AUDIT REPORT

ON

THE ACCOUNTS OF

PUBLIC SECTOR ENTERPRISES

GOVERNMENT OF

KHYBER PAKHTUNKHWA

AUDIT YEAR 2021-22

AUDITOR GENERAL OF PAKISTAN

PREFACE

Articles 169 & 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with Sections 8, 12 and 15 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, require the Auditor General of Pakistan to conduct audit of the accounts of the expenditure from the Provincial Consolidated Fund, Public Accounts and that of Government Commercial Undertakings and of Authorities or Bodies established by the Provinces.

This report is based on audit of the accounts of Public Sector Enterprises, Government of Khyber Pakhtunkhwa for the year 2020-21. The Directorate General of Commercial Audit & Evaluation (North), Islamabad conducted audit during 2021-22 on test check basis, with a view to "report" only significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systemic issues and audit findings carrying value of Rs. 1.00 million or more. Relatively less significant issues have been listed in Annexure-1. These audit observations shall be pursued with the relevant Principal Accounting Officers (PAOs) of the Departments at DAC level. In case where the PAO does not initiate appropriate action, the audit observations will be brought to the notice of the Public Accounts Committee through the next year's Audit Report.

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

The DACs meetings were not convened except for one formation, despite repeated requests followed by reminders.

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, for causing it to be laid before the Provincial Assembly.

Sd/-

Islamabad
Dated: 24.02.2022

(Muhammad Ajmal Gondal)
Auditor General of Pakistan

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ABBREVIATIONS & ACRONYMS

ADP	Annual Development Program
AIR	Audit Inspection Report
AGP	Auditor General of Pakistan
AIM	Akhuwat Islamic Microfinance
BoD	Board of Directors
BOQ	Bill of Quantities
BOK	Bank of Khyber
CGR	Corporate Governance Rules
CPF	Contributory Provident Fund
CSR	Composite Schedule of Rates
CFT	Cubic Feet
CST	Comparative Statement of Tenders
C&WDC	Communication& Works Department
CDWP	Central Development Working Party
SDAC	Special Departmental Accounts Committee
DPA	Deferred Payment Account
DFM	Deputy Forest Manager
DFI	Development Financial Institutions
DOR	District Officer Revenue
DPO	District Police Officer
DGCA&E	Director General Commercial Audit and Evaluation
EZDMC	Economic Zones Development & Management Company
ETEA	Educational Testing & Evaluation Agency
FBR	Federal Board of Revenue
FD	Forest Department
FDC	Forest Development Corporation
FDF	Forestry Development Fund
FIR	First Information Report
GoKP	Government of Khyber Pakhtunkhwa
GFR	General Financial Rules
GP&SD	Government Printing & Stationery Department
GOVT	Government
GPI	General Provident Investment
GM	General Manager
GTVC	Government Technical & Vocational College
HO	Head Office
HR	Human Resources
HDF	Hydel Development Fund
IE	Industrial Estate
IAS	International Accounting Standard
ILO	International Labor Organization
IFRS	International Financial Reporting Standards
KPK	Khyber Pakhtunkhwa
KPPRA	Khyber Pakhtunkhwa Procurement regulatory Authority

KPDA	Khyber Pakhtunkhwa Procurement Development Authority
KPTS	Khyber Pakhtunkhwa Testing Service
KP-STVET	Khyber Pakhtunkhwa System of Technical & Vocational Training
LPF	Low Power Factor
MFDAC	Memorandum for Departmental Accounts Committee
MCB	Muslim Commercial Bank
MOU	Memorandum of Understanding
MFO	Manager Forest Operation
NAM	New Accounting Model
NBP	National Bank of Pakistan
NOC	No Objection Certificate
NWFP	North Western Frontier Province
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PAF	Pakistan Air Force
PC-1	Planning Commission-Form I
PEDO	Pakhtunkhwa Energy Development Organization
P&D	Planning and Development
PDWP	Provincial Development Working Party
PESCO	Peshawar Electric Supply Company
PGWWC	Pak German Wood Working Centre
PA	Per Annum
POL	Petroleum, Oil and Lubricants
PPRA	Public Procurement Regulatory Authority
PSEs	Public Sector Enterprises
PSDP	Public Sector Development Programme
PTS	Pakistan Testing Service
REDD	Reducing Emissions from Deforestation & Forest degradation
S&GAD	Services & General Administration Department
SDA	Sarhad Development Authority
SIDB	Small Industries Development Board
SBP	State Bank of Pakistan
SIE	Small Industrial Estate
SECP	Securities & Exchange Commission of Pakistan
SEZ	Special Economic Zone
SML	Sarhad Minerals Limited
SME	Small & Medium Enterprise
SNTD	Short Notice Term Deposit
TCKP	Tourism Corporation Khyber Pakhtunkhwa
TDR	Term Deposit Receipt
TEVTA	Technical Education & Vocational Training Authority
Vol	Volume
WWC	Wood Working Centre
ZTBL	Zarai Taraqiati Bank Limited

EXECUTIVE SUMMARY

The Directorate General of Commercial Audit and Evaluation (DG, CA & E), North, Islamabad carries out audit of the accounts of Public Sector Enterprises (PSEs) established/controlled by the Government of Khyber Pakhtunkhwa which maintain their accounts on commercial basis. Sections 8, 12 & 15 of the Auditor General's (Function, Powers and Terms and Conditions of Service) Ordinance, 2001 empower the Auditor General of Pakistan to conduct audit of companies and corporations established in the public sector. For this DG, CA & E (North), Islamabad has human resource of 13 officers and staff having 333 man-days for audit. The Government of Khyber Pakhtunkhwa conducts its operations under the Rules of Business 1973. Financial provisions of the Constitution describe the Government as custodian of Provincial Consolidated Fund and Public Accounts for which Annual Budget Statement is authorized by the Provincial Assembly in the form of budgetary grants.

Out of 1,240 man-days allocated for undertaking field audit activities, 333 were utilized for conducting the audit of Provincial Public Sector Enterprises, Government of Khyber Pakhtunkhwa. The annual budget of the Director General, Commercial Audit & Evaluation (North), Islamabad allocated for audit of Organizations for the year 2020-21 amounted to Rs 8.026 million (No separate allocation for Provincial Organizations). This report contains results of audit inspection and evaluation of financial performance of public sector entities for the financial year 2020-21 conducted during 2021-22.

This report also contains comments on the annual audited accounts of three public sector enterprises (FDC Peshawar, KP-EZDMC & PEDO for the year 2020-21). However, comments on audited accounts of 08 organizations (Annexure-2) could not be included in this report as the concerned managements failed to submit their audited accounts by the prescribed date i.e. December 31, 2021.

a) Scope of audit

This office is mandated to conduct audit of eleven (11) formations working under six Principal Accounting Officers. Total expenditure and receipts of these formations were Rs 6.585 billion and Rs 9.587 billion respectively for the financial year 2020-21.

Audit coverage relating to expenditure for the current audit year comprises four (4) formations of 02 PAOs/Departments having total expenditure of Rs 5.241 billion for the financial year 2020-21. In terms of percentage, the audit coverage for expenditure is 80% of auditable expenditure.

Audit coverage relating to receipts for the current audit year comprises Seven (7) formations of 04 PAOs/Departments having total receipts of Rs 5.945 billion for the financial year 2020-21. In terms of percentage, the audit coverage for receipts is 62% of auditable receipts.

This audit report includes audit observations resulting from the audit of:-

1. Expenditure of Rs 5.241 billion and receipts of Rs 5.945 billion pertaining to previous years i.e. 2020-21.
2. Expenditure of Rs 664.369 million and receipt of Rs 255.836 million for the financial year 2019-20 pertaining to 01 formation of 01 PAO.

b) Recoveries at the instance of audit

As a result of audit, recovery of Rs 134.300 million was pointed out in this report, whereas recovery affected from January to December, 2021 was Rs 22.273 million, which was verified by audit.

c) Audit Methodology

Audit methodology for conducting audit of the accounts for the year 2020-21 of the auditee organizations started with audit planning and updating permanent files. Desk audit helped the auditors in understanding the systems, processes, procedures and environment of the entities before starting field activity. This facilitated to identify the high-risk areas for audit tests to be applied in the field. Audit was carried out on the basis of adequacy of internal control system in the organization with specific emphasis on high value items and inherent risk areas. Audit checks were applied keeping in view the nature of transactions, accounting standards and best auditing practices as well as rules and regulations contained in relevant financial and operational manual.

d) Audit impact

Audit has contributed towards adding value to the control mechanism of organizations through audit recommendations. As a result of audit, management's awareness about internal controls and overall financial discipline was improved.

e) Comments on Internal Controls

Internal Audit Wings existed in most of the organizations but were working directly under the supervision of the heads of Finance Wing. Resultantly, free and fair opinion of the Internal Audit wing was not forthcoming. The observations relating to violation of rules and regulations by audited organizations were due to under performance of the Internal Audit Wing. It is stressed that Internal Audit wing should be placed directly under supervision of Principal Accounting Officer (PAO) to make its role more effective and meaningful.

f) Sectoral Analysis

Commercial entities, corporations and companies in the provincial public sector are envisaged to provide better public service delivery, with self-sufficiency, financial autonomy and less bureaucratic formalities. These public sector commercial organizations were created in every sphere of public service ranging from bank to power sector companies and have emerged as a sector of its own. The DG Commercial Audit (North) conducted audit of four commercial entities (list at Annex-A), out of 11 (List at Annex-AI), having a total outlay of expenditure Rs 5,241.239 million and Revenue Rs 5,944.875 million. It is however, important to note that each organization has its own dynamics and no single criteria can be applied in sectoral analysis.

Therefore, this cross-cutting sectoral analysis, comprised analysis of financial management, compliance with business plan and internal control to ensure achievement of goals for respective entities.

g) Corporate Governance Issues

During audit of KP Corporate Sector entities, major issues of HR, Financial and Operational Management were pointed out. The decisions were taken without approval of BoD, non-compliance of BoD decision, non-holding of DAC/PAC meetings led to HR, Financial and Operational Management issues.

This indicates weak Corporate Governance and non-compliance of Public Sector Companies (Corporate Governance) Rules 2017.[1]

i. Regulatory Environment and Legal Issues:

The report also covers the issues pertaining to compliance of regulatory environment such as internal controls relating to irregularities in procurement of goods and services, irregularities in appointment of human resource and contractual issues indicating weak internal controls and ensuing losses to the entities.[2]

ii. Fiscal sustainability:

There are 11 PSEs in Khyber Pakhtunkhwa having a financial outlay of Rs 6.585 billion, which earned revenue of Rs 9.587 billion. The overall Profit/Loss of these organizations could not be depicted as 08 organizations have not finalized their annual accounts for the year 2020-21.

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[1] 2.1.4.3, 3.1.4.1, 3.1.4.6, 3.1.4.8, 3.1.4.11, 3.1.4.13, 3.1.4.14, 3.2.4.1 & 3.2.4.10

[2] 2.1.4.5, 2.1.4.6, 3.1.4.5, 3.1.4.10, 3.1.4.15, 3.2.4.6, 3.3.4.3, 3.3.4.4, 3.3.4.5, 3.3.4.7, 3.3.4.8, 3.3.4.9, 3.3.4.11, 3.3.4.12 & 3.3.4.14

Analysis on achievements against targets:

(Rs in million)

Department	Name of entity	Particulars	Targets	Achievements	Variance Excess/ (Shortfall)
Forestry, Environment & Wildlife Department	FDC	Sales Financial	1,403.300	1193.447	(209.853)
		Other Income	111.596	56.593	(55.003)
		Production Cost	984.606	1023.476	38.870
		Production of Timber	0.645 cft	0.253 cft	(0.392)
		Sale of Timber	0.950 cft	0.462 cft	(0.488)
Industries, Commerce, Mineral Development and Technical Education Department	SIDB	Estate Revenue (Including the income of SIE Abbottabad-II)	300.100	285.043	(15.057)
		Management/Admn. Charges/ transfer from Wood Groups	47.500	40.000	(7.50)
		Revenue from Cottage Centers	0.600	-	(0.600)
		Misc. Income	50.00	43.991	(6.009)
	KP-EZDMC	Income	2,517.677	882.296	(1,635.381)
	KP–TEVTA	Income (Student Fees)	16.200	18.434	(2.234)

Major areas of risk and irregularities identified during audit are summarized as under. Details of each entity have been discussed in relevant chapter of each department.

(Rs in million)

S. No.	Classification	Forestry, Environment & Wildlife Department	Industries, Commerce, Mineral Development and Technical Education Department	Total
1	Non-Production of record	-	-	
2	Reported cases of fraud, embezzlement and Misappropriation	-	97.915	**97.915**
3	Irregularities	-	-	-
A	HR / Employees related Irregularities	1.800	105.580	**107.387**
B	Procurement related Irregularities	6.373	875.850	**882.226**
C	Management of Accounts with Commercial Banks	673.842	72.782	**746.624**
4	Value for money and services delivery issues	377.214	2,034.167	**2,411.381**
	Recovery	28.557	264.560	**293.121**
5	Others	-	299.714	**299.714**
	Total	**1,087.786**	**3,750.568**	**4,838.368**

h) Key audit findings:

i. There are two (02) reported cases of embezzlement and mis-appropriation – Rs 97.915 million.[3]

ii. Overpayment was observed in two (02) cases of – Rs 158.82 million.[4]

iii. There were twelve (12) cases of irregular procurement of store and services - Rs 882.226 million.[5]

iv. There were seven (07) cases of Human Resource Management - Rs 107.387 million.[6]

v. There were four (04) cases of management of accounts with Commercial Banks – Rs 746.624.[7]

vi. There were thirteen (13) cases related to value for money and service delivery issues – Rs 2,447.385 million.[8]

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3 3.1.4.1 & 3.1.4.14

4 3.1.4.10 & 3.3.4.6

5 2.1.4.5, 3.1.4.2, 3.1.4.3, 3.1.4.15, 3.1.4.14, 3.2.4.5,3.2.4.6, 3.3.4.7, 3.3.4.5, 3.3.4.1, 3.3.4.10 & 3.3.4.12

6 2.1.4.4, 3.2.4.1, 3.3.4.3, 3.3.4.4, 3.3.4.11, 3.3.4.13, 3.3.4.14

7 2.1.4.3, 2.1.4.6, 3.1.4.5, & 3.1.4.7

8 2.1.4.2, 3.1.4.4, 3.1.4.8, 3.1.4.10, 3.1.4.17, 3.1.4.11, 3.1.4.6, 3.1.4.13, 3.2.4.2, 3.2.4.7, 3.2.4.9, 3.3.4.9 & 3.3.4.8

vii. There were six (06) cases of other irregularities – Rs 299.714 million.[9]

Audit paras for the audit year 2020-21involving procedural violations and irregularities, not considered worth reporting to the PAC, are included in Annexure-I.

i) Recommendations

PAOs are required to ensure:

i. Internal control structure needs to be strengthened to curb the incidence of embezzlement, mis-appropriation besides recovery.
ii. Internal audit may be strengthened to avoid overpayments besides recovery.
iii. Procedure of procurement in public sector entities should be streamlined to achieve economy, efficiency and value of money as per Public Procurement Rule in vogue.
iv. Appointments may be made in transparent manner and according to the respective HR policies of the organizations with due regard to Government policies on the subject.
v. Efforts be made by the management to improve its funds management with commercial banks with respect to investment.
vi. All expenditure should be incurred after due diligence to ensure effectiveness and value for money.
vii. Effort should be made to strengthen the internal control systems and monitoring mechanism in Public Sector Entities to counter misuse, losses and damages to resources.

9 3.1.4.9, 3.1.4.16, 3.2.4.8, 3.2.4.10, 3.2.4.4, 3.3.4.2

Chapter-1

Energy and Power Department

Introduction:

The Energy Department of Provincial Government planned to start work on gigantic energy projects to overcome shortfall of energy besides providing inexpensive electricity to consumers, industries and agriculture sectors.

Attached Departments:

Pakhtunkhwa Energy Development Organization (PEDO).

Comments on budget and accounts of PEDO (Variance Analysis) for the year 2020-21.

Particulars	**Budget allocation (Rs in million)**	**Actual (Rs in million)**	**Variance Excess/(Saving) (Rs in million)**
Salary & other allowances	279.643	233.036	46.607
Operating expenses	845.045	704.201	140.841
Purchase of Physical Assets	22.877	19.064	3.813
Repair & Maintenance	44.73	37.275	7.455
Transfer Payments	-	-	-
Water use Charges	90.554	75.462	15.092

Sectoral analysis of PEDO on the achievement against targets

Particulars	**Targets (Rs in million)**	**Achievements (Rs in million)**	**Variance Excess/(Shortfall) (Rs in million)**
Revenue receipts	2,657.791	2214.826	442.965
Other receipts	3.426	17.128	13.702

Audit profile of Pakhtunkhwa Energy Development Organization (PEDO)

S. No.	Description	Total Nos.	Audited	Expenditure audited for the year 2020-21 (Rs in million)	Revenue / Receipts audited for the year 2020-21 (Rs in million)
1	Formations	1	1	1,049.977	2,231.954
2	Assignment Accounts/ SDAs etc. (excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	1	1	1,049.977	1,049.977
4	Foreign Aided Projects	1	1	-	-

1.1 Pakhtunkhwa Energy Development Organization (PEDO)

1.1.1 Introduction

Pakhtunkhwa Energy Development Organization (PEDO) was established by Government of Khyber Pakhtunkhwa under the Sarhad Hydel Development Act, 1993. The principal activities of the Organization are development and management of energy projects in Khyber Pakhtunkhwa. The head office of the organization is situated in Hayatabad, Peshawar. The Organization is currently managing following hydel power stations.

i. Malakand – III Hydel Power Station, Malakand.
ii. Reshun Hydel Station, Chitral.
iii. Shishi Hydel Station, Chitral.
iv. Pehur Hydel Station, Swabi.

