



SPECIAL AUDIT REPORT

ON

**CONSTRUCTION OF NEW APARTMENTS &
ADDITION/ALTERATION TO
EXISTING BLOCKSAT
FOREIGN OFFICE LODGES
MINISTRY OF FOREIGN AFFAIRS
ISLAMABAD**

AUDIT YEAR 2015-16

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

AIR	Audit and Inspection Report
AI&SP	Audit Inspection & Special Projects
BCS	Building Control Section
BOQ	Bill of Quantity
B&R Code	Buildings and Roads Code
CDA	Capital Development Authority
CDWP	Central Development Working Party
CPWA	Central Public Works Account Code
CPWD	Central Public Works Departmental Code
DAC	Departmental Accounts Committee
DDWP	Departmental Development Working Party
ECNEC	Executive Committee of National Economic Council
FIGOB	Fund for Improvement of Government Owned Building
GFR	General Financial Rules
GOVT.	Government
GS	General Section
GST	General Sales Tax
HQ	Head Quarter
HVAC	Heating Ventilation and Air-conditioning
INTOSAI	International Organization of Supreme Audit Institutions
IPC	Interim Payment Certificate
Ltd.	Limited
MB&SP	Mission Building & Special Project
M/s	Messer
MOFA	Ministry of Foreign Affairs
NESPAK	National Engineering Services Pakistan (Pvt.) Limited
PAC	Public Accounts Committee
Pak PWD	Pakistan Public Works Department
PAO	Principal Accounting Officer
PC	Planning Commission
PCC	Plain Cement Concrete
PD	Project Director
P&D	Planning & Development
PEC	Pakistan Engineering Council
PSDP	Public Sector Development Programme
Pvt.	Private
Qty	Quantity
Rs.	Rupees
SP	Special Project
Sft	Square Foot
VO	Variation Order

PREFACE

Articles 169 & 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with Sections 8 and 12 of the Auditor-General (Functions, Powers and Terms and Conditions of Service) Ordinance 2001, require the Auditor-General of Pakistan to conduct audit of receipts and expenditure from the Federal Consolidated Fund and Public Account.

The report is based on special audit of the accounts of the project “Construction of New Apartments and Addition/Alteration in Existing Blocks at Foreign Office Lodges, Islamabad”. The project was partially funded from donation received from the Kuwait Government and partially from “Funds for Improvement of Government Owned Buildings” of the Ministry of Foreign Affairs. The Ministry executed the project during the years 2003-14. On the directions of the Public Accounts Committee, Directorate General Audit (Foreign & International), Islamabad conducted special audit during 2015-16 on test check basis with a view to reporting significant findings to the PAC.

Audit findings indicate the need for adherence to the regularity framework besides instituting and strengthening internal controls to avoid recurrence of similar violations and irregularities.

The observations included in this report have been finalized in the light of replies submitted by the MOFA. No DAC meeting was conducted despite several requests.

The Audit Report is submitted to the President in pursuance of the Article 171 of the Constitution of Islamic Republic of Pakistan, 1973, for causing it to be laid before both houses of Majlis-e-Shoora [Parliament].

Sd/-

Islamabad
Dated: 29-03-2017

Rana Assad Amin
Auditor-General of Pakistan

EXECUTIVE SUMMARY

Directorate General Audit (Foreign & International) is one of the Field Audit Offices of the Auditor-General of Pakistan mandated to conduct audit of the Ministry of Foreign Affairs, its 13 local formations and 124 Missions abroad. Further, it is also responsible for conducting audit of the allied wings of other ministries such as Defence, Commerce, Information & Broadcasting, Overseas Pakistanis, Economic Affairs Division and 48 PIA sales offices located abroad.

Directorate General Audit (Foreign & International) has mandate to conduct Financial Attest, Regularity, Compliance with Authority Audit, Performance Audit & Special Audit of entire expenditure including programs / projects & receipts of the Ministry of Foreign Affairs.

The project “Construction of New Apartments and Addition/Alteration in Existing Blocks at Foreign Office Lodges, Islamabad” was executed by the Ministry of Foreign Affairs, Islamabad during the years 2003-14, to address the issue of shortfall of housing facilities for their officers . As per available record, total expenditure of Rs.107.606 million was incurred up to the year 2014, which was funded from donation received from the Government of Kuwait and transfer from FIGOB funds at the disposal of MOFA.

Special audit of the project was undertaken by the Directorate General Audit (Foreign & International) on the directives of the PAC. Audit was conducted during April-May, 2016, in accordance with the INTOSAI Auditing Standards, to verify whether expenditure was made in accordance with the applicable laws and rules and there was no deviation therefrom. Audit pointed out irregularities worth Rs. 556.145 million.

FINDINGS

Significant findings of the audit report are:

1. Non production of auditable record.
2. Payments made in violation of financial rules.
3. Overpayment/undue financial assistance to the contractors.
4. Non maintenance of permanent accounting record.
5. Defective pre-qualification of the contractors.

6. Violations of Public Procurement Rules 2004.
7. Violation of contract clauses.
8. Non preparation of PC-I.

RECOMMENDATIONS

Based on audit findings audit recommends to:

1. ensure production of all auditable record in compliance with statutory provisions and PAC directives.
2. implement the financial rules in letter and spirit.
3. recover overpayments pointed out by audit.
4. direct the concerned staff to maintain prescribed accounting record i.e. cash book, measurement books, stock registers, contractor ledgers etc.
5. ensure proper procurement planning and compliance of Public Procurement Rules 2004.
6. adhere to contractual obligations at all stages of execution of work.
7. comply with the guidelines issued by the Planning, Development and Reforms Division regarding preparation and approval of project documents.

