reduced number of residences constructed on the plot, the economic cost after taking into account the percentage rate of rent increase, has been found to be US \$ 35 million as against the final construction cost of US \$ 28 million. Thus the project, notwithstanding the reduced space finally constructed, is still economically viable.

[Ministry of External Affairs F. No. Q/Prop/745/10/95 dated 6.1.1997]

Recommendation of the Committee

An important consideration that led to the selection of the Indian Architect was to give the building an Indian identity. It was, therefore, expected that the main theme of the building benefitted the intended identity. The Committee, however, find that the architectural concept, on the basis of which the contract was awarded to the Indian Architect, underwent substantial changes in terms of the originally designed concepts. The changes incorporated in the design of the building constructed included, non-adoption of brick cavity wall, use of red granite stone instead of red travenite, change from paver roofing to membrane roofing, removal of granite columns in the entrance lobby etc. The MEA maintained that the intended purpose of appointing an Indian Architect has still been achieved as the building stand out with the Shekhavati door.

pergola bar etc. considering the extent of architectural changes subsequently incorporated in the building actually constructed, the Committee wonder whether this diluted cultural uniqueness off-sets the additional costs of engaging an Indian Architect.

[Para 74 of the 111th Report of PAC 1995-96—10th Lok Sabha]

Action taken by the Government

The observations of the Committee have been noted.

[Ministry of External Affairs F. No. Q/Prop/745/10/95 dated 6.1.1997]

Recommendation of the Committee

Trade costs, i.e. cost of material and labour provided by individual sub-contractors for various sub-contracts such as stone works, masonry, wood work etc. constitute a major component of a construction project. The budget estimates prepared by the Construction Manager at the time of commencement of construction had envisaged an amount of US \$ 15,212,825 on the various trades. As of May, 1993 the expenditure on this account had gone up to US \$ 18,606,823. A scrutiny of some of the significant increases revealed that additional expenditure in those cases had been incurred for reasons like superior maintenance characteristics, greater resilience to environmental deterioration, climatic conditions, aesthetic considerations, superiority of fixtures etc. This is clearly indicative of the glaring inadequacies in the preparation of design and estimates. What had caused further concern to the Committee was that Government continued to accept such changes designed to improve the ambience of the building even though the cost of the Project had far exceeded the estimates and every such change entailed outgo of additional scarce foreign exchange. The Committee disapprove of this attitude particularly considering the fact that bulk of such expenditure had been incurred at a period when the country was reeling under a severe foreign exchange crunch and stringent economy measures were widely applied within the country.

[Para 76 of the 111th Report of PAC 1995-96—10th Lok Sabha]

Action taken by the Government

The observations of the Committee have been noted. As stated in response to Paragraph 69, for its current projects under implementation, adequate steps are taken to ensure that the scope of the project is frozen before award of the work to ensure that there are no variations or changes during the construction period to avoid time and cost escalations during construction.

[Ministry of External Affairs F. No. Q/Prop/745/1095 dated 6.1.1997]

Recommendation of the Committee

As per the relevant conditions contained in the contract entered into with the Architect-on-Record for providing architectural and engineering services for the construction of the Project, the Architect should redesign

at its cost any portion of its work or its Consultants, which due to its consultants, failure to use a reasonable degree of skill, shall prove defective within one year from the date of start of regular use of the portion of work affected. The owner shall grant the right of access to the architect to those portions of the works claimed to be defective for inspection. The Committee find that as against the demand to adjust as back changes an amount of US \$ 1,96,848 which had resulted from architectural errors and omissions, the firm finally accepted the liability for US \$ 47,089 and the balance had to be borne by the Government. The Ministry admitted that they did not have sufficient proof to enforce the back-charging in many cases. The PMI, New York was stated to have attributed their inability to establish the liability of the firm conclusively to factors such as inadequate documentation, changes of the observations of the Committee have been noted. As stated in Paragraph 70, remedial steps have now been taken in the agreements being signed with the architects for Ministry's current projects to ensure that the Architect is fully responsible personnel and the difficulty experienced by non-technical persons in the Mission for visualising all the inputs that have gone into these change orders. During evidence the Foreign Secretary stated that a settlement had to be reached with the firm as per the legal advice given to the Ministry. Clearly, this is yet another aspect of the unsatisfactory execution of the project resulting in the Government accepting almost entirely the liability for change orders due to errors and omissions which should clearly have been borne by one of the Architects as the Construction Manager. The Committee deplore the laxity on the part of the Ministry in protecting public interest in recovering fully the additional cost attributable to changes due to errors and omissions on the part of the Architect.

