



AUDIT REPORT
ON THE ACCOUNTS OF
DISTRICT COUNCIL AND MUNICIPAL
COMMITTEES
CHITRAL

AUDIT YEAR 2014-2015

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

AP	Advance Para
BMAS	Bebaha Mahana Amadni Scheme
CCO	Chief Municipal Officer
CMD	Chief Minister Directives
CMO	Chief Municipal Officer
CPWA	Central Public Works Account
CSR	Composite Schedule of Rates
DAC	Departmental Accounts Committee
DG	Director General
DADP	District Annual Developmental Plan
LC	Local Council
LCB	Local Council Board
LG&RDD	Local Government and Rural Development Department
LGO	Local Government Ordinance
MC	Municipal Committee
MFDAC	Memorandum for Departmental Accounts Committee
PHE	Public Health Engineering
POL	Petrol Oil Lubricant
PWP	People Works Programme
RDA	Regional Directorate of Audit
SDA	Special Drawings Account
TKP	Tameeri Khyber Pakhtunkhwa
TMA	Tehsil Municipal Administration

PREFACE

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Sections-8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 and Section 168 of Local Government Act 2012, require the Auditor-General of Pakistan to conduct audit of the receipts and expenditure of Local Fund of District Council and Municipal Committees.

The report is based on audit of the accounts of District Council and Municipal Committees, District Chitral for the Financial Year 2013-14. The Directorate General of Audit, District Governments, Khyber Pakhtunkhwa, Peshawar conducted audit on test check basis during 2014-15 with a view to reporting significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systemic issues and audit finding carrying value of Rs.1 million or more. Relatively less significant issues are listed in the Annexure-1 of the Audit Report. The Audit Observations listed in the Annexure-1 shall be pursued with the Principal Accounting Officer at the DAC level and in all cases where the PAO does not initiate appropriate action, the Audit observation will be brought to the notice of Public Accounts Committee through the next year's Audit Report.

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

The observations included in this report have been finalized in the light of written replies of the Departments. DAC meetings could not be convened despite repeated requests.

The Audit Report is submitted to the Governor of Khyber Pakhtunkhwa in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Section 115 of Khyber Pakhtunkhwa Local Government Act 2012 to be laid before appropriate legislative forum.

Islamabad
Dated:

(Rana Assad Amin)
Auditor General of Pakistan

EXECUTIVE SUMMARY

The Directorate General Audit, District Governments, Khyber Pakhtunkhwa, Peshawar, is responsible to conduct the audit of all District Councils, Municipal Committees (MCs) and Union Councils (UCs). Its Regional Directorate of Audit Swat has audit jurisdiction of District Councils, Municipal Committees and UAs of five Districts i.e. Swat, Shangla, Dir Lower, Dir Upper and Chitral.

The Regional Directorate has a human resource of 09 officers and staff, constituting 3069 man days and a budget of about Rs 10.162 million was allocated during 2013-14. It has the mandate to conduct financial attest audit, audit of sanctions, audit of compliance with authority and audit of receipts as well as the performance audit of entities, projects and programs. Accordingly Regional Director Audit Swat carried out audit of the accounts of Municipal Committees & District Council of Chitral for the Financial Year 203-14 and the findings included in the Audit Report.

District Council and Municipal Committees District Chitral conduct their operations under Khyber Pakhtunkhwa Local Government Act 2012. They comprise one Principal Accounting Officer (PAO) covering three groups of offices i.e. District Councils, Municipal Committees and Union Councils. Financial provisions of the Act describe the Local Government as District Councils, Municipal Committees and Union Councils Local Fund and Public Account for which Annual Budget Statement is authorized by the Secretary LG&RDD Government of Khyber Pakhtunkhwa, Peshawar in the form of budgetary grants.

a. Scope of audit

Out of the total expenditure of the two Municipal Committees & one District Council, District Chitral for the Financial Year 2013-14, the auditable expenditure under the jurisdiction of RDA were Rs 92.096 million. Out of this, RDA Swat

audited an expenditure of Rs 78.281 million which, in terms of percentage, was 85% of auditable expenditure.

The receipts of Municipal Committees & District Council, District Chitral for the Financial Year 2013-14, were Rs 8.098 million. Out of this, RDA Swat audited receipts of Rs 6.883 million which, in terms of percentage, was 85% of auditable receipts.

