



**AUDIT REPORT  
ON  
THE ACCOUNTS OF  
PUBLIC SECTOR ENTERPRISES  
GOVERNMENT OF SINDH  
AUDIT YEAR 2015-16**

**AUDITOR GENERAL OF PAKISTAN**



## TABLE OF CONTENTS

	Page No.
ABBREVIATIONS & ACRONYMS	i
PREFACE	iii
EXECUTIVE SUMMARY	v
SUMMARY TABLES & CHARTS	
I. <i>Audit Work Statistics</i>	xi
II. <i>Audit Observations regarding financial           management</i>	xi
III. <i>Outcome Statistics</i>	xii
IV. <i>Irregularities pointed out</i>	xiii
V. <i>Cost - Benefit</i>	xiv
<b>CHAPTER 1 AGRICULTURE DEPARTMENT</b>	
<b>1.1 Sindh Seed Corporation, Hyderabad</b>	
1.1.1 <i>Introduction</i>	1
1.1.2 <i>Comments on Audited Accounts</i>	1
1.1.3 <i>Compliance of PAC Directives</i>	1
1.1.4 <i>AUDIT PARAS</i>	1
<b>CHAPTER 2 INDUSTRIES AND COMMERCE DEPARTMENT</b>	
<b>2.1 Sindh Government Press, Khairpur</b>	
2.1.1 <i>Introduction</i>	11
2.1.2 <i>Comments on Audited Accounts</i>	11
2.1.3 <i>Compliance of PAC Directives</i>	11
2.1.4 <i>AUDIT PARAS</i>	11
<b>2.2 Sindh Small Industries Corporation</b>	
2.2.1 <i>Introduction</i>	15
2.2.2 <i>Comments on Audited Accounts</i>	15
2.2.3 <i>Compliance of PAC Directives</i>	15
2.2.4 <i>AUDIT PARAS</i>	15

**CHAPTER 3 SPECIAL INITIATIVE DEPARTMENT**

**3.1 Sindh Land Management and  
Development Company**

<i>3.1.1</i>	<i>Introduction</i>	17
<i>3.1.2</i>	<i>Comments on Audited Accounts</i>	17
<i>3.1.3</i>	<i>compliance with PAC Directives</i>	17
<i>3.1.4</i>	<i>AUDIT PARAS</i>	17

**ANNEXURES**

1	MFDAC Para	23
2	Non-submission of audited accounts	24
3	Organizations under liquidation	26

## **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
W&SD	Works & Services Department



## 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 2014-15. 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, 2015 to November 15, 2015 on a test check basis with a view to report significant findings to the stakeholders.

The audit observations have been finalized in the light of discussion of Departmental Accounts Committee (DAC) meeting relating to the Industries & Commerce Department (Sindh Government Press, Khairpur).

However, the observations not discussed in DAC meetings have been finalized in the light of written replies of the Departments as DAC meetings could not be convened despite repeated requests. 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:

**(Rana Assad Amin)**  
**Auditor-General of Pakistan**



## **EXECUTIVE SUMMARY**

The Directorate General of Commercial Audit & Evaluation (DGCA&E), South, 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, DG (CA&E)South, Karachi has a human resource of 8 officers and staff (worked out on prorata basis) resulting in 2,000mandays. The annual budget of DG (CA&E)South, Karachi for the year 2015-16 was Rs 9.258 million (worked out on prorata basis). The DG (CA&E) South, Karachi 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 6 commercial entities of the Government of Sindh under the jurisdiction of DG (CA&E), Karachi. These entities operate under the administrative control of 4 different Principal Accounting Officers. As per Audit Plan 2015-16, the DG (CA&E) audited the accounts of the 4 commercial entities pertaining to year 2014-15.

Out of total expenditure of the entities for the financial year 2014-15auditable expenditure under the jurisdiction of the DG (CA&E) was Rs 1,538.25 million covering 4 entities falling under 3 PAOs, the DG (CA&E) conducted audit of the expenditure of Rs 917.14 million on test check basis. The audit of receipts of Rs 621.11 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 2014-15 conducted during the audit year2015-16. 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-2**) failed to submit their annual audited accounts by November 30, 2014, i.e., the prescribed date.

