



Red Flags & Anti-Fraud Measures in Public Works

A Research Paper

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How is this document structured?

To begin with, all the areas of public works have been identified. For each of the key areas, red flags (fraud indicators) were identified and discussed in the first column of the document. In the second and third columns, anti-fraud measures i.e. preventive and detective for each red flag were discussed. Reference is also made to concrete examples wherever relevant and felt necessary.

Finally, this paper is neither exhaustive nor claims to be an anthology on the subject, but an attempt, however, has been made to introduce the Auditors the subject of possible frauds in public works to enable him/her to understand various intricacies involved therein so as to gather appropriate evidence.

Suggestions and comments received from my core faculty (Dr. P.H. Mudaliar, Sr.A.O and Shri. D. Varghese, Sr.A.O) and local retired officers (Shri. V.D. Joshi, A.G, Shri M. B. Lunge, Sr.A.O, and Shri N.G. Patankar, Sr.A.O) are acknowledged with sincere thanks.

Preface

In any country, today, be it developed or developing, construction activities dominate the scene. One of the earliest available records relating to public works and projects as a systematic State activity in India is to be found in Kautilya's *Arthashastra*. This treatise on statecraft, written over 2000 years ago, describes in some detail the construction activities expected to be taken up by the Sovereign in the realm of defence, in addition to public welfare. *Arthashastra* sets out not only different types of public works and projects undertaken by the Sovereign - such as forts, water reservoirs, market places, roads, hospitals, government buildings and temples but also spells out the detailed specifications in relation to each type of work and also the possible ways of embezzlement of government revenue.

'Public Works' is a comprehensive expression covering construction activities of all kinds undertaken by all government organizations and public enterprises. All over the world, execution of public works is prone to the risks of abuse, waste, fraud and corruption. In modern times, risk levels increased with the increase in volume, frequency, and complexity of financial transactions. Rapid progress in information technology has provided 'the multiplier effect', to make things worse.

Though the Management has the overall responsibility for design, implementation and proper functioning of the internal control system, Auditors have a key role to play to encourage and support establishment of effective internal controls in the public works organizations they audit. It is therefore essential that Auditors are aware of the likely patterns that point towards frauds at various stages of their execution.

Considering the magnitude of risks involved in execution of public works and in pursuance of the mandate given to this institute to specialize in the area of 'Audit of Frauds, Fraud Detection Techniques and Forensic Audit, this research paper 'Red flags and Anti-fraud measures in Public Works' has been brought out.

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Red flags & Anti-Fraud measures in Public Works

1. Needs analysis/Estimates preparation

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
1.1 Estimates made for excess goods or goods not needed at all.	Estimates of goods needed are prepared based on inventories and usage records.	Check whether there is any abnormal increase or decrease in the quantities executed by the contractor.
1.2 Estimates of requirements prepared piece meal (to avoid complying with procurement provisions for high value purchases).	Single estimates are prepared for the total requirements to ensure competitive rates.	(i) Check whether all important items were included in the estimates. (ii) Check whether there were changes in specifications that resulted in extra items. (ii) Check whether any important item was omitted and subsequently executed through 'Extra Item Rate List'.
1.3 Specifications prepared that exclude all but certain favoured suppliers.	Specifications stipulated should be general enough to be met by goods available from several manufacturers or suppliers. If specific brand name is to be mentioned, equivalent is added to the specifications.	Check whether selected specification which is available only with certain favoured supplier is intentionally given to supplier.

1.4 Different specifications prepared for subsequent purchases, even though the same goods were acquired subsequently.	Variations in specifications are not entertained unless there is a justified explanation recorded.	Compare the specifications of the goods procured originally with those procured subsequently.
1.5 Estimates prepared using costs higher than the market price.	Price indices are kept for reference, or estimates are based on prevailing market prices or in accordance with the price of recently purchased goods.	Check whether incorrect rates were applied while preparing estimates to benefit contractor
1.6 (Project selected without a feasibility study and cost estimation leading to) frequent revisions in design and cost and time overruns.	Design estimates are prepared based on a feasibility study and on a detailed study of the project site by a senior functionary. Only then they are approved.	Verify whether the project was selected after proper survey and after preparing project report based on detailed study and research.
1.7 Higher cost estimates (due to inflating the quantity of material, manpower required and rates).	Cost estimates are prepared based on the approved norms and rates and on the availability of material at the construction site.	Compare the rates in respect of some important items indicated in the estimates.
1.8 Single work divided into different pieces (so that it can be approved within the initiator's	Generally, a single work is not procured by dividing it into small pieces. But if it proves necessary,	Compare the prices and date/s of placing of orders of items with similar specifications.

authority. As a result, competition may be restricted).	approval of higher authority is sought.	
1.9 Significant purchase made in small lots (increasing the unit cost of the purchase).	The purchase of material is done in single lots where it is price advantageous to do so. If the quantity is significant, then it is purchased after obtaining quotations from approved vendors.	i) Check whether purchase is made in one lot for getting lower price benefit or not. ii) If quantity is significant check whether quotations were obtained from approved vendors or not.
1.10 Non-identification of working quarries.	Latest survey of quarries to be conducted and availability of required quantity and quality to be assessed with those indicated in the District Schedule of Rates(DSR).	Check whether there was any change in quarry site during execution of work. Determine the impact of changing the quarry with regard to the payment made to the contractor.
1.11 Rates to be executed in the initial stages (like foundation of a building or a bridge) are high and the rates for the finishing items are low. Note: In such cases, contractor gets most of his profit in the initial stages of the work and	As far as possible, tenders are called for in % rate and not in item rate. If material is to be acquired from a quarry other than the one mentioned in the contract, lead and lift are considered and recovery, if any, to be made from the contractor.	(i) Verify the nature of tender called for. (ii) Compare quantities in the tender with those in the estimates.

