



**AUDIT REPORT
ON THE ACCOUNTS OF
ASSISTANT DIRECTOR LOCAL
GOVERNMENT, ELECTION & RURAL
DEVELOPMENT DEPARTMENT AND
SELECTED UNION COUNCILS**

**DISTRICT SWABI
KHYBER PAKHTUNKHWA**

AUDIT YEAR 2015-16

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATION AND ACRONYMS

AD	Assistant Director
ADP	Annual Development Programme
AP	Advance Para
BOQ	Bill of Quantity
BTR	Black Topping of Road
CCO	Chief Coordination Officer
DAC	Departmental Accounts Committee
DDO	Drawing & Disbursing Officer
DG	Director General
DPR	Disable Persons Rehabilitation
FY	Financial Year
GFR	General Financial Rules
KP	Khyber Pakhtunkhwa
KPPRA	Khyber Pakhtunkhwa Procurement Regularity Authority
LGA	Local Government Act
LG&RDD	Local Government and Rural Development Department
MB	Measurement Book
MFDAC	Memorandum for Department Accounts Committee
NIT	Notice Inviting Tender
PAO	Principal Accounting Officer
PC-I	Planning Commission document-I
PCC	Plain Cement Concrete
R/Bill	Running Bill
R/Imp	Rehabilitation/Improvement
RDA	Regional Directorate of Audit
UAs	Union Administrations
UC	Union Council

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 and Section 168 of Local Government Act 2012 require the Auditor-General of Pakistan to conduct audit of the receipts and expenditure of Local Fund of Union Councils and Assistant Director Local Government.

The report is based on audit of the accounts of Assistant Director Local Government & Rural Development Department and 10 Union Councils, District Swabi for the Financial Year 2014-15. The Directorate General of Audit, District Governments, Khyber Pakhtunkhwa, Peshawar conducted audit on test check basis during 2015-16 with a view to reporting significant findings to the relevant stakeholders. Relatively less significant issues are listed in the Annexure-1 of the Audit Report. The Audit observations listed in the Annexure-1 shall be pursued with the Principal Accounting Officer at the DAC level and in all cases where the PAO does not initiate appropriate action, the audit observations will be brought to the notice of Public Accounts Committee through the next year's Audit Report.

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

The observations included in this Report have been finalized without replies of the Departments and DAC meetings as the same were not convened despite repeated requests.

The Audit Report is submitted to the Governor of Khyber Pakhtunkhwa in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Section 168 of Khyber Pakhtunkhwa Local Government Act 2012 to be laid before appropriate legislative forum.

Islamabad

Dated:

(Rana Assad Amin)
Auditor General of Pakistan

EXECUTIVE SUMMARY

The Directorate General Audit, District Governments, Khyber Pakhtunkhwa, Peshawar, is responsible to conduct the audit of all Assistant Directors Local Government & Rural Development Department and Union Councils (UCs). Its Regional Directorate of Audit Mardan has audit jurisdiction of Assistant Director Local Government & Rural Development Department and UCs of four Districts i.e, Mardan, Swabi, Malakand and Buner.

The Regional Directorate has a human resource of 09 officers and staff, constituting 1878 man days and a budget of Rs11.906 million was allocated during Financial Year 2014-15. It has the mandate to conduct financial attest audit, audit of sanctions, audit of compliance with authority and audit of receipts as well as the performance audit of entities, projects and programs. Accordingly, Regional Director Audit Mardan carried out audit of the accounts of Assistant Director Local Government & Rural Development Department and 10 Union Councils for the Financial Year 2014-15 and the findings included in the Audit Report.

Assistant Director Local Government & Rural Development Department and Union Councils District Swabi perform their functions under Khyber Pakhtunkhwa Local Government Act 2012. Administrative Secretary i.e. Secretary Local Government and Rural Development Department, Khyber Pakhtunkhwa is the Principal Accounting Officer for these local bodies. According to financial provisions of the Act the Secretary Local Government and Rural Development Department, Khyber Pakhtunkhwa authorizes the Annual Budget Statement for these local bodies in the form of budgetary grants.

a. Scope of audit

There are 56 Union Councils in four (04) Tehsils of District Swabi out of which the accounts of 10 Councils were examined in detailed. These Union Councils were selected for detailed audit by excluding the last year audited entities, on the basis of random sample of three UCs from each Tehsils Swabi,

Topi, Razzar & one UC from Tehsil Lahor, keeping in view the available man days.

