



**AUDIT REPORT  
ON  
THE ACCOUNTS OF  
AZAD JAMMU AND KASHMIR COUNCIL  
2012-2013**

**AUDITOR GENERAL OF AZAD JAMMU & KASHMIR**

# TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS.....	iii
Preface .....	v
EXECUTIVE SUMMARY .....	vii
SUMMARY TABLES & CHARTS .....	x
EXPENDITURE .....	x
I.    Table 1 Audit Work Statistics .....	x
II.   Table 2 Audit observation regarding Financial Management .....	x
III.  Table 3 Outcome Statistics.....	xi
IV.   Table 4: Table of Irregularities pointed out .....	xi
V.    Table 5 Cost-Benefit .....	xii
REVENUE RECIEPTS .....	xii
SUMMARY TABLES & CHARTS .....	xii
VI.   Table 1 Audit Work Statistics .....	xii
VII.  Table 2: Audit observation regarding Financial Management .....	xiii
VIII. Table 3 Outcome Statistics.....	xiii
IX.   Table 4: Table of Irregularities pointed out .....	xiv
X.    Table 5 Cost-Benefit .....	xiv
CHAPTER 1.....	1
AJ&K COUNCIL SECRETARIAT.....	1
1.1   Introduction.....	1
1.2   Comments on Budget Accounts (Variance Analysis).....	1
1.3   Brief Comments on Status of PAC Directives .....	2
CHAPTER 2.....	3
COMPLIANCE AUDIT ISSUES .....	3
2.1   AUDIT PARAS .....	3
2.1.1 Non rendition of detail accounts and non production of record /adjustment certificate Rs. 17.606 million .....	3
2.1.2 Overpayment against the approved quantities/ rates amounting Rs.18.804 million .....	4
2.1.3 Excess payment to contractors on account of Escalation/price adjustment amounting Rs. 15.051 million. ....	5
2.1.4 Overpayment of 20% and 50% increase in pay of contingent paid staff amounting Rs. 3.319 million. ....	6
2.1.5 Loss to Government due to unjustified payment of Boring Well amounting Rs.2.603 million. ....	6
2.1.6 Overpayment to contractors amounting Rs.1.478 million.....	7
2.1.7 Non recovery of mobilization advance Rs.09.528 million.....	7
2.1.8 Non/ less deduction of Govt. dues Rs.2.780 million.....	8
2.1.9 Unjustified award of contracts Rs.696.693 million on exorbitant rates and payment amounting Rs.372.216 million. ....	9
2.1.10 Irregular expenditure on account of advertisement charges Rs.29.082 million. ....	10
CHAPTER 3.....	11
LOCAL GOVERNMENT AND RURAL DEVELOPMENT .....	11
3.1   AUDIT PARAS .....	11
3.1.1 Non-production of record Rs. 2.423 million .....	11
3.1.2 Overpayments on account of approved Rates /Quantities amounting Rs.4.276 million. .	11
3.1.3 Non/Less deduction of Security Deposit Rs. 4.131 million .....	12

3.1.4	Payment without obtaining technical sanction Rs. 1.874 million. ....	13
	CHAPTER 4.....	14
	EXCISE AND TAXATION DEPARTMENT .....	14
4.1.	AUDIT PARAS .....	14
4.1.1	Non production of record /evidence in lieu of figures shown in the income statement amounting Rs. 82.286 million. ....	14
4.1.2	Loss of Government revenue due to non realization of Education-Cess on withholding tax amounting Rs. 165.991 million. ....	15
4.1.3	Loss of Government due to non recovery of arrears of Government revenue amounting Rs. 156.352 million. ....	16
4.1.4	Concealment of Income Tax liability by reducing the value of stock and changing the figures of opening and closing stock balances worth Rs. 43.044 million. ....	17
4.1.5	Loss due to less/non realization of Income Tax amounting Rs.18.311 million.....	18
4.1.6	Loss of Government revenue due to unexplained expenditure / investment amounting Rs. 7.364 million. ....	19
4.1.7	Non realization of penalty for late/non filing of Income Tax returns amounting Rs. 7.136 million. ....	20
4.1.8	Non realization of penalty of Rs. 6.272 million due to non / late filing of sales tax returns cum payment challans. ....	21
4.1.9	Non realization of Education Cess amounting Rs. 3.489 million. ....	22
4.1.10	Inadmissible and doubtful adjustment of input sales tax amounting Rs. 2.717 million. ...	23
4.1.11	Loss of Government revenue due to non recovery of Income Tax amounting Rs. 2.485 million from Association of Persons (AoP). ....	24
4.1.12	Loss of govt. revenue amounting Rs. 2.123 million due to late transfer of tax money into Council Account. ....	25
4.1.13	Loss of Government revenue due to non realization of Income Tax from property owners amounting Rs. 1.698 million. ....	27
4.1.14	Loss of Government revenue due to claim of inadmissible tax rebate amounting Rs. 1.489 million. ....	28
4.1.15	Non realization of penalty for non submission of wealth/ reconciliation statements amounting Rs. 1.035 million. ....	29
4.1.16	Loss to the AJ&K Council due to less deposit of the advance Income Tax and claiming of inadmissible tax rebate amounting Rs. 9.517 million .....	30
	<b>Annexure-I</b> .....	31