#### **b. Recoveries at the instance of Audit**

There was no recovery reported during 2014–15 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 2014-15. 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 recommendations. Audit has also played pivotal role in implementation of PPRA rules for transparency in procurement at the most competitive and economical rates. Audit has suggested many recommendations to the management for implementation of effective financial control system to avoid undue wasteful expenditure resulting into losses.

#### **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 Case of misuse of public resources in one case Rs 0.030 million<sup>1</sup>
- ii Non-utilization of plant/land or low production in 4 cases - Rs 354.170 million.<sup>2</sup>
- iii Non-recovery of dues in 2 cases amounting to Rs 56.346 million.<sup>3</sup>
- iv Irregular expenditure due to violation of rules & regulation/procedures in 2 cases - Rs 33.582 million.<sup>4</sup>
- v Blockage of funds in 2 cases amounting to Rs 165.631 million.<sup>5</sup>
- vi Missing of scrap/non-adjustment of advance/physical verification of assets in 4 cases - Rs 57.583 million.<sup>6</sup>
- vii Non-protection of assets in one case - Rs 1.01 million.<sup>7</sup>
- viii Irregular investment of funds in one case - Rs 130 million<sup>8</sup>

---

<sup>1</sup>Paras- 2.2.4.2

<sup>2</sup>Paras- 1.1.4.2, 1.1.4.3, 1.1.4.6and 1.1.4.8

<sup>3</sup> Paras-1.1.4.9and 1.1.4.12

<sup>4</sup> Paras- 1.1.4.7and 2.1.4.3

<sup>5</sup> Paras- 1.1.4.5and 1.1.4.4

<sup>6</sup>Paras- 1.1.4.11, 1.1.4.10, 2.1.4.2and 2.1.4.4

<sup>7</sup>Paras- 3.1.4.3

<sup>8</sup> Paras- 3.1.4.2

**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)
- ii. Ensure timely recovery of outstanding dues, sundry debtors and loans. (e.g., SGP, SSC)
- iii. Arrange timely submission of annual audited accounts to audit authorities. **(Annexure-2)**
- iv. Expedite liquidation of closed enterprises to avoid recurring expenses and deterioration of their assets.**(Annexure-3)**
- iv. 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.

---

---

## **SUMMARY TABLES & CHARTS**

---

---



## **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	4	1,538.25
2	Total formations in Audit jurisdiction	6	1,538.25
3	Total Entities (Departments/PAO's) Audited	2	1,538.25
4	Total formations Audited	4	1,538.25
5	Audit & Inspection Reports	4	1,538.25
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	535.696
2	Weak financial management	71.590
3	Weak internal controls relating to financial management	851.056
4	Others	130.642
<b>Total</b>		<b>1,588.984</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	0.30	52.58	621.11	864.26	1,538.25	1,213.171
2	Amount Placed under Audit Observation/ Irregularities	535.696	Nil	71.590	851.056	1588.984	690.201
3	Recoveries Pointed Out at the instance of Audit	Nil	Nil	Nil	56.346	56.346	Nil
4	Recoveries Accepted /Established at the instance of Audit	Nil	Nil	Nil	56.346	56.346	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.	424.518
2	Reported cases of fraud, embezzlement, theft, and misuse of public resources.	0.030
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.	872.087
5	Recoveries and overpayments, representing cases of established overpayment or misappropriations of public moneys	56.346
6	Non-production of record.	-
7	Others, including cases of accidents, negligence etc.	114.358

**Table 5: Cost - Benefit**

(Rs in million)

<b>S. No.</b>	<b>Description</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>
1	Outlays Audited	1,538.25	1,213.17	1,461.73
2	Expenditure on Audit	9.26	8.19	13.19
3	Recoveries realized at the instance of Audit	Nil	Nil	Nil
	<b>Cost – Benefit Ratio</b>	-	-	-

# **Chapter- 1**

## **Agriculture Department**

### **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 Audited Accounts**

##### **1.1.2.1 The organization has failed to submit annual audited accounts since 1984-85 and onwards (Annexure-2)**

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

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

#### **1.1.4 Audit Paras**

##### *Irregularity & non compliance*

##### **1.1.4.1 Non-finalization of accounts**

Annual audited accounts of the Corporation for the year 2014-15 were to be provided to the Directorate General Commercial Audit by November 30, 2015.

