SPECIAL STUDY
ON
AGREEMENT WITH NORTH SINDH URBAN SERVICES CORPORATION (NSUSC) RESPONSIBLE FOR SANITATION AND SOLID WASTE MANAGEMENT IN SIX TMAs

AUDITOR-GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

DG	District Government
FIDIC	Fédération Internationale Des Ingénieurs-Conseils
GFR	General Financial Rule
GoS	Government of Sindh
HR	Human Resource
LGO	Local Government Ordinance 2001
NSUSC	North Sindh Urban Services Corporation
PC-I	Planning Commission Document-I
PC-II	Planning Commission Document-II
PFC	Provincial Finance Commission
SAMA	Service and Asset Management Agreement
SDS	Service Delivery System
SPPRA	Sindh Public Procurement Regulatory Authority
SOP	Standard Operating Protocol
TMA	Town Municipal Administration
UA	Union Administration

PREFACE

The Auditor-General conducts audit as provided under 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.

The DG Audit, Local Councils, Sindh, Karachi has conducted Special Audit of outsourced services in the area of Solid Waste management, Water Supply and Sewerage Management which were delegated by TMAs to M/s North Sindh Urban Services Corporation (NSUSC). The agreement was executed in 2009 when the operation of Water supply, Sanitation, Sewerage, and Solid Waste Management were handed over to NSUSC, which is a company, incorporated under companies Act 1984 by Security Exchange Commission of Pakistan as Public Listed Company

Audit examined the economy, efficiency and effectiveness aspects of the project. The objective to undertake instant study is to evaluate the System in regard to the quality and quantum of expected service delivery as received by the people and actual services delivered by the outsourced company. In addition, audit also assessed, on test check basis, whether the management complied with applicable laws, rules and regulations in managing the project.

The Audit Report is submitted to the Governor of the Sindh in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Section 116 of the Sindh Local Government Act 2013, for causing it to be laid before the Provincial Assembly of the Sindh.

Islamabad
Dated:

(Rana Assad Amin)
Auditor General of Pakistan

EXECUTIVE SUMMARY

The DG Audit, Local Councils, Sindh, Karachi conducted an audit on the agreement signed between various TMAs namely, Sukkur City, New Sukkur, Rohri, Khairpur, Shikarpur and Larkana, which have outsourced their Water, Sanitation, Wastewater, Sewerage, Drainage and Solid waste management services to North Sindh Urban Services Corporation (NSUSC).

NSUSC is the public listed company incorporated under Company act 1984 by Security Exchange Commission of Pakistan with its registered office at Banglow No. A-14, Sindhi Muslim Society, Airport Road, Sukkur, which has entered into an agreement, called Services and Asset Management Agreement (SAMA). The purpose of outsourcing was to increase the level of service with cost effectiveness in the service-areas of Water supply, Sanitation, Wastewater, Sewerage, Drainage and Solid Waste Management.

The purpose of Audit to examine the contract provisions in the light of standard agreement by Pakistan Engineering Council and "***Fédération Internationale Des Ingénieurs-Conseils***) i.e. the International Federation of Consulting Engineers (FIDIC)". Audit also scrutinized the audit financial statements from 2012 to 2014 and evaluated the liquidity status, the profitability indicators, the operating performance and debt analysis from the information extracted from financial statements.

Audit has found out that the Municipal Authorities had no data about the economic viability and work specification in the absence of survey reports and PC-I. The company is listed as Public Listed Company and its financial management complies with private sector practices. Audit observed that contract was awarded to NSUSC by violating the provision of public private partnership in SPPRA and awarded without inviting Tender in leading Newspapers and Government Websites. There was no prequalification and the selection of NSUSC was not made on merit. During the scrutiny of financial statements of NSUSC, it was noticed that huge and unjustified expenditure of Rs. 166 million was incurred on the salaries and fringe benefits of Chief Executives, Directors and Executives. Moreover, the constitutional role/responsibility of TMAs, as being agent of the state, to collect government revenues was shifted to NSUSC. The audited financial statements further reflect an increasing trend of liabilities on the part of NSUSC despite increasing subsidy by Government and donor agencies.

During the visit of field team, garbage was found lying in roads/streets with drainage water over flowing in service areas. No customer/public response desk was established in TMAs to address or to collect the complaints of citizens against the service delivery by NSUSC. The Municipal body having lawful jurisdiction is totally oblivious to the output and service delivery by the vendor in the absence of a proper monitoring and evaluation system, whereas there was no significant improvement in the services outsourced in areas of Water, Sanitation, Sewerage, Drainage and Solid Waste Management.