The total expenditure and receipt of District Council and Municipal Committees, District Chitral, for the financial year 2013-14 was Rs 100.194 million. Out of this, RDA Peshawar audited the expenditure and receipt of Rs 85.164 million.

b. Recoveries at the instance of audit

Recoveries of Rs 33.272 million were pointed out during the audit. However, no recovery was affected till the finalization of this report. Out of the total recoveries, Rs 33.272 million were not in the notice of the executive before audit.

c. Audit Methodology

Audit was conducted after understanding the business processes of District Council and Municipal Committees, District Chitral, with respect to its functions, control structure, prioritization of risk areas by determining their significance and identification of key controls. This helped auditors in understanding the systems, procedures, environment, and the audited entity before starting field activity. Audit used desk audit techniques for analysis of compiled data and review of permanent files/record. Desk Audit greatly facilitated identification of high-risk areas for substantive testing in the field.

d. Audit Impact

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

e. Comments on Internal Control and Internal Audit department

The purpose of internal control system is to ensure effective operation of an organization. It consists of measures employed by the management to achieve objectives, safeguard assets, and ensure accuracy, timeliness and reliability of financial and accounting information for decision making.

One of the basic components of Internal Control System, as envisaged under Para 13 of GFR Volume-I, is internal audit which was not found prevalent in District Council and Municipal Committees, District Chitral. Neither rules for internal audit have been framed nor internal audit report as required was provided to audit.

f. Key audit findings of the report

- i. Irregularities & non compliance were noted in eleven cases amounting to Rs 35.945 million.¹
- ii. Internal control weaknesses were noted in two cases amounting to Rs 49.219 million.²

¹ 1.2.1.1, 1.2.1.2, 1.2.1.3, 1.2.1.4, 1.3.1.1, 1.3.1.2, 1.3.1.3, 1.3.1.4, 1.3.1.5, 1.4.1.1 & 1.4.1.2

² 1.3.2.1 & 1.3.2.2

g. Recommendations

- i. Action needs to be taken for violation of the rules and regulations in spending the public money.
- ii. All sectors of MC/District Council need to strengthen internal controls i.e. financial, managerial, operational, administrative and accounting controls etc to ensure that reported lapses are preempted and fair value for money is obtained from public spending.
- iii. Responsibilities need to be fixed for unauthorized withdrawals and losses sustained by the Government or Council due to overpayments and non realization of receipts.
- iv. Deductions of taxes may be ensured and responsibility be fixed for non award of contracts of receipts.

SUMMARY TABLES & CHARTS

Table 1 Audit Work Statistics

(Rs in million)

S.No	Description	No.	Budget
1	Total Entities in (PAO) Audit Jurisdiction	01	100.194
2	Total formations in audit jurisdiction	03	100.194
3	Total Entities in (PAOs) Audited	01	92.096
4	Total formations Audited	03	92.096
5	Audit & Inspection Reports	03	92.096
6	Special Audit Reports	-	-
7	Performance Audit Reports	-	-
8	Other Reports	-	-

Table 2: Audit Observations classified by Categories

(Rs in million)

S.No.	Description	Amount Placed under Audit Observation
1.	Unsound asset management	-
2.	Weak financial management	35.945
3.	Weak Internal controls	40.716
4.	Others	8.503
	Total	85.164

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

S. No	Description	Expenditure on Acquiring Physical Assets Procurement	Civil Works	Receipts	Others	Total For the year 2013-14	Total for the year 2012-13
1.	Outlays Audited	-	10.223	8.098	73.775	92.096	69.924
2.	Amount Placed under Audit Observation /Irregularities of Audit	-	46.638	10.446	28.08	85.164	26.646
3.	Recoveries Pointed Out at the instance of Audit	-	23.328	8.135	1.809	33.272	14.970
4.	Recoveries Accepted /Established at the instance of Audit	-	-	-	-	-	2.400
5.	Recoveries Realized at the instance of Audit	-	-	-	-	-	1.629

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

S. No	Description	Amount Placed under Audit Observation
1	Violation of Rules and regulations, principle of propriety and probity in public operation	35.945
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	-
3	Accounting Errors (accounting policy departure from NAM ³ , misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	-
4	Quantification of weaknesses of internal control systems.	40.716
5	Recoveries and overpayment, representing cases of established overpayment or misappropriations of public monies	-
6	Non-production of record	-
7	Others, including cases of accidents, negligence etc.	8.503
	Total	85.164

³ The Accounting Policies and Procedures prescribed by the Auditor General of Pakistan which are IPSAS(Cash) compliant.

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

S #	Description	Amount
1	Outlays Audited (item 1 of Table 3)	92.096
2	Expenditure on audit	0.300
3	Recoveries realized at the instance of audit	0
4	Cost-Benefit	1:0

CHAPTER-1

1.1 District Council and Municipal Committees Chitral

1.1.1 Introduction

District Chitral has two tehsils i.e. Chitral & Mastuj. There is a District Council and two Municipal Committees. District Council has a Chief Coordination Officer, District Officer (Finance), District Officer (Infrastructure) and District Officer (Regulation). Municipal Committees have Chief Municipal Officers, Municipal Officers (Finance), Municipal Officers (Infrastructure) and Municipal Officers (Regulation). District Council Chitral has one Drawing and Disbursing Officer (DDO) i-e. Chief Coordination Officer & Chief Municipal Officer is the DDO of Municipal Committee. According to 1998 population census the population of District Chitral is 0.318 million

1.1.2 Comments on Budget and Accounts (variance analysis)

A budget of Rs 132.390 million was allocated against which an expenditure of Rs 92.223 million was incurred by the District Council and Municipal Committees Chitral with a savings of 40.293 million during 2013-14. Receipts of Rs 4.850 million were budgeted, however, the actual receipts for the Financial Year 2013-14 were Rs 8.098 million.

