



**AUDIT REPORT
ON THE ACCOUNTS OF
DISTRICT COUNCIL AND MUNICIPAL
COMMITTEES SWABI**

AUDIT YEAR 2014-2015

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATION AND ACRONYMS

AP	Advance Para
CMD	Chief Minister Directives
CMO	Chief Municipal Officer
CPWD	Central Public Works Department
CSR	Composite Schedule of Rate
DAC	Departmental Accounts Committee
DC	District Council
DG	Director General
DPR	Disable Persons Rehabilitation
ETO	Excise and Taxation Officer
GFR	General Financial Rules
LCB	Local Council Board
M ³	Cubic Meter
MC	Municipal Committee
MCs	Municipal Committees/Corporations
PAO	Principal Accounting Officer
PAC	Public Accounts Committee
PC-I	Planning Commission Proforma I
PEC	Pakistan Engineering Council
LG&RDD	Local Government & Rural Development Department
PWP-II	Peoples Works Programmes-II
RDA	Regional Directorate of Audit
TS	Technical Sanction
UAs	Union Administrations

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 Swabi for the Financial Year 2013-14. The Directorate General of Audit, District Governments, Khyber Pakhtunkhwa, and 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 168 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 Peshawar has audit jurisdiction of District Councils, Municipal Committees and UCs of three Districts i.e. Mardan, Swabi, Malakand and Buner.

The Regional Directorate has a human resource of 09 officers and staff, constituting 1878 man days and a budget of Rs 11.906 million was allocated during 2014-15. 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 Mardan carried out audit of the accounts of District Council and Municipal Committees for the Financial Year 2013-14 and the findings included in the Audit Report.

District Council and Municipal Committees District Swabi 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 the total expenditure of the District Council and Municipal Committees, District Swabi for the Financial Year 2013-14, the auditable expenditure under the jurisdiction of RDA was Rs 392.86 million. Out of this, RDA Mardan audited an expenditure of Rs 235.720 million which, in terms of percentage, was 60 % of auditable expenditure.

The receipts of District Council and Municipal Committees, District Swabi for the Financial Year 2013-14, were Rs 230.003 million. Out of this, RDA

Mardan audited receipts of Rs 138.002 million which, in terms of percentage, was 60% of auditable receipts.

The total expenditure and receipts of District Council and Municipal Committees, District Swabi, for the Financial Year 2013-14 were Rs 622.865 million. Out of this, RDA Mardan audited the expenditure and receipts of Rs 373.720 million.

b. Recoveries at the instance of audit

Recovery of Rs 10.683 million was pointed out during the audit. However, no recoveries were affected till the finalization of this report. The recovery pointed out was 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 Swabi 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 audit 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, 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 District Swabi. Neither rules for internal audit have been framed nor internal audit report as required was provided to audit.

f. Key Audit Findings

- i. Non production of record of Rs 31.770 was noted in one case.¹
- ii. Irregularity & non-compliance of Rs 15.987 million were noted in six cases.²
- ii. Weak internal control of Rs 2.141million was noted in one case³.

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 Deduction
- ii. Concerted efforts need to be made to recover long outstanding dues.
- iii. Deduction of taxes on supplies and contracts need to be ensured.
- iv. Recoveries of taxes and outstanding amount shall be recovered from the concerned besides action against the person(s) at fault.

¹ Para: 1.2.1.1

² Para: 1.2.2.1, 1.3.1.1, 1.5.1.1, 1.5.1.3, 1.4.1.1 & 1.6.1.1

³ Para: 1.4.2.1

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	622.865
2	Total formations in audit jurisdiction	06	622.865
3	Total Entities (PAO)Audited	01	373.720
4	Total formations Audited	06	373.720
5	Audit and Inspection reports	06	373.720
6	Special Audit Reports	-	-
7	Performance Audit Reports	-	-
8	Other Reports	-	-

Table 2: Audit Observations regarding Financial Management

(Rs in million)

Sr. No.	Description	Amount under audit observation
1	Asset management	-
2	Financial management	44.744
3	Internal controls	2.141
4	Others	3.013
Total		49.898