Contrary to the above the management of SSC did not provide audited accounts of the Corporation for the year 2014-15 and as well as for the previous years 2011-12 to 2013-14 by the prescribed date.

Audit recommends:

- Investigate the matter and fix the responsibility on person(s) at fault for non-finalization of accounts.
- Efforts be made to finalize and provide the accounts at the earliest.
- Internal controls be strengthened to avoid recurrence

### ***Performance***

#### **1.1.4.2 Loss due to non-utilization of seed processing plant – Rs 37.163 million**

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

During audit of Sindh Seed Corporation (SSC) Hyderabad for the year 2014-15, it was observed that seed processing plant, Sakrand processed only 52,241 Kg maunds wheat seed against the total capacity of 300,000 during the year. Had the fully capacity plant been utilized seriously and efficiently the loss of Rs 37.163 million would have been avoided as per detail given below:

<b>Plant capacity</b>	<b>Seed processed</b>	<b>Capacity unutilized kgmaunds</b>	<b>Profit per kgmaunds</b>	<b>Loss Rs</b>
300,000kgmaunds	52241	247759	Rs.150	37,163,850

Audit was of the view that due to non-utilization of plant at full capacity, the corporation sustained a loss of Rs 37.163 million.

The matter was brought to the notice of management in September 2015 but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends to investigate the matter with a view to fix responsibility on person(s) for non-utilization of plant at full capacity.

#### **1.1.4.3 Loss due to abnormal low yield of paddy cotton and wheat – Rs 290.982 million**

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

During audit of Sindh Seed Corporation (SSC) Hyderabad for the year 2014-15, it was observed that 80,701 kgmaunds of paddy, cotton and wheat was produced at SSC farms as against estimated/standard production of 308,223 kgmaunds. Resultantly SSC sustained a loss of Rs 290.982 million.

Audit was of the view that remedial measures were not adopted to get the required yield. Had proper and timely inspection been carried out with qualified agricultural professionals and proper guidance provided to Harris/Farmers keeping in view past problems the situation would have been different by way of achievement of estimated yield.

The matter was brought to the notice of management in September 2015 but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends to investigate the matter with a view to fix responsibility on person(s) for low yield of crop against estimated standard production.

#### **1.1.4.4 Blockage of funds due to unsold stock- Rs 122.117 million**

Section 14 of the Sindh Seed Corporation Act, 1976 provides that, the Corporation take such measures as may be necessary for marketing and distribution of seed. Arrange for multiplication, procurement, processing bagging and storage of certified seed. Arrange for expert of the certified seed in excess of domestic requirements.

During audit of Sindh Seed Corporation (SSC) Hyderabad for the year 2014-15, it was observed that the management could not succeed to sell out /dispose-off the Rabi and Kharif crops for the period 2013-14 and 2014-15. The details are as under:

S.No.	Description	Qty	Unit Price	Total Value
		kg maunds	Rs. per kg maunds	(Rs)
1	Wheat Seed unsold stock.	22,598	2,100	47,455,800
2	Wheat stock unprocessed broken/ Dust/inner matter.	10,176	1,250	12,720,000
3	Cotton Seed unsold /Rejected stock.	6,640	3,400	22,576,000
4	Cotton lint.	3,834	5,000	19,170,000
5	Paddy super, Kainait commercial IRRI- 9,6 and paddy Raw.	12,622	1,600	20,195,200
	<b>Total</b>	<b>55,870</b>	<b>-</b>	<b>122,117,000</b>

It was observed by the audit that after failure to sell out the above stocks on prescribed rates, the management arranged auction in June/July-2015 but no reasonable offer was received. Therefore, the management scraped the process of auction. Resultantly, the above stocks were lying in SSC's warehouses for which the Corporation was also bearing carrying cost on storage of the stock.

It was further observed that subsequently, fresh stock of wheat / cotton and paddy pertaining to 2015-16 was also procured / produced by the management in August-2015 which was stored in open yards with temporary arrangements. Due to inadequate / improper storage arrangements, chances of damaging of fresh stocks could not be ruled out and the same would also not fetch the prescribed sale value.