#	Tehsil	Total No. of UCs	No. of UCs Audited Last year FY 2013-14	No. of UCs Audited This year FY 2014-15
1	Swabi	14	03	03
2	Topi	11	04	03
3	Razzar	20	02	03
4	Lahor	11	1	1

Detail of UCs Audited for the Financial Year 2014-15

#	UC Name	Tehsil
1	UC Gabasni	Swabi
2	UC Kabgani	
3	UC Jandha	
4	UC Ismaila	Topi
5	UC Beka	
6	UC Naranji	
7	UC Manairi	Razzar
8	UC Kotha	
9	UC Kalu khan	
10	UC Manairibala	Lahor

Total auditable expenditure of the Assistant Director Local Government & Rural Development Department and 56 Union Councils, District Swabi for the Financial Year 2014-15, under the jurisdiction of RDA was Rs 64.797 million. Out of this, RDA Mardan audited an expenditure of Rs 44.617 million of AD LGE & RDD and 10 UCs which, in terms of percentage, was 68.80 % of auditable expenditure.

Total receipts of (56) Union Councils District Swabi for the Financial Year 2014-15 under the jurisdiction of RDA were Rs 6.076. Out of this, RDA Mardan

audited receipts of (10) Union Councils, were Rs 1.085 which in term of percentage was 18% of the total receipts.

The total expenditure and receipts of Assistant Director Local Government & Rural Development Department and (56) Union Councils, District Swabi, for the Financial Year 2014-15 were Rs 70.873 million. Out of this, RDA Mardan audited the expenditure and receipts of Rs 45.702 million

b. Recoveries at the instance of audit

Recovery of Rs 0.753 million was pointed out during the audit.

c. Audit Methodology

Audit was conducted after understanding the business processes of Assistant Director Local Government & Rural Development Department and Union Councils, District Swabi with respect to their functions, control structure, prioritization of risk areas by determining their significance and identification of key controls. This helped auditors in understanding the systems, procedures, environment, and the audited entity before starting field audit activity. Audit used desk audit techniques for analysis of compiled data and review of permanent files/record. Desk Audit greatly facilitated identification of high-risk areas for substantive testing in the field.

d. Audit Impact

Audit pointed out various irregularities of serious nature to the management. However, no impact was visible as the management failed to respond and the irregularities could not come to the light in the proper forum i.e DAC.

e. Comments on Internal Control and Internal Audit department

The purpose of internal control system is to ensure effective operation of an organization. It consists of measures employed by the management to achieve

objectives, safeguard assets, ensure accuracy, timeliness and reliability of financial and accounting information for decision making.

One of the basic component of Internal Control System, as envisaged under Para 13 of GFR Volume-I, is Internal Audit which was not prevalent in Assistant Director Local Government & Rural Development Department and Union Councils District Swabi. Neither rules for internal audit have been framed nor internal audit report as required was provided to audit.

f. Key Audit Findings

- i. Irregularity & non-compliance of Rs 16.725 million were noted in three cases.¹
- ii. Weak Internal Control of Rs 66.572 million was noted in three cases.²

g. Recommendations

- i. Disciplinary actions need to be taken to stop the practice of violation of the rules and regulations in spending the public money.
- ii. Recovery on account of fake measurement to be made from the concerned and action be taken against the person at fault.
- iii. Administrator needs to be strengthening internal controls in respect of union councils.
- iv. 90% of zilla tax must be collected for onward release as UCs share.
- v. Collection of local receipts and deposits of government receipts need to be ensured.

¹ Para: 1.2.1.1,1.2.1.2&1.2.1.3

² Para: 1.2.2.1,1.2.2.2 &1.2.2.3

SUMMARY TABLES AND CHARTS

Table 1: Audit Work Statistics

(Rs in million)

#	Description	No.	Budget
1	Total Entities (PAO)in Audit Jurisdiction	01	70.873
2	Total formations in audit jurisdiction	57	70.873
3	Total Entities Audited	01	45.702
4	Total formations Audited	11	45.702
5	Audit and Inspection reports	01	45.702
6	Special Audit Reports	-	-
7	Performance Audit Reports	-	-
8	Other Reports	-	-

Table 2: Audit Observations regarding Financial Management

(Rs in million)

#	Description	Amount under audit observation
1	Asset management	-
2	Financial management	16.725
3	Internal controls	66.572
4	Others	-
Total		83.297