RECOMMENDATIONS.

i. Audit recommends that the future contracts must be given in accordance with the provision of SPPRA rules regarding public private partnerships and after detailed feasibility report.

ii. Audit recommends fixing of responsibility on official(s) account of non-inviting tender and non-preparation of PC-I.

iii. Audit recommends that the management should enforce constant watch over rules and procedure for proper maintenance of asset record as mentioned in financial reporting manuals by Auditor General of Pakistan.

iv. Audit recommends the compliance of Government rules for deputation. NSUSC should bear the establishment expenses from its generated revenue.

v. Audit recommends that better service delivery may be ensured by strengthening monitoring and evaluation system by respective TMA.

vi. Audit recommends that the TMAs should enforce its jurisdiction on the performance of NSUSC and ensure proper S.O.P for disposal of waste and sanitation since the existing agreement is devoid of any such details or arrangements.

1. INTRODUCTION

Town Municipal Administration (TMA) is one of the three tiers of the Local Government System, established in 2001 under the Local Government Ordinance 2001 [LGO 2001]. The other two tiers were District Governments (DGs) and Union Administrations (UAs). These institutions are mandated under Local Council Act 1979 to provide Municipal Services and regulate the civic amenities to provide to citizens.

Six TMAs namely, Sukkur City, New Sukkur, Rohri, Khairpur, Shikarpur and Larkana, outsourced its Water, Sanitation, Wastewater, Sewerage, Drainage and Solid waste management services to NSUSC and entered into an agreement, called Services and Asset Management Agreement (SAMA). The purpose of outsourcing was to increase the level of service with cost effectiveness in the service-areas of Water supply, Sanitation, Wastewater, Sewerage, Drainage and Solid Waste Management.

Under this contract, which was made and executed in Karachi on 15th October, 2009, the TMA had delegated certain specified Municipal Services as mentioned in Schedule-5 of Services and Assets Management Agreement and hence delegating its legal function and exercise of power for contracted service areas including imposition of fee, rates and penalty on defaulters.

NSUSC is managing TMAs assets and functionaries to provide sustainable water supply, sewerage and solid waste management, with the mission of delivery of quality customer services in a safe, efficient and effective manner.

TMA had made their staff available on deputation to the company which were working on urban services related to water supply, waste water, sewerage, draining and solid waste management. The schedule-4 further elaborate the terms and condition of transferred staff as deputationists. The TMA further agreed to bear the burden of salaries of staff deputed to the NSUSC. The salaries are deposited into an escrow account by the Finance Department, Government of Sindh directly while making releases from PFC award for the respective TMAs. The company was thus allowed to pay only 20% deputation Allowance. The purpose of contract was to ensure and efficient effective Service Delivery System (SDS) system in the areas of Sanitation and Solid Waste Management.

The field work took more than two weeks to complete the study report and had to travel physically to Sukkur City, New Sukkur, Rohri, Khairpur, Shikarpur and Larkana. All the contract agreements were scrutinized and physical verification of some assets transferred and services delivered in the specific areas was carried out. Audit examined the contract provisions in the light of standard agreement by Pakistan Engineering Council and "***Fédération Internationale Des Ingénieurs-Conseils***) i.e. the International Federation of Consulting Engineers (FIDIC)" and also scrutinized the audit financial statements from 2012 to 2014.

2. OBJECTIVES OF STUDY

The purpose of contract was to ensure and efficient effective Service Delivery System (SDS) system in the areas of Sanitation and Solid Waste Management.

The purpose of Audit to undertake instant study is to evaluate the System in regard to the quality and quantum of expected service delivery as received by the people and actual services delivered by the outsourced company. Audit also examined the contract provisions in the light of standard agreement by Pakistan Engineering Council and "***Fédération Internationale Des Ingénieurs-Conseils***) i.e. the International Federation of Consulting Engineers (FIDIC)". Audit also scrutinized the audit financial statements from 2012 to 2014 and evaluated the liquidity status, the profitability indicators, the operating performance and debt analysis from the information extracted from financial statements.

3. AUDIT SCOPE / METHODOLOGY

The field work took more than two weeks to complete the study report and had to travel physically to Sukkur City, New Sukkur, Rohri, Khairpur, Shikarpur and Larkana. All the contract agreements were scrutinized and physical verification of some assets transferred and services delivered in the specific areas was carried out. The financial statement of NSUSC was also scrutinized while working on the report.