1.1.2 Comments on Audited Accounts

1.1.2.1 The working results of the Organization for the year 2020-21 as compared to previous years are given below:

(Rs in million)

Particulars	2020-21	% age Inc. / Dec	2019-20	% age Inc. / Dec	2018-19	% age Inc. / Dec	2017-18
Revenue from Hydel Power Projects	2,214.826	(51.50)	4,566.496	104.79	2,229.842	(4.35)	2,331.203
Operating Cost	1,049.977	3.86	1,010.991	12.60	897.881	8.89	824.576
Gross Income	1,164.849	(67.24)	3,555.505	167.14	1,330.961	(11.66)	1,506.627
Other Income	17.128	50.60	11.373	(24.42)	15.047	422.65	2.879
Profit for the year	1,181.976	(66.86)	3,566.878	164.80	1,347.008	(10.76)	1,509.507

The revenue from Hydel Power Projects (the core activities of the organization) was Rs 2,331.203 million in 2017-18 which was decreased by 4.35% in 2018-19 to Rs 2,229.842 million. The revenue was increased by 104.79% in 2019-20 to Rs 4,566.496 million and decreased by 51.50% in 2020-21 to Rs 2,214.826 million. On the other hand there was continuous increasing trend in operating cost during said paid i.e. Rs 824.576 million in 2017-18, Rs 897.881 million in 2018-19, Rs 1,010.991 million in 2019-20 and Rs 1,049.977 million in 2020-21. The upward trend of increase in operating cost despite decrease in production of electricity showed that the operating cost has no concern with production of Power (Electricity). The rapid decrease in revenue from Hydel Power Project was mainly due to decrease in production/sale of electricity from Malakand - III project i.e. from Rs 4,221.853 million to Rs 1,644.016 million registering a decrease of 61% over previous year. Position with regard to rapid decrease in revenue production from Malakand - III and increase in operating cost needs clarification.

1.1.2.2 Although, there was nominal increase in operating cost of 3.86% to Rs 1,049.977 million in 2020-21. (2019-20 – Rs 1,010.991 million but the detail of expenditure showed abnormal increase under the heads stock & store consumed during the year by 196% to Rs 91.611 million (2019-20 – Rs 30.895 million), utilities by 33% to Rs 18.213 million (2019-20 – Rs 13.727 million) and Security 47% to Rs 14.188 million (20219-20- Rs 9.632 million). Increase under said heads despite decrease in production needs to be justified.

1.1.2.3 Although, the other income was increased by 50.60% in 2020-21 to Rs 17.128 million (2019-20 – Rs 11.373 million) but the figure is silent by mean of notes, position needs clarification.

1.1.2.4 Property, Plant & Equipment increased by 12.88% to Rs 66,693.989 million as on 30-6-2021 (2019-20 – Rs 59,084.941 million). The increase was due to addition of Rs 10.137 million in Malakand – III project in 2020-21. During the year depreciation of Rs 199.407 million was charged, however, no depreciation was charged in respect of Reshun Hydel Project during the years 2019-20 and 2020-21. Position needs to be elucidated.

1.1.2.5 The operating fixed assets included "Other Assets" of Rs 4.116 million as on 30-6-2021 and depreciation is being charged on said assets @ 20%. The nature of assets was not clarified by means of notes. Position needs to be clarified.

1.1.2.6 Capital Work in Progress increased by 14.45% to Rs 61,651.539 million as on 30-6-2021 (2019-20 – Rs 53,868.885 million). The capital Work in Progress is being increased each year since 2017 and reached to Rs 61,651.539 million as on 30.06.2021 without capitalization of any amount. Status of each project along with date of completion needs to be clarified.

1.1.2.7 Stores & Spares remain the same i.e. Rs 18.082 million as on 30.06.2021 (2016-17 to 2019-20 – Rs 18.082 million). No movement in said head during the last five years showed either the store was purchased un-necessarily or not useable. Position needs clarification.

1.1.2.8 Although, receivable from Customer (un-secured) decreased by 32.51% to Rs 1,739.041 million as on 30.06.2021 (2019-20 – Rs 2,576.589 million) but still on higher side. The major recovery was of Malakand – III project, whereas, in other two projects i.e. Pehur and Shishi the receivable was increased by 85% and 28% to Rs 217.347 (2019-20 – Rs 117.623 million) and Rs 31.678 million (2019-20 – Rs 24.786 million) respectively. Early recovery from customers is stressed upon the management and non recovery/increase in recoverable from customer needs clarification. Further, the terms of recovery from clients may also be elaborated.

1.1.2.9 Advances and other receivables remain the same i.e. Rs 430.00 million as on 30.06.2021. The amount relates to sales tax and lying un-adjusted since 2016-17. The reasons under which the amount is outstanding since long needs clarification.

1.1.2.10 Equity & Liabilities increased by 10.92% to Rs 68,890.843 million as on June 30, 2021 (2019-20 – Rs 62,108.510 million). Project's equity was increased by 13.50% to Rs 66,003.381 million as on June 30, 2021 (2019-20 – Rs 58,153.024 million), whereas, retained earnings were decreased by 27% to Rs 2,887.462 million as on June 30, 2021 (2019-20 – Rs 3,955.486 million). On the other hand, the statement of equity for the year ended June 30, 2021 showed closing balance of Project's equity Rs 65,975.678 million and Retained earnings Rs 2,879.917 million. The difference in closing balances of Project's equity Rs 27.703 million and Retained earnings Rs 7.545 million in balance sheet and statement of changes in equity needs to be justified.

1.1.2.11 The accounts have neither been signed by the Chartered Accountant nor approved by the Board.

1.1.3 Compliance of PAC Directives

Being first submission of accounts to audit, no pending compliance is outstanding.

Chapter-2

Forestry, Environment & Wildlife Department

Introduction:

Forestry, Environment & Wildlife Department is striving to improve the Forest, Environment and Wildlife through development & application of innovative technologies in Forest, Environment and Wildlife and efficient management of natural resources through institutional arrangements in the province.

Attached Departments

1. Forest Development Corporation, Peshawar.
2. Environment Protection Agency, Peshawar.
3. Pakistan Forest Institute, Peshawar.
4. Forest Department KP.
5. Wilde Life Department KP.

Comments on budget and accounts of FDC (Variance Analysis) for the year 2020-21

(Rs in million)

Particulars	Budget Allocation	Actual	Variance Excess / (Saving)
Salary Wages and other benefits	256.489	168.827	(87.662)
Establishment Over Heads	24.996	14.563	(10.433)
Repair and Maintenance	8.770	3.504	(5.266)
Insurance	2.120	0.629	(1.491)
Audit Legal and Professional	3.250	1.497	(1.753)
Others	0.195	0.079	(0.116)
Financial	0.145	0.018	(0.127)

Sectoral analysis of FDC on the achievements against targets:

(Rs in million)

Particulars	Targets	Achievements	Variance Excess / (Shortfall)
Sales Financial	1,403.300	1,193.447	(209.853)
Other Income	111.596	56.493	(55.003)
Production Cost	984.606	1,023.476	38.870
Production of Timber	0.645	0.253	(0.392)
Sale of Timber	0.950	0.462	(0.488)

Sr. No.	Description	Total Nos.	Audited	Expenditure (Rs in Million)	Revenue / Receipts (Rs in Million)
1	Formations	1	1	1,245.698	1,250.040
2	Assignment Accounts/ SDAs etc. (excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	**1**	**1**	1,245.698	1,250.040
4	Foreign Aided Projects (FAP)	-	-	-	-

Source: audited for the year 2020-21

Classified Summary of Audit Observations

Audit observations amounting to Rs 1,087.786 million were raised in this report during the current audit of Forest Development Corporation (FDC). This amount also includes recoveries of Rs 28.557 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

S. No.	Classification	Amount (Rs in Million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities	
a.	HR / Employees related irregularities	1.800
b.	Procurement related irregularities	6.373
c.	Management of Accounts with Commercial Banks	673.842
4	Value for money and services delivery issues	377.214
5	Recovery	28.557
6	Others	-

2.1 Forest Development Corporation (FDC), Peshawar

2.1.1 Introduction

Forest Development Corporation was established under Act XI of 1977 of Government of N.W.F.P. It was reconstituted by the Government of Khyber Pakhtunkhwa under Ordinance No. II of 1980. The corporation is a corporate body having perpetual succession and common seal, with power, subject to provision of the said Ordinance to acquire and hold property, both movable and immovable, and shall by the same name sue and be sued. The Corporation carries its operations through field offices located in Malakand and Hazara Circles.

Main objectives of the Corporation are protection, conservation, management and sustainable development of forests and other renewable natural resources and matters ancillary or incidental thereto in the Province of Khyber Pakhtunkhwa.

As per Section-10 (1) of the Ordinance, the Corporation has to make suitable arrangements for the:

i. Economic and Scientific exploitation of forests;
ii. Sale of forest produce;
iii. Establishment of primary wood-processing units;
iv. Regeneration in areas to be specified by the Government; and
v. Performance of such other functions as may be assigned to it by the Government.

2.1.2 Comments on Audited Accounts

2.1.2.1 The working results of the Company for the year ended June 30, 2021 as compared with the preceding years are reflected hereunder:-

(Rs in million)

	2020-21	% Inc /Dec	2019-20	% Inc /Dec	2018-19
Sales	1,193.45	80.83	659.97	(8.57)	721.82
Cost of sales	1,135.66	72.76	657.38	(11.99)	746.96
Gross Profit / (Loss)	**57.78**	2,130.89	**2.59**	**(110.31)**	**(25.13)**
Operating Expenses	110.03	(6.40)	117.55	(15.69)	139.42
Operating Profit / (Loss)	**(52.25)**	(54.55)	**(114.96)**	**(30.14)**	**(164.56)**
Other income	56.59	(42.72)	98.79	82.40	54.16
Profit / (Loss) before Taxation	**4.34**	(73.16)	**(16.17)**	**(85.35)**	**(110.40)**
Provision for Taxation	18.75	64.76	11.38	17.32	9.70
Profit / (Loss) after taxation	**14.41**	(47.70)	(27.55)	**(77.06)**	**(120.10)**

Source: Annual Audited Accounts

2.1.2.2 Trade debtors increased to Rs 175.01 million at the close of current year as compared to Rs 75.44 million at the end of previous year registering an increase of 132%. This shows that huge amount is outstanding against the various parities which indicate un-satisfactory recovery position of debtors and operational in-efficiency on the part of management which needs detailed elaboration, besides, provision of aging of the trade debtors for verification. Efforts may be made for early recovery.

2.1.2.3 Advances deposits, pre-payments & other receivables stood Rs 240.01 million at the close of current year as compared to Rs 214.57 million at the end of previous year registering an increase of 12%yet this includes income tax Rs 85.02 million and sales tax Rs 15.00 million and receivable from contractors and staff Rs 20.37 million and Rs 29.47 million respectively. The increase in advances depicted improper pursuance of recovery as well as liberal payment of advances / pre-payments particularly to the contractors and staff of FDC which needs proper attention of the management. Reasons and details along with aging of the same may also be provided.

2.1.2.4 Other receivables of Rs 53.49 include Rs 18.53 million recoverable from Forest Department, Govt. of KPK on account of transportation charges paid by the FDC on their behalf relating to timber confiscated by NAB. Reasons for payment of this amount on behalf of Forest Department needs to be explained besides early recovery.

2.1.2.5 Cash at Bank (PLS accounts) showed Rs 96.50 at the end of the current year as compare to Rs 108.70 million at the end of previous year. The management not reported its working capital requirement so a huge amount lying in PLS Account is un-justified. This showed weaknesses on the part of financial management that needs to be justified.

2.1.2.6 Although timber stock decreased to Rs 170.64 million during the current year from Rs 282.82 million at the close of previous year yet this is still a huge stock of timber. Further, the accounts not bifurcate the stock lying in forests, roadside depots and FDC timber markets with their aging. The available timber in logs and scant form was being deteriorated with the passage of time. Reasons for piling up of stocks need to be justified, besides, ensuring to accelerate the transportation and sale of available timber stock.

2.1.2.7 Creditors, accrued & other liabilities increased to Rs 1,792.54 million during the current year as compared to Rs 1,187.85 million during the previous year registering an increase of 50%. This increase was mainly due to increase in royalty payable i.e., Rs 1,560.08 million (2019-20: Rs 940.85 million) and Forest Duty payable i.e. Rs 31.62 million (2019-20: Rs 19.58 million), which needs detailed explanation and immediate efforts are required to be made to clear the liabilities.

2.1.2.8 Stores include an amount of Rs 15.04 million at the end of current year as compare to Rs 1.91 million at the end of previous year registering an increase of 687%. Audit stress for provision of detail of said store beside its early utilization.

2.1.2.9 Short term investment includes an amount of Rs 1,433.41 million invested in TDRs and SNTDs at the end of current years as compared to Rs 854.23 million at the end of previous year registering an increase of 68%. Although, investment in TDRs and SNTDs is better for the time being but audit stressed to invest this huge surplus funds in profitable projects and schemes which enhance business activities and overcome the un-employment in the country.

2.1.2.10 In 45th BOD meeting held on October 02, 2017 chaired by Chief Minister Govt. of KPK, it was proposed to wind up the FDC as due to ban on harvesting since 2014. On January 17, 2018 the committee constituted under the chairmanship of Additional Chief Secretary suggested to conduct an impartial study/ audit by third party to gauge the action plans of the REDD+ and financial matters, targets / achievements and overall performance of FDC to decide the fate of the corporation. Further, BOD in its 46th meeting held on May 5, 2018 directed the Managing Director FDC to work out strategy for the restoration of the Scientific Forest Management (SFM) for the revival of the organization. Progress to wind up or revival plan of FDC needs explanation.

2.1.3 Compliance of PAC Directives

PAC meetings for the years 2014-15 to 2020-21 were not convened.

2.1.4 AUDIT PARAS

2.1.4.1 Non-recovery / adjustment of balance amount from the ex-contractors - Rs 28.557 million

According to clause-22 (b) of the agreement, the harvesting contractor is responsible to make good any loss sustained by the Corporation during the currency of his contract period.

During audit of Forest Development Corporation (FDC), Peshawar for the year 2020-21, it was observed that work order of Lot No.635/M was started in March 2010 and its completion date was 31.05.2011. As per work order 42,619 CFT timbers was to be extracted but the contractor extracted only 18,880 cft timber to Syedabad Road side depot upto 18.09.2011. On 15.03.2016, the contractor was died and the work was re-tendered on 25.08.2017 for completion of balance work. Resultantly, FDC had to bear extra cost of Rs 2.530 million due to negligence of contractor as well as the management due to non-achievement of task within contract period.

Similarly, the work order of Lot No.685/M was started during August 2012 and he could convert only 9853 Cft timber out of 311,634 cft timber marked volume of felled and not a single scant was obtained throughout the period of 5 years. Further 49 trees (5907 cft) was also detected damaged in the lot for which show cause notice for penalty of Rs 9.924 million was also issued by the Conservator Forest, Malakand. Meanwhile, the contractor was died and his legal heirs were asked to complete the job but he did not execute the job. Management cancelled the order and retendered the work order and management had to bear extra charges of Rs 26.027 million.

Audit is of the view that due to negligence of management and delay in completion of the assigned works by the previous contractor, FDC sustained a loss of Rs 28.557 million (Rs 2.530 million + Rs 26.027 million) in shape of penalty in shape of extension fee imposed by Forest Department, additional cost of revised rates due to retendering etc. This loss will increase due to non-completion of said jobs by the new contractor.

The matter was reported to the management on October 13, 2021. The management in its reply dated December 9, 2021 stated that the work in lot No 635/m could not be completed due to disputes since 2011 to 2016 among the locals. The district administration also directed to stop extraction of timber from the valley. The lot completed recently from forest and details expenditure on behalf of ex contractor will be calculated & recovery suit will be filed. As regard, Lot No 685/m the new contractor succeeded to extract all the timber i.e. 242,391 cft in logging from the road side depot. Out of which 207,393 cft has been transported to timber market for sale.

Reply is not acceptable as due to delay in completion of job by the contractors the organization bears extra financial burden the recovery of which could not be affected.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to investigate the reasons for delay in completion of work within specified time by the previous & new contractors.

2.1.4.2 Low productivity & huge operational cost resulted into loss of - Rs 377.214 million

As per rule 154 (iii) of GFR, the inventory should be checked by the competent administrative authority once a year and a certificate of the result of check be recorded. There is no financial manual/store manual was prepared for maintenance of fixed assets register/record yet. Further, as per GFR - 11 "each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers".

During audit of Forest Development Corporation (FDC), Peshawar for the year 2020-21, it was observed that the forest department has fixed managerial charges on extraction /sale of timber as Rs 50 per cft. FDC have four harvesting units i.e. Swat, Alipuri, Shringle and Chitral. The harvesting was carried out in the Shringle and Chitral areas whereas, the remaining field offices were without any harvesting activity.

The record revealed that against the claimable extraction cost of Rs 50 per cft the internal cost of work is calculated as Rs 1,404.56 per cft against which only an income of Rs 12.654 million could be earned against expenditure of Rs 355.486 million resulting into loss of Rs 342.821 million. Due to low productivity /extraction of timber against a huge fixed & variable cost the operations of the FDC field units is considered loss. In addition to this, it was further observed that a considerable work is pending on the lots which were assigned to several years ago.

Moreover, the FDC window and Door manufacturing unit at Havellian was a specialized unit for the manufacturing of windows and doors has stopped its production since last four years due to non-availability of the orders from the market. During the years 2019-20 & 2020-21, the unit sustained a loss of Rs 11.982 million as on June 30, 2021. Similarly, two Wood Processing units at Manshera are continuously running into losses and these units sustained accumulated loss of Rs 22.411 million.

Audit holds that the operation of the FDC is shrinking day by day due to ban on harvesting since 2014 and the implementation of REDD. Further, the operation department never put efforts to convert the unit into a viable economic unit by implementing effective marketing policy. Due to negligence on the part of management the FDC sustained loss of Rs 377.214 million.

The matter was reported to the management on October 13, 2021. The management in its reply dated December 9, 2021 stated that the low productivity and constant fixed cost is due to Govt. orders which have to be complied by the organization in latter & sprits. The Govt. is responsible to implement the Scientific Forest Policy 2015.

Reply is not convincing as the working plan of FDC is pending since last 06 years for providing marking of FDC land on sustainable basis to increase productivity/income.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to investigate the matter regarding low productivity/ non completion of pending work and running the units in to losses. Besides efforts, be made to make the corporation a viable unit.

2.1.4.3 Loss of interest income - Rs 18.42 million

Rule -4 (3) of the Public-Sector Companies (Corporate Governance) Rules, 2013 states that, "the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules".

During the audit of Forest Development Corporation (FDC) for the year 2020-21, it was observed that at the start of financial year 2020-21, funds Rs 293.00 million were lying in SNTD Account at Chakdara, which accumulate to Rs 769.00 million at the end of May 2021, and management was earning interest @ 5.5% to 9% approximately. Had the management invested these amounts in monthly TDRs, additional interest of Rs 18.42 million markup ranging between 7.25 % to 13.70 % (the then prevailing TDR rates) could be earned during 2019-20 to 2020-21.

