



**PROJECT AUDIT REPORT  
ON**

**CONSTRUCTION OF  
HIGH SECURITY BLOCK  
AT MINISTRY OF FOREIGN AFFAIRS,  
ISLAMABAD**

**MINISTRY OF FOREIGN AFFAIRS  
GOVERNMENT OF PAKISTAN**

**AUDIT YEAR 2010-11**

**AUDITOR-GENERAL OF PAKISTAN**



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## **Abbreviations and Acronyms**

AI&SP	Audit Inspection & Special Projects
BOQ	Bill of Quantities
Cft	Cubit Feet
CSR	Composite Schedule of Rates
Cum	Cubic Meter
DAC	Departmental Accounts Committee
ECNEC	Executive Committee of National Economic Council
FIDIC	<i>Federation Internationale Des Ingenieurs-Conseils</i> (International Federation of Consulting Engineers)
GFR	General Financial Rules
HVAC	Heating, Ventilation and Air Conditioning System
INTOSAI	International Organization of Supreme Audit Institutions
IPC	Interim Payment Certificate
NESPAK	National Engineering Services Pakistan (Pvt) Limited
KVA	Kilovolt Ampere
MoFA	Ministry of Foreign Affairs
MoU	Memorandum of Understanding
MTDF	Medium Term Development Framework
NIT	Notice Inviting Tenders
NOC	No Objection Certificate
PC-I	Planning Commission (Proforma-I)
PSDP	Public Sector Development Programme
PVC	Poly Vinyl Chloride
RM	Running Meter
TSE	Technical Sanction Estimate
VO	Variation Order



## PREFACE

The Auditor General conducts audit subject to 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 Project audit of 'Construction of High Security Block at Ministry of Foreign Affairs, Islamabad' executed by the Ministry of Foreign Affairs, Government of Pakistan, was carried out accordingly.

The Directorate General Audit Works (Federal), Islamabad conducted Project Audit during June 2011 for the period 2005 to 2011 with a view to reporting significant findings to the stakeholders. Audit examined the economy, efficiency, and effectiveness aspects of the project. In addition, Audit also assessed, on test check basis, whether the management complied with applicable laws, rules, and regulations in managing the Project. The Report indicates specific actions that, if taken, will help the management to realize the objectives of the project. The report was discussed in the meeting of the Departmental Accounts Committee on July 6, 2012 and the observations have been finalized in the light of discussions in the DAC meeting.

The Report has been prepared for submission to the President in pursuance of Article 171 of the Constitution of Islamic Republic of Pakistan, 1973 for causing it to be laid before the Parliament.

Islamabad  
Dated: 02 October, 2012

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





## **EXECUTIVE SUMMARY**

### **Project Audit of ‘Construction of High Security Block at Ministry of Foreign Affairs, Islamabad’**

The Directorate General Audit Works (Federal), Islamabad carries out the audit of Federal Government Departments/Autonomous Bodies engaged in construction works. At present, the Directorate General deals with Departments/Autonomous Bodies, namely Capital Development Authority, Civil Aviation Authority, National Highway Authority, Pakistan Public Works Department, Estate Offices, Archaeology Department, Evacuee Trust Property Board, Inspector General Frontier Corps, Pakistan Coast Guards, Pakistan Rangers, Workers Welfare Fund/Boards and Gilgit-Baltistan Water & Power Department and Works Department under the administrative control of Principal Accounting Officers who consume major portion of the Public Sector Development Programme funds/budget.

The office is mandated to conduct regularity (Financial Attest Audit and Compliance with Authority Audit) and Performance/Project Audit of mega projects executed by these Departments/Autonomous Bodies. Audit of the project was specially assigned to this office by the Auditor General of Pakistan.

The project ‘Construction of High Security Block at Ministry of Foreign Affairs, Islamabad’ was executed by Ministry of Foreign Affairs, Islamabad. Audit of the project was assigned to the Directorate General Audit Works (Federal), Islamabad as a special case vide Auditor General of Pakistan letter No. 241/Report/163-C/AP/FA/10 dated May 18, 2011. Audit was carried out accordingly in June 2011 to evaluate the achievement of the project objectives set out in the PC-I. The audit was conducted in accordance with the INTOSAI Auditing Standards.

The objective of the project audit was also to assess whether planning for construction was appropriate and the resources had been

utilized with due economy, efficiency and effectiveness. The report is not only aimed at accountability process but also intends to carry out analysis of management decisions by highlighting the weaknesses in the performance of the project and, thereby, providing recommendations for improvement in future.

The Ministry of Foreign Affairs Islamabad was created in 1947. The Ministry is federal government's executive level Ministry, responsible for international and foreign affairs of Pakistan. The executive and political figure heading the Foreign Ministry is colloquially known as the 'Foreign Minister'. The Ministry is headquartered at the Constitution Avenue, Islamabad.

The construction of High Security Block was carried out to cover the shortfall of office space for foreign office to improve existing working conditions and to add facilities such as a deluxe auditorium now called Conference Hall for prestigious international conferences. Ministry of Foreign Affairs is frequently visited by diplomats, ambassadors, foreign state functionaries including foreign ministers, foreign and local media men. This has direct bearing on the image of our country because photographs of the Ministry's building regularly appear in the domestic and international media.

The PC-I of the project was approved by the ECNEC in February, 2005 for an amount of Rs. 248.602 million. The PC-I was revised to Rs. 605.000 million keeping in view the cost of additional/new items of works in November, 2007.

## **FINDINGS**

Major audit findings include:

- i. Infructuous and extra expenditure was made due to poor planning and mis-management - Rs. 4.111 million
- ii. Security deposit and Income Tax were either not deducted or less deducted from the contractors - Rs. 1.860 million.

- iii. Payments were made without maintaining/recording detailed entries in Measurements Books and certification as mandated under rules in respect of work costing Rs. 237.720 million. Departure from prescribed procedure and opting for an un-authentic and modifiable method not only compromised the permanent nature of essential public records but opened avenues for tempering with government records.
- iv. Liquidated damages were not imposed for delay in completion of work - Rs. 34.932 million.
- v. Undue financial aid was extended to the contractor by granting Secured Advance of Rs. 15.644 million against items not covered under the contract.
- vi. There were cases of unauthorized enhancement in cost, non-utilization of excavated earth in work, application of incorrect and higher rates, incorrect certification of IPCs, increase in agreement rates and excess payment of consultant's remuneration those resulted in overpayment of Rs. 39.714 million.
- vii. Undue cost of Dual Fired (Diesel & Gas) System in chillers was allowed resulting in unjustified payment of Rs. 4.045 million
- viii. There were cases of unjustified/irregular/excess payments of Rs. 97.117 million.
- ix. The core component for Conference Hall, which was one of the primary objectives of the project, excluded from the agreed scope of awarded work which may cause extra expenditure of Rs. 34.723 million due to increase in construction cost in future.
- x. Unjustified payment on account of installation, testing & commissioning of chillers and cooling towers was made without construction of Conference Hall that resulted in blockage of funds for Rs. 15.210 million
- xi. Cash Receipt on account of sale of tender documents was not deposited and accounted for in the accounts for Rs. 400,000 (approx).

- xii. Loss due to defective/faulty design of electrical works was not recovered from the consultant - Rs. 3.823 million.
- xiii. Defective designing caused a additional cost of Rs. 16.423 million
- xiv. Award of contract without competitive open bidding at higher rates caused an extra payment of Rs. 6.365 million
- xv. Work was awarded at higher rates which caused loss of Rs. 6.393 million
- xvi. The project was undertaken/executed by the Ministry of Foreign Affairs directly instead of getting it executed from Pakistan Public Works Department as required under Central Public Works Department Code - Rs. 369.670 million
- xvii. Guidelines for Project Management issued by the Planning Division were not implemented in letter and spirit while planning and executing the project.
- xviii. Record relating to pre-qualification of contractors/consultants, award of works, TS estimates and pre-shipment inspection of imported items was not produced.

## **RECOMMENDATIONS**

- i. Proper planning in respect of design/drawing should be ensured to avoid any subsequent material changes.
- ii. Recoveries pointed out should be effected.
- iii. All quantities of works should be recorded in Measurement Books.
- iv. The contractual obligations should be strictly observed at every stage of execution of work.
- v. Prior approval of the competent authority should be obtained before making any changes in the scope of the work.

- vi. Estimation should be based on detailed workings.
- vii. Efforts should be made for completing the projects within the stipulated time in order to avoid cost overrun due to fluctuations in market rates.
- viii. Laid down rules and procedures must be adhered to in letter and spirit.
- ix. Cases where rules have not been complied with, should be got regularized.
- x. Project Management Guidelines should be implemented.
- xi. All losses may be made good by recovery from person(s) responsible.
- xii. Works should be awarded after due competitive bidding.



# **1. INTRODUCTION**

The Directorate General Audit Works (Federal), Islamabad conducted audit of the project ‘Construction of High Security Block at Ministry of Foreign Affairs, Islamabad’ in June 2011.

