



**AUDIT REPORT
FOR THE AUDIT YEAR 2003-2004**

**AUDIT REPORT
ON
THE ACCOUNTS OF
CENTRAL ZAKAT FUND
NATIONAL LEVEL HEALTH
INSTITUTIONS
(REGULARITY AUDIT)**

**AUDITOR GENERAL OF PAKISTAN
ISLAMABAD**

- | | |
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| 1. AUDIT REPORT NO. | ZT/R/2003-2004/C-1 |
| 2. ACCOUNTS YEAR | 2002-2003 |
| AUDITED: | |
| 3. AUDIT CONDUCTED BY: | DIRECTORATE OF ZAKAT AUDIT 1.1.2004 TO 30.4.2004 |
| 4. HEAD OF AUDIT OFFICE: | DIRECTOR ZAKAT AUDIT |

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PREFACE

The audit of Zakat Fund is carried out by AGP in terms of Zakat and Ushr Ordinance, 1980. This report is based on the accounts of the Zakat funded National Level Health Institutions for the year 2002-2003.

2. The audit report contains systemic issues in Zakat Administration and other irregularities observed during the audit of above-mentioned accounts. The audit paras were initially issued to the Conveners of Health Institutions along with a copy to the Principal Accounting Officer during 2003-2004. Despite repeated reminders, the paras could not be discussed in the DAC meeting.

3. Irregularities of lesser amount and severity detected by audit have been referred to the Principal Accounting Officer through a separate memorandum for examination by the Departmental Accounts Committee.

4. The Audit Report is submitted to the President of Islamic Republic of Pakistan for onward transmission to National Assembly vide Section 11(5), Chapter IV of Zakat and Ushr Ordinance, 1980.

Islamabad
Dated

(MUHAMMAD YUNIS KHAN)
Auditor-General of Pakistan

Glossary

| | |
|-------|---|
| AGP | Auditor General of Pakistan |
| AIR | Audit & Inspection Report |
| CAZ | Chief Administrator Zakat |
| CENAR | Centre for Nuclear Medicines and Radiotherapy |
| CZC | Central Zakat Council |
| CZF | Central Zakat Fund |
| DHQ | District Headquarter |
| DZC | District Zakat Committee |
| DZF | District Zakat Fund |
| HWC | Health Welfare Committee |
| ICT | Islamabad Capital Territory |
| IRNUM | Institute of Radiotherapy & Nuclear Medicines |
| LZC | Local Zakat Committee |
| LZF | Local Zakat Fund |
| MFDAC | Memorandum for Departmental Accounts Committee |
| MSO | Medical Social Officer |
| NICH | National Institute of Child Health |
| NICVD | National Institute of Cardio Vascular Diseases |
| PZC | Provincial Zakat Council |
| PZF | Provincial Zakat Fund |
| ZCCA | Zakat Collection & Controlling Agency |
| ZCO | Zakat Collecting Office |
| Z&U | Zakat and Ushr |

Executive Summary

Introduction

The Zakat system was introduced in Pakistan through an Ordinance in 1980 as a part of the overall policy of Islamization in the country. The Zakat Fund is a public account money, which can be utilized for specific purposes as defined under Shariah. It is not available for appropriation for the Government functions. It is utilized on various programmes, namely, guzara allowance, educational stipends, deeni madaris, social welfare/rehabilitation and marriage of mustahiq women.

The Central Zakat Council (CZC) determines the annual Zakat budget size, and territorial/programme-wise shares. CZC accordingly releases funds from the Central Zakat Fund (CZF) to Provincial Zakat Funds (PZFs), National Level Health Institutions, Northern Areas, etc. The Provincial Zakat Councils transfer funds from PZFs to District Zakat Funds. The District Zakat Committees transfer funds to Local Zakat Committees and District Level Health Institutions for making disbursements to mustahiqeen. The grants of CZF/PZFs are released through bank advices, while other payments are made through cheques.

Zakat Funds are subject to annual audit by the Auditor General of Pakistan in terms of Section 11(7) of the Zakat and Ushr Ordinance 1980. The Directorate of Zakat Audit performs audit function to see that the Zakat Fund is being utilized in accordance with provisions of the Zakat Ordinance. Keeping in view the limited resources, full audit coverage is not possible, therefore sampling is done and approximately 50% formations receiving Zakat Fund are selected for audit every year.

The PAC while discussing this report on 1st April, 2015 issued directions out of which 02 paras were complied with and action taken. Besides, an amount of Rs 494,262 was recovered. The PAC directives are attached as **Annexure-A**.