## **ABBREVIATIONS AND ACRONYMS**

AJ&K	: Azad Jammu and Kashmir
B&RDC	: Buildings & Roads Department Code
BOQ	: Bill of Quantities
CPWA	: Central Public Works Account Code
CPWD	: Central Public Works Department Code
CSR	: Composite Schedule of Rates
DAC	: Departmental Accounts Committee
DDO	: Drawing & Disbursing Officer
EC	: Education Cess
FY	: Financial Year
GFR	: General Financial Rules
GST	: General Sales Tax
IRO	: Inland Revenue Officer
IT	: Income Tax
KA & GB	: Kashmir Affairs and Gilgit Baltistan
LG&RDD	: Local Government and Rural Development Department
MA	: Mobilization Advance
MB	: Measurement Book
PAC	: Public Accounts Committee
PAO	: Principal Accounting Officer
SA	: Secured Advance



## Preface

Section 50-A of the Azad Jammu and Kashmir Interim Constitution Act, 1974 read with Section 9 and Section 13 of the Auditor General of Azad Jammu and Kashmir (Functions, Powers and Terms and Conditions of Service) Act, 2005 requires the Auditor General to conduct audit of expenditure and receipts of Azad Jammu and Kashmir Council Consolidated Fund and Public Account.

The report is based on audit of the accounts of various departments of Azad Jammu and Kashmir Council for the financial year 2011-12. It also includes observations relating to the accounts of certain formations for previous years. The audit was conducted by Directorate General of Audit Azad Jammu and Kashmir during 2012-13 on test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systemic issues and audit findings value of Rs. 1 million or more. Relatively less significant issues are listed in the Annexure-I of the Audit Report. The Audit observations listed in the Annexure-I shall be pursued with the Principal Accounting Officer at the DAC level and in all cases where the PAO does not initiate appropriate action, the Audit observation will be brought to the notice of the Public Accounts Committee through the next year's Audit Report.

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

The report highlights the significant cases of financial irregularities, losses and wastage of funds, which indicate the need for adherence to the regulatory framework and strengthening of internal controls to avoid recurrence of similar violations and irregularities.

Most of the observations included in this report have been finalized in the light of discussions in the DAC meetings.

The Audit Report is submitted to the Chairman of Azad Jammu and Kashmir Council in pursuance of Section 50-A (6) of Azad Jammu and Kashmir Interim Constitution Act, 1974 for causing it to be laid before the Azad Jammu and Kashmir Council.

Dated:

(Muhammad Akhtar Buland Rana)  
**Auditor General**  
**Azad Jammu and Kashmir**



## **EXECUTIVE SUMMARY**

The Directorate General Audit, Azad Jammu and Kashmir is responsible for conducting the audit of Azad Jammu and Kashmir Council. For the purpose, the Director General Audit, Azad Jammu and Kashmir has 104 officers and staff constituting 16500 man-days. The budget of Directorate General for the Financial Year 2012-13 was Rs 88.502 million. The mandate of this office includes conducting financial attest, compliance with authority audit, audit of sanction and propriety, of the Council expenditures and receipts.

The Auditor General of Pakistan is also the Auditor General of Azad Jammu and Kashmir. There are 42 formations of AJ&K Council. Audit of expenditure and receipts of 29 formations was planned during 2012-13, through 04 field audit teams utilizing 58 man days, and 05 formations were audited which is 17.24% coverage.

### **a) Scope of Audit**

#### **Expenditure audited**

Against the total budget of Rs.8467.675 million (Dev: Rs 2,200.000 million and Non Dev: Rs. 6267.675 million) of AJ&K Council, the expenditure of Rs 7337.287 million was incurred i.e. about 87 % of the total budget. The budget allocation of 05 formations audited was Rs 2467.819 million and the expenditure of Rs 1264.540 million was audited which was 17 % of the total AJ&K Council expenditure.

#### **Receipts audited**

The audit of receipts is based on Revenue Receipts upto Financial Year 2010-11 as regards total budgeted receipts for the FY 2010-11 Rs.5500.000 million. During the FY actual receipts were 5629.792 million which were 2.35% excess of estimated receipts. As regards out of 18 formations 16 formations were included in audit plan for the year 2011-12 covering 88.88% audit of receipts.

### **b) Recoveries at the instance of audit**

Audit pointed out recoverable amounts of Rs 20.812 million as a result of the audit of expenditures, out of which recovery of Rs 4.373 million was affected until the compilation of this Report. The Taxes of Rs 429.023 million were recoverable as pointed out by Audit but no recovery has been made as yet.

### **c) Audit methodology**

The auditors examined the record made available by AJ&K Council and its formations, keeping in view the policies, procedures, rules, regulations framed.



#### **d) Comments on Internal Control**

Internal Control is an important executive tool to improve performance, prevent losses, avoid misuse of public money and ensure safeguarding of government assets. The key Audit findings of the report indicate that majority of the observations raised by the Audit are due to inadequate placement and implementation of the internal controls.

