



**AUDIT REPORT  
ON  
THE ACCOUNTS OF  
PUBLIC SECTOR ENTERPRISES  
GOVERNMENT OF SINDH  
AUDIT YEAR 2014-15**

**AUDITOR – GENERAL OF PAKISTAN**



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## **ABBREVIATIONS & ACRONYMS**

DAC	Departmental Accounts Committee
DAP	Di Ammonium Phosphate
DGCA&E	Directorate General of Commercial Audit & Evaluation
GFR	General Financial Rules
GoP	Government of Pakistan
HDA	Hyderabad Development Authority
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PSE	Public Sector Enterprises
SECP	Securities & Exchange Commission of Pakistan
SGP	Sindh Government Press
SLMDC	Sindh Land Management & Development Company
SPPR	Sindh Public Procurement Rules
SPPRA	Sindh Public Procurement Regulatory Authority
SSC	Sindh Seed Corporation
SSIC	Sindh Small Industries Corporation



## **Preface**

Articles 169 and 170 of the constitution of the Islamic Republic of Pakistan 1973, read with Sections 8 and 12 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 require the Auditor General of Pakistan to conduct audit of the accounts of government commercial undertakings and of any authority or body established by the Federation or the Province.

This report is based on audit of the accounts of Public Sector Enterprises of Government of Sindh mainly for the year 2013-14. Audit observations pertaining to previous financial year are also included in the report. The Directorate General of Commercial Audit and Evaluation, Karachi conducted audit of these formations during July 01, 2014 to November 15, 2014 on a test check basis with a view to report significant findings to the stakeholders.

The observations included in the report could not be discussed to date with the Principal Accounting Officers (PAOs) as Departmental Accounts Committee (DAC) meetings were not convened in these cases. The report has been finalized in the light of written responses of the departments.

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 Audit Report is submitted to the Governor of Sindh in pursuance of the Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 for causing it to be laid before the Provincial Assembly.

Dated:

**(Muhammad Akhtar Buland Rana)**  
**Auditor-General of Pakistan**



## **EXECUTIVE SUMMARY**

The Directorate General of Commercial Audit & Evaluation (DGCA&E), Karachi carries out audit and evaluation of Public Sector Enterprises (PSEs) established by Government of Sindh, which maintain their accounts on commercial pattern.

Section 15 of Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 empowers Auditor General of Pakistan to conduct audit of companies and corporations established in the public sector. For this, DGCA&E has a human resource of 8 officers and staff (worked out on prorata basis) resulting in 2,000 person days. The annual budget of DGCA&E for the year 2014-15 was Rs 8.186 million (worked out on prorata basis). The DGCA&E is mandated to conduct regularity audit (financial audit & compliance with authority audit) and performance audit of PSEs under administrative control of various departments of Government of Sindh.

### **a. Scope of Audit**

There are 5 commercial entities of the Government of Sindh under the jurisdiction of DGCA&E, Karachi. These entities operate under the administrative control of 3 different Principal Accounting Officers. As per Audit Plan 2014-15, the DGCA&E audited the accounts of the 4 commercial entities pertaining to year 2013-14.

Out of total expenditure of the entities for the financial year 2013-14 auditable expenditure under the jurisdiction of the DGCA&E was Rs 877.811 million covering 4 entities falling under 3 PAOs of this, the DGCA&E conducted audit of the expenditure of Rs 809.736 million on test check basis. The audit of receipts of Rs 403.435 million pertaining to these formations was also conducted.

This report contains results of audit and evaluation of financial performance of PSEs for the financial year 2013-14 conducted during the audit year 2014-15. Audit observations pertaining to previous financial year are also included in the report. It was also assessed whether or not the organizations are managed in accordance with sound commercial practices and following canons of financial propriety and government policy directives. Internal controls were reviewed with the objectives of identifying weak areas and recommending improvements.

The analysis/comments on the annual audited accounts of Public Sector Enterprises were required to be included in this report; however, these entities (Annexure-II) failed to submit their annual audited accounts by November 30, 2013, i.e., the prescribed date.

**b. Recoveries at the instance/upon pursuance of Audit**

There was no recovery reported during 2013–14 at the instance of audit.

**c. Audit Methodology**

Planning and Permanent Files of auditees were maintained and consulted/updated for audit of accounts for the year 2013-14. Audit was carried out on the basis of risk and adequacy of Internal Control System in the auditee organizations, with specific emphasis on high value items and inherent risk areas. Audit checks were applied keeping in view the nature of transactions, current commercial accounting and auditing best practices in Pakistan and relevant financial and operational manuals.

**d. Audit Impact**

Audit has contributed towards adding value to the control mechanism of organizations where compliance was made on audit recommendation.

**e. Comments on Internal Control and Internal Audit department**

The organizations covered in the report require strengthening of financial and management controls to address weaknesses more specifically in the areas as under:

- i. Receivables Management in almost all the organizations required immediate attention. The loans to borrowers under different schemes and trade debts were not being collected timely resulting in accumulation thereof with a risk of conversion into bad debts.
- ii. Financial Management needs to be strengthened by establishing a system of maintenance of accounts comprising immediate posting of financial transactions, periodical reporting within a financial year, observance of year-end

procedures, timely preparation of financial statements upon close of financial year and timely audit of accounts. The Principal Accounting Officers will be in a position to control the affairs of their organizations by strengthening the financial management. The non-submission of audited accounts illustrates weakness of internal control.