Audit was of the view that there are chances of not only wastage of unsold stock valuing Rs. 122.117 million but subsequent procurement of fresh stock would also be deteriorated with the passage of time.

The matter was reported to the management in September 2015, but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

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

#### **1.1.4.5 Blockage of funds due to non-arrangement for export of the certified seed – Rs 43.514 million**

Sindh Seed Corporation(SSC) Hyderabad was formed for production, procurement, processing, marketing and distribution of seed for the province. It is also required under the Act to make arrangements for export of certified seed in excess of domestic requirements.

During audit of Sindh Seed Corporation (SSC) Hyderabad for the year 2014-15, it was observed that the Corporation had processed 63,906 kgmaunds wheat seed and obtained 52,241 kgmaunds during the year. Out of which it could succeeded to sell only a quantity of 31,520 kgmaunds of wheat seed in domestic market leaving a balance of 20,721 kgmaunds of wheat seed was unsold which has lying in SSC stock as on June 30, 2015.

Audit was of the view that the management did not make any efforts to export the balance quantity of 20,721 kgmaunds of seed which was required to be made by the Corporation under the SSC's Act. Resultantly, the seed valuing Rs 43.514 million remained unsold. This resulted into not only blockage of funds to the tune of Rs 43.514 million (2,100x20,721) but also sustaining significant amount of recurring storage charges.

The matter was brought to the notice of management in September 2015 but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends to investigate the matter with a view to fix responsibility on person(s) for non-export of wheat seed.

#### **1.1.4.6 Loss of revenue due to non- utilization of land – Rs21.517 million**

Rule 23 of G.F.R. 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 Seed Corporation (SSC) Hyderabad for the year 2014-15, it was observed that total 4245 acres of area was available for cultivation in six Agriculture Farms of SSC. It was however observed that area of 1881 acres was not cultivated during Rabi Crop due to which the Corporation sustained loss of Rs.21.517 million. The details are as under:

Name of Farm	Total Cultivable area in Acres	Area cultivated Acres	Actual yield per acres per Kg maund	Rate Rs per Kg maund	Area not cultivated Acres	Amount of Loss (Rs)
	A	B	C	D	E	F=(CxDxE)
PaiSkd	316	252	13.33	1,250	64	10,66,400
Setharja	925	796	23.58	1,250	129	3,802,275
Kotdiji	108	91	28.95	1,250	17	615,187
Sangi	80	48	15.08	1,250	32	603,200
Ghotki	1,100	677	11.82	1,250	423	6,249,825
Lodra	1,716	500	6.04	1,250	1216	91,80,800
<b>Total</b>	<b>4,245</b>	<b>2,364</b>	<b>98.8</b>	<b>-</b>	<b>1881</b>	<b>21,517,687</b>

Audit is of the view that if the available agricultural land had been utilized, the corporation could have earned revenue of approximately Rs.21.517 million besides availability of certified seed for Farmers for every year.

The matter was reported to the management in September 2015 but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends to investigate the matter with a view to fix responsibility on person (s) for non-cultivation of agricultural land.

#### **1.1.4.7 Loss due to excess wastages in processing of Wheat Seed- Rs 12.981 million**

Wheat Seed Procurement Policy of Sindh Corporation for Rabi Crop 2014 states that, in case Shriveled/Broken Seed is higher than 2% then there will be 50% deduction at procurement cost plus premium on Broken Seed.

During audit of Sindh Seed Corporation (SSC), Hyderabad for the year 2014-15, it was observed that 63,906 kg maunds of Wheat Seed was procured/produced from

Growers and SSC Farm processed at seed processing plant Sakrand, out of total quantity 52,241 kg maunds was finished and 11,665 kg maunds of wheat seed gone waste due to Shriveled/broken which shows wastage of percentage of 18.25 of the total quantity processed against the permissible limit of 2% as per policy. Thus the wastage was excess of 16.25% (18.25-2%).

Audit was of the view that due to excess wastage amounting to Rs 12.981 million. (Quantity of excess wastage 10,385X Rate 1,250) The loss was required to be deducted from growers.