Findings

The Central Zakat Council has prescribed rules and procedures for administering the Zakat Funds. During audit, it was observed that the auditee organizations did not follow those rules and procedures in number of cases. In general, internal controls in the auditee organizations were found to be very weak. The report contains, in general, the systemic issues to be addressed at Central Zakat Council level (Chapter 1) and irregularities observed during audit of NLHIs funded directly by the CZC (Chapter 2). The irregularities are summarized below:

- a. Extra charge on Zakat Fund *(Para 1, Ch. 2)*
- b. Purchase of medicines without open tendering *(Para 2, Ch. 2)*
- c. Payment without determination of istehqaq of patients by the LZCs *(Para 3, Ch. 2)*
- d. Payment to suppliers in cash/through open cheque *(Para 4, Ch. 2)*
- e. Un-authorized deduction of bank charges *(Para 5, Ch. 2)*
- f. Non-surrender of unspent balances *(Para 6, Ch. 2)*
- g. Non-deduction of income tax *(Para 7, Ch. 2)*

An abstract of nature of audit paras and financial effect is given in the table below.

| S. No. | Nature | Ref. to Paras | Amount (Rs in Million) |
|--------|--------------------|---------------|---------------------------|
| 1. | Violation of rules | 2,3,4,6 | 22.950 |
| 2. | Recoverables | 1, 5, 7 | 11.901 |
| Total | | | 34.851 |

It may, however, be added that the irregularities included in this Audit Report are of illustrative nature and not exhaustive requiring the executive to take remedial steps after thoroughly revamping the system.

Recommendations

Following recommendations are made in respect of NLHIs. However, general recommendations have been included in the Chapter 1 of this report.

- a. Unauthorized extra charge to Zakat Fund should be got refunded. Steps need to be taken to ensure that Zakat Fund is utilized for authorized purposes only in accordance with laid down procedure.
- b. Government rules and regulations regarding procurement of stores should be followed while purchasing of medicines.
- c. It should be ensured that medical facilities are extended to patients after verification of their Istehqaq, as per laid down procedure.
- d. Payments to medicine suppliers should be made through crossed cheques.
- e. Steps need to be taken at appropriate level to stop deduction of bank charges and refund of the same to CZF be ensured.
- f. Unspent balance should be refunded to CZF. Instructions of CZC regarding surrender of unspent balances at the year-end should be adhered to invariably and punitive action taken against person(s) at fault.
- g. While making payment to medicine suppliers, it should be ensured that income tax at prescribed rate is deducted from the bills.

Section-I Comments on Budget

The Central Zakat Council determines the annual Zakat budget size, and territorial and programme-wise shares. The budget provides distinct allocations for each territory, disbursement programme and administrative expense i.e., up to a maximum of 10% of the total budget. Zakat Fund is allocated to each district on the basis of its population. The provincial share has been determined after making direct lump sum releases to NAs, NLHIs, natural calamities/emergency relief and others (administrative/non-administrative, special Eid grant) out of total budget. During 2002-2003, out of total budget of Rs 4.710 billion, a sum of Rs 40 million, Rs 400 million and Rs 200 million was allocated to NAs, NLHIs, and emergency relief respectively. The remaining budget of Rs 3.540 billion was distributed to the Provinces and ICT in the proportion as per Table 1. In addition to regular Zakat disbursement programmes, a sum of Rs 5 billion was allocated for permanent rehabilitation scheme.

Table 1: Provincial/Territorial Share of Zakat Distribution

| <i>Province/Territory</i> | <i>Share (%)</i> |
|-----------------------------|------------------|
| Punjab | 56.95% |
| Sindh | 23.53% |
| NWFP | 13.78% |
| Balochistan | 5.11% |
| Islamabad Capital Territory | 0.63% |

A sum of Rs 22.100 billion was available in CZF on 1st July 2002. An amount of Rs 6.291 billion was received during 2002-2003. Out of available funds, a sum of Rs 9.833 billion was released in two installments to Provincial Zakat Administration, Islamabad Zakat & Ushr Committee (ICT), NA Zakat Council and National Level Health Institutions for disbursement to mustahiqeen through District/Local Zakat Committees, MORA Scholarship committees, Health Welfare Committees of health institutions, etc., during the year 2002-2003. It was observed that substantial amount of Rs 18.566 billion was lying undisbursed in the CZF on 30.6.2003, which reflects that institution of Zakat Fund is not working optimally despite requirements of Shariah for prompt distribution of Zakat money, and for decreasing poverty level in the country.

Section-II
AUDIT REPORT
Chapter 1
SYSTEMIC ISSUES

1. Utilization of Zakat Fund

An amount of Rs 18.566 billion was lying unutilized in the Zakat Fund on 30th June 2003 after making releases to all Zakat disbursing authorities for the year 2002-2003. Such a huge unspent balance reflects that institution of Zakat Fund is not working optimally despite requirements of Shariah for prompt distribution of Zakat money, and for decreasing poverty level in the country. Measures, therefore, need to be taken to ensure full utilization of Zakat Fund so that it could bring benefits to poor/indigent people and help reduce the poverty level.

Currently the Zakat Fund is released to each district on the basis of its population instead of poverty level in that district. The poverty level around the country is not the same, and some districts are more underdeveloped than others and their per capita income is less than the others. So it would be rational to relate Zakat disbursement to the poverty level in each district rather than its population only. Moreover, it is being felt that the rush of expenditure at the year-end can be avoided, if timely releases from CZC to PZCs/DZCs are ensured.

2. Zakat Fund for Health Care

The lengthy and cumbersome procedure of assistance from Zakat Fund for patients of acute illness is non-conducive. A relief materializing after a lengthy procedure can be of no use for patients of acute illness, like chest infection, diarrhea, fever, etc. The existing procedure has encouraged the creation of a class of regular / chronic cases, well versed with the intricacies of rules and procedures. Therefore, the existing procedure for availing assistance should be simplified to make it easy and friendly for the patients, by introducing one window operation. The time lag should be reduced to make it possible for patients to get the prescribed medicines the same day.