1. INTRODUCTION

The project “Construction of New Apartments and Addition/Alteration in Existing Blocks at Foreign Office Lodges, Islamabad” was executed by the Ministry of Foreign Affairs, Islamabad during the years 2003-14, to address the issue of shortfall of housing facilities for officers. As per available record, total expenditure of Rs.107.606 million was incurred up to the year 2014, which was funded from donation received from the Government of Kuwait and transfer from FIGOB funds at the disposal of MOFA.

1.1 Rationale of the project

The project “Construction of New Apartments and Addition/Alteration in Existing Blocks at Foreign Office Lodges, Islamabad” was planned to meet the acute shortfall of housing facilities for the officers posted at MOFA Headquarters, Islamabad.

1.2 Approval of the scheme

No PC-I of the project was prepared. Subsequently PC-II & PC-IV were also not prepared for the approval of the competent forum like DDWP, CDWP, ECNEC etc. Non-preparation of basic planning documents resulted in un-economical execution of the project.

1.3 Timeline/period of project

Period of completion of the project as provided in the work order of the project “Construction of New Apartments and Addition/Alteration in Existing Blocks at Foreign Office Lodges, Islamabad” was August 27, 2005. However, works were not completed and measured till date.

1.4 Project objective and outputs / achievements

1.4.1 Objective

The objective of the project was to provide sufficient housing facilities to officers of the Ministry.

1.4.2 Outputs

The project covered the shortage of housing facilities for the officers posted in the Ministry.

1.5 Cost and financing

The project was partially financed from the balance amount available (Rs. 64.558 million) out of donation received from the Kuwait Government in 1993 and remaining amount by transfer from FIGOB of the Consulate General Dubai and Permanent representative of Pakistan (Parep) at Abu Dhabi.

2. AUDIT OBJECTIVES

Special audit of the project was undertaken by the Directorate General Audit (Foreign & International) on the directives of the PAC. Audit was conducted during April-May, 2016, in accordance with the INTOSAI Auditing Standards.

The main objectives of the audit of the project were to see whether:

- Rules, regulations, procedures and government/management's instructions were followed in letter & spirit
- Due care and prudence was applied at all levels
- Project was completed in time
- Required standards of financial propriety were observed
- Internal controls were in place and working effectively
- 3Es i.e. Economy, Efficiency and Effectiveness were observed during execution of the project.

3. AUDIT SCOPE AND METHODOLOGY

3.1 Scope

The main scope of audit was to examine whether:

- Project was prepared and procedures were determined in accordance with the standard financial reporting framework.
- Applicable rules and regulations, including General Financial Rules, B&R Code, CPWA Code, CPWD Code, Delegation of Financial Powers, Public Procurement Rules, System of Financial Control and Budgeting, Provisions of the Contract agreement, etc. were followed.

3.2 Methodology

Audit methodology included data collection, determination of objectives and audit criteria, analysis/consultation of record, and discussion with staff, etc.

a) Eligibility of expenditure incurred

The expenditure was reviewed to check whether it was in line with the provisions of the Contract agreement(s) and was expended for the authorized purposes only.

b) Assessment of procurement of civil works and consultancy services

Audit reviewed the process / procedure adopted by the Project Management for procurement of civil works and consultancy services as per Public Procurement Rules.

c) Verification of expenditure trail with the relevant supporting documents / record

Expenditure trail was reviewed and verified with the help of supporting vouchers.

d) Assessing effectiveness of monitoring and evaluation mechanism

The system of monitoring and utilization of funds through progress reports and IPCs was reviewed.

e) Maintenance of books of accounts

Audit determined the quality and completeness of books of accounts and other available record.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

4.1.1 Organizational Structure

The Project Director, under the control of Director General (AI&SP), Ministry of Foreign Affairs was responsible for monitoring and execution of the project as planned. He was also responsible to closely liaise with the Consultant, Contractor and other stakeholders to address the difficulties/ bottlenecks that may arise during progress of works.

M/s National Engineering Services Pakistan (Pvt) Limited was contracted for consultancy and supervision of the project. M/s AS Khan Construction (Pvt)Ltd. were awarded contract for “Construction of New Apartments and Addition/Alteration in the

Existing Blocks at Foreign Office Lodges, Islamabad”. Contract for HVAC work was awarded to M/s AH International.

4.1.2 Responsibilities of the Consultant

The key responsibilities of the Consultant were:

- Designs review/vetting.
- Preparation of detailed estimates, specifications, drawings and contract documents.
- Pre-qualification of contractors.
- Preparation and calling of tenders.
- Evaluation of bids.
- Assistance in award of work.
- Full time supervision and issuance of maintenance certificates.
- Finalization of project accounts and clearance of audit observations.

4.2 Financial Management

4.2.1 Overview

The project “Construction of New Apartments and Addition/Alteration in Existing Blocks at Foreign Office Lodges, Islamabad” was executed by the Ministry of Foreign Affairs, Islamabad during the years 2003-14, to address the issue of shortfall of housing facilities for officers. As per available record, total expenditure of Rs.107.606 million was incurred up to the year 2014, which was funded from donation received from the Government of Kuwait and transfer from FIGOB funds at the disposal of MOFA.