The matter was reported to the management in September 2015 but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends to investigate the matter with a view to fix responsibility for non deduction of procurement cost plus premium due to broken / shriveled of seed.

#### **1.1.4.8 Loss due to Low Production of wheat - Rs 4.508 million**

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

During audit of Sindh Seed Corporation (SSC) Hyderabad for the year 2014-15, it was observed that 36,505 kg maunds of wheat produced at SSC farms during Rabi Crop by incurring total expenditure amounting to Rs.19.985 million. Whereas the management earned Rs 15.477 million. This resulted into loss of Rs 4.508 million.

Audit was of the view that remedial measures were not adopted to get the required production of wheat. Had proper and timely inspection been carried out with qualified agricultural professionals and proper guidance provided to Harris/Farmers keeping in view of past problems, the production of wheat would have been achieved.

The matter was brought to the notice of management in September 2015, but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends to investigate the matter with a view to fix responsibility on person (s) for low production of wheat.

### *Internal Control Weaknesses*

#### **1.1.4.9 Non-recovery from Farm Managers/Suppliers - Rs 53.466 million**

Rule 26 of GFR provides that, “it is the duty of the Departmental controlling Officer to see that all sum due to Government are regularly and properly assessed, realized and duly credited to the Public Accounts.”

During audit of Sindh Seed Corporation (SSC) Hyderabad for the year 2014-15, it was observed that an amount of Rs 5.100 million were outstanding against the Farm Manager on account of expenditure disallowed by the management and other supplier for supplies of seed.

Further it was also observed that an amount of Rs 44.888 million and Rs 3.478 million was recoverable from Government Departments/growers and tents of different farmers respectively. Due to non-recoveries on the part of the management the amount accumulated to Rs 53.466 million (5.100 + 44.888 + 3.478 = 53.466).

The matter was brought to the notice of management in September 2015 but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

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

#### **1.1.4.10 Non-adjustments of advances – Rs 26.889 million**

Rule 28 of GFR states that no amount due to Government should be left outstanding without sufficient reasons.

During audit of Sindh Seed Corporation (SSC) Hyderabad for the year 2014-15, it was observed that an amount of Rs 26.889 million on account of advances against expenses on different head of accounts was paid to eleven (11) farm/plant managers but neither same were recovered nor adjustment made by the management as on June 30, 2015.

Audit was of the view that the chances of financial mismanagement could not be ruled out.

The matter was reported to the management in September 2015 but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends recover/adjust the amount at the earliest besides fixing of responsibility on person (s) at fault for not safeguarding the Corporation's interest.

#### **1.1.4.11 Non-deposit of Sale proceeds of Paddy Rs 4.273 million**

Rules-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 2014-15, it was observed that the Farm Manager, Basic Seed Farm Lodra sold 2,670.875 kg maunds paddy of kharif crop to M/s Shikarpur, Rice Mills, on January 23, 2015 but the manager did not deposit the sale proceeds amounting to Rs.4.273 million (2,670.875X1,600) up till June 30, 2015.

Audit was of the view that non-deposit of the sale proceeds into the Corporation accounts despite lapse of considerable time tantamount to male practice on the part of the Manager, which is violation of the government rules quoted above.

The matter was reported to the management in September 2015 but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends to deposit the sale proceeds of paddy seed forthwith besides fixing of responsibility on person at fault.

#### **1.1.4.12 Non-recovery of advance tax - Rs 2.880 million**

Income Tax Manual Part-I Income Tax Ordinance 2001 amended upto June 2014 Division VIII regarding advance tax at the time of sale by auction states that, the rate of collection of tax under section 236A shall be 10% of the gross sale price of any property or goods sold by auction.

During audit of Sindh Seed Corporation (SSC), Hyderabad for the year 2014-15, it was observed that the management invited a bid on May 12, 2014 through press advertisement for unsold stock of cotton lint and paddy. The management offered for lifting of stock to three different bidders who called the highest rates amounting to Rs.28.880 million. However, the management could not deduct advance tax against the auctioned stock @ Rs 10% amounting to Rs 2.880 million. It would not be out of place to mention here that as per terms & condition of bid all the applicable government taxes will be paid by the successful bidder.