Audit is of the view that due to poor financial management and placement of funds in SNTD instead of monthly TDRs, FDC deprived from the additional interest of Rs 18.42 million.

The matter was reported to the management on October 13, 2021. The management in its reply dated December 9, 2021 stated that funds lying in the SNTD account of timber market Chakdara are not surplus funds of the Corporation rather related to the sale proceeds of timber payable to Govt/ owners which cannot be invested in fixed deposit for long time.

Reply is not acceptable as the funds remained unutilized for almost one year and lying in SNTD account which deprived the corporation from Rs 18.42 million on account of interest income.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends inquiry for retention of surplus funds in SNTD instead of TDR during the year 2020-21 by fixing responsibilities thereof.

2.1.4.4 *Irregular appointment of consultant in non-transparent manner - Rs. 1.80 million*

As per Guidelines for Procurement or Hiring of Consultancy Services/Consultant "the Technical Assistance/Consultant to be hired or procured through open and competitive procedures. The procuring agency will identify, process, manage, evaluate and monitor procurement of TA/Consultant that have been identified". Guidelines – 1.5 further clarified that the six main principles i.e. high quality services, value for money/economy and efficiency, fair and open competition among the eligible and qualified consultants, transparency in selection process, accountability and focus on the code of ethics needs to be considered during selection process of consultants for each Technical Assistance.

During the audit of Forest Development Corporation (FDC) for the year 2020-21, it was observed that the management appointed Mr. Amjad Iqbal as consultant of Saw Mill on 03.03.2021 in selective manner against salary of Rs 150,000 per month and other privileges i.e. Car and 200 liters of Petrol to assist the management of Saw Mill in boosting the business. It was however observed that the consultant was an ex-employee of FDC and remained posted as Manager SAW Mill during the period from 10.12.2014 to 08.05.2019. He was Mechanical Engineer by profession instead of Wood Technologist. The consultant was given specific quarterly tasks from 03.05.2021 to 31.07.2021.

Audit hold that the newly appointed consultant badly failed to achieve first quarterly targets. Even no progress was made in second quarter targets. Thus, the appointment of the consultant is in non-transparent manner and gives favor towards specific person resulting in recurring extra expenditure of Rs 1.80 million.

The matter was reported to the management on October 13, 2021. The management in its reply dated December 9, 2021 stated that the said officer work upon different posts in SAW Mill and Workshop unit Mansehra was retired as Mechanical Engineer. Then after his retirement he was engaged as consultant strictly according to KPPRA Rules. It was expected that his performance will improve during the remaining period of contract.

Reply is not acceptable as the consultant was appointed in violation of rules and could not completed deliverable services.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to investigate the reasons for the non-transparent appointment of consultant against the rules and non achievement of quarterly targets besides fixing responsibility.

2.1.4.5 Irregular procurement of vehicles – Rs 6.373 million

As per Para-1(b) of Govt. of KP Finance Department letter No.BO.1/FD/5-8/2019-20/Austerity Measures dated 01.07.2019 "there shall be complete ban on purchase of new vehicles.

FDC in its 40th BoDs meeting held on February 20, 2010, after lengthy discussion the Board allowed to purchase the 03 Nos. of vehicles in replacement of the old vehicles after completion of the formalities of the condemnation through the competent authority and availability of budget provision.

During audit of Forest Development Corporation (FDC), Peshawar for the year 2020-21, it was observed that management of FDC purchased 02 Nos. vehicles valuing Rs 6.373 million in violation of Finance Department and BoD instructions. The two vehicles HRD Toyota Corolla Altis A/T 1.6 L 1598 cc Cars bearing No. AB-2782 and AB-2783 were purchased and provided to the Managing Director (BPS-20) and General Manager (F&A) (BPS-19) in addition to the already allocated vehicles bearing No. BB-3361 and BB-3354 of 1300 cc respectively. The management forwarded the case for declaring the used vehicles as condemned but the authority declined the request of the FDC and declared them fit for official duty. Vehicles are parked in parking lot since Oct 2019 and being affected by weather conditions.

Audit is of the view that purchase of vehicles by the management of FDC in violation of Finance Department Austerity measures instructions and without the approval of the BoDs, needs to be investigated.

The matter was reported to the management on October 13, 2021. The management in its reply dated December 9, 2021 stated that the vehicles in use of Managing Director and GM (F&A) were send to field units and newly purchased vehicles were kept at Head office for safety and security.

Reply is not convincing as the vehicles were send to field officer without authorization and as a result thereof, new vehicles were purchased in violation of above referred criteria.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to investigate the reasons for violation of Govt. directives, without approval of BODs and procurement of vehicles and in addition to the vehicles already possessed by the officers.

2.1.4.6 i. Irregular placement of funds - Rs 653.733 million

ii. Loss of interest due to non-investment of funds at higher rates - Rs 1.689 million

As per Finance Department letter No. 1/11(FC)FD/Misc/2015-2016/Vol/06 dated 27-1-2016 issued instruction regarding placement of funds in financial institutes having credit rating A^+. Further, Rule-5 of the Public-Sector Companies (Corporate Governance) Rules, 2013 stats that, the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Forest Development Corporation (FDC) for the year 2020-21, it was observed that FDC has invested 653.733 million in banks in six monthly TDRs. While scrutiny of investment file revealed that TDRs valuing Rs 111.064 million was going to be matured on 08.06.2021. Management called rates from different financial institutes. In response, 10 financial institutions offered their rates and Mobilink Micro Finance offered rate 8.25% whereas M/s Sindh Bank and NRSP offered interest rates 7.60% and 7.45% respectively. Instead of placing funds with higher offered rate i.e. 8.25%, management placed their funds of Rs 111.064 million @ 7.60% for six months with M/s JS Bank June, who did not participate in the rate comparison. Resultantly management placed funds in irregular manner and sustained loss of Rs 0.361 million {(111.064 x 0.65%) / 2}.

Similarly, on maturity of TDRs amounting to Rs 442.669 million the rates were called for from various financial institutions. M/s NRSP offered maximum rates of 8.05%, whereas M/s ZTBL and M/s Sindh Bank offered 7.42% (2nd) and 7.35% (3rd) respectively. Instead of placing funds with M/s NRSP, management placed their funds i.e. 7.42%, resultantly FDC deprived from the interest income of Rs 1.328 million {(442.669 x 0.6%) / 2}.

Audit is of the view that management did not place their funds Rs 653.733 million at the highest offered rates due to which the FDC deprived from the interest income of Rs 1.689 million (Rs 0.361 + Rs 1.328) also.

The matter was reported to the management on October 13, 2021. The management in its reply dated December 9, 2021 stated that funds have been invested in the banks owned by the Govt. as well as having sound financial position.

Reply is not acceptable the management was required to consider the rating of bank as directed by the Finance Division. The investment at lesser rate deprived the corporation from markup revenue of Rs 1.689 million.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to explain the reasons and fixing responsibilities for non-placing of funds at highest rates.

Chapter–3

Industries, Commerce, Mineral Development and Technical Education Department

Introduction

The Industries, Commerce & Technical Education Department is one of the major Government Institutions striving to promote industrial development, trade and investment in the province. The main focus of activity is promotion of trade and investment in the province. Government of Khyber Pakhtunkhwa is keen on creating a business-friendly investment climate in line with the Federal Government Policies and present the Province as an attractive investment destination for the entrepreneurs/investors. The objective of the Industrial Policy of Khyber Pakhtunkhwa is essentially to develop the economy of Khyber Pakhtunkhwa by taking the following steps:

- To rehabilitate the sick industrial units by taking necessary remedial measures.
- To create more jobs by facilitating Small and Medium Enterprises (SMEs) to grow and flourish by providing Business Support Services (BSS) including necessary finances.
- To create more Special Economic Zones (SEZs) to attract local and foreign investors to set up industries.

Attached Departments

- Directorate of Industries and Commerce
- Small Industries Development Board
- KP Board of Investment & Trade
- KP Economic Zones Development & Management Company
- Trade Testing Board
- KP Board of Technical Education
- Printing &Stationary Department
- Sarhad Mineral (Pvt) Ltd.
- KP – TEVTA

Comments on Budget and Accounts (Variance Analysis) for the year 2020-21

(Rs in million)

Entity	Particular	Budgeted	Actual	Excess/ (Saving)
SIDB	Pay & Allowances	96.282	83.724	(12.558)
	Pension & CPF Contribution	76.770	80.413	3.643
	Operating Expenses	41.680	27.697	(13.983)
	Physical Assets Expenditure (Adding the Civil Work of SIE Abbottabad-II)	175.477	177.453	1.976
	Total: -	**390.209**	**369.287**	**(20.92)**
KP-EZDMC	KPEZDMC Finance Schemes Exp.	1,762.702	129.298	(1,633.404)
	Payment against incentives	-	-	-
	Capital Expenditure	3.143	4.823	1.680
	Operational Expenditure	437.469	349.101	(88.368)
	Site Office Expenditure	169.341	147.136	(22.205)
	Surplus/Deficit	5.616	9.101	3.480
	Total: -	**2,378.271**	**639.459**	**(1,738.81)**
KP-Technical Education and Vocational Training Authority	Salary, Wages and other benefits	1,287.50	1,287.50	-
	One line operational KP TEVTA employees	1,294.76	690.59	604.17
	Total: -	**2,582.26**	**1,978.09**	**604.17**

Sectoral analysis for the year 2020-21

(Rs in million)

	Particulars	Targets	Achievements	Variance Excess/ (Shortfall)
SIDB	Estate Revenue (Including the income of SIE Abbottabad-II)	300.100	285.043	(15.057)
	Management/Admn. Charges/ transfer from Wood Groups	47.500	40.000	(7.500)
	Revenue from Cottage Centers	0.600	-	(0.600)
	Misc. Income	50.00	43.991	(6.009)
	Total	**398.200**	**369.034**	**(29.166)**
KP – EZDMC	Income	2,517.677	882.296	(1,635.380)
	Total	**2,517.677**	**882.296**	**(1,635.380)**
KP-TEVTA	Income (Students fees)	16.200	18.434	(2.234)
	Total	**16.200**	**18.434**	**(2.234)**

Table -: Audit Profile of "SIDB, KP-EZDMC, & KP-TEVTA"

S. No.	Description	Total Nos.	Audited	Expenditure audited for the year 2020-21 (Rs in million)	Revenue / Receipts audited for the year 2020-21 (Rs in million)
1	Formations	03	03	3,995.541	4,694.835
2	Assignment Accounts/ SDAs etc. (excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 2,147.291 million were raised in this report during the current audit of Small Industries Development Board (SIDB). This amount also includes recoveries of Rs 232.905 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	97.915
3	Irregularities	
A	HR / Employees related irregularities	-
B	Procurement related irregularities	432.878
C	Management of Accounts with Commercial Banks	1,294.772
4	Value for money and services delivery issues	184.47
	Recovery	64.474
5	Others	946.457

3.1 Small Industries Development Board (SIDB)

3.1.1 Introduction

Small Industries Development Board (SIDB) was established under the Small Industries Development Board Act, 1972. Objectives of the Board are training of manpower, development of model pilot projects, development of industrial infrastructure and advisory service etc.

3.1.2 Comments on Audited Accounts

Management failed to provide annual audited accounts of Small Industries Development Board (SIDB) for the years 2016-17 to 2020-21 by December 31, 2021.

3.1.3 Compliance of PAC Directives

PAC meetings for the years 2004-05 to 2007-08, 2009-10 to 2020-21 were not convened.

3.1.4 AUDIT PARAS

3.1.4.1 Misappropriation in reimbursement of cost of cancelled plots through open cheques - Rs 17.268 million

As per Rule 4(3) of Public Sector Companies (Corporate Governance) Rule, 2013 the Chief Executive is responsible for the management of a Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, with the ordinance. Responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that the SIDB management cancelled 16 plots at Small Industrial Estate, Charsadda during the year 2018-19. As per allotment rules the cost of plots required to be returned to the concerned party after deducting 5% service charges. Accordingly, cheques worth Rs 17.268 million were prepared but open cheques were issued by the concerned Estate Manager. On realization, the management deputed an officer for fact finding inquiry. In inquiry proceedings the concerned Cashier stated that he has no record of the parties to whom he issued the cheques and he is also unaware about the fact the whether the party received the cheque or otherwise. In its findings the Inquiry Officer stated that record at SIE Charsadda was not properly maintained and he did not find any cash voucher on record through which these payments were proceeded. The inquiry officer also failed to fix responsibility, even he did not visit the concerned parties to confirm whether they have received the payment or otherwise.

In view of above said facts the payment of Rs 17.268 million through open cheque without having any proof of receiver or cash payment voucher was doubtful. As a huge amount is involved in the issue thus, matter needs to be considered at appropriate level.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated that a fact-finding inquiry has been conducted and responsibility has been fixed on cashier and recovery of Rs 85,000 (approx) will be made. Management further stated that no complaint was received from any party, which showed that the parties have received the amount.

Reply is not convincing as no basic record i.e. payment vouchers was available with the management and the payment was made through open cheques without have any receiving of the concerned parties. The management was required to contact with each party to confirm payment and obtain receiving from each party. Matter needs to be inquired at department level.

The SDAC meeting was not convened till finalization of this report.

Audit recommends that the matter needs to be investigated through an independent inquiry committee to probe the facts of the case; the embezzled amount, without recording in books of accounts, may be recovered from the person(s) held responsible for payment through open cheques.

3.1.4.2 Loss due to delay in payment of the cost of bifurcation of industrial feeder of SIE Mardan Phase - I & II - Rs 39.083 million

As per Para – 13 of GFR "every controlling officer must satisfy himself not only that adequate provision exists within the departmental organization for systematic internal check calculated to prevent and detect errors and irregularities in the financial proceedings of its subordinate officers and to guard against waste and loss of public money and also that the prescribed checks are effectively applied.

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that the management of SIDB vide its letter dated 04-11-2016 requested the PESCO for bifurcation of 11 KV old/new Industrial Feeder of SIE Mardan I & II. The PESCO issued the demand notice in April, 2017 amounting to Rs 17.687 million. However, the management failed to deposit the amount despite receipt of reminder from the PESCO. The DDWP approved ADP Grant Rs 17.687 million (based on demand notice originally issued by PESCO in April, 2017) for bifurcation of 11 KV Industrial Feeder at SIE Mardan I & II. The Chief Minister KP also approved the proposal on 05.07.2019. The Controlling Department issued administrative approval of the said work vide letter dated 06.08.2019. On taking up the matter, PESCO management issued a fresh demand notice of Rs 55.860 million in August, 2020. The management vide letter dated 01.09.2020 requested the PESCO to rationalize the cost, in response PESCO management issued revised demand notice for Rs 56.770 million. Accordingly, the management made the payment of Rs 56.770 million vide cheque of February, 2021.

Audit was of the view that due to delay in the payment for abnormal period, which resulted into payment of extra amount of Rs 39.083 million (i.e. 56.770 – 17.687). Had timely arrangement of payment from own source was made on the receipt of 1st demand of Rs 17.687 million from WAPDA, the extra cost of Rs 39.083 million could have been avoided.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 admitted the facts highlighted by audit and stated that due to non-release of ADP funds, the demand note could not be deposited within stipulated time.

Reply is not convincing as the amount could be deposited from own funds or the funds of ADP grants available with the management.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to Investigate the causes due to which the demand notice could not be deposited timely which resulted in loss to the formation in shape of extra cost.

3.1.4.3 Avoidable expenditure on purchase of cut material worth Rs 36.943 million

As per GFR-10 (i) Every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety Among the principles on which emphasis is generally laid are that very public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that tenders were called for the purchase of different material included therein cut material, wood to be used in production of furniture and other wood products at Wood Projects. M/s Ajab Noor Furniture, Mardan and M/s Zeeshan Traders, Bannu technically qualified and financial lowest for said cut material. Accordingly, the work orders for the purchase/supply of cut material worth Rs 36.943 million were awarded to the firms. Furthermore, the management of SIDB purchased Shisham wood grade A & B. Kiker Wood and Mulbery wood in huge quantity having girth 3.5 feet to 5 feet. The PGWWC and other Wood Centers have the capacity and technology at their centers to cut the wood girth in to pieces as per requirement and the above said cut material can be arranged from the cut waste material of said girth of Shisham, Kiker and Malbury as per requirement.

Audit was of the view that had the management obtained the cut material from the cut waste of long girth wood, the amount of Rs 36.943 million could have been avoided, which was not done in this case. Thus, due to ill planned purchases of cut size wood, the Board incurred avoidable expenditure of Rs 36.943 million.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated that we need all the material in shape, length and thickness, whereas, the waste completely consists of the unwanted or useless materials. Management further stated that in manufacture of cut material a lot of time required.

Reply is not convincing as the cut material can be arranged according to required length from the waste material of girth of three to five feet as the PGWWC and other working center have technology and equipment in this regard. Further, previously the management arranged cut material by utilizing its own resources i.e. waste material and its technology.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to investigate the causes due to which the cut material was purchased rather arranged through cut waste of wood; by fixing responsibility thereof.

3.1.4.4 Non-utilization of industrial plots for industrial purposes valuing Rs 209.081 million

As per Clause - 3 of the Lease Deed "the lessee shall not transfer, assign, mortgage, underlet & create any security over or part with the possession of the demised property or any machinery, building or structures thereon or part thereof in any whatsoever". Clause - 4 further provides that the lessee hereby further covenants with the lesser that without one year from date hereof, to erect not the demised property, install, equip and finish fir for occupancy and use in a substantial and workmanlike manner and in conformity with plans and specification to be approved by the lessor and under its inspection and to the satisfaction the buildings, machinery, engines and equipments described in shcedule-2 hereto; and that if the lessee does not with the specified period of one year from the date of execution of this deed, install, equip the necessary machinery in conformity with the plans and specifications of the lessor, shall be liable for termination of this deed.

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that the SIE Peshawar was established at an area of 54.41 acres at which 149 Industrial plots were created and allotted to the industrialists. As per record 140 units were established at said Industrial Estate. The record revealed that in

68 cases the allottees did not establish the businesses for which the plots were allotted rather they have subletted the plots to other parties by bifurcating them in three or more plots. The irregular subletting of plots to the 3rd party included subletting of 44,373 sq. ft. open area (without any numbering), 26 plots A category measuring area 260,000 sq.ft. (47.80 kanals), 22 plots B Category measuring 110,000 sq. ft. (20 kanal) and 61 plots C category measuring 183,000 sq. ft. (33.63 kanal) defeated the very purpose of establishing the SIE. The prevailing rate of plot at SIE is Rs 350/ sq.ft. In view of said rate the land worth Rs 209.081 million is being utilized for other than Industrial Purposes.