**f. The key audit findings of the report;**

- i Irregular procurement of fertilizer – Rs. 21.908 million<sup>1</sup>
- ii Non-recovery of dues amounting to Rs 143.848 million<sup>2</sup>
- iii Irregular expenditure due to violation of Rules & Regulations / Procedures – Rs.59.583 million<sup>3</sup>
- iv Misappropriation of Government Funds / Investments – Rs 24.149 million<sup>4</sup>
- v Irregular appointment – Rs 1.107 million<sup>5</sup>

**g. Recommendations**

The Principal Accounting Officers need to take necessary steps to evaluate, institute and strengthen the management, budgeting and accounting controls to:

- i. ensure observance of rules while making procurements and incurring expenditure. ( e.g., SSC, SGP, SSIC,SLMDC)
- ii. ensure timely recovery of outstanding dues, sundry debtors and loans (e.g., SGP, SSIC)
- iii. arrange timely submission of annual audited accounts to audit authorities (Annexure-I)
- iv. streamline the recruitment policies (e.g., SSIC)
- v. expedite liquidation of closed enterprises to avoid recurring expenses and deterioration of their assets (Annexure-II).

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<sup>1</sup>Para 1.1.4.1

<sup>2</sup> Paras 1.1.4.3, 1.1.4.4, 2.1.4.2, 2.2.4.1, 2.2.4.2, 2.2.4.3

<sup>3</sup> Paras 1.1.4.5, 2.1.4.1, 2.1.4.3, 2.2.4.5, 3.1.4.1

<sup>4</sup> Paras 1.1.4.2, 2.2.4.4

<sup>5</sup> Paras 2.2.4.6

- vi. the Principal Accounting Officers need to initiate necessary steps to evaluate, institute and strengthen the Internal Controls so that detective and preventive measures are taken at the right time. In this regard Internal Audit Departments need to be established/ strengthened which may directly report to the respective Principal Accounting Officers. A copy of the report so generated by the Internal Audit Departments as well as physical verification report needs to be provided to Audit.

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## **SUMMARY TABLES & CHARTS**

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## **SUMMARY TABLES & CHARTS**

**Table 1: Audit Work Statistics**

(Rs. in million)

<b>S. No.</b>	<b>Description</b>	<b>No.</b>	<b>Budget</b>
1	Total Entities (Departments/PAO's) in Audit Jurisdiction	3	1,281.146
2	Total formations in Audit jurisdiction	5	1,281.146
3	Total Entities (Departments/PAO's) Audited	3	1,213.171
4	Total formations Audited	4	1,213.171
5	Audit & Inspection Reports	4	1,213.171
6	Special Audit Reports	-Nil-	-
7	Performance Audit Reports	-Nil-	-
8	Other Reports	-Nil-	-

**Table 2: Audit observations regarding Financial Management**

(Rs. in million)

<b>S. No.</b>	<b>Description</b>	<b>Amount Placed under Audit Observation</b>
1	Unsound asset management	2.555
2	Weak financial management	409.559
3	Weak internal controls relating to financial management	277.538
4	Others	0.549
<b>Total</b>		<b>690.201</b>

**Table 3: Outcome Statistics**

(Rs. in million)

S. No.	Description	Expenditure on acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total current year	Total last year
1	Outlays Audited	0.395	84.055	403.435	725.286	1,213.171	1,096.80
2	Amount Placed under Audit Observation/ Irregularities	57.255	-	356.616	276.330	690.201	274.31
3	Recoveries Pointed Out at the instance of Audit	-	-	316.676	14.408	331.084	- Nil -
4	Recoveries Accepted /Established at the instance of Audit	-	-	316.676	14.408	331.084	- Nil -
5	Recoveries Realized at the instance of Audit	- Nil -	- Nil -	- Nil -	- Nil -	- Nil -	- Nil -

**Table 4: Irregularities pointed out**

(Rs. in million)

<b>S. No.</b>	<b>Description</b>	<b>Amount Placed under Audit Observation</b>
1	Violation of Rules and regulations and violation of principle of propriety and probity in public operations.	249.791
2	Reported cases of fraud, embezzlement, theft, and misuse of public resources.	34.209
3	Accounting Errors (accounting policy departure from IPSAS, misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	-
4	If possible quantify Weaknesses of internal control systems.	75.117
5	Recoveries and overpayments, representing cases of established overpayment or misappropriations of public moneys	331.084
6	Non-production of record.	-
7	Others, including cases of accidents, negligence etc.	-

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**Chapter- 1**  
**Agriculture Department**

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## 1.1.1 Sindh Seed Corporation, Hyderabad

### 1.1.1 Introduction

Sindh Seed Corporation (SSC) was established in the year 1976 for the systematic production, procurement, processing and marketing of all kinds of seeds of major crops on the scientific lines. The prime objective of the SSC is to supply high quality certified seed to the growers of Sindh on affordable price thus to enhance overall per acre yield in the Province of Sindh. The role and objectives of the organization are described below:

- i. Procurement of pre-basic and basic seed at SSC Farms.
- ii. Procurement, processing and marketing of certified seeds.
- iii. Provision of technical advices / services to the registered growers.