The convenor of HWC in most of the institutions is Medical Superintendent, who is always very busy in the all round affairs of the institution and cannot spare due time for this assignment, thinking it as a secondary job. Furthermore, he/his staff is un-aware of the basic rules and procedures of the program, resulting in financial and administrative indiscipline. It is therefore, suggested that steps should be taken to ensure that the Convenors enforce all the prescribed rules and regulations to improve financial discipline.

Government rules and regulations regarding the procurement of medicines are not being followed by the HWCs. In most of the cases purchases have been made without calling open tenders through advertisements in newspapers to ensure most economical purchases, and even without executing a written contract agreement with the suppliers. It is therefore, suggested that standard procurement procedures should be adopted and necessary fund be allocated to health institutions for advertisement of tenders.

3. Permanent Rehabilitation Scheme

The Permanent Rehabilitation Scheme of Zakat was introduced as a strategy to address the problem of poverty by designing it in such a way that its aim and objectives integrate fully with poverty reduction strategy of the Government (PRSP). However, it has been noticed that the scheme has not been evaluated so far in order to assess its impact and contribution towards poverty reduction. There are instances that the money has been spent by the beneficiaries for purposes other than the establishment of business in order to create a permanent source of income for the targeted household and delete them from the list of guzara allowance. The monitoring and evaluation tools introduced in the scheme are not in place so far. As such, it is felt by audit that the money is being doled out in a casual manner and dependence is being created rather than rehabilitation. Other aspects of the scheme are commented upon as follows:

- a. Ceiling prescribed in the Packages A to D are not being observed. There are also instances, where rehabilitation grant has been paid for such trades, which are not included in the packages.
- b. Trades/small businesses included in Package A to D have the capability of misinterpretation as various trades overlap in the packages with slight and un-understandable variation in

nomenclatures. For example, Package-A contains items with nomenclatures “Shops for small trades” which may be misinterpreted. Moreover, trade namely “sewing machines” matches with a trade “sewing/tailoring under Package-C.

- c. In certain cases, disbursement has been made without observing the minimum qualification of beneficiaries prescribed for assistance under particular trade.
- d. The amount in the application form has been increased/decreased without the signature of the applicants.

4. Payment through Crossed Cheques

i). Payment through crossed cheques is a secured mode to ascertain that the actual payee has received the payment. It has been observed that in a large number of cases, the LZCs disbursed Zakat Fund to mustahiqeen in cash or through open cheques instead of crossed cheques. The local management replies that banks do not cooperate with mustahiqeen in opening their accounts, therefore, the LZCs are forced to make disbursement through open cheques. Audit feels that there is a lack of liaison between Zakat administration and bank authorities to facilitate the mustahiqeen. So there is a need to adopt necessary measures to ensure that banks open the accounts of mustahiqeen without any hesitation.

ii). There have been large number of instances, where DZCs have released funds to LZCs through bank advice instead of crossed cheques. The accounting procedure for DZFs was devised in 1994. Most of the provisions have since been deleted/updated through subsequent instructions and guidelines by CZC. So there is need to revise and reformulate the accounting procedure so as to remove instructional ambiguities leading to misinterpretation by DZC and set a uniform procedure regarding transfer of funds from DZF to LZFs.

iii). Bank charges are being deducted by banks from the accounts of Zakat committees, which is an extra charge to the Zakat Fund. Steps therefore, need to be taken to stop deduction of bank charges.

5. Non-Surrender of Unspent Balances

It has been observed that Zakat committees, especially Local Zakat Committees and Health Welfare Committees do not surrender unspent balance at the year-end, despite instructions of CZC. This act tantamount

to parallel budgeting and utilization of funds by carrying forward the balances to the next financial year. In response to audit observations, the provincial/local management has replied that instructions were not clear and in some cases were not received by them. So there is a need to devise a comprehensive procedure regarding transfer of unspent balance to CZF by all tiers of Zakat administration to ensure prompt surrender of unspent balance and achievement of desired objective behind it. Moreover, there is a need to determine a threshold of minimum balance to be retained in the Zakat Fund accounts to keep the bank account operative.

6. Improper Documentation

It has been observed that records like Istehqaq Register, Personal Register, Cash Books, etc. are not properly maintained. Full particulars, copies of NICs, specimen signatures/thumb impressions of mustahiqeen are not placed on record. To ensure identity of right persons, there is a need to computerize the record of mustahiqeen at district level, in a manner that their signatures/thumb impressions obtained in token of receipt of payment could be compared electronically to ascertain the authenticity. The resolutions passed in the Provinces have been formatted and designed differently leading to discretionary maintenance of minutes of the DZC/LZC meetings and attendance. There is a need to standardize the resolution form/register for the sake of uniformity.

7. Internal Audit

Provincial Zakat administrations have very recently established internal audit setups within their organizations. However, the strength of the internal audit staff, their experience and qualification is not commensurate with the scope of internal audit. No audit plans, reporting channels and follow up mechanism has so far been devised. Therefore, internal audit needs to be strengthened.

8. Recruitment, Training and Job Description of Zakat Disbursing/Accounting Personnel

Appointments/removal of field clerks are being made by every new chairman of District Zakat Committee without the vote of majority and endorsement of PZC. There is a need to improve recruitment procedure, specifying selection criteria, competencies, qualification, etc. Moreover,

detailed job-description of field clerks should be formulated besides evaluation procedure.