Table 3: Outcome Statistics**(Rs in million)**

#	Description	Expenditure on Acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total for year (2014-15)	Total for the year (2013-14)
1	Outlays Audited	-	25	1.085	19.617	45.702	14.452
2	Amount Placed under Audit Observation /Irregularities of Audit	-	16.725	0.368	66.204	83.297	5.686
3	Recoveries Pointed Out at the instance of Audit	-	-	0.368	0.385	0.753	-
4	Recoveries Accepted /Established at the instance of Audit	-	-	-	-	-	-
5	Recoveries Realized at the instance of Audit	-	-	-	-	-	-

Note: The outcome figures reported for the year 2013-14 pertain to the Ten (10) Union Councils audited last year. Since the PAO is the same therefore, these amounts have been included here to show cumulative effect against the PAO.

Table 4: Irregularities pointed out**(Rs in million)**

S. No	Description	Amount under Audit observation
1	Violation of rules and regulations and principle of propriety and probity.	16.725
2	Reported cases of fraud, embezzlement, theft, misappropriations and misuse of public funds.	-
3	Accounting Errors (accounting policy departure from NAM, 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	Quantification of weaknesses of internal controls system.	66.572
5	Recoverable, overpayments, or unauthorized payments of public money.	-
6	Non-production of record to Audit	-
7	Others, including cases of accidents, negligence etc.	-
Total		83.297

Table 5: Cost Benefit**(Rs in million)**

S. No	Description	Amount
1	Outlays Audited	45.702
2	Expenditure on audit	0.189
3	Recoveries realized at the instance of Audit	0
4	Cost Benefit Ratio	1:0

CHAPTER-1

1.1 Assistant Director Local Government & Rural Development Department and Union Councils, District Swabi

1.1.1 Introduction

District Swabi consists of four tehsils i.e. Swabi, Topi, Razzar and Lahor. There is an Assistant Director Local Government & Rural Development Department and 56 Union Councils. Each Union Council has a Secretary. Assistant Director Local Government & Rural Development Department is Drawing and Disbursing Officer (DDO) for its office and Union Councils of the District Swabi. According to 1998 population census, the population of District Swabi is 1,026,806.

1.1.2 Comments on Budget and Accounts (Variance Analysis)

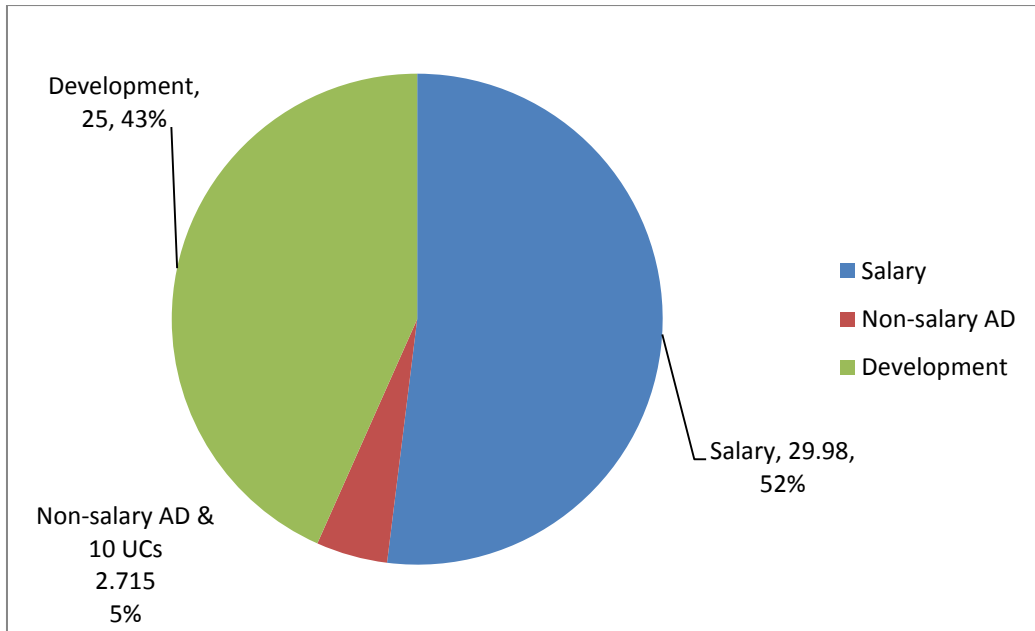
An amount of Rs71.050 million was allocated as budget by the Provincial Government to Assistant Director Local Government & Rural Development Department and (56) Union Councils of District Swabi. An amount of Rs 6.076 million was realized during the financial years 2014-15. Thus making a total of Rs 77.131 million at the disposal of local councils, against which an expenditure of Rs 64.797 million was incurred by the Assistant Director Local Government & Rural Development Department and (56) Union Councils of District Swabi, with a savings of Rs12.334 million during Financial Year 2014-15. Detail is given below:

AD LG&RDD and 56 UCs Swabi 2014-15

2013-14	Budget (Rs in million)	Expenditure (Rs in million)	Excess (+) / Saving (-)	%age of saving out of total savings
Salary	39.478	29.980	(9.498)	77
Non-salary AD	3.413	1.171	(2.242)	18
Non-salary Ucs (56)	9.240	8.646	(0.594)	5
Development	25	25	0	0
Total	77.131	64.797	(12.334)	100
Receipts of 56 UCs	6.076	Audited receipts 1.085 million of 10 UCs		

**EXPENDITURE OF ASSISTANT DIRECTOR LG & RDD AND 10 UCs
DISTRICT SWABI
FY 2014-15**

Rs in million



Detail is given at Annexure-3.

1.1.3 Brief comments on the status of compliance with PAC Directives

The audit reports on the accounts of Assistant Director Local Government & Rural Development Department Union Councils of District Swabi under the LGA 2012, have not yet been discussed in PAC.

1.2 AUDIT PARAS

1.2.1 Irregularity & non-compliance

1.2.1.1 Irregular advertisement of work worth – Rs 5.00 million

According to Chapter III, Procurement of Works and Non Consulting Services, Rule 4(2) of KPPRA Procurement Rules 2014, for all procurement of works above 2.5 million, shall be advertised in print media, appearing in at least one national English and one Urdu daily newspaper with nationwide circulation along with advertising the same either on the procuring entity or Authority website or both.

Assistant Director Local Government & Rural Development Department Swabi advertised a scheme “PCC Road Zarobi” with cost of Rs 5.00 million was tendered in May 07 2015, the NIT was advertised only in one newspaper i.e. Daily Express Peshawar which is against the rules mentioned above. The same was not advertised on the authority web site.

Irregular advertisement of work occurred due to deviation from rules, which resulted un-authentication of the matters.

When pointed out in January 2016, management did not respond to audit observation till finalization of this report.

Audit recommends investigation in the matter and action against the person(s) at fault.

AP # 104 (2014-15)

1.2.1.2 Unjustified payment before actual measurement of work done - Rs 8.394 million

According to Para 220 and 221 of CPWA Code, the Sub Divisional Officer, before making payments to the contractors, is require to compare the

quantities in the bills and see that all the rates are correctly entered and that all the calculations have been checked arithmetically

According to Para 209 (d) of CPWA Code, it is incumbent upon the person, responsible for measurements in the measurement book (MB), to record the correct and actual figures.

Assistant Director Local Government & Rural Development Department Swabi paid Rs 8,393,750 for execution of "R/Imp & BTR of Topi to Zarobi Road District Swabi" as detailed below.

#	Cheque No & Date	Amount (Rs)	Remarks
1	748463/ 26.05.2015	1,876,016	1 st R/Bill (measurement on 11.08.2015)
2	748472/30.06.2015	6,517,734	2 nd R/Bill
Total		8,393,750	

MB No 1 page 15-25 revealed that the measurement of work vide 1st R/Bill was recorded on 11.08.2015 whereas the payment was made on 22.05.2015. Similarly the 2nd R/Bill was also paid on 29.06.2015 even before the measurement date of the 1st R/Bill i.e. 11.08.2015. Similarly, date of 2nd measurement was not available on page 43-50 of MB-01

Hence, the payment was made in advance against the fake measurement, which is against the rule mentioned above.

Payment to contractor before execution of work was due to weak internal control, which caused in violation of rules.

When pointed out in January 2016, management did not respond to audit observation till finalization of this report.