Audit is of the view that the deduction of advance tax from the successful bidder it was responsibility of the management at the time of delivery of auctioned stock under the rules of Income Tax Ordinance.

The matter was reported to the management in September 2015 but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends to recover advance tax from bidder, besides fixing of responsibility on the person(s) found at fault.

## **Chapter- 2**

### **Industries and Commerce Department**

#### **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**

**2.1.2.1** The organizations have failed to submit annual audited accounts since 1984-85 and onwards (**Annexure-2**)

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

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

##### **2.1.4 Audit Paras**

###### ***Irregularity & non compliance***

##### **2.1.4.1 Non-finalization of accounts**

Annual audited accounts of the Press for the year 2014-15 was to be provided to the Directorate General Commercial Audit by November 30, 2015.

Contrary to the above the management of SGP did not provide audited accounts of the Press for the period 1984-85 to 2014-15 by the prescribed date.

Audit recommends:

- Investigate the matter and fix the responsibility on person(s) at fault for non-finalization of accounts.
- Efforts be made to finalize and provide the accounts at the earliest.
- Internal controls be strengthened to avoid recurrence

#### **2.1.4.2 Non-Preparation of Stock taking/physical verification report of store items - Rs 24.457 million**

**Rules-158 to 162 of GFR provides that, a Physical verification of store/ stock should be carried out at least once in a year by an officer who is not custodian of ledger or account of the store and record a certificate of verification of store with it's the list, inventory or account as the case may be where such verification is carried out.**

**During audit of Sindh Government Press, Khairpur for the year 2014-15 it was observed that the management purchased store items of Rs24.457 million but did not prepare stock taking/physical verification/store and inventory report thereof.**

**Audit was of the view that in the absence of non-preparation of reports the same could not be verified.**

The matter was reported to the management in September 2015. The management in its reply during DAC meeting held on January 28, 2016, stated that the Head of Office should be Head of Physical Verification Committee and the post of Assistant Controller is presently lying vacant; however instructions have been noted for future compliance. DAC directed that all documents duly signed and original indents be produced. However, no progress was reported till the finalization of this report.

Audit recommends implementing the DAC directives and investigate the matter with a view to fix responsibility on the person (s) at fault.

### *Internal Control Weaknesses*

#### **2.1.4.3 Non-completion of construction work -Rs 20.664million**

According to Government of Sindh Industries & Commerce Department's letter No.AD(DC)-11-773/2009 dated March 26, 2011, the PSD project 'UP-Gradation of building of Sindh Government Press Khairpur,' was to be completed by June 30, 2012.

During audit of Sindh Government Press (SGP) Khairpur for the year 2014-15, it was observed that a revised PC-I was approved for the project titled Up-Gradation of building of SGP,Khairpur (Civil Work) by the Planning & Department (P&D) Department,Government of Sindh valuing of Rs27.164 million (Capital cost 20.664 + Revenue cost 6.500) on December 02,2010. Out of the total cost of Rs 20.664 million of the capital expenditure, an amount of Rs6.603 million was already released and spent under the original PC-I, leaving a balance of Rs14.061 million against which funds to the tune of Rs13.562 million was released in July/August 2011. The work under the capital expenditure was to be completed on June 30, 2012 however same could not be completed till the date of completion of the audit i.e. September 29,2015. The detail of work and its completion stage in terms of percentage are as under:

<b>S. No.</b>	<b>Nature of work</b>	<b>Extend of work completed</b>	<b>Percentage of un-completed work</b>
1	1 <sup>st</sup> Portion of Main Building	Completed	-
2	2 <sup>nd</sup> Portion of Main Building	80% Completed	20%
3	Manager Banglow (1.No)	Completed	-
4	Staff Quarter (3 Nos)	Not Started	100%

It was further observed from the letter of Assistant Controller SGP, Khairpur dated February 26,2014 that the quality of the work completed was poor and substandard, there were many defects in the construction work which were not removed by the Works and Services Department.It is pertinent to mention here that the completion certificate was also not given by the user department.

Audit was of the view that the negligence at the part of management show weak internal controls.