Generally, the chairmen of LZCs/DZCs and their staff lack in knowledge of disbursement and accounting procedures. Apparently, no arrangements are in place for the capacity building of the Zakat disbursing personnel. The Zakat administration therefore, should make necessary arrangements of training of persons related to disbursement and accounting of Zakat money so that transparent disbursement could be ensured.

9. Vocational Training Institutes (Educational Stipend Technical)

Para No. 4.1 of Zakat Disbursement Procedure 2003 regarding educational stipend (Technical) states: “A maximum monthly amount of Rs. 1000/- per student shall be payable as MORA scholarship. Where necessary, the ceiling will be relaxable for reasons to be recorded in writing by MORA Scholarship Committee, subject to final approval of the concerned DZC.”

As it indicates, the ceiling prescribed for educational stipends (Technical) is relaxable only in certain cases after recording reasons by MORA scholarship committee subject to the final approval of DZC. However, it has been observed that instead of case-to-case basis, the ceiling has been relaxed in general by the DZCs all over the Punjab. It is suggested that the rule should be followed in true letter and spirit and if there is any substantial change in maximum limit involving huge number of cases, it should be relaxed/approved by CZC.

10. Selection of Ineligible Chairman LZC

In a number of cases chairmen LZC do not possess minimum prescribed qualification of secondary school certificate, while the qualification for the chairman of DZC has not been prescribed. Steps, therefore, need to be taken to ensure that only such persons are selected as chairmen LZCs, who possess secondary school certificate. Moreover, similar qualification should also be prescribed for chairman of DZC.

The transfer of Zakat Fund to the local level and in the hand of purely private persons i.e. Chairman Local Zakat Committee who is the sanctioning as well as disbursing authority is not much appreciable. The sanctioning and disbursing authorities should be bifurcated. As such it is desirable that the job of chairman Local Zakat Committee be restricted to

determination of istehqaq of mustahiqeen and cheque be distributed by the District Zakat Committee direct to the bank accounts of mustahiqeen under intimation to the mustahiqeen concerned.

11. Non-reconciliation of Accounts

Reconciliation of accounts is a control instrument to ensure the accuracy of accounts. The District Zakat Administrations are not carrying out reconciliation of accounts on regular basis. Resultantly there exists substantial variation in departmental and District Accounts Office figures. There is a need to adopt measures to ensure timely/regular reconciliation.

12. Administrative Expense

It is observed that funds allocated for administrative expense are being utilized for purposes other than administration. In most of the cases, expenditure on account of administration is being incurred in disregard to the provisions of General Financial Rules (GFR) and without maintaining the relevant record. There is a need to ensure that these funds are spent in conformity to the provisions of GFR and record is maintained properly, besides measures to stop its diversion towards other activities.

13. Discretionary Change in Jurisdiction of LZCs

There has been instances that District Chairman transferred LZCs from their original locality to another without obtaining the approval of PZC and population certificate from the department concerned. By changing jurisdiction of LZCs, mustahiqeen are deprived. Thus there is a need to adopt measures to ensure that jurisdictions of LZCs are not changed without justification and approval of PZC.

14. Non-production of Record and Response of Executives

There has been a growing trend of non-production of records to audit. There are certain cases in which out going chairman takes away the record pertaining to his period and is not produced to audit. The Zakat authority issue new registers to the coming chairman without an inquiry against the outgoing chairman. Moreover, response to audit paras is slow and executives often could not arrange DAC meetings timely. Steps, therefore need to be taken to ensure that complete record is produced to audit by the management, and prompt response is furnished to audit paras besides timely holding of DAC meeting.

Chapter 2

NATIONAL LEVEL HEALTH INSTITUTIONS

1. Extra Charge on Zakat Fund – Rs 11.397 Million

Para (iv) (8) of Zakat & Ushr Division letter No.1 (1)/95/ZD dated 13-7-1995 states: “the hospital aided by the Zakat Fund cannot charge any expenditure for surgical operation, doctor fee and for any facility already available in the health institution. As a matter of fact the Zakat Fund cannot be taken as a source of income for that hospital.”

Seven (7) HWCs charged a sum of Rs 11,397,449 to Zakat Fund on account of diet charges, CT scan charges, hospital charges, advertisement charges, staff share and salary. The action of the management was held irregular as services available in the hospital were required to be provided free of charge to mustahiq patients.

The irregularity was brought to the notice of PAO through AIR issued during 2003-04, but no response was received. Furthermore, the PAO could not arrange DAC meeting despite repeated requests. As a consequence of the audit process, the audit concludes the following:

7 HWCs un-authorisedly charged a sum of Rs 11,397,449 to Zakat Fund on account of diet charges, CT scan charges, hospital charges, advertisement charges, staff share and salary.

The Public Accounts Committee (PAC) is requested to advise the Principal Accounting Officer to take necessary measures for rectification of the situation.