An amount of Rs 123.292 million was allocated as grant in aid by the Provincial Government to District Council and Municipal Committees of District Chitral. An amount of Rs 9.098 was realized during the financial year 2013-14. Thus making a total of Rs 132.390 at the disposal of local councils, against which an expenditure of Rs 92.223 million was incurred by the District Council and Municipal Committees Chitral with a saving of Rs 40.293 million during financial Year 2013-14. Detail is given below:

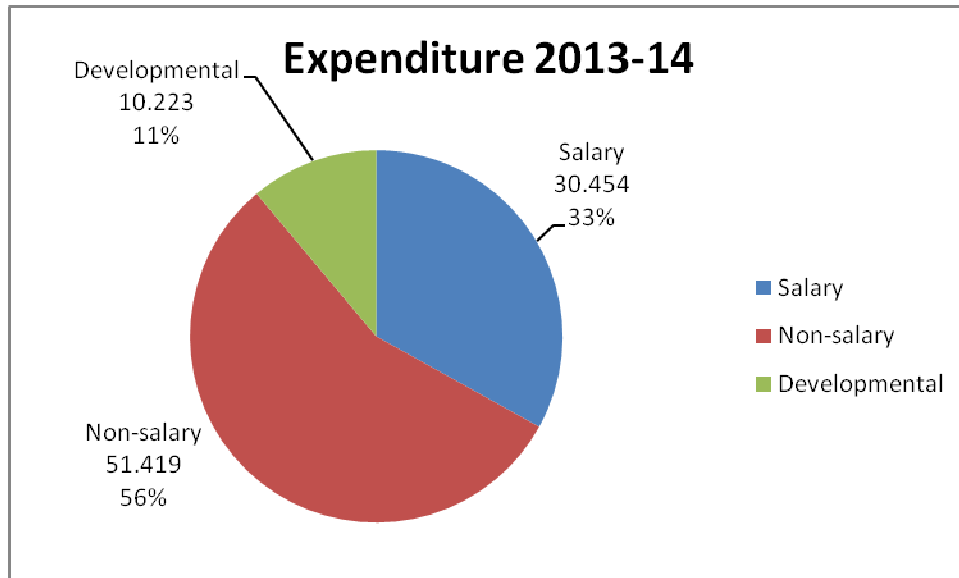
(Rs in million)

2013-14	Budget	Expenditure	(+)Excess/(-)Saving	Percentage of excess/ saving
Salary	44.536	30.454	-14.081	31.617%
Non-salary	54.754	51.419	-3.335	6.090%
Developmental	33.100	10.223	-22.877	69.114%
Total	132.390	92.223	-40.293	30.435
Receipts	9.098	9.098	0	-
Grand Total	141.488	101.321	-	-

The huge savings of Rs 40.293 million in all heads of accounts indicate weakness in the capacity of these local institutions to utilize the amounts allocated.

Expenditure 2013-14

(Rs in million)



1.1.3 Brief comments on the status of Compliance with PAC/ZAC Directives

The audit reports on the accounts of newly formed District Council and Municipal Committees Chitral under the LGA 2012, have not yet been discussed in PAC.

MUNICIPAL COMMITTEE CHITRAL

1.2 Audit Paras Municipal Committee Chitral

1.2.1 Irregularity & non compliance

1.2.1.1 Unauthorized transfer of funds without approval of the Government- Rs 6.00 million

According to Rule 18 (1) & (2) of Khyber Pakhtunkhwa Local Councils (Accounts) Rules 1980, if any funds are surplus to the immediate requirements of a local council, the local council may with the approval of Government:-

- (a) deposit such amount in a bank approved by Government in current or fixed deposit;
- (b) invest such amount in public securities as may be specified by Government or in such other manner as may be approved by Government; and
- (c) dispose off any investment in such manner as may be approved by government.

(2) Details with regard to all investments shall be entered from time to time as occasion arises in a register of investments in Form L.C.II.

CMO Municipal Committee Chitral withdrew Rs 6,000,000 from Pension Account No. 3140-8 and transferred to BMA scheme (Bebaha Mahana Amadani Scheme) of the Bank of Khyber without approval of the Government. The funds were kept in the scheme for the purpose of earning higher rate of profit. Moreover, no such record regarding investments was maintained in violation of the above criteria.