## **1.1 Rationale of the project**

Ministry of Foreign Affairs is frequently visited by diplomats, ambassadors, visiting foreign state functionaries including foreign ministers, foreign and local media men. The Construction of High Security Block was planned to:

- cover the shortfall of office space for foreign office,
- improve existing working conditions and
- add facilities such as a deluxe auditorium now called Conference Hall for prestigious international conferences.

## **1.2 Approval of the scheme**

The PC-I of the project was approved by the ECNEC in February 2005 for an amount of Rs. 248.602 million. Revised PC-I was approved by ECNEC for Rs. 605.000 million in November 2007.

## **1.3 Timeline/period of project**

Period of completion of the project is provided in the PC-I as under:

- PC-I (Original)                      30 months (September 2005 – March 2008)
- PC-I (1<sup>st</sup> revision)                      30 months (September 2005 – March 2008)

## **1.4 Description of project**

The existing building of Ministry of Foreign Affairs was built in 1963 and has 277 rooms covering 67,800 Sq ft area. The available space was insufficient and does not cater for their present requirements. The

sanctioned local establishment of Ministry of Foreign Affairs is 1,131 (152 officers and 979 staff), requiring additional 200 office rooms. Besides, the Ministry requires an archive library, meeting rooms and an auditorium-cum-conference hall with banquet and cafeteria facilities. The project was essential to cover the shortfall of office space and it was decided to construct a new block. The then Prime Minister laid foundation stone in October 2004 and the construction work was started in September 2005.

## **1.5 Project objectives and outputs provided in PC-I and achievements**

### **1.5.1 Objectives**

The objective of the project was to provide sufficient office as well as conference hall for the Ministry.

### **1.5.2 Outputs**

The project will contribute in achieving the Medium Term Development Framework's (MTDF) target of providing essential accommodation for government offices. With the construction of High Security Block, there would be better image of the country at international level as well as cover the shortage of office space in the Ministry by improving working conditions besides adding facilities.

### **1.5.3 Achievements**

Execution status of the project is shown below:

<b>S. No.</b>	<b>Nature of Work</b>	<b>Name of Contractor</b>	<b>Date of Acceptance Letter/ Agreement</b>	<b>Agreement Amount (Rs. in million)</b>	<b>Expenditure up to April 2011</b>
1.	Civil Works and Conference Hall	M/s Recent Construction Company	14.06.2005	234.422	237.720
2.	HVAC System	M/s Airtech Engineers	14.05.2007	114.902	87.233
3.	Lifts	M/s Ziaf Co.	31.10.2008	20.354	2.613
4.	Consultancy Services	M/s Nayyer Ali Dada & Associates	01.09.2004	8.750	13.562



S. No.	Nature of Work	Name of Contractor	Date of Acceptance Letter/ Agreement	Agreement Amount (Rs. in million)	Expenditure up to April 2011
5.	Consultancy Services	M/s NESPAK	01.09.2004	8.733	21.610
6.	Consultancy Services	M/s KONCEPTZ	04.12.2007	4.000	3.750

*Note: This information is based on last IPC/Invoice paid up to April 2011 to the contractors/consultants.*

All civil works of the block, including structure of the building, Heating, Ventilation and Air-conditioning (HVAC) systems have been partially completed. The contractor has almost purchased all Electrical & Mechanical equipment which have been inspected and found satisfactory.

## 1.6 Cost and financing

The project was financed by the Government of Pakistan through Public Sector Development Programme (PSDP) for the year 2004-05, 2005-06, 2006-07 and 2007-08. After subsequent revisions, the PC-I cost was finalized at Rs. 605.000 million against which an expenditure of Rs. 415.295 million upto April 2011, has been incurred.

## 1.7 Revisions in the project cost

The original PC-I was revised in November 2007 where PC-I cost was revised from Rs. 248.602 million to Rs. 605.000 million due to additional items of works.

### 1.7.1 Actual cost and scope vs original PC-I

Description	Construction Component Cost	Consultancy Component Cost	Overheads Component	Contingency Component (3% of Const. Cost)	Escalation Component	Total Project Cost
PC-I Original	235.182	13.419	-	-	-	248.601
PC-I (1 <sup>st</sup> revision)	498.651	17.668	33.402	8.576	46.703	605.000

<b>Actual Expenditure (upto April-2011)</b>	327.566*	38.922*	-	48.807**	-	<b>415.295</b>
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\*Based on last IPC/Invoice (up to April 2011)

\*\*Based on Expenditure Statements 2005-06 to 2009-10

*Note: Consultancy Cost increased by 120.30% and Contingency Expenses increased by 469.11% than provisions in revised PC-I.*

## **2. AUDIT OBJECTIVES**

The main objectives of the audit of project ‘Construction of High Security Block at Ministry of Foreign Affairs, Islamabad’ are to see whether:

- Rules, regulations, procedures and government/management’s instructions were followed in their true spirit.
- Due care and prudence was applied at all levels.
- The project was completed in time.
- Effective measures were taken by various wings of the ministry in processing and evaluating bids, cost benefit analysis, etc.
- The required standards of financial propriety were observed while executing MoU/Agreement and money was spent in accordance with the rules.
- The internal controls were exercised in spending public money and three ‘Es’ i.e. Effectiveness, Efficiency and Economy were kept in mind by the management while executing the project.

## **3. AUDIT SCOPE AND METHODOLOGY**

### **3.1 Scope**

The main scope of audit was, whether:

- Project cost (PC-I) was prepared in accordance to the identical financial reporting framework.

- Procedures were determined in compliance with applicable financial reporting framework.
- Other applicable rules and regulations, including Delegation of Financial Powers, Public Procurement Rules, System of Financial Control and Budgeting, Contract Agreement, General Financial Rules, etc. were followed.

### **3.2 Methodology**

Audit methodology included data collection, determination of objectives and audit criteria, analysis/consultation of record, discussion with staff, issuance of questionnaires, surveys, site visits, interview with users, etc.

a) Eligibility of expenditure incurred

The expenditure incurred was reviewed to check whether the expenditure incurred was in line with the provisions of PC-I and Contract Agreement. It was checked that funds were expended for authorized purposes only.

b) Assessment of procurement of civil works and consultancy services

Audit reviewed the procedure adopted by the Project Management for procurement of civil works and consultancy services as per Public Procurement Rules/instructions.

c) Amount expended had necessary supporting documents, records and were duly incorporated in Project Accounts.

Expenditure trail was reviewed and expenditure identified in cash book was verified with the help of supporting vouchers.

- d) Assessing effectiveness of monitoring and evaluation mechanism

The effectiveness of monitoring and evaluation is the responsibility of project management. The system of monitoring and utilization reports was reviewed.

- e) Maintenance of books of accounts

Audit determined the quality and completeness of books of accounts available/prepared at each level so that the expenditure trail could be verified.

## **4. AUDIT FINDINGS AND RECOMMENDATIONS**

### **4.1 Organization and Management**

#### **4.1.1 Organizational Structure**

The Project Director, under the control of Director General (AI&SP), Ministry of Foreign Affairs was responsible to monitor the execution of work and liaise with the consultant and contractor regarding the difficulties that may arise during progress of works.

M/s National Engineering Services Pakistan (Pvt) Limited was responsible for consultancy services for construction supervision. M/s Nayyar Ali Dada & Associates were engaged for architectural & engineering design consultancy services for construction of High Security Block at Ministry of Foreign Affairs, Islamabad.

M/s Recent Construction Company was awarded execution of civil works. M/s Airtech Engineers were responsible for HVAC works and M/s ZIAFCO was awarded contract for installation of lifts.

#### **4.1.2 Turnover against key posts**

The key positions of the consultants were responsible for the following:

- Design review/vetting.

- Preparation of detailed estimates, specifications, drawings and contract documents.
- Pre-qualification of contractors.
- Preparation and calling of tenders.
- Evaluation of bids.
- Assistance in award of work.
- Full time supervision and issuance of maintenance certificates.
- Finalization of project accounts and clearance of Audit observations.