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

S#	Description	Expenditure on Acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total for year (2013-14)	Total for the year (2012-13)
1	Outlays Audited	-	51.858	138.002	183.862	373.722	209.573
2	Amount Placed under Audit Observation /Irregularities of Audit	-	3.013	44.09	2.80	49.898	55.164
3	Recoveries Pointed Out at the instance of Audit	-	-	10.683	-	10.683	17.598
4	Recoveries Accepted /Established at the instance of Audit	-	-	-	-	-	-
5	Recoveries Realized at the instance of Audit	-	-	-	-	-	-

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

S. No	Description	Amount under Audit observation
1	Violation of rules and regulations and principle of propriety and probity.	3.415
2	Reported cases of fraud, embezzlement, theft, misappropriations and misuse of public funds.	0
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.	0
4	Quantification of weaknesses of internal controls system.	2.141
5	Recoverable, overpayments, or unauthorized payments of public money.	9.559
6	Non-production of record to Audit	31.77
7	Others, including cases of accidents, negligence etc.	3.013
Total		49.898

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

S. No	Description	Amount
1	Outlays Audited	373.722
2	Expenditure on audit	0.780
3	Recoveries realized at the instance of Audit	0
4	Cost Benefit Ratio	1:0

CHAPTER-1

1.1 District Council & Municipal Committees, District Swabi

1.1.1 Introduction

District Swabi consists of two tehsil i.e Swabi and Lahore. There is a District Council and four 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 Swabi has one Drawing and Disbursing Officer (DDO) i-e. Chief Coordination Officer & Chief Municipal Officers are the DDOs of Municipal Committees. According to 1998 population census, the population of District Swabi is 1,026,806.

1.1.2 Comments on Budget and Accounts (Variance Analysis)

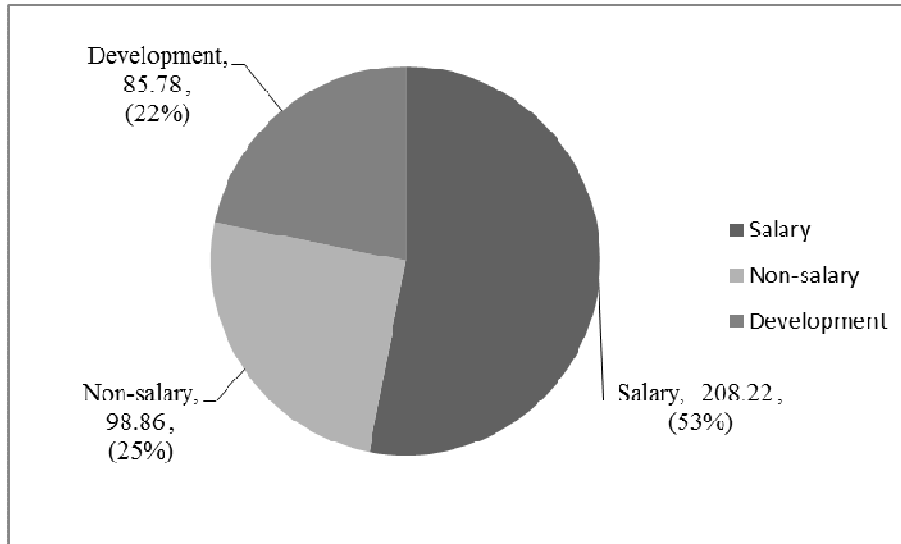
An amount of Rs 188.970 million was allocated as grant in aid by the Provincial Government to District Council and Municipal Committees of District Swabi. An amount of Rs 250.89 million was realized during the financial year 2013-14. Thus making a total of Rs 439.860 at the disposal of local councils, against which an expenditure of Rs 392.86 million was incurred by the District Council and Municipal Committees District Swabi, with a savings of Rs 47.00 million during Financial Years 2013-14. Detail is given below:

(Rs in million)

2013-14	Budget	Expenditure	Excess (+) / Saving (-)	%age (Saving)
Salary	215.80	208.22	-7.59	16.15
Non-salary	134.20	98.86	-35.34	75.19
Development	89.85	85.78	-4.07	8.66
Total	439.86	392.86	-47.00	-11.96
Receipts	250.89	230.003		
Grand Total	690.75	622.863		

The huge savings of Rs 47 million in all heads of accounts indicate weakness in the capacity of these local institutions to utilize the amounts allocated.