(Para No.2, HWC, Civil Hospital, Karachi – CT Scan Rs 109,900)

(Para No.4, HWC, KTH, Peshawar – CT Scan Rs 22,700)

(Para No.4, HWC, Sheikh Zayed Hospital, Lahore - Hospital Charges Rs 3,502,097)

(Para No.3, HWC, Kidney Centre, Karachi – Hospital charges Rs 7,502,201)

(Para No.4, HWC, Lahore General Hospital, Lahore –Advertisement Charges Rs 9,827)

(Para No.1, HWC, Fauji Foundation Hospital, Rawalpindi – Staff share Rs 229,724)

(Para No.10, HWC, Nishtar Hospital, Multan – Salary Rs 21,000)

2. **Purchase of Medicines without Open Tendering – Rs 12.997 Million**

Para 144 of GFR Volume-I read with Finance Division OM No.1.(7)R.12/88-Exp-3/2002 dated 26-3-2002 provides: “all procurements costing Rs 40,000 and above are required to be made by adopting open tender system.”

Five HWCs purchased medicines worth Rs 12,996,895 without adopting open tender system. Thus appropriate method of procurement to obtain most economical rates by fair competition among suppliers was set aside.

Audit pointed this out to the PAO through AIR issued in 2003-04. The management neither responded nor, held DAC meeting, the audit is therefore, of the view that:

Five HWCs purchased medicines worth Rs 12,996,895 without adopting open tender system.

The Public Accounts Committee (PAC) may like to issue directions to the Principal Accounting Officer for appropriate action on the subject.

(Para No.4, HWC, Civil Hospital, Nawabshah – Rs 5,280,654)

(Para No.2 , HWC, NICH, Karachi - Rs 5,012,155)

(Para No.2 , HWC, Lyari General Hospital, Karachi - Rs 948,330)

(Para No.3, HWC, Gulab Devi Hospital, Lahore – Diet Charges Rs 1,755,756)

3. **Payment without Determination of Istehqaq of Patients by the LZC's – Rs 0.380 Million**

Para 18 of the Zakat Disbursement Procedure for Health Institutions approved by the CZC in its meeting held on 16-5-98, states: “the *istehqaq* of a *mustahiq* patient shall be determined by the respective LZC”.

A sum of Rs 380,482 was disbursed by three HWCs on treatment of patients out of Zakat Fund without obtaining *istehqaq* certificates, which was irregular.

As a result of audit examination and due process whereby the above audit finding was issued to the PAO during 2003-04, the audit concludes the following:

A sum of Rs 380,482 was spent by three HWCs on treatment of patients without obtaining *istehqaq* certificates.

The Public Accounts Committee (PAC) may kindly advise the Principal Accounting Officer for taking corrective measures accordingly.

(Para No.3, HWC, Civil Hospital, Karachi – Rs 247,965)

(Para No.1, HWC, Civil Hospital, Larkana – Rs 42,207)

(Para No.2, HWC, Kidney Centre, Karachi – Rs 90,310)

4. **Payment of - Rs 6.878 Million to Suppliers in Cash**

Para-19 of Zakat Disbursement Procedure approved by the CZC in its 73rd meeting held on 16-5-1998 states: “payment shall be made through crossed cheques by the respective HWC.”

The HWC, Sir Ganga Ram Hospital, Lahore made payment of Rs 6,878,348 to suppliers of medicines, in cash instead of crossed cheques, which was in violation of laid down procedure.

The audit finding was issued to the Ministry during 2003-04. But there was no response. The audit, therefore, concludes that:

Rs 6,878,348 were paid to suppliers of medicines, in cash instead of crossed cheques.

The Public Accounts Committee (PAC) is requested to consider the matter and issue directions to the Principal Accounting Officer for appropriate action on the subject.

(Para No.1, HWC, Sir Ganga Ram Hospital, Lahore – Rs 6,878,348)

5. Un-authorised Deduction of Bank Charges – Rs 0.056 Million

Para 8-C (III), Chapter-IV of Zakat and Ushr Ordinance, 1980 (amended up to 31-5-1997) stipulates: “the banking services and the services connected with the assessment, collection or disbursement of Zakat and Ushr realizable on compulsory basis under this Ordinance shall be rendered free of charge”.

A sum of Rs 56,023 was deducted as bank charges by banks from the accounts of four Health Welfare Committees, which was an extra charge on Zakat Fund.

As a result of audit examination and due process, the above audit finding was issued in 2003-04 to the Principal Accounting Officer. After receiving no response from the PAO, the audit’s opinion is:

A sum of Rs 56,023 was un-authorisedly deducted as bank charges by banks from the accounts of 4 HWCs.

Keeping in view the findings of audit, the Public Accounts Committee (PAC) may kindly direct the Principal Accounting Officer for taking necessary action.

(Para No.2, HWC, Sheikh Zayed Hospital Lahore, – Rs 4,405)

(Para No.5, HWC, INMOL, Lahore – Rs 12,080)

(Para No.9, HWC, Nishtar Hospital, Multan – Rs 35,988)

(Para No.2, HWC, Civil Hospital, Nawabshah – Rs 3,550)

6. Non-Surrender of Unspent Balances – Rs 2.695 Million

Para 20 minutes of 85th meeting of CZC held on 18.5.2002, provides: “the unspent balances of Zakat budget as on 30.06.2003 are to be surrendered to the Central Zakat Fund Account No. 08 .”

Three HWCs did not surrender unspent balance of Rs 2,695,411 lying with them on the year-end. The amount was not refunded to the CZF and carried forward to the next financial year, which was against the above stated decision. Thus unspent balance was retained un-authorisedly.