4. FINDINGS DURING STUDY

4.1 Planning Issues

4.1.1 Unjustified Subsidies to NSUSC

According to Rule 8 of Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013, states that, Any service delivered or goods sold by a Public Sector Company as a public service obligation where decisions are taken in fulfilling social objectives of the Government but are not in its commercial interests, outlay of such action shall be quantified and request for appropriate compensation there-for shall be submitted to the Government for consideration.

According to Rule 2 of Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013, states that, “(1) Every public sector company shall publish and circulate a statement of compliance with the Public Sector Companies (Corporate Governance) Rules, 2013, in the form set out in Schedule I to the Guidelines, along-with its annual report to set out the status of its compliance there with.

As per SPPRA 2010, General Provision Part-I definition "ee", "Public Private Partnership Unit Sindh" or "Unit" means the entity established within the Finance Department, Government of Sindh under the Public Private Partnership institutional framework.

Contrary to the above NSUSC doesn't comply with Public Sector Companies rules /Guideline 2013' compulsions, the company is working as Public Listed Company and its financial management doesn't correspond to government rules and regulation. No act / charter was notified either from Sindh Assembly Secretariat or from some other quarter of Government of Sindh to define the exit legal position of NSUSC, its article of memorandum or association, as a government sector company or a private / public listed company. Further, the company is unable to actualize the targeted receipt and it is hugely subsidized annually from national exchequer.

Although the SAMA had given authority of collecting the charges against various municipal services had been delegated to NSUSC, however, the company revenues are stagnant rather decreasing from financial year 2012-13. The audited financial statements further reflect an increasing trend of liabilities on the part of NSUSC despite increasing subsidy by Government and donor agencies.

Financial Statements of NSUSC

[Rupees in Million]

Year	2009	2010	2011	2012	2013	2014	Total
Total Assets	0.05	312.46	583.87	483.17	740.02	641.99	**2,761.57**
Total Liabilities	1.73	312.30	583.77	483.11	739.96	641.93	**2,762.79**
Total Revenue	-NA-	0.99	5.85	11.22	10.98	10.14	**39.18**
Grant from GoS	-NA-	123.19	281.82	244.06	135.14	205.54	**989.75**
Grant from ADB	-NA-	106.60	0.00	57.06	0.00	109.83	**273.49**
Total Grants received	**1.78**	**229.79**	**281.82**	**301.12**	**135.14**	**315.38**	**1,263.24**

	Revenue (Water charges / user fees)	NSUSC Liabilities	Grants / subsidy from Government / Donor Agencies
2012-13	11,224,677	483,105,388	301,119,591
2013-14	10,980,805	739,957,055	135,138,931
2014-15	10,143,380	641,926,156	315,376,303

4.1.2 Absence of Feasibility Report.

According to Planning Commission Manual Rule 1.51, states that, “PC-I requires Part 'A' is the "Project Digest", Part 'B' entitled "Project Description and Financing", forms the core of the PC-I. Part 'C' deals with "Project Requirements". Part 'D' deals with environmental aspects. Further, as per to Planning Commission Manual Rule 1.53, states that, “PC-II is required for conducting surveys and feasibility studies, in respect of larger projects, intended to get full justification for undertaking the project before large resources are tied up with them”.

As per Rule 82 of Part-IV, Public Private Partnership Project, SPPRA 2010, states that, “(2) The Government shall appoint a committee for each Public Private Partnership project for technical and financial evaluation for evaluating the project. The terms of reference of each such committee shall be approved by the Government”.

Contrary to the above Feasibility report (PC II) and PC I were not prepared before signing the agreement for transfer of funds and assets worth Rs 1.263 billion. SPPRA

Rules direct fulfillment of all codal formalities before entering into a contract, whether it is a public private partnership or for contractual services. The Municipal Authorities had no data about the economic viability and work specification in the absence of survey reports and PC-I.

Audit was of the view that award of contract and signing agreement without PC-I and PC-II have jeopardized government assets worth billions of rupees and has resulted into non-transparency in spending from public funds. Weak financial management and weak internal controls have caused the deviation from prescribed procedure.

Audit recommends a detailed inquiry to find out the reason behind delegating and contracting a private vendor / company for key municipal services especially in the area water supply and solid waste management. The future contracts must be given in accordance with the provision of SPPRA rules regarding public private partnerships and after detailed feasibility report.