### 1.1.2 Comments on the Audited Accounts

1.1.2.1 The working results of the corporation for the years 2007-08 to 2010-11 are as under:

(Rs in million)

	2010-11	% Inc/(Dec)	2009-10	% Inc/(Dec)	2008-09	% Inc/(Dec)	2007-08
Sales	218.27	(37.79)	350.86	52.84	229.56	(12.97)	263.77
Cost of Sales	(146.38)	(48.12)	(282.15)	88.78	(149.46)	(44.92)	(271.44)
Gross Profit / (loss)	71.80	4.65	68.70	(14.23)	80.099	944.04	(7.67)
Cultivation Profit	4.45	(68.24)	14.02	542.3	2.183	(63.51)	5.98
Admn: Expenses	(56.42)	46.36	(38.38)	(31.01)	(55.639)	(4.82)	(58.46)
operating Profit/(loss)	19.93	(55.05)	44.34	99.05	22.28	62.96	60.15
other income	4.47	(9.977)	4.97	38.73	8.11	237.34	2.40
Revenue Fund	-----	-----	17.00	8.847	18.65	82.49	106.49
operating Profit/ (loss)	24.41	(63.19)	66.31	35.22	49.04	5.50	46.48
Prior year adjustments	(0.98)	(7.04)	(1.05)	91.09	(0.55)	96.20	(14.47)
Total Profit for the year	<b>23.43</b>	<b>(65.22)</b>	<b>67.36</b>	<b>37.21</b>	<b>49.09</b>	<b>19.45</b>	<b>60.95</b>

(Source: Annual Accounts)

1.1.2.2 The sales of the corporation decreased by 37.79% from previous year 2010 mainly due to nil sales of cotton lint in 2011. Cultivation profit decreased by 68.24% from previous year 2010. However the reasons for decline in profit are not mentioned in accounts which need to be justified.

**1.1.2.3** Administrative expenses increased by 46.36% in 2011 as comparison to previous year 2010 mainly due to the impairment of financial assets of Rs 4.599 million, miscellaneous expense increased from Rs 3.769 million to 5.062 million and staff expenses increased from 4.470 million to 11.062 million in 2011. The huge increase needs to be justified to Audit. The increase in Admn: expenses and decline in cultivation profit caused the decline of 55.05% in operating profit in 2011.

**1.1.2.4** Total profit for the year decreased from 67.363 million in 2010 to 23.43 million in 2011 which registered a decline of 65.22% in total profit of the corporation which needs to be justified.

### **1.1.3 Compliance of PAC Directives**

The PAC has yet to discuss Audit Paras pertaining to SSC from the year 2004-05.

### **1.1.4 Audit Paras**

#### **1.1.4.1 Irregular purchase of fertilizer - Rs 21.908 million**

According to rule 15(1) of SPPRA 2010, open competitive bidding shall be the principal method of procurement.

During audit of Sindh Seed Corporation (SSC) Hyderabad for the year 2013-14, it was observed that the payment of Rs 21.908 million was made to M/s. Engro Fertilizers Ltd., Karachi on account of purchases of Fertilizer i.e. DAP and Urea without calling open competitive bids in violation of provision of SPPRA-2010. The details are as under:

#### **A) DAP**

S. No.	Description	Qty. in bags	Rate in Rupees	Amount in Rupees
1	Ware House, (combined)	1100	3521	3,873,100
2	Ware House, (combined)	100	3362	336200
3	Ware House, (combined)	1000	3434	3434000
	Total	2200	10317	7,643,300

#### **B) Urea**

S. No.	Description	Qty. in bags	Rate in Rupees	Amount in Rupees
1	Ware House, (combined)	3300	1722	5,682,600
2	Ware House, (combined)	4800	1788	8,582,400
	Total	6100	3510	14,265,000

Grand Total (A +B) =Rs.21, 908,300

The matter was reported to the management through observation memo on 04.09.2014 but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to investigate the matter with a view to fix the responsibility on person(s) for irregular purchase of fertilizer.

#### **1.1.4.2 Irregular investment/ deposit of working balances in Bank of Khyber -Rs 20.816 million**

According to Ministry of Finance (Budget Wing) order No.F-4 (1)/2002-BR-II dated.2-7-2003 regarding *Working Balances*, under the new policy, public sector enterprise and local/ autonomous bodies can deposit working balances required for their operations with any public or private bank subject to the requirements that, the process of selection of banks should be transparent. Therefore, prior to placing deposits with a bank under this new policy, and in case the total working balances exceed Rs.10 million, the selection of the banks as well as the terms of deposits will be approved by the concerned board of directors on the basis of competitive bids from at least three independent banks.