The matter was reported to the management in September 2015. During DAC meeting held on January 28, 2016, the DAC observed that Works and Services Department (W&SD) could not be completed the civil works of the Development Scheme within the stipulated financial year. Moreover, the handing-over and taking-over of the building was also not made. Further, the DAC has desire to approach the Secretary, W&SD to get complete the remaining work. DAC directed to submit report in a fortnight. However, no progress was reported till the finalization of this report.

Audit recommends implementing the DAC directives.

#### **2.1.4.4 Loss due to missing of scarp material - Rs2 million**

**Rule 167 of GFR states that, "Subject to any special rules or applicable to any particular department, store which are reported to be obsolete, surplus or unserviceable may be disposed of by sale or otherwise under the orders of the authority competent to sanction the writing off of a loss caused by deficiencies and depreciation equivalent to their value.**

**During audit of Sindh Government Press (SGP), Khairpur for the year 2014-15, it was observed that Works & Services Department of Government of Sindh dismantled a building covering area around 40,000 sq.ft. of SGP, Khairpur during 2009-10 and 2011-12 due to construction of new building. It has been observed that the detail account of scrap material valuing Rs 2.000 million (approx) in the form of steel structure, bricks, window, doors etc., drawn from dismantling of building, was not deposited in SGP, Khairpur. Due to which scrap material were neither deposited in the store department of SGP, Khairpur nor auctioned as per above stated rule.**

**Audit is of the view that chances of mis-appropriation of the scrap material could not be ruled out.**

The matter was reported to the management in September 2015. The management in its reply during DAC meeting held on January 28, 2016, stated that the Assistant Engineer, Provincial Buildings, Sub-Division Khairpur, has furnished latest position on January 19, 2016.

DAC directed to furnish copy of the revise reply alongwith copy of the letter with its enclosures. However, no progress was reported till the finalization of this report.

Audit recommends implementing the DAC directives.

## **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 organizations have failed to submit annual audited accounts since 1987-88 and onwards (**Annexure-2**)

### **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**

#### ***Irregularity & non compliance***

#### **2.2.4.1 Non-finalization of accounts**

Annual audited accounts of the Corporation for the year 2014-15 were to be provided to the Directorate General Commercial Audit by November 30, 2015.

Contrary to the above the management of SSIC did not provide audited accounts of the Corporation for the year 2014-15 and as well as for the previous years 1987-88 to 2013-14 by the prescribed date.

Audit recommends:

- Investigate the matter and fix the responsibility on person(s) at fault for non-finalization of accounts.
- Efforts be made to finalize and provide the accounts at the earliest.
- Internal controls be strengthened to avoid recurrence

*Others*

#### **2.2.4.2 Misuse of public money – Rs. 30,000**

According to Rule 10 (I) of G.F.R, 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 to of expenditure of his own money.

During audit of Sindh Small Industries Corporation for the year 2014-15, it was observed that an expenditure amounting to Rs.30,000 was incurred on repair of vehicle bearing registration No. X-68-1849. However, as per record provided to audit the same vehicle was shown as off-road since long. Hence the entire expenditure so incurred appeared as unfair.

Audit was of the view that incurrence of expenditure in such a way was indicative of weak internal controls that resulted into wastage of public resources.

The matter was reported to the management in September 2015. The management in its reply dated January 18, 2016 stated that currently the vehicle is out of order and off road but while expenditure incurred on the said vehicle it was in running condition. The reply was not tenable as no documentary evidence in support of the reply was provided to audit. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends for fixing of responsibility on the person (s) at fault.

## **Chapter-3**

### **Special Initiative Department**

#### **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 the Audited Accounts**

**3.1.2.1** The organization has failed to submit annual audited accounts for the period 2014-15 (**Annexure-2**)

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

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

##### **3.1.4 Audit Paras**

###### *Irregularity & non compliance*

##### **3.1.4.1 Non-entertainment of State Audit**

The management has declined to entertain the State audit for the year 2014-15 on the ground that the SLMDC has been established/registered under Companies Ordinance 1984 with Securities & Exchange Commission of Pakistan and follows the rules and regulation as defined in Public Sector Companies (Corporate Governance) Rules, 2013 and other applicable standards applicable across Pakistan.