has limited incentive to continue through the finishing stage.		
1.12 Quantities of items of work in the schedule attached to the tender vary substantially in actual execution.	Estimates are prepared after proper survey and investigation so that such a possibility is avoided	The changed quantities are put in the original offer and the offer is re-evaluated. It may happen that the offer which was considered the lowest with the original quantities is no longer the lowest.
1.13 Vague concessions or rebates are offered by tenderer on certain conditions not included in the tender documents. For e.g: rebate may be offered if mobilization advance is given, if material like cement and steel are arranged by the department and for prompt payments.	It is desirable to prepare a list of 'authorized rebates'. For example, rebates offered for prompt payment of running bills as well as the final bills.	Assess Govt.'s liability due to grant of concession with contractor's rebate offer.

2. Direct purchases

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
2.1 Purchase of material exceeded the ceiling for direct or quotation based purchases.	Purchases are made according to financial regulations. Deviations are explained appropriately.	i) Compare the amount of purchase made with the limit prescribed. ii) In case of deviations, examine the validity of reasons recorded.
2.2 Purchases made at rates higher than the market prices.	Before purchases are made, the rates are compared with the recent purchases on similar items.	Check whether rates quoted and paid were more than the market rates of same goods and of same quality.

3. Procurement through quotations

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
3.1 Material purchased without quotation though the amount of purchase exceeded the prescribed limit.	Purchases are made according to financial regulations; deviations are explained appropriately.	Check whether required quotations were obtained or not before making purchases beyond permitted limits
3.2 Purchases are consistently from the same supplier (to avoid tendering process and restrict competition).	Sealed quotations are received from the approved list of vendors and they are evaluated by authorized personnel.	i) Check whether quotations were obtained in cases where purchases exceeded the prescribed limit for direct purchases. ii) Check whether the prescribed procedures were followed while inviting quotations /tenders for purchases.
3.3 (In order to favor some supplier) the notice asking for quotations were sent early to some and late to others.	The request for quotations is sent at the same time to all suppliers. The record of such notice being sent and acknowledgement of receipt is kept.	Check acknowledgement of dealers receiving notice seeking quotations to verify whether notices were served to all and in time.

3.4 Quotations called from too few suppliers (even though more existed/could exist).	A list of potential suppliers is prepared and quotations from as many of them as possible are called.	--do--
3.5 Information on amounts quoted by suppliers not kept confidential.	A system of keeping quotations received in the custody of responsible officers is followed.	Check that rates quoted by dealer were of not leaked and a system exists to keep all the related papers confidential.

4. Procurement without Tender/Quotation (unlimited amount)

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
4.1 Material purchased directly at the manufacturer's price that is falsely claimed to meet the required specifications.	<ul style="list-style-type: none"> i) Claims that the material are of a specific type are verified. The reasons for selecting them over others is stated clearly. ii) The basis of fixing the selling price by the manufacturer is made available, or the price is certified by the committee constituted for this purpose. iii) The quality standards of such goods are determined by the same committee. iv) Approval of competent authority is obtained for such 	<ul style="list-style-type: none"> i) Check that no purchase is made directly from particular dealer without inviting quotations and tender on the ground that material of particular specification is available only with the dealer. ii) Check whether purchase Committee was appointed /framed for selecting the dealer and determining quality standard. iii) Check whether sanctions from proper authority were obtained before procurement.

	procurements.	
4.2 Purchase was described as “propriety” even though there were other suppliers. (The price charged was more than the manufacturer’s list price).	<ul style="list-style-type: none">i) Approval of the competent authority is taken to procure propriety goods from single source.ii) Prices are checked against manufacturer’s price	<ul style="list-style-type: none">i) Check whether competent authority’s approval was obtained when propriety goods were purchased from single source.ii) Check that price quoted and paid for goods did not exceed Maximum Retail Price.
4.3 Goods purchased at higher rate.	The rates are compared with rates of similar suppliers.	Check whether rates quoted & paid were more than the market rate of goods of same quality of other similar supplier.

5. Invitations to tender

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
5.1 Inadequate time given for submitting tenders (to avoid competition).	Time allowed as provided in the regulations.	Analyse the time schedule of inviting /submission of tender followed.
5.2 Tender documents sold to contractors were not pre-qualified	The tender committee signifies their approval of the list of contractors who had been sold bidding documents.	Compare the contractors to whom tender documents were sold with the list of pre-qualified contractors available with the department.
5.3 Time extension given arbitrarily, regardless of the number of tenders received.	Time extensions are given with the approval of competent authority, only if reasonable competition is not likely and if more could be generated.	i) Check whether extension of time limit given was necessary and proper. ii) Verify whether sanction from proper authority was obtained before giving such extension.
5.4 In case of limited tendering, tender document sold to non-	Tender documents are sold to enlisted tenderers only.	Compare the names & addresses of the tenderers with those enlisted.

enlisted tenderer.		
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6. Terms and Conditions of Tender

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
6.1 Terms and conditions are vague. e.g: incorrect mentioning of quantity of dewatering and abnormal increase in expenditure under 'dewatering'.	Terms and conditions of contract should be specific without leaving room for interpretations. Quantity and method through which dewatering is to be done is assessed as accurately as possible.	Compare the rate of payment and methodology followed for dewatering in similar soil and other topological conditions in and around that region.
6.2 Updated estimated cost not mentioned in the agreement.	Estimated cost as per current DSR must be mentioned in the agreement to regulate the payment of quantities executed in excess of 125% of quantity put to tender.	Analyse the expenditure in excess of 125% of quantity put to tender and determine the reasons for its non inclusion in the agreement.
6.3 Non-mention or vague mention of period of defect liability.	Defect Liability period must be mentioned in the agreement as per the norms laid down.	Check whether there were any instances of expenditure on repairs was to be borne by Govt. due to non/vague mention of Defect Liability period.