[Para 77 of the Report of PAC 1995-96 10th Lok Sabha]

Action Taken by the Government

That Government interests are fully protected before entering into any agreement with the architects, prevailing local conditions and local bye-laws are thoroughly examined before appointing architects for new projects and wherever required, local architects are appointed for new projects.

[M/o External Affairs, F No. Q/Prop/745/10/95 dated 6.1.1997]

Recommendations of the Committee

Yet another shortcoming observed by the Committee was the inadequate system of supervision and monitoring of the Project by the Mission and the Ministry. Although the Government chose to go in for the Construction Management Method, they posted a non-technical career diploma as the First Secretary (Project) at PMI during the execution of the project. Apparently, his contribution towards the monitoring, management and

evaluation of the multiple and piecemeal changes in designs and specifications had been limited by the lack of appropriate background and experience. There was hardly any mechanism available in the Ministry also to monitor the implementation of the Project. The MEA stated that the nature of job in the Mission was more administrative than technical and that technical supervision of the project was the responsibility of the Architect/Construction Manager. The Committee do not agree with the manner in which the Ministry have sought to absolve themselves from their responsibility. In the opinion of the Committee, since under the Construction Management Method the Construction Manager acted only as an agent of the employer, it would have been desirable to appoint a technically qualified person with a view to supervising the Project more effectively and it was also imperative that the Ministry monitored its execution more closely. The Committee regret to conclude that the nature of the supervision exercised by the authorities was perfunctory and Ministry had failed to exercise adequate control over the expenditure incurred on the Project. While expressing their unhappiness over the same the Committee desire that suitable steps should be taken by the MEA to ensure that such Projects are effectively supervised and the progress in closely monitored by the Ministry.

[Para 78 of the 111th Report of PAC 1995-96—10th Lok Sabha]

Action Taken by the Government

Observations of the Committee have been noted. Ministry has now taken necessary remedial steps to ensure that adequate control is executed over supervision of on-going projects. A Technical Cell has been created in the Ministry for monitoring the project from its inception to its final implementation. The Project Cell and the Technical Cell of the Ministry in close consultation with the Integrated Finance and Legal & Treatise Division monitor each project from its planning stages, their estimation, approvals evaluation of tenders, appointment of architects, technical supervision of construction as also release of payments through different stages of the project. Officers from the Establishment & Finance Division together with Architect/Engineer of the Ministry undertake regular visits to the site for periodical monitoring. For larger projects, Project Officers as in the case of Riyadh Project, are posted for on-site monitoring. Technical reports are scrutinised at Headquarters in detail for every aspect of implementation. These steps have been effective in proper supervision of the project. Ministry will continue to ensure that for its current on-going projects, adequate control is executed over supervision both from technical as well as financial angles.

[M/o External Affairs F. No. Q/Prop/745/10/95 dated 6.1.1997]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM THE GOVERNMENT

Recommendation of the Committee

According to the guidelines issued by the Ministry of External Affairs (MEA) in May 1978 to the Indian Missions abroad, comparison of Capital cost of acquiring/constructing property *vis-a-vis* the recurring rental expenses was an important consideration in determining economic viability while pronouncing the Government policy for acquisition of property for Missions abroad, the MEA in the aforesaid guidelines also communicated the Missions abroad a formula which was evolved in consultation with the Ministry of Finance to be adopted for such evaluation. Taking into account estimates of annual rental costs, maintenance expenses of owned buildings, annual escalation of rentals, the rate of inflation as envisaged in the instructions of 1978. The integrated Finance Unit of the Embassy of India, Washington forwarded their analysis to the MEA in 1981. As per the analysis, the economic cost of a building to suit the projected requirements worked out to US \$ 2.297 million and as the estimated cost of construction was US \$ 5.315 million, the project was not considered viable. The Committee are surprised that the Government, nevertheless, finally went ahead with the project. Pertinently, while according approval for purchase of the plot, the then Finance Minister had noted that "the land may be purchased without commitment regarding construction. Land values are bound to go up in New York in the UN area." The Ministry of External Affairs in the course of examination by the Committee admitted that the costing undertaken by the Integrated Finance Unit of the Embassy in 1981 was in consonance with the policy guidelines issued in 1978. However, they maintained that the economic cost so worked out had never been accepted in the Ministry. The reasons cited by the MEA in non-acceptance of the analysis *inter-alia* included, the rate of increase in the rental projected in the analysis was unrealistic, the analysis had been made by the Integrated Finance unit in August, 1981 after the plot had been purchased, an earlier report given by the previous Deputy Financial Advisor had indicated that the project was viable etc. The Committee are not fully convinced with these arguments and cannot but conclude that the economic viability of the Project from the very beginning itself was not beyond doubt. Considering the fact that approval for purchase of plot was accorded with explicit orders not to undertake any commitment regarding construction, the