### **3.1.4.2 Irregular investment of funds - Rs.130 million**

According to Para-3(a) of Finance Division (Budget wing) letter No.F.4 (1)/2002-B.R.II dated: July 02,2003, for the sake of safety and security of deposits, the bank / financial institutions taking a deposit should have a minimum “A” rating (long term) as appearing on the website of State Bank Of Pakistan. Further, Para-6 of same letter before making any investment it would be necessary for Public Sector entities to setup an in-house professional treasury management functions. Specifically they would need to have an Investment Committee (IC) with defined investment approval Authority. Transactions above the approval authority of the IC will be subject to approval of the Board of Directors or an equivalent forum. The IC should be assisted by the investment management unit employing qualified staff with at least 3-5 years of experience of managing investment in debt / equity instruments. However, it will be necessary for Public Sector Enterprises to use the services of professional fund managers approved by SECP.

During audit of Sindh Land Management & Development Company Limited (SLM&DCL) for the year 2013-14 it was observed that the management made an investment of funds in local currency amounting to Rs. 130 million in Sindh bank as on June 07, 2013. The investment of funds was made by the Company Secretary on direct contacting with bank. Instead of that the credit ratings of Sindh Bank was A-1 (short-term) and AA- was for (long-term) respectively.

However, neither investment committee was formed nor competitive rate was sought. Keeping in view the higher rates of return irrespective of the credit rating in violation of the Finance Division letter.

Audit was of the view that the rating of the bank was not considered at the time of placement of funds which shows that undue favour was extended to Sindh Bank.

The matter was reported to the management in March 2015 but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends to investigate the matter besides, fixing responsibility on the person(s) responsible for violation of Finance Division directives.

### *Internal Control Weaknesses*

#### **3.1.4.3 Unauthorized retention of official assets - Rs 1.01 million**

According to Employment agreement section-11.5, Termination of Employment, upon the termination of this agreement for whatever reason, or at any time if so requested by the employer, the employee shall immediately return the employer all information, material, or property (including but not limited to computer disks, printouts, manuals, reports, letters, memos, plans, diagrams, security cards, keys, and laptop computers) either belonging to or the responsibility of the employer and all copies of that material, which are in the Employee's position or under their control.

During audit of Sindh Land Management & Development Company Limited (SLM&DCL) for the year 2013-14 it was observed that an officer was appointed as Head of Business Development (HOBD) on February 7, 2011 and during the period of employment the management of SLMDC handed over assets of companies for official use. Furthermore, he resigned the services for the post of HOBD on January 09, 2013, which was accepted by the management without taking any handing/taking over of official assets valuing amounting to Rs 1.01 million. Furthermore, after submitting resignation he used petrol card of official vehicle amounting to Rs. 123,600. He did not also hand over Hp-Laptop and Back-up CD Data valuing to Rs 91,250 and Rs 800,000 respectively.

**Audit was of the view that non-protection of assets shows weak internal controls prevailing in the company.**

The matter was reported to the management in March 2015, but no reply was received. The PAO failed to convene DAC meeting despite repeated requests by Audit.

Audit recommends to know the reasons for accepting resignation without handing over the company's assets and also to recover the company assets from the ex-employee besides fixing of responsibility on the person(s) at fault.

---

## **ANNEXURES**

---



**Annexure-1****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 2015-16, 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>Industries and Commerce Department</b>			
	Sindh Government Press, Khairpur		
1	Non-recovery from Government departments	0.507	Non-recovery
2	Non-disposal of obsolete /condemn machinery	-	Poor internal control
<b>Urban Planning &amp; Development Department</b>			
	Sindh Land Management & Development Company		
3	Loss un-authorized payment on account of an additional charge	1.180	Violation of rule

### Non-submission of Audited Accounts

Annual audited accounts of Public Sector Enterprises for the year 2014-15 were required to be submitted to the Directorate General of Commercial Audit and Evaluation, Karachi by November 30, 2015. 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 2014-15 (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 2014-15 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 2014-15 were either not compiled on commercial pattern or not submitted to Audit for certification.

4. Sindh Small Industries Corporation, Karachi 1987-88 to 2014-15
5. Sindh Sugar Corporation, Hyderabad 1998-99 to 2014-15 (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 |
|---------------------------------------|------------------------------------|