6.4 Deliberate deletion of items of 'Controlled Blasting'.	Detailed survey of site must mention the need of controlled blasting and the item of working incorporated accordingly.	Analyse the expenditure under extra items and determine the reasons for their non inclusions in the estimates.
6.5 Favorable conditions to contractor into enable payment of advances like secured advance, mobilization advance etc.	Frame non-ambiguous terms of payments and the recovery aspect clearly in the agreement.	Analyse the conditions of contract on advances and determine the likely impact.
6.6 Price escalation clause misused (by contractor) due poor definition of the same in the contract.	<p>i) Illustrative instances of delay in execution of work due to contractor's fault and departmental fault should be clearly defined in the contract.</p> <p>ii) Percentage of labour, steel, cement and Petrol, Oil, Lubricants(POL) should be accurately mentioned.</p>	<p>i) Examine the circumstances that led to delay and determine whether the reasons for delay were due to contractor's fault.</p> <p>ii) Check whether contractor was benefited due to incorrect mention of percentage of components.</p>

	iii) The term “Quarterly Average of Index” should be elaborately explained.	iii) Instead of considering average of 3 months of exemption of work, quarter of calendar year is considered for average purposes.
6.7 Extra ordinary discretionary power of interpretation of terms of condition to Engineer in charge.	Scope for interpretation of terms should be restricted through drafting the terms and conditions with clarity and objectivity.	Verify instances of excess payment to contractor due to misuse of discretionary powers of interpretation of terms of agreement, like lead charges, prices-escalation, change in strata, dewatering, if any.

7. Tender Opening

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
7.1 Tender opening committee did not have officers competent to open tenders.	Head of the Department should form the committee nominating competent officers as per the provisions, for opening tenders.	i) Compare the grade/qualifications of the committee with those stipulated in the provisions. ii) Check whether tenders were opened in presence of all nominated members of the committee and signatures of all members were obtained on documents opened.
7.2 Response to Tender Notice (i) Poor response to Tender Notice 1. Limited no. of offers received.	i) Wide publicity of tenders be given. ii) Criteria for evaluation should be clear. iii) Minimum Tenders should be invited for similar type of work	i) Study reasons for poor response. ii) Verify whether evaluation of offers was consistent and fair. iii) Analyse whether the offers were realistic (to avoid unfair competition).

<p>2. Unrealistic offers.</p> <p>3. Unfair revaluation of items.</p> <p>(ii) Similar works are tendered in given period of time to facilitate the bidders to form a cartel and get the work.</p> <p>(iii) One work is split-up in different parts by official to accommodate likely bidders.</p> <p>(iv) Suspicion of collusion between bidders/officials.</p>	<p>to assess competitive rates.</p>	<p>iv) Verify whether the option of retendering was considered. If 'no', ascertain the reasons.</p>
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8. Tender Evaluation

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
8.1 Some tenders were excluded from the tender opening meeting.	i) All the tenders received are recorded and kept in the custody of a responsible person and they are included in the list of tenders considered.	i) Check the tender documents sales book against tenders received and reasons for non-receipt of all tenders. ii) Check whether any reasons were recorded for not considering all the tenders. iii) Assess the reasonableness of the reasons recorded.
8.2 (With the intention of awarding the contract to a favoured second lowest bidder), the lowest bid was improperly rejected for trivial reasons.	i) If tenders contain minor irregularities that do not affect the price, quality, they are evaluated along with the others. ii) In case of rejections, record reasons for rejections duly signed by the	i) Check whether the lowest tender was rejected to favour the second lowest tender and check that the reasons offered are in tune with instructions issued by the Central

	members of Tender Committee.	<p>Vigilance Commissioner (CVC) from time to time on the subject.</p> <p>ii) Ensure that negotiations are not held with L1 unless in case of the circumstances (procurement of proprietary items, items with limited sources of supply and items where there is suspicion of a cartel) indicated by the CVC.</p> <p>iii) If tender was rejected for minor procedural violations, call for adequate justification.</p>
8.3 In between the time period of opening of tenders and evaluation, changes in the amounts in the priced bill of quantities, as well as in the terms of tender were made which affected the price.	<p>i) All documents submitted with the tender are initialed by those present at the tender opening.</p> <p>ii) All tender documents received are kept in the custody of responsible person.</p>	<p>i) Check whether tender documents were kept in safe custody.</p> <p>ii) Check whether all the documents submitted with tender were initialed or not by those present at the opening of tender.</p> <p>iii) Check whether any changes in the terms of contract were made in between opening of contract and</p>

		its evaluation. iv) Analyze the reasons for making changes in quantities.
8.4 (As a result of collusion amongst tenderers) even the lowest tender submitted was extraordinarily higher than the cost estimates.	i) Consideration is given to the current market conditions and to the price of similar or identical material purchased. ii) At least 3 tenders are received and all tenderers are informed accordingly. iii) If the price is unreasonably high, compare with the market price, and retendering is done.	i) Check the number of tenders received. ii) Check whether comparative statements were prepared. iii) If lowest rate quoted was more than market rate of same goods of same quality, check whether the option of retendering was considered or not.
8.5 (As a result of collusion among contractors) the lowest bidder may not agree to extend the period of bid validity.	The initial period of bid validity allows enough time for bid evaluation and award. Extensions are requested only under exceptional circumstances.	Check whether extension of time limit of bid evaluation and award was given without valid reasons.
8.6 Abnormal delay in tender evaluation.	Tenders are evaluated within the time specified in the provisions	Compare the date/s of receipt of the tenders with the dates on which the

		tenders were evaluated. In cases of delay, ascertain the reasons.
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9. Holding negotiations with bidders