4.1.3 Delegation of Constitutional Role to NSUSC by TMAs

According to Article 7 of constitution of Pakistan, "the **State**" **means** the Federal Government, 1[Majlis-e-Shoora (Parliament)], a Provincial Government, a Provincial Assembly, and such local or other authorities in **Pakistan** as are by law empowered to impose any tax or cess.

The Government contracts and their provisions are standardized by Pakistan Engineering Council and SPPRA as prescribed by the forum of "***Fédération Internationale Des Ingénieurs-Conseils***) i.e. the International Federation of Consulting Engineers (FIDIC)".

Contrary to the above, the constitutional role/responsibility of TMAs, as being agent of the state, to collect government revenues has been shifted to NSUSC via Service and Asset Management Agreement (SAMA) which has delegated the collection charges against various municipal services to NSUSC, which is a private limited company.

This delegation has been executed according to clause 6 of agreement “Delegation of function and power”, which entails that NSUSC had been empowered and authorized by the TMA to function and exercise the power under the SLGO 2001 or any other relevant legislation including, rules and regulations order made thereunder in respect of or relating to the contracted services.

Further, the clause 13 had indemnified the transferred staff as an agent of state; however, the clause 14.3 had given an express independent status to NSUSC. Although the company was given the status like a virtual agency of government; however, it was given that neither the TMA nor any of its employees shall have any control over the manner, mode or means by which the company, its agent or employees perform the contracted services.

Audit is of the view that the constitutional role / responsibility of TMA, as being agent of the state to collect the government revenue could not be shifted to NSUSC.

Audit recommends fixing of responsibility on official(s) of respective TMAs who have not cared to sign a legal and balanced contract as per standardized prescribed format.

4.2 Contract Management

4.2.1 Unauthorized Award of Contract

As per Rule 82 of Part-IV, Public Private Partnership Project, SPPRA 2010, states that, “(3) Except otherwise provided in these rules all the Public Private Partnership contracts and concessions shall be granted through national or international open competitive bidding, as the case may be”.

Contrary to the above the contract was awarded to the company by violating the provision of public private partnership in SPPRA. The contract was awarded to the Company without inviting Tender in leading Newspapers and Government Websites. Further, no prequalification was done and selection of NSUSC was not made on merit depriving the Government of competitive rates.

Audit is of the view that the defunct TMAs had unauthorizedly delegated their key operational services to NSUSC, especially when Provincial Assembly was working out on the new Municipal Laws and Acts. Thus, in the twilight of their existence, “these would to be defunct Municipal Bodies” entered into an agreement involving huge pecuniary benefits.

Audit recommends fixing of responsibility on official(s) account of non-inviting tender.

4.2.2 Irregular Award of Contact without verifying Initial Working Capital

According to SAMA, NSUSC will deposit initial working capital of 20 million for performance of its services.

Contrary to the above no bank verification of such capital was found on record in TMAs. The audited accounts for financial year 2012 of NSUSC also don't reflect the referred investment.

Audit is of the view that the management has failed to observe the Government rules and procedures, which reflects the absence of systematic control and financial discipline prevalent in the department.

Non-observance of prescribed rules, constituted weak internal control.

Audit therefore recommends for fixing responsibility on the part of management of NSUSC for violation of such clause of agreement.

4.3 Asset Management Issues

4.3.1 Irregular Transfer of Assets

As per Rule 4.3.7.3 of Accounting Code for Self Accounting Entities by Auditor General of Pakistan, "A self-accounting entity is to be wound up. All assets are to be sold or transferred and any commitments are to be paid. In this example, any residual from the sale of assets less commitments would be payable to the Government of Pakistan i.e. the Consolidated Fund".

Contrary to the above the Clause, "Condition Precedent to the Effectiveness" of the Agreement, desired assets of TMAs was entrusted with the Company. According to Clause 4.1.1, Transfer of TMA Assets, "The TMA shall make all fixed and non-fixed assets and associated land owned by TMA necessary for the provision of the Contracted Services available to the Company, on lease without any encumbrance, as and when required by it for the purpose including those specified in Schedule 3 hereof, as amended from time to time. The ownership of the Entrusted Assets shall remain with the TMA".

Deloitte the statutory auditors of the company have expressed their disclaimer that the management has not develop and maintain an asset and inventory register in line with requirement of Clause 4.2.5 of SAMA. The opinion is stated in financial statements.