Audit pointed out the irregularity to the PAO through AIR issued during 2003-04, but no reply was given during the audit process. The audit, therefore, concludes the following:

3 HWCs did not surrender unspent balance of Rs 2,695,411 lying with them on 30.6.2003.

The Public Accounts Committee (PAC) may like to issue directions to the Principal Accounting Officer for appropriate action on the subject.

(Para No.1, HWC, Lahore General Hospital, Lahore – Rs2,686,013)

(Para No.5 , HWC, Civil Hospital, Nawabshah - Rs 3,506)

(Para No.2 , HWC, DHQ Hospital, Rawalpindi - Rs 5,892)

7. **Non-Deduction of Income Tax – Rs 0.448 Million**

Section 153 of Income Tax Ordinance 2001 read with first schedule of the ordinance requires the purchaser to deduct income tax at source from the payment to supplier @ 3.5% of the cost of goods supplied.

The HWC, Punjab Institute of Cardiology (PIC) paid a sum of Rs 12,800,500 to M/s Pharmacy, PIC, Lahore on account of supply of medicines during 2001-2003, but income tax amounting to Rs 448,017 was not deducted from the bills paid.

Audit pointed this out to the local management and the PAO through AIR issued during 2003-04. While discussing the para during audit, the Medical Social Officer produced a tax exemption certificate in favour of PIC, which was not acceptable, as it was in favour of PIC and not M/s Pharmacy PIC. Further, the management could not clarify if the supplier, M/s Pharmacy PIC was a legitimate component of the PIC or otherwise.

As a result of audit examination and due process, it is concluded that:

Income tax amounting to Rs 448,017 was not deducted from the bills paid to M/s Pharmacy, PIC, Lahore.

Keeping in view the findings of audit, the Public Accounts Committee (PAC) may kindly direct the Principal Accounting Officer for taking necessary action.

(Para No.5, HWC, PIC, Lahore)

Section-III

Comments on Internal Controls

1. Internal control is a management tool. It includes all measures, plans and procedures, prescribed by the management for:
 - a. safeguarding its assets against frauds, wastes or misuse,
 - b. securing compliance with laws, rules, regulations, management policies, objective and directives,
 - c. evaluating performance and promoting economic and efficient operations,
 - d. providing quality services, and
 - e. ensuring accuracy and reliability of accounting and operating data.

2. The irregularities pointed out in the Audit Report lead to general conclusion that internal controls are very weak and ineffective. Some specific examples, which provide ample evidence about ineffectiveness of the internal controls in the administration of Zakat, are following:
 - a. Authorization of payment: Zakat Fund was un-authorisedly charged for services, which were available within the health institutions.

 - b. Payment through Crossed Cheque: Payment to Supplier of medicines etc. is required to be made through crossed cheque, however in a number of cases payment was allowed in cash or through open/self cheques.

 - c. Proper Documentation: The basic documents like istehqaq certificates, tenders and contract agreements are not being maintained, as required under rules /instructions of the Government.

 - d. Internal Auditing: Internal audit at Divisional level, introduced very recently, needs to be strengthened further.

- e. Training: The Medical Social Officers (MSO) and other staff were not aware of disbursement and accounting procedures, which results in recurrence of irregularities. Furthermore, arrangements have never been made by the management to impart training to MSO, clerks and internal audit staff for creating awareness of rules, regulations and accounting procedures.

Section-IV
FINAL POSITION OF AUDIT PARAS & MFDAC

| | |
|----------------------------------|---|
| Name of Audit Office: | Directorate of Zakat Audit, Islamabad. |
| Name of Department/ Ministry: | Ministry of Religious Affairs, Zakat, Ushr and Minorities Affairs, Islamabad |
| Audit Report for the Year: | 2003-04 |

| Rs in Million | | | |
|---------------|--|-----------------|---------------------------------|
| Annex | Particulars/Results of Discussion | No. of Paras | Amount involved (Million) |
| A | Observations issued during audit. | 151 | 249.890 |
| B | Paras settled after discussion with Head of Office. | | |
| B-1 | Settled after verification of record. | | |
| B-2 | Settled after regularisation. | - | - |
| B-3 | Settled after recovery made. | - | - |
| | Total Paras reported in AIR as:- | 151 | 249.890 |
| | a) Ordinary Paras. | 128 | 215.039 |
| | b) Advance Paras. | 23 | 34.851 |
| | Balance of Advance Paras carried forward for D.A.C. | | |
| C | Paras settled after DAC | 0 | |
| C-1 | Settled after verification of record. | | |
| C-2 | Settled after regularisation. | | |
| C-3 | Settled after recovery made. | | |
| | Balance | 151 | 249.890 |
| D | Paras settled under court decision. | | |
| B+C+D | Total Paras settled. | 0 | |
| E | Paras pending for verification of record. | 58 | 37.949 |
| F | Paras pending for regularization. | 58 | 178.994 |
| G | Paras pending for recovery. | 35 | 32.947 |
| H | Paras pending for court decision. | 0 | |
| E+F+G+ H | Total Paras pending. | 151 | 249.890 |
| I | Pending being clear cut embezzlement cases (already included in E to H above) | | |
| J | Paras printed in Audit Report | 23* | 34.851 |
| B-3+C- 3+G | Recoveries at the instance of Audit | 03 | 0.037 |

*Grouped in 7 paras.