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
9.1 Negotiations held with the lowest bidder (L1)	(According to CVC's directions issued in March 2007, post tender negotiations could often be a source of corruption, there should be) no post-tender negotiations with L-1, except in certain exceptional situations.	i) Check that the exceptional circumstances attributed are in tune with those situations illustrated by the CVC. These situations would include procurement of proprietary items, items with limited sources of supply and items where there is suspicion of a cartel formation. ii) The justification and details of such negotiations should be duly recorded and documented without any loss of time.

10. Award of contract

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
10.1 Abnormal delay in acceptance, negotiations and award of contract.	According to CVC's instructions issued in March 2007, competent authority should exercise due diligence while accepting a tender or ordering negotiations or calling for a retender and a definite timeframe should be indicated so that the time taken for according requisite approvals for the entire process of award of tenders does not exceed one month from the date of submission of recommendations. (In cases where the proposal is to be approved at higher levels, a maximum of 15 days should be assigned for clearance at each level.)	Assess the time taken at various stages of tendering and determine why the tender could not be awarded before the validity period of the tender.

10.2 Contracts repeatedly awarded to one contractor.	No work to particular contractor should be given without inviting tenders from various contractors and giving contract to the lowest bidder who may not be always the same contractor	Select a sample of contracts awarded over a period of time and compare the names and addresses of the contractors to determine the trend.
10.3 Work order issued without collecting security deposit and signing the agreement.	Work order should not be issued without obtaining guarantee in the prescribed format and before confirmation of bank guarantee from the concerned bank.	Verify the existence of appropriate security or bank guarantee in prescribed format against work orders issued.
10.4 Qualified bidder declared as disqualified.	Appropriate reasons for disqualification are described in detail.	<ul style="list-style-type: none"> i) Check whether reasons for disqualifying a qualified Contractor were recorded and analysed. ii) Verify the strength of reasons recorded.
10.5 Contractor submitted false bank guarantee or bank vouchers and it was accepted.	Unconditional guarantee is received in pre-determined format, and both guarantee and bank voucher are confirmed with the concerned bank.	Check whether the concerned authorities made enquiries with the concerned bank and if no, verify the reasons for the same.

11. Advance payment

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
11.1 Advances made without guarantee.	Advances are made against unconditional bank guarantees. A record is maintained of details of such bank guarantees and they are confirmed with the concerned bank/s.	Compare all the advances made with relevant documents showing Bank Guarantee/ Security deposit.
11.2 Advances made for material not brought to the site, or for material not related to the construction or at prices higher than agreed.	Invoice of material required for construction from suppliers registered are supplied and the quantity and quality are certified by competent authority.	i) Compare details of Material Advances paid to Contractor with the concerned receipt of Material. ii) Check whether the material brought to site related to the construction work. iii) Compare the prices stated in the receipts with those agreed to.
11.3 Advances given for more material than is needed for the	Quantity of materials needed is worked out as per norms and cost estimates,	Check whether advance was paid for excess material /material not required for

construction works as per the cost estimates.	quantity already used, and balances, are considered in making advances.	construction.
11.4 Materials against which advance received was used in construction works (items), included and paid in the running bills. But the cost of materials financed through advances not deducted.	Contractors' bills are checked against the stores records and the advances ledgers.	Verify whether advances paid were recovered from Running Account/bills and material received against which advance paid were actually used for construction work as per approved plan and estimates.

12. Return of retention money and extension of time

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
12.1 Extension of time given without sufficient reasons.	A work diary is maintained describing the directions contained by the Engineer setting out the reasons why parts of the work were not completed on time and describing the directions given to deal with the situations. The contractor initials these notes. Only when the reasons are justified, is the contract extended without penalty, and then only with proper authority.	Check whether reasons were recorded for not completing the work in time. If delay is due to contractor's omissions, verify why penalty was not levied.

13. Early termination of the contract

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
13.1 (a) (Because of collusion between contractor and the contracting authority) contracts on which the contractor could lose money were terminated prematurely, without seizure of the security deposit.	In both these situations, details of actions taken are explained and it is ascertained whether or not the justification for taking the action reasonable.	Select contracts terminated prematurely and check whether security deposits of contractors were seized.