committee fail to appreciate the compulsions for going ahead with the Project without fully examining the viability analysis prepared in 1981 as per the Ministry's own laid down criteria.

[Para 68 of the 111th Report of PAC 1995-96—10th Lok Sabha]

Action Taken by the Government

The Ministry has explained before the Committee and in subsequent comments after evidence that economic viability of the project had been examined in detail before launching the Project. The calculations made by DFA in August 1981 were not found acceptable as he had taken the rate of increase in rentals as 10% whereas the prevailing rent rates during this period were found to be much higher on the basis of which the calculations for economic cost were being made in the Ministry. At the time of seeking Cabinet approval for construction of this project in 1988, it was once again found that the project was economically viable. It was on this basis that the Cabinet approval was obtained. Against a project cost of US \$ 19.023 million, the economic cost of the project at that time was calculated at US \$ 90.4 million. Thus even against the final construction cost at US \$ 28 million, the project remained economically viable.

Apart from economic viability, the other factors that necessitated the decision to construct were:—

- (i) The need to have our own office near the UN Office. It is in the Government's interest to have an office near the UN Office with which the PMI has to interact daily. The present building is only one block away from the UN Headquarters.
- (ii) There is a scarcity of suitable accommodation for office and residences in the area. Office and residential accommodation in Manhattan are difficult to get and the rents in the area are abnormally high. Before construction of our own building the officers used to stay far away and had to daily commute long distances to reach the office. Constructing our own building has enabled the officers to reside in the same building and thus obviate the need to travel/commute long distances both to office as well as to the UN offices where most of its official dealings are held. Moreover, as the building is located in the city centre, officers residing in the building are able to get greater representational access in their official dealings.
- (iii) Crime rate in New York is one of the highest in the world and keeping all the officers in the same building with modern security features ensures better personal security for our office and for

members of our Mission. With the increase in international terrorism, Mission personnel abroad continue to remain vulnerable as political targets. For this purpose it is imperative to provide adequate security which has been possible by constructing an office-cum-residential building of our own.

- (iv) The building is designed to our needs and constructed to Government's prescribed space norms and specifications. When we constructed our own building it became possible to construct the building taking into account all our functional needs which are not always possible in a rented building. The new PMI building has a large multi-purpose hall for holding exhibitions, seminars, receptions, in the city centre without having to hire additional space on each occasion. It has a room for important visiting delegations, strong room for security documents and equipment etc. The office space is designed to our functional requirements. Similarly, the residences have been designed to provide adequate space for representational purposes, which is not always possible in rented residences. The kitchens are designed to suit Indian cooking and the utilities and storage space are again designed to the Indian ways of living and specifications.

[Ministry/of External Affairs F. No. Q/Prop/745/10/95 dated 6.1.1997]

Recommendation of the Committee

The Committee find that there were clear indications of the problems and delays in the execution of the project right from the beginning. A property team of the Ministry of External Affairs which had visited New York in March, 1982 for selection of architect had expressed their apprehensions about the size and shape of the plot in which the building was proposed to be constructed. During examination by the Committee, the Ministry of External Affairs stated that the property team's discussions with the architect in New York had highlighted difficulties that would be encountered in constructing a suitable building on the site. However, it was felt by the Ministry at that time that those difficulties would not be insurmountable. Later, these apprehensions were confirmed during the course of construction and, this, in fact turned out to be one of the factors which caused delay in the completion of the Project. The Committee consider it unfortunate that having decided to go ahead with the Project and despite having been aware of the possible problems, the Ministry did not succeed in taking adequate and effective steps to deal with them resulting in inordinate delay and incurrence of excess expenditure of sizeable magnitude.

