



**AUDIT REPORT
ON
THE ACCOUNTS OF
DISTRICT COUNCIL AND MUNICIPAL
COMMITTEES
DISTRICT KOHAT
AUDIT YEAR 2015-16**

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Programme
AP	Advance Para
CMO	Chief Municipal Officer
CCO	Chief Coordination Officer
CSR	Composite Schedule Rates
CVT	Capital Value Tax
DAC	Departmental Accounts Committee
DDO	Drawing and Disbursing Officer
DP	Draft Para
HBA	House Building Advance
HRA	House Rent Allowance
KDA	Kohat Development Authority
KP	Khyber Pakhtunkhwa
KPPRA	Khyber Pakhtunkhwa Public Procurement Regularity Authority
LG&RDD	Local Government and Rural Development Department
LGA	Local Government Act
LCB	Local Council Board
MCs	Municipal Committees
MOU	Memorandum of Understanding
MFDAC	Memorandum for Department Accounts Committee
NOC	No Objection Certificate
PAO	Principal Accounting Officer
PAC	Public Accounts committee
PCC	Plain Cement Concrete
PESCO	Peshawar Electric Supply Company
RDA	Regional Directorate of Audit

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 (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 Kohat and Municipal Committees in District Kohat for the Financial Year 2014-15. The Directorate General of Audit, District Governments, Khyber Pakhtunkhwa, Peshawar conducted audit on test check basis during 2015-16 with a view to reporting significant findings to the relevant stakeholders. 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 observations will be brought to the notice of Public Accounts Committee through the next year's Audit Report.

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

The observations included in this Report have been finalized without 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 168 of Khyber Pakhtunkhwa Local Government Act 2012 to be laid before appropriate legislative forum.

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 Kohat has audit jurisdiction of District Councils, Municipal Committees and UCs of three Districts i.e. Kohat, Karak and Hangu.

The Regional Directorate Kohat has a human resource of 08 officers and staff, constituting 2008 mandays. A budget of Rs 8.849 million was allocated during Financial Year 2015-16. 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 Kohat carried out audit of the accounts of District Council Kohat and Municipal Committees Kohat for the Financial Year 2014-15 and the findings have been included in the Audit Report.

District Council Kohat and Municipal Committees in District Kohat perform their functions under Khyber Pakhtunkhwa Local Government Act 2012. Administrative Secretary i.e Secretary Local Government and Rural Development Department, Khyber Pakhtunkhwa is the Principal Accounting Officer for these local bodies. According to financial provisions of the Act, the Secretary Local Government and Rural Development Department, Khyber Pakhtunkhwa authorizes the Annual Budget for these local bodies in the form of budgetary grants.

a. Scope of audit

Out of total expenditure of District Council Kohat and Municipal Committees in District Kohat for the Financial Year 2014-15, the auditable expenditure under the jurisdiction of RDA was Rs 465.297 million. Out of this, RDA Kohat audited an expenditure of Rs 348.972 million which, in terms of percentage, was 75% of auditable expenditure.

The receipts of District Council Kohat and Municipal Committees in District Kohat for the Financial Year 2014-15, were Rs 330.039 million. Out of this, RDA Kohat audited receipts of Rs 231.027 million which, in terms of percentage, was 70% of auditable receipts.

The total expenditure and receipts of District Council Kohat and Municipal Committees in District Kohat for the Financial Year 2014-15 were Rs 795.336 million. Out of this, RDA Kohat audited the expenditure and receipts of Rs 579.999 million.

b. Recoveries at the instance of Audit

Recovery of Rs 218.304 million was pointed out during the audit. However, no recovery was affected till the finalization of this report. Out of the total recoveries, Rs 122.874 million was not in the notice of the executives prior to audit.

c. Audit Methodology

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

d. Audit Impact

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

e. Comments on Internal Control and Internal Audit department

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

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

f. Key Audit Findings of the reports:

- i. Irregularity & Non-compliance of Rs 224.82 million was noted in seven cases¹.
- ii. Loss due to Internal Control Weaknesses of Rs 84.429 million was noted in fourteen cases².

¹Para 1.2.1.1, 1.3.1.1 to 1.3.1.5, 1.4.1.1

g. Recommendations

- i. Disciplinary action needs to be taken for non production of record as well as violation of the rules and regulations in spending the public money.
- ii. Deduction of taxes on supplies and contracts need to be ensured.
- iii. Recoveries of taxes and outstanding amount should be recovered from the concerned besides action against the person(s) at fault.
- iv. Concerted efforts need to be made to recover long outstanding dues.

²Para 1.2.2.1 to 1.2.2.3, 1.3.2.1 to 1.3.2.5, 1.4.2.1, 1.4.2.2 & 1.5.1.1 to 1.5.1.4.

SUMMARY TABLES AND CHARTS

Table 1: Audit Work Statistics

(Rs in million)			
S. No	Description	No.	Budget
1	Total Entities (PAO) in Audit Jurisdiction	01	795.336
2	Total formations in audit jurisdiction	04	795.336
3	Total Entities (PAO) Audited	01	579.999
4	Total formations Audited	04	579.999
5	Audit and Inspection Reports	04	579.999
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	44.689
2	Weak financial management	20.906
3	Weak Internal controls relating to financial management	34.865
4	Others	208.789
Total		309.249

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

S. No	Description	Expenditure on Acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total for the year 2014-15	Total for the year 2013-14
1	Outlays audited	-	87.225	231.027	261.747	579.999	157.585
2	Amount placed under audit observation / irregularities	-	18.626	225.321	65.302	309.249	99.198
3	Recoveries pointed out at the instance of Audit	-	3.626	214.678	-	218.304	44.09
4	Recoveries accepted / established at Audit instance	-	-	-	-	-	-
5	Recoveries realized at the instance of Audit	-	-	-	-	-	-