AUDIT REPORT FOR THE YEAR 2003-04
(DIRECTORATE OF ZAKAT AUDIT)
Islamabad

1. i) PARA-1 SUB PARA 1.1 AR 2003-04
EXTRA CHARGES ON ZAKAT FUND .RS. 11.397 MILLION

The Audit pointed out that the Health Welfare Committees (HWCs) of seven Hospitals charged a sum of Rs 11,397 to Zakat Fund on account of diet charges, CT scan charges, hospital charges, advertisement charges, staff share and salary. The action of the management was held irregular as services available in the hospital were required to be provided free of charge to mustahiq patients as per para (iv) (8) of Zakat &Ushr Division letter No. 1(1)/95/ZD dated 13-7-1995.

The PAO informed that the expenditure on material of CT Scan, the concerned patients get benefit of free treatment more than above limits with reasons duly recorded by the HWC as per procedure. The material used in the CT scan is not Hospital borne rather the same is purchased from the market by the hospital management and is provided to the patients on concessional rates. The PAO promised that the required record will be provided to Audit for verification.

It was apprised to Committee that the DAC in its meeting held on 26-03-2015 directed the PAO to get the reply verified through substantive evidence within 15 working days.

II) PARA-1 SUB PARA 1.3 AR 2003-04
EXTRA CHARGES ON ZAKAT FUND .RS. 11.397 MILLION

Audit pointed out that the Health Welfare Committee (HWCs) of seven Hospitals charged a sum of Rs 11,397,449 to Zakat Fund on account of diet charges, CT scan charges, hospital charges, advertisement charges, staff share and salary. The action of the management was held irregular as services available in the hospital were required to be provided free of charge to mustahiq patients as per para (iv) (8) of Zakat &Ushr Division letter No. 1(1)/95/ZD dated 13-7-1995.

The PAO informed that the HWC treats it patients on subsidized rates i.e. Rs 390 per bed per day. This is a package treatment which includes consultancy tests, medicines, diet and air-conditioned beds.

It was apprised to Committee that the DAC in its meeting held on 26-03-2015 directed the Ministry to produce data of all mustahiq patients and details of expenditure against them for verification by Audit.

iii) **PARA-1 Sub Para 1.4 AR2003-04
EXTRA CHARGES ON ZAKAT FUND .RS. 11.397 MILLION**

Audit pointed out that the Health Welfare Committee (HWCs) of seven Hospitals charged a sum of Rs 11,397,449 to Zakat Fund on account of diet charges, CT scan charges, hospital charges, advertisement charges, staff share and salary. The action of the management was held irregular as services available in the hospital were required to be provided free of charge to mustahiq patients as per para (iv) (8) of Zakat &Ushr Division letter No. 1(1)/95/ZD dated 13-7-1995.

The PAO informed that the amount charged to HWC covers the cost of dialysis consumables i.e dialyzer, BTL, Fistula Needle, Bicarb Powder etc. Zakat fund were exclusively used against these consumables, which we consumed in the process of dialysis carried out at the hospital on Zakat Mustahiq Patients.

It was apprised to Committee that the DAC in its meeting held on 26-03-2015 directed the management of hospital to produce data of all mustahiq patients and details of expenditure against them for verification by Audit.

SUB COMMITTEE DIRECTIVE

The Committee recommended the above three paras for settlement subject to verification of record by the Audit.

2. **PARA-1 SUB PARA 1.6 AR2003-04
EXTRA CHARGES ON ZAKAT FUND . RS. 11.397
MILLION**

Audit pointed out that the Health Welfare Committee (HWCs) of seven Hospitals charged a sum of Rs 11,397,449 to Zakat Fund on account of diet charges, CT scan charges, hospital charges, advertisement charges, staff share and salary. The action of the management was held irregular as services available in the hospital were required to be provided free of charge to mustahiq patients as per para (iv) (8) of Zakat &Ushr Division letter No. 1(1)/95/ZD dated 13-7-1995.

The PAO informed that in year 1993 audit authority raised the same point. After detail discussion and practically checked, the Director Audit on 24

Aug, 1993 they waived the objection and permission was granted for payment of staff share vide their letter No.728/DZA/IR/P-8/91-92 of 01-09-1993.

It was apprised to Committee that the DAC in its meeting held on 26-03-2015 directed the PAO to recover the amount which was paid to the staff and provide the record of recovery to Audit.

SUB COMMITTEE DIRECTIVE

The Committee directed the PAO to recover the amount which was paid to staff from Zakat Fund. The Committee recommended the para subject to verification of record of recovery from the Audit.

**3. i) PARA-2 Sub Para 2.1 AR2003-04
PURCHASE OF MEIMCANE WITHOUT OPEN
TENDERING - RS. 12.997 MILLION**

Audit pointed out that the Health Welfare Committees (HWCs) of five Hospitals purchased medicines Rs 12,996,895 without adopting open tender system.

The PAO informed that the Health Welfare Committee PMCH Hospital Nawabshah in its meeting has decided to call quotation hence Quotation called by convener from Twenty MIStore vide letter No. 112 15/18. The comparative statement was prepared and lowest offer of medical store was approved. All codal formalities were completed only tender was not called. All transparency measures has been adopted and approved quotation of highest bid for discount on Zakat Medicine.