The result of weak internal controls is evident from the following deficiencies in the financial management system of AJ&K Council:

- i. Non-observance of canons of financial propriety, rules and regulations Rs 505.487 million. (*Key Audit Findings ii, v, x*)
- ii. Non-recovery of government dues of Rs 388.695 million due to poor collection and supervisory mechanism. (*Key Audit Findings iv, vi, vii*)
- iii. Concealment and non accounting for public money amounting to Rs 59.370 million. (*Key Audit Findings iii, viii, ix*)
- iv. Loss due to unjust and unauthorized payments Rs 42.928 million. (*Key Audit Findings ii*)

The Principal Accounting Officer needs to ensure strengthening of internal controls in each formation and proper implementation of rules, regulations and procedures.

**e)** AJ&K Council has its own Internal Audit Section but it is still not functioning properly.

#### **f) Key audit findings of the Report**

##### **Expenditures Audit**

- i. Irregular/Unauthorized expenditure (03 Paras) Rs 403.172 million.<sup>1</sup>
- ii. Overpayment to the contractors (05 Paras) Rs 42.928 million.<sup>2</sup>
- iii. Fictitious expenditure (01 Para) Rs 2.603 million.<sup>3</sup>
- iv. Non/less deduction of Government dues (03 Paras) Rs 16.439 million.<sup>4</sup>
- v. Non production of record (02 Paras) Rs 20.029 million.<sup>5</sup>

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<sup>1</sup> Para 2.1.9, 2.1.10,3.1.4

<sup>2</sup> Para 2.1.2, 2.1.3, 2.1.4, 2.1.5, 3.1.4

<sup>3</sup> Para 2.1.5

<sup>4</sup> Para 2.1.7, 2.1.8,3.1.3

<sup>5</sup> Para 2.1.1,3.1.1

### **Revenue Receipts Audit**

- vi. Non/ Short recoveries of Government taxes (07 Paras) Rs 339.502 million<sup>6</sup>
- vii. Non recovery of penalty (04 Paras) Rs 32.754 million.<sup>7</sup>
- viii. Tax frauds (01 Para) Rs 43.044 million.<sup>8</sup>
- ix. Loss due to wrong/ fictitious adjustment of Input Tax (03 Paras) Rs 13.723 million.<sup>9</sup>
- x. Non production of record (01 Para) Rs 82.286 million.<sup>10</sup>

### **Recommendations**

Principal Accounting Officer needs to ensure;

- i. Compliance with canons of financial propriety, rules and regulations through, monitoring, evaluation and accountability of departmental functionaries.
- ii. Proper documentation and maintenance of financial records.
- iii. Prevention of recurrence of irregularities.
- iv. Recovery of Government dues and their prompt deposit into Government Account.
- v. Timely production of relevant record to Audit.
- vi. Holding meetings of DAC regularly.
- vii. Instituting the Internal Audit system directly under his/her supervision.

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<sup>6</sup> Para 4.1.2, 4.1.3, 4.1.6, 4.1.9, 4.1.11,4.1.12, 4.1.13

<sup>7</sup> Para 4.1.5, 4.1.7, 4.1.8, 4.1.15

<sup>8</sup> Para 4.1.4

<sup>9</sup> Para 4.1.10, 4.1.14,4.1.16

<sup>10</sup> Para 4.1.1

## SUMMARY TABLES & CHARTS

### EXPENDITURE

#### I. Table 1 Audit Work Statistics

Sr. No	Description	Expenditure	
		No.	Budget (Rs. Million)
1	Total Entities (Ministries/PAO's) in Audit Jurisdiction	01	8467.675
2	Total formations in audit jurisdiction	42	8467.675
3	Total Entities (Ministries/PAO's) Audited	01	1264.540
4	Total formations Audited	05	1264.540
5	Audit & Inspection Reports	05	1264.540
6	Special Audit Reports	-	-
7	Performance Audit Reports	-	-
8	Other Reports	-	-

#### II. Table 2 Audit observation regarding Financial Management

Sr. No	Description	Amount Placed under Audit Observation (Rs. Million)
1	Unsound asset management	-
2	Weak financial management	61.970
3	Weak Internal controls relating to financial management	403.172
4	Others	20.029
	<b>Total</b>	<b>485.171</b>

### III. Table 3 Outcome Statistics

Sr. No	Description	Expenditure on Acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others (Rs million)	Total current year 2012-2013 (Rs million)	Total last year 2011-2012 (Rs million)
1	Outlays Audited	-	-	-	1264.540	1264.540	2483.818
2	Amount placed under Audit observation / irregularities of Audit	-	-	-	485.171	485.171	753.425
3	Recoveries pointed out at the instance of Audit	-	-	-	-	20.812	24.681
4	Recoveries accepted / established at the instance of Audit	-	-	-	-	20.812	24.681
5	Recoveries realized at the instance of Audit	-	-	-	-	4.373	3.298

### IV. Table 4: Table of Irregularities pointed out

S.No	Description	Amount Placed under Audit Observation (Rs million)
1	Violation of Rules and regulations and violation of principal of propriety and probity in public operations.	441.627
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	2.603