Audit is of the view that the defunct TMAs had unauthorizedly delegated their assets and control of water treatment, sewerage / sewer facilities and vehicles to NSUSC to grant huge pecuniary benefit and have failed to monitor and protect government assets.

Audit recommends fixing of responsibility on official(s) account of transferring control of assets to NSUSC against government rules.

4.4 Organizational and Management

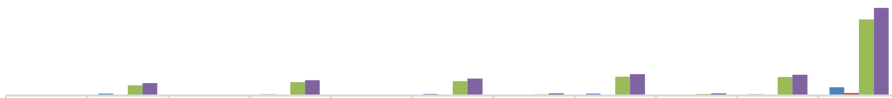
4.4.1 Unjustified Establishment Expenses on the Salaries and Benefits of Chief Executives, Directors and Executives

According to Para-10 (iv) of GFR Volume-I, “Public money should not be utilized for the benefit of a particular person or section of community and also according to rule all the claims must be supported with full detail and documents”.

During the scrutiny of financial statements of NSUSC, it was noticed that huge and unjustified expenditure of Rs166 million was incurred on the salaries and fringe benefits of Chief Executives, Directors and Executives. It is also worth mentioning that during the year 2012 there were only twenty members, which increased to forty three in 2013 and forty eight in 2014**.**

[Rupees in Million]

FY	2010		2011		2012		2013		2014		Total
	S	**Exp**	S	**Exp**	S	**Exp**	S	**Exp**	S	**Exp**	
Chief Executive	1	3.91	1	2.62	1	3.46	1	3.68	4	2.73	**16.40**
Directors	6	0.15	6	1.00	6	1.12	12	1.37	12	1.79	**5.42**
Executives	13	19.90	13	25.73	13	27.67	30	36.22	32	35.55	**145.06**
Total	20	23.96	20	29.35	20	32.24	43	41.26	48	40.06	**166.87**



	Sgth	Exp	Sgth	Exp	Sgth	Exp	Sgth	Exp	Sgth	Exp	
	2010		2011		2012		2013		2014		Total
Chief Executive	1	39.12	1	26.24	1	34.58	1	36.76	4	27.27	163.96
Directors	6	1.50	6	10.00	6	11.15	12	13.70	12	17.88	54.23
Executives	13	199.02	13	257.25	13	276.65	30	362.16	32	355.47	1,450.5
Total	20	239.64	20	293.49	20	322.38	43	412.62	48	400.61	1,668.7

Audit was of the view that non-observance of laid down rules resulted into huge and unjustified loss to government exchequer which constituted weak financial management.

Non-observance of prescribed rules, constituted weak internal control.

Audit recommends fixing responsibility for huge and unjustified expenditure on the subject matter.

4.4.2 Unjustified Payment of Salary to Transferred Staff under NSUSC

As per Fundamental Rule -114 and Supplementary Rule 307-A, the deputation Policy / Rules; all expenditure of pay and Allowances inclusive of deputation allowance is to be borne by borrowing department.

Contrary to the above the as per Clause 4.1.2, the TMAs had made their staff available on deputation to the company which were working on urban services related to water supply, waste water, sewerage, draining and solid waste management. The schedule-4 further elaborate the terms and condition of transferred staff as deputationists. The TMA further agreed to bear the burden of salaries of staff deputed to the NSUSC. The salaries are deposited into an escrow account by the Finance Department, Government of Sindh directly while making releases from PFC award for the respective TMAs. The company was thus allowed to pay only 20% deputation Allowance.

Audit is of the view that the unique position of NSUSC doesn’t allow any such privilege. Moreover, the legal position of NSUSC as a private vendor or a Government Agency was not elaborated anywhere in the signed agreement. It is pertinent to mentioned that the agreement were made to come into force without even the approval of the then Taluka Council. The agreement as well as this arrangement of bearing the expenses against salaries of deputationists staff by the lending department is a clear favour to a private company. This unjustified burden of transferred TMA staff is not only highly irregular but also causing a continuous strain on the resources of respective Municipal Council causing a continuous hemorrhage from the Government exchequer. It is pertinent to mentioned that NSUSC establishment expenditures are increasing each year.

Audit recommends fixing of responsibility on official(s) for given undue favor to vendor / NSUSC.