Audit is of the view that on realization that the allottees have not established industrial units on above said plots rather subletted them, the management was required to cancel the plots as was envisaged in Lease Deed. However, the management did not initiate any such action and land worth Rs 209.081 million at SIE Peshawar is being utilized by the allottees for rental income and the very purpose of promoting the small industries was defeated.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 admitted the facts highlighted by audit and stated that several notices have been issued to the violators but without any fruitful results. Finally, the management introduced a rental policy with the approval of Board.

Reply is not acceptable as acceptance of rent from the irregular occupants of industrial plots is compromise on industrial policy of KP Government and the very purpose of establishing the SIDB has been defeated. On violation of agreement deed, the management was required to cancel the plot and allot to the serious industrialists to promote industry in the province.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to investigate the causes due to which the plots could not be utilized by the allottees for industrial purpose and the management failed to initiate any action by fixing responsibility thereof.

3.1.4.5 Unauthorized retention of interest earned on ADP fund approximately Rs 70.667 million

The KP-Finance Department vide its letter dated 02-06-2015 issued directives regarding placement of public fund in Commercial Banks. According to these directives the interest/profit amount accrued/earned on the funds placed in Commercial Banks, may be deposited in Government treasury under the given relevant head of account. The Finance Department further stated that all heads of Government Departments/Autonomous/Semi-Autonomous Bodies/Corporations are requested to ensure compliance of the above instructions of the Government and send a copy of Challan profit deposited to the Finance Department for record.

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that a scheme titled "establishment of Carpet Nagar" was reflected in ADP 2009-10. The PC-I of the scheme was approved by the PDWP at a cost of Rs 100 million on May 07, 2012. The Administrative Approval was issued on May 30, 2012 and Rs 100 million were released to SIDB in May, 2012. However, the scheme could not be materialized due to one or the other reasons but the released amount of Rs 100 million remained with the SIDB. In 2019-20 a PC-I for establishment of SIE Peshawar - II was prepared and approved by the PDWP at a cost of RS 443.354 million. In said PC-I it was decided that Rs 100 million, released for Carpet Nagar Project may be utilized for SIE Peshawar-II scheme. Accordingly, the management made payment for land acquisition to the DC Peshawar in April, 2021 which included Rs 100 million of Carpet Nagar.

The position showed that the amount of Rs 100 million, released to the SIDB for Carpet Nagar scheme in May, 2012 was remained with the SIDB up to March, 2021. The SIDB earned mark up income of Rs 70.667 million from said ADP grant amount (the interest was calculated at an average rate of 8% from June, 2012 to March, 2021). The interest earned on the deposit was required to be deposited in government treasury as directed by the Finance Department in letter referred above. However, the management irregularly retained and utilized the interest amount approximately Rs 70.667 million earned on ADP amount against the above quoted directives of the Government of KP without any lawful Authority.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated that in order to cope with the situation SIDB had to execute Bridge Financing method otherwise the schemes would have undergone a great financial loss in shape of delay in execution and government would have to bear additional cost.

Reply is not convincing as the KP-Finance Department clearly issued directives for deposit of profit on funds placed in banks in Govt. treasury. The SIDB management has failed to comply with the said directives of the Fin. Deptt.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to investigate the causes due to which the directives of the government were not complied with by the management and the interest income could not be deposited in government treasury.

3.1.4.6 Wasteful expenditure due to closure of projects established with ADP grants of KP-Govt. - Rs 573.503 million

As per Section - 5 (5) of the Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to April 21, 2017) "the Board shall establish a system of sound internal control, which shall be effectively implemented in all levels within the Public Sector Company, to ensure compliance with fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that the Provincial Government approved grants of Rs 573.503 million for a number of projects under ADP Schemes and the 102 units/projects were started at different locations of the province. The record revealed that the management of SIDB has failed to run the said projects efficiently and the status of said projects is appearing as closed since long.

Audit observed the following issues were not taken into account at the time of closure of these Projects.

- Property & Plants worth Rs 322.110 million could not be collected for disposal and the ware about is not known.
- Material worth Rs 1.568 million was lying in said units, the management failed to dispose of the said material.
- An amount of Rs 4.631 million, outstanding against different parties, could not be recovered.

- The cash & bank balances of Rs 4.445 million are still appearing in bank accounts of said projects. At this belated stage the existence of amount in the relevant project accounts is open to doubt.
- An amount of Rs 53.533 million was appearing as loans payable to provincial government. The said liability is still appearing in the accounts.

Audit is of the view that the above said projects were started with government grants of Rs 573.503 million. The SIDB management failed to continue the schemes, ultimately the projects were closed down and the very purpose could not be achieved despite expending a handsome amount of public funds of Rs 573.503 million. Therefore, an addition to the above losses, the expenditure of Rs 573.503 million incurred on the establishment of these Projects has gone waste.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated that the audited financial statement of SIDB from 2016-17 and onwards are under preparation and are not yet finalized. The figurative values extracted from 2015-16 financial statements does not depict real situation and reported valances will be adjusted on finalization of annual accounts.

Reply is not acceptable as during audit the relevant record was inquired to arrive at final status of said project, but the management failed to satisfy the audit with facts and figures. Due to very reasons, the annual accounts for the years 2016-17 to onward are yet to be finalized and audited by the Chartered firm.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to investigate the matter at appropriate level through an independent inquiry committee.

3.1.4.7 Interest loss due to investments of surplus fund at lesser rate - Rs 2.115 million

In accordance with Para 3 b of the Govt. of Pakistan Finance Division Investment policy circulated vide letter No. F.4(1)/2002-BR-II dated July 02, 2003 duly adopted and circulated by Govt. of KP, Finance Department, " the process of selection of banks should be transparent, therefore, prior to placing deposits with a bank under this policy and in case the total working balances exceed Rs 10 million, the selection of bank(s) as well as the terms of deposit will be approved by the concerned BoD on the basis of competitive bids from a t least three independent banks."

During audit of Small Industries Development Board (SIDB) Peshawar for the year 2020-21 it was observed that the SIDB Investment Committee made a number of investments of surplus funds with certain banks. However, the investment committee did not consider the banks, offered higher rate and invested the surplus funds at lesser rate. The details are given as under: -

Rs in million	Rate at which amount invested	Highest rate	Difference	Loss (Rs)
150.00	9.10% Daily Prod. Account with NBP	9.88% For 6 months offered by ABL	0.78%	585,000
53.855	10.75% NBP Kohat Road for 1 year	10.90% Offered by NBP Fund	0.15%	80,782
80.00	12.10% Daily Prod. Account with NBP	12.40% For 6 months offered by NBP	0.30%	120,000
100.00	6.90% ABL for one year	8.02% NBP offered on Daily Prod. Account	1.12%	1,120,000
55.00	7.12% NBP for one year	7.35% NBP offered on Daily Prod. Account	0.23%	126,500
55.00	7.20% NBP for one year	7.35% NBP offered on Daily Prod. Account	0.15%	82,500
			Total: -	**2,114,782**

Audit holds that, due to ignoring the higher rate of interest the SIDB sustained loss of markup revenue Rs 2.115 million.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated that SIDB Investment Committee had to devise such an investment plan that could safeguard the interest of SIDB by investing some funds for long term (TDR) and other for short term (Daily Product) so that day to day expenditure would not suffer.

Reply is not acceptable as the reported case were taken up by audit from the record of SIDB and in said cases the highest offered rates were not considered by the management due to which the formation suffered revenue loss.

The SDAC meeting was not convened till finalization of this report.

Audit recommend to investigate the reasons for non-investment of surplus fund at better markup rate which causes loss of revenue to the Board.

3.1.4.8 Loss of revenue income due to non-auction/sale of commercial plots at SIEs - Rs 173.628 million

As per Section - 5 (5) of the Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to April 21, 2017) "the Board shall establish a system of sound internal control, which shall be effectively implemented in all levels within the Public Sector Company, to ensure compliance with fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

The SIDB has not framed its rules for allotment/auction of commercial plots. However, the Board in its 100th meeting held on 19-7-2017 directed the management of SIDB that Commercial plots at different SIEs may be leased out through auction for commercial utilization as per earlier decision of the Board.

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that in Small Industrial Estates located at Peshawar, Bannu, Abbottabad, Karak and D.I. Khan the management created Commercial Plots. The said industrial Estates were established during the period ranging between 1972 to 1974 (except SIE Karak which was established in 2011-12), however, the management of SIDB has failed to auction/sale the Commercial Plots till to date. In 2017, the management made an effort for auction of commercial plots at its SIEs but after advertisement, the process was stopped due to the reasons best known to the management.

Audit was of the view that due to non sale/auction of commercial plots the SIDB was deprived of the revenue to the tune of Rs 173.628 million (the basis for calculation of amount was reserve price of plots fixed by the management).

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 admitted the facts highlighted by audit and stated that auction proceedings conducted in October, 2017 was not succeeded and plot is till reserved and attaining huge market value and will be put on auction.

Reply is not acceptable as the reply is silent with regard to reasons due to which the process started for auction of commercial plot was scraped.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to investigate the causes due to which the commercial plots could not be put to auction by fixing responsibility thereof.

3.1.4.9 Loss to public exchequer due to non deduction of sales tax - Rs 27.285 million

As per Section - 26 of the 2nd schedule to the KP-Finance Act, 2013 "Services provided by Microfinance Companies/Institutions are chargeable Sales Tax @ 15% on services".

During Audit of the accounts of SIDB (HO) Peshawar for the year 2020-21 it was observed that in 2015-16 interest free Micro Financing lending facility scheme was extended in Newly merged area of KP in 2015-16, through M/s Akhuwat Islamic Microfinance (AIM). The scheme was initially executed through Fata Development Authority at a total cost of Rs 690.996 million. However, after 31st Constitutional Amendment in 2018, the FATA Development Authority was devolved and the scheme was transferred to M/s SIDB, Peshawar at a PC-I Cost of Rs 980.144 million. Under the agreement with devolved FATA, an amount of Rs 157.80 million was paid to M/s AIM on account of 10% service charges. It was further observed that the same firm (M/s AIM) was also selected by M/s SIDB for provision of services i.e. the newly merged area of KP. An amount of Rs 24.10 million was paid to the service provider. Thus total payment of Rs 181.90 million (i.e. Rs 157.80 million FDA + Rs 24.10 million SIDB) was made to the firm, however, provincial Sales Tax Rs 27.285 million @ 15% was not deducted from the payment made to M/s AIM on account of Service charges.

Non-deduction of provincial sales tax Rs 27.285 million from the payment of service charges is loss to Government Exchequer.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated that the tax was not deducted by ex-FDA in view of clause-2.22 of the service agreement signed with AIM. Management further stated that after merger of FATA with KP the merged areas are once again exempted from KP-Sales Tax on services with reference to KPRA notification dated 15-3-2019.

Reply is not convincing as under an agreement a firm cannot be exempted from levy of sales tax. Further, as per KPRA notification referred above the exemption was for service providers who are residents of said districts, whereas, in this specific case the service provider company was not resident of merged districts rather a Lahore based company. The service charges of the company were not exempted from levy of sales tax.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to investigate the causes due to which the tax amount could not be recovered from the Company by fixing responsibility.

3.1.4.10 Un-authorized retention of public funds - Rs 164.345 million and Overpayment of Rs 157.800 million

In a meeting held on 14.01.2021 under the Chairmanship of Secretary, KP-Industries, Commerce & Technical Education Department it was decided that AIM will gradually recover the disbursed amount within three years. AIM will exercise its expertise to minimize the exit time from three years to bare minimum. The recovered amount shall be remitted to the Government on monthly basis along with the markup earned on the accounts.

During audit of SIDB (HO) Islamabad for the year 2020-21 it was observed that the AIM recovered and remitted an amount of Rs 164.345 million (Principal Recovery Rs 159.198 million and Mark up Rs 5.147 million) to the SIDB, however, the management did not deposit the said amount in government account as decided by the authority in above referred meeting and returned the same illegally. Further, the management of SIDB has failed to open a separate bank account for said scheme as required under the directives of provincial government.

It is pertinent to mention here that the PC-I of the program titled "Interest Free Micro Lending Activities to support Small Scale Entrepreneurs in Tribal Districts" was approved by the competent authority with cost of Rs 795.244 million. The detailed summary of the said cost showed that it included an amount of Rs 157.800 million on account of Service Charges which have already been paid to the AIM under previous agreement, signed by DFDA. Thus, by inclusion of said already paid amount, the PC-I cost overstated by Rs 157.800 million in revised PC-I. The said amount has been released by the provincial government and lying with SIDB. The management may revise the PC-I up to the original cost and overpaid amount may be returned to the provincial government along with interest accrued thereon without further loss of time.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 admitted the facts highlighted by audit and stated that no decision has been taken so far.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to investigate the causes due to which the decision of the authority could not be adhere to and management Matter with regard to wrong calculation in PC-I and overpayment by the provincial government also needs investigation.

3.1.4.11 Loss due to encroachment of assets - Rs 30.00 million

As per Section - 5 (5) of the Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to April 21, 2017) "the Board shall establish a system of sound internal control, which shall be effectively implemented in all levels within the Public Sector Company, to ensure compliance with fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that the SIDB management purchased a piece of land measuring 6 kanal situated across Railway line (Near Pabbi) some times in 1990 with the objective to establish a Ceramic Development Centre at said land. A building was constructed at said land and machinery was installed and the unit was operationalized, however, just after its start the Centre was closed down. Thereafter, the management did not bother to place a watchman at site or visit the site. Resultantly, local party encroached the said land, demolished the building and removed the installed machinery. Now the possession of the land is with a local party and he has constructed shops/building at said land and rented out. The prevailing market rate (as assessed by the management in 2020) was Rs 250,000 per marla. In view of said rate the asset worth Rs 30.00 million of SIDB has been encroached by a private party due to negligence on the part of management.

The SIDB management has failed even to establish its ownership at the said land. At this belated stage the demarcation of said land is open to doubt and the SIDB is ultimately in loss of Rs 30.000 million approximately indirectly, whereas, direct loss to the provincial government.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 admitted the facts highlighted by audit and stated that SIDB management through district administration, Nowshera has taken up case for taking possession of the site. Due to negligence on the part of management, the possession of the plot is still with the private party.

The SDAC meeting was not convened till finalization of this report.

Audit recommends matter may be investigated through an independent inquiry committee to probe the reasons for non-utilization of land since long purchase with public funds and their status at this stage. Demarcation of lands may be arranged and the land either may be used for the purpose for which it was purchased or it may be considered for disposal through open auction and sale proceed may be deposited in to Govt. treasury.

3.1.4.12 Expected loss due to non-realization of dues from debtors - Rs 34.147 million

As per terms and conditions of the supply order vide Sr. No. 1 Terms of payment are as "Full Advance".

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that during the scrutiny of trial balance of SIDB Wood Working Centre, D.I. Khan for the year ended on June 30, 2021 an amount of Rs 34.147 million is appearing against sundry debtors. The party wise detail of said debtors along with aging analysis was demanded from the management vide Requisition No. 06 dated 22-9-2021, but the management failed to provide the breakup of said debtors along with aging analysis. As is evident from the above quoted terms of supply order for supply of furniture the client was required to pay 100% advance payment. The non-recovery from the debtors and its accumulation to that extent showed that the orders were completed and delivered without advance recovery.

Audit holds that position showed loose financial control in the organization and recovery at this belated stage is open to doubt and the organization is likely to sustain loss of Rs 34.147 million on this account.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated that the amount is not sundry debtors but it is the balance amount of advances received from different departments, in support management provided a list.

Reply is not convincing as during audit the record with reference to said amount was demanded but the management failed to provide the record, further, in case the said amounts pertain to advances from customer thus needs to be reflected in the account of the Centre.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to investigate the matter at Head Office level to probe the reasons for non-recovery from the debtors and accumulation of debts to that extent; or recovery of amount from the person(s) held responsible.

3.1.4.13 Unjustified /wasteful expenditure on establishment /development of SIE Karak Rs 57.386 million

As per Section - 5 (5) of the Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to April 21, 2017) "the Board shall establish a system of sound internal control, which shall be effectively implemented in all levels within the Public Sector Company, to ensure compliance with fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

Further, as per KP-SIDB Act, 1972 the Board shall also be responsible for preparing and submitting schemes to Government for the development of cottage, small and other industries.

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that the SIDB management acquired land measuring 30 acres at Karak for establishment of a Small Industrial Estate. A PC-I for the development of the said estate was approved at a total cost of Rs 57.386 million on 31-12-2004. The Government released the entire funds during the years from 2004-05 to 2008-09 out of which the management expended an amount of Rs 48.435 million on said scheme.

It was however observed that the scheme was scattered on an area of 30 acre for development, but at the time of development the possession of 15 acre was with SIDB. Thus, the amount of Rs 57.386 million approved and released for the development of 30 acre area was actually expended on 15 acre with nominal saving of Rs 8.951 million. In view of the said facts the expenditure of Rs 48.435 million incurred on the development of 15 acre is not justified and held un-authorized. Furthermore, the scheme which was completed in 2011-12 could not fetch the industrialist for optimal utilization owing to critical water problems despite spending 15.679 million on base water and off tanks for the scheme.

Audit holds that the scheme is in dormant condition and very purpose to promote the industry could not be achieved wasting Rs 57.386 million.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated that the total fund was not utilized, the proposal of new water scheme placed before Board wherein the Board directed to get approval from the DDWP which is under process. As regard non-surrender of savings, that was due to court case.

Reply is not acceptable as the fact that funds were released by the government for development of 30 acre industrial estate against which the development work at 15 acres was completed, was not highlighted at any competent forum and the unspent amount could not be surrendered.

The SDAC meeting was not convened till finalization of this report.

Audit recommends the matter needs to be investigated at appropriate level with regard to incurring of funds received for development of 30 acre land were actually expended for 15 acre; with consideration of water problem at planning stage which caused wastage of public funds. The saving along with interest accrued thereon needs to be worked out and deposited in government account.