During audit of Sindh Seed Corporation (SSC) Hyderabad, for the year 2013-14, it was observed that Special Daily Account was opened in Bank of Khyber Hyderabad Branch on 11.02.2014 with the title of Sindh Seed Corporation. The Bank offered 7% profit on SDA/PLS on daily balance basis. As per Bank statement, total credited closing working balance as on 30.06.2014 remained Rs 20.816 million during the period of investment which were kept in the Bank without the approval of the Board of Directors. Besides, it was also observed that the competitive bids from at least three independent Banks were not sought. Therefore, deposit of working balance of Rs.20.816 million in the bank is held to be irregular.

The matter was reported to the management through observation memo on 04.09.2014, but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to investigate the matter and fix responsibility on the person(s).

#### **1.1.4.3 Non- recovery from tenants of Farms amounting to Rs 12.492 million**

Rule-38 of G.F.R. provides that it is primary responsibility of the departmental authorities to see that all revenues or other debts due to government, which have to be brought to account are correctly and promptly assessed, realized and credited to the public account.

During audit of Sindh Seed Corporation (SSC) Hyderabad for the year 2013-14, it was observed that an amount of Rs.12.492 million was outstanding against various tenants of different farms as on 30-06-2014. The details are as under:

<b>Sr. No.</b>	<b>Name of Farm</b>	<b>Amount (Rs)</b>
1	Pai Farm	2,366,454.47
2	Setharja Farm	3,026,675.29
3	Ghotki Farm	2,754,295.96
4	Lakhi Farm	41,542.50
5	Lodhra Farm	4,021,872.75
6	Kotdiji	7,749.80
7	Ruk	238,878.00
8	Sangi Farm	34,773.54
	<b>Total</b>	<b>12,492,242.31</b>

It is evident from the above table that the outstanding amount was not recovered from tenants at the time of crop. As a result thereof, the amount could not be recovered in time

The matter was reported to the management through observation memo on 04.09.2014, but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to recover the amount from the tenants besides fixing of responsibility on person(s).

#### **1.1.4.4 Non-recovery of dues from government departments - Rs 4.071 million**

Rule 26 of GFR provides that “It is the duty of the departmental controlling Officer to see that all sums due to Government are regularly and properly assessed, realized and duly credited to public accounts.”

During audit of Sindh Seed Corporation (SSC) Hyderabad for the year 2013-14, and scrutiny of the minutes of 18<sup>th</sup> meeting of SSC Management Board held on 05.05.2014 revealed that an amount of Rs 4.071 million were outstanding against following departments of government of Sindh.

<b>S. No.</b>	<b>Particulars</b>	<b>Amount in Rs</b>
1	OFWM regarding remaining amount of Pacca Water Courses	3,693,000
2	DG Agriculture Extension Hyderabad	109,340
3	DG Animal Husbandry & Live Stock	268,826
	<b>Total</b>	<b>4,071,166</b>

It is evident from the above table that the management failed to recover the outstanding dues from government departments which were lying outstanding since long. This shows negligence on the part of the management.

The matter was reported to the management through observation memo on 05.09.2014, but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to fix responsibility on person(s) found at fault and recovery may be made under intimation to Audit.

#### **1.1.4.5 Non disposal of obsolete stores/scrap - Rs 3.645 million**

As per Rule-167 GFR, “stores which are reported to be obsolete, surplus or unserviceable, may be disposed of by sale or otherwise under the orders of competent authority to sanction the writing off a loss caused by deficiencies and depreciation equivalent to their value”.

During audit of Sindh Seed Corporation (SSC) Hyderabad, for the year 2013-14 it was observed that 104 number of items valuing Rs 3.645 million were lying obsolete at Head Office Hyderabad, Seed plant Sakrand and at different farms for the last ten years which were neither utilized nor disposed of by the Corporation. The details of items are as under:

<b>Code</b>	<b>Location</b>	<b>No. of Item</b>	<b>Written down Value (Rs)</b>
1	Vehicles/ tractors/ trucks	35	261,229
2	Farm Implements	69	3,384,322
	Total	104	3,645,551

Due to abnormal delay in disposal of obsolete stores items/scrap, material is deteriorating day by day. It was negligence on the part of management who failed to auction these items. Resultantly, the department is likely to sustain loss to the extent amount of Rs 3.645 million. Audit also observed that the management purchased stock without planning and knowing the actual demands and consumption of the department.

The matter was reported to the management through observation memo on 04.09.2014 but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to investigate the matter besides fixing of responsibility on the person(s).

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**Chapter- 2**  
**Industries and Commerce Department**

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## **2.1 Sindh Government Press, Karachi and Khairpur**

### **2.1.1 Introduction**

As a result of disintegration of one unit, the West Pakistan, Government Press, Karachi was renamed as Sindh Government Press, (SGP) Karachi w.e.f. July 01, 1970 under Controller, Printing and Stationery Department, Government of Sindh.

Main functions of the Press are as under:

- Printing of all kinds of jobs for all departments/offices of the Government of Sindh.
- Supply of all types of stationery articles to all departments/offices of the Government of Sindh.

### **2.1.2 Comments on the Audited Accounts**

The organization has failed to submit annual audited accounts since 1984-85 and onwards (refer Annexure-I)

### **2.1.3 Compliance of PAC Directives**

The PAC has yet to discuss Audit Paras pertaining to SGP from the year 2004-05.