#### 4.1.3 Manpower, Qualification and Experience

The PC-I of the Project envisages a provision of following staff of the project, Design Consultant, Technical Supervisory Consultant and the Contractor with their qualifications and experiences:

Designation	No. of staff	Qualifications	Experience (Years)
<b>Ministry of Foreign Affairs:</b>			
Project Director	01	B.E (Civil)	35
Quantity Surveyor/ Estimator	01	Diploma in Associate Engineering (DAE)	10
Office Manager/PA	01	MBA	05
Accountant	01	FA/FSc.	05
Auto Cad/ Computer Operator	01	FA Computer	05
Naib Qasid	01	Middle	05
<b>Design Consultant:</b>			
Resident Engineer	01	BE(Civil)	15
Architect Engineer	01	BE (Architecture)	10
Structural Engineer	01	MSc. (Structure)	15

<b>Designation</b>	<b>No. of staff</b>	<b>Qualifications</b>	<b>Experience (Years)</b>
Electrical Engineer	01	BE(Electrical)	10
Electronic Engineer	01	BE(Electronics)	10
Plumbing Engineer	01	BE(Mechanical)	10
HVAC Engineer	01	BE(Mechanical)	10
<b>Technical Supervisory Consultant:</b>			
Resident Engineer	01	BE(Civil)	15
Structural Engineer	01	MSc (Structure)	15
Plumbing Engineer	01	BE(Mechanical)	10
Electrical Engineer	01	BE(Elect)	10
Electronic Engineer	01	BE(Electronics)	10
HVAC Engineer	01	BE(Mechanical)	10
Site Inspector	02	BE (Civil)	05
Quantity Engineer	01	BE (Civil)	10
Surveyor	01	DAE	10
<b>Contractor:</b>			
Project Manager	01	BE (Civil)	15
Deputy Project Manager	01	DAE	10
Project Engineer	01	BE (Civil)	10
Site Engineer	01	BE (Civil)	05
Material Engineer	01	BE (Civil)	05
Electrical Engineer	01	BE(Electrical)	10
Electronic Engineer	01	BE(Electronic)	10
Plumbing Engineer	01	BE (Civil)	10
Surveyor	01	DAE	10
Quantity Surveyor	01	DAE	15
Laboratory Technician	01	DAE	05
HVAC Engineer	01	BE (Mech.)	10

#### **4.1.4 Mode of appointment of management and staff**

As per policy in vogue, all new posts included in PC-I will be treated as sanctioned, after the approval of the project by the relevant

forum subject to the availability of development budget against establishment charges.

## **4.2 Financial Management**

### **4.2.1 Overview**

Ministry of Foreign Affairs, being a government department, has its financial resources provided by the Government of Pakistan through PSDP. The project was approved through PSDP valuing Rs. 248.602 million. During execution, the cost was finally revised to Rs. 605.000 million against which an expenditure of Rs. 415.295 million has been incurred up to April 2011.

## **FINANCIAL MANAGEMENT FINDINGS**

### **4.2.2 Undue financial assistance to the contractor – Rs. 15.644 million**

According to Clause-60.11, Particular Application Part - II B of the Contract Agreement, the contractor was entitled to receive from the Employer, Secured Advance against an Indemnity Bond acceptable to the Employer of such sum as the Engineer may consider proper in respect of the following specified materials only:

1. Steel Reinforcement
2. Tiles Imported
3. Sanitary wares
4. Aluminum
5. Facia Stone
6. Distribution Boxes and Panels
7. Light Fixtures

The project management allowed Secured Advance on pumps, portal wood, Vin/lamination/chip board, ceramics/granite tiles, etc which were not included in the specified material under Clause-60.11 of the agreement. This resulted into un-authorized grant of secured advance and

undue financial aid to the contractor amounting to Rs. 15.644 million. Undue financial aid needs recovery with interest at prevailing rate from the contractor or the persons(s) responsible of violation of contract clause.

Audit observed that undue financial assistance was given due to weak financial controls.

Audit pointed out the undue financial aid in June 2011. The matter was also reported to the Principal Accounting Officer (PAO) in August 2011. The Ministry replied in June 2012 that competent authority added further material to the list of materials given in contract documents. Hence, the Secured Advance was granted on material brought at site by the contractor @ 75% of factory price of materials/product on perishable material. The reply was not tenable because Secured Advance was paid against material which was not provided in the tender documents. It was a post-bid change to provide undue financial assistance to the contractor. List of material added in the tender documents was also not provided to Audit during verification of record.

The matter was discussed in the Departmental Accounts Committee (DAC) meeting held on July 6, 2012 wherein the Committee directed that details of the Secured Advance be provided to Audit and balance Secured Advance be adjusted from the next bill.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 08)

#### **4.2.3 Short deduction of Income Tax - Rs. 0.960 million**

According to Section 153(1) (c) of Income Tax Ordinance, 2001, Income Tax at source was required to be deducted from the each and



every payment made to the contractor/supplier at the rates specified in the relevant schedule.

The project management measured and paid work done for Rs. 237.720 million upto the 31<sup>st</sup> Interim Payment Certificate (IPC). Income Tax of Rs. 13.303 million was deducted instead of Rs. 14.263million @ 6%. This resulted into short deduction of Income Tax worth Rs. 0.960 million.

Audit pointed out the short deduction of income tax in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that it is a general practice that no Income Tax is deducted from the Secured Advance. Retention money of the contractor is available with the employer and in case of any discrepancy on the basis of construction and short recovery of Income Tax, the same will be recovered. The reply was not acceptable because departmental action was against the provisions of Income Tax Ordinance, 2001.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee observed that it was wrong practice and directed that Income Tax may be deducted on gross value of work done and get it verified from Audit within one month.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 03)

#### **4.2.4 Non-deduction of Income Tax - Rs. 0.157 million**

According to Section 153(1) (c) of Income Tax Ordinance, 2001, Income Tax at source was required to be deducted from the each and every payment made to the contractor/supplier at the rates specified in the relevant schedule.

The project management paid Mobilization Advance of Rs. 2.613 million but Income Tax @ 6 % was not deducted. This resulted into non-deduction of Income Tax worth Rs. 156,780.

Audit pointed out the non-deduction of income tax in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that as per contract, Mobilization Advance is a financial assistance to the Contractors to mobilize them at site of works and this amount was tax free, therefore, deduction of tax was not justified. However, in case of any discrepancy in recovery of Income Tax, the same will be recovered from the final.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to effect recovery of Income Tax from the next running bill of the contractor and get it verified from Audit as the Income Tax is payable on gross payments.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented.

(Para 10)

#### **4.2.5 Non-deduction of Security Deposit - Rs. 0.743 million**

According to Clause 6.3.4 of the agreement, Security deposits @ 5% was required to be deducted from each payment to be released on completion of construction or after 12 months from submission of design/drawings whichever is earlier and for construction supervision on expiry of maintenance period.

The project management paid Rs. 14.852 million to M/s Nayyar Ali Dada & Associates (NADA) upto January 2011 on account of architectural & engineering design consultancy services of the project. But security deposit @ 5% has not been deducted as required under Clause-

6.3.4 of the agreement. This resulted into non-deduction of security deposit of Rs. 0.743 million.

Audit pointed out the non-deduction of security deposit in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the retention money shall be adjusted in forth coming bill as calculated by Audit. The Department admitted non-recovery of Security Deposit.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to adjust the Security Deposit in the next bill of M/s NADA.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 04)

#### **4.2.6 Extra expenditure due to mismanagement - Rs. 1.091 million**

According to Item No. 1 (a to f) of Chapter 1-Dismantling Works of Tender documents (Volume-I), lump sum provision for dismantling works was provided as Rs. 0.950 million.

The project management deleted item No.1 of Chapter 1 (Dismantling Works) costing Rs. 0.950 million from the BOQ of the tender documents at the time of acceptance of the bid. Later on, the same items were got executed from the contractor at cost of Rs. 2.041 million as additional work. Unjustified deletion of the items and subsequent execution at higher rates has resulted in extra expenditure of Rs. 1.091 million up to 31<sup>st</sup> IPC.

Audit pointed out the extra expenditure in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in

June 2012 that Employer deleted the dismantling works from BOQ item-1 and same was executed through Variation Order (VO) No.1 (for Additional Civil Works) because the dismantling work like cement concrete, plumbing works were not quantified exactly. Variation Order No. 1 to cover the additional civil works is under the review of the Engineer and shall be forwarded to the employer shortly for the concurrence and financial approval. The reply of the Ministry was evasive as lump sum provision provided in the agreement as BOQ item No.1 was comprehensive. Its deletion at the time of acceptance of bid was, therefore, against the spirit of tendering and caused extra expenditure due to higher rates.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed that comparative statement and rejected bids be provided to Audit to determine the cost offered by the other bidders against this item. DAC also directed to intimate the authority under which the item was deleted from the original bid at the time of acceptance and then the same was got executed under V.O 1 at higher rates within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 02)

#### **4.2.7 Overpayment due to unauthorized enhancement of cost - Rs. 0.939 million**

According to clause IB-31 (Employer's Right to Vary Quantities), Employer reserves the right at the time of award of contract to increase or decrease by upto 15 % the quantity of goods and services specified in the Schedule of Prices without any change in the unit price or other terms and conditions.

The project management awarded a contract for installation of seven lifts at cost of Rs. 20.353 million. Later on, one lift costing Rs. 3.870 million for conference hall was deleted from the scope of the work due to non-construction of conference hall. The deleted scope was 14.28 % of the total quantity. Due to deletion of one lift, cost of remaining six lifts was enhanced by 6 % of 95 % of remaining cost to compensate the contractor. This was not admissible under the clause of the agreement as the decrease in the quantity of lifts was less than 15 % of the total quantity (seven lifts). This resulted in an overpayment of Rs. 0.939 million.