Unauthorized transfer of funds occurred due to non compliance of rules, which resulted in unapproved investments.

When pointed out in July 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was received.

Request for convening of the DAC meeting was made on 8th September 2014 but no response was received from the Principal Accounting Officer, as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends fixing responsibility on the person (s) at fault under intimation to audit.

AP # 09 (2013-14)

1.2.1.2 Loss due to non adjustment of income tax– Rs 3.582 million

According to Finance Department Khyber Pakhtunkhwa letter NO.SO(Dev-II) FD/12-6/12-13 dated 20.06.2013, addressed to the Secretaries of the C& W, Irrigation, PHE and Local Government Department, the CSR includes Income Tax which is in built in the item rates and the same rates are paid without adjustment of the non deductible Income Tax in the tax exempted areas resulting overpayment by the amount equal to deductible Income Tax.

CMO Municipal Committee Chitral executed 312 developmental schemes of the estimated cost of Rs 59,700,000 during financial year 2012-13 and paid Composite Scheduled Rates (CSR) which include 6% income tax. Adjustment of such tax was not made in the bills while estimates were prepared on CSR which resulted in loss of Rs 3,582,000. Details is as under:

S.No	Source of fund	No of Schemes	Allocation (Rs)	Income tax @ 6% (Rs)
01	TKP –Salim Khan	257	39,800,000	2,388,000
02	CMD	55	19,900,000	1,194,000
Total		312	59,700,000	3,582,000

Non adjustment of income tax was due to violation of rule, which resulted in loss to the Government.

When pointed out in July 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was received.

Request for convening of the DAC meeting was made on 8th September 2014 but no response was received from the Principal Accounting Officer as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends recovery and action against the persons at fault under intimation to audit.

AP # 12 (2013-14)

1.2.1.3 Loss due to departmental collection of Adda Tax—Rs 1.474 million

According to Serial No. (i) of the Terms and conditions of the contracts issued vide Government of Khyber Pakhtunkhwa Local Government & Rural Development Department Local Council Board letter NO.AO-II/LCB/6-11/2013 dated 20th March, 2013, the Local Councils shall fix different dates in one advertisement for auctioning the contract of local taxes. If no reasonable bid is offered then another advertisement be got published in the renowned and widely circulated newspapers through Information Department at least seven clear working days before the date fixed for auction of the contract. The same practice shall continue till 15% increase or more reasonable bid is achieved over the last year approved bid.

CMO Municipal Committee Chitral did not award contract of Adda Tax for the financial year 2013-14. Collections were made departmentally and realized Rs 1,700,000 whereas the minimum required realizable amount was Rs 3,174,000. As per criteria fixed by the Local Council Board, contracts were required to be awarded

at least 15% above the previous year. During financial year 2012-13, the contract was awarded for Rs 2,760,000. Hence the Council sustained loss of Rs 1,474,000 (Rs 3,174,000 – Rs 1,700,000).

Departmental collection was made in violation of rules, which resulted in loss to Council.

When pointed out in July 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was not received.

Request for convening of the DAC meeting was made on 8th September 2014 but no response was received from the Principal Accounting Officer as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends fixing responsibility on the person (s) responsible under intimation to audit.

AP # 01 (2013-14)

1.2.1.4 Unjustified withdrawal from security account –Rs 1.104 million

According to Para 395 of the CPWA Code, without special orders of the competent authority, no security deposit should be repaid or retransferred to the depositor, or otherwise disposed off, except in accordance with the terms of his agreement or bond.

CMO Municipal Committee Chitral withdrew Rs 1,104,100 from securities of the contractors/project leaders and deposited into Government treasury on account of stamp duty for the years 2011-12 and 2012-2013. Stamp duty had been deducted in the bills and the amount was remained in the SDA. Hence withdrawal was required from the SDA instead of security balance as it reduced the available balance of securities of contractors/project leaders for meeting their claims.

Unjustified drawl was due to violation of rules, which reduced the available balance of securities of contractors/project leaders.

When pointed out in July 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was received.

Request for convening of the DAC meeting was made on 8th September 2014 but no response was received from the Principal Accounting Officer as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends recoupage of security deposits and fixing responsibility on the person(s) at fault under intimation to audit.

AP # 08 (2013-14)

MUNICIPAL COMMITTEE MASTUJ

1.3 Audit Paras Municipal Committee Mastuj

1.3.1 Irregularity & non-compliance

1.3.1.1 Loss due to non award of contracts – Rs 3.010 million

According to Serial No. (i) of the Terms and conditions of the contracts issued vide Government of Khyber Pakhtunkhwa Local Government & Rural Development Department Local Council Board letter NO.AO-II/LCB/6-11/2013 dated 20th March, 2013, the Local Councils shall fix different dates in one advertisement for auctioning the contract of local taxes. If no reasonable bid is offered then another advertisement be got published in the renowned and widely circulated newspapers through Information Department at least seven clear working days before the date fixed for auction of the contract. The same practice shall continue till 15% increase or more reasonable bid is achieved over the last year approved bid.