EXPENDITURE 2013-14



1.1.3 Brief comments on the status of compliance with PAC Directives

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

MUNICIPAL COMMITTEE TORDHER

1.2 AUDIT PARAS MUNICIPAL COMMITTEE TORDHER

1.2.1 Non Production of Record

1.2.1.1 Non Production of Record–Rs 31.770 million

Section 14(3) of the Auditor General's (Function Powers and Terms and Condition of Service) Ordinance, 2001 provides that any person or authority hindering the auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant efficiency and discipline rules, applicable to such person.

Chief Municipal Officer Tordher, Swabi did not produce local fund receipts record for Rs 31,770,000 for the year 2012-13 in spite of repeated reminders

The veracity of the expenditure could not be authenticated due to non production of record.

When pointed out in September 2014, management did not respond to audit observation.

Request for convening DAC meeting was made in 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 and action against the person(s) at fault under intimation to audit besides immediate production of record for audit.

AP No 25 (2013-14)

1.2.2 Irregularity & non-compliance

1.2.2.1 Non deduction of Income Tax–Rs 1.700 million

According to Section 153 of Income Tax ordinance 2001, every prescribed person for sale of goods, should at the time of making the payment deduct tax from the gross amount payable at the rate of 6%.

Chief Municipal Officer, Municipal Committee, Lahore/ Tordher District Swabi did not deduct income tax for Rs 1,699,826 on various payments made during financial years 2012-13 and 2013-14. Detail is as at Annex-3.

Non deduction of income tax was due to non compliance with Income Tax law, which resulted in loss to Government.

When pointed out in September 2014 department replied that income tax at serial No. 3 to 6 pertain to Regulation Wing for recovery while for the rest ones needful has been done accordingly. Reply was not tenable as no evidence was shown to audit.

Request for the convening DAC meeting was made in 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 that the Government dues be deposited into Government treasury under relevant head of account without further delay.

AP No. 19 (2013-14)

MUNICIPAL COMMITTEE SWABI

1.3 AUDIT PARAS MUNICIPAL COMMITTEE SWABI

1.3.1 Irregularity & non-compliance

1.3.1.1 Non deposit of Tender Form fee–Rs 3.202 million

According to Para 26 of GFR Vol-I, it is the duty of departmental controlling officer to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the public account.

Chief Municipal Officer Swabi deducted Rs 3,202,750 on account of tender form fees from various contractors against developmental schemes under Annual Development Programme (ADP) during financial year 2013-14 but did not deposit the same into Government treasury and the amount was lying in the bank account of the local office.

Non deposit of Tender Form Fee occurred due to non observance of financial rules which resulted in los to Government.

When pointed out in October 2014, management did not respond to audit observation.

Request for convening DAC meeting was made in November 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 of Tender Form fee and action against the person(s) at fault.

AP No 69 (2013-14)

MUNICIPAL COMMITTEE RAZZAR

1.4 AUDIT PARAS MUNICIPAL COMMITTEE RAZZAR

1.4.1 Irregularity & non-compliance

1.4.1.1 Unauthorized expenditure on non-developmental activities out of developmental fund –Rs 3.013 million

According to Para 12 of GFR Vol.-1, a controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided.

Chief Municipal Officer Razzar (Swabi) received an amount of Rs 3,013,400 (2,588,500 + 424,900) as 30% District Annual Development Programme Share for the year 2013-14, which was meant for developmental activities but the fund was spent on non-developmental activities i.e Maintenance & Repair of Shewa road from main chowk towards Shewa Bridge and Repair of slaughter house of MC Razzar Swabi.

Unauthorized incurring of expenditure occurred due to non-compliance with Government financial rules which resulted in non-accomplishment of developmental activities.