Audit pointed out the overpayment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that 6% increase on 95% of the tender price (Pak Rupees) was allowed by the competent authority due to more than 6 % increase in the exchange rate. The reply of the department was not acceptable. Decrease in the quantity of lifts was less than 15 % of the total quantity of lifts.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to effect recovery of overpaid amount. The DAC further directed to hold Fact Finding Inquiry to fix responsibility of taking wrong decision within one month.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 9)

#### **4.2.8 Overpayment due to non-filling of excavated earth - Rs. 1.167 million**

According to Item No. 5 of BOQ, a quantity of 43,500 cft @ Rs. 15 per cft was provided for filling of sand around retaining walls only.

The project management provided the item No. 5 of the BOQ, i.e. "sand filling" around retaining walls only. But sand was shown filled

under floor of the basement also. Resultantly, quantity of 121,676.80 cft was paid against authorized quantity of 43,500 cft due to non-filling of excavated earth under item No.3 'excavation' payable @ Rs. 10 per cft including cost of back filling of suitable excavated material. Non-utilization of excavated earth for filling under floor of basement resulted in an overpayment of Rs. 1.167 million.

Audit pointed out the overpayment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the Architect/Designer does not recommend the back filling with the same excavated materials. Hence, sand was filled under floors. The reply of the department was not tenable. Cost of backfilling, separating suitable/ unsuitable material, compaction, watering etc is included in the rate of item and was not payable as these components were not executed.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to revise the rate and effect recovery for the un-executed component within one week from the contractor.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 11)

#### **4.2.9 Overpayment due to application of higher rate - Rs. 0.890 million**

According to BOQ, 118 Variable Air Volume Box Units @ Rs. 50,850 per unit were provided.

The project management increased quantity of Variable Air Volume Box Units (VAVBU) from 118 to 362 through Variation Order No.3 due to conversion of 03 halls into different rooms. Due to increase in quantity of VAVBU, the rate was also increased from Rs. 50,850 to Rs. 57,392 per unit. Increased rate was applied on the whole quantity of 362

instead of payment of BOQ quantity of 118 plus 15 % on original BOQ rate of Rs. 50,850. This resulted in an overpayment of Rs. 0.890 million.

Audit pointed out the overpayment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the rate was increased due to increase in the price of VAVBU. No increase was allowed on installation, testing, commissioning, overheads and profit. The reply of the Ministry was not tenable. The contractor was bound to execute the agreement quantity plus 15 % at BOQ rates.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to effect the recovery by applying the original rate on the quantity provided in the BOQ plus 15 % besides provision of rate analysis of the item to Audit within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 12)

#### **4.2.10 Unjustified payment in contradiction of commitment - Rs. 4.045 million**

According to item-g (Burner) of Technical Specification-F.02 of HVAC system, the burner of Chillers shall be forced draft suitable for firing natural gas. However, as per minutes of the meeting dated November 10, 2007, the contractor committed that he would place orders for Dual Fired System of Chillers; however, he will not claim for additional cost due to dual system which was not earlier catered for in the contract agreement. An undertaking will be given by the HVAC contractor.

The project management made payment of Rs. 4.045 million for dual system under Variation Order No.1 in IPC No.5 in contradiction to the commitment. This has resulted into un-justified payment of Rs. 4.045 million.

Audit pointed out the unjustified payment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that payment was made in accordance of Variation Order No. 1 (Dual Fire System Chillers for HVAC works) duly approved by the competent authority. The reply was not acceptable. The contractor committed that he would place orders for Dual Fired System of Chillers; however, he will not claim for additional cost due to dual system.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed that Project Director, HSB will re-examine all aspects and submit a report to the Committee within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 13)

#### **4.2.11 Unjustified payment for services not provided - Rs. 3.376 million**

According to Bill No. NDA/231/10 dated October 7, 2010, the Design Consultant M/s Nayyar Ali Dada claimed Rs. 3.300 million for Furniture Works (Design & Supervise the Furniture/Furnishing of offices of High Security Block) against which the Consultants were paid Rs. 0.550 million.

The project management awarded the contract for designing and construction supervision to M/s Nayyar Ali Dada. The scope of work



under the contract also includes Designing and supervision of furnishing including furniture. Payment of Rs. 0.550 million against claim of Rs. 3.300 million was also made to the consultants. Audit observed that the management awarded another contract for the same work 'Design and supervision of furnishing of high security block' vide Letter of Acceptance No. PD/HSB/FC/01/Letter of Acceptance dated December 4, 2007 to M/s KONCEPTZ at a cost of Rs. 4.00 million. The Contractor has been paid Rs. 3.376 million upto April, 2008 against which the contractor did not provide any design/drawing nor was the work supervised. This resulted in unjustified payment of Rs. 3.376 million.

Audit pointed out the unjustified payment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that as per contract agreement signed between Ministry of Foreign Affairs and M/s KONCEPTZ, a total amount of Rs. 3.5 million was paid against the preparing of the conceptual drawings for furniture, furnishing items and preparation of bidding documents. On the basis of these documents, bids were invited from various firms through open tenders but the proposal could not be materialized due to the non-completion of the building. Hence, remaining amount was held by the Ministry which will be released if the consultants meet their contractual obligations.

M/s KONCEPTZ have now been re-engaged and the firm has prepared the furnishing design. Therefore, money paid to the firm will not go in waste as they will deliver their services till completion of furnishing work. The reply of the management was not tenable. The work was covered in the scope of services of M/s NADA. Hence, award of same work to another firm was not justified.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to make recovery from M/s KONCEPTZ. The Committee also directed to provide inquiry report conducted on the issue and record relating to tendering and payments within one week

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 33)

#### **4.2.12 Overpayment due to allowing higher rate - Rs. 2.572 million**

As per quotation obtained from M/s Jaffar & Co vide quotation No. G-1449-C/ISB/2010 dated April 19, 2010 for supply of Generator Set 635 KVA, the offered rate of Rs. 9.190 million includes installation, testing & commissioning at Islamabad.

The supplier (M/s Jaffar & Co) submitted quotation for supply and installation of 635 KVA Generator at Islamabad for Rs. 9.190 million. But the project management analyzed the rate of the Generator on the basis of the said quotation for Rs. 11.791 million for procurement through contractor. This was a non-BOQ item. Had the generator set been purchased direct from M/s Jaffar & Co, the Government would have saved Rs. 2.572 million. This irregular purchase at higher rate resulted in an overpayment of Rs. 2.572 million.

Audit pointed out the unjustified payment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the Employer (Ministry of Foreign Affairs) having no mechanism to purchase this type of materials/equipments directly from the supplier /manufacturer or open market, therefore, the procedure was adopted to purchase the Generator from the existing contractor through VO-1 with approval of the competent authority. The reply was not tenable because the procurement was made without provision in the PC-I as well as in violation of Public Procurement Rule, 2004.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to recover the amount included in the rate analysis on account of carriage, loading/unloading and labour as the

charges are included in the cost of the equipment within one week. Moreover, responsibility for the loss by purchasing through contractor and giving him profit be fixed and action be taken as per rules.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 15)

#### **4.2.13 Overpayment on account of design fee - Rs. 1.150 million**

As per Variation Orders, an extra expenditure of Rs. 32.846 million has been made upto 31<sup>st</sup> IPC (Electrical Work).

The project management allowed design fee to M/s Nayyar Ali Dada @ 3.5 % of cost of the additional/ varied work (Electrical work) for Rs. 1.150 million. Audit holds that varied/ additional work cropped up due to defects/discrepancies in design prepared by the consultant. Instead of penalizing the Design Consultant, design fee on varied works was allowed. This resulted in an overpayment of Rs. 1.150 million.

Audit pointed out the overpayment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the variations were necessitated due to the design requirement of the building and not due to any fault of the design consultant. The variations were approved by the competent authority after adopting a proper procedure. The reply was not tenable. The design consultants would have prepared the concept design of the building after detailed discussions with the Employer with regard to their requirements. Moreover, design fee was payable on the basis of estimated cost approved in the original PC-I. Hence, there was no relation of design fee with the revised cost of the project as design phase was completed before award of work.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee pended the Para to re-examine the record in detail by the project management and submit a report in this regard to Audit within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 16)

#### **4.2.14 Overpayment due to higher rates - Rs. 2.076 million**

According to agreement/ BOQ, Diesel Generating Set 1000 KVA for which power cable was provided as single core 300 mm square PVC for a quantity of 300 Rft @ Rs. 435 per running foot.

The project management got executed and paid the item 'Supply/ fixation of 300 mm square PVC cable complete in all respect as per instruction of the Engineer' @ Rs. 1,255 per running feet for the 1000 KVA diesel generating set against agreement rate of Rs. 435 per running feet upto 31<sup>st</sup> IPC through additional/varied work. This resulted in overpayment amounting to Rs. 2.076 million.

Audit pointed out the overpayment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that it was mutually agreed that the contractor will provide the BOQ quantity of 300 mm sq cable at BOQ rate of Rs. 435 per Rft, where as extra/additional quantity shall be supplied and fixed @ Rs. 1,255 per Rft. Accordingly, Variation Order (VO) No.1 was approved. The reply of the Ministry was not tenable. It was violation of Rule-19 (iv) of GFR (Volume-I).