[Para 69 of the 111th Report of PAC—10th Lok Sabha]

Action Taken by the Government

The delays cannot be attributed to inadequate planning and absence of monitoring. As stated in Ministry's earlier response before the Committee, the delay was on account of the following factors:—

- (i) The digging of foundation took longer than expected because of the lay-out of the land and the vulnerable nature of the adjoining buildings.
- (ii) The local architectural firm broke up while the work was in progress and there was no architectural input for nearly 6 months. Changing of the architect midway would have created further delays and complications. Eventually, one of the architects of the broken-up firm agreed to continue working for us once the uncertainty, created by the break-up, got removed at his end.
- (iii) During the course of construction, the Canadian firm entrusted with the metal panel work went bankrupt. Location of another firm, willing to carry out the balance of the work, caused delay.
- (iv) Apart from the above, other delays were on account of revision in the scope of the project as it went along. Such revision became necessary because of the functional requirements, the need to have better systems than those envisaged initially as also the changes in the regulations of the local authorities in New York.

It is submitted before the Committee that for Ministry's current on-going projects, Ministry continues to take adequate and effective steps to eliminate cost and time escalations by awarding fixed value lumpsum contracts. Moreover, the scope and design of the project are frozen to avoid changes after award of the work and resultant cost escalations and time delays. The detailed drawings and tender conditions are examined in detail well before award of the work and financial approvals obtained before launching any project.

[Ministry of External Affairs F. No. Q/Prop/745/10/95
dated 6.1.1997]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation of the Committee

The Project for construction of building for Permanent Mission in New York was sanctioned by Cabinet in 1988 for a project cost of US \$19.023 million. The actual expenditure incurred on the project was about US\$ 28 million, which is about 9 million in excess of the sanctioned amount. In such cases approval of the Cabinet is specifically required when the actual expenditure exceeds the originally sanctioned amount by more than 10%. The Committee are however, amazed to note that though the Project was completed in January, 1993, the approval of the Cabinet for the excess expenditure incurred is yet to be obtained. In the Ministry's own admission, the draft note seeking Cabinet approval for the revised cost of the project was sent to the Ministry of Finance on 16 January, 1995 only. The Committee cannot but express their displeasure over the delay on the part of the MEA in obtaining the approval of the Cabinet for revised cost of the Project and desire that the reasons for the same should be thoroughly looked into with a view to obviating such lapses in future. They would also like to be informed whether the approval for the purpose has since been obtained.

[Para 79 of the 111th Report of PAC 1995-96—10th Lok Sabha]

Action Taken by the Government

Procedure for seeking Cabinet approval is under process.

[Ministry of External Affairs F. No. Q/Prop/745/10/95 dated 6.1.1997]

Recommendation of the Committee

The facts stated in the foregoing paragraphs raise certain important questions relating to the cost effectiveness of the Government's Mid-Manhattan Construction Project at New York and whether the benefits accruing therefrom were commensurate with the scarce foreign exchange reserves appropriated for it. Undoubtedly, the Government's decision of associating an Indian Architect, adopting Construction Management System and giving precedence to superiority of ambience over economy together contributed to the delays and steep cost escalation. Completion of the Project at more than five times the originally estimated cost of US \$ 5.3 million raises serious questions about the financial prudence of going in for a project which even at the stage of original estimation was considered financially unviable. The MEA have sought to maintain that the Project

was still economically viable. They attributed the delay in the Project to the decision for associating and appointing an Indian Architect and the procedures which had to be followed thereafter, revisions incorporated in the scope of the project as it went along, longer time taken for digging of foundation due to the layout of the land, breakup of the US architectural firm, bankruptcy of the metal panel erector, etc. According to the Ministry the cost escalations had arisen due to design changes made after construction started, increase in general condition cost on account of construction time, increase in cost on account of changes made by interior designer, changes made on account on local code requirements etc. They, however, assured the Committee that in the light of the shortcomings observed in this Project certain measures like undertaking of careful planning, creation of a Technical Cell in the MEA with the association of CPWD etc. have been initiated by them. In the wake of the unsuccessful experimentation with the Construction Management Method in this project, the Ministry also stated that they were not following the general contract method with fixed value lumpsum contract. The Committee cannot remain satisfied with this. They desire that the factors contained in this Report should be thoroughly looked into with a view to fixing responsibility for the various lapses and also for obviating such recurrence by streamlining the policy and procedures for acquisition/construction of property by Indian Missions Abroad.