Audit recommends recovery and action against the person(s) at fault

AP # 108(2014-15)

1.2.1.3 Unauthorized utilization of saving and irregular award of works worth – Rs 3.331 million

According to Chapter III, Procurement of Works and Non Consulting Services, Rule 3(c) sub rule (i) of KPPRA Procurement Rules 2014, a procurement entity shall only engage in alternate method by direct contracting, where civil works are to be contracted and are a natural extension of an earlier or ongoing job and it can be ascertained that the engagement of the same contractor will be more economical and will ensure compatibility of results in terms of quality of works subject to limitation of repeat or variation order and sub rule (v)(c) subject to the conditions of contract, a procuring entity may insure a variation order to a contractor to include works which were outside the original scope of works to ensure interests of Government and for reasons of economy, compatibility and efficiency provided that the value of variation order is not more than 15% of the contract value

Assistant Director Local Government & Rural Development Department Swabi during 2014-15, awarded two works “R/Imp & BTR of Sheikh Jana Road” with cost of Rs10,000,000 at contract value of Rs 8,348,028 to a contractor and “R/Imp & BTR of Topi to Zarobi Road District Swabi” with cost of Rs 10,000,000 at contract value of Rs 8,321,863 to another contractor under ADP No. 700 (140345) “Rehabilitation of Rural Roads in selected Districts of KP on need basis”. An amount of Rs 3,330,109 was saved in both the schemes as per detail given below:

#	Scheme	Cost (Rs)	Contractual value (Rs)	Saving (Rs)	Value for repeat order @15% (Rs)	%age increase over allowed value
1	R/Imp & BTR of Sheikh Jana Road	10,000,000	8,348,028	1,651,972	1,252,204	20%
2	R/Imp & BTR of Topi to Zarobi Road	10,000,000	8,321,863	1,678,137	1,248,279	20%
Total		20,000,000	16,669,891	3,330,109	2,500,483	

The works were completed by the contractors based on original BOQs with a cost of Rs 16,669,891 and a saving of Rs 3,330,109. The following deviations were noted during scrutiny.

1. Saving amount was utilized in the same schemes by the same contractors
2. According to the above rules, the engagement of the same contractors would be subject to natural extension in the ongoing job whereas in above cases these were not natural extensions instead utilization of saving in the schemes by revising PC-Is.
3. Furthermore, the value of repeat/variation order shall not be more than 15% of contractual amount; however, in the above cases the value of repeat orders was 20% more than the contract values in violation of above rules.
4. Sanction of the competent authority was not available regarding the utilization of savings in the same schemes.

Irregularities occurred due to deviation from KPPRA Rules, 2014 and weak internal controls, which caused in unauthorized utilization of saving and irregular award of works.

When pointed out in January 2016, management stated that detail reply would be given later on. However, no reply was furnished till finalization of this report.

Audit recommends investigation and action against the person(s) at fault.

AP # 100 (2014-15)

1.2.2 Internal Control Weaknesses

1.2.2.1 Non collection/transfer of 90% Zilla tax share to UCs – Rs 65.819 million

According to Government of Khyber Pakhtunkhwa LG & RDD letter No. Director (LG) 3-3/UCB/2013/353 date 14.05.2014, Chief Coordination Officer may deduct 10% Zilla Council share from Zilla Tax fund and rest of 90% may be release to AD LG & RDD/Administrator UCs on lump sum basis to avoid delay in meeting establishment charges.

Government of Khyber Pakhtunkhwa, Finance Department released an amount of Rs 72,687,600 as grant in lieu of Zilla Tax to Chief Coordination Officer (CCO), District Council Swabi during 2013-14.

Assistant Director Local Government & Rural Development Department Swabi failed to receive 90% Zilla Tax amounting to Rs 65,418,840 from CCO District Council Swabi for onward transfer to the Union Councils of the District. No efforts were made in matter.

Funds were not received from District Council Swabi due to weak internal controls, which resulted in non-transfer of fund to union councils.

When pointed out in January 2016, management replied that the progress would be shown to audit in the matter. However, no progress was shown till finalization of this report.

The recommends transfer of funds to concerned union councils of the District and action against the person(s) at fault.

AP # 101 (2014-15)

1.2.2.2 Non deposit of marriage registration fee in UCs accounts – Rs 0.368 million

According to Para 13 of the bye laws framed under section 42 of Local Government Act 2013, the Nikah Registrars are required to deposit nikah registration fee @Rs 200/registration in the union council bank accounts.

During audit of the selected union councils District Swabi for the year 2014-15, it was noticed that 1842 marriages were registered in the following union councils but nikah registrar failed to deposit the required fee in the bank accounts of these union councils.