4.5 Operational Issues

4.5.1 Non-Monitoring and Evaluation of NSUSC by TMAs

a. According to the SAMA agreement clause 4.2.2 and 4.1.4, the respective TMAs shall be responsible for monitoring and evaluating the performance of contracted services and attainment of the level of services provided in schedule-5 of the agreement.

b. According to the mutual obligation of the TMAs and company, the base line survey for performance indicator for evaluating the service were to be conducted yearly Detail of User fees and Charges including number of connections (domestic/commercial) transferred to NSUSC were to be provided to TMA, in compliance of clause 4.2.6 and 4.2.8, as specified in schedule-9 of SAMA

c. The company had to submit its business plan to TMA as a condition of precedent to effectiveness of the agreement. As per clause 4.2.8, the company was supposed to provide three years rolling business plan to each concerned TMA by the last working day of April each year.

d. As per clause 4.2.2 and 4.1.4 as mentioned in schedule-5 of SAMA, the company is bound to conduct customer survey on annual basis in respect of water supply, waste water, drainage and Solid waste management.

e. The company is supposed to monitor raw water quality on weekly basis, as per clause 4.2.8 of SAMA.

f. The company is bound to show performance report against annual plan to GoS, by the end of first week of each quarter, which is mentioned in schedule-5.

Contrary to the above provisions the TMAs are not monitoring and evaluating the services provided by NSUSC. The TMAs have accumulated no data, no report about the business plan, revenue collected again user charges, sewer, water and other users or any other obligation on part of NSUSC. TMAs have not cared to demand weekly report on raw water quality. No complaint redress mechanism is established at any TMAs for citizen complaints against NSUSC.

Audit is of the view that non-monitoring and evaluation of NSUSC constitutes an act of commission on the part of concerned authorities.

Audit recommends fixing of responsibility on official(s) for given undue favor to vendor / NSUSC.

4.5.2 Inefficient Financial Management

i. According to Oxford Financial Dictionary the current ratio is popular ratio to test the company's liquidity and to ascertain whether a company's short term assets are readily available to pay off its short term liabilities.

ii. Quick ratio is a liquidity indicator which is more conservative and refine the current ratio by measuring the amount of most liquid current asset that are to cover the current liabilities. It is also known as acid test ratio.

iii. Profit return on asset ratio is a profitability indicator illustrates how well management is employing the company's total asset to make a profit.

iv. Cash flow to debt ratio is a comparison is company's operating cash flow is total debt. It reflects "going concern".

Audit observed that the company's core operations are insufficient to meet the operating expenses.

[Amount in Rupees]

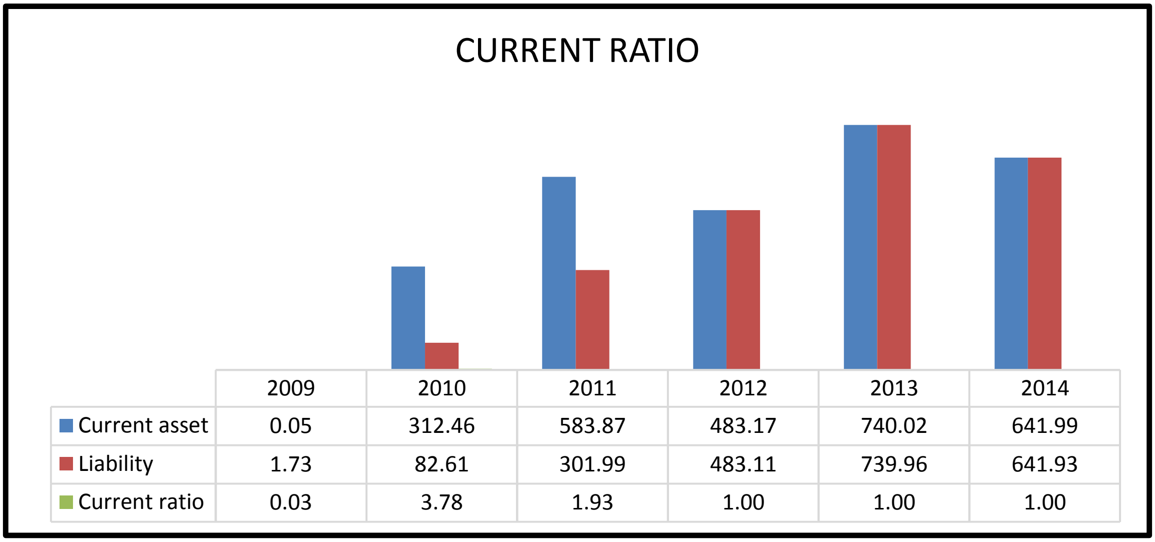
Financial Year	**Revenue (Water charges / user fees)**	**Liabilities**	**Grants / subsidy from Government / Donor Agencies**
2012-13	11,224,677	483,105,388	301,119,591
2013-14	10,980,805	739,957,055	135,138,931
2014-15	10,143,380	641,926,156	315,376,303