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.	10.239
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	-
3	Accounting Errors (accounting policy departure from NAM, misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	-
4	Quantification of weaknesses of internal controls systems.	46.568
5	Recoveries and overpayment, representing cases of established overpayment or misappropriations of public monies.	31.46
6	Non-production of record	-
7	Others, including cases of accidents, negligence etc.	220.983
Total		309.249

Table 5: Cost-Benefit

(Rs in million)		
Sr. No	Description	Amount
1	Outlays Audited (Items 1 of Table 3)	579.999
2	Expenditure on Audit	0.358
3	Recoveries realized at the instance of Audit	0
	Cost-Benefit Ratio	1:0

CHAPTER-1

1.1 District Council & Municipal Committees District Kohat

1.1.1 Introduction

District Kohat has two tehsils i.e Kohat and Lachi. 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 Officer, Municipal Officer (Finance), Municipal Officer (Infrastructure) and Municipal Officer (Regulation). District Council Kohat 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 Kohat is 560,000.

1.1.2 Comments on Budget and Accounts (Variance Analysis)

An amount of Rs 461.753 million was allocated as grant in aid by the Provincial Government to District Council Kohat, Municipal Committees Kohat and Lachi. An amount of Rs 330.039 million was realized from own sources during the Financial Year 2014-15. Thus making a total of Rs 791.792 million available with District Council Kohat, Municipal Committees Kohat and Lachi. Out of this an expenditure of Rs 465.29 million was incurred by the District Council, Municipal Committees Kohat and Lachi with a saving of Rs 326.495 million during the Financial Year 2014-15. Detail is given below:

Detail of budget and expenditure during Financial Year 2014-15

(Rs in million)

2014-15	Budget	Expenditure	Excess /(Savings)	%age
Salary	250.318	235.685	(14.633)	(5.84)
Non Salary	162.441	113.311	(49.130)	(30.24)
Developmental	379.033	116.301	(262.732)	(69.31)
Total	791.792	465.297	(326.495)	(41.23)

Detail of receipts realized during Financial Year 2014-15

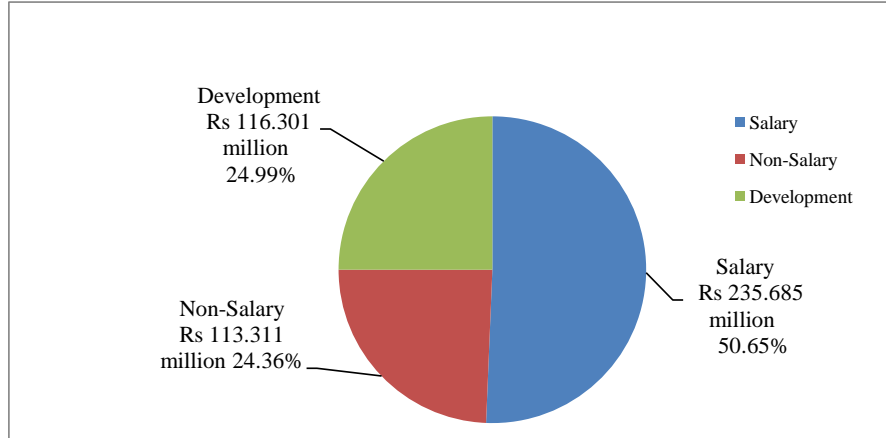
(Rs in million)

2014-15	Provincial Grant in aid	Realization from own sources	Total
Receipts	461.753	330.039	791.792

The huge savings of Rs 326.495 million in all heads of accounts indicate weakness in the capacity of these local institutions to utilize the amounts allocated.

Expenditure 2014-15

(Rs in million)



1.1.3 Comments on the status of compliance with PAC Directives

The audit report pertaining to the Audit Year 2014-15 has been submitted to the Governor of Khyber Pakhtunkhwa. Detail of PAC meetings are given below:

S. No.	Audit Year	PAC meeting convened /Not convened
1	2014-15	Not Convened

MUNICIPAL COMMITTEE KOHAT

1.2 Municipal Committee Kohat

1.2.1 Irregularity & Non compliance

1.2.1.1 Irregular payment on maintenance & repair - Rs 1.031 million

According to minutes of the District Development Committee Kohat held on 03.09.2014, the Transformers for supply of electricity in different areas are property of PESCO and PESCO is responsible for repair/maintenance of scheme. CMO was directed to obtain NOC from PESCO.

Chief Municipal Officer, Municipal Committee Kohat during 2014-15 incurred an expenditure of Rs 1,031,292 on account of Maintenance & Repair of Transformers in PK-37. Audit observed;

- i. NOC from PESCO authority for execution of works was not obtained.
- ii. PC-Is of the schemes were not prepared by the PESCO authority.
- iii. Technical Sanctions were not accorded by the PESCO authority.
- iv. Handing Taking overs of schemes were not made with the PESCO authority.
- v. Rates and specification of the items to be executed were not analyzed from the PESCO.

Irregular payment occurred due to non compliance of Government instructions, which resulted in violation of Government rules.

When pointed out in July 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 21.08.2015 which was not convened till finalization of this Report.

Audit recommends regularization by the competent forum and action against the person(s) at fault.

AP 16 (2014-15)

1.2.2 Internal Control Weaknesses

1.2.2.1 Failure to recover outstanding rent of municipal property- Rs 28.756 million

According to Local Government Act 2012 Clause 179 (Collection and Recovery of Taxes, etc.) under sub clause (2) All arrears of taxes, rents and other moneys claimable by a Local Council under this Act shall be recoverable as arrears of land revenue.