3	Accounting Errors (accounting policy departure from NAM, misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	-
4	If possible quantify weaknesses of internal control systems.	-
5	Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public money	20.812
6	Non –production of record.	20.029
7	Others, including cases of accidents, negligence etc.	-

**V. Table 5 Cost-Benefit**

Sr.No	Description	Amount (million)
1	Outlays Audited (Items 1 of Table 3)	1264.540
2	Expenditure on Audit	22.176
3	Recoveries realized at the instance of Audit	4.373
	Cost-Benefit Ratio(2/3)	5.07

**REVENUE RECIEPTS**

**SUMMARY TABLES & CHARTS**

**VI. Table 1 Audit Work Statistics**

Sr.No	Description	No.	Budget (million)
1	Total Entities (Ministries/PAO's) in Audit Jurisdiction	01	5500.000
2	Total formations in audit jurisdiction	18	5500.000
3	Total Entities(Ministries/PAO's) Audited	01	491.874
4	Total formations Audited	16	491.874
5	Audit & Inspection Reports	16	491.874
6	Special Audit Reports	-	-
7	Performance Audit Reports	-	-
8	Other Reports	-	-

**VII. Table 2: Audit observation regarding Financial Management**

S.No	Description	Amount Placed under Audit Observation (Rs. In Millions)
1	Unsound asset management	-
2	Weak financial management	429.023
3	Weak Internal controls relating to financial management	-
4	Others	82.286
	<b>Total<sup>11</sup></b>	<b>511.309</b>

**VIII. Table 3 Outcome Statistics**

Sr. No	Description	Expenditure on Acquiring Physical Assets (Procurement)	Civil Works	Receipts (Million)	Others	Total current year 2011-12	Total last year 2010-11
1	Outlays Audited	-	-			491.875	2063.444
2	Amount Placed under Audit Observation / Irregularities of Audit					511.309	66.894
3	Recoveries Pointed Out at the instance of Audit					429.023	66.894
4	Recoveries Accepted /Established at the instance of Audit					429.023	66.894
5	Recoveries Realized at the instance of Audit					Nil	Nil

<sup>11</sup> Arrears of previous years are also included in amount of audit observation

**IX. Table 4: Table of Irregularities pointed out**

S.No	Description	Amount Placed under Audit Observation
1	Violation of Rules and regulations and violation of principal of propriety and probity in public operations.	-
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	-
3	Accounting Errors (accounting policy departure from NAM, misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	-
4	If possible quantify weaknesses of internal control systems.	-
5	Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public money	429.023
6	Non production of record.	82.286
7	Others, including cases of accidents, negligence etc.	-

**X. Table 5 Cost-Benefit**

Sr.No	Description	Amount
1	Outlays Audited (Items 1 of Table 3)	491.875
2	Expenditure on Audit	7.360
3	Recoveries realized at the instance of Audit	Nil
4	Cost-Benefit Ratio	Nil

## CHAPTER 1

### AJ&K COUNCIL SECRETARIAT

#### 1.1 Introduction

The Azad Jammu and Kashmir Council (AJ&K Council) is a statutory body established under the provisions of Section 21 of the AJ&K Interim Constitution Act, 1974 promulgated on 24th August, 1974. The Prime Minister of Pakistan is the Chairman of AJ&K Council, President of AJ&K Vice-Chairman and Prime Minister of AJ&K or a person nominated by him a Member. Moreover, 05 Members are nominated by Prime Minister of Pakistan from Federal Cabinet and 06 Members elected by the AJ&K Legislative Assembly from amongst State Subjects in accordance with the system of proportional representation by means of single transferable vote. The Federal Minister for KA&GB is also an ex-officio member.

This composition enables the AJ&K Council to work as a bridge between the Government of Pakistan and the Azad Government of the State of AJ&K. The Executive authority of the Council extends to all matters with respect to which the Council has powers to make laws and is exercised by the Chairman, AJ&K Council (Prime Minister of Pakistan) in the name of the Council in terms of Section 21(7) of AJ&K Interim Constitution Act, 1974 through its Secretariat Islamabad. Traditionally, the Federal Minister for KA&GB and the Secretary, KA&GB act as Minister Incharge and Secretary, AJ&K Council Secretariat respectively. Under the AJ&K Interim Constitution Act, 1974, the Council has a unique constitution as status and has clearly defined legislative, executive and judicial powers

#### 1.2 Comments on Budget Accounts (Variance Analysis)

Budget allocation and expenditure of Kashmir Council Secretariat for the Financial Year 2011-12 is as under.