### **2.1.4 Audit Paras**

#### **2.1.4.1 Loss due to un-necessary purchase of office - Rs 34.80 million**

Rule-10 (i) of GFR Vol-I states that every public servant is expected to exercise the same vigilance in respect of expenditure from public money, as a person of ordinary prudence would exercise in respect of expenditure of his own money;

During audit of Sindh Government Press (SGP), Karachi for the year 2013-14 it was observed that the department purchased office at Civic Centre, Hyderabad measuring 15000 sq. ft. for Rs 10.875 million from Hyderabad Development Authority (HDA) in the year 1992 for establishment of sub-office at Hyderabad. The

possession of said property was taken by the management peacefully in 1993. Thereafter HDA demanded an additional amount of Rs 2.385 million being the cost of extra area and additional work in 2000. The Management of Sindh Government Press failed to reconcile the amount with HDA who cancelled the allotment vide letter No.HDA/BC/6/8 dated 15.04.2008 and subsequently due to non-pursuance of matter the office was sealed in the presence of Magistrate on 26.07.2008 by forfeiting the paid amount of Rs.10.875. Since then the matter is pending for settlement and no action has been taken for release of office from HDA.

Audit was of the view that there was no need for purchase of office at Hyderabad as the activities of the department regarding supply of stationery and forms to Sind Govt. departments are limited. Further the office was not properly utilized or rented out for 22 years since purchase of office in 1992. Thus the amount has been blocked from the date of purchase ie. 1992 to 2014 and Govt. sustained a loss of Rs. 34.80 million including interest (Rs.10,875,000 X 10% interest X 22 years) due to blockage of funds of Rs.10,875,000.

The matter was reported to the management through observation memo dated 16.10.2013, but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to investigate the matter with a view to fix responsibility on the person(s).

#### **2.1.4.2 Non- recovery of outstanding dues from various government departments – Rs 24.143 million**

Rule 26 of GFR Vol-I provides that the departmental controlling officers have to ensure that all sums due to Government are regularly and promptly assessed, realized and duly credited to the public account.

During audit of Sindh Government Press, (SGP) Karachi for the year 2013-14 it was observed that an amount of Rs. 24.143 million was recoverable from various Sindh Government Departments as on 30-06-2013 on account of supply of stationery and printing work.

The dues was lying outstanding since 1988-89 and the chances of recovery

seems very remote. The management did not made strenuous efforts to recover the outstanding amount.

As per general practice of the Press, the supply of stationery and printing work can only be done when the amount against work was being deposited in the shape of Bank challans and copy of the same had been produced to the Press. But the management supplied stationery and printing material without received any paid challans. Resultantly an amount of Rs 24.143 million was lying outstanding against the government departments since long.

The matter was reported to the management through observation memo dated 16.10.2013, but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to recover the amount besides fixing of responsibility on the person(s).

#### **2.1.4.3 Loss of revenue due to short supply of stationery - Rs 12.759 million**

Rule-23 of GFR provides that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

During audit of Sindh Government Press, (SGP) Karachi for the year 2013-14 it was observed that the department supplied short material to various Sindh Government Departments against their demands for which the amount was paid by them through challans for supply of stationery items and printing material during the year 2013-14 which shows poor performance on the part of management. Resultantly, the Department could not earn an amount of Rs.12.759 million during the year subsequently a huge liability was created and carried forward for the next year. The short supply of stationery and forms shows weakness of internal control in the Sindh Government Press, Karachi.

The matter was reported to the management through observation memo dated 16.10.2013, but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to investigate the matter with a view to fix responsibility on the person(s) for short supply of stationery and forms.

## **2.2 Sindh Small Industries Corporation**

### **2.2.1 Introduction**

Sindh Small Industries Corporation (SSIC), Karachi was established under Small Industries and Handicrafts Development Corporation Act, 1972. Its main functions are as under:

1. The Corporation shall take such measures as it thinks fit to provide assistance in the establishment and development of cottage, small and other industries.
2. The Corporation shall also be responsible for:
  - i. preparing and submitting schemes to Government for the development of handicrafts, cottage, small and other industries, such schemes may include schemes for research and mechanization in respect of cottage and small industries; and
  - ii. Sponsoring the industries to be set up in the private sector in Sindh.

### **2.2.2 Comments on the Audited Accounts**

The organization has failed to submit annual audited accounts since 1987-88 and onwards (refer Annexure I).

### **2.2.3 Compliance of PAC Directives**

The PAC has yet to discuss Audit Paras pertaining to SSIC from the year 2004-05.

### **2.2.4 Audit Paras**

#### **2.2.4.1 Non recovery of outstanding dues amounting to - Rs.77.023 million**

Rule-26 of GFR provides that it is the duty of the departmental controlling officers to see that all the sums due to the Government are regularly and promptly assessed, realized and duly credited in the public account.