Chief Municipal Officer, Municipal Committee Kohat during 2014-15 failed to recover accumulated rent of Rs 28,755,651 on account of properties of Tehsil Municipal Administration as per detail given at **Annexure-2**.

Non recovery of rent occurred due to weak internal control, which deprived the local authority from significant own source revenue.

When pointed out in July 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 21.08.2015 which was not convened till finalization of this Report.

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

AP 01 (2014-15)

1.2.2.2 Non-recovery of water user charges-Rs 15.764 million

According to Local Government Act 2012 Clause 179 (Collection and Recovery of Taxes, etc.) under sub clause (2) All arrears of taxes, rents and other moneys claimable by a Local Council under this Act shall be recoverable as arrears of land revenue.

Chief Municipal Officer, Municipal Committee Kohat persistently failed to recover long outstanding water users charges from the users of water supply schemes. The amount accumulated upto 30th June, 2015 was Rs 15,764,188 as per following details:

Particulars	Amount (Rs)
Water User Charges outstanding upto 30.06.2014	12,652,708
Recoverable amount during 2014-15	10,063,200
Total Recoverable amount	22,715,908
Total recovery during 2014-15	6,951,720
Net accumulated Outstanding amount	15,764,188

Non recovery of water users charges occurred due to weak internal control, which deprived the Government from its due local revenue.

When pointed out in July 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 21.08.2015 which was not convened till finalization of this Report.

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

AP 02 (2014-15)

1.2.2.3 Non recovery of taxes-Rs 2.226 million

According to Local Council Board (LCB) Khyber Pakhtunkhwa, Peshawar letter No. AOII/LCB/9-9/2010 dated 28-6-2011, revised rates of various taxes were approved w.e.f. 01.7.2011.

Chief Municipal Officer, Municipal Committee Kohat during 2014-15 failed to recover Taxes imposed on various types of trades amounting to Rs 2,226,000 as per detail given at **Annexure-3**.

Non recovery of taxes occurred due to weak internal control, which deprived the Government from its due local revenue.

When pointed out in July 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 21.08.2015 which not convened till finalization of this Report.

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

MUNICIPAL COMMITTEE LACHI

1.3 Municipal Committee Lachi

1.3.1 Irregularity & Non Compliance

1.3.1.1 Unauthorized award of works - Rs 11.50 million and loss of Rs -1.00 million

According to procedure laid down in Khyber Pakhtunkhwa Public Procurement Regulatory Authority Rules (5) If the lowest evaluated responsive bidder is not found to be qualified on all the post-qualification criteria provided in the bidding documents, its bid shall be rejected.

Chief Municipal Officer, Municipal Committee Lachi during 2014-15 awarded the works “Construction of BT Road Chorlaki to Mustaqeem Koroona (1 KM)” having estimated cost of Rs.10,000,000 and “street pavements and PCC at village Poya Spin Gul Koroona” with estimated cost of Rs 1,500,000. Audit observed that the works were awarded to a contractor who did not have the license from Pakistan Engineering Council of the required category “Road & Pavements” having code “CE01”.

Furthermore in the case of work titled “Construction of BT Road Chorlaki to Mustaqeem Koroona (1 KM)” another contractor offered the bid @10% below rate amounting to Rs 9,000,000 which was rejected on the plea that 8% security deposit was not attached. Audit found that security deposit receipt No. SDR 0785267 dated 26.06.2014 amounting to Rs 800000 was available in the file of the scheme. Thus the lower rate amounting to Rs 9,000,000 was rejected and higher rate of Rs 10,000,000 accepted which resulted into loss of Rs 1,000,000 to Government exchequer.

Irregular award of work occurred due to non compliance of Government rules, which resulted in loss to Government.

When pointed out in August 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 21.08.2015 which was not convened till finalization of this Report.

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

**1.3.1.2 i. Irregular expenditure without technical sanction-Rs 8.208 million
ii. Non imposition of penalty for delay in completion of work-Rs.
1.00 million**

Para 178 of GFR Volume 1 read with para 56 of CPWD Code requires that work may not be commenced or liability incurred unless the work is administratively and technically sanctioned by competent authority.

CMO, MC Lachi during 2014-15 incurred an expenditure of Rs 8,208,547 on account of execution of work “Construction of metalled Road at Chashmai Rehman Abad “without technical sanction and penalty @ 10% amounting to Rs 1,000,000 for delay in completion of work was also not recovered.

Non recovery of advances and penalty occurred due to weak internal control, which resulted in loss to the Authority.

When pointed out in August 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Request for convening DAC meeting was made on 04.09.2015 which was not convened till finalization of this Report.

Audit recommends regularisation of the expenditure besides recovery and action against the person(s) at fault.

AP 28 (2014-15)

1.3.1.3 Unjustified expenditure on already existing road- Rs.6.51 million

According to Para 96 of GFR Vol-I, money should not be spent hastily or in an ill considered manner merely because it is available and to avoid the lapse of grant and budget.

CMO MC, Lachi during 2014-15 incurred an expenditure of Rs.6,510,000 on account of execution of work “ Rehabilitation of Road in union council Shahpur”. Audit observed that an old road was already existing having Base and

Sub Base of road intact and only surfacing was required to be executed as per physical verification instead of repeating the same items.

Unjustified expenditure occurred due to weak internal control, which resulted in loss to the Authority.

When pointed out in August 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Request for convening DAC meeting was made on 04.09.2015 which was not convened till finalization of this Report.

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

AP 25 (2014-15)

1.3.1.4 Non-transparent award of contract-Rs 2.50 million

Para 23 of GFR Vol.-I states that every Government officer is personally responsible for any loss sustained by Government through fraud or negligence either on his part or on the part of his subordinate staff.