<b>Description</b>	<b>Budget Allocation (Rs Million)</b>	<b>Expenditure Incurred (Rs Million)</b>	<b>Percentage Utilized</b>
Development	2,200.000	2,144.098	97.46%
Non-Development	248.295	248.289	100%
<b>Total</b>	<b>2,448.295</b>	<b>2,392.387</b>	<b>97.72%</b>

The budget allocation utilized under Development and Non Development budget was 97.46% and 100% respectively. A variance Analysis for last two financial years is as under:



<b>Sr. No.</b>	<b>Particulars</b>	<b>FY 2011-12 Rs million</b>	<b>FY 2010-11 Rs Million</b>	<b>Variance (Rs million) %age</b>	
1.	Budget Allocation	2,448.295	2,403.606	44.689	1.86%
2.	Total Expenditure	2,393.387	2,311.776	81.611	3.53%
3.	Audited Expenditure	1,243.079	750.230	492.849	65.70%

### **1.3 Brief Comments on Status of PAC Directives**

Compliance of PAC directives on Audit Reports relating to Azad Jammu and Kashmir Council is as under:-

<b>Year</b>	<b>Total Paras</b>	<b>No. of Paras Discussed</b>	<b>Compliance made</b>	<b>Compliance awaited</b>	<b>%age</b>
2009-10	36	22	2	34	6%
2010-11	64	36	12	52	19%
2011-12	37	--	--	37	0%

## CHAPTER 2

### COMPLIANCE AUDIT ISSUES

The following issues were observed during Compliance with Authority Audit of AJ&K Council.

#### 2.1 AUDIT PARAS

##### 2.1.1 Non rendition of detail accounts and non production of record /adjustment certificate Rs. 17.606 million

According to Treasury rules Para No.668 detailed account for advance drawl was necessary to render to the Accounts office before the closing of financial year and according to Section 15 of the Auditor General of Azad Jammu and Kashmir (Functions, Powers and Terms and Conditions of Service) Act, 2005, it is the responsibility of the department to provide all the auditable record /information to the audit.

During Audit of the accounts of AJ&K Council Secretariat Islamabad for the year 2011-2012, it was observed that detail accounts/record and adjustment certificate of advances was not provided to audit as detailed below:-

S.No	Para No. AIR	Nature	Amount ( Rs)
1.	35	Non production of detailed account and record against advance drawl	14,025,900
2.	43	Non production of record (Log books)	3,579,933
<b>Total</b>			<b>17,605,833</b>

Audit recommended that the record may be provided for examination and verification. Disciplinary action should be taken against the officials responsible and timely production of record be ensured in feature.

The matter was brought to the notice of the DDO in September 2012 and PAO in November 2012.

The DAC meeting was held on 17-12-2012 in which an amount of Rs.651,000 is settled against Para 35 as record of the said amount was shown to the audit and remaining amount 14,025,900 is still outstanding and DAC directed to provide record for remaining amount Rs.14,025,900 but no progress has been reported .

Advance Para No.102

### 2.1.2 Overpayment against the approved quantities/ rates amounting Rs.18.804 million

According to Building and Road Department Code Para No.2.88, 2.89, 2.110 and Central Public Works Department Code Para No.72, 98, changes in BOQ/ specifications require necessary approval for revision of estimates by the competent authority.

During Audit of the accounts of AJ&K Council Secretariat Islamabad for the year 2011-2012, it was observed that payment was made over and above the approved quantities/rates of BOQ in different items without obtaining approval of revised estimate from competent authority.

S. No.	Para No AIR	Nature	Amount ( Rs)
1	14	Overpayment beyond the CSR rates	1,253,926
2	16	Overpayment for steel items above the bidding rates	423,060
3	17,22	Overpayment against items not mentioned in the tender document.	312,011
4	19	Overpayment against items not mentioned in the agreement	16,424,620
5	21	Overpayment to contractor beyond the approved rate	75,052
6	32	Overpayment due to payment above the approved rate/measurement	315,000
<b>Total</b>			<b>18,803,669</b>

Audit recommended that overpaid amount be recovered and remitted into AJ&K Council account. Responsibility for making overpayment may be fixed and disciplinary action may also be taken against the responsible. Internal Controls need to be strengthened to avoid the recurrence of such lapses in future.

The matter was brought to the notice of the DDO in September 2012, and PAO in November 2012.

The DAC meeting was held on 17-12-2012 in which an amount of Rs.946,668 out of Rs. 1,369,728 is settled against Para No.16 and DAC directed to recover all the remaining amount Rs. 423,060 but no progress has been reported .

Advance Para No.101

**2.1.3 Excess payment to contractors on account of Escalation/price adjustment amounting Rs. 15.051 million.**

According to the contract agreement clause 12.4 escalation is required to be paid to the contractors on the basis of the rates approved by the Competent Authority.

During Audit of the accounts of AJ&K Council Secretariat Islamabad for the year 2011-12, it was observed that excess payment has been made to the contractors on account of escalation /price adjustment, as per detail given below.

S.No	AIR Para No	Nature of observation.	Amount (Rs)
1.	4	Excess payment of price adjustment of escalation by applying excessive rates and adding 6.4% in addition to escalation.	2,853,254
2.	6(ii)	Excess payment of escalation by applying excessive rates not approved by the Competent Authority.	1,594,702
3	8	Excess payment of escalation by applying excessive rates not approved by the Competent Authority.	4,222,234
4	11	Excess payment on account of escalation/price adjustment by applying incorrect monthly rates.	1,095,931
5	13	Excess payment on account of escalation/price adjustment	315,984
6	30(ii)	Excess payment of price adjustment due to applying excess rates.	279,003
7	44	Excess payment of price adjustment of escalation by applying excessive rates and adding 6.4% in addition to escalation.	4,689,406
		<b>Total</b>	<b>15,050,514</b>

Audit recommended that over paid amount be recovered and remitted into AJ&K Council account under intimation to audit. Responsibility for overpayment may be fixed and disciplinary action may also be taken against the responsible. Remedial measures be adopted to stop recurrence in future.