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed the Ministry to refer the matter to Finance Division for regularization or fix responsibility against the responsible(s).

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 17)

#### **4.2.15 Overpayment due to increase in rate of BOQ - Rs. 0.490 million**

According to Clause 52.1 of the Contract Agreement, the value of variation shall be carried out on the basis of similar items covered in the Bills of Quantities, in so far as such rates or prices apply and where such rates or prices do not directly apply, the value shall be based on the rates or prices deducted there from so far as practicable to do so. If the same is not provided in the Bills of Quantities then the valuation will be carried out on the basis of actual with the application of current market rates for labour and material.

Audit observed that rates of various items were available in the BOQ of the agreement. But the project management made payment of additional item at higher rates. This resulted in over payment of Rs. 0.490 million.

Audit pointed out the overpayment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that approval of rates was yet to be accorded by the competent authority in accordance Clause 51.2 of the agreement. However, provisional payment was made to the contractor which will be adjusted on approval of the rates by the competent authority. The reply was not acceptable. Payment was made without approval of the competent

authority. The approval is still awaited despite lapse of period of more than a year.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to effect recovery and its verification from Audit within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 19)

#### **4.2.16 Overpayment due to incorrect certification - Rs. 12.457 million**

According to certified amount against work done upto 31<sup>st</sup> IPC, net payable amount after necessary adjustments was calculated as Rs. 211.021 million.

The project management made payment of Rs. 223.479 million against due amount of Rs. 211.021 million upto 31<sup>st</sup> IPC by making incorrect calculation of net payable amount. This resulted into an overpayment of Rs. 12.457 million.

Audit pointed out the overpayment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the calculations were checked by the supervisory consultant/project office and found correct. The reply was not acceptable. The calculation was not correct.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to make adjustment in the next IPC and get it verified from Audit within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 20)

#### **4.2.17 Overpayment due to incorrect rate - Rs. 3.493 million**

According to Clause 52.1 of the agreement, the value of variation shall be carried out on the basis of similar items covered in the Bills of Quantities, in so far as such rates or prices apply and where such rates or prices do not directly apply, the value shall be based on the rates or prices deducted there from so far as practicable to do so. If the same is not provided in the Bills of Quantities then the valuation will be carried out on the basis of actual with the application of current market rates for labour and material. No escalation on account of material or labour wages shall be allowed on such items. The percentage of overheads, taxes and profits, etc to be allowed in such cases shall be twenty five percent (25 %).

(A) The project management allowed 25% (Contractor's profit and overheads) plus all taxes on all the components of items included in the rate analysis of items for which rates were not available in the BOQ. While analyzing the rates of such items, all overheads, i.e. carriage, loading/un-loading and other accessories were included in the rates separately. Thus, only contractor's profit @ 10 % was admissible instead of overheads and profit @ 25 %. This resulted in an overpayment of Rs. 3.313 million.

(B) As per rate analysis for the 1250 KVA transformer, the cost of transformer comes to Rs. 2.098 million whereas while approving the variation/extra/substituted items, the rate was approved as Rs. 2.280 million. The discrepancy in the rate approved by the M/s NESPAK; the supervising consultants and rate taken in the Variation Statement resulted in an overpayment of Rs. 0.180 million (Rs. 2.280-2.098 Rs.0.182 less rebate 1.10 %).

Audit pointed out the overpayment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that payment was made in accordance of Clause No. 52.1 of the agreement. The reply was not acceptable. The department allowed 25% (Contractor's profit and overheads) plus all taxes on all the components of items included in the rate analysis of items for which rates were not available in the BOQ. While analyzing the rates of such items, all overheads, i.e. carriage, loading/un-loading and other accessories were included in the rates separately. Only 10 % on account of contractor's profit was payable. The department did not reply to the Part-B of the observation.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed the Ministry to provide detail of payments along with approved rate analysis to Audit for examination within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 26)

#### **4.2.18 Non-deposit/accountal of cost of tenders - Rs. 0.400 million**

According to Rule 23 (5) of Public Procurement Rules, 2004, the procuring agency shall provide a set of bidding documents to any supplier or contractor, on request and subject to payment of price, if any.

The project management awarded three contracts but record showing number of bidding documents prepared, printed and issued to the bidders was not maintained. Further, Receipt Book and Cash book of the project have not been maintained. In absence of the initial documents, accountal and deposit of the cost of tender documents cannot be ascertained. However, it is estimated that tender documents costing of Rs.



400,000 (approximate) were sold out to different bidders but cost thereof was neither accounted for in the Account Books nor was remitted into Government Treasury.

Audit pointed out the overpayment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the case shall be reviewed and if any negligence is found on the part of the formal Project Director the outstanding amount shall be recovered from his payable dues. The department did not provide any progress towards recovery.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to trace out the record regarding sale of tender documents and effect recovery besides action against the responsible(s) for non deposit of cost of tenders within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 22)

#### **4.2.19 Non-imposition/recovery of penalty due to defective designing- Rs. 3.823 million**

According to Clause 3.4 of the agreement, (Para-2, Liability of the consultants), provides 'if the client suffers any losses or damages as a result of proven faults, errors or omissions in the design of a project, the Consultants shall make such losses or damages subject to the conditions that the maximum liability as aforesaid shall not exceed twice the total remuneration of the consultants for design phase in accordance with the terms of the contract'. Design Consultants were liable to be penalized for the defective designing @ 40% of the cost.

The project management frequently allowed payments to M/s Nayyar Ali Dada Associates (NADA), the design Consultant, for the works/items of works executed as additional/varied items due to proven faults in design phase, viz provision of lower capacity transformers, Main LT panel-I, 1600A, BTD-1600 A, Cables, 300 mm<sup>2</sup>. This resulted in extra expenditure amounting to Rs. 32.846 million (extra/substituted items). No penalty had been imposed on the design consultants for defective designing as required.

Audit pointed out the overpayment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the Employer modified the design of the building during the execution which necessitated lot of changes in the tendered quantities of civil/electrical and HVAC works. The reply was not tenable. The design consultants would have prepared the concept design of the building after detailed discussions with the Employer with regard to their requirements.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed the Project Director to re-evaluate the Variation Order (VO) No.1 and submit a report in this regard to Audit for verification within one month.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 23)

#### **4.2.20 Non-imposition of Liquidated Damages due to time overruns - Rs. 34.932 million**

According to clause-47.1 of the agreement, the time allowed for carrying out the work as entered in the tender was to be strictly observed by the contractor being deemed to be essence of the contract. In case of his failure to comply with this condition, he was liable to pay compensation

amount equal to one percent or such smaller amount as the Engineer-in-Charge may decide upto a maximum of 10 percent of the estimated cost of the work as shown in the tender.

**4.2.20.1** Project Director, Construction of High Security Block at Ministry of Foreign Affairs, Islamabad awarded the work 'Construction of High Security Block at Ministry of Foreign affairs, Islamabad' to a contractor at agreement cost of Rs. 234.422 million. The work was started on June 14, 2005 and was to be completed in all respect up to December 13, 2006. The contractor failed to complete the work on due date and could only show physical progress of 44% in entire stipulated period plus three more months. The work is still in progress. Last and 31<sup>st</sup> IPC for Rs. 237.720 million has been paid to the contractor in March, 2011. Progress Report for the month of April 2011 shows physical progress of Civil works of 88 %, Plumber work 49 % and electrical work 75 % only. It shows that the contractor has achieved this progress by utilizing 400 % extra time. This failure has made the contractor liable to pay compensation @ 10 % amounting to 23.442 million (234.422 x 10 %). It is also worth mentioning that last extension has been granted upto November 30, 2011 without imposing liquidated damages on the contractor.

(Para 6)

**4.2.20.2** The project management awarded the work "HVAC system" to M/s Airtech Engineers at an agreement cost of Rs. 114.902 million. The work was started on May 14, 2007 and was to be completed in all respect up to January 18, 2008. The contractor did not complete the work on due date and could achieve progress of 65 % only upto April, 2011. This failure made the contractor liable to pay compensation @ 10 % amounting to Rs. 11.490 million (114.902 x 10 %).

Audit pointed out the non-imposition of liquidated damages in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the delay in completion and its causes are yet to be determined. The case for further extension of time is under process/review with the consultant. The reply was not acceptable.

Extension was granted upto September 30, 2011. Payments after September 30, 2011 were against void agreements.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed that Liquidated Damages may be imposed on the contractor, recovered and got verified from Audit within one month.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 7)

#### **4.2.21 Excess payment due to increase in quantities - Rs. 19.354 million**

According to clause 51.1 of Contract Agreement, the Engineer shall make any variation of the form, quality or quantity of the works or any part thereof that may, in his opinion, be necessary and for that purpose, or if for any other reason it shall, in his opinion, be appropriate, he shall have the authority to instruct the contractor and the contractor shall do any of the following: (i) increase or decrease the quantities of any work included in the contract.