When pointed out in October 2014, management stated, that the schemes were approved by the Provincial Government. Reply was not correct as no documentary proof was produced.

Request for convening DAC meeting was made in 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 recoupment and condonation of the above unauthorized expenditure from competent forum and action against the person(s) at fault.

AP No. 62 (2013-14)

1.4.2 Internal control weaknesses

1.4.2.1 Loss on contract of cattle fair as compare to previous year –Rs 2.141 million

According to serial No (ii) 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 local council 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. This practice shall continue till 15% increase or more reasonable bid is achieved over the last year approved bid.

Chief Municipal Officer Razzar (Swabi) collected Rs 3,263,000 as departmental recovery on account of cattle fair Kernal Sher Kaley during financial year 2013-14. Audit observed that the local office was required to collect/recover Rs 4,700,000 on account of cattle fair by adding 15% increase as detailed below:

S. No	Particular (1)	Previous year (2) (Rs)	Current year (3) (Rs)	Diff (4) (Rs)	15% increase on previous year (5) (Rs)	Total loss (4+5) (Rs)
1	Cattle fair KSK	4,700,000	3,263,300	1,436,700	705,000	2,141,700

Less collection of revenue from cattle fair was occurred due weak internal controls, which resulted in loss to Government

When pointed out in October 2013, Management stated that detailed reply would be furnished after scrutiny of record but no progress was reported.

Request for convening DAC meeting was made in 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 justification and action against the person(s) at fault.

AP No 51 (2013-14)

DISTRICT COUNCIL SWABI

1.5 AUDIT PARAS DISTRICT COUNCIL SWABI

1.5.1 Irregularity & non-compliance

1.5.1.1 Non recovery of penalty due to late deposit of monthly installment-Rs 1.100 million

According to point 3 of terms and condition of contract the contractor should deposit monthly installment up to 10th of the following month, failing which a penalty @ 1% per day shall be imposed for late deposit.

Chief Coordination Officer District Council Swabi failed to impose and recover penalty for Rs 1,100,000 @1% per day on account of late deposit of monthly installments from the contractor of 2% property tax, which put the District Council into loss. Detail as per Annex-4.

Non recovery of penalty was due to deviation from contract agreement which resulted in loss to Government.

When pointed out in October 2014, management did not respond to audit observation.

Request for convening DAC meeting was made in 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 suggests recovery of the amount and action against the person(s) at fault.

AP No. 26 (2013-14)

**1.5.1.2 Non deposit of tender form fee in to Government treasury–
Rs 3.557million**

According to Para 66 of CPWA Code Government money realized should be deposited into Government Treasury immediately.

Chief Coordination Officer, District Council, Swabi collected tender forms fee for Rs 3,557,100 while tendering for District Development Funds received from Finance Department Government of Khyber Pakhtunkhwa during the financial year 2013-14. The amount was deposited in the District Council' bank account instead of Government treasury, as detailed below:

Bank receipt No	Date	Account No	Bank	Amount (Rs)
0849732	7-5-014	673-0	HBL	1,455,500
11574670	9-5-014	846	Soneri Bank	763,000
0849778	13-5-014	673-0	HBL	1,338,600
Total				3,557,100

Non deposit of tender form fee into Government Treasury occurred due to non compliance with rules which resulted in loss to Government.

When pointed out in October 2014, Management stated that the amount was deposited in the account of District Council, being executing agency and expenditure was made on the execution of these schemes and the tender form fee was the source of its income. Reply was incorrect as being Government funds the amount was required to be deposited into Government treasury.

Request for convening DAC meeting was made in 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 suggests early deposit of the amount in Government Treasury and action against the person(s) at fault.

AP No 28 (2013-14)

MUNICIPAL COMMITTEE ZAIDA

1.6 AUDIT PARAS MUNICIPAL COMMITTEE ZAIDA

1.6.1 Irregularity & non-compliance

1.6.1.1 Non reconciliation of local fund receipts –Rs 3.415 million

According to Para 89(4) (viii-2) of GFR Vol-I, the main object of the reconciliation is to ensure that the departmental accounts are sufficiently accurate to render possible and efficient departmental control of expenditure.