The matter was brought to the notice of the DDO in September 2012, and PAO in November 2012.

The DAC meeting was held on 17-12-2012 in which the DAC directed to recover the amount from the responsible, but no progress has been reported.

Advance Para No.104

**2.1.4 Overpayment of 20% and 50% increase in pay of contingent paid staff amounting Rs. 3.319 million.**

20% Ad-hoc Relief allowance vide notification No.F-1(7)imp/2009 dated 21-7-2009, and 50% Ad-hoc allowance vide notification No.F-1(1) imp/2010(622)dated 5-7-2010, in pay of the Government employees including contingent paid staff and contract employees employed against civil posts in basic pay scales was allowed.

During Audit of the accounts of AJ&K Council Secretariat Islamabad for the year 2011-12, it was observed that unauthorized benefit of aforementioned pay increases was allowed to the contingent paid staff not appointed against any permanent posts and appointed on fixed lump sum pay @ Rs. 6,000 per month.

AIR Para No.34

3,318,574

Audit recommended that unauthorized paid amount be recovered and remitted into AJ&K Council account under intimation to audit. Responsibility be fixed for overpayment and disciplinary action may also be taken against the responsible. Remedial measures be adopted to stop the recurrence in future.

The matter was brought to the notice of the DDO in September 2012, and PAO in November 2012.

The DAC meeting was held on 17-12-2012 and directed to recover the amount from concerned but no progress has been reported.

Advance Para No.103

**2.1.5 Loss to Government due to unjustified payment of Boring Well amounting Rs.2.603 million.**

According to General Financial Rules Para 10(i) every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During Audit of the accounts of AJ&K Council Secretariat Islamabad for the year 2011-12, it was observed that contract for construction of water tank Al-Shifa Eye Hospital Muzaffarabad was awarded to a contractor. According to the letter of incharge Al-Shifa Eye Hospital Muzaffarabad boring of tube well proved result less and water will uplift from river Jhelum. Department did not justify the fruit less expenditure on boring. The necessary test required for boring of well from time to time conducted through private firm and charges of these tests have been paid by the contractor. The firm who has done the tests did not give any assurance that boring will be fruitful below the depth of 600ft, so the AJ&K council has sustained a huge loss due to mismanagement of the works section of the AJ&K council.

AIR Para No. 15

2,603,000

Audit recommended that amount be recovered and remitted into AJ&K Council account. Responsibility be fixed and disciplinary action be taken against the responsible.

The matter was brought to the notice of the DDO in September 2012, and PAO in November 2012.

The DAC meeting was held on 17-12-2012 and directed to recover the amount but no progress has been reported.

Advance Para No.106

### **2.1.6 Overpayment to contractors amounting Rs.1.478 million.**

According to Central Public Works Accounts Code Para No.221-222 Divisional officer is responsible for accuracy of calculation of measurement books.

During Audit of the accounts of AJ&K Council Secretariat Islamabad for the year 2011-12, it was observed that following overpayments were made in different items.

S.No	AIR Para No	Nature of observation.	Amount (Rs)
1.	2	Overpayment due to wrong totaling on MBs	769,300
2.	5	Overpayment due to wrong calculation of Quantities at MBs	709,056
		<b>Total</b>	<b>1,478,356</b>

Audit recommended that the overpaid amount be recovered and remitted into AJ&K Council account under intimation to audit. Remedial measures to stop the recurrence of such lapses in future may be adopted.

The matter was brought to the notice of the DDO in September 2012 and PAO in November 2012 but no reply received.

The DAC meeting was held on 17-12-2012 and an amount of Rs.2,591,247 out of the total amount of Rs.3,360,547 against Para No.02 and Rs.1,602,677 out of the total amount of Rs. 2,311,733 against Para No.05 was settled. DAC directed to recover the remaining amount Rs. 1,478,356 but no progress has been reported.

Advance Para No.97

### **2.1.7 Non recovery of mobilization advance Rs.09.528 million**

According to Public Works Departmental financial Rules Para No.7.36, the amount of mobilization advance was required to be recovered from the contractor @ 20% from the first five running bills and the remaining amount from the final bill of the contractor.

During Audit of the accounts of AJ&K Council Secretariat Islamabad for the year 2011-2012, it was observed that an amount of Rs. 37,376,000 were paid to the contractor Ms Saadat Rasheed Engineers on account of mobilization advance. According to M.B page 12 to 75 up to 10<sup>th</sup> and final bill against the total paid amount of mobilization advance an amount of Rs.30,346,908 has been found recovered and remaining amount Rs.7,029,092 is still recoverable despite finalization of the contract.