FINANCIAL MANAGEMENT FINDINGS

4.2.1 Non-provision of auditable record in compliance of PAC directives

According to Section 14 of the Auditor General’s Ordinance 2001 (Function, Powers and Terms/conditions of Service), the Auditor General shall in connection with the performance of his duties under this ordinance, has the authority to require any accounts, books, papers and other documents which deal with or form the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may direct for his inspection. Further, Section 14(3) of the

said ordinance, states that any person or authority hindering the audit functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person(s).

Further while discussing audit para regarding “Non-provision of Record” (AR 2007-08) PAC on 28.08.2015 had directed the PAO to provide complete record to the audit for conducting a Special Audit of expenditure out of Kuwait Fund.

However, despite PAC directives and repeated requests by audit record listed at Annex-A was not provided till finalization of the report.

The matter was reported to the Ministry at the conclusion of the audit and again in July, 2016 for furnishing departmental reply within four weeks. Ministry informed that it was making utmost efforts to collect the record from concerned sections and provide it to audit as early as possible.

Reply of the Ministry is not tenable as no record was provided to audit for verification.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to investigate the violation of the provisions of the Auditor General’s Ordinance and PAC directives, fix responsibility and initiate disciplinary proceedings against the person(s) at fault. Requisite record may also be provided to audit.

(Para-23)

4.2.2 Undue payment of contractor’s claim - Rs. 9.077 million

Planning Commission vide its letter No. 1(693-D)PP&H/PD/2005 dated 09.12.2006, withdrew its earlier letter No. 1(693-D/PP&H/PD-2005 dated 02.11.2006, regarding payment of escalation (which was issued without approval of competent authority). Further, P&D Division vide its circular No. 1(693)PP&H/PD/2005 dated 22.12.2006, also directed not to entertain any claim of contractors in pursuance of the withdrawn circular.

Contract for “Construction of New Apartment and Addition / Alteration to Existing Blocks at Foreign Officer Lodges, Islamabad, was awarded to M/s AS Khan Construction (Pvt) Ltd. Contrary to the instructions of the Planning Commission, addendum No. 2 of the tender documents provided that, escalation/ de-escalation on steel shall be worked out and variation in the cost price of steel will be reimbursed.

The contractor M/s AS Khan Construction (Pvt) Ltd submitted their final bill on 19.09.2008 for Rs. 13.516 million which included inadmissible escalation for Rs. 9.077 million. This resulted in an undue payment of Rs. 9.077 million.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that the para has already been communicated to M/s NESPAK for appropriate response.

Reply of the Ministry is not tenable as no record was provided to audit till finalization of the audit report.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to immediately conduct a departmental inquiry to fix responsibility for allowing illegitimate/ un-authorized payments resulting in substantial financial loss and initiate legal / disciplinary proceedings for effecting recovery from the persons at fault.

(Para-3)

4.2.3 Non-deposit of deducted income tax Rs. 6.048 million and non-imposition of penalty thereof - Rs. 21.641 million

In accordance with Section 153 of Income Tax Ordinance 2001 read with Rule 43(a) of Income Tax Rules, in case of Federal / Provincial Government, the deducted income tax is required to be deposited on the same day the tax is deducted. Further, Para 86 Income Tax Ordinance,2001, (Chapter IX “RECOVERY OF TAX” under “Charge of additional tax for failure to deduct and pay tax”), any person fails to deduct, or having deducted, fails to pay any tax, such person shall, without prejudice to any liability he may incur, be liable to pay additional tax at the rate of twenty four percent per annum on the amount not paid for the period commencing from the date which he was required to pay such tax to the date of the payment thereof.

During the scrutiny of the record audit observed that Project Director while making payments to contractor under various IPCs, deducted income tax for Rs.6.048 million @ 6% of the value of the work done, since December 2004. However, the deducted incometax of Rs.6.048 million has not been deposited with the tax authorities/ treasury till date. Moreover, in terms of above mentioned provision of the Income Tax Ordinance 2001, concerned officers/officials were also liable to pay penalty @ 24% of

the deducted income tax amount per annum which comes to Rs. 21.641 million. Applicable penalty was also not recovered / imposed. Detail is at Annex-B.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that Income Tax deducted i.e. Rs. 6.048 million was being deposited under the head Income Tax Circle Islamabad, with the approval of Principle Accounting Officer. Meanwhile, M/s A.S Khan Construction (Pvt.) Ltd. was also being asked to provide any documents regarding deduction of income tax.

Reply of the Ministry is not tenable since no evidence regarding deposit of withheld income tax into government treasury was provided.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to investigate the serious negligence on the part of the officer(s) concerned and effect recovery from responsible person(s) under intimation to audit.

(Para-5&6)

4.2.4 Non-imposition of liquidated damages - Rs. 7.949 million

As per clause 47.1 of appendix-A, special stipulations, liquidated damages are required to be deducted / imposed @ 0.10% (one tenth of one percent) for each day of delay in completion of works subject to a maximum of 10% of the contract price stated in the letter of acceptance.

MOFA awarded contract "Construction of New Apartments and Addition / Alteration in Existing Blocks at Foreign Office Lodges, Islamabad" to M/s AS Khan Construction (Pvt.) Ltd at an agreed cost of Rs. 79.494 million, vide acceptance letter No. GS (II)-6/8/2003/2004, dated 04.05.2004. Stipulated period of completion of the works was 15-months i.e. up to August 2005.

Scrutiny of the record revealed that site was handed over to contractor on 24.05.2004 but the contractor failed to complete the work within the stipulated period. Neither any time extension was requested by the contractor nor same was granted by the competent authority. As per available record, completion certificate of the project has not

yet been issued by the Consultant. Hence contractor was liable to be penalized / imposed liquidated damages for Rs. 7.949 million i.e. @10% of the contract price.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that Para has already been communicated to M/s NESPAK for their comments.