CMO Municipal Committee Mastuj neither awarded contracts of Adda, Slaughter House and Public Latrines nor operated departmentally during financial years 2012-13 and 2013-14. Consequently, no revenue was realized, which resulted in loss of Rs 3,010,000 as per details given below:-

S.No	Source of income	2012-13		2013-14	Total (Rs)
		5% call deposit (Rs)	Required amount of contract (Rs)	Required amount of contract with 15% increase over F.Y 2012-13 (Rs)	
01	Adda tax	50,000	1,000,000	1,150,000	2,150,000
02	Slaughter House	10,000	200,000	230,000	430,000
03	Public Latrines	10,000	200,000	230,000	430,000
Total		70,000	1,400,000	1,610,000	3,010,000

Non award of contracts was due to violation of rule, which resulted in loss to the Council.

When pointed out in August 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was received.

Request for convening of the DAC meeting was made on 14th October 2014 but no response was received from the Principal Accounting Officer, as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends fixing responsibility on the persons at fault under intimation to audit.

AP 18 (2013-14)

1.3.1.2 Irregular purchase of land without approval – Rs 2.681 million

According to Land Acquisition Act 1894, Land shall be acquired through District Officer Revenue (Collector) after observing all codal formalities as required under the Act.

CMO Municipal Committee Mastuj purchased a piece of land of 13 Kanals for Rs 2,680,900 out of the funds of 30% Tehsil ADP for the financial year 2008-09 vide Cheque No. 414880 dated 08.10.2011 for Rest House of MC Mastuj. Audit held that:

- i. Approval of the Tehsil Council/LCB/competent authority was not obtained for allocating and spending the amount on purchase of land for rest house purpose.
- ii. Codal formalities required as per Land Acquisition Act 1894 were not observed but direct purchase was made from the owner without the involvement of DOR&E (Collector).
- iii. Neither rest house was constructed on the land nor leased out to earn revenue for the Council due to which continuous loss sustained by the Council.

Purchase was made in violation of rules, which resulted in irregular expenditure.

When pointed out in August 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was received.

Request for the convening of the DAC meeting was made on 14th October 2014 but no response was received from the Principal Accounting Officer, as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends fixing responsibility on the person(s) at fault under intimation to audit.

AP # 19 (2013-14)

1.3.1.3 Loss due to less realization of contractors' registration fee – Rs 1.684 million

According to Government of Khyber Pakhtunkhwa Finance Department letter No. BO (RES) FD/1-55/2011 dated 01.07.2011, rates of contractors registration fee were revised with effect from 01.07.2011.

CMO Municipal Committee Mastuj registered 356 contractors during financial year 2012-13 and realized Rs 1,164,000 at inadmissible old rates instead of revised. Revised rates were applicable with effect from 1st July, 2011 under which actual realizable amount was Rs 2,848,000 which resulted in loss of Rs 1,684,000 as per detail given below:

S.No	Category of Contractor		No of contractors	Rate realized (Rs)	Rate required (Rs)	Difference (Rs)	Loss (Rs)
	Previous	Revised					
01	D	PK- 10	332	3,000	8,000	5,000	1,660,000
02	C	PK- 10	24	7,000	8,000	1,000	24,000
Total							1,684,000

Realization of contractor registration fee at inadmissible rates was due to violation of rule, which resulted in loss to the Council.

When pointed out in August 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was received.

Request for convening of the DAC meeting was made on 14th October 2014 but no response was received from the Principal Accounting Officer as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends recovery and action against the persons at fault under intimation to audit.

AP #16 (2013-14)

1.3.1.4 Loss due to non adjustment of income tax—Rs 1.392 million

According to Finance Department Khyber Pakhtunkhwa letter NO.SO(Dev-II) FD/12-6/12-13 dated 20.06.2013, addressed to the Secretaries of the C& W, Irrigation, PHE and Local Government Department, the CSR includes Income Tax which is in built in the item rates. On the contrary, full CSR rates are paid without deduction of the Income Tax in the tax exempted areas resulting in overpayment by the amount equal to deductible Income Tax.

CMO Municipal Committee Mastuj executed 151 developmental schemes of the estimated cost of Rs 23,210,000 during financial year 2012-13 and paid Composite Scheduled Rates (CSR) which includes 6% income tax. Adjustment of such tax was not made in the bills while estimates were based on CSR which resulted in loss of Rs 1,392,600 as per detail given below:

S.No	Source of fund	No of Schemes	Allocation (Rs)	Income tax @ 6% (Rs)
01	TKP PK 90	126	20,000,000	1,200,000
02	30% Tehsil ADP	25	3,210,000	192,600
Total		151	23,210,000	1,392,600

Payment without adjustment of income tax was due to violation of rule, which resulted in loss to Government.