AIR Para No 9 7,029,092

II An amount of Rs. 7,199,000 were paid as mobilization advance to M/S National Construction Company Limited Islamabad for construction of Directorate of training and hostel building Pallandri, but the firm failed to complete the work. After lapse of more than six years against total paid mobilization advance, only Rs.4,700,000 recovered but the remaining amount of Rs. 2,499,000 is still recoverable.

AIR Para No 48(i) 2,499,000

Total **9,528,092**

Audit recommended that the amount be recovered and remitted into AJ&K Council account. Responsibility for non recovery of the amount in time may be fixed and disciplinary action may also be taken against the responsible. Internal Control needs to be strengthened to avoid the recurrence of such lapses in future.

The matter was brought to the notice of the DDO in September 2012 and PAO in November 2012.

The DAC meeting was held on 17-12-2012 and directed to recover the amount from the concerned but no progress has been reported.

Advance Para No.99

### **2.1.8 Non/ less deduction of Govt. dues Rs.2.780 million**

According to the Sales tax Act 1990 and Finance Act 2009 taxes were required to be charged and as per Para 26 of General Financial Rules vol.1, it is the responsibility of the Department /DDO to ensure timely and promptly assessment and depositing of the Govt. money in to the Govt. treasury in time.

During Audit of the accounts of AJ&K Council Secretariat Islamabad for the year 2011-2012, it was found that Govt. dues were not deducted/less deducted as detailed below:-

S.No.	Para No. AIR	Nature	Amount
1.	20	Non deduction of GST due to payment of supply and non schedule items.	2,627,939
2.	7,26	Non/Less deduction of Income Tax	151,863
<b>Total</b>			<b>2,779,802</b>

Audit recommended that amount be recovered and remitted into AJ&K Council's account under intimation to audit and timely recovery of Govt. dues and its remittances in to AJ&K council's account be ensured in future.

The matter was brought to the notice of the DDO in September 2012 and PAO in November 2012.

The DAC meeting was held on 17-12-2012 and directed to recover the amount but no progress has been reported.

Advance Para No.98

**2.1.9 Unjustified award of contracts Rs.696.693 million on exorbitant rates and payment amounting Rs.372.216 million.**

According to the General Financial Rules vol-1 Para 182 to facilitate the preparation of estimates, as also to serve as a guide in settling rates in connection with contract agreements, a schedule of rates for each kind of work commonly executed should be maintained in each locality and kept up to date. The rates entered in the estimates should generally agree with the scheduled rates but where, from any cause, these are considered insufficient, or in excess, a detailed statement must be given in the report accompanying the estimate, showing the manner in which the rates, used in the estimate are arrived at.

During Audit of the accounts of AJ&K Council Secretariat Islamabad for the year 2011-12, it was observed that contracts for construction of Office-cum- Parliamentary Building and construction of Council Lodges Building were awarded for Rs. 345.968 million and 350.725 million respectively total for Rs. 696.693 million on exorbitant rates. The tenders of the projects were required to be called on Composite Schedule of Rates and to be awarded on reasonable rates but the contracts have been found awarded by applying exorbitant rates resulting unjustified allotment of contracts and payment of Rs. 372,216,002 upto June, 2012.

AIR Para No. 27

Audit recommended that allotment of contract on exorbitant rates be justified with the documentary evidence. Remedial measures to stop the recurrences of such lapses in future may be adopted.

The matter was brought to the notice of the DDO in September 2012 and PAO in November 2012. The DAC meeting was held on 17-12-2012 and informed that an inquiry for unjustified award of contracts is under process and action will be taken accordingly but no progress has been reported.

Advance Para No.110



**2.1.10 Irregular expenditure on account of advertisement charges  
Rs.29.082 million.**

According to Para 20,23(4),83 of GFR Lovl-1, It is the responsibility of the department /DDO to make correct payments.

During Audit of the accounts of AJ&K Council Secretariat Islamabad for the year 2011-12, it was observed that an amount of Rs. 29,082,108 were paid as advertisement charges, but claims have not been certified by the information department. Hence the expenditure could not be accepted as correct.

AIR Para No. 37

29,082,108

Audit recommended that irregular expenditure be justified with the documentary evidence. Remedial measures to stop the recurrences of such lapses in future may be adopted.

The matter was brought to the notice of the DDO in September 2012 and PAO in November 2012.

The DAC meeting was held on 17-12-2012 and directed to take necessary action accordingly but no progress has been reported.

Advance Para No.109

## CHAPTER 3

### LOCAL GOVERNMENT AND RURAL DEVELOPMENT

#### 3.1 AUDIT PARAS

##### 3.1.1 Non-production of record Rs. 2.423 million

According to Section 15 of the Auditor General of Azad Jammu and Kashmir (Functions, Powers and Terms and Conditions of Service) Act, 2005, and Para No.17 of General Financial Rules Voll (I), it is the responsibility of the department to provide record /information to audit.

During scrutiny of the cash books of the following offices (AJ&K Council funded) for the year 2010-11, the record i.e. contract files & payment acknowledgements etc were not provided to Audit on requisition during audit inspection.