Reply of the Ministry is not tenable as no record was provided to audit for verification.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends that recovery of Rs. 7.949 million may be effected from the contractor as per above mentioned provision of the contract agreement.

(Para-10)

4.2.5 Unjustified Payment beyond provisions of the contract agreement - Rs. 2.625 million

MOFA entered in to a contract agreement with M/s NESPAK for rendering services as ‘Consultant Engineer’ for the project “Construction of New Apartments and Addition / Alteration in Existing Blocks at Foreign Office Lodges, Islamabad”. As per clause 6.1 of the contract agreement, remunerations of the Consultant were admissible as under:

Sr. No.	Activity	Contract Amount Million (Rs.)	Rate of consultancy	Consultancy Charges Million (Rs.)
1	Planning and Preparation of Bid Documents.	79.494	3%	2.385
2	Construction Supervision.	79.494	3%	2.385
Total				4.770

Clause 6.1 of the contract agreement (special conditions of contract) also provides that, “the Consultant’s total remuneration shall not exceed the contract price, and shall be lump sum including all staff.” Further, clause 2.4 of the Contract provides that, no extra payment is admissible beyond the contracted price except a written agreement between the parties.

Scrutiny of the record revealed that MOFA paid consultancy charges of Rs. 7.394 million (up to 13th running bill) to M/s NESPAK against design and supervision of the works. No further amendment of the respective provision of the

contract agreement was available on record. Hence, excess payment of Rs. 2.624 million was made beyond the provision of the contract agreement.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that the client can avail additional service of the consultant in case the scope of works exceeds the agreed terms of the contract. Further, under clause 6.1 (C) of the contract, additional remuneration / costs incurred on this account are payable.

Reply of the MOFA is not tenable, since clause 6.1(C) does not exist in the Contract agreement of the Consultant.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to recover the overpaid amount of Rs. 2.624 million from the consultant under intimation to audit.

(Para-7)

4.2.6 Non-recovery from contractor against defective works - Rs. 1.793 million

According to contract clause 49.2 (b) read with clause 62.1 of the contract agreement between MOFA and M/s A.S. Khan Construction (Pvt.) Ltd. contractor is liable to execute all such work of amendment, reconstruction, and remedying defects, shrinkages, or other faults as the engineer may, during the defects liability period or within 14 days of its expiration, as a result of an inspection made by or on behalf of an Engineer prior to its expiration, instruct the contractor to execute.

During scrutiny of record audit observed that M/s NESPAK vide its letter dated 26.04.2010 pointed out that as per punch list Rs. 1.793 million is the cost of works requiring rectification / completion by the contractor, and if contractor does not clear punch list then said amount is recoverable from the final bill.

Punch list of defective works was handed over to Contractor M/s AS Khan Construction (Pvt.) Ltd for rectification, but Contractor failed to do the needful despite written notices issued by the Consultant, under clause 62.1 Conditions of the Contract.

M/s NESPAK neither verified the claim nor issued defect liability certificate. However, as per bank statement final bill was paid in 2014. Moreover, cost of defective

works as worked out by the Engineer i.e. Rs. 1.793 million was also not adjusted/recovered.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that the Para has already been communicated to M/s NESPAK on 03.06.2016 for their comments in the matter. However, recovery pointed out will be made from the Contractor in case all works/ defects as pointed out in the punch list are not addressed.

Reply of the Ministry is not tenable as no record was provided to audit till finalization of the report.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to investigate the matter and fix responsibility against the person responsible for release of the retention money without verification by the consultant and issuance of defect liability certificate. Due recovery as pointed out through punch list may also be effected from the Contractor under intimation to audit.

(Para-4)

4.2.7 Non-recovery on account of useable construction material and interest thereon - Rs. 539,000

According to clause 2.3, section- 0150 of the bidding documents Vol-II, any useable material shall remain the property of the employer. Further, Para 28 of GFR Vol-1, provides that no amount due to Government should be left outstanding without sufficient reason.

M/s A.S. Khan Construction (Pvt.) Ltd took possession of useable construction material worth Rs. 245,000 recovered from dismantling of Foreign Office Lodges' garages. Director (MB&SP) MOFA forwarded a Treasury challan of Rs. 245,000 to the firm M/s AS Khan in December 2005 for depositing in National Bank of Pakistan, Foreign Office Branch. However, Contractor failed to deposit the said amount in the public exchequer till May 2008, despite reminder dated 03.05.2008. Further, interest on withheld amount which comes to Rs. 294,000 ($245,000 \times 12\% \text{ per annum} \times 10 \text{ years} = 294,000$) was also not recovered from the Contractor.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that Contractor has agreed for deduction / adjustment of Rs. 245,000 from his final bill pending with M/s NESPAK.

Reply of the MOFA is not tenable since no evidence regarding recovery was provided. Further, an amount of Rs. 294,000 is also recoverable on account of interest.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends that recovery of Rs.539,000 may be effected from the contractor, under intimation to audit.