The revenues are not only stagnant but decreasing and the company is totally depending upon government and donor agencies aid for the viability of financial operations. Even by taking into account the government grant as source of revenue the current ratio, quick ratio, profit return on asset ratio, debt ratio and cash coverage ratio doesn't indicate good financial health. They are serious concerns on the sustainability of company's operation, when the administrative expenditures are also on the higher side.

<u>Liquidity indicators for NSUSC</u>

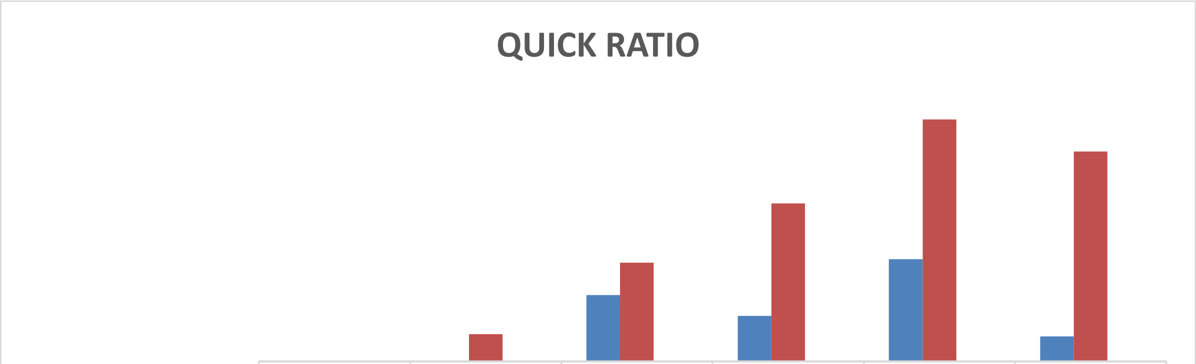
[Rupees in Million]

FY	2009	2010	2011	2012	2013	2014
Current asset	0.05	312.46	583.87	483.17	740.02	641.99
Liability	1.73	82.61	301.99	483.11	739.96	641.93
Current ratio	0.03	3.78	1.93	1.00	1.00	1.00



[Rupees in Million]

FY	2009	2010	2011	2012	2013	2014
Cash Equivalent	0.05	0.05	202.95	138.75	312.73	76.38
Liability	1.73	82.61	301.99	483.11	739.96	641.93
Quick ratio	0.03	0.001	0.67	0.29	0.42	0.12



	2009	2010	2011	2012	2013	2014
Cash Equivalent	0.05	0.05	202.95	138.75	312.73	76.38
Liability	1.73	82.61	301.99	483.11	739.96	641.93
Quick ratio	0.03	0.001	0.67	0.29	0.42	0.12

Profitability indicators of NSUSC

<u>Return on assets</u>

[Amount in Rupees]

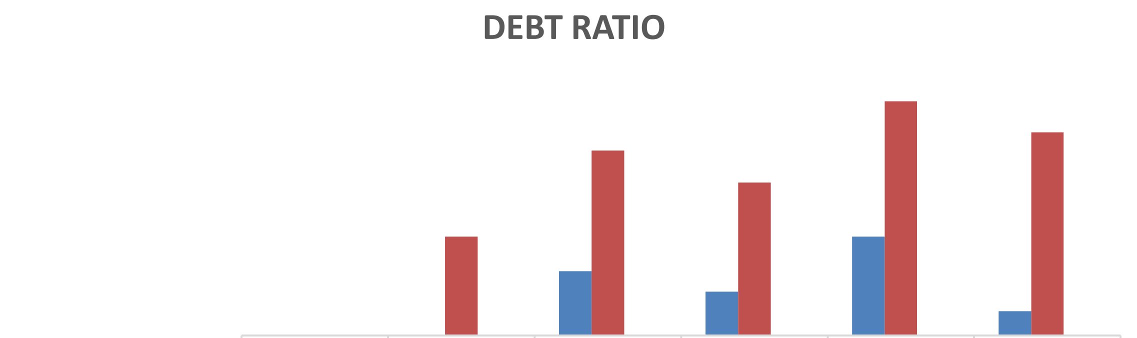
FY	Revenue	Assets	Return on Assets
2012-13	11,224,677	483,171,388*	0.02
2013-14	10,980,805	740,023,055*	0.01
2014-15	10,143,380	641,992,156*	0.02