CMO, MC Lachi during 2014-15 awarded the work "Construction of PCC Road/Street at village Janak" at estimated cost of Rs 2.50 million to a contractor. Audit observed that another contractor also offered the same rates but was rejected by manipulating his rates in the comparative statement rendering the tendering process non transparent.

Irregularity occurred due to weak internal control, which resulted in violation of Government rules.

When pointed out in August 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Request for convening DAC meeting was made on 04.09.2015 which was not convened till finalization of this Report.

Audit recommends probe into the matter and action against the person(s) at fault.

1.3.1.5 Unauthorized execution of work and expenditure – Rs. 2.409 million

According to minutes of meeting of the District Development Committee Kohat held on 03.09.2014 that the Transformers for supply of electricity in different areas are property of PESCO and PESCO is responsible for repair/maintenance of scheme. CMO was directed to obtain NOC from PESCO.

Chief Municipal Officer, Municipal Committee Lachi during 2014-15 executed schemes of Installation and Repair of Transformers and incurred an expenditure of Rs. 2,409,000 as per detail given below.

S.No	Name of Scheme	E/Cost (Rs. In million)	Expenditure (Rs. In million)
1	Repair of Transformers at PK-39	2.5	1.199
2	Installation of Transformers 6/50 KV and 8/100 KV	5.00	1.21
Total			2.409

Audit observed;

- I. NOC from PESCO authority for execution of works was not obtained.
- II. PC-Is of the schemes were not prepared by the PESCO authority.
- III. Technical Sanctions were not accorded by the PESCO authority.
- IV. Handing Taking over of the schemes were not made with the PESCO authority.
- V. Rates and specification of the items to be executed were not analyzed from the authority concerned.

Irregularity occurred due to non compliance of Government instructions, which resulted in violation of Government rules.

When pointed out in August 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 21.08.2015 which not convened till finalization of this Report.

Audit recommends condonation by the competent forum and action against the person(s) at fault.

AP 26 (2014-15)

1.3.2 Internal Control Weaknesses

1.3.2.1 Non deduction of voids - Rs. 3.626 million

As per Clause 20 (d) of the contract agreement, 11% voids were to be deducted from the contractor's bills.

Chief Municipal Officer, Municipal Committee Lachi during 2014-15 failed to deduct 11% voids amounting to Rs. 3,626,114 from various items of works. This resulted in overpayment to contractors as per detail given at **Annexure-4**.

Overpayment occurred due to weak internal control, which resulted in loss.

When pointed out in August 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 21.08.2015 which not convened till finalization of this Report.

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

AP 27 (2014-15)

1.3.2.2 Loss due to less realization of revenue-Rs 2.192 million

According to the instructions issued by Local Council Board to all CMOs vide letter No.AO-II/LCB/6-11/2014 dated 13-03-2014, a maximum increase not less than 25% overall in the existing revenue was required to be ensured by creating environment for competition.

Chief Municipal Officer, Municipal Committee Lachi during 2014-15 awarded receipt contracts without applying 25% increase over the last year approved bids. This resulted in less realization of Rs 2,192,616 as per detail given at **Annexure-5**.

Loss occurred due to weak internal control, which deprived the Authority from significant revenue.

When pointed out in August 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 04.09.2015 which was not convened till finalization of this report.

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

AP 37 (2014-15)

1.3.2.3 Non imposition of penalty for delay in completion of work- Rs. 2.180 million

As per condition 6 of the work order, the work executed shall be completed by stipulated period of time otherwise penalty will be deducted from the contractor's bill as penalty for delay. Time allowed for the completion of work as per PC-I was 04 months.

CMO, MC Lachi during 2014-15 awarded various developmental works worth Rs. 2,180,000 funded under Oil and Gas Roalty Fund and District Development Initiative to various contractors. Neither the works were completed within stipulated period of time nor penalty @ 10 % amounting to Rs. 2,180,000 was imposed as per detail in **Annexure-6**.

Non imposition of penalty occurred due to weak internal control, which resulted in loss to the Authority.

When pointed out in August 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Request for convening DAC meeting was made on 04.09.2015 which was not convened till finalization of this Report.

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

AP 29 (2014-15)

1.3.2.4 Non-recovery of outstanding water user charges -Rs 2.167 million

According to Local Government Act 2012 Clause 179 (Collection and Recovery of Taxes, etc.) under sub clause (2) All arrears of taxes, rents and other

moneys claimable by a Local Council under this Act shall be recoverable as arrears of land revenue.

Chief Municipal Officer, Municipal Committee Lachi during 2014-15 failed to recover water user charges from the users of water supply schemes. The accumulated amount was Rs 2,167,620 as detailed below:

Total Demand/ Arrear (2014-15)	Rs 3,583,320
Total recovery during 2014-15	Rs 1,415,700
Amount Outstanding	Rs 2,167,620

Moreover, the demand & collection register was not properly maintained as the balances were not carried forward to the next months. It was not signed by the concerned staff. Thus Audit could not verify the last year balance i.e. 2013-14 carried forward to the next financial year.

Non recovery of water users charges occurred due to weak internal control, which deprived the Government from its due local revenue.

When pointed out in August 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 04.09.2015 which not convened till finalization of this Report.

Audit recommends recovery and action against the person(s) at fault under intimatin to audit.

AP 38 (2014-15)

1.3.2.5 Loss on account of receipts contract-Rs 0.925 million

As per condition at serial No. 8 of the model terms and conditions for auctioning the contracts circulated by LG&RDD (LCB) vide No. AO-II/LCB/6-11/2013 dated: 20.12.2013, in case the contractor/firm does not deposit advances or does not enter into an agreement within specified period, the contract shall stand cancelled and loss if any shall be recouped at the risk and cost of the

contractor and recoverable under Land revenue Act, along with blacklisting of the contractor/firm.