3.1.4.14 i. Unnecessary procurement of store resulted in blockade of funds - Rs 329.544 million
ii. Loss due to shortage of raw material valuing Rs 80.647 million

As per Section - 5 (5) of the Public Sector Companies (Corporate Governance) Rules, 2013 (as amended up to April 21, 2017) "the Board shall establish a system of sound internal control, which shall be effectively implemented in all levels within the Public Sector Company, to ensure compliance with fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that at there is no mechanism for assessing the actual requirement of raw material in SIDB Wood Centers. The record revealed that material worth Rs 304.739 million was available at start of year, during the year material worth Rs 272.281 million was purchased which accumulated the material to Rs 577.02 million. During the year material valuing Rs 247.476 million was utilized leaving unutilized balance of Rs 329.544 million. The facts showed that the material available at start of year was sufficient to meet the requirement. Thus, the loose internal controls resulted in blockage of funds Rs 329.544 million.

Furthermore, the comparison of cost of sales and trial balance showed that in WWC Mansehra and PGWWC Peshawar material worth Rs 190.879 million was available at start of year, during the year material valuing Rs 134.189 million was purchased and consumption was of Rs 115.405 million leaving a balance material Rs 210.494 million, whereas, the trial balance showed balance of Rs 129.847 million with a shortage of Rs 80.647 million.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated that to avoid break down in production flow, raw material is purchased in light of total orders in hand plus an allowance added to make sure that the centers did not run out of raw material.

Reply is not convincing as there was no mechanism in SIDB to consider the in hand material of centers prior to place the order for fresh material. Due to very reasons, a huge stock is lying at each center. The record revealed that a handsome quantity is lying at centers sing long. Further, the reply is silent with regard to shortage of material pointed out by audit at two centers.

The SDAC meeting was not convened till finalization of this report.

Audit recommends investigating, by constituting an independent inquiry committee to probe the reasons of such a grave negligence in utilization and purchase of material besides recovery.

3.1.4.15 Irregular payment to the sub-contractors by Pak-German wood working center, Peshawar – Rs 26.478 million

Section 31A of KP Public Procurement Rules (amended 08-02-2018) provides that "A procuring entity may procure goods, services or works through framework contract in order to ensure uniformity in the procurement" and Rule 31A (2) provides that "The procuring entity shall adopt any of the methods of procurement mentioned in these rules for purposes of entering into a framework contract". Furthermore, PPRA Rules (Federal) defines framework contract as "framework agreement" means a contractual arrangement which allows a procuring agency to procure goods, services or works that are needed continuously or repeatedly at agreed terms and conditions over an agreed period of time, through placement of a number of orders".

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that the management of Pak German WWC, Peshawar is procuring services like Cushioning, Polishing, Welding and other ancillary services for preparation of furniture items through direct procurement instead of tendering process or quotations by adopting the method of framework agreement and paid an amount of Rs 26.479 million to the sub-contractors on this account which is held irregular.

Audit is of the view that the procedure adopted by the Pak German WWC and other Wood Group was not covered under the rules. Award of work on single source basis is undue favour to the contractor at the cost of public funds by avoiding the competitive process.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated that the contractor so selected have worked with SIDB WWCs for long time and are now well experienced in their work.

Reply of the management is not convincing as the contractor were selected without following the proper purchase procedure.

The SDAC meeting was not convened till finalization of this report.

Audit recommends the matter needs to be investigated at appropriate level to probe the reasons for non-adopting proper procedure for award of work worth million of rupees. Annual procurement planning should be made by involving all stakeholders to avoid such recurrence.

3.1.4.16 Loss to government exchequer due to non-deposit of sales tax – Rs 37.189 million

As per Clause – 150(1) & (2) of Sales tax Rules 2006 the registered supplier shall issue sales tax invoice as stipulated in Section 23 of the Sales Tax Act 1990 in respect of every taxable supply made to withholding agent".

Furthermore, the withholding agent, other than a recipient of advertisement services, shall deduct an amount as specified in the Eleventh schedule to the act and make payment of the balance amount to him and as per S.No.1 of the 11th scheduled 1/5th of the Sales Tax as shown on invoice should be deducted at source if the supplier is registered with Sales Tax.

During audit of SIDB (HO) Peshawar for the year 2020-21, it was observed that SIDB management has awarded a contract to M/s Anar Jan for Development of SIE, Abbottabad-II at a total cost of Rs 247.926 million vide contract dated 18.04.2018. The contract amount was inclusive of all taxes including 15% Sales Tax. An amount of Rs 247.926 million was paid to the contractors during period from 18.04.2018 to 07.05.2021 against the running bills of the contractor. However, neither the contractor submitted sales tax invoices nor the management withheld 1/5th of the Sales Tax amount against the payment of bills of Rs 247.926 million.

Audit was of the view that in the absence of documentary evidence in support of deposit of sales tax- Rs 37.189 million in Government Treasury on the part of Contractor and non deduction of 1/5th GST Rs 7.457 million by SIDB management, the Government Exchequer was put into loss of Rs 37.189 million on this account.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 stated as per KP-Finance Act 2019 there was full exemption on the projects initiated or undertaken under government's annual development plan provided either such projects have been initiated or completed on or before 30th June, 2019.

Reply is not convincing as the Finance Act was introduced in 2019, whereas, the contract was awarded in April 2018, thus, the payment made prior to above said act was liable to deduct sales tax at agreed rate.

The SDAC meeting was not convened till finalization of this report.

Audit recommends the matter may be investigated at appropriate level to probe the reasons due to which the interest of the government could not be watched by the SIDB besides fixing responsibility for such negligence.

3.1.4.17 Highest cost of goods sold decreasing the profitability in wood working centers by - Rs 38.394 million

As per cost sheet the management of Wood Group fixed profit rate of 12.5% at its products.

During audit of SIDB Wood Working Centers for the year 2020-21 a comparison of cost sheet Vs. actual expenditure their against showed that the management of Wood Group failed to maintain the agreed profit ratio in its production and it fluctuates in range of 2% to 5% only. During scrutiny of Profit & Loss Account of Wood Group (all the Wood Working Centers) the following was observed which needs attention: -

a) Internationally, as a general rule, the combined Cost of Goods Sold and Labor Costs should not exceed 65% of your gross revenue – whereas in SIDB the average Cost of Goods Sold to Sale of Wood Group was 79% in 2020-21 which is very high and directly affect the profit of the organization.
b) The detailed examination of profit & loss account of all the Wood Centers showed that at six Wood Centers i.e. Karak, D.I. Khan, Batkhela, Swat, Mansehra and Peshawar the total sales of said centers in 2020-21 was Rs 475.434 million. In view of fixed profit ratio @ 12.5% the profit should be 59.429 million whereas, the actual profit was Rs 21.039 million with a shortfall of Rs 38.394 million which is a loss to the formation. Thus, costing system of the management is defective and they compromised on profitability of the organization.

As a general principle, the higher operating margin indicates that the company is earning enough money from business operations to pay off all of its associated costs involved in maintaining the business. An operating profit margin higher than 15% is considered good. Whereas in SIDB Wood Group the average operating profit is in range between about 2% to 5%, while, in case of Wood Working Center, Chitral it was in loss during 2020-21.

One of the major harming factors is improper inventory management system which caused higher cost of goods sold. No standard mechanism of job order was maintained at Wood Working Centers, most of the Project Managers and other staff is unaware about job orders management, job order costing etc.

Remedial measures may be adopted to decrease to Sale Ratio and serious efforts be made to enhance the profitability of Wood Group.

Audit holds that presently, the Wood Group structure is affecting the productivity of WWC, target based piecemeal working mechanism should be adopted to bring the profitability. Liberal attitude of the management toward its operations resulted in loss of Rs 38.394 million to the formation.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 admitted the facts highlighted by audit and stated that the observation is genuine.

The SDAC meeting was not convened till finalization of this report.

Audit recommends matter needs to be investigated in view of the above said stated facts and costing mechanism, which is almost obsolete needs to be reviewed and new techniques of costing should be adopted to minimize the CGS and increase the profitability; besides measure taken to adopt IT solutions for orders, inventory management, order transferring, finished goods delivery, accounting and bookkeeping.

3.1.4.18 Non-recovery of outstanding dues from the allottees of industrial plots - Rs 40.958 million

As per Clause – 2 (iii) of the Lease Deed signed with the allottee "during the continuance of the lease; the sum or sums as may be worked out and determined by the lessor by way of other charges which shall also include expenses on maintenance, replacements and administration, in respect of the demised property and the facilities in connection herewith. These sums shall be payable periodically or on specified occasions as the case may be and as determined by the lessor, and if remain outstanding against the lessee for six (6) months more, the lessor shall have the rights to ruminate this lease by giving the lessee a prior notice and after expiry of such notice the lease will be considered as cancelled without further notice and the unpaid amount outstanding will be - recovered from him through other legal means along with penal interest". Clause-2 (v) of the lease deed further clarifies that "without prejudice to the other rights of the lessor, the interest at the rate of 3% over and above the prevailing bank rate on all and every sum due to under any of the above sub clauses falling in arrears for a period of more than three (3) months".

During audit of SIDB (HO) Peshawar for the year 2020-21 it was observed that certain allottees have failed to pay and the management failed to recover the outstanding dues from the allottees at SIEs. The lenient vision of the management toward recovery resulted in accumulation of outstanding amount to the tune of Rs 40.958 million as on 30-6-2021. The management did not claim interest charges on said outstanding amount from the concerned allottees as clarified in the lease deed.

The non-recovery of above said charges and its accumulation to the tune of Rs 40.958 million showed laxity attitude of the management towards recovery of Estate dues. Further, delay in non-recovery of above said charges may result in loss to the formation in the years to come.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 admitted the facts highlighted by audit and stated that efforts are underway for recovery of outstanding amount and notices have been served.

Reply is not convincing as the lenient view of the management resulted in accumulation of outstanding dues to that extent.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to investigate the reasons for non-recovery of outstanding dues from the allottees of the plots; with the interest charges form the industrialists.

3.1.4.19 Non-finalization of annual accounts/ financial statements for the years 2016-17 to 2020-21

Section 35 (1) of the KP Small Industries Development Board Act 1972 provides that “the Board shall furnish to Government as for as possible within four months of the close of the financial year an audited statement in the prescribed form of its assets and liabilities of commercial undertakings and transactions as they stand at the close of that year together with a profit and loss account for the year and full report on the working of the Board during the year, and copies of the said statement, account and report shall be published in the official Gazette”.

During audit of the Small Industries Development Board (SIDB), Peshawar for the year 2020-21 revealed that the management failed to finalize its annual accounts for the years 2016-17 to 2020-21 as required under the aforementioned rules of the Board.

The matter was reported to the management on October 27, 2021. The management in its reply dated January 25, 2022 admitted the facts highlighted by audit regarding non-finalization of annual accounts for the years 2016-17 to 2020-21.

The SDAC meeting was not convened till finalization of this report.

Audit recommends to investigate the matter to probe the reasons of delay in compilation/finalization of annual accounts; by Fix responsibility thereof;

3.2 KP-Economic Zones Development & Management Company (EZDMC)

3.2.1 Introduction

Khyber Pakhtunkhwa Economic Zones Development and Management Company (KPEZD&MC) was originally established on March 13, 2015 under Section 5 of Companies Ordinance 1984. Later on, it was registered as a public company limited by guarantee under Section – 42 (not for Profit Company) of the Companies Ordinance 1984.

The Company is engaged in the establishment and up-gradation of new economic zones and existing economic zones/industrial estates. Operations of the company are primarily financed through grants from provincial government, proceeds from sale and allotments of plots, generation and supply of power and other miscellaneous sources. The registered office of the company is situated at Plot No. 120, Industrial Estate, Jamrud Road, Hayatabad, Peshawar.

3.2.2 Comments on audited accounts:

3.2.2.1 The working results of the Company for the year 2020-21 as compared to previous years are as follows: -

(Rs in million)

Particulars	**2020-21**	**% Inc/(Dec)**	**2019-20**	**% Inc/(Dec)**	**2018-19**
Income	882.296	9.92	802.683	97.01	407.429
Expenditure					
General and administrative expenses	891.397	4.52	852.866	38.53	615.644
Deficit for the year	9.101	(81.86)	50.184	(575.90)	208.214

Source: Annual Audited Accounts.

Income of the Company was increased by 9.92% to Rs 882.296 million during 2020-21 (2019-20 – Rs 802.683 million), whereas, the General and Administrative expenses were increased by 4.52% to Rs 891.397 million during 2020-21 (2019-20 – Rs 852.866 million). Deficit for the year decreased by 81.86% to Rs 9.101 million in 2020-21 (2019-20 – Rs 50.184 million). The source of income of the company was lease money, extension charges, development charges and annual ground rent from the allottees of plots at Industrial Zones/Estates. The accounts showed that an amount of Rs 1,132.731

million is outstanding against said heads (Lease money Rs 915.951 million, Extension charges Rs 38.698 million, Development charges Rs 98.826 million, Annual Ground Rent Rs 79.456 million) since long and receivables under said heads are being increased each year but management made no concrete effort for the recovery of said outstanding dues. Efforts need to be made to recover the outstanding dues and to control the expenditure to convert the deficit of the company into surplus in coming years.

3.2.2.2 Advances to PESCO increased by 61.34% to Rs 361.471 million as on June 30, 2021 (2019-20 – Rs 224.040 million). An amount of Rs 224.040 million was advanced to PESCO for more than two years, which has now increased to Rs 361.471 million. The advance payment to PESCO was made by the company for electrification at its developed zones. Despite making advance payment, the electrification work is yet to be done. Early adjustment of said advance is stressed upon the management.

3.2.2.3 Property and equipment increased by 3.77% to Rs 6,806.378 million as on June 30, 2021 (Rs 6,559.326 million – 2019-20). The figure included capital work in progress of Rs 2,643.768 million as on June 30, 2021 (2019-20 – Rs 2,163.658 million) at certain industrial zones. The development work at said zones is in progress since long, early completion of work is stressed upon the management. The management may share date of start of work at each zone, completion date and reasons of delay.

3.2.2.4 Current assets included an amount of Rs 13.893 million due from disinvested projects; the said amount is due for last many years. Reasons for non-recovery of said amount from concerned projects need clarification. Efforts be made for early recovery/adjustment from concerned projects.

3.2.2.5 Advance, deposits, prepayments and other receivables increased by 178% to Rs 1,508.408 million as on June 30, 2021 (2019-20 – Rs 542.058 million). Abnormal increased under the head was due to 8096% increase in lease money receivable which was increased to Rs 915.951 million as on June 30, 2021 from Rs 11.175 million in 2019-20 and 117% increase in annual ground rent which increased to Rs 79.456 million as on June 30, 2021 from Rs 36.643 million in 2019-20. Management may provide aging analysis of advances, deposits, prepayments and other receivables and efforts be made for early recovery of said dues to avoid their conversion into bad debts.

3.2.2.6 Although, there was nominal decrease under the head advances, but there was abnormal increase of 362% in other advances which increased to Rs 8.138 million as on June 30, 2021 from Rs 1.761 million in 2019-20. Reasons for abnormal increase under the head need justification and early recovery is stressed upon the management.

3.2.2.7 Receivables from Government stood Rs 87.539 million as on June 30, 2021 (2019-20 – Rs 87.539 million). The amount is due from government on account of telephone expenses, China road show, FATA – DA and SIDB, the amount is outstanding since long, early recovery of said dues from concerned quarters is stressed upon the management.

3.2.2.8 Advance income tax increased by 20% to Rs 132.557 million as on June 30, 2021 (2019-20 – Rs 110.187 million). Early adjustment of advance tax is stressed upon the management.

3.2.2.9 Cash and bank balances increased by 7% to Rs 3,357.610 million as on June 30, 2021 (2019-20 – Rs 3,137.782 million). The bank balances included Rs 35.644 million lying in Current Account, while, Rs 3,321.267 million in saving account. Keeping a huge balance in current or saving account showed inefficient fund management. The company was established with the objectives to establish or upgrade economic zones in the KP-Province for which funds were provided by the KP-Government. The accumulation of funds to that extent showed either the funds released by the KP-Government were not utilized for the purpose for which they were released or the management has no plan of action for establishment or up-gradation of economic zones. The management may provide scheme wise detail of funds released by the government and utilization status.

3.2.2.10 Trade and other payable increased by 33.80% to Rs 2,394.195 million as on June 30, 2021 (2019-20 – Rs 1,789.425 million). The major portion in said payable was contract liability of Rs 2,012.62 million as on June 30, 2021 (2019-20 – Rs 1,419.472 million) this represents the amount received from customers against allotment of industrial plots at Hattar Economic Zone Phase – VII, Ghazi, Nowshera extension, D.I. Khan and Chitral. The booking of lease money in liability side showed that the plots have not so far formally allotted to the concerned industrialists, early allotment of plots to the concerned party is stressed upon the management.

3.2.2.11 The income of the Company was decreased by 25.20% to Rs 407.429 million (2017-18 – Rs 544.714 million), whereas, expenditure decreased by 26.04% to Rs 615.644 million in 2018-19 (2017-18 – Rs 832.435 million). Deficit for the year was Rs 208.214 million against deficit of previous year Rs 287.722 million. The accumulated losses of the company increased to Rs 567.947 million as on June 30, 2019 (2017-18 – Rs 384.337 million). The increasing trend in losses is alarming, the management may made efforts to increase the revenue by sale of plots (commercial/industrial) lying unsold at different Zones/Estates, renewal of lease of commercial plots and curtailing the expenditure to make the company a going concern in future.

3.2.2.12 Further, the Chartered Accountants, while certifying the accounts of the company qualified the accounts however; audit recommends removal of following on the basis. "The following liabilities reported in the financial statements included outstanding balances which have remained unadjusted since long. Management has not developed any action plan regarding future utilization of the amounts for the allocated projects nor have these stagnant liabilities been settled or adjusted during the years. Due to lack of sufficient & appropriate information, we were unable to ascertain whether the amounts are payable to government or other entities as unspent balance. Had these amounts were settled or adjusted, the total liabilities would have been reduced to the PKR 90.737 million (2020 – PKR 97.689 million), with corresponding decrease in current assets or decreased in deficit of the company for the year".

- Other funds (Note – 22) PKR 37.250 million.
- Restricted funds (Note – 25.2) PKR 22.964 million.
- Lease money refundable (Note – 29.3) PKR 30.324 million.

3.2.3 Compliance of PAC Directives

PAC meetings for the years 2004-05 to 2007-08 and 2009-10 to 2020-21 were not convened.