<p>(b) After terminating of contract on the basis of non-progress as per the contract agreement which requires seizure of his performance bond and realization of the cost for completing the remaining work from him, which may be competed through other contractor, the contract may be finalized by returning the whole amount to the contractor himself.</p>		<p>Check whether extra expenditure incurred for completion of work through the new contractor was recovered from the old contractor who abandoned the work and his security deposit was not refunded</p>
<p>13.2 After terminating the contract, the remaining work was given to selected contractor through negotiation, without competitive bidding.</p>	<p>Decision about finishing the remaining works is made at the level of appropriate authority.</p>	<p>Check whether sanction from competent authority was obtained for giving contract to selected contractor without competitive bidding and analyse the reasons recorded.</p>

14. Alterations, additions and omissions

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
<p>14.1 Some items were altered or varied in quantity or quality or even omitted from the work, all to the advantage of the contractor.</p> <p>For example:</p> <p>a) cost estimates called for high density polythene pipes, but later, the material specified was said not to be available in the market, and more expensive galvanized iron pipes which were in the contractor's store</p>	<p>a) Payment is made at the price fixed in the tender documents even if material of higher capacity than needed and costing more were used.</p>	<p>i) Check the reasons why expensive material was used which was not in the estimates.</p> <p>ii) If reasons are recorded, verify the justification given.</p> <p>iii) Check whether payment made were as per the price fixed in the tender or not.</p> <p>iv) Check whether any extra amount was paid.</p>

<p>were used.</p> <p>b) The quantity of cement concrete works in the proportion 1:2:4 the quoted rate for which was lower than the estimated rate, was reduced substantially, while the work in the proportion, 1:4:8 which was quoted at higher rates than estimated cost, was increased.</p> <p>c) The provision of wooden windows and doors which could cause a loss to contractor was omitted and later on this work was given to another contractor at a higher rate.</p>	<p>b) if any variation in some item or omission of the whole item is necessary, the reason for it is explained and the sum is adjusted in the cost (designs) and approved by the competent authority.</p>	<p>i) Select cases of alterations, additions and omissions.</p> <p>ii) Check reasons/circumstances under which the original contractor would have omitted certain items of work.</p> <p>iii) Check why the same work was given to new contractor at higher rates</p> <p>iv) Since while accepting tender original contractor agreed to do that item of work at agreed rate then left that item of work, verify whether extra cost was recovered from the original contractor.</p> <p>-----As Above-----</p>
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	c) In the cases where works to be done by the original contractor were omitted and later on completed through another contractor at a higher cost, the reasons are explained and approved by the competent authority.	

15. Payment of claims

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
<p>15.1 Late submission of claim by the contractor.</p> <p>(For example, soon after a work order was issued for construction of a building, the order was suspended because the design was not ready. To that point, only digging for the foundation had been started. Ten months later, the contractor submitted a claim for idle time for 90 different workers, including masons and woodworks, for 150 days. The</p>	<p>The terms of contract provide for maintaining up-to-date claim records. In addition, the following details are promptly submitted by the contractor.</p> <ul style="list-style-type: none"> a) Within stipulated period of the occurrence of a claimable event, a claim letter is submitted by contractor to the project office. b) Documents justifying the claims are submitted. c) Records with details as to amount and basis of claims are submitted at the same time. 	<ul style="list-style-type: none"> i) Ascertain why work order was given when design of the work was not ready. ii) Check the reasons why contractor submitted the claim late. iii) Check why claim for idle time was passed ? iv) Check whether delay was on account of contractor's fault.

claim was paid in full, without questioning the apparent irregularity).	<ul style="list-style-type: none">d) No payment is made unless the claim is submitted on time and with proper support.e) Separate accounts relating to the payment of claims are maintained.	
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16. Execution & Inspection

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
16.1 Material that failed to meet the specifications for the quality or quantity or are defective were received.	On receipt, technicians, check the material to make sure that they meet the specifications. They are recorded in the stores book and payment is made. The names of the suppliers of defective materials are recorded and further dealings with these suppliers are reconsidered.	i) Check the specifications of the material received with those specified with reference to the quantity and quality indicated in the purchase orders/estimates. ii) Check whether full payments were made even though the material did not conform to the quality norms.
16.2 Inferior material used in the construction.	i) Construction materials are used only after satisfactory technical inspection. ii) Every stage of the work is inspected and certified by	i) Check whether quality of material supplied was checked before receiving material. ii) Check whether inferior quality of material received was not returned

	<p>concerned technicians. (E.g. in cases of building construction, foundation, superstructure, and roofing; in cases of road construction: base, sub-base and black topping.</p> <p>iii) Periodic inspection and certification is carried out by higher officials.</p> <p>iv) After completion of the work, a work completion report is submitted and checked as per rules.</p>	<p>and why penalty from supplier was not recovered as per agreement conditions.</p> <p>iii) Check whether inferior quality of material was used in construction.</p> <p>iv) Check whether periodical inspection was carried out by a higher authority? If not, check the recorded reasons thereof.</p>
16.3 Work not executed as per specifications & drawings.	Payment to be made only after Executive Engineer has test checked the materials to the prescribed extent and has recorded a certificate for that under his/her dated initials.	Verify the inspection notes of the Chief Engineer/Superintending Engineer from time to time to note the deviations recorded.

17. Final Payment

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
17.1 Payments were made of bills higher than contract rates.	Payment is made only after verifying the rates against the bills of quantities.	Check the rates shown in the bill with the rates agreed in the contract so as to detect excess rates applied, if any.
17.2 Payment made for bills submitted before receipt of materials or for materials never received or for materials already paid for.	i) Receiving slips are attached to the purchase order and both are attached to the invoice as evidence that the item was ordered at a certain price was received as ordered and was correctly recorded in stores. ii) Paid bills are stamped 'Paid' to avoid double	Check the quantity shown in the bill claimed with the entries of store accounts receipt and issue so that no payment is made without receipt of actual material shown as used by contractor in construction.