During audit of Sindh Small Industries Corporations Karachi (SSIC) for the year 2013-14, it was observed that an amount of Rs.77.023 million was lying outstanding as on June 30, 2014, against various parties/borrowers under Self-employees scheme (SES). The details are as under:

Name of region	Self employment scheme	Self employment scheme	Supervisory credit scheme	Supervisory credit scheme
	No. of cases	Amount	No. of cases	Amount
Karachi	03	1.996	01	0.0883
Hyderabad	44	36.465	10	4.401
Sukkur	17	25.511	02	1.606
Larkana	05	4.200	02	1.961
<b>Total</b>	<b>69</b>	<b>68.172</b>	<b>15</b>	<b>8.851</b>

**Grand Total =68.172 +8.851 =77.023 million**

Audit was of the view that no serious steps towards recovery of corporation dues have been taken by the management

The matter was reported to the management through observation memo on November 11, 2014 but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to investigate the matter with a view to fix responsibility on the person(s) for non-recovery of outstanding dues.

#### **2.2.4.2 Loss due to non recovery of decreed debts - Rs 19.779 million**

Rule-26 of GFR provides that, it is the duty of the departmental controlling officer to see that all sums due to Govt. are regularly and properly assessed, realized and duly credited in the public account.

During audit of Sindh Small Industries Corporations (SSIC) Karachi for the year 2013-14, it was observed that an amount of Rs 19.779 million was outstanding against various parties/borrowers for more than ten years. The SSIC could not recover the dues by normal efforts and filed civil suits against defaulters. The court decreed the case in

favour of SSIC. However, corporation could not recover amount from the defaulters. The details thereof are as under:

**(Rs in million)**

<b>S. No</b>	<b>Name of region</b>	<b>No. of parties</b>	<b>Amount</b>
1	Hyderabad	10	7.781
2	Sukkur	04	6.123
3	Larkana	05	4.200
4	Larkana	01	1.675
	<b>Total</b>	<b>20</b>	<b>19.779</b>

The matter was reported to the management through observation memo on November 11, 2014 but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to intimate the reasons/circumstances under which decreed amount could not be recovered besides fixing of responsibility on the person(s).

#### **2.2.4.3 Non-recovery of house purchase advance from employees/ex- employees – Rs 6.340 million**

Rule-23 of GFR provides that, every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained to Government through fraud or negligence on his part.

During audit of Sindh Small Industries Corporation (SSIC), Karachi for the year 2013-14, it was observed that the management was in practice of granting house purchase advance to the staff and officers without taking financial safeguard and any interest/markup. It was further observed that in most of the cases even a single installment was not deducted against house purchase advance which stood Rs 6.340 million as on 30-06-2014 (Annexure-IV).

The matter was reported to the management through observation memo on November 11, 2014 but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to recover house purchase advance besides fixing of responsibility on the person(s).

#### **2.2.4.4 Mis-appropriation of Government Funds – Rs 3.333 million**

Rule.23 of GFR provides that, every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained to Government through fraud or negligence on his part.

During audit of Sindh Small Industries Corporations (SSIC), Karachi for the year 2013-14, it was observed that an amount of Rs 3.333 million was misappropriated by the ex-cashier with connivance of the staff of the Corporation. The details thereof are as under:

<b>S. No.</b>	<b>Name of employee</b>	<b>Designation</b>	<b>Amount (Rs)</b>
1	Syed Riazuddin Asim	Cashier	895,000
2	Mr.S.M.Rehan Shafi	Asst Dir Accounts	275,000
3	Mr.Muhammad Sohail	Accounts Asst:	275,000
4	Mr.Zahir Sajid	Accounts Clerk	30,000
5	Mr.Javed Ahmed	Clerk	680,000
6	Mr.Mirza Kashif Baig	Accounts Clerk	488,000
7	Mr.Muhammad Rafiq	Clerk	115,000
8	Mr.Muhammad Nasir	Peon	205,000
9	Mr.Muhammad Saleem	Peon	270,000
10	Mr.Shamim Bukhsh	Peon	99,000
		<b>Total</b>	<b>33,33,030</b>

The management constituted an Enquiry Committee to probe into the matter but the findings of the enquiry report was not known to audit. Thus due to weak internal control prevailing in the corporation the government funds were misappropriation.

The matter was reported to the management through observation memo on November 11, 2014 but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to take legal measures to recover the misappropriated amount from the person(s).

#### **2.2.4.5 Irregular payment of Rs 2.529 million on account of Hospitalization**

According to Rule-88 of S.F.R. Vol-I, “Every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in spending his own money”.

During audit of Sindh Small Industries Corporation (SSIC), for the year 2012-13 it was observed that an amount of Rs 2.529 million was paid to the employees on account of hospitalization. The scrutiny of the record revealed that Rs 25000/- were being paid to the employees once in year on production of the medical transcriptions/ vouchers of any doctor or medical hospital. Further, it was observed that the practice of the payment of Rs 25000 per employee per year was not covered under the SSIC, Act.

The matter was reported to the management through Audit Inspection Report on 26.08.2013. The management in its reply accepted that such procedure was not made in SSIC Act, 1972 however, SSIC Board of Directors unanimously approved the facility for providing the financial assistance to the employees in case of hospitalization on production of original voucher for admission and discharge and on the basis permission has been accorded a fixed amount of Rs 25000 keeping in view the budget provision in order to facilitate the employees to some extent. The reply of the management is not tenable as neither copy of minutes of the Board meeting nor any office order regarding payment of Rs. 25,000 was provided to audit.