Classified Summary of Audit Observations

Audit observations amounting to Rs 902.216 million were raised in this report during the current audit of KP-Economic Zones Development & Management Company (KP-EZDMC). This amount also includes recoveries of

Rs 30.638 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities	
A	HR / Employees related irregularities	23.629
B	Procurement related irregularities	47.986
C	Management of Accounts with Commercial Banks	
4	Value for money and services delivery issues	769.660
	Recovery	30.638
5	Others	30.303

3.2.4 AUDIT PARAS

3.2.4.1 Irregular payment of salaries to the KP-EZDMC staff working in the industries & technical education department - Rs. 23.629 million

Rule 5(5) of the Corporate Governance Rules 2013 stated that, “the board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stake holders.

During the audit of KP Economic Zone & Management Company for the year 2020-21 it was observed that 33 employees of KPDA (Defunct) are working in the Industries Department since long but continuously drawing pay & allowance from KP Economic Zone & Management Company. Thus, the management paid an amount of Rs 23.629 million to the said employees on account of salaries from the funds of KP-EZDMC during the period 2016-2021 which is held irregular.

Audit is of the view that the Pay & allowance of the above referred employees should have been stopped as their services were not required by the KP-EZDMC as they are performing their duties in the Industries Department, who receives their separate budget and had separate sanctioned strength. Thus, the payment of their salaries from the account of KP-EZDMC was held irregular.

The irregularity was reported to the management on November 01, 2021. The management in its reply dated December 02, 2021 stated that the services of the listed employee were placed at the disposal of Industries Deptt. on the order of competent authority.

Reply is not convincing as the Industries Department has its own budget and sanctioned strength and they contribute nothing in performance of the company, thus, payment from company account was held irregular.

Audit recommends to explain the reasons for payment of salaries to these employees from KP-EZDMC budget by fixing the responsibility and get recovery of salary either from concerned department or the responsible besides intimating measures taken to rationalize even employment in company.

3.2.4.2 *Non-completion of designed projects - Rs 627.35 million*

According to Para 10.1 A xv. A (xv) possession of Guidelines for Project Management Planning Commission of Pakistan “strong check should be exercised on time over-runs and cost over-runs. For this purpose, frequent revisions of scope and design of the projects should be avoided.

During audit of KP-EZDMC Peshawar for the year 2020-21, it was observed that for improvement, Rehabilitation & Modernization of Industrial Estate Gadoon Amazai, management awarded the civil works to four different contractors in shape of Package-I to Package IV, but due care was not adopted while preparing PC-I and BOQs, as a result huge variations were noticed in projects as per detailed given below:

Package	PC-I Cost	Bid Cost	Contract amount/BOQs Revised			
			Variation-1	Variation-2	Variation-3	Variation-4
Package-I	234.77	207.30	186.77	202.86	203.86	0
Package-II	150.66	135.59	147.54	136.03	0	0
Package-III	125.99	111.25	122.82	124.23	0	0
Package-IV	192.46	173.21	173.47	181.59	198.89	199.14
Total	**703.88**	**627.35**	**630.6**	**644.71**	**198.89**	**199.14**

It was observed that although the variations orders were kept within the limit of 15% increase, however, component wise abnormal increase upto 68.33% and abnormal decreased upto 100% were noticed, which indicated the incompetency while preparation of PC-I, Engineers Estimates of Rs 703.88 million and revision of BOQs were noticed and the chances for favoring the contractors by decreasing/deleting the less profitable items and increasing the more profitable items in the revised BOQs. This resulted into increase in bid cost Rs 35.91 million (Bid cost Rs 627.35 million – Revised BOQ cost Rs 663.26 million).

Audit is of the view that due care was not exercised while preparing PC-I, engineers estimate as well as revision of BOQs which resulted into abnormal variation which requires investigation and probe at higher level. Moreover, either deleted items are unnecessarily included in the engineer’s estimate or construction work was compromised.

The irregularity was reported to the management on November 01, 2021. The management in its reply dated December 02, 2021 stated that when the projects were handed over to the KP-EZDMC a number of required changes were observed as per site requirements. The changes were incorporated in contract on the recommendations of the supervision consultant.

Reply is not convincing as abnormal variations during currency of contract requires investigation and probe at higher level.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends investigate the matter regarding preparation of inaccurate Engineers Estimate and frequent revisions in the BOQs.

3.2.4.3 Mis-utilization of industrial land and non-recovery of extension charges - Rs 20.020 million

As per clause-16 of allotment deed dated 24.03.2005 "the land shall be utilize for the approved industry only and shall not be put to another use or purposes, neither for any residential nor commercial purpose". It was further clarified in the lease deed that disregard or violation of this clause shall render the allotment / lease liable to cancellation and it may be cancelled without notice.

During audit of KP-EZDMC, Peshawar for the year 2019-20, it was observed that the management of Industrial Estate, Gadoon allotted 4 plots to M/s ITHFZ Mills vide lease deed dated 24.03.2005. Further demanded extra land for its project and the management allotted 09 plots measuring 13 acres vide allotment letter dated 19.11.2005. The party did not use the allotted plots for industrial purposes but constructed residents which are being used for rental purposes, while the remaining land is being used for agriculture purpose by growing crops.

As per KP-EZDMC rules, in case of failure to utilize the plot for industrial purpose, extension charges at notified rate are recoverable from the allottee. Extension charges amounting to Rs 20.020 million are workout which were required to be recovered from the allottee due to non utilization of plot for industrial purposes but the management neither intimated the said charges to the party nor booked it as receivable in its accounts.

Audit is of the view that due to weak internal control the estate management failed to take action against M/s ITHFZ Mills regarding mis-utilization of industrial plot for residential and agriculture purposes as well as did not recover the outstanding dues of Rs 20.020 million as on June 30, 2021.

The irregularity was reported to the management on November 01, 2021. The management in its reply dated December 02, 2021 stated that notices have been served to the party concerned and efforts are underway to recover the outstanding dues.

Reply is not acceptable as the allottee is utilizing the land for commercial activities but management did not bother to take any action against the party, even the extension charges could not be worked out for its recovery.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to investigate the matter to probe the reasons for non cancellation of plot on illegal activities and non recovery / booking of extension charges from the allottees.

3.2.4.4 Non-implementation of KP-Industrial policy leading to depriving the industrialists from benefit of Rs 14.833 million

The KP-Government announced its Industrial Policy, according to which GoKP shall finance 25% of the cost of property (Plot) acquired for setting up industrial units up to December, 2016 viz. early bird investment to expedite the industrialization process.

During audit of KP-EZDMC, Peshawar for the year 2019-20, it was observed that in line with the above said industrial policy of the KP-Government, the management of KP EZDMC granted 25% discount on allotment of plots at newly established Economic Zone (Phase-VII) at Hattar. The KP-EZDMC Board fixed rate of 7.4 million per acre for said Zone, however, after excluding the 25% discount, as announced by the KP-Government, the rate was fixed Rs 5.6 million per acre instead of Rs 5.550 million, thus charging Rs 50000/- per acre excess of the discounted rate. The company management sold out 94 plots measuring 296.654 acres land to 94 industrialists at discounted rate of 5.6 million per acre resulted into excess charging of Rs 14.833 million from the industrialists (Rs 50,000 x 296.654 Acers).

Audit is of the view that the above said incentive, at allotment of plot @ 25% was announced by the KP-Government in its industrial policy, 2016 was require to be passed on fully to the industrialists. Due to this variation, the discount amount of Rs 14.833 million was lesser transmitted to the industrialists in-violation of the aforementioned policy of the KP Government.

The irregularity was reported to the management on November 01, 2021. The management in its reply dated December 02, 2021 stated that the Board approved rate of Rs 7.4 million per acre and after considering 25% discount on early bird discount the price was fixed at Rs 5.600 million.

Reply is not acceptable as after considering the early bird discount @ 25% the rate of Rs 5.550 million was required to be recovered. Due to non pass on full amount to the industrialist the management of KP-EZDMC was succeeded to fetch Rs 14.833 million on this account.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to investigate the matter for probing the reasons due to which the full incentive could not be remitted/passed on to the industrialists by fixing responsibility and the difference in discount needs to be remitted to the government.

3.2.4.5 Loss due to delay in allotment of plot - Rs 12.500 million

The Defunct SDA in its 388th Board meeting held on March 10, 2015 vide item No. 3, decided that all vacant/available plots at Industrial Estates, Peshawar, Hattar and Nowshera be allotted to interested enterprises by advertising the same in the leading newspapers to attract the serious investors and generate revenue to the national ex-chequer.

During audit of KP-EZDMC Peshawar for the year 2020-21 it was observed that the management of Defunct SDA called applications for allotment of plot No. 43 measuring 1.25 acres (10 kanals) at Industrial Estate, Peshawar. Eight applications were received, M/s Prime Pharmaceuticals Ltd. offered highest rates of Rs 2.50 per Kanal vide his request dated January 29, 2016 and total value of plot comes to Rs 25.00 million. The management pended the allotment case almost two and half years. The management of KP-EZDMC again made an effort for sale of plot and received 14 applications as on December 06, 2018 and plot

No. 43 was allotted to M/s BQ Pharma & Medical Devices (Pvt.) Ltd vide letter dated 19.12.2018 at Rs 12.500 million.

Audit is of the view that as a result of first advertisement response dated 29.01.2016 a reasonable offer was received i.e. Rs 25.00 million for the plot, however, the management of DSDA and KP-EZDMC failed to allot the plot to the party and thereafter the same plot was allotted at Rs 12.50 million. The allotment of plot at lesser rate resulted in loss of Rs 12.500 million to the Company. It was further mentioned that BOD in its 38th meeting decided to allot the plot by advertising in newspapers but in said case the plot was allotted without advertisement in newspapers.

The irregularity was reported to the management on November 01, 2021. The management in its reply dated December 02, 2021 stated that as per applicable allotment policy of KP-EZDMC, Industrial plots can only be allotted through a due evaluation process instead of auction.

Reply is not acceptable as the Board, competent forum, decided to allot the plot by advertising in the press. As a result of advertisement, the highest bid was received Rs 25.0 million, however, the offer was ignored and later the same plot was allotted at Rs 12.50 million which caused loss of Rs 12.50 million to the Company.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to investigate the causes under which the plot could not be allotted at highest offered price. Make the loss good by affecting recovery from the person(s) held responsible.

3.2.4.6 Non-recovery of excess expenditure from KP government -Rs 10.618 million and irregular expenditure - Rs 35.486 million

As per rule- 11 of KPPPRA, the procurement entity shall engage in open competitive bidding if the cost of the object to be procured is more than Rs 2.5 million, procurement shall be posted on the procuring entity's website or public procurement regulatory authority (PPRA's) or both. These procurement opportunities may also be advertised in print media, appearing in at least one national English and one Urdu newspaper with nationwide circulation along with advertising the same either on the procuring entity or on Authority website.

As per Rule-4 (3) of the Public Sector Companies (Corporate Governance Rules) 2013, "the chief executive is responsible for the management of the Public

Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of KP-EZDMC, Peshawar for the year 2020-21, while reviewing the receivable it was observed that Rs 10.618 million was shown as receivable from the KP Government since 2017. The record revealed that the KP Government arranged a CPEC Road Show in China from 17th to 19th April 2017 Planning and Development Department, China Pakistan Economic Corridor. KP-EZDMC received Rs 41.710 million from P&D Department, Govt. of KP and other Chinese Companies for the show. The management of KP-EZDMC incurred expenditure of Rs 52.328 million on said road show and the excess amount of Rs 10.618 million not yet received from the quarter concerned. Moreover, record revealed that out of these expenditures management incurred expenditure of Rs 35.486 million in non-transparent manner and without observing of rule 11 of KP, PPRA.

Audit is of the view that management was required to made expenditure up to the limit of available funds by adopting proper procedure/rules/policy, however, the same was not observed, and chances of recovery of Rs 10.618 million remote. Moreover, in the absence of proper rules/policy/procedure the expenditure of Rs 35.486 million is considered as irregular.

The irregularity was reported to the management on November 01, 2021. The management in its reply dated December 02, 2021 admitted the facts and stated that efforts are underway for the recovery of outstanding amount.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to investigate the reasons for incurring of excess expenditure and non-recovery of the same by fixing the responsibility. Justify non-adopting the proper procedure/rules while making the expenditure from public funds; and fix the responsibility thereof.

3.2.4.7 Blockage of funds due to non-establishment of industrial estate Mansehra - Rs 127.240 million

According to Para 10.1 A (xv) of Guidelines for Project Management Planning Commission of Pakistan “strong check should be exercised on time over-runs and cost over-runs. For this purpose, frequent revisions of scope and design of the projects should be avoided. Acquisition of land where required should be completed in the minimum time. Any instances of mal-administration, corruption, lapses and pilferage should be seriously investigated and those found responsible should be severely dealt with".

During audit of KP-EZDMC, Peshawar for the year 2020-21, it was observed that PDWP approved PC-1 amounting to Rs 634.164 million for establishment of Industrial Estate at Mansehra on March 6, 2012. Out of total Rs. 240.00 million were for procurement of 800 kanal land at Debgran district Mansehra. District Revenue/Estate Collector Government of Mansehra notified section-IV for acquisition of land at Debgran under letter dated October 4, 2011 but on the protest of local landowners stop the acquisition of land. District Revenue/Estate Collector proposed another land at Jallo & Madan on February 2, 2012. Subsequently, the management acquired total 651 kanal 3 marla (81.375 acre) land in pieces at Debgran, Madan & Jallo and made payment of Rs 126.632 million to DC Mansehra. Later on Express Way-35 go through these Mouzas, therefore D.C Mensehra reduced the land from 81.375 acre to 77.76 acre by giving the space to road and revised the compensation cost up to Rs 294.555 million and claim additional cost of Rs 167.923 million. Moreover, during ADP review meeting held on December 10, 2019, the Chairman desired that KP-EZDMC should hand over the said land to Small Industrial Development Board (SIDB) but SIDB Board of Director (BOD) in its meeting held on March 4, 2020 decided not to take over the said land due to non- viable for the establishment of Small Industries Estate.

Audit is of the view that as per original PC-1, initially 800 kanal land of Mouza Debgran was proposed for procurement being feasible for establishment of an Industrial Estate. However, later on the management selected and acquired unfeasible land in pieces due to which Rs 126.632 million has been blockade even after lapse of seven years.

The irregularity was reported to the management on November 01, 2021. The management in its reply dated December 02, 2021 agreed with the facts highlighted by audit.

The DAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to investigate the matter at Ministry level besides fixing responsibility.

3.2.4.8 Non-deduction of income tax from PESCO - Rs 8.403 million

According to section 153 of Income Tax Ordinance 2001 every prescribe person making a payment in full or part including a payment by way of advance for the supply of goods or services shall deduct tax from the gross amount payable @ 6% as specified in the first schedule.

KP-EZMDC made a payment of Rs 140.062 million to PESCO on account of electrification infrastructure during the year 2020-21 but income tax amounting to Rs 8.403 million was not deducted @ 6% due to non deduction of income tax Government exchequer sustained loss to that extent.

The irregularity was reported to the management on November 01, 2021. The management in its reply dated December 02, 2021 stated that matter was taken up with chartered Accountants M/S Rafaqat Babar & Co and they advice that arrangements between KP-EZDMC and PESCO does not fall under the definition of supply as sale and ownership rest with PESCO, thus income tax and sale tax are not liable to be deducted.

Reply is not tenable because PESCO provide electrification infrastructure to KP-EZDMC at cost, thus KP-EDZMC was liable to deduct income tax which was not done. Further, the management is required to take up the matter with FBR on this issue and comply according.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to investigate the matter regarding non deduction of tax at source from the payments made to PESCO beside fixing responsibility, for recovery of resultant tax from the PESCO and deposit in to Government treasury.

3.2.4.9 Irregular possession of land by PK Highway Authority - Rs 15.072 million

The Audit Risk Management Committee (ARMC) of KP-EZDMC Board in its 18th meeting held on Sep 09, 2020 recommended the BoDs, that an in-depth high level inquiry regarding 29 kanals 19 marlas area utilized by PKHA, covering the all facts, correspondences with PKHA, to affix responsibility and actual financial burden to KP-EZDMC in case of connectivity of the approach road with Kernal Sher Khan Interchange.

During audit of KP-EZDMC, Peshawar for the year 2020-21, it was observed that management acquired 433 kanals and 17 Marlas land for Rashkai PSEZ through LAC (398 Kanal & 5 Marla costing Rs 22.578 million approx. in 2016-17 & 35 Kanal & 12 Marla for Rs 17.885 million in 2019-20) with the aim to get the connectivity with Kernal Sher Khan Interchange, Swabi. However, out of this land, PKHA utilized 29 kanals and 19 marlas valuing to Rs 15.072 million on prime location near Kernal Sher Khan Interchange Swabi-MI and due to this, KP-EZDMC has been delimited of connectivity of approach road RpEZ to Kernal Sher Khan Interchange M-I.

The subject committee of the BOD held on September 09, 2020 recommended to the BOD, an in depth high level inquiry but the same action is not yet taken.

Audit is of the view that a strict action requires to be taken against the responsible for the weak administration, due to this PKHA utilized the land on the expenses of KP-EZDMC. The company may claim the loss from highway authorities due to blockage of capital and subsequent allotment of the plots. The management of KP-EZDMC deprived from the connectivity of Kernal Sher Khan Interchange, resultantly all the expenditure incurred on the projects has been blocked and termed in irregular possession by PKHA.

The irregularity was reported to the management on November 01, 2021. The management in its reply dated December 02, 2021 stated that the matter has been taken with PKHA and it was agreed that a connection will be provided to Swat Expressway from RpSEZ via connecting road.

Reply is not convincing as the reply is silent with regard to inquiring the matter as decided in Board meeting to assess the actual loss and other implications.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to justify the delay in conducting the high-level inquiry and non-following the Project Management Planning Commission guidelines. Reasons for non-calculation of financial impact irregular possession/blockage.

3.2.4.10 Loss due to non-adjustment of excess payment made to LAC Nowshera - Rs 7.067 million

As per Section 5 of the SECP Corporate Governance Rules, 2013" the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

During audit of the accounts of KP-EZDMC Peshawar for the year 2020-21, it was observed that management of KP-EZDMC acquired 398 kanal land at Nowshera and made payment of Rs 22.578 million to LAC Nowshera for payment to land owners, out of which only Rs 15.511million could be adjusted up to 11.08.2017 leaving an unadjusted balance of Rs 7.067 million.