When pointed out in August 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was received.

Request for the convening of the DAC meeting was made on 14th October 2014 but no response was received from the Principal Accounting Officer as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends recovery and action against the persons at fault under intimation to audit.

AP # 14 (2013-14)

1.3.1.5 Unauthorized purchase of furniture from CCB funds—Rs 0.996 million

According to Section 99 (9 & 10) of the Khyber Pakhtunkhwa Local Government Ordinance 2001 (as amended), all funds of the CCB shall be kept in a bank or post office and all transactions shall be made through Cheques. The accounts of the Citizen Community Board shall be operated jointly by the Chairman and the Secretary.

CMO Municipal Committee Mastuj spent Rs 995,700 on purchase of furniture for his office out of CCB share in 30% Tehsil ADP of Rs 4,115,000 for the financial year 2012-13. Audit held that:

- i. Developmental funds were spent on purchase of furniture without approval of the competent authority.
- ii. Tied grant of CCBs was spent by the Municipal Committee instead of spending through CCBs on developmental projects.
- iii. Neither cash book was maintained nor bank statement produced for verification.

Incurrence of CCB funds by the Municipal Committee on non developmental activities was due to violation of rule, which resulted in unauthorized expenditure.

When pointed out in August 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was received.

Request for the convening of the DAC meeting was made on 14th October 2014 but no response was received from the Principal Accounting Officer as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends fixing responsibility on the persons at fault under intimation to audit.

AP # 17 (2013-14)

1.3.2 Internal Control Weaknesses

1.3.2.1 Non maintenance of cashbooks for payments and receipts–Rs 6.666 million

According to Rule 77 of CTR Vol-I, a cashbook in the form TR 04, should be maintained for money received on behalf of the government. All monetary transactions should be entered in the cashbook duly attested by the head of the office.

CMO Municipal Committee Mastuj did not maintain cashbooks for payments and receipts of Rs 6,665,812 during financial years 2012-13 & 2013-14 for four (04) bank accounts. Detail is as under:

S.No	Account No.	Purpose	Payments (Rs)	Receipts (Rs)	Remarks
01	002009-3-(NBP)	Pension Contribution Fund	00	442,482	
02	002815-7 (NBP)	Contributory Provident Fund	00	502,684	
03	1601- 7 (NBP)	Special grant/local fund	2,901,321	3,434,815	
04	01011521236-Sunehri Bank Booni Branch	CCB fund	995,700	1,000,000	Bank statement was not provided. CCB amount was transferred to this account as evident from main cash book.
Total			1,285,831	5,379,981	

Non maintenance of cash books was weak internal control, which resulted in unauthentic and incomplete accounting record.

When pointed out in August 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was received.

Request for the convening of the DAC meeting was made on 14th October 2014 but no response was received from the Principal Accounting Officer, as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends fixing responsibility on the persons at fault under intimation to audit.

AP # 21 (2013-14)

1.3.2.2 Unauthorized operating expenses from special grant –Rs 1.005 million

According to Local Government & Rural Development Department letter NO.LG&RDD/LCB/GRANTS/TMAs/2012-13 dated 09.05.2013, special grant for weak TMAs was made to enable the Municipal Committees for timely clearance of Establishment Charges, Pension and Utility Bills.

CMO Municipal Committee Mastuj spent Rs 1,004,485 on TA/DA, POL, Repair of vehicles and Firewood charges during financial years 2012-13 and 2013-14 out of special grant of Rs 5,000,000 which was kept in bank account No. 1601-7. Special grant was given to the TMA as financial aid for clearance of establishment charges, pension and utility bills only. Audit held that incurrence of expenditure on the heads other than establishment charges, pension and utility bills, was unauthorized and violation of the spirit of the grant. Detail at Annexure-3.

Incurrence of inadmissible expenditure was due to weak internal control, which resulted in unauthentic expenditure.

When pointed out in August 2014, management stated that detailed reply would be furnished after scrutiny of record. However, no reply was received.

Request for the convening of the DAC meeting was made on 14th October 2014 but no response was received from the Principal Accounting Officer, as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends fixing responsibility on the persons at fault under intimation to audit.

AP # 22 (2013-14)

DISTRICT COUNCIL CHITRAL

1.4 Audit Paras District Council Chitral

1.4.1 Irregularity & non compliance

1.4.1.1 Loss due to non adjustment of income tax-Rs 9.744 million

According to Finance Department Khyber Pakhtunkhwa letter NO.SO (Dev-II) FD/12-6/ 12-13 dated 20.06.2013, addressed to the Secretaries of the C& W, Irrigation, PHE and Local Government Department, the CSR includes Income Tax which is built in the item rates and the same rates are paid without adjustment of the non deductible Income Tax in the tax exempted areas resulting overpayment by the amount equal to deductible Income Tax.