**ii) PARA-2 Sub Para 2.2 AR2003-04
PURCHASE OF MEDICANE WITHOUT OPEN TENDERING .
RS. 12.997 MILLION**

Audit pointed out that the Health Welfare Committees (HWCs) of five Hospitals purchased medicines worth Rs 12,996,895 without adopting open tender system.

The PAO informed that in year 2002-03 there were no practices for calling tenders. Before this audit, there was no observation raised in any previous Audit. Therefore, this hospital called the quotation instead of tender. PAO further added that in the past such amount was regularized by the Central Zakat Council but now the Secretary Ministry of Religious Affairs and Inter-faith Harmony is competent to regularize the amount. He

told that a Committee will be constituted to scrutinize the issue of purchase of Medicines without open tendering. Then if found that the Medicines were purchased on market rate then it will be regularized. It was apprised to Committee that the DAC in its meeting held on 26-03-2015 directed the PAO to refer the matter to Central Zakat Council for action.

SUB COMMITTEE DIRECTIVE

The Committee clubbed the above two paras directed the PAO to constitute an inquiry Committee to probe the issue of purchase of Medicines without tendering and if the Secretary deems proper that the Medicines were purchased on market price and the order was placed on merit, he may regularize the amount under intimation to PAC Secretariat and Audit.

4. PARA-6 Sub Para 6.1 AR2003-04 NON-SURRENDER OF UNSPENT BALANCES . RS. 2.695 MILLION

Audit pointed out that the Health Welfare Committees (HWC5) of three Hospitals did not surrender unspent balance of Rs 2,695,411 lying with them on the year-end. The amount was not refunded to the Central Zakat Fund and carried forward to the next financial year.

The PAO informed that the practice of procuring medicines/disposables out of Zakat fund was in bulk. The manufacturers / distributors made the partial supplies and the payment were to be made after the completion of their supply orders. Keeping in view that the outstanding payments were to be made after the completion of supply orders and the balance amount after the clearance of outstanding payments were refunded to concerned quarter.

SUB COMMITTEE DIRECTIVE

The Committee directed the PAO to regularize the irregularity and recommended the para for settlement subject to verification of record of regularization by the Audit.

**THE PARAS RECOMMENDED FOR SETTLEMENT BY THE AUDIT
(UNHIGHLIGHTED PARAS)**

- 5.i) PARA-2 Sub Para 2.3 AR2003-04
PURCHASE OF MEDICINES WITHOUT OPEN
TENDERING .RS 12.997 MILLION**
- ii) PARA-2 Sub Para 2.4 AR2003-04
PURCHASE OF MEDICINES WITHOUT OPEN
TENDERING .RS 12.997 MILLION**
- iii) PARA-3 Sub Para 3.1 AR2003-04
PAYMENT WITHOUT DETERMINATION OF ISTEHQQAQ
OF PATIENTS BY THE LZC's-RS 0.380 MILLION**
- iv) PARA-3 Sub Para 3.2 AR2003-04
PAYMENT WITHOUT DETERMINATION OF ISTEHQQAQ
OF PATIENTS
BY THE LZC's-RS 0.380 MILLION**
- v) PARA-4 AR2003-04
PAYMENT OF .RS 6.878 MILLION TO SUPPLIERS IN
CASH**
- vi) PARA-1 Sub Para 1.2 AR2003-04
EXTRA CHARGE ON ZAKAT FUND-RS 11.397 MILLION**
- vii) PARA-1 Sub Para 1.5 AR2003-04
EXTRA CHARGE ON ZAKAT FUND-RS 11.397 MILLION**
- vii) PARA-1 Sub Para 1.7 AR2003-04
EXTRA CHARGE ON ZAKAT FUND-RS 11.397 MILLION**
- ix) PARA-3 Sub Para 3.3 AR2003-04
PAYMENT WITHOUT DETERMINATION OF ISTEHQQAQ
OF PATIENTS
BY THE LZCs-RS 0.380 MILLION**
- x) PARA-5 Sub Para 5.1 AR2003-04
UN-AUTHORIZED DEDUCTION OF BANK CHARGES-RS
0.056 MILLION**
- xi) PARA-5 Sub Para 5.2 AR2003-04
UN-AUTHORIZED DEDUCTION OF BANK CHARGES-RS
0.056 MILLION**

- xii) PARA-5 Sub Para 5.3 AR2003-04
UN-AUTHORIZED DEDUCTION OF BANK CHARGES-RS
0.056 MILLION**
- xiii) PARA-5 Sub Para 5.4 AR2003-04
UN-AUTHORIZED DEDUCTION OF BANK CHARGES-RS
0.056 MILLION**
- xiv) PARA-6 Sub Para 6.2 AR2003-04

NON-SURRENDER OF UNSPENT BALANCES-RS 2.695
MILLION**
- xv) PARA-6 Sub Para 6.3 AR2003-04
NON-SURRENDER OF UNSPENT BALANCES-RS
2.695 MILLION**
- xvi) PARA-7 AR2003-04
NON-DEDUCTION OF INCOME TAX-RS 0.448
MILLION**

SUB COMMITTEE DIRECTIVE

The Committee recommended the above sixteen paras for settlement on the recommendation of Audit.