(Para-12)

4.2.8 Execution of additional works at higher rates - Rs. 620,000 million

According to the Rule 4 of the PPRA 2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

MOFA Islamabad got executed an additional work, "Development of 16000 sft green area at Foreign Office Lodges" through M/s A.S. Khan Construction (Pvt.) Ltd. against payment of Rs. 0.969 million, without open bidding. Scrutiny of the record / quotations revealed that work was paid at Rs. 0.969 million, which was much higher as compared to the price of Rs. 0.348 million quoted by M/s Shalimar Nursery Farm. M/s NESPAK also pointed out the discrepancy but the authority accepted and made payment at higher rates. This resulted into an overpayment of Rs. 620,000.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that the work mentioned in the Para totally related to the Civil Works for which Shalimar Nursery had no expertise. Therefore, the Ministry decided to allocate the work to M/s A.S. Khan Construction (Pvt.) Ltd. Hence, no recovery was involved in this case.

Reply of the MOFA is not tenable as the landscaping and development of green area could not be considered as integral part of the civil works. Hence, overpayment was made due to negligence of the MOFA.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to effect recovery of overpaid amount immediately under intimation to audit.

(Para-13)

4.2.9 Un-authorized payment without approval of authority - Rs. 8.181 million

As per contract clause 3.6, of the contract agreement with M/s NESPAK, consultant before issuing variation order in respect of additional items shall seek prior approval of the client, before making any commitment or taking any action.

During scrutiny of the record, it was observed that some entirely new / additional works were got executed from the contractor and paid Rs. 12.794 million through 08 variation orders. Approval of the client was available for V.O. No. 6 and 7 only, which accounted for Rs. 4.613 million. This resulted into an un-authorized payment of Rs. 8.181 million.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that the para had already been forwarded to M/s NESPAK on 03.06.2016 for their comments. Ministry supports effecting recovery of the amount from the contractor, in case of any wrong calculation resulting in overpayment.

Reply of the Ministry is not tenable as no record regarding approval of VO`s was provided to audit till finalization of report.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to investigate the matter upon officers / officials under intimation to audit.

(Para-16)

4.3 Compliance with Rules

4.3.1 Irregular execution of project without approval of PC-I from competent forum- Rs. 107.606 million

In accordance with article 3.3 of Planning Commission's "Project Management Guideline" it is mandatory to conduct feasibility study and accordingly prepare PC-I for a project and submit it for approval by the competent authority. Further, Article 3.8 *ibid*, provides that all projects costing more than Rs. 40 million and up to Rs. 200 million have to be submitted to the CDWP for its consideration and approval.

During scrutiny of record of the project "Construction of New Apartments and Addition / Alteration in Existing Blocks at Foreign Office Lodges, Islamabad" it was observed that Ministry of Foreign Affairs (MOFA) incurred an expenditure of Rs.107.606 million up to the year 2014 without approval of the PC-1 by the competent forum. In view of the gross violation of provision of Project Management Guidelines, expenditure was held irregular.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that the project was carried out from the funds donated by the Kuwait Government and project was not funded from PSDP funds. Therefore PC -1 could not be got approved from the CDWP. Further, a separate account was opened to secure the funds and payments were made after verification by the supervisory consultant M/s NESPAK.

The reply of the Ministry is not tenable as all foreign grants form part of the Federal Consolidated Fund, hence for all foreign funded projects, it is required to prepare its PC-I and get it approved from the competent authority / forum. Further, MOFA being a Federal Ministry is obliged to comply with all rules / regulations/ guidelines etc. prescribed for execution of the projects.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends taking up the matter with the Ministry of Planning & Development and Reforms for ex-post facto approval of PC-I and regularization of irregular expenditure accordingly.

(Para-1)

4.3.2 Loss due to execution of work at higher rates - Rs. 25.605 million

According to Para-10 of GFR Vol-I, every public officer is expected to exercise the same vigilance in respect of government expenditure as a person of ordinary prudence would exercise in respect of his personal expenditure.

Audit noted that MOFA awarded the work, “Construction of New Apartments and Addition/ Alteration in Existing Blocks at Foreign Office Lodges, Islamabad” during May 2004 to M/s A.S. Khan Construction (Pvt.) Ltd. at an agreed cost of Rs. 79.494 million. Audit observed that work was awarded on higher rates @ Rs.1,703.149 per sft as compared to the rate of Rs. 1085/sft approved by ECNEC in 2005 for the project titled “Construction of Petroleum House at G-5 Islamabad.

As a result of execution of the Works at higher rates than the rates approved by the competent forum of the Federal Government, MOFA sustained a loss of Rs. 25.605 million as detailed below:

(Amount in Rs.)

Sr. No.	Type Of Apartment constructed	Area of one Apartment /sft	Total Apartments	Total AREA /Sft	Amount Paid @ Rs. 1,703.149 /sft	Amount To be Paid @ Rs.1,085 / sft	Loss Due To Higher Rates
1	4-Bed Apartment	2,208	6	13,248	22,108,178	14,374,080	7,734,098
2	3-Bed Apartment	1,721	12	20,652	36,485,582	22,407,420	14,078,162
3	Suit	625	12	7,500	11,930,240	8,137,500	3,792,740
Total							25,605,000

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry replied that the source of funds were donation from Govt. of Kuwait therefore it was not feasible to get the approval of ECNEC, CDWP etc. The mechanism and rules mentioned by the audit relates to the projects where funding have been provided through PSDP.

The reply of the Ministry is not tenable as contract was awarded at higher rates in violation of the provision of General Financial Rules mentioned above.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to investigate the matter and fix responsibility for acceptance of higher rates thus causing substantial loss to the national exchequer.

(Para-21)

4.3.3 Execution of additional / new works without competitive bidding - Rs. 12.794 million

In terms of decision of the Inter Departmental Committee of the PAC held on 30 and 31 May, 2001 & clause-12 of the contract agreement, the executive is not empowered to award entirely a new work without calling open tenders as additional work beyond the scope of the original contract. It only allows minor adjustments in already awarded work, so as to complete it in all respect.