CCO District Council Chitral executed 575 developmental schemes of the estimated cost of Rs 162.400 million during financial year 2013-14 and paid Composite Scheduled Rates (CSR) which include 6% income tax. Adjustment of such tax was not made in the bills while estimates were prepared on CSR which resulted in loss of Rs 9,744,000 as per detail given below:

S.No	Source of fund	No of Schemes	Allocation (Rs)	Income tax @ 6% (Rs)
01	PWP-II –Shahzada Mahi-ud-din MNA NA-32	217	87,750,000	5,265,000
02	PWP-II Ghulam Muhammad MPA	227	50,000,000	3,000,000
03	District Development Initiatives –Miss Fozia MPA	18	5,700,000	342,000
04	District Development Initiatives – Salim Khan MPA	62	9,300,000	558,000
05	CMD- ADP No. 771.40497	51	9,650,000	579,000
Total		575	162,400,000	9,744,000

Payment without adjustment of income tax was made due to violation of rule, which resulted in loss to Government.

When pointed out in September 2014, management replied that the said tax has not yet been extended to District Chitral. Reply was not convincing as item rates of CSR include income tax and the same rates have been paid without adjustment of deductible income tax in the tax exempted area as clarified by the Finance Department Khyber Pakhtunkhwa.

Request for the convening of the DAC meeting was made on 30th October 2014 but no response was received from the Principal Accounting Officer, as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends recovery and action against the persons at fault under intimation to audit.

AP # 35 (2013-14)

1.4.1.2 Loss due to non award of contract of Permit Fee –Rs 4.278 million

According to section 116 of Local Government Ordinance 2001, (1) A Council may levy taxes, cesses, fees, rates, rents, tolls, charge, surcharge and levies specified in the Second Schedule provided that Government shall vet the tax proposal prior to the approval by the concerned Council. Provided further that the proposal shall be vetted within thirty days from the date of receipt of the proposal failing which it would be deemed to have been vetted by Government(2) No tax shall be levied without previous publication of the tax proposal and after inviting and hearing public objections. (3) A Council may, subject to provisos of sub-section (1), increase, reduce, suspend, abolish or exempt any tax.

CCO, District Council, Chitral, did not award the contract of Permit Fee for the financial year 2013-14. The contract was awarded for Rs 3,720,000 during financial year 2012-13. Neither the contract was awarded nor collection made departmentally which resulted in loss of Rs 4,278,000 as per detail given below:

Description	Amount (Rs)
Contract amount for the financial year 2012-13	3,720,000
Minimum increase for 2013-14 @ 15% above on the contract of F.Y. 2012-13	4,278,000

Non award of contract was due to violation of rule, which resulted in loss to the Council.

When pointed out in September 2014, management stated that the then Chief Secretary Khyber Pakhtunkhwa had issued directives to stop collection of permit fee on food items. The local office awarded the contract for non food items at a highest bid of Rs 350,000. Reply was not convincing as section 116 (3) of LGO has been violated and no documentary proofs in support of reply were provided. No such amount was actually realized by the Council as evident from the Demand & Collection Register for the year 2013-14.

Request for convening of the DAC meeting was made on 30th October 2014 but no response was received from the Principal Accounting Officer, as a result DAC meeting could not be convened till finalization of this Report in March, 2015.

Audit recommends recovery and action against the persons at fault under intimation to audit.

AP # 33 (2013-14)

ANNEXURES

Annexure-1

Detail of MFDAC Paras

(Rs in million)

S.No	AP No.	Name of MC/DC	Caption	Amount (Rs)
1	02	MC Chitral 2013-14	Loss due to non award of contract	0.500
2	13	MC Mastuj 2013-14	Loss to Government due to allowing payments on CSR 2012 instead of CSR 2009	1.920
3	15	-do-	Non deduction of professional tax from the project leaders	0.544
4	23	-do-	Overstatement in expenditure figures of SDA	1.409
5	30	-do-	Unjustified advance payment without actual work done	0.500
6	32	-do-	Wasteful expenditure on construction of slaughter house	1.200
7	34	DC Chitral	Loss to Government due non deposit of income tax	0.186
8	36	-do-	Non deduction of professional tax	2.070
9	37	-do-	Loss to Government due to non deposit of stamp duty	0.718
10	38	-do-	Unauthorized advance payment for District Polo Tournament	1.00
11	39	-do-	Unauthorized deduction of 0.50% contingency in developmental schemes	0.812
12	41	-do-	Loss to Council due to payment of salaries without assigned duties	1.744
13	42	-do-	Loss due to payment of salaries of nine drivers against two vehicles	3.390
14	43	DC Chitral 2013-14	Loss due to payment of pay & allowances without duties	0.969
16	47	-do-	Non-payment of special grant to MC Mastuj	0.650
17	48	-do-	Irregular and unjustified expenditure on repair of office	0.321