Chief Municipal Officer, Municipal Committee Lachi during 2014-15 awarded the contract of General Bus Stand, Shakardara to the highest bidder for Rs 2,846,900 after due process. The bidder did not turn up to sign the agreement. His earnest money was forfeited. It was further observed that instead of blacklisting and cancellation of registration of the defaulting bidder, he was awarded two other contracts, namely "Entry Fee Lachi" and "Entry Fee Shakardara" in the same financial year in violation of the Clause 7 & 8 of the Terms and Conditions issued by LCB.

In the case of contract for "General Bus Stand Fee" it was readvertised in a local newspaper which received no response. Further instead of inviting the 2nd highest bidder, at the risk and cost of the defaulting bidder, the Adda fee was collected departmentally. The 2nd highest bidder had offered bid of Rs 2,843,000. The irregular handling of the matter resulted into a loss of Rs. 925,718 (2,846,900-1,921,182) to the Municipal Committee.

Loss occurred due to weak internal control, which deprived the authority from significant revenue.

When pointed out in August 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Request for convening DAC meeting was made on 04.09.2015 which was not convened till finalization of this Report.

Audit recommends recovery and action against the person(s) at fault under intimatin to audit.

AP 40 (2014-15)

DISTRICT COUNCIL KOHAT

1.4 District Council Kohat

1.4.1 Irregularity & Non Compliance

1.4.1.1 Loss due to non-award of contract for collection of production cess -Rs 190.662 million

The instructions issued by the LCB vide its letter No. AO-II/LCB/6-11/2013 dated 20/02/2013 for procurement of contractual services, for collection of taxes etc. by local councils which also contain the model terms and conditions for the contracts requires prior approval of the Provincial Government/LCB. Further Para 23 of GFR Vol.-I, provides that every Government officer is personally responsible for any loss sustained by Government through fraud or negligence either on his part or on the part of his subordinate staff.

Chief Coordination Officer, District Council Kohat during 2014-15 advertised seven times a contract for “Collection of Production Cess Kohat Cement Factory”. As a result of oral on site auction, in the sixth attempt the highest bid recorded on the bid sheet was for Rs 210,000,000. The bid sheet was signed by the two highest bidders.

The Tax Superintendent while moving the case file on conclusion of open/oral bidding process recorded the highest bid as Rs 21,000,000 instead of Rs 210,000,000 and proposed that departmental collection would yield more revenue than Rs 21,000,000.

The CCO, District Council, started collecting the cess departmentally with a collection of Rs 20,337,900 during the year as per Demand and Collection Register (DCR). A comparison between the highest bid and the actual collection shows a loss of Rs 189.662 million (210,000,000-20,337,900=Rs 189,662,100) and Rs 1,000,000 as pay & allowances making a total loss of Rs 190,662,100.

The case for award of contract was not forwarded to LCB Peshawar for approval. The decision to collect the cess departmentally was unauthorized and irregular. The bidding process was also replete with procedural lapses. All these facts lead to the suspicion of fraudulent handling of the case.

Non-referral of the case to LCB and unauthorized and irregular decision of collecting the cess occurred due to breach of administrative and internal controls, which resulted in huge loss of income to the council.

When pointed out in September 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 07.10.2015 which not convened till finalization of this Report.

Audit recommends detailed inquiry into the matter besides recovery and penal action against the person(s) at fault.

AP 51 (2014-15)

1.4.2 Internal Control Weaknesses

1.4.2.1 Loss to government due to non-awarding of receipt contract- Rs 6.402 million

As per condition at serial No. 8 of the model terms and conditions for auctioning the contracts circulated by LG&RDD (LCB) vide No. AO-II/LCB/6-11/2013 dated: 20.02.2013, in case the contractor/firm does not deposit advances or does not enter into an agreement within specified period, the contract shall stand cancelled and loss if any shall be recouped at the risk and cost of the contractor and recoverable under Land revenue Act, along with blacklisting of the contractor/firm.

Chief Coordination Officer, District Council Kohat during 2014-15 awarded contract of “2% Mutation Fee” to a bidder for Rs 13,131,000 after due process. The successful bidder did not turn up to sign the agreement. The contract was not awarded to second highest bidder who offered Rs 13,100,000 and was run departmentally. The departmental arrangements resulted into collection of Rs 6,728,355 and causing a loss of revenue to the council for Rs 6,402,645 (13,131,000-6,728,355=Rs 6,402,645). No proceedings for implementation of conditions of “risk and cost” and blacklisting of the defaulting bidder as per Model Terms and Conditions were initiated.

Loss occurred due to weak internal control, which deprived the authority from significant income.

When pointed out in September 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Requests for convening DAC meeting was made on 07.10.2015 which was not convened till finalization of this Report.

Audit recommends inquiry into the matter besides recovery and action against the person(s) at fault.

AP 50 (2014-15)

1.4.2.2 Non recovery of rent and house rent allowance-Rs 1.747 million

According to Fundamental Rules 45-C, when government supplies a government servant with a residence leased or owned by government, rent for the residence shall be deducted.

The residential and non residential property owned by District Council Kohat was occupied by various officers/ officials and other departments since long but accumulated rent and house rent allowance amounting to Rs 1,747,558 was not recovered from them during 2014-15. Detail is given at **Annexure-7**.

Non recovery of house rent allowance occurred due to weak internal control, which resulted in loss to Government.

When pointed out in September 2015, management stated that detailed reply would be given after scrutiny of record. However, no reply was received till finalization of this report.

Request for convening DAC meeting was made on 07.10.2015 which was not convened till finalization of this Report.