MOFA awarded a contract, “Construction of New Apartments and Addition / Alteration to Existing Blocks at Foreign Office Lodges, Islamabad” at an agreed cost of Rs. 79.494 million. Subsequently, some entirely new works, like car parking, tennis court, canopies, footpath wall lights, PCC jalis, wrought iron benches, development of green areas etc were also got executed for Rs. 12.794 million from the same contractor, without competitive bidding.

Expenditure incurred on additional works, in violation of IDC / PAC directives and without open competitive bidding was held irregular.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that the contractor was already engaged in construction of civil works. Therefore it was not prudent for the Ministry to involve another contractor to carry out the additional works. Therefore, the Ministry allocated the additional work to the contractor in the best interest of the Government.

The reply of the Ministry is not tenable since new works were awarded without open tendering and in violation of PAC directives, thus benefit of competitive bidding was denied.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to investigate the violation of procurement rules and directives of PAC and fix responsibility against the person(s) at fault, to avoid recurrence of such incidents in future.

(Para-9)

4.3.4 Irregular award of consultancy contract without competitive bidding- Rs. 7.394 million

Establishment Division's "Guidelines for Appointment of Consultants", duly endorsed by Finance Division, prescribe following procedure to be followed by the client Ministry/ Division/ Department/ Organization etc. for hiring of consultancy services:

- (i) Consultancy should be widely advertised indicating the requirements
- (ii) The applicants will be short listed and prioritized by an in house committee of the client organization.
- (iii) For general/ non development budget funded project related consultancies, a selection board, headed by Secretary of the Ministry concerned including representatives from Establishment Division, Finance Division, and P&D Division, will recommend a panel of at least three candidates to the appropriate forum for approval.

Further, clause 6.3 of the PEC Standard Guideline for Pre-Qualification, short listing of engineering consultancy firms, requires for proper competition and selection of a good firm.

In violation of above guidelines MOFA hired M/s NESPAK as Engineering Consultant for design and supervision of the project "Construction of New Apartments and Addition / Alteration in Existing Blocks at Foreign Office Lodges, Islamabad", without wide publicity and without prequalification of the firm and proper competition. Thus award of Contract to M/s NESPAK and expenditure of Rs. 7.394 million incurred against Consultancy was held irregular.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry replied that M/s NESPAK was already engaged for repair and renovation works of the Foreign Office Lodges, therefore it was more prudent for the Ministry to engage M/s NESPAK rather than engage other firm which could had slowed down the process of execution of the Project.

The reply of the Ministry is not convincing as the rules regarding hiring of consultant have not been adhered to and consultancy has been awarded without calling tenders/open competitive bidding.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to investigate the matter and fix responsibility for violation of the prescribed procedure /rules besides regularization of the expenditure from the competent forum.

[Para-2]

4.3.5 Non-maintenance of basic project accounting record - Rs. 107.606 million

Paragraph 76 to 78 read with Paragraph 284, 285 and 297 of Pak PWD Accounts Code prescribe the procedure for maintenance of essential accounting records like Cash Book, Works Register, Contractor Ledger etc.

Audit observed that MOFA Islamabad incurred an expenditure of Rs.107.606 million for the work, “Construction of New Apartments and Addition / Alteration in Existing Blocks at Foreign Office Lodges, Islamabad”. However the above mentioned essential accounting record was not maintained by the project authorities, hence authenticity of expenditure incurred could not be ascertained.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry replied that all payments were made to the contractor only after verification by the Supervisory Consultant M/s NESPAK. Further, all such record was maintained by M/s NESPAK. However instruction of the audit had been noted for future compliance.

Reply of the Ministry is not tenable as no record was provided to audit for verification.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to maintain prescribed accounting record and provide to audit for verification. Further, provision of the CPWA & CPWD codes should be strictly followed for proper recording of project related transactions.

[Para-20]

4.3.6 Construction in violation of CDA bylaws - Rs. 107.606 million

CDA, Design Wing, BCS-I approved a three storey building plan for a total covered area of 90,146 sft vide its letter No. CDA/Arch-6(22) Foreign Office, Feb 07,2004, subject to following conditions:

- i. The building shall not be occupied / rented out without obtaining completion certificate from the authority.
- ii. The allottee shall obtain revised completion certificate after completion of proposed building work.
- iii. drawings should be followed as corrected.

MOFA violated the CDA approved building plan and constructed 05 blocks with different specifications. Neither architectural drawings were approved nor completion certificate issued by the CDA were available on record.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that the M/s NESPAK had been requested to provide the following documents to meet the audit observation:

1. Architectural drawing and plans.
2. Shop drawing showing the variation /deviation other than approved plan
3. Punch list
4. Completion certificate

The reply of the Ministry is not tenable as requisite record was not provided to audit for verification.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to produce above detailed record for verification and inquire the matter for fixing responsibility.

(Para-14)

4.3.7 Doubtful expenditure without approval / supporting records - Rs. 11.648 million

Para-10 of GFR Vol-I, provides that every public officer is expected to exercise the same vigilance in respect of government expenditure as a person of ordinary prudence would exercise in respect of his personal expenditure.

During scrutiny of the bank reconciliation statement of the Kuwait fund account, it was noticed that an amount of Rs.11.648 million was shown withdrawn from the

account without availability of the approval of the competent authority, and any supporting vouched account etc. Details are as under:

(Amount in Rs.)