[Para 80 of the 111th Report of PAC 1995-96-10th Lok Sabha]

Action Taken by the Government

The observation of the audit were thoroughly discussed in the Ministry before answering the questions raised by PAC during evidence. It appears to be clear from the reasons that contributed to cost escalation that these were not due to any individual lapses but due to collusion of a number of factors. As explained before the Committee and its subsequent comments after evidence, unforeseen events such as breaking up/bankruptcy of concerned firms substantially contributed to cost escalations.

As mentioned in the response to the foregoing paragraphs, Ministry has since streamlined its policy and procedures for acquisition/construction of property for our Missions abroad. Policy guidelines for purchase of built up properties were revised in 1986, and reviewed in 1994. Economic viability of projects are considered in detail before starting construction. Purchase options *vis-a-vis* construction option are also examined thoroughly before launching any project. Local construction conditions and bye-laws are scrutinised in depth before initiating projects. Remedial steps have been taken with regard to appointment of architects and appointment terms revised to the best advantage of the Government. A Technical cell

has been created for monitoring projects from its inception to final implementation. Designs and scope of current projects are frozen before award of work to avoid resultant cost and time escalation. Lumpsum fixed value contracts are now awarded to ensure timely completion of projects within approved costs.

[Ministry of External Affairs F. No. Q/Prop/745/10/95 dated 6.1.1997]

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation of the Committee

In this context, the Committee note that the newly constructed building is yet to be named. They suggest that a suitable name be given to the building keeping in view the Indian identity and its cultural uniqueness.

[Para 75 of the 111th Report of PAC 1995-96—10th Lok Sabha]

Action Taken by the Government

As desired by the Committee, the process for selecting a suitable name to the building is under way.

[Ministry of External Affairs F.No. Q/Prop/745/10/95 dated 6.1.1997]

Recommendation of the Committee

In this connection the Committee have taken note of the guidelines of May 1978 and August 1986 issued by the Ministry of External Affairs which deals mainly with the criteria to determine the economic cost of acquisition of property abroad. The Committee feel that these guidelines to be reviewed and detailed instructions be issued in consultation with the Ministries of Urban Affairs & Employment and Finance which apart from laying down the criteria for acquisition of property abroad should also include aspects relating to management of construction, *i.e.*, estimation, approval of the project, evaluation of tenders, appointment of architects, technical supervision of construction and system of payment at different stages as also periodic monitoring in the Ministry. The Committee further desire that these instructions be issued within a period of six months. The Committee also recommend that the Ministry should prepare perspective and Five Year Plans for acquisition and construction of property abroad keeping in view the likely overall availability of funds.

[Para 81 of the 111th Report of PAC 1995-96—10th Lok Sabha]

Action Taken by the Government

Revised policy guidelines for acquisition of property abroad are being formulated in consultation with Ministries of Urban Affairs & Employment and Finance. Since this entails inter-Ministerial discussions, issuance of detailed instructions would take some more time.

As desired by the Committee, Ministry has also prepared a perspective and a 5-year plan for acquisition and construction of property abroad. This

Ministry's requirements for additional funds for this purpose is also under submission to Ministry of Finance.

[Ministry of External Affairs F. No. Q/Prop./745/10/95 dated 6.1.1997]

Recommendation of the Committee

The Committee have been informed that there were about 20 projects/proposals under execution/consideration for construction/acquisition of buildings for Indian Missions abroad which were presently in hand. The Committee desire that the Ministry of External Affairs should review those projects/proposals in the light of the Committee's recommendation made in paragraph 81 with a view to ensuring that the rental outgo, which is bound to increase year after year is reduced to the negligible level and also avoiding delays in execution and the concomitant cost escalation.

[Para 82 of the 111th Report of PAC 1995-96—10th Lok Sabha]

Action Taken by the Government

As desired by the Committee, a review of the project proposals with a view to reducing our rental outgo has been incorporated in Ministry's 5 year property plan and submitted to Ministry of Finance for consideration.

[Ministry of External Affairs F.No. Q/Prop./745/10/95 dated 6.1.1997]

NEW DELHI;
16 March, 1997

25 Phalguna, 1918 (*Saka*)

DR. MURLI MANOHAR JOSHI,
Chairman,
Public Accounts Committee.