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

AP 52 (2014-15)

KOHAT DEVELOPMENT AUTHORITY

1.5 Kohat Development Authority

1.5.1 Internal Control Weaknesses

**1.5.1.1 i. Non- forfeiture of bid amount on account of auction of plots-
Rs. 7.913 million**

ii. Non- recovery of 10% surcharge –Rs. 3.156 million

As per condition 5 of auction of plots, the successful bidder will be required to deposit 25% cost of bid on the spot and the remaining 75% will be paid within one month of issuance of allotment letter. Further as per conditions 8 & 9 of auction of plots, if the successful bidder fails to deposit the remaining 75% amount by the due date, 10% surcharge shall be recovered up to a period of 30 days delay. If the successful bidder fails to deposit the dues along with 10% surcharge within extended 30 days, the bid shall be cancelled and the entire deposited amount will be forfeited in favor of KDA.

The Project Director, KDA Kohat auctioned 09 number plots on 05-12-2013 and received 25% of the auction value. The successful bidders failed to deposit the remaining 75% amount of the bid value within prescribed time. The KDA failed to recover 10% surcharge amounting Rs 3,156,500 and forfeit the already deposited amount of Rs7,913,750 or cancel the allotment. Detail is given at **Annexure-8**.

Non recovery/forfeiture and non-cancellation of allotment of plots occurred due to weak internal control, which resulted in loss to the Authority.

When pointed out in March 2015, management stated that the case was referred to Secretary LG&RDD for decision. No subsequent progress was reported till finalization of this report.

Requests for convening DAC meeting was made on 06.03.2015, which was not convened till finalization of this Report.

Audit recommends probe into the matter besides recovery and action against the person(s) at fault.

AP 94 & 95 (2014-15)

1.5.1.2 Non recovery of advance/withholding tax -Rs 5.303 million

Under the Finance Act 2009, Section 236 A was added to the Income Tax Ordinance 2001 requiring the person or body making sale by public auction of any property belonging to the local government or any authority, to recover advance tax at the time of sale by auction on the basis of sale price of such property, from the person to whom such property is being sold. The Federal Finance Act 2013 raised the rate of advance tax from 5% to 10% of the sale price.

The Project Director, KDA Kohat during 2013-14 auctioned various plots but Advance/Withholding tax amounting to Rs 5,303,550 was not recovered from the buyers as per detail at **Annexure-9**.

Non recovery of withholding tax occurred due to weak internal control, which deprived the authority from significant income.

When pointed out in March 2015, management stated that the case was referred to Secretary LG&RDD for decision. No subsequent progress was reported till finalization of this report.

Requests for convening DAC meeting was made on 06.03.2015 which not convened till finalization of this Report.

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

AP 88 (2014-15)

1.5.1.3 Non recovery of house building and motor car advances - Rs.1.257 million

According to Para 253(a) V of GFR Vol-I, the advances will be recovered by the deductions of the monthly installment of not less than 20% of the Govt: employees concerned from his pay bills.

The Project Director, KDA Kohat during 2013-14 had an amount of Rs1,257,551 as accumulated outstanding House Building and Motor Car advances against seven employees since long. Some of the employees stand transferred out of the organization. No efforts were available on record to recover the advances. Detail is given at **Annexure-10**.

Non recovery of advances occurred due to weak internal control, which resulted in loss to the Authority.

When pointed out in March 2015, management stated that the recovery incharge has been directed to make recovery on urgent basis. No subsequent progress was reported till finalization of this report.

Request for convening DAC meeting was made on 06.03.2015 which was not convened till finalization of this Report.

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

AP 92 (2014-15)

1.5.1.4 Non-recovery of capital value tax/levy charges/gas charges- Rs 0.815 million

As per Federal Board of Revenue Circular No.04 of 2009 Capital Value Tax on residential immovable property other than flats @ 4% of the recorded value or Rs100 per square feet would be recovered at the time of transfer of plot.

Project Director, KDA Kohat during 2013-14 failed to recover Capital Value Tax /Levy charges/Gas charges @4% amounting to Rs 815,000 from the owners of plots as per detail given at **Annexure-11**.

Non recovery of taxes occurred due to weak internal control, which resulted in loss to the Authority.

When pointed out in March 2015, management stated that the case was referred to Secretary LG&RDD for decision. No subsequent progress was reported till finalization of this report.

Request for convening DAC meeting was made on 06.03.2015 which was not convened till finalization of this Report.

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

AP 93 (2014-15)

ANNEXURES

Annexue-1

Detail of MFDAC Paras

(Rs in million)

S. No	AP	Entity	Caption	Amount
1	03	MC Kohat	Non recovery of Income Tax from contractors	1.586
2	04	-do-	Non-recovery of outstanding Government dues and non deposit into Government treasury	0.077
3	05	-do-	Irregular Advance payment	0.684
4	06	-do-	Retention of heavy balances in PLA (closing balances as on 30.06.2015)	240.000
5	08	-do-	Irregular advance payment and non recovery/ adjustment	0.883
6	09	-do-	Overpayment due to non deduction of 11% voids (lab test not conducted)	0.459
7	10	-do-	Overpayment to contractor by allowing higher rates	0.274
8	12	-do-	Non deduction of 5% old material cost	0.254
9	13	-do-	Non-utilization of developmental fund	70.150
10	14	-do-	Non production of developmental fund record of ongoing schemes	9.940
11	17	-do-	Irregular payment on account of electrical work (subsequently adjusted)	0.368
12	18	-do-	Non execution of item of work approved in PC-1	0.618
13	19	-do-	Loss due to less realisation of rent	13.00
14	20	-do-	Non recovery of withholding tax on rent	0.377
15	21	MC Lachi	Irregular expenditure without need assessment and rate analysis	14.750
16	24	-do-	Irregular expenditure over Administrative Approval	5.000
17	30	-do-	Irregular payment without rate analysis & non deduction of sales tax	1.087
18	33	-do-	Unauthorized award of work and non deduction of sales tax	1.328