	payment.	
17.3 Payments made on the basis of photocopies of bills or invoices.	Such bills are checked against goods received records, to ensure that the billing has not been previously submitted for payment. The reason for submitting photocopy is determined and the practice is discouraged.	i) Check whether claim was made in original bill or duplicate bill or on a photo copy of the bill. ii) Compare the numbers of duplicate bills or copies of the bills based on which the payments were made with the contractor bills paid to determine double payments, if any.
17.4 Payment made for the following goods instead of returning them. a) Material not mentioned in the contract or purchase order. b) More than specified quantities or incorrect	i) Goods received are verified with the contract agreement and purchase order. ii) Purchase orders are kept by serial number, and a record of the purchases from each supplier is maintained.	i) Check whether payment for material is made which is mentioned in contract so that no payment is made for material not required and not included in contract. ii) Check whether payment is made only for the quantity received to

<p>items.</p> <p>c) Material for which the order was already cancelled.</p> <p>d) Material not meeting specifications.</p>	<p>iii) Proof of goods being technically inspected is submitted.</p>	<p>ascertain whether any excess payment was made to suppliers of goods.</p> <p>iii) Check whether any payment of material was made against the purchase order cancelled and material not received.</p> <p>iv) Check whether payment was made for substandard material or of specification not matching with the specification in contract.</p> <p>v) Quantities executed be checked with estimated tendered quantities and deviations examined.</p>
<p>17.5 Work which bear rates substantially higher than the cost estimates may be undertaken in larger quantity and works which bear lesser rate may be undertaken in smaller quantity than stated in the</p>	<p>The reasons should be explained and approval of an official one level higher should be obtained.</p>	<p>i) Analyse the works undertaken with reference to their rates and determine the trends of execution.</p> <p>ii) Check/analyse that why work of higher value taken/executed in large quantity than the work of less value taken/executed than stated in</p>

agreed bill of quantities.		the agreed bills of quantities. Determine the unintended benefit accrued to contractor in the process.
17.6 Final bill paid without recording/obtaining relevant completion, handing over and no dues certificate.	The final payment is required to be made after cross checking of measurement shown in the bill with measurement recorded in measurement and countersigned by higher officer and after clearance of no due certificate.	Check the following in support of the final payment bills paid <ul style="list-style-type: none"> • appropriate entries in Measurement Book. • completion certificate, and • no dues certificate.
17.7 Final bill paid without adjusting the excess or savings with reference to the quantities mentioned in the relevant schedule of the agreement.	The final payment bill is required to be paid only after adjusting excess or saving with reference to the quantities mentioned in the relevant schedule of agreement	Check the final bill to determine whether the excess or saving of the quantities mentioned in the agreement were adjusted.
17.8 Item paid under Extra Item Rate List was outside the scope of the agreement.	Generally payment should not be made for extra items which was not included in the agreement executed for extra item.	Check whether payment was made for extra items (a) which was already included in original contract/agreement, (b) for the items not included in extra items agreement /contract.

17.9 Extra item executed without the approval of the competent authority.	Permission of competent authority is required for executing work of extra items not included in original estimates and agreements.	<ul style="list-style-type: none">i) Select the list of extra item cases.ii) Check whether permission of competent authority was obtained before giving permission for executing extra items of work and before making payment for such works.iii) Check whether rate for extra item was arrived at correctly by checking the rate analysis with reference to estimated DSR.iv) Ensure that percentage above is not for EIRL items.v) Check whether extra item was sanctioned at higher rate by deleting a tender item at lower rate and seek justification for such extra expenditure.

18. Contract Performance and Evaluation

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
18.1 Changes in the contract resulted in large increase in the cost.	Generally no changes should be made during the valid period of agreement which may result in substantial increase in the cost of work.	Check whether any changes were made in agreement in between i.e. before completion of period of agreement resulting in increase in cost of work and extra payment to contractor.
18.2 Complaints about quality received.	Through adequate supervision it is ensured that the work executed conforms to the quality names agreed upon.	i) Verify inspection notes of CE/SE/EE from time to time to note the deviations recorded, if any. ii) Check whether any action was taken against supplier/contractor, if any complaint was received about quality of material received of work executed? iii) Check whether full payment was

		made even after receipt of complaints of quality of material received and work executed.
18.3 Changes made without adequate explanation.	No changes in any item of work should be made without permission of higher authority and without obtaining proper justification of explanation from the official who suggested changes and executed changes.	Check whether any changes were made in items of work to be executed or material to be used without proper permission of higher authority or without obtaining proper justification from person responsible for suggesting such changes or persons who executed such changes.
18.4 Evidence of overcharging.	Charges are made in tune with the quantum of work done indicated in different records maintained for the purpose.	<ul style="list-style-type: none"> i) Select cases of overcharging and analyse the reasons for overcharging ii) Check whether proper permission from authority/sanction from higher authority was obtained before making payment for overcharged bills.
18.5 Insufficient pre-audit of contractors payments.	Pre-audit of all bills for payment is required to be made before making payment of bills to contractor.	<ul style="list-style-type: none"> i) Determine whether pre audit was conducted for a sample of bills paid. ii) Verify whether there was an evidence of pre-audit of the bills before making the payments.