Chief Municipal Officer Municipal Committee Zaida realized receipts of Rs 3,415,114 from local fund during 2013-14. The receipts were not reconciled with Local Fund Audit which needs justification.

Non-reconciliation of receipts was due to non compliance with standing instructions on reconciliation which resulted in non-authentication of receipts.

When pointed out in September 2014, management stated that reconciled statement would be shown to next audit party. Reply was not convincing as local fund receipts were not reconciled.

Request for convening DAC meeting was made in 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 reconciliation of local fund receipts under intimation to audit.

AP No. 06 (2013-14)

ANNEXURES**Annex-1****MFDAC Paras****(Rs in million)**

S. No	AP No	Caption	Amount (Rs)
		MC Zaida	
1	2	Non-utilization of developmental funds	3.053
		MC Tordher	
2	13	Blockage of developmental fund	3.053
3	14	Unauthorized expenditure due to split-up of schemes	8.000
	15	Irregular expenditure through Project Leader	11.000
4	16	Unverified expenditure under People Works Programme	138.000
5	17	Irregular award of developmental scheme to Project Leader	3.500
6	20	Non accountal of cash balances of two banks accounts in cash book	3.830
7	21	Irregular expenditure under Tamer-e-Khyber Pakhtunkhwa	20.000
8	22	Unjustified retention in various bank accounts.	17.684
9	23	Irregular expenditure on account of CMD funds in violation of rules	10.000
10	30	Non reflection of closing balance of PLA	39.265
11	32	Non-maintenance of deposit II register for securities	8.124
12	40	Irregular expenditure without TS	5.210
13		MC Topai	
14	44	Non recovery of penalty	1.836
		MC Razzar	
15	63	Unauthorized payment of pay & allowances and pension through DDO	16.074
16		MC Swabi	
17	68	Non disbursement of pension contribution of employees to MC Razzar	4.948
18	76	Irregular execution of developmental schemes	3.350
19	80	Unauthorized payment of pay & allowances through DDO	2.995

Annex-2

Audit Impact Summary

S.No	Rules/System/Procedure	Audit Impact
1	The Auditor General has the authority to require any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to transactions to which his duties in respect of audit extent.	DAC meetings could not be convened due to which audit impact is not visible.
2	According to GFR, all dues of the Government should be correctly and promptly assessed, collected and paid into Government Treasury.	-do-
3	According to terms and conditions of the contracts; the contract for the present year must have 15% increase over the bid of last year.	-do-
4	Withholding tax collection under section 236A on sale of property was required at enhanced rate of 10%.	-do-
5	The procuring entity shall use open competitive bidding as the principal method of procurement for the procurement of goods over the value of Rs 100,000.	-do-

Annex-3**Detail of non-deduction of income tax****(DP# 1.2.2.1)**

S. No	Particulars	Year	Income Tax (Rs)
1	Contingencies	2012-13	27,365
2	Contingencies	2013-14	4,904
3	5% property tax	2013-14	8,500
4	License fee	2013-14	4,250
5	Mal Mandi	2013-14	208,000
6	Salary (Israr ullah) TMO	2012-13	87,075
7	Miscellaneous	2012-13	1,210,600
	CMD, TKPP, Tobacco Cess	2012-13	149132
		Total	1,699,826

Annex-4**Detail of penalty for late deposit of monthly installment****(DP# 1.5.1.1)**

Months	Due date	Deposit date as per bank statement	Late period(days)	Amount (Rs)	1% penalty (Rs)	Total penalty (Rs)
07-2013	31-7-013	02-08-2013 Summit bank	2	5,000,000	50,000	100,000
08-2013	31-8-013	04-09-2013	4	5,000,000	50,000	200,000
10-2013	31-10-013	04-11-2013	4	5,000,000	50,000	200,000
11-2013	30-11-013	05-12-2013 ABL	5	5,000,000	50,000	250,000
01-2014	31-1-014	03-02-2014 HBL	3	5,000,000	50,000	150,000
02-2014	28-2-014	04-03-2014 Soneri Bank	4	5,000,000	50,000	200,000
Total						1,100,000