#	Name	Marriage	Amount (Rs)
1	UC Gabasni	227	45,400
2	UC Kabgani	191	38,200
3	UC Jandha	195	39,000
4	UC Ismaila	163	32,600
5	UC Beka	92	18,400
6	UC Naranji	14	2,800
7	UC Manairi	273	54,600
8	UC Kotha	245	49,000
9	UC Kalu khan	189	37,800
10	UC Manairibala	253	50,600
Total (@ Rs 200/Certificate)		1,842	368,400

Non deposit occurred due to weak internal controls, which resulted in loss to Government.

When pointed out in February 2016, management did not respond to audit observation till finalization of this report.

Audit recommends recovery/reconciliation of bank accounts of these 10 union councils besides similar action for the other 46 union councils of District Swabi.

AP # 112 (2014-15)

1.2.2.3 Non deposit of enlistment fee – Rs0.385 million

According to Para 8 and 26 of the General Financial Rules Volume I, each administrative department to see that the dues of the Government are correctly and promptly assessed, collected and paid into Government Treasury.

Assistant Director Local Government & Rural Development Department Swabi, collected Rs385,000 on account of enlistment fee from various contractors during 2014-15. The amount was deposited in to designated bank account No 4025831045 instead of Treasury as Government revenue.

Non deposit of enlistment fee into the Government treasury occurred due to weak internal controls, which resulted in loss to Government.

When pointed out in January 2016, management replied that the progress would be shown to audit in the matter. However, no progress was shown.

Audit recommends deposit of enlistment fee into Government treasury and action against the person(s) at fault.

AP # 99 (2014-15)

ANNEXURE

Annex-1

MFDAC Para

(Rs in million)

#	AP #	Department	Caption (Remarks)	Amount
1	95	AD LG&RDD	Non deposit of cost of tender form fee	0.078
2	96	-do-	Unauthentic release of securities (not fulfilling codal formalities)	2.493
3	98	-do-	Unauthentic deposit of Stamp Duty, Professional Tax and non-transfer of DPR fund	0.143
	97	-do-	Unauthentic deposit of Income Tax (no acknowledgment of the income tax department)	1.468
5	102	-do-	Non surrender of savings	0.084
6	103	-do-	Execution of item of work less in BOQ (copies of revised BOQs were produced, however, revised TS was not available)	2.761
7	105	-do-	Unauthorized payments from developmental fund	0.480
8	106	-do-	Improper maintenance of MB for works (dates measurement and completion etc were not recorded,	4.121
9	107	-do-	Unjustified payment on account of excess execution of work	0.808
10	109	-do-	Irregular payment of development fund without pre-audit	25
11	110	Union Council (Gabasni, Naranji, ManairiPayan&Bala)	Irregular appointment of contingent pay staff in UCs and unauthorized expenditure	0.670
12	111	Union Council (Manairibala&Payan)	Unauthorized business with summit bank worth (banned by provincial government)	0.448
14	113	Union Council (Gabasni, Manairi& Kota)	Unauthorized payment of salaries Recovery of bonus	0.657
Total				39.211

Annex-2**Audit Impact Summary**

S.No	Rules/System/Procedure	Audit Impact
1	The Auditor General has the authority to require any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to transactions to which his duties in respect of audit extent.	DAC meetings could not be convened due to which audit impact is not visible.
2	According to GFR, all dues of the Government should be correctly and promptly assessed, collected and paid into Government Treasury.	-do-
3	According to terms and conditions of the contracts; the contract for the present year must have 15% increases over the bid of last year.	-do-
4	Withholding tax collection under section 236A on sale of property was required at enhanced rate of 10%.	-do-
5	The procuring entity shall use open competitive bidding as the principal method of procurement for the procurement of goods over the value of Rs 100,000.	-do-

Annex-3**Budget and Expenditure Summary of AD LG&RDD and 10 UCs District Swabi
Financial Years 2014-15**

2013-14	Budget (Rs in million)	Expenditure (Rs in million)	Excess (+) / Saving (-)
Salary	39.478	29.980	(9.498)
Non-salary (AD)	3.413	1.171	(2.240)
Development (AD)	25	25	0
Non-salary UCs (10)	1.650	1.544	(0.106)
Total	69.541	57.695	(11.844)
Receipts of 10 UCs	1.085		