The project management made payment to the contractor by increasing the quantities of various items by 100% to 200% without approval of the Engineer or Employer though work of Conference Hall was dropped from agreed scope. This resulted into excess payment of Rs. 19.354 million.

Audit pointed out the excess payment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the case for variations was under review of the Consultants. Audit will be informed as & when it is approved by the competent authority. No progress towards justification of increase of quantities and

approval of competent was provided to Audit during verification of record.

The matter was also discussed in the DAC meeting held on July 6, 2012 wherein the Committee pended the Para till regularization of excess quantities executed without approval.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 30)

#### **4.2.22 Non-recovery due to non-provision of site office - Rs. 4.00 million**

According to clause 80.1 (conditions of particular application-II-B) of the Contract, the Contractor was required to construct, provide, furnish and maintain for Design Consultant, Consultant and Engineer a site office as per design provided in the contract documents along with stabilized access road on 900+300 sft area. The site office was to be provided with a non-STD telephone, an internet connection, P-IV computer with printer, stabilizer, air-conditioners, and potable water alongwith complete site facilities. The cost on this account was deemed to have been included in the bid price and no separate payment was to be made to the Contactor on this account.

The contractor M/s Recent Construction Co. of High Security Block, Ministry of Foreign Affairs, Islamabad did not construct, furnish and maintain site office as per requirement/provisions under contract Clause 80.1. The contractor is even using existing garages for his offices since start of the work. The contractor in this way made himself liable to return the inbuilt cost of the site office, road, etc included in the bid rate and rent of the garages. The project management did not make recovery

on this account from the payments of the contractor. This resulted into non-recovery of Rs. 4.000 million.

Audit pointed out the non-recovery in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the contractor has constructed, furnished and maintained the site office as per requirement as per provisions in the condition of the contract. The reply was not acceptable. The contractor did not provide, furnish and maintain offices for Design consultant, supervisor consultant and Engineer as per design provided in the contract documents along with stabilized access road on 900+300 sft area. But the contractor furnished existing garages for the engineer and for his offices only. No access road was constructed.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to produce stock handing/taking over certificates and evidence regarding deposit of receipt on account of auction of existing structures to Audit within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 37)

**Recommendations:**

- i. Project management should follow the conditions of contract and should also streamline and strengthen system of pre-audit, so as to ensure correct project payments.
- ii. Focus should be on completing the projects within the stipulated time in order to avoid cost overrun and to allow benefits to accrue to the end-users.

- iii. The management should make early adjustment/recovery of overpayments from the contractor/contracts.

#### **4.3 Procurement of goods and contracts management/administration**

Since the project is related to the construction including electrical and mechanical works, therefore, no direct procurement of goods was involved. The Contractor was responsible for all the necessary procurements under the contract agreement.

#### **4.4 Procurement of civil works and contracts management/administration**

##### **4.4.1 Site selection**

The entire work was executed at Ministry of Foreign Affairs, Islamabad located at Constitution Avenue, Islamabad in the vicinity of existing office.

##### **4.4.2 Preparation of drawing and design**

The Ministry appointed M/s NESPAK (Pvt) Limited and M/s Nayyer Ali Dada & Associates as Consultants for drawing, design and construction supervision of the project.

##### **4.4.3 Construction schedule**

The construction schedule for the project was prepared by the contractor and approved by the Consultant and the Employer.

##### **4.4.4 Monitoring of construction**

The consultant M/s NESPAK (Pvt) Ltd was responsible for monitoring of construction work for timely completion.

#### **4.4.5 Physical Progress**

The original date of completion of project was March 5, 2008 while the civil work was started on June 14, 2005 and was to be completed up to December 13, 2006. The contractor did not complete the work on due date and could achieve physical progress of 44% in entire stipulated period plus three more months. The work is still in progress. Progress Report for the month April, 2011 shows physical progress of civil works of 88 %, plumber work 49 % and electrical work 75 % only. However, extension in time limit was granted upto November 30, 2011. The HVAC work of the project was started on May 14, 2007 and was to be completed up to January 18, 2008 but contractor has completed only 65% of the work upto April 2011. The work of the conference hall has not yet been started.

#### **4.4.6 Procedures to ensure quality of work**

The consultant was hired to ensure the quality of work. His responsibility was to inspect the site from time to time, properly test the material through laboratory tests and to ensure execution of work as per approved drawing and specifications.

#### **Findings of procurement of civil works and contracts management / administration**

#### **4.4.7 Non-execution of awarded work**

According to contract agreement signed with M/s Recent Construction Company, construction of Conference Hall was included in the agreed scope of work.

The project management deleted the construction of Conference Hall, one of the core components of project, from the total scope of the contract (reasons not known). The contractor did not even excavate the foundations of the Conference Hall. It is anticipated that due to market fluctuations/inflation in material rates, the construction cost would increase by at least 60 % in the last six years. Deletion of the Conference Hall from the awarded contract and its construction, later on, will definitely result in extra expenditure.



Audit pointed out the non-execution of work in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the decision of construction of Conference Hall is under consideration in consultation with the Planning Commission. In this regard, a separate PC-I for the construction of Conference Hall is being prepared. The reply was not tenable because construction of Conference Hall was included in the agreed scope of work but its construction was not started.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to submit revise reply including present status of the construction of the Conference Hall under the existing agreement.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 21)

#### **4.4.8 Blockage of funds – Rs. 15.210 million**

According to Contract Agreement, five Cooling Towers and Chillers were to be installed, tested and commissioned (Three for main building and two for Conference Hall). Later on, construction of Conference Hall was dropped from the scope of work of the contractor.

The project management purchased Cooling Towers and Chillers incorporated in the PC-I for Conference Hall at a cost of Rs. 15.210 million including payment of testing & commissioning of the equipment Rs. 930,000 during April 2011 despite of the fact that construction of Conference Hall was dropped at the early stage of the project. This unjustified purchase resulted in blockage of funds of Rs. 15.210 million upto 5<sup>th</sup> IPC.

Audit pointed out the blockage of funds in June 2011. The matter was also reported to the PAO in August 2011. The project management replied in June 2012 that as per original contract, the HVAC Contractor started procurement of HVAC equipment (Chiller & Cooling Towers) for High Security Block and Conference Hall. At the time of procurement, there were no specific instructions from the Employer regarding deletion of Conference Hall from the original scope of HVAC Works. Moreover, the PC-I for the construction of Conference Hall is being prepared and shall be submitted to the Planning Commission accordingly. It is submitted regarding payment of testing and commissioning of the equipment that adjustment will be made in the final bill of the contractor. The reply was not acceptable. The procurement was made without requirement and payment for testing and commissioning was made without its installation. Thus, there was mismanagement in execution and procurement of HVAC equipment.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee took serious notice of payment of un-executed work and ordered a Fact Finding Inquiry to fix responsibility for making undue payment within one month.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 29)

#### **4.4.9 Excess payment of Consultant's remuneration - Rs. 14.480 million**

According to clause 6.3.2 of the agreement, remuneration for construction supervision services was to be paid @ 2.5 % of the cost of works.

The project management awarded works costing Rs. 349.30 million (Civil work for Rs. 234.40 million and HVAC for Rs. 114.900 million). Later on, construction of Auditorium was excluded from the scope of work. Hence, the Consultants were to be paid @ 2.5 % of the cost of work excluding Auditorium. But the Consultants have been paid in excess of agreed limit of 2.5 %. This has resulted into overpayment of Rs. 14.480 million.

Audit pointed out the excess payment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that no specific instructions were issued by the Employer regarding the deletion of Conference Hall from current contract. Basis of calculation of Conference Hall contract price were also not correct. The payment formula for consultant remuneration was approved by the steering committee. The reply was not acceptable. Construction of Conference Hall was excluded from the scope of work. Hence, the Consultants were to be paid for the cost of work excluding Auditorium as its construction was not started.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed the Ministry to provide detail of payments made to the consultants for examination within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 25)

#### **4.4.10 Loss due to defective designing - Rs. 16.423 million**

As per BOQ, 1000 KVA transformers (2 Number) were required to be installed, tested and commissioned @ Rs. 750,000 each.

The project management allowed change in capacity of transformer from 1000 KVA to 1250 KVA and Diesel Generator Set from 1000 KVA to 635 KVA with change in size/capacity of cables at higher rates against the designed capacity of the consultants. This indicates that the provision of 1000 KVA transformer and cables were insufficient/below standard to meet the requirements. This defective designing resulted in additional/varied item at additional cost of Rs. 32.846 million as rates of these items were allowed without any competitive bidding. For example, transformer was enhanced from Rs. 750,000 to Rs. 2.280 million and rate of main L.T panel from Rs. 1.125 million to Rs.2.795 million. This extra cost occurred due to defective designing which caused loss of Rs. 16.423 million (Rs.32.846 million x 50 %) due to market fluctuation from 2005 to 2010.

Audit pointed out the loss in June 2011. The matter was also reported to the PAO in August 2011. The project management replied in June 2012 that the variation was made due to increased load of the building in the best interest of the project and to save delay & cost overrun with the approval of the competent authority. The reply was not tenable. Defective designing necessitated additional/varied items at additional cost as rates of varied items were allowed without any competitive bidding.