* Deloitte the statutory auditors of the company have expressed their disclaimer that the management has not developed and maintained an asset and inventory register in line with requirement of Clause 4.2.5 of SAMA. Hence the return on assets is only calculated on current assets /cash equivalents. If considering the total assets of TMAs , the situation shall be even more dismal since they must have accounted in billions.

<u>Debt ratios for principle of going concern for NSUSC</u>

[Rupees in Million]

FY	2009	2010	2011	2012	2013	2014
Cash Equivalent	0.05	0.05	202.95	138.75	312.73	76.38
Debt / Liabilities	0.05	312.46	583.87	483.17	740.02	641.99
Debt ratio	1.000	0.0002	0.348	0.287	0.423	0.119



	2009	2010	2011	2012	2013	2014
Cash Equivalent	0.05	0.05	202.95	138.75	312.73	76.38
Debt / Liabilities	0.05	312.46	583.87	483.17	740.02	641.99
Debt ratio	1.000	0.0002	0.348	0.287	0.423	0.119

Audit recommends that the TMAs and government of Sindh should have proper evaluation of sound business plan furnished by NSUSC. The viability of such company should not be depending upon government subsidies in the presence of ineffective internal controls and non-profitable financial transactions.

4.5.3 Failure of Service Delivery

The purpose of this project was to improve the service delivery system, whereas there was no significant improvement in the services outsourced in areas of Water, Sanitation, Sewerage, Drainage and Solid Waste Management.

However, contrary to the above, during the visit of field team, garbage was found lying in roads/streets with drainage water over flowing in service areas. Solid waste/garbage collected by the company was thrown away in open area without any proper procedure to dump the same. Since the contract has come into force violating the express conditions of contract and a general disregard to the possible problems and grievances of citizen in the area of contracted services, there remains no possible quantifiable outputs for the audit to actually measure the improvement in service delivery except the general public opinion as mentioned in daily local chronicles and observations by the field audit party.

 **Pictures of Sukkur City**	 **Disposal of solid waste in Sukkur New Goth Grave yard Sukkur**
 **Picture of Main City Larkana**	 **Picture of 60 ft street khora complex Larkana**

Picture of ward # 4 Shaheed Tagyal, Jacoabad

5. CONCLUSION

Audit of the view that the management has failed to exercise the constant watch over the rules and procedures, which indicates that there exists no system of internal control and the project is not serving the purpose which was to improve or increase the levels of services and cost effectiveness in management of Water, Sanitation, Sewerage, Drainage and Solid Waste Management.

During the course of study, the field audit team issued five observation to respective TMAs, but the same were not responded till the finalization of this report.

6. RECOMMENDATIONS

i. Audit recommends a detailed inquiry to find out the reason behind delegating and contracting a NSUSC for key municipal services especially in the area water supply and solid waste management. The future contracts must be given in accordance with the provision of SPPRA rules regarding public private partnerships and after detailed feasibility report. .

ii. Government Rules and Regulation must be followed while incurring expenditure from public exchequer. NSUSC should follow Public Sector Governance Rules 2013 and should submit mandatory returns to SECP in accordance with Public Sector Guidelines 2013

iii. Audit recommends fixing of responsibility on official(s) account of non-inviting tender and non-preparation of PC-I.

iv. Audit recommends that the management should enforce constant watch over rules and procedure for proper maintenance of asset record as mentioned in financial reporting manuals by Auditor General of Pakistan.

v. Audit recommends the compliance of Government rules for deputation. NSUSC should bear the establishment expenses from its generated revenue. Moreover, their remains no justification for this clear favour, when NSUSC is hugely subsidized against operational losses.

vi. Audit recommends that better service delivery may be ensured by strengthening monitoring and evaluation system by respective TMA.

vii. Audit recommends that the TMAs should enforce its jurisdiction on the performance of NSUSC and ensure proper S.O.P for disposal of waste and sanitation since the existing agreement is devoid of any such details or arrangements

7. ANNEXURES.