Audit was of the view that the amount should be covered under the medical policy of the corporation. As such payment of Rs 2.529 million without any approval on account of hospitalization is treated as irregular.

The matter was reported to the management through observation memo on November 11, 2014 but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to investigate the matter besides fixing of responsibility on the person(s).

**2.2.4.6 Regularization of daily wage employees without availability of vacant posts - Rs 1.107 million**

As per services rule, an appointment should be made against available sanctioned strength of respective cadre.

During audit of Sindh Small Industries Corporations (SSIC), Karachi for the year 2013-14, it was observed that the management regularized 12 daily wages employees irregularly without considering vacant position and reference of any service rule only on humanitarian grounds and an amount of Rs1.107 million was paid on account of pay and allowances from January 20, 2014 to June 20, 2014.

The matter was reported to the management through observation memo on November 11, 2014 but no reply was received. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to investigate the matter with a view to fix responsibility on the person(s) for regularization of daily wage employees in violation of service rules.

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**Chapter- 3**  
**SPECIAL INITIATIVE DEPARTMENT**

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### 3.1 Sindh Land Management & Development Company

#### 3.1.1 Introduction

Sindh Land Management & Development Company (SLMDC) has been incorporated in Pakistan on June 24, 2010 as a public limited company by shares under the Companies Ordinance, 1984 and is domiciled in the province of Sindh. The company is mainly engaged in the business of land management and development in line with the government policy in the province and for making available land for the purpose of designing cities, towns, townships, new residential, commercial, industrial, recreational, and other such projects. The registered office of the company is situated in Karachi.

#### 3.1.2 Comments on Audited Accounts

3.1.2.1 The working results of the Company for the year ended June 30, 2014 as compared with the previous year are as under:-

	2013-14	% Inc/(Dec)	2012-13	% Inc/(Dec)	2011-12
General and Administrative expenses	(18.305)	(6.64)	(19.608)	(28.94)	(27.595)
Finance Cost	0.002	(33.33)	0.003	(25.00)	0.004
Other Income	11.767	(45)	8.115	6.98	7.585
<b>Profit / (loss) before taxation</b>	<b>(6.539)</b>	<b>(43.12)</b>	<b>(11.496)</b>	<b>(42.56)</b>	<b>(20.014)</b>
Taxation	-	-	-	-	-
<b>Profit / (loss) after taxation</b>	<b>(6.539)</b>	<b>(43.12)</b>	<b>(11.496)</b>	<b>(42.55)</b>	<b>(20.005)</b>
Accumulated losses carried forward	(52.747)	14.14	(46.213)	33.11	(34.717)

(Source: Annual Audited Accounts)

3.1.2.2 The physical shares of the company have not been issued, due to non-fulfillment of outstanding minimum subscription amount required as per Companies Ordinance, 1984 for the issuance of Certificate of Commencement of Business by Securities & Exchange Commission of Pakistan (SECP). Hence, Certificate of Commencement of Business was not issued to the company by SECP due to the portion of un-subscribed share capital. Resultantly, no core business activity took place during the year under

review and no revenue was earned by the company. This had also been described as matter of going concern by company's external auditor in the initialed Audit Report for the year under review.

**3.1.2.3** Accumulated losses carried forward of the company increased by Rs. 6.534 million (i.e. 14.14%) in comparison of the previous year. This increase was mainly due to no revenue earned by the company for the year 2013-14.

**3.1.2.4** Bad debt of Rs. 0.941 million arose in respect of Receivable against development expenditure despite of the fact that the business of the company has not been commenced as yet. This needs to be explained to Audit.

**3.1.2.5** No income tax had been charged by the company in the year 2013-14 and 2012-13. However, an amount of Rs. 1.571 million had been shown in respect of Income Tax paid cash flow in statement for the year 2014. Its break-up and explanation needs to be provided to the Audit.

### **3.1.3 Compliance of PAC Directives**

The PAC has yet to discuss Audit Paras pertaining to SLMDC from the year 2011-12.

### **3.1.4 Audit Para**

#### **3.1.4.1 Wasteful / extra expenditure incurred on office rent - Rs 5.85 million**

Rule-10 (i) of GFR provides that every Public Officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of Sindh Land Management & Development Company (SLMDC) for the year 2012-13, it was observed that the management hired a banglow on rent for office @ Rs. 325,000 per month w.e.f. January, 2012 for a period of three (03) years. It is worth mentioning here that there have been no core operations of the company and there are a few staff working in the company as well due to which most of the rooms and office

area are not in use and lying vacant. The area of office is on a very higher side as compared to the number of employees. The management paid Rs. 5.85 million (Rs. 325,000 @ 18 months) from January, 2012 to June, 2013.

*Audit was of the view that since the management is unable to commence its business since its inception i.e. 2011 besides having few numbers of employees, incurrance of such huge expenditure on office rent tantamount to wastage of public money.*

The matter was brought to the notice of the management through observation memo on June 03, 2014. The management in its reply dated June 03, 2014 stated that the subject expenditure on rent was essential and justified, because the company was established unlike any government department to ensure the transparency, effectiveness and to win the confidence / trust of the national and international investors such as UAE, Japan, etc. The management's reply is not tenable because hiring of such a huge office despite being few employees in the company and nil operational income is unjustified. No DAC meeting was held despite pursuance with the Principal Accounting Officer.