Comment [Q1]: report

19	39	-do-	Difference in DCR and income statement/classified register	0.045
20	41	-do-	Non recovery of taxes	0.404
21	42	-do-	Irregular advance payment and non recovery/ adjustment	0.235
22	43	-do-	Doubtful payment	0.500
23	44	-do-	Flaus in contract documents of receipt contracts	0
24	45	-do-	Non-utilization of developmental fund (slow moving schemes)	30.924
25	46	-do-	Doubtful payment	0.800
26	47	District Council Kohat	Irregular Expenditure on account of Repair and maintenance of Government Vehicle	0.040
27	48	-do-	Non-recovery of outstanding Government dues on account of receipt contracts	0.158
28	49	-do-	Wasteful Expenditure on account of Pay and Allowances and repair	0.579
29	53	-do-	Irregular and unauthorized payment on account of POL for generator	0.353
30	54	-do-	Doubtful payment as arrear of pay & allowances	0.861
31	55	-do-	Non auction of open plot (marriage lawn)	0
32	56	-do-	Doubtful competition/tendering of work	1.00
33	57	-do-	unauthorized award of work	0.500
34	58	-do-	unauthorized award of work	1.000
35	59	-do-	unjustified expenditure on luxurious renovation of residence	1.000
36	61	-do-	Irregular payment without work done	0.825
37	62	-do-	irregular expenditure without need assessment and rate analysis	2.380
38	64	-do-	Irregular expenditure without rate analysis and non deduction of GST	0.812
39	87	Kohat Development Authority	Non Recovery of water supply charges	0.544
40	90	-do-	Irregular practice of advance payment (compliance shown and advance payment adjusted)	0.980
41	91	-do-	Non adjustment of advance payment (partial compliance shown)	0.235
42	96	-do-	Loss to government due to less deposit of receipt on account of auction of plot	0.150
43	97	-do-	Irregular Expenditure without tender (repair of WSS machinery in emergency)	2.351
44	98	-do-	Non Deduction of Income tax from	0.125

			contractor	
45	100	-do-	Unauthorized expenditure on POL	0.046
46	101	-do-	Overpayment on account of allowing extra work	0.264
Total				415.666

Annexure-2
(Para No. 1.2.2.1)

(Detail of Outstanding Rent of Municipal Property)

Amount in (Rs)

S#	Property	No of Shops	Rent to be recovered	Rent recovered	Previous rent outstanding on 30.6.14	Net outstanding rent
1	Long lease (99 yrs)	228	1,572,510	180,530	1,268,760	2,660,740
2	Annual rent	238	8,660,350	1,824,173	8,615,081	15,451,258
3	Municipal Plaza	21	550,310	72,430	460,697	938,577
4	RDD office market	14	388,018	29,301	402,600	761,317
5	TMA Market	08	205,305	42,731	280,597	443,171
6	Sabzi mandi	46	1,420,554	343,400	366,705	2,497,708
7	New Bus stand	76	2,459,034	532,040	1,534,420	3,661,414
8	Sheen Ghar Plaza	18	264,734	219,787	366,705	411,652
9	Jinnah Plaza	128	-	-	-	1,929,814
Total						28,755,651

Annexure-3
(Para No. 1.2.2.4)

(Detail of Non Recovery of Taxes)

Amount in (Rs)

Nature of business	Numbers	Tax rate	Amount to be recovered	Amount recovered	Outstanding amount
Motor car bargain	10	25,000	250,000	0	250,000
Motor cycle bargain	5	10,000	50,000	0	50,000
Guest houses	4	5,000	20,000	0	20,000
Crokery	13	3,000	39,000	0	39,000
Cement block factory	8	20,000	160,000	0	160,000
Property Dealer	54	5,000	270,000	0	270,000
Petrol Diesel CNG station	15	50,000	750,000	0	750,000
Private School & College	54	3,000	162,000	0	162,000
Marriage Lawn	4	120,000	480,000	0	480,000
Rent A Car	3	15,000	45,000	0	45,000
Total					2,226,000

Annexure-4
(Para No. 1.3.2.1)

(Detail of Non Deduction of Voids)

Amount in (Rs)

S. No	Name of Scheme	Item of work	Amount (Rs.)
1	Construction of metttled Road at Jerma Palocy Banda	Formation of embankment	3112485
		Sub Base course	665580
		W.B.M Base course	1028862
2	Reh: and Improvement of Shahpur Road	Formation of embankment	2023667
		Sub Base course	992803
		W.B.M Base course	1112031
3	B.T Road Quriesh abad Zeer koi	Formation of embankment	4803608
		Granular Sub Base Course	1901436
		W.B.M Base course	2315686
4	Reh: of main Sudal Palocy Road	Formation of embankment	1729134
		Sub Base course	496485
		W.B.M Base course	763600
5	Construction of metttled Road at Ne har No. 1 UC Jerma	Formation of embankment	1464074
		Sub Base course	669290
		W.B.M Base course	888388
6	Construction of BTR Chorlaki to Mustaqeem Karoona	Formation of embankment	2222783
		Granular Sub Base course	893882
		W.B.M Base course	985326
7	Construction of metttled Road at Chashmai Rehman Abad	Compaction of natural ground	113221
		Formation of embankment	2344471
		Granular Sub Base course	1261498
		W.B.M Base course	1176363
Total			32,964,673
11% Voids			3,626,114

Annexure-5
(Para No. 1.3.2.2)

(Detail of Less Realisation of Revenue)

Amount in (Rs)