APPENDIX
CONCLUSIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Dcptt.	Conclusions / Recommendations
1	2	3	4
1.	3	Ministry of External Affairs	The Committee desire that final replies to the recommendations at Sl. Nos. 9, 15 and 16 to which only interim replies have so far been furnished should be submitted to them expeditiously after getting them vetted by Audit.
2.	8	-do-	The Committee note that in pursuance of their recommendations, the Ministry of External Affairs have initiated certain steps to streamline the procedures for acquisition/construction of property for the Indian Missions Abroad. They trust that the Ministry will keep a close and continuous watch over the implementation of these measures with a view to not only checking the cost and time overruns but also for adequately protecting the financial interest of the Government.
3.	9	-do-	The Committee, however, regret to note that the Ministry of External Affairs have not taken any action to examine the role of the officers for the lapses pointed out by the Committee in the execution of the Project. In their action taken note the Ministry have merely stated that the reasons which contributed to cost escalation were not due to any individual lapses but due to collusion of a number of factors. The Committee are not inclined to accept this explanation in the light of specific lapses pointed out by them in their earlier Report particularly in the appointments/engagement of Architects, shortcomings in the preparation of designs and estimates, the manner in which changes were being incorporated continuously in the scope of the work, failure to recover additional cost due to errors/ommissions on the part of the Architect because of inadequate documentation, non-association of technical personnel etc., inadequate

1	2	3	4
4.	12	Ministry of External Affairs	<p>supervision, delay in seeking Cabinet approval in the revised cost of the project etc. The Committee, therefore, reiterate their earlier recommendation and would like to be informed of the findings of the enquiry made in pursuance thereof and the concrete action taken in the matter.</p> <p>The Committee are unhappy to note that the Ministry of External Affairs have neither obtained the requisite approval of the Cabinet for the revised cost of the Project so far, nor intimated the precise reasons for the delay in initiating action for the purpose. This is clearly indicative of lack of seriousness on the part of the Ministry of External Affairs in observing the laid down financial regulations/practices. While deploring the same, the Committee reiterate their earlier recommendation and would like to be informed of the precise action taken in the matter within a period of three months.</p>

PART II

MINUTES OF THE TWENTY SECOND SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 13 MARCH, 1997.

The Committee sat from 1500 hrs. to 1545 hrs. on 13 March, 1997 in Committee Room "B", Parliament House Annexe.

PRESENT

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Nirmal Kanti Chatterjee
3. Smt. Sumitra Mahajan
4. Shri Suresh Prabhu
5. Shri B.L. Shankar
6. Shri Ishwar Dayal Swami

Rajya Sabha

7. Shri Ajit P.K. Jogi
8. Shri R.K. Kumar

SECRETARIAT

1. Shri P. Sreedharan — *Deputy Secretary*
2. Shri Rajeev Sharma — *Under Secretary*

OFFICERS OF THE OFFICE OF C&AG OF INDIA

1. Shri I.P. Singh — *Addl. Dy. C&AG*
2. Shri V. Srikantan — *Addl. Dy. C&AG*
3. Shri Vijay Kumar — *Director General of
Audit (P&T)*
4. Shri A.K. Thakur — *Principal Director
(Reports — Central)*
5. Shri Jayanti Prasad — *Director (AB)*

2. The Committee took up for consideration the following draft Report:

- (i)

ANNEXURE II

Amendments/Modifications made by the Public Accounts Committee in the draft action taken report relating to building for permanent mission at New York

Page	Para	Line	Amendments/Modifications
5	9	12	Insert "findings of the enquiry made in pursuance thereof and the" after "informed of the."

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2.	M/s. Crown Book Dept, Upper Bazar, Ranchi (Bihar).	14.	M/s. Jain Book Agency, C-9, Connaught Place, New Delhi (T. No. 351663 & 350086).
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9.	M & J Service, Publishers, Representative Accounts & Law Book Sellers, Mohan Kunj, Ground Floor 68, Jyotiba Fuele Road, Nalgaum-Dadar, Bombay-400014.	22.	M/s. Amrit Book Co. N-21, Connaught Circus, New Delhi.
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TAMIL NADU		24.	M/s. Sangam Book Depot, 4378/4B, Murari Lal Street, Ansari Road, Darya Ganj, New Delhi-110002.
UTTAR PRADESH			
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