Audit is of the view that non-adjustment/non recovery of Rs 7.068 million since March, 2016 indicates negligence and poor financial management KP-EZDMC since more than 5 years and six months, in addition to this KP-EZDMC deprived from the interest (10%) income of Rs 2.34 million.

The irregularity was reported to the management on November 01, 2021. The management in its reply dated December 02, 2021 stated that the concerned departments were repeatedly directed to revisit the proposed site and reassessed the cost of trees, as and when the revised cost of trees received the owners will be compensated.

Reply is not acceptable as the amount was lying with concerned quarter since 2016 and no positive movement is appearing in record for the recovery/adjustment of said amount.

The SDAC meeting was not convened till finalization of this report despite repeated requests.

Audit recommends to inquire the matter and fix the responsibility on the person (s) held responsible for recovery of the amount with interest.

3.3 Khyber Pakhtunkhwa Technical and Vocational Training Authority (TEVTA)

3.3.1 Introduction

Khyber Pakhtunkhwa Technical and Vocational Training Authority (TEVTA) was established vide Khyber Pakhtunkhwa Act No.XII of 2015 replacing the erstwhile Khyber Pakhtunkhwa Technical and vocational Training Agency ordinance 2002 and became effective Form 15 December 2014 with the joining of its Managing Director on 02 February 2015, it became fully operational.

3.3.2 Comments on Audited Accounts

Management failed to provide annual audited accounts for the year 2017-18 to 2020-21 till December 31, 2021.

3.3.3 Compliance of PAC Directives

PAC meetings for the years 2019-20 to 2020-21 were not convened.

Classified Summary of Audit Observations

Audit observations amounting to Rs 701.075 million were raised in this report during the current audit of Kyber Pakhtunkhwa Technical Vocational Training Authority (KP-TEVTA). This amount also includes recoveries of Rs 1.021 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

S. No.	Classification	Amount (Rs in Million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities	
A	HR / Employees related irregularities	81.958
B	Procurement related irregularities	394.989
C	Management of Accounts with Commercial Banks	-
4	Value for money and services delivery issues	18.170
	Recovery	1.021
5	Others	204.937

3.3.4 AUDIT PARAS

3.3.4.1 Wasteful expenditure on procurement of equipment - Rs 283.535 million and non-obtaining/renewal of bank guarantee – Rs 31.992 million

As per Clause 21.1 and 17.1 of the contract agreements date 19.08.2019 each made with M/S Hazwar Support Services and M/S Majid Traders, the supplier, within 15 days upon signing the contract agreement, shall provide to the purchaser a performance as an insurance guarantee equivalent to 10 % of the total contract amount. This performance as an insurance guarantee shall be released to the supplier upon successful delivery of items/equipment, installation, commissioning and completion of contract period.

During audit of the KP-STVET for the year 2020-21, it was observed that two contracts were awarded to M/S Hazwar Support Services and M/s Majid Traders for supply of equipment valuing Rs 226.265 million and Rs 57.270 million respectively. The suppliers had provided the equipment late which is lying in the Aviation training and non- destructive testing center at Akorra Khatak without installation, commissioning and inspection by the inspection committee of the technical persons since February 2020. Further, M/S Hazwar Support Services failed to submit 10 % performance guarantee i.e. Rs 26.265 million to the KP-STVET as required under the contract, whereas, the performance guarantee of M/s Majid Traders of Rs 5.727 million has already been expired on 22.08.2020 but the local office failed to renew the guarantee till date. Non obtaining of bank guarantee and non renewal of expired guarantee constitutes mis-management on the part of relevant management.

Audit is of the view that the costly equipment procured at Rs 283.535 million has not yet been utilized despite lapse of more than one year period, therefore, considered expenditure as wasteful.

The irregularity was reported to the management on September 27, 2021. The management its reply dated November 23, 2021 admitted non-commissioning of equipment till date due to non- availability of relevant professionals and expiry of performance guarantees of both the venders.

DAC meeting was held on February 03, 2022 in which it was decided that the fate of Para will be decided on finalization of the inquiry report at C.M. level. The Committee further directed that the report may be shared with the Audit.

Audit recommends to investigate the reasons due to which the equipment was purchased un-necessarily without any requirement and government funds were blockade for nothing; and bank guarantee could not be obtained/renewed.

3.3.4.2 Unauthorized expenditure and illegal grant of loan without approval of the BoD Rs 133.535 million resulting in to illegal creation of liability worth Rs 71.402 million

According to clause 1.1 of the agreement dated. 12.04.2018 between KP-TEVTA and KP-STVET, “this agreement is subject to observance of provisions of KP-TEVTA Act 2015 (amended 2017) and rules and regulations made there under”. All projects in Khyber Pakhtunkhwa exceeding Rs 50 million require prior approval of the PDWP.

As per GFR Vol-1 Para 106 that a disbursing officer may not at his own authority authorize any payment in excess of the funds placed at his disposal; but absence of funds should not necessarily prevent the payment of any sums really due by Government. If the disbursing officer is called upon to honor a claim which is certain to produce an excess over the allotment or appropriation at his disposal, he should take the orders of the administrative authority to which he is subordinate before authorizing payment of the claim in question.

During audit of the KP-STVET for the year 2020-21, it was observed that one time grant of Rs 150.00 million was released for procurement of Aviation Training Center (KP-SATS) on 03.11.2017 by the KP-TEVTA to KP-STVET, against which an expenditure of Rs 283.535 million was incurred up to 28.06.2021 for payment to different suppliers. Further as per available record, the said project will complete with a total cost of Rs 354.937 million causing an additional requirement of funds worth Rs 71.402 million. The project costing Rs 354.937 million was executed without obtaining approval from the competent forum i.e. PDWP. Furthermore, management of the KP-STVET managed to pay the balance amount of Rs 133.535 million (Rs 283.535 -150.00) by transferring the amount, as loan from other bank accounts available for other projects.

Audit holds that commencement of the project costing Rs 354.937 million against the release of Rs 150 million was serious lapse/irregularity on the part of the KP-STVET. Further, the grant of loan worth Rs 133.535 million of other projects without approval of the BOD was not only violation of the contract agreement between the KP-TEVTA and KP-STVET but also leads to mis-use of the public money available with KP-TEVTA.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 stated that the expenditure was done from KP-STVET saving. In order to accomplish the assign task Rs 133.535 million were arranged on account of bank profit and arrangement of loan from other heads.

Reply is not convincing, as the position needs to be placed before competent authority i.e. PDWP and BoD with full facts.

DAC meeting was held on February 03, 2022 in which it was decided the fate of Para will be decided on finalization of the inquiry report at C.M. level. The Committee further directed that the report may be shared with the audit.

Audit recommends fact finding inquiry for fixing responsibility for commencement of the work without prior approval of the PDWP and BOD and reasons for increase in the cost of the project against the allocation, besides obtaining loan of Rs 133.535 million without approval of the BOD.

3.3.4.3 Irregular appointment on higher market based salary resulted in overpayment – Rs 22.251 million

According to the Establishment Department, Government of KP Notification No. SO (Policy)/E & AD/ I-25/2017 dated 06-12-2017 "the competent authority has revised Standard Pay Package for officers/staff directly recruited from open market on contract basis, for the execution of Development Projects Pay Scale on regular side BPS17 - 19 Rs 144,000 to 280,000. Further, in KP-TEVTA regulations 2017 no clause regarding appointment on market based salary existed.

During audit of KP – TEVTA, Peshawar for the year 2020-21, it was observed that the management appointed 02 Directors, 04 Deputy Directors and 02 Assistant Directors through advertisement in 2017 and 2018 on market based pay package. The record revealed that a payment of Rs 63.971 million was made to said appointees on account of market based salaries up to June 30, 2021 whereas, as per above said notified standard pay package, the amount of salaries comes to Rs 41.720 million (including 05 % increase on yearly basis). Audit therefore is of the view that officers were paid salaries amounting to Rs 22.251 million over & above the notified salaries in violation of the above quoted govt. rules. Further, 5% increase in pay package was not justified as the officers were appointed on a lump sum marked based pay package which was more than the government notified pay. The 5% increase is allowed in case the pay of the officers could have been fixed in line with the government notification. Further as per contract agreement the duration of contract was three years, but the officers are still serving despite after lapse of three years. Due to fixation of higher pay, the officers have been overpaid Rs 22.251 million resulting in loss to the public exchequer. The grant of 5% increase in pay and extension in contract period beyond three years was also a favor to the officers at the cost of public funds.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 stated that the pay package referred by audit relates to officers recruited for development projects, whereas, the officer hired by TEVTA on market based salary and cannot be declared as project employees.

Reply is not convincing as the same was without any documentary evidence and the appointments were made at pay package over & above the package notified by the government.

DAC meeting was held on February 03, 2022 in which it was that the fate of Para would be decided on provision and verification of the prescribed due process of recruitment of the officers, rationalization and recommendations of market based salary followed by approval of the pay package from the competent authority and TORs of the appointees

Audit recommends to investigate with regard to the appointments on market based salary in violations of the KP-TEVTA regulations and payment of higher pay package than the government approved package; besides immediate recovery of the overpaid amount from the officers involved besides termination of services after 03 years maximum time period.

3.3.4.4 Irregular conversion of services of market pay scales officers into KP-TEVTA - Rs 37.044 million

As per Schedule –I (A) of the KP-TEVTA Regulation No.II of 2015 (Appointment, Promotion & Transfer) the appointments of Dy. Director should be made 50% by initial recruitment and 50% by promotion amongst the holder of post of AD (B-17) with five year experience, Asstt. Director 80% by initial recruitment and 20% by promotion amongst the holder of post of Office Assistant (B-16) with five year experience. While Director Planning & Development by transfer on deputation amongst the Asstt. Professors/Principals (B-19), Director Monitoring & Evaluation by initial recruitment or transfer on deputation and Dy. Director (IT) by promotion amongst the holder of post of AD (B-17).

During audit of KP-TEVTA, Peshawar for the year 2020-21, it was observed that the management appointed 02 Directors, 04 Deputy Directors, 02 Assistant Directors vide office orders dated January 30, 2018, August 31, 2018 and September 11, 2018 respectively on contract basis for an initial period of one year (extendable up to 3 years) at lump sum market salary. Later on, the services of these Officers were converted to KP-TEVTA services vide office order dated November 01, 2019 on completion of 03 years' time period without the prior approval of the BOD in consultation with the establishment/finance department Govt. of KP.

Audit also observed that BoD in its 13th meeting dated May 10, 2019 had clearly rejected the similar nature case of induction/conversion of services of sub engineers and assistants in to KP TEVTA and directed to re-advertise and fill the posts under the KP-TEVTA regulations. It is pertinent to mention here that the pay to the above mentioned officers is being paid at market based package despite of the fact that their services were converted to the KP-TEVTA service. The pay of the officers was also not adjusted in BPS of relevant grades, hence the salaries paid to officers at market rate after their conversion in TEVTA Service Rules amounting to Rs 37.044 million was held irregular/unauthorized.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 stated that under KP-TEVTA Act 2010, Clause - 17, all employees recruited shall be deemed to be public servant with in meaning of Section-21 of Pakistan Penal Code 1860. Therefore, the conversion orders were made by the competent authority under the provision contained in Act and thereafter Regulations.

Reply is not acceptable as the term & condition of posts were determined & advertised. Thus, conversion of contract employees into regular cadre is not in line with the rules.

DAC meeting was held on February 03, 2022. Audit was of the opinion that decision of 13th BoD followed by notification No. KP-TEVTA/ HR-III/ Extension/10209(1-5) dated. 01.11.2019 of M.D is in contravention to the relevant rules & regulations of KP-TEVTA, advertisement and terms & conditions of these contractual employees. However, the M.D. explained the forum that these officers along-with around 600 other employees of KP-TEVTA were appointed through prescribed procedure against the regular sanctioned budgeted posts in accordance to the approved regulations. The DAC after detailed deliberations referred the matter to the BoD in the light of 24th HRC meeting held on 11.01.2022 and 13th BoD meeting held on 10.05.2019 for further decision.

Audit recommends to investigate the causes under which the contract employees appointed on market based salary were adjusted in TEVTA Service Rules without the approval of competent authority. Besides justification of non recruitment after three years and expenditure needs to be recovered from the concerned officers.

3.3.4.5 Irregular hiring of recruiting agency for recruitment of candidates in KP TEVTA – Rs 10.900 million and loss due to excess payment to NTS – Rs 8.127 million

According to Rule 14 of Chapter iii of the KPPRA 2014, the procuring entity shall use open competitive bidding as the principal method of procurement for the procurement of works over the value of Rs 100,000.

During audit of KP-TEVTA, Peshawar for the year 2020-21, it was observed that the management signed an MOU with National Testing Service (NTS) for conducting written test to fill 472 vacant positions. The management invited proposal for recruitment from 4 testing agencies i.e. KP Testing Agency (KPTS), Pakistan Testing Agency (PTS), ETEA and NTS by 28.03.2019 without advertisement in the newspaper. Out of which only 03 agencies submitted their proposals before 28.03.2019 and NTS has failed to participate. M/s KP-Testing Agency and Pakistan Testing Agency offered rate of Rs 145 per applicant/candidate. However, on the directions of Chairman HR Committee dated 18.06.2019, rates were again called for from NTS and accordingly the agency offered rate of Rs 570 per applicant on 17.07.2019 (including Sales tax).

Audit is of the view that National Testing Services (NTS) was hired without advertisement and competition by ignoring the lowest recruiting agency M/S KP-Testing Agency and Pakistan Testing Agency offered rate of @ Rs 145 per candidate, but their rates were not considered and work was awarded to M/s NTC at his offered rate i.e. Rs 570 per applicant. By ignoring the lowest offered rate and award of work at higher rate put the organization in loss of Rs 8,126,850 (Rs 570 – Rs 145 = Rs 425 x 19,122 candidates) at the cost of the public funds.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 stated that HR Committee given first priority to the quality & experience of the agencies rather than rates quoted by them.

Reply is not acceptable as the management was required to advertise the requirement showing experience and quality of parties rather to choose single firm at higher rate.

DAC meeting was held on February 03, 2022 in which it was decided that the matter may be placed before BoD with complete facts & figures regarding procurement / hiring of the NTS services against the PPRA rules for their appropriate decision.

Audit recommends that the matter needs to be investigated to probe the reasons due to which the work was awarded to NTS without tendering process and without adopting proper procedure.

3.3.4.6 Overpayment in violation of approved rates - Rs 1.021 million

According to approved PC-I and Work Order dated 03.03.2020 for the work “Repair & Raising of Boundary Wall at GTVC (B), Tank”, M/s. Azmat Khan accepted the work order for execution of work as per terms and conditions of the work order and accordingly BOQ containing rates for each item of work was issued for execution of the work.

During audit of Khyber Pakhtunkhwa Technical Education & Vocational Training Authority, Peshawar for the year 2020-21, it was observed that the management issued work order dated March 03, 2020 to M/s. Azmat Khan for execution of the work “Repair & Raising of Boundary Wall at GTVC (B), Tank” on Market Rate System (MRS) prevailing for the 2nd quarter for the year 2019 which was accepted by the contractor.

Audit observed that in five items, the contractor was paid at rates over & above the approved and accepted by the contractor in work order for the items of works thus, the Government was put in to a loss of Rs 1.021 million.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 admitted the facts highlighted by audit and stated that a few items were placed by clerical mistake.

Reply is not acceptable as whichever was the reason, the contractor was benefited by making overpayment.

DAC meeting was held on February 03, 2022 in which it was decided that the para will stand till recovery of the amount from the contractor.

Audit recommends to investigate the causes due to which overpayment was made to the contractor at the cost of public funds; and the payment made over & above the approved rates may be recovered from the contractor.

3.3.4.7 Irregular execution of works without technical sanction Rs 27.077 million

As per Para 56 of the CPWD code read with Para 178 of the GFR Vol-1, Technical Sanction must be obtained before the construction of the work is commenced. As its name indicates, it amounts to no more than a guarantee that the proposals are structurally sound, and that the estimates are accurately calculated and based on adequate data.

During audit of the KP-TEVTA for the year 2020-21, it was observed that the works titled Re-Construction of College boundary wall at GCT Swat and Repair and raising of boundary wall at GTVC Tank (Boys) were executed by the department but technical sanctions as required under the above govt. rules were not obtained prior to the commencement of the work. The total PC-I cost of both the projects was Rs 27.077 million out of which an amount of Rs 23.035 million has been paid to the contractors. Despite completing more than 70 to 96 % of the work, the management failed to obtain technical sanction from the competent authority.

In the absence of the technical sanction, most of the works were executed by including different additional items and non execution of available items in the PC-1 therefore execution of work to the tune of Rs 27.077 million is considered as irregular.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 stated that the Technical Sanction in respect of work at GCT Swat has been approved, whereas, Technical Sanction in respect of GTVC Tank is in progress.

Reply is not acceptable as nothing was provided by management in support of its reply and the execution of work and payment up to 90% to the contractor without obtaining technical sanction is not covered under the rules.

DAC meeting was held on February 03, 2022 in which it was decided that technical sanction may be obtained from the next higher authority i.e. Chief Engineer/M.D. KP TEVTA. DAC also advised that no work should be executed without technical sanction before tendering process and overall scope of the work should not be changed in technical sanction.

Audit recommends justification for execution of the works without Technical Sanction besides regularization from the competent forum and disciplinary action against the individuals held responsible.

3.3.4.8 Irregular execution of the work at higher market rates Rs 9.946 million and loss due to delay in execution Rs 4.226 million

According to the Agenda item No. 01 of the SDDWP in its meeting held on 25.05.2017, PC-1 of the work "Repair and rising of boundary wall at GTVC Tank (B)" costing Rs 5.72 million was approved for execution during the Financial Year 2016-17.

During audit of the KP-TEVTA for the year 2020-21, it was observed that a work "Repair and rising of boundary wall at GTVC Tank (B)" for an estimated cost of Rs 5.72 million was got approved from the SDDWP in its meeting held on 25.05.2017 on Market Rate System 2016. The work was not executed during the financial year 2016-17 despite availability of funds to the worth of Rs 180.00 million under the relevant head "block allocation" as mentioned in the working paper for SDDWP.

The said work was re-submitted to the SDDWP in its meeting held on November 20, 2019 with an increased cost of Rs 10.244 million on market rate of 2019 by including only one additional item work "residential house and its electrification" for Rs 0.605 million and got approved scheme for Rs 9.946 million.