S. No	Name of Contract	Auction Value for 2013-14	Auction Value for 2014-15	Required (Rs)	Loss (Rs)
01	Weekly cattle fair Lachi	3,258,000	3,748,000	4,072,500	324,500
02	Weekly cattle fair Shakardara	904,500	1,041,000	1,130,625	89,625
03	General bus stand Shakardara	2,277,500	1,929,522	2,846,875	917,353
04	2% Mutation fee	576,000	357,892	720,000	362,108
05	License fee	151,000	73,300	188,750	115,450
06	Entry fee Lachi	340,000	413,000	425,000	12,000
07	General bus stand Lachi	882,000	730,920	1,102,500	371,580
	Total				2,192,616

Annexure-6**(Para No. 1.3.2.3)****(Detail of Non Imposition of Penalty)**

S. No.	Name of work	Estimated cost (Rs. in million)	Date of Work order	Completion	Penalty (Rs.)
1	Construction of PCC Road at Rukhwan Shakardara R-2	3.00	05.11.2014	4 months (as per PC-I)	300,000
2	Installation of Hand Pumps at PK-39	7.3	26.12.2014	-do-	730,000
3	Installation of Pressure Pumps at PK-39	10.00	-do-	-do-	1,000,000
4	Construction of Community Centre at village Jabbi	1.5	5.11.2014	-do-	150,000
		Total			2,180,000

Annexure-7**(Para No. 1.4.2.2)****(Detail of Non Recovery of HRA/Rent)****Amount in (Rs)**

S#	Description	Name & Designation of occupant	Net Outstanding (Rs)
1	Bungalow No.1	Mr. Ameer Shoaib, TOF	369,370
2	---do---	Mr. Qutab Mahsood, Ex (TOI&S) TMA Kohat	195,000
3	Bungalow No.2	Mr. Kamran Amjid, Ex Admin Officer	33,254
4	Bungalow No.7	Mr. M. irfanullah, Ex Distt: Officer (I&S) DC Kohat	No house rent deposited w.e.f 30.8.2008 to 02.02.2015
5	Quarter No. 1	Mr. Haji Lal Zada, Ex Sub Engineer DC Kohat	No House rent deposited after Nov, 2014
6	Quarter No. 4	Mr. M. Siddiq, Ex Sub Engineer	134,934
7	Five Nos Garages in the premises of DC Kohat	Rescue Police Post	853,000
8	Four Nos Rooms in KDA Rest house of DC Kohat	FDMA Kohat	142,000
9	Main Hall DC office	Auqaf & Religious Affairs Deptt:	20,000
Total			1,747,558

Annexure-8
(Para No. 1.5.1.1)

(Detail of Non Forfeiture of Bid Amount and Non Recovery of Surcharge)

Amount in (Rs)

S.No	No. of plot	Value of auction	25% deposited amount	10% Surcharge
1	Plot No 41/ Sector D.1	3,710,000	927,500	371,000
2	Plot No 31/ Sector D.1	5,700,000	1,425,000	570,000
4	Plot No 40/ Sector D.1	3,500,000	875,000	350,000
5	Plot No 45/ Sector D.1	2,445,000	611,250	244,500
6	Plot No 30/ Sector D.1	5,200,000	1,300,000	520,000
7	Plot No 43/ Sector D.1	3,610,000	925,000	361,000
8	Plot No 42/ Sector D.1	3,800,000	950,000	380,000
9	Plot No 44/ Sector D.1	3,600,000	900,000	360,000
Total		31,565,000	7,913,750	3,156,500

Annexure-9
(Para No. 1.5.1.2)

(Detail of Non Recovery of Income Tax)

Amount in (Rs)

Plot No	Name of owner	Total Value	Income tax (Rs)
D-1/41		3710000	371,000
B-2/161	Intaiz ud Din	2540000	254,000
D-1/33	Kamran Khan	5350000	535,000
D-1/32	Kamran Khan	6000000	600,000
D-1/31	Waheed Hayat	5700000	570,000
D-1/40	Zubiar Ahmed	3500000	350,000
D-1/42	Zubiar Ahmed	3800000	380,000
D-1/43	Akmal	3610000	361,000
D-1/45	Ishfaq	2445000	244,500
D-1/46	Zubiar Ahmed	360000	360,000
D-1/30	Reheem Gul	5200000	520,000
Flat-2	Mohboob Nawaz	515000	51,500
	Mr. Fida Muhammad & Zubiar Ahmed	12000000	600,000
	Zubiar Ahmed	1120000	56,000
	M. Shaheen	1011000	50,550
Total		56861000	5,303,550

Annexure-10
(Para No. 1.5.1.3)

(Detail of Non Recovery of HBA)

Amount in (Rs)

Ledger Folio	Name of Official/Officer	Designation	Amount of HBA Outstanding
11	Abu Ali Shah	Senior clerk	68,851
40	Azam Shah	Deputy Director	130,675
46	Khan Bahadar	Mali	94,000
73	Khan Azad	PD	145,000
75	Syed Azam shah	Deputy Director	203,900
173	Saeed Anwar	Deputy Director	602,000
195	Anwar Zaman	Secretary PDA	13,125
Total			1,257,551

Annexure-11
(Para No. 1.5.1.4)

(Detail of Non Recovery of CVT/Levy Charges/Gas Charges)

Amount in (Rs)

S.No	No. of plot	Capital Value Tax/Levy charges/Gas @ 4% charges
1	Plot No 41/ Sector D.1	37,000
2	Plot No 31/ Sector D.1	296,750
3	Plot No 158/ Sector D.1	37,000
4	Plot No 40/ Sector D.1	37,000
5	Plot No 45/ Sector D.1	19,500
6	Plot No 30/ Sector D.1	276,750
7	Plot No 43/ Sector D.1	37,000
8	Plot No 42/ Sector D.1	37,000
9	Plot No 44/ Sector D.1	37,000
Total		815,000