19. Accounting and Accounting Records

Red flags (Fraud indicators)	Anti-fraud measures	
	Preventive	Detective
19.1 Missing vouchers.	i) No payment of bills is required to be made without proper voucher and when no voucher is enclosed. ii) Only valid and duly passed voucher against each entry for payment in the cash book exists and no voucher is missing.	i) Check whether all the payments were supported by relevant vouchers. ii) Verify that the amount of any voucher is not less than the amount entered in the cash book. iii) Whether wanting vouchers were received subsequently and subjected to same checks if they were received in time.
19.2 (i) Unreasonable delay in submission of "Schedule of settlement of account with treasuries" to AG.	Ensure regular submission of "Schedule of settlement of account with treasuries" by Divisional Officers to AG alongwith "Certificates of Treasury Issues (CTI)" and	i) Check whether the passbooks were updated for the months showing the amounts of cheques drawn and amounts of money deposited into

<p>(ii) Persisting pendency of agreement between figures of cheques drawn and cheques encashed.</p> <p>(iii) Persisting pendency of agreement between amounts deposited into treasury and amounts acknowledged by the treasury.</p>	<p>“Certificate of Treasury Receipts (CTR)” and other supporting documents.</p>	<p>treasury.</p> <p>ii) Reconcile the figures of cheques drawn from treasury and remittances acknowledged by treasury with entries in the Divisional Cash Book.</p> <p>iii) Check the reconciliation statements emerged out of the meetings of the Nodal Officers and TOs and adjustments made in the outstanding list of remittances and cheques.</p> <p>iv) Ascertain from the Bank Scroll/list of encashed cheques, whether items shown as pending as unencashed cheques beyond their validity period (3 months after the month of issue) are still pending.</p> <p>v) Check whether time-barred cheques were cancelled after 3 months from the month of issue and their amounts written back in the accounts of the Division.</p>
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		vi) As a thumb rule, no remittances (i.e. deposits into Bank/Treasury) should be lying unacknowledged by the Treasury. Reconcile receipts in the Cash Book with the chalan copies and Pass Books.
19.3 Certificate of entry (in Cash book and Deposit Register) in case of refund vouchers not seen.	ii) Entries are made against the original entries in cash book and deposit register indicating the fact of refunds. iii) A certificate on each voucher viz., <i>"certified that entry of this refund has been made against original entry in the Cash book and deposit Register"</i> is recorded on the voucher over the signature of Divisional Accountant.	i) (To ensure that no double refund of deposit has been made), check in case of a sample refund vouchers whether the certificate in question was recorded on the refund vouchers. ii) Review the Cash book and Deposit Registers whether the entries were actually made against the original entries in these registers.
19.4 Copies of documents were produced, instead of originals	Payments should be made only based on original documents. This precaution is required to be taken to avoid double	Check whether payments to contractor/supplier were made on duplicate or photo copies of the bill without obtaining

	payments.	original documents.
19.5 Alterations and erasures seen.	<ul style="list-style-type: none"> i) Provisions of Treasury rules and General Financial Rules stipulate that no alteration or erasures are permissible in accounting records. ii) Permission of higher authority is required to be obtained before making changes. 	<ul style="list-style-type: none"> i) Check whether the orders of competent authority were obtained in support of the alterations/erasures. ii) Verify whether valid reasons were recorded for the alterations made.
19.6 Unusual accounting entries	---do--	-do-
19.7 Discrepancies between control accounts and subsidiary records.	Ensure that adequate internal control measures in the form of exception reports (in computerized scenarios) and verification by independent personnel exist to prevent discrepancies between control accounts and subsidiary records.	Carry out a sample check of control totals with the figures recorded in the subsidiary records for their correctness.
19.8 Employees in sensitive posts not taking leave.	Adequate administrative guidelines should be in place and followed to ensure that staff in key positions is transferred at periodical intervals as felt appropriate by the concerned management.	<ul style="list-style-type: none"> i) Verify staff rotation policies in place, if any. ii) In cases of non transfer, check the validity of reasons offered. iii) Conduct an in-depth examination of a selected key area of selected

		individuals not transferred for quite some time.
<p>Cash book</p> <p>19.9 Receipts as per money receipts book does not tally with amount indicated in the cash book.</p> <p>19.10 Self check amount and the amount indicated in the cash book do not agree.</p> <p>19.11 Abnormally high cash balance.</p>	<p>All money received is entered in the cash book and no money remains unaccounted for.</p> <p>Ensure that cheques for amount higher than entered in the cash book are not issued and there is no difference between the amount entered in cheque and its counterfoil.</p> <p>i) Cash in excess of requirement is not drawn.</p> <p>ii) Temporary advances are adjusted expeditiously and not kept pending against the officials retired or expired.</p> <p>iii) All imprest accounts are closed at the</p>	<p>Trace all receipts as per money book receipt with the cash book.</p> <p>i) Tally amounts of all cheques issued with the amount entered in the cash book.</p> <p>ii) Trace entries of self cheque on receipt side of cash book.</p> <p>Review the cash balances maintained over a period of time and determine the reasons for the trend.</p>

<p>19.12 Cash balance certificate not seen.</p>	<p>end of March each year. Cash balance as per cash book is tallied with the balance in the chest as certified by Drawing and Disbursing Officer (DDO) at the end of every month.</p>	<p>i) Verify whether there is a system of certifying cash balances by DDO. ii) Trace the existing cash balance to the cash book.</p>
<p><i>Imprest Account</i> 19.13 Amount granted and retained when not needed as seen from the imprest account received after long intervals. 19.14 Cash missing from the imprest. 19.15 Account not submitted regularly before closure of monthly account.</p>	<p>i) Amount not granted above the maximum permissible limit. ii) The account is maintained in the format prescribed and submitted to the concerned officer regularly.</p>	<p>i) Check whether the imprest account was closed every month before the due date for monthly closing of the Cash Book of the Division. ii) Compare the main Cash Book with imprest cash book to ensure that no money received on behalf of the Government was mixed up with the imprest cash and brought into imprest cash book.</p>