Audit recommends to investigate the matter with a view to fix responsibility on the person(s) for wasteful expenditure incurred on payment of office rent.



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## **ANNEXURES**

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**MFDAC Paras**

The Directorate General of Commercial Audit, and Evaluation, Karachi on behalf of the Auditor-General of Pakistan, conducted the audit of organizations of Government of Sindh which maintain their accounts on commercial pattern.

As a result of audit conducted during 2014-15, various types of financial irregularities and losses of public money, etc., were detected and reported to the Departments and organizations concerned. The important irregularities/ losses and malpractices pertaining to various organizations have been printed in this report, while irregularities/losses not considered worth reporting to the PAC as listed below were left for Departmental Accounts Committees. The same will be discussed with the respective Secretaries to the Departments by the Director General, Commercial Audit and Evaluation, Karachi.

<b>S. No.</b>	<b>Title of Para</b>	<b>Rs in million</b>	<b>Remarks</b>
<b>Special Initiative Department</b>			
Sindh Land Management			
1	Non-recovery of development expenditure from Lyari Development Authority – Rs 0.941 million	0.941	Non-recovery

**Non-submission of Audited Accounts**

Annual audited accounts of Public Sector Enterprises for the year 2013-14 were required to be submitted to the Directorate General of Commercial Audit and Evaluation, Karachi by November 30, 2014. Despite requests, the organizations (listed below) failed to submit their annual audited accounts for the year(s) indicated against each by the prescribed date. While non-submission of audited accounts needs to be explained, efforts should be made for immediate finalization and submission thereof:

**Agriculture Department**

- |  |  |
|--|--|
| 1. Sindh Agricultural Supplies Organization, Karachi | 2002-03 to 2013-14 (under process of winding up since 2001-02) |
|--|--|

**Industries Department**

- |                                     |   |
|-------------------------------------|---|
| 2. Sindh Government Press, Khairpur | Commercialized w.e.f. July 01, 1984 but accounts for the years 1984-85 to 2013-14 were either not compiled on commercial pattern or not submitted to Audit for certification. |
| 3. Sindh Government Press, Karachi  | Commercialized w.e.f. July 01, 1984 but accounts for the years 1984-85 to 2013-14 were either not compiled on commercial pattern or not submitted to Audit for certification. |

4. Sindh Small Industries Corporation, Karachi 1987-88 to 2013-14
5. Sindh Sugar Corporation, Hyderabad 1998-99 to 2013-14 (under liquidation since 1998-99)

**Organizations under liquidation**

The following organizations/units closed their operational activities since the year mentioned against each. The decision about their privatization/liquidation had already been taken but the implementation of the same was awaited.

**Agriculture Department**

- |   |  |
|---|--|
| 1. Sindh Agricultural Supplies<br>Organization, Karachi | Under process of winding up<br>since 2001-02 |
|---|--|

**Industries Department**

- |                                       |                                    |
|---------------------------------------|------------------------------------|
| 2. Sindh Sugar Corporation, Hyderabad | Under liquidation<br>since 1998-99 |
|---------------------------------------|------------------------------------|

**Annexure-IV**  
(See Para No.2.2.4.3)

**Statement showing the details of house purchase advances**

S. No.	Name of Employees with Designation	Date of Sanction	Amount Balances	Remarks
1	Mr.Asghar Ali, Assistant Director	22/5/2006	187398	Expirec on 14/4/2010
2	Mr.Sikandar Ali Awan, Assistant	22/5/2006	215280	Not single installment deduction
3	Mr.Mukhtar Ahmed, Assistant	-do-	258480	Not single installment deduction
4	Mr.Nisar Ahmed, Peon	-do-	59652	Retired on 2/3/2014
5	Mr.Umar Bux Sommro, R.D Larkana	-do-	792540	Not single installment deduction
6	Mrs. Seema Islam, P.A.to M.D	1/1/2007	191706	Retired on 9/2011
7	Mr. Muhammad Rafique, Larkana	-do-	222080	Not single installment deduction
8	Mr.Tarique Farooque, Hyderabad	-do-	584460	Not single installment deduction
9	Mr.Qurban Ali Memon.CTC NararPur	16/1/2007	584460	Not single installment deduction
10	Mr.Ahmed Bux Pario, P.A to DMD	-do-	190554	
11	Abdul Majeed, Driver	6/1/2007	119400	Retired on 9/2011
12	Mr. Aijaz Akhter Memon, Director	2/7/2007	822780	Only three installment
13	Mr.Mohammad Juman Channa, Incharge exhibition	-do-	280080	Not single installment deduction
14	Mr.Karim Bux Channa, Assist Director	-do-	316620	Not single installment deduction
15	Mrs. Razia Sultana, Steno	-do-	377820	Not single installment deduction
16	Mr.Manzoor Ahmed Langha, Assistant	-do-	244080	Not single installment deduction
17	Mr.Mehmood Ahmed, M.D	22/5/2006	801052	Retired on June,2008
18	Mr.Syed Azizuddin, Dy. Director	23/4/2011	676480	On 11/10/2012

**Total:- 6,340,462**