S. No.	Cheque NO.	Date	Amount debited to Account
1	03083901	Dec-2001	296,140
2	03083902	Feb-2002	296,140
3	03083904	Jun-2002	75,000
4	03083906	Aug-2002	100,000
5	03083907	Sep-2002	100,000
6	03083908	Sep-2002	592,280
7	03083911	Nov-2003	102,500
8	03083913	Jan-2004	158,000
9	Bank Transfer	9 th July 2014	9,928,312
		TOTAL	11,648,372

In absence of the above said record, audit held the expenditure as doubtful.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that Rs.9.928 million were transferred to the Welfare Account with the approval of the competent authority. Remaining record will be provided to audit, as soon as received from the banker.

Reply of the Ministry is not tenable since transfer of funds to Welfare Account is not justified.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends proper justification for unauthorized transfer of funds to Welfare Account, besides production of requisite record duly supported by relevant rules, for verification.

(Para-18 & 19)

4.3.8 Irregular award of work on single tender basis- Rs. 6.217 million.

As per Rule 12(2) of Public Procurement Rules-2004, all procurement opportunities over two million rupees should be advertised on authority's web site as well as in other print media or newspapers have wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and other in Urdu.

MOFA awarded a contract to M/s AH International for supply and installation of heating system in new apartments and addition / alteration to existing blocks in Foreign Office Lodges, Islamabad at an agreed cost of Rs. 6.217 million.

Audit observed that the notice inviting tender for the work was not advertised in press/website. The consultant M/s NESPAK provided list of 03 firms, to whom tenders were provided but only one firm M/s A.H. International submitted tender, and remaining two were shown as not interested in submitting tender as informed telephonically. M/s NESPAK evaluated the bid and recommended for acceptance, at rates 11.8% higher than the Engineer Estimate.

Award of work on 'Single Tender Basis' and in violation of Public Procurement Rules 2004, was held irregular.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry replied that M/s NESPAK is being asked to provide appropriate reply/ produce requisite record for verification by audit.

Reply of the Ministry is not tenable as the work was awarded to the single bidder without calling open tender through press in accordance with PPR 2004.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to refer the matter to PPRA / Finance Division for regularization.

[Para-15]

4.3.9 Non recovery due to non fulfillment of contractual obligations - Rs. 1.590 million

In terms of clause 21.6 to 25.4 of the contract agreement, "Construction of New Apartments and Addition / Alteration in Existing Blocks at Foreign Office Lodges, Islamabad" contractor was required to insure the works (i.e. contract cost plus 15%), contractors equipment and other things brought onto the site and third party insurance, from an approved Insurance Company and provide the same to employer prior to start the work. If contractor failed to effect and keep any of the above mentioned insurance in force or failed to provide the policies to the employer, the employer can effect and keep

in force such insurance and pay any premium for the purpose from time to time and got it deducted / recovered from the contractor.

Audit observed that contractor M/s A.S. Khan Construction (Pvt.) Ltd. failed to provide the insurance policy as provided under the above referred Contract clauses, hence, exposed valuable assets of the government to unnecessary risk. Accordingly, contractor saved the insurance premium (included in Contract price) amounting Rs. 1.590 million.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that the matter was referred to the contractor and he has provided a copy of the Insurance Policy “EFU Insurance Company” in order to meet the Audit requirements.

Reply of the Ministry is not tenable as no record was provided to audit for verification.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit requires complete insurance record for verification otherwise suggested recovery of Rs. 1.590 million be effected from the Contractor.

(Para-11)

4.3.10 Non-encashment of performance security- Rs. 2.000 million

In terms of clause 10.2, read with clause 62.1 of the contract agreement, “Construction of New Apartments and Addition / Alteration in Existing Blocks at Foreign Office Lodges, Islamabad”, contractor was required to execute/ maintain a valid performance security till the works are completed and defect liability certificate is issued.

Audit observed that M/s A.S. Khan Construction (Pvt.) Ltd. provided performance security for Rs. 7.994 million against the above mentioned contract up to 11.08.2006 and further extended up to 11.08.2007. On expiry of the performance security, the contractor instead of further extending the same up to issuance of defects liability certificate, submitted a performance security for reduced amount of Rs. 2.000 million with valid period up to 31.07.2008. Performance Security was required to be encashed before its expiry since defective works, as detailed in the punch list

issued by the engineer, were not rectified by the contractor. M/s NESPAK worked out the price of defective works for Rs. 1.793 million.

Audit views non-extension of performance security of Rs. 7.949 million till issuance of defects liability certificate and non-encashment of reduced performance security against the defective works as a serious negligence on the part of project management.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry informed that in case defective works were not been rectified by the contractor, recovery would be effected.

Reply of the Ministry is not tenable as the performance security of Rs.7.949 million was required to be valid upto the issuance of the defect liability certificate but the same expired on 11-08-2007, and subsequently a performance security for Rs 2.00 million was accepted.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends to investigate the matter and fix responsibility against the person(s) at fault.

(Para-1)

4.3.11 Non-execution of works through Pak PWD - Rs. 107.606 million

Clause 8.01, chapter VIII of Pak PWD Departmental Code, provides that the department may occasionally, at the directions of the Works Division may call upon to execute works for which outlay is provided wholly or in part from:

- (a) Funds of public nature, but not included in the financial estimates and accounts of the Government.
- (b) Contribution from the Public.

PAK PWD vide its letter dated 26/04/2004 informed the MOFA Islamabad that as per Rules of Business 1973, Pak PWD, being an executing agency, is responsible for construction of the Government buildings and their maintenance. Further, construction work being carried out by MOFA itself is violation of the government rules.