<p>Measurement book (MB)</p> <p>19.16 Events not recorded in chronological order.</p> <p>19.17 (Fictitious) measurements recorded prior to date of issue of MB.</p> <p>19.18 MB not maintained properly.</p>	<ul style="list-style-type: none"> i) Measurements are recorded chronologically, e.g: in foundation item of excavation should appear to the items of concrete work for filling foundation. ii) Measurements are recorded only by authorized persons. iii) Mode of measurements should be as per book of standard specification. iv) Measurements are seconded only after item is executed completely 	<ul style="list-style-type: none"> i) Trace the chronology of events recorded in the measurement books with those details available in the muster rolls. ii) Check the date of first record of measurements in the measurement book with the date of issue of MB. iii) Check if measurement is by Executive Engineer to the prescribed extent and register of check measurements maintained

	<p>(painting all the coats, plastering/finishing, tiles pasting.)</p> <p>v) Measurements are scored by diagonal lining to prevent double payment on the same measurements.</p> <p>vi) No page of M.B. is left blank to ensure avoidance of interpolation of measurements in the blank pages subsequently.</p> <p>vii) To ensure quantities are worked out correctly automatically and correctly carried forward on the next page.</p>	for that.
<p>Running account bills</p> <p>19.19 Quantities do not tally with those in the estimates.</p> <p>19.20 Adjustment of advances not done.</p>	<p>i) Bills are paid in accordance with the quantities/rates indicated in the estimates/tender. Analyse whether consumption trend was commensurate with the standards.</p> <p>ii) Advance payments/secured advances are recovered/adjusted in the bills due for payment.</p> <p>iii) Hire charges of machineries were</p>	<p>i) Check quantities/rates with reference to estimates/tender.</p> <p>ii) Verify whether advance payments/secured advance were recovered promptly.</p> <p>iii) Verify whether analysis of part rates was given when work (item) was executed partially.</p> <p>iv) Verify whether consumption of</p>

	recovered correctly i.e. on daily/hourly basis.	<p>material was as per standard rates.</p> <p>v) Verify whether hire charges of machineries were recovered correctly i.e. on daily/hourly basis and recovery was commensurate with quantity of work done. (check log books also)</p> <p>vi) Check whether justification for non execution/excess execution in respect of certain items was available.</p> <p>vii) Check whether % check measurements were exercised by E.E. before payment of bill.</p>
<p>Material-at-site account (MAS)</p> <p>19. 21 Actual material balance did not tally with balance indicated in the work abstract. (according to the physical verification report)</p>	<p>i) Issue material in accordance with the actual requirement.</p> <p>ii) Conduct periodical physical verification of the material at site.</p>	<p>i) Cross check receipt and consumption of materials with stock accounts/bills of contractor.</p> <p>ii) Check balance with balances indicated in work abstract.</p> <p>iii) Verify whether balances were outstanding for long intervals/not consumed at all</p>

<p>(a) Non-rendering of Material-at-site account by Sub Divisional Engineer to Divisional Officer in the wake of transfer/demission of the former.</p> <p>(b) Incomplete or absence of MAS Account with SDE.</p>	<p>i) Material-at-Site Accounts are maintained and updated by the S.D.E.</p> <p>ii) Explicit mention about MAS Account in the Handing Over Report of the SDE.</p>	<p>indicating unnecessary/much early issue of materials with the intention of utilization of budget provision.</p> <p>i) Cross verify of Stock Account, Work Abstracts with MAS.</p> <p>ii) Review the Handing Over Report of the SDE to check the MAS details.</p>
<p>Contractor's ledger</p> <p>19.22 Work remains to be executed even though advance was paid long back.</p>	<p>i) Ensure that all issues are passed in ledger with the help of unstamped receipts and to cross check this with issues as shown in stock accounts.</p>	<p>i) Cross check balances with those in the Works Abstract under Contractors Other Transactions column.</p> <p>ii) Verify the correctness of calculation of amounts recoverable with reference to quantity issued/stipulated rate.</p>

Bin Cards 19.23 Quantities recorded in the bin cards and goods received sheets/indents do not tally.	i) Bin cards are updated as soon as the material is received or issued. ii) Periodical stock verification is conducted.	i) Verify whether quantities in bin cards were posted correctly from goods received sheets/indents. ii) Whether physical balances were verified periodically by EE/person other than storekeeper. iii) Cross verify balances with priced stores ledger.
Remittance book 19.24 Documents supporting remittances not seen.	All amounts shown as remitted are supported by challans duly signed by Treasury Officer.	i) Cross verify entries of remittance in the cash book. ii) Check whether entries were supported by acknowledgement from Treasury.

<p>Muster rolls</p> <p>19.25 The proportion of work indicated in the muster roll and the quantum of work as indicated in MBs do not go together.</p> <p>19.26 Departmental labour engaged for execution of contractor's share of work.</p> <p>19.27 Daily checking of attendance position not done.</p>	<ul style="list-style-type: none"> i. Departmental labour is deployed only for the works not entrusted to the contractor. ii. Sequencing of works is ensured in the order of their commencement. iii. The strength of the daily labour deployed is verified from time to time with the daily labour reports. 	<ul style="list-style-type: none"> i. Verify that work done is in proportion to the labour indicated in the muster roll. ii. Verify the nature of work for which the departmental labour was deployed. iii. Verify whether any wood work was over but not concrete work. iv. Verify whether wages paid were as per approved rates. v. Verify certificate in Part-II that 'work is not susceptible of measurements' is given incorrectly if measurements for work were rendered in MB for similar works.