The matter was also discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed the Project Director to re-evaluate the Variation Order No.1 and submit a report in this regard to Audit within one month.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 24)

#### **4.4.11 Award of work without open competition causing extra expenditure - Rs. 6.365 million**

According to Rule 4 of Public Procurement Rules, 2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Further, as per Rule 15 of the *ibid* rules, a procuring agency, prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids. Such pre-qualification shall solely be based upon the ability of the interested parties to perform that particular work satisfactorily.

As per PEC Consultancy By-Laws 1986, Consulting engineer means any person, partnership, corporate body or any other legal entity which independently performs study, prepares reports, makes design, supervises construction or similar advisory activities in the engineering disciplines and is registered or licensed as such by the Council. All consulting engineering services in Pakistan shall be entrusted only to consulting engineers duly registered as such with the Council.

The project management awarded the contract for Architectural and Engineering Design Consultancy Services for Construction of High Security Block without pre-qualification and calling of open tenders as no record pertaining to pre-qualification and bidding was made available to Audit despite repeated verbal and written requests. Consultancy fee was allowed @ 3.5 % of the cost of works on completion. This rate seems on higher side as compared to prevailing rate of 2 % (Contract for design services of Secretariat Block-TUV awarded to M/s NESPAK in 2005).

Audit further observed that the firm was not registered with the PEC in the specified discipline as required under the PEC Consultancy

By-laws, 1986. Thus, the award of contract to the non-registered consultants without pre-qualification and open tendering was irregular and allowing of higher rates caused extra payment of Rs. 6.365 million.

Audit pointed out the irregularity in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the consultants are engaged by the Ministry of Foreign Affairs on very competitive market rates by adopting certain procedure. The reply was not acceptable. The un-registered consultants were appointed without pre-qualification and open tendering irregularly.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to provide approval of the competent authority for waiver of Public Procurement Rules. Para was referred to PAC.

(Para 27)

#### **4.4.12 Loss due to award of work at higher rate - Rs. 6.393 million**

According to Rule-38 of Public Procurement Rules, 2004, the bidder with the lowest bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

The project management called and opened tenders for Lift Works in the building on April 30, 2007. M/s ZIAFCO Engineers & Contractors quoted lowest bid of Rs. 13.960 million. This lowest bid was not accepted (Reasons for non-acceptance have not been provided to Audit). Later on, tenders were re-invited and opened on February 15, 2008. The same contractor quoted lowest bid of Rs. 20.353 million and the contract was awarded at a cost of Rs. 20.353 million, resulting in loss of Rs. 6.393 million (Rs. 20.353- Rs. 13.960).

Audit pointed out the loss in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012

that at the time of opening of tenders on April 30, 2007, the contractor of civil works was far behind the completion schedule. Later on, after one year on February 15, 2008, tenders were again invited and the same contractor (M/s ZIAFCO Engineers) won the tender and the work was awarded to them. The reply was not convincing. The management was well aware of the status of civil works. First, calling of tenders without proper home work and then scrapping them, without watching interest of the Government is established mismanagement.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to hold a fact finding inquiry in the matter of cancellation of 1<sup>st</sup> bid within one month.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 28)

#### **4.4.13 Infructuous expenditure - Rs. 1.908 million**

According to Rule 10 of GFR Volume-I, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

The project management got executed various items of electrical work. The items were measured and paid to the contractor for Rs. 0.527 million by applying 30 % rate of the items. Payable amount at full BOQ rate comes to Rs. 1.758 million. Later on, the electrical items were not considered useable due to revision of drawings by the consultants. Similarly, the foundation for Diesel Generator (DG) was constructed and paid for Rs. 75,000 against agreement rate of Rs. 150,000 while the foundation could not be used due to change of location of generator set.

Poor management and planning resulted into infructuous expenditure of Rs. 1.908 million (1.757 million+150,000) upto 31<sup>st</sup> IPC.

Audit pointed out the infructuous expenditure in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that due to increase of electrical load and its onward effects, the capacities of the Diesel Generator sets was increased. An independent Diesel Generator set for HVAC Works was added. Therefore, to place two DG Sets in original proposed Generator's Room, the space was not enough and a separate independent Generator's Room was proposed by the designer. The building is under construction and every effort shall be made to utilize the space of designated for the generator set for some other useful purpose. The reply was evasive. The construction was started without proper planning and designing.

The matter was also discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed for proper re-utilization of space without any loss for the executed work and its verification from Audit in one month.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 01)

#### **4.4.14 Post tender changes in the size of valves of HVAC system involving extra expenditure - Rs. 1.113 million**

As per selected Chiller Model LDF-S024S, the manufacturer of the Chiller recommended and provided the nozzle size of 6 inch dia for a flow of 240 cubic meter/hr (1,056 gpm – gallons per minute). Matching pipe sizes and valve sizes were available in the BOQ of the Agreement.



The project management approved Variation Order No.2 on January 23, 2011 on account of revision of size of valves of different types having additional cost of Rs. 2.783 million despite the fact that Ex-Project Director did not agree with the revision on the basis of manufacturer's catalogue (L.S Absorption Chiller) vide his letter No. PD/HSB/HVAC/270509 dated May 27, 2009. Audit holds that change in diameter of valves is un-realistic as there was no change in specification of Chiller. Further, other related items, i.e. nozzles, pipes, etc have also not been changed. Had the required valves been provided in the original BOQ/NIT in 2007, there would have been approximate saving of 40 % of cost of the revised valves cost in competitive bidding. This post tender change caused extra expenditure of Rs. 1.113 million (Rs. 2,782, 874 x 40 %).

Audit pointed out the extra expenditure in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that due to change in design, the size of pipes was increased to control the increase in fluid/water velocity in the piping network. The reply was not convincing because specifications given in the manufacturer's manual were changed.

The matter was also discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to provide detailed justification for change of manufacturer's specification. The Committee also directed the management to provide "Owner's Manual" and rate analysis to Audit for verification within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 36)

## **Recommendations:**

- i. Proper planning based on accurate survey and feasibility studies needs to be undertaken to avoid unnecessary delays involved in frequent revisions/changes in design during execution.
- ii. For all future projects, proper planning in respect of design/drawing should be ensured to avoid any subsequent material changes.

### **4.5 Monitoring and Evaluation**

The Ministry appointed a Consultant M/s NESPAK (Pvt) Ltd. for detailed design and monitoring / supervision of construction works executed by the Contractor. The Consultant was responsible for monitoring the satisfactory and timely completion of the project.

### **4.6 Environment**

No environmental pollution effects are likely to be encountered as all the arrangements are available in area for proper disposal of waste water and sewerage, etc.

### **4.7 Sustainability**

#### **4.7.1 Probability of funding for project completion**

Initially, the PC-I of the project was approved for Rs. 248.602 million, but was revised to Rs. 605.000 million due to enhancement and changes in scope of work against which an amount of Rs. 386.164 million has been paid. Sustainability of the project depends mainly upon the sufficient flow of financial resources, both during implementation and operation. The revised PC-I cost of Rs. 605.000 million was to be spent over four years from 2004-05, 2005-06, 2006-07 and 2007-08 as per

financial phasing but work was still in progress as such funds were not provided/utilized as per schedule.

#### **4.7.2 Estimated annual recurring cost**

An amount of Rs. 23.787 million has been provided in PC-I as annual operating cost after completion.

#### **Recommendations:**

Steps need to be taken to ensure smooth funding for operation/maintenance of the project as provided in PC-1.

#### **4.8 Overall Assessment**

Project is currently far from completion stage. Progress Report for the month of April, 2011 shows physical progress of civil works of 88 %, Plumber work 49 % and electrical work 75 % only. Physical progress of HVAC system shows 65% completed upto April, 2011 and lift works are also under progress. The work of conference hall has not been started yet. Main causes attributed to the delay were slow progress in releasing funds by Finance Division besides hurdles in supplying of material to the red zone of Islamabad. Keeping in view the physical progress, the project has witnessed time/cost overruns.

##### **4.8.1 Compliance with rules**

Ministry of Foreign Affairs was established in 1947 as a government department under the administrative control of the Government of Pakistan. The rules and regulations set out by the Ministry and the instructions issued from time to time by the Federal Government are binding on the Ministry. Scrutiny of the record pertaining to the project revealed that certain rules, regulations, procedures and instructions were not followed, as mentioned below:

#### **4.8.1.1 Non-production of record**

The project management did not produce the following accounts record despite repeated verbal and written requests:

1. Prequalification/bidding documents of consultants (Design & Supervision)
2. Prequalification of contractors for Civil & Electrical Works/ HVAC system
3. Tender documents/ Register, i.e. Tender Opening Register, comparative statements and evaluation reports
4. Documents relating to pre-bid meetings with the contractors / consultants
5. Technical Sanctioned Estimates
6. Record relating to imported items:
  - i. Bill of Lading (Legible)
  - ii. Bill of Entry
  - iii. Passports of the visitors
  - iv. Letters of Chambers of Commerce of the manufacturing countries
  - v. Proof of payment of US \$ 1000 to each visiting officers
  - vi. Inspection notes.