During audit it was observed that MOFA, in violation of above said rule position and advice of Pak PWD, awarded the work, "Construction of new apartments and

Addition/Alteration in Existing Blocks at Foreign Office Lodges Islamabad' to M/s.AS Khan Construction (Pvt.) Ltd.(a private contractor), at an agreed cost of Rs.79.494 million. MOFA executed the project through M/s NESPAK (Consultant Engineer) without open competitive bidding.

The matter was reported to the Ministry at the conclusion of audit and again in July, 2016 for furnishing reply within four weeks. Ministry replied that PWD is rendering their services in case the funding is from PSDP allocation. However, regarding defect liability certificate completion of the project and release of payment in the absence of essential document, the para was being sent to M/s NESPAK for their expert views.

The reply is not tenable since work was executed in violation of prescribed rules and advice of Pak PWD.

The Secretary/PAO was requested on 16.01.2017 and again on 01.02.2017 to convene a DAC meeting. However, DAC meeting was not convened till finalization of the report.

Audit recommends that in future, MOFA may undertake development projects through Pak. PWD being the executing agency.

(Para-22)

5. CONCLUSION

Audit is of the view, while executing the project, management did not observe the 3 Es i.e. economy, efficiency and effectiveness. Procurement rules and financial rules were also violated during procurement process. Compulsory record i.e. measurement book(s), cashbook, stock registers etc. were not maintained. Retention money was not kept in separate account and re-used for making payments. Works executed were not finalized within stipulated time line. Management should, therefore, take prompt remedial actions, as suggested below:

- Conduct proper feasibility study before undertaking a project.
- Adherence to 3 Es, PC-I, all applicable rules and agreement clauses.
- Implementation and strict compliance of the approved specifications.
- Apply pre-audit checks for all the payments.
- Take necessary steps to evaluate and strengthen internal controls.

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We wish to express our appreciation to the management and staff of Ministry of Foreign Affairs, Islamabad for the assistance and cooperation extended to the auditors during this assignment.

Annex

Annex-A Para-4.2.1

Detail of record not produced:

1. PC-I of the project approved by the Competent Authority
2. Terms of Reference or Memorandum of understanding of donation/ Kuwait Funds,
3. Bank statements of Accounts (from 1993 to 1999).
4. Counter folios of cheque books (payment made from December 2001 to June 2007),
5. Paid vouchers/ contractor ledger/ work register,
6. Cash Book
7. Head-wise expenditure statement authenticated by responsible officer.
8. Rejected tenders,
9. Plan/ Drawings of buildings approved by CDA,
10. Completion Certificate of constructed Building,
11. Detail calculation of quantities of items of BOQ,
12. Profiles submitted by contractors for pre-qualification.
13. Insurances provided by both contractors i.e. Civil/ HAVC,
14. Administrative approval as required under the rules
15. Technical sanction as required under the rules.
16. All monthly Progress reports (except December 2005 and June 2006)
17. Detail measurement (MBs) i.e. abstract of cost of all IPCs of Contractors,
18. Contract documents Vol-III (construction drawing)
19. Rate analysis of additional works, i.e. 3-Nos quotation on the basis of which rate analysis prepared,
20. Defect liability certificate,
21. Architecture drawings approved from CDA, Feasibility study against which consultant received 3% of total expenditure.
22. Incumbency statement (name of officers responsible for payments and execution since start to completion of the project).

Annex-B
Para-4.2.3

Detail of income tax deducted but not deposited with penalty.

(Amounts in Rs.)

S.No.	Description	Date of Deducted Income Tax	Income Tax @ 6% Deducted Amount	Lapse period up to April 2016(in years)	Rate of penalty @ 24% per annum	Penalty Amount
1.	IPC-1	14.12.2004	422,925	11.5	24%	1,167,273
2.	IPC-2	25.02.2005	490,401	11.2	24%	1,318,197
3.	IPC-3	25.04.2005	1,139,962	11.0	24%	3,009,499
4	IPC-4	06.06.2005	249,654	10.8	24%	611,152
5	IPC-5	18.10.2005	1,872,413	10.5	24%	4,718,480
6	IPC-6	25.10.2005	326,961	10.5	24%	823,941
7	IPC-7	25.10.2005	175,546	10.5	24%	442,375
8	IPC-8	25.10.2005	242,714	10.5	24%	611,639
9	IPC-9	21.02.2006	199,241	10.2	24%	487,742
10	IPC-10	22.03.2006	278,905	10.0	24%	669,372
11	IPC-11	14.04.2006	322,518	10.0	24%	774,043
12	IPC-12	24.05.2006	105,923	9.5	24%	241,504
13	IPC-13	16.06.2006	1,445,576	9.0	24%	3,122,450
14	IPC-14	08.08.2006	221,077	9.5	24%	504,055
15	IPC-15	26.08.2006	123,719	9.5	24%	293,956
16	IPC-16	28.09.2006	230,254	9.4	24%	519,453
17	IPC-17	17.11.2006	254,735	9.2	24%	562,454
18	IPC-18	08.02.2007	197,283	9.2	24%	435,600
19	IPC-19	18.04.2007	140,762	9.0	24%	304,046
20	IPC-20	07.07.2007	282,180	8.5	24%	575,647
21	IPC-21	01.08.2009	101,648	6.5	24%	158,570
22	IPC-22	01.07.2014	635,936	1.9	24%	289,987
					TOTAL	21,641,435