Audit is of the view that due to non execution of the work in time, and mis-guiding SDDWP forum about the approval already granted for the same scheme, department was able to got approved the new scheme of Rs 10.244 million from the competent forum on the MRS 2019 instead of MRS 2016. Due to award of work on MRS 2019, the public exchequer was put in to a loss of Rs 4.226 million (Rs 9.946 – Rs 5.72) therefore held irregular.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 is agreed with the facts highlighted by audit and stated that the work was not started due to security situation.

Reply is not acceptable being merely a statement without any solid reasons.

DAC meeting was held on February 03, 2022 in which it was decided that the Para would stand till provision of minutes of SDDWP held in the year 2016 and to check whether information regarding the submission of previous PC-1 in the year 2016 was incorporated in the fresh PC-1 approved for the said work in the year 2019.

Audit recommends to investigate and initiate disciplinary action against the individual’s held responsible for sustaining loss to the Govt. by awarding work on higher rates.

3.3.4.9 Irregular and unauthorized allotment of vehicles to the officers of other offices Rs 4.00 million

As per KP-TEVTA Rules and Regulations Chapter-II, Section-20 “A government vehicle shall not be lent to any other department/authority”. Para 10 (IV) of the GFR Vol-1 requires that public moneys should not be utilized for the benefit of a particular person or section of the community.

Contrary to above, during audit of the KP-TEVTA for the year 2020-21, it was observed that two vehicles bearing Nos. AA – 4694 and No. AA – 4686 (GLi Model 2015) valuing Rs 4.00 million (Rs 2.00 million each approx) were allocated to the Secretary and Additional Secretary, Industries, Commerce and Technical Education Department.

Audit is of the view that officers have been provided separate budget by the Finance Department and either vehicles allotted by their own office or drawing monetization allowance from the public exchequer, therefore, allocation of vehicles of KP-TEVTA is considered irregular and unauthorized. The irregularity was pointed to the management during last audit, but no compliance was made so far by the office which shows non-serious attitude of the management.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 admitted the facts highlighted by audit and stated that being Administrative Secretary of KP-TEVTA the vehicle was allotted to the officers for inspection of KP-TEVTA Institutes throughout the province.

Reply is not acceptable as provision of vehicles to officers of Administrative Ministry is not covered under the rules, thus, held irregular.

DAC meeting was held on February 03, 2022 in which it was decided that the vehicles may be returned to the KP-TEVTA and the period of unauthorized retention of the vehicles may be regularized from the Competent Authority/Forum.

Audit recommends to investigate the reasons due to which the vehicles of KP-TEVTA were allocated to the officers of Administrative Ministry; and the vehicles and the amount of POL and repair and maintenance, incurred on these vehicles may be recovered from the concerned officers.

3.3.4.10 Unjustified payments in violation of approved contract - Rs 29.514 million

Para 56 of the CPWD Code requires that before commencement of the work technical sanction should be obtained to know that the work is technically, and material sound in nature. Para-81 of the CPWD Code requires that papers to be submitted with the project for a work will, in general, consist of a report, plans, a specification and a detailed statement of measurements, quantities and rates, with an abstract showing the total estimated cost of each item. These documents together form what is called "the estimate" in the sense of this Code.

During audit of the KP-TEVTA for the year 2020-21, it was observed that a work “Up-gradation to Model Institute of Government College of Technology, Bannu” was approved by the SDDWP for an estimated cost of Rs 45.661 million including civil works cost of Rs 30.501 million. The work was awarded to M/s Habibullah & Sons for an estimated cost of Rs 29.514 million with completion period of one year vide work dated 11.06.2018. Further from relevant record audit observed that technical sanction of the work was not obtained up to

3rd running bill of Rs 16.368 million which was 55% of the contract cost. The work was awarded on different BoQ items of work but up to 3rd running bill, more than 100% non BoQ items of work were executed under different heads causing violation of the approval of the competent forum. BoQ items of work were approved on MRS 2017 whereas payment of some items works was paid at higher rates than the MRS 2017. Further, the scope of work was changed due to inclusion of the non BoQ items costing Rs 16.50 million up to 3rd running bill against the total contract cost of Rs 29.514 million which is more than 50% and additional items of work did not cover in permissible limit as existing items of work were replaced by more than 100%. The contract was not revised from the SDDWP as the entire work scope has been changed.

The matter was reported to management on Sept 27, 2021. The management in its reply dated November 23, 2021 admitted the facts highlighted by audit and stated that during execution of work changes were made as per actual ground requirement.

Reply is not convincing as the addition in already executed work by more than 50% is not covered under the rules.

DAC meeting was held on February 03, 2022 in which it was decided that to provide the relevant record relating to the approved BOQ and Non BOQ items to know, whether the payment was made as per approved PC-1 and market rate prevailing at the the time of award of the work.

Audit recommends to investigate the matter at appropriate level to probe the reasons for inclusion of non BoQ items of work and deviation from the work approved in PC-I.

3.3.4.11 Un-authorized/irregular conversion of the posts to market based salary - Rs 16.658 million

According to Clause 1.1 of the 3rd MoU between KP-TEVTA and KP-STVET on April 12, 2018 this agreement is subject to observance of provisions of KP-TEVTA Act 2015 (amended 2017) and Rules and Regulations made there under. Clause 2.3 of the said MoU requires that all agenda items recommended by Chairman KP-STVET are to be mandatory included in the agenda items for approval of KP-TEVTA BoD. Further, as per Rule 4(3) of Public Sector Companies (Corporate Governance) Rule, 2013 the Chief Executive is responsible for the management of a Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, with the ordinance. Responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of the KP-STVET for the year 2020-21, it was observed that Chairman STVET approved the revision and enhancement of the pay package of the KP-STVET contractual staff to bring it at PAR with the KP-TEVTA staff without approval of the SBoM and Board of Directors (BoD) of the KP-TEVTA. Further, the posts of the four officers were also changed from basic pay scales to market based and upgraded in the higher grades resultantly, financial burden of Rs 16.658 million was borne by the formation.

Audit is of the view that expenditure on irregular conversion of the posts and up-gradation in higher grades on market based salaries without prior approval of the competent forum was termed as un-authorized and irregular, it further burdened the formation by Rs 16.658 million.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 stated that after detailed deliberations between KP-STVET management and Chairman KP-STVET, it was decided that the salary package of KP-STVET staff to be equalized with KP-TEVTA head office staff.

Reply is not convincing as the revision in pay package to bring at par with KP-TEVTA staff without the approval of competent authority is termed as irregular.

DAC meeting was held on February 03, 2022 in which the Committee directed that further payment on market-based salary to STVET employees be stopped immediately and a fact finding inquiry be conducted to probe in to the matter along-with the recovery of the amount from individuals concerned

Audit recommends to investigate the causes due to which due to which the posts were up-graded on market based salaries which caused financial burden on formation, and recovery of the amount involved from the officers/officials.

3.3.4.12 Irregular procurement of electrical items – Rs 3.844 million

As per Rule -11 (1) of the KPPRA "the procuring entity shall engage in open competitive bidding if the cost of the object to be procured is more than the financial limit which is applicable under rule 10 purchases up-to Rs 2.5 million, shall be posted on the procuring entity's website or public procurement regulatory authority (PPRA's) or both. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring entity. Rule-10 (c) further provides that "the repeat order must be up-to 15% of the original contract price".

During audit of KP-TEVTA for the year 2020-21 it was observed that the management entered into an agreement with M/s Intermark (Pvt.) Ltd, Islamabad on March 02, 2021 for procurement of different electrical items covered in BoQ. In this regard three separate purchase orders valuing Rs 11.940 million were issued to the firm on February 16, 2021. Further, apart from the approved electrical items, management also issued 06 other purchase orders valuing Rs 3.844 million to the same suppliers for purchase of additional electrical items, not covered in tender BoQ. The procurement was also not covered under the permissible limit of repeat order as value of these items was 32% of the original tender cost and not covered within permissible limit of 15%.

Audit holds that procurement of additional items valuing Rs 3.844 million was made without proper competition and tendering process therefore held irregular.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 stated that purchase order mentioned pertains to different projects which were advertised and purchase order were issued after proper tender competition item wise.

Reply is not convincing as the additional six purchase order valuing Rs 3.844 million were issued to the same supplier for purchase of additional electrical items not covered in tender BoQ.

DAC meeting was held on February 03, 2022 in which committee directed that the fate of Para would be decided after verification of records by audit

Audit recommends to investigate the causes due to which proper procedure was not followed for purchased of additional items.

3.3.4.13 Non- deduction of conveyance allowance, HRA and 05 % of pay - Rs 3.283 million

According to Rule -08 of the Residential Accommodation at Peshawar (procedure for allotment) Rules 1980 all allotment shall be subject to the payment of monthly rent at the rate of 5% of the emoluments of the civil servant concerned as defined under FR-45C or at such rate as government may from time to time specify. Rules – 08 (2) further clarifies that DDO shall be personally responsible for deduction of Rent from the pay of officers/officials plus 5% of the basic pay as repair and maintenance cost and Conveyance Allowance, if Govt. servant has provided Govt. accommodation within premises/boundary wall of office.

During audit of the Government College of Technology for the year 2020-21, it was observed that some officers and officials had occupied Govt. Bungalow and quarters in GCT Peshawar Colony but Conveyance Allowance, House Rent Allowance and 5% of basic pay was not deducted from their salaries causing loss of Rs 3.283 million to the public exchequer. Actual recovery for the complete period under occupation of each individual may be calculated and recovered under intimation to the audit.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 stated that recovery from 2019-20 has been started, as most of the staff is residing in the staff colony from more than 30 years and it is not possible for college management to calculate the actual deduction of HRA, 5% rent and conveyance allowance of each employee.

Reply is not convincing, the management may calculate the amount in question for its recovery from the concerned officials.

DAC meeting was held on February 03, 2022 in which the Committee directed for recovery of the amount involved and verification by Audit.

Audit recommends immediate recovery of the amount involved from the occupants.

3.3.4.14 Irregular payment of 2nd shift allowance during Covid-19 - Rs 2.722 million

According to MD KP-TEVTA office order dated March 13, 2020 and dated April 06, 2020, all schools were remained closed w.e.f. March 14, 2020 to

May 31, 2020. Further, Para 10 of the GFR Vol-1 requires that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of the Government College of Technology, Peshawar under the administrative control of KP-TEVTA for the year 2020-21, it was observed that a sum of Rs 2.722 million was paid to all staff (teaching and non- teaching) during the period from March 13, 2020 to May 31, 2020 on account of 2nd and evening shift allowance. As all government and private schools and colleges were strictly closed by the provincial government to prevent the students and staff from the pandemic of the Covid-19 therefore the payment made for the said period was considered as irregular. Further, none of the staff member has marked his attendance for the 2nd shift during the said period in the attendance register which shows that college was closed during that period.

Audit holds that the payment on account of 2nd and evening shift allowance amounting to Rs 2.722 million (March 2020 Rs 1.301 million, April 2020 Rs 1.065 million and May 2020 Rs 0.356 million) during close days was considered as irregular and mis-appropriation by the dealing hands. Similar payment in other closed institutes cannot be ruled out.

The irregularity was reported to the management on September 27, 2021. The management in its reply dated November 23, 2021 stated that the teaching staff are entitled for remuneration during the academic session while, the non-vocational staff/admin staff are entitled for remuneration for the whole years as per policy of 2nd shift.

Reply is not convicting as during the period, the audit objected, the institutes were closed, thus, payment of 2nd shift allowance is not justified at all and termed as irregular.

DAC meeting was held on February 03, 2022 in which the Committee directed for recovery of the amount from all staff pointed out by the audit

Audit recommends that matter may be investigated to probe the reason of payment of 2nd shift allowance for the period the institutions were remain closed.

3.3.4.15 Non preparation of annual accounts

As per Clause 14 (6) of the KP-TEVTA Act, 2015 "The Managing Director shall prepare Annual Account Statement of the Fund within thirty days of closing of the respective financial year".

According to KP-TEVTA Regulation 2019, (Regulation-VI), Clause – 11(i) the book of accounts shall be maintained separately (ii) The Authority shall appoint a firm of Chartered Accountants to get the funds audited.

During Audit of KP-TEVTA (HO) Peshawar for the year, 2020-21, it was observed that TEVTA (HO) failed to prepare and get approved their annual financial accounts since its inception to 2020-21 therefore considered as violation of the above rules and regulations.

Audit is of the view that non-preparation of annual financial accounts in time restricts the management/BoD to make quick and right decisions, and non-compliance to its own regulation is a serious lapse on the part of management.

The irregularity was reported to the management on Sept. 27, 2021. The management in its reply dated November 23, 2021 stated that verification and reconciliation of data is in progress which will take some times.

Reply is not acceptable as under the KP-TEVTA Act the accounts were required to be finalized within 30 days of the closing of respective financial year. As the management has failed to compile/finalize the annual accounts since inception of the organization, thus, it was not delay but negligence on the part of management.

DAC meeting was held on February 03, 2022 in which it was decided that the para will remain stand till provision of audited financial accounts from Chartered Accountant Firm within a period of six months.

Audit recommends to investigate the reasons for non-compliance of rules and regulations of KP TEVTA regarding finalization of annual accounts; besides the annual accounts needs to be finalized and submitted without further loss of time.

ANNEXURES

Annex-1

MFDAC PARAS

Director General, Commercial Audit & Evaluation, Islamabad on behalf of the Auditor General of Pakistan, conducts Audit of Public Sector Enterprises, Government of the Khyber Pakhtunkhwa, which maintain their accounts on commercial pattern.

As a result of audit conducted during 2020-21, various types of financial irregularities were detected and reported to the administrative departments concerned. Out of these 70 audit paras involving Rs 6,446.819 million on irregularities/losses and mismanagements pertaining to various organizations have been printed in this report while 14 paras involving Rs 3,940.71 million of lesser importance were left for pursuance through Departmental Accounts Committee as detailed below:

Sr. No.	Subject	Rs in million
Forest Development Corporation (FDC)		
1.	Non adjustment of Mobilization advance from contractors and recurring loss of markup income	20.908
2.	No recovery/ adjustment of sales tax by M/s Ajab Noor	20.477
3.	Loss due to late execution of pending jobs by SAW mill	14.321
Small Industries Development Board (SIDB), Peshawar		
4.	Doubtful utilization of en-cashed amount	10.00
5.	Irregular placement of SIDB employees in controlling Department and payment on account of Pay & Allowances without attendance	2.900
Technical Education & Vocational Training Authority (TEVTA)		
6.	Non-production of the payee's receipt of the land owners.	89.753
7.	Irregular retention of ADP funds.	2,240.51
8.	Irregular appointment of officers/officials without observing the zonal quota.	-
9.	Irregular expenditure due to doubtful procurement of multimedia projector.	8.477
10.	Loss to public exchequer due to non/less deduction of income tax and sales tax from the firms and employees	10.172
11.	Non- conducting of board meetings.	-
12.	Irregular expenditure due to appointment of staff on emergent staff without advertisement and other codal formalities.	17.698
13.	Irregular and doubtful expenditure on procurement of computers without tendering process.	4.394
14.	Irregular expenditure due to conflict of interest.	1,500.042

<u>Annex-2</u>

NON-SUBMISSION OF ACCOUNTS

Annual audited accounts of Public Sector Enterprises for the year 2020-21 were to be provided to the Directorate General, Commercial Audit & Evaluation, Islamabad by December 31, 2021. Despite repeated requests the organizations failed to submit their annual audited accounts for the year (s) as mentioned against each organization by the prescribed date. Non-submission of accounts needs to be explained and efforts are required by these organizations to finalize and provide the accounts by due date.

FINANCE DEPARTMENT		
1.	Hydel Development Fund, Peshawar	1992-93 to 2020-21
INDUSTRIES, COMMERCE, MINERAL DEVELOPMENT, LABOUR AND TECHNICAL EDUCATION DEPARTMENT		
2.	Sarhad Mineral (Pvt.) Limited (SML) Peshawar	2018-19 to 2020-21
3.	Small Industries Development Board (SIDB) Peshawar	2016-17 to 2020-21
4.	Government Printing & Stationery Department (GP&SD) Peshawar	2018-19 to 2020-21
5.	KP Board of Investment and Trade, Peshawar	2013-14 to2020-21
6.	KP – TEVTA Peshawar	2018-19 &2020-21
SPORTS, CULTURE, TOURISM ARCHAEOLOGY AND MUSEUMDEPARTMENT		
7.	Tourism Corporation, Khyber Pakhtunkhwa (TCKP) Peshawar	2017-18 to 2020-21
LABOUR DEPARTMENT		
8.	Khyber Pakhtunkhwa Employees Social Security Institution (KPESSI) Peshawar	2012-13 to 2020-21

<u>Annex-3</u>

RECOVERIES MADE AT THE INSTANCE OF AUDIT

During the year 2020-21, audit of the public sector enterprises of the Government of Khyber Pakhtunkhwa (KP) was conducted and results thereof, pinpointing various types of financial irregularities and losses of public money, were communicated to the administrative departments.

In certain cases, the concerned formations while accepting the irregularities, made following recoveries at the instance of audit.

(Rs in million)

S. No	Name of organization	Brief particulars of recovery	Amount
	Industries, Commerce and Technical Education Department		
1	PEDO	Loss due to less recovery of income tax Rs19.821 million	19.821
2	-do-	Loss due to non recovery of professional charges Rs1.04 million	0.600
		Total	**22.273**

Annex-A

(Rs in millions)

Name of entity	Name of PAO	Receipts	Expenditure
FDC	Forestry, Environment & Wildlife Department	1,250.04	1,245.698
SIDB	Industries, Commerce, Mineral Development and Technical Education Department	376.534	369.287
KP-EZDMC		882.296	890.171
KP-TEVTA		3,436.005	2,736.083
Total: -		**5,944.875**	**5,241.239**

Annex-AI

(Rs in millions)

Name of entity	Name of PAO	Receipts	Expenditure
FDC	Forestry, Environment & Wildlife Department	1,250.04	1,245.70
SIDB	Industries, Commerce, Mineral Development and Technical Education Department	376.53	369.29
KP-EZDMC		882.27	890.17
KP-BOIT		89.48	55.82
SML		10.79	9.72
KP-TEVTA		3,436.01	2,736.09
Govt. Stationery & Printing Department		430.90	225.83
HDF	Finance Department	879.46	2.43
PEDO	Energy Department	2,231.95	1,049.98
KP-ESSI	Social Welfare Department	NA	NA
TCKP	Sports, Culture, Tourism, Archaeology and Museum Department	9,587.47	6,585.01