The matter needs investigation and action against the responsible(s) for creating hindrance in performing statutory duties of Audit.

Audit pointed out the non-production of record in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that all the record and requisite documents were provided to the Audit Team as per demands. However, in future, the project wing would be more care full. The reply was not correct. The documents mentioned above were not provided.

The matter was also discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to provide complete record to Audit for verification within one week.

Compliance to the DAC's directives was not made till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 38)

#### **4.8.1.2 Irregular payment in violation of PC-I - Rs. 5.412 million**

According to Revised PC-I approved by ECNEC on November 29, 2007, no Design Fee was allowed on the works of HVAC, lifts and furniture.

The project management allowed design fee @ 3.5 % for the works component of HVAC, lifts and furniture on the upto date claim of the design consultants M/s Nayyar Ali Dada submitted vide No. NDA/231/10 dated October 7, 2010 amounting to Rs. 6.497 million. This resulted in unauthorized/irregular payment of Rs. 5.412 million.

Audit pointed out the irregular payment in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the design of the modern day, multi-storey and multipurpose building compasses all the functions and requirement of the building. The services of the professional consultant are acquired. It is an understood fact that the design consultant is not only responsible for structural design but also for the design of the electrical, plumbing, electronic & HVAC works etc of the building. It was not possible to have different consultants for the design of the different components the building. The reply was not to the point. Audit pointed out that according to Revised PC-I approved by ECNEC on November 29, 2007, no Design Fee was allowed on the works of HVAC, lifts and furniture. This aspect was not replied.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee referred the Para to PAC.

(Para 18)

#### **4.8.1.3 Irregular execution of work - Rs. 369.670 million**

According to Paragraph 1.02 of Central Public Works Department Code, all Federally Financed Original Works and ordinary and special repairs shall be executed through the Agency of Pakistan Public Works Department except as provided hereunder:

- (i) Works pertaining to the Light-houses, Mints, Archaeological and Salt Departments.
- (ii) Minor works costing upto Rs. 100,000.
- (iii) All special repairs and original works in foreign countries costing upto Rs.100,000 under the administrative control of the Ministry of Foreign Affairs may be undertaken without reference to the Pakistan Public Works Department.

The Ministry of Foreign Affairs, Government of Pakistan, Islamabad executed the work of 'Construction of High Security Block' in the premises of the Ministry by appointing of design consultants, supervision consultants, and award of works to contractors instead of execution through the Pakistan Public Works Department. This resulted into irregular execution of works costing Rs. 369.670 million.

Audit pointed out the irregular execution of work in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that for the execution of work permission / NOC was obtained from Capital Development Authority (CDA) / Public Works Department (PWD). The Project was approved by the ECNEC in February 2004. A summary was also forwarded to Prime Minister Secretariat and subsequently endorsed by the Ministry of Finance. The reply was not acceptable because approval of Prime Minister Secretariat and Finance Division, Government of Pakistan was not shown to Audit.

The matter was also discussed in the DAC meeting held on July 6, 2012 wherein the Committee pended the Para for verification of approval of the Prime Minister, NOC from Pak PWD and CDA.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 31)

#### **4.8.1.4 Un-authentic measurements due to non-maintenance of Measurement Books - Rs. 237.720 million**

According to Para 228 of Central Public Works Account Code, payments for all work done and for all supplies are made on the basis of measurements recorded in the Measurement Books. The Measurement Books should, therefore, be considered as very important account records.

The project management awarded the work 'Construction of High Security Block at Ministry of Foreign affairs, Islamabad' to M/s Recent Construction Company at agreement cost of Rs. 234.422 million. M/s NESPAK were appointed for construction supervision and acting as 'The Engineer'. The consultants were required to measure all work done by the contractor and record in the Measurement Books. But no work was recorded in the prescribed Measurement Books. Payment of Rs. 237.720 million upto 31<sup>st</sup> IPC was made on the basis of measurement sheets. This resulted into non-maintenance of necessary accounts record and irregular payment of Rs. 237.720 million.

Audit pointed out the unauthentic, irregular and illegitimate method of measurement of work in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the operating contract is not based on Conditions of Public Works Ministry or any other Engineering Department. It is being operated under FIDIC Conditions of Contract, according to which certified payments by

the Engineer to the Contractor include details of measurements of the completed work. The reply was not correct. In all countries, especially, where FIDIC has been adopted, the manual measurements books have been replaced with highly secured central databases. These systems maintain step and stage-wise physical execution, monitoring and supervisory level project activities including certification and payments. The Consultants and Project Team, by opting for an un-authentic and compromiseable method of work measurements/record keeping, has committed an act of criminal negligence for which they shall be held responsible.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed that all measurements be recorded in the Measurement Books and shown to Audit within a month.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 05)

#### **4.8.1.5 Non-implementation of Project Management Guidelines**

According to Para 3.20 of Guidelines for Project Management, the Project Director should be delegated full administrative and financial powers and be made accountable for any lapses. This measure would improve management and help fix technical and financial responsibility.

During audit of the project it has been observed that Project Director is working without delegation of Administrative/Financial powers. Resultantly, independent Project Accounts, i.e. Cash Book, Register of works, Stock Register, etc. of the Project have not been maintained in Project Office. Due to this reason, authentic head wise/ year wise funds allocated, actual release and expenditure incurred (duly reconciled) on the project were not available in the project office as the



accounts of the project are included in the accounts of the Ministry of Finance.

Audit pointed out the irregularity in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that to execute the works in more transparent manners, the post of Special Secretary was authorized / delegated with full power to handle all the activities of the project. The reply was not correct. Neither separate Cash Book, Register of works, stock registers of the project were maintained nor made available to Audit.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to implement the project guide lines issued by the Planning Division and powers be delegated to the Project Director who should maintain separate Assignment Account.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 34)

#### **4.8.1.6 Non-fulfillment of contractual obligations - Rs. 68.975 million**

According to TSA.19-Imported equipment, the Contractor shall make sure that no equipment is imported from China. Contractor shall be completely responsible to arrange the imported equipment for the Heating, Ventilating and Air Conditioning (HVAC) plant. All costs for obtaining imported equipment will be borne by the Contractor. All customs duties payable on import of HVAC equipment for the works shall be paid by the Contractor at his own cost. Contractor shall also arrange for the factory visits by three (03) persons (Two from Consultant's side and one from Client's side) before shipment of the Chillers, Air Handling Units, Cooling Towers, Fan Coil Units and other equipment as per recommended manufacturers. The visit and stay in the respective country shall be for

four days and the Contractor will pay US \$ 1000 to each visitor before the departure. Stay, boarding and lodging will be Contractor's responsibility.

The project management made payment of Rs. 68.975million upto 5<sup>th</sup> Running bill against imported items without fulfilling the contractual obligations as following record in support of pre-shipment inspection in the countries of origin/manufacture of HVAC system as laid down in the agreement was not produced:

- i. Bill of Lading
- ii. Bill of entry
- iii. Passports of the visitors
- iv. Letters of Chambers of Commerce of the countries
- v. Inspection Notes

Audit, therefore, holds that the contractor did not arrange the required pre-shipment inspection in the countries of the manufacturers. This resulted into irregular payment of imported items due to non-fulfillment of contractual obligations of Rs. 68.975 million.

Audit pointed out the irregularity in June 2011. The matter was also reported to the PAO in August 2011. The Ministry replied in June 2012 that the pre-shipment inspection was arranged by HVAC contractor (M/s Airtech Engineers) for the Project Director (representative of Ministry) and the representative of M/s NESPAK (Supervision consultant). The reply was not acceptable. The documents called for by the Audit Team were not provided to Audit to verify the visits in the country of origin.

The matter was discussed in the DAC meeting held on July 6, 2012 wherein the Committee directed to provide complete documents of pre-shipment inspection along with copies of the passports to Audit for verification within one week.

Compliance to the DAC's directives was not conveyed till finalization of the Report.

Audit recommends that the DAC's decision be implemented in letter and spirit.

(Para 35)

## **5. CONCLUSION**

Physical progress of civil work is far behind the planned schedule. The contractors could not complete the construction works despite extension in the original completion period. The management should determine the causes of slow progress and take measures for remedy. Monthly Progress Report (April, 2011) indicates that contractor's performance is poor. Management should, therefore, take prompt action for enhancement of contractor's performance. Following lessons were identified:

- Proper feasibility study
- Adherence to three E's, Agreement Clauses, PC-I and all applicable rules.
- Implementation and strict compliance of the approved specifications.
- Proper checks for all the payments made to the contractors.
- Executive should take necessary steps to evaluate and strengthen internal controls, i.e. internal system/checks in the organization built on rules & regulations, in order to ensure achievements of the objectives.

## **ACKNOWLEDGEMENT**

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