18	50	-do-	Irregular expenditure on repair of vehicles	1.031
20	53	-do-	Loss to Government due to non deduction of income tax from Peshawar Pipe Store	0.750
21	54	-do-	Overpayment due to non utilization of available stone Non imposition of penalty due to late completion	1.070 250

Annexure-2**Audit Impact Summary**

S.No	Rules/System/Procedure	Audit Impact
1	According to Rule 18 (1) & (2) of Khyber Pakhtunkhwa Local Councils (Accounts) Rules 1980, if any funds are surplus to the immediate requirements of a local council, the local council may with the approval of Government:-	DAC meetings could not be convened due to which audit impact is not visible.
2	According to Government of Khyber Pakhtunkhwa Finance Department letter No. BO (RES) FD/1-55/2011 dated 01.07.2011, rates of contractors registration fee were revised with effect from 01.07.2011.	-do-
3	According to Para (ix) of the Model Terms & Conditions for the contracts notified by the Government of Khyber Pakhtunkhwa Local Government Department vide No. AO-II/LCB/6-11/2013 dated 20/03/2013, the successful bidder within seven days of the acceptance of his bid shall enter into an agreement within specified period. In case, the contractor/firm does not enter into an agreement or does not deposit the advances within specified period, the contract shall stand cancelled and loss if any shall be recouped at the risk & cost of the contractor and recoverable under the land revenue act, along with blacklisting the contractor/firm	-do-
4	According to Finance Department Khyber Pakhtunkhwa letter NO.SO(Dev-II) FD/12-6/12-13 dated 20.06.2013, addressed to the Secretaries of the C& W, Irrigation, PHE and Local Government Department, the CSR includes Income Tax which is in built in the item rates. On the contrary, full CSR rates are paid without deduction of the Income Tax in the tax exempted areas resulting in overpayment by the amount equal to deductible Income Tax.	-do-

Annexure-3

Detail of Operating Expenses Out Of Special Grant (D.P.No.1.3.2.2)

S.No	Cheque No	Date	Amount (Rs)	Description
01	375477	20.11.2013	370,715	Firewood Charges of staff
02	375478	20.11.2013	35,470	Firewood Charges of CMO
03	375479	20.11.2013	35,470	Firewood Charges of RAD
04	375480	20.11.2013	3,900	TA/DA of Zafar Asstt
05	375481	06.12.2013	12,000	POL of fire brigade
06	375482	06.12.2013	5,400	POL of fire brigade
07	375483	06.12.2013	13,500	Stray Dogs killing charges
08	375484	12.12.2013	2,650	Banners preparation
09	375490	09.01.2014	13,800	POL of fire brigade
10	375492	10.01.2014	20,000	TA/DA of Inayatullah CMO
11	375493	28.01.2014	1,580	Telephone charges
12	375494	28.01.2014	2,800	Rent charges
13	375495	24.02.2014	21,000	Firewood charges- Misbahuddin
14	375496	24.02.2014	21,000	Firewood charges- Gul Bahadar
15	375497	24.02.2014	21,000	Firewood charges- Wasim Akram
16	375498	25.02.2014	5,000	Repair charges
17	375499	26.02.2014	4,600	Repair of vehicle
18	375500	26.02.2014	2,500	Purchase of electricity items
19	513393351	27.02.2014	21,000	Firewood charges- Khurshid Azad
20	513393352	13.03.2014	38,700	Plantation in MC Jurisdiction
21	513393353	24.04.2014	26,200	Repair of Fire brigade
22	513393354	24.04.2014	3,000	Service Stamps
23	513393355	24.04.2014	46,700	POL of Defunct TMA
24	513393356	30.04.2014	8,400	Rent of Office
25	513393357	12.05.2014	15,700	Sanitation campaign
26	513393358	29.05.2014	12,000	TA/DA of CMO Inayatullah

27	513393359	29.05.2014	10,000	TA/DA of Ghulam Mustafa
28	513393360	02.06.2014	60,000	Repair of Fire brigade
29	513393361	02.06.2014	38,700	POL of fire brigade
30	513393362	12.06.2014	90,200	Repair of fire brigade
31	513393363	12.06.2014	15,000	TA/DA advance- CMO Inayatullah
32	513393364	12.06.2014	12,000	TA/DA advance- Asstt Zafar
33	513393365	23.06.2014	15,000	TA/DA advance- Actt Gul Bahadar
Total			1,004,985	