S.No.	Name of Office	Audit year	AIR Para No.	Amount (Rs.)
1.	Assistant Director Local Govt. Muzaffarabad	7/2010 to 6/2011	22,28,29	1,443,818
2.	Assistant Director Local Govt. Rawalpindi	9/2009 to 6/2011	28	979,000
<b>Total</b>				<b>2,422,818</b>

Audit recommended that record be provided to Audit for examination and verification, disciplinary action be taken against the persons at fault and timely production of record be ensured in future.

Audit brought the matter to the notice of the DDO in February 2012, and PAO in November 2012. Despite requests the department did not convene DAC meeting.

Advance Para No.78

##### 3.1.2 Overpayments on account of approved Rates /Quantities amounting Rs.4.276 million.

According to Central Public Works Account Code Para 164 and 296 the rates entered in estimates should generally agree with the schedule rates, but if where considered not sufficient, the deviation should be prepared and according to Central Public Works Department Code Para 44, the divisional officer is responsible for excess of actual overestimated of work.

During scrutiny of the bills / measurement books of the under mentioned offices, (AJ&K Council funded) Audit observed that the payments were made beyond the approved rates/quantities resulting overpayments as under:

S. No	Name of office	Period of Audit	Para No.	Nature of payment	Over paid Amount (Rs.)
1.	Assistant Director Local Govt. Rawalpindi	9/2009 to 6/2011	18, 21	Payment beyond approved CSR	2,333,825
2.	Assistant Director Local Govt. Muzaffarabad	7/2010 to 6/2011	21	Payment beyond approved CSR	58,806
3.	Assistant Director Local Govt. Rawalakot	7/2011 to 6/2012	12	Payment beyond approved Quantity	1,786,107
4.	Assistant Director Local Govt. Bagh	7/2011 to 6/2012	8	Payment beyond approved Quantity	62,195
5.	Assistant Director Local Govt. Bagh	7/2011 to 6/2012	9	Payment beyond approved CSR	34,855
<b>Total</b>					<b>4,275,788</b>

Audit recommended that overpaid amount be recovered and deposited into AJ&K Council's account and responsibility be fixed against responsible. Internal controls be strengthened to avoid the recurrence of such lapses in future.

Audit brought the matter to the notice of the DDOs in September October 2012 and PAO in November 2012, but no reply received. Despite requests the department did not convene the DAC meeting.

Advance Para No.81

### 3.1.3 Non/Less deduction of Security Deposit Rs. 4.131 million

According to Public works department code Para 89-e and building and roads department code Para 2.66 the deduction of Security deposit is necessary and central public works account code Para 395 security deposit can be released after completion of maintenance period of the work.

In violation of the above rules, in the following offices (AJ&K Council funded) security deposit was not deducted from the bills of the contractors of development projects during the period 2011-2012:-

S.No	Name of office	AIR Para	Period of Audit	Amount (Rs.)
1	Assistant Director Local Govt. Bagh	7	7/2011 to 6/2012	831,820
2	Assistant Director Local Govt. Rawalakot	11	7/2011 to 6/2012	3,299,426
<b>Total</b>				<b>4,131,246</b>

Audit recommended that amount be recovered and remitted into AJ&K Council account under intimation to audit, responsibility be fixed against responsible.

Audit brought the matter to the notice of the DDO in September and October 2012 and PAO in November 2012, but no reply received. Despite requests the department did not convene the DAC meeting.

Advance Para No.80

#### **3.1.4 Payment without obtaining technical sanction Rs. 1.874 million.**

According to Para 56 of CPWD Code read with Para No. 2.4 of B&R Department Code and Govt. order No.SLG/3856-63/99 dated 11.09.1999, technical sanction to the estimates of the projects is required to be obtained from the competent authority before implementation and incurring expenditure.

During scrutiny of the contract files of the Assistant Director Local Government Muzaffarabad (AJ&K Council funded) for the year 2011-2012, Audit observed that payments were made against works executed without obtaining technical sanctions to the estimates.

AIR Para No.22

Rs.1,873,880

Audit recommended that technical sanction be obtained from the competent authority and provided to Audit, responsibility be fixed against officials at fault and effective measures to prevent such irregularities in future be adopted.

Audit brought the matter to the notice of DDOs in October 2012 and PAO in November 2012, but no reply received. Despite requests the department did not convene the DAC meeting.

Advance Para No.79

## CHAPTER 4

### EXCISE AND TAXATION DEPARTMENT

#### 4.1. AUDIT PARAS

##### 4.1.1 Non production of record /evidence in lieu of figures shown in the income statement amounting Rs. 82.286 million.

According to section 114 (2) of the Income Tax Ordinance 2001, A return of Income Tax;

- (a) Shall be in the prescribed form and shall be accompanied by such annexure, statements or documents as may be prescribed
- (b) Shall fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the tax payer.
- (c) Shall be signed by the person, being an individual , or the person's representative where section 172 applies.

During the scrutiny of record for the year 2010-11 under the jurisdiction of following Inland Revenue Offices, it was observed that the taxpayers have not attached the requisite documents with their tax returns as required under above referred section of Income Tax Ordinance 2001. Details of the incomplete returns are as under;

Sr. #	Name office	AIR Para	Amount (Rs.)	Documents required
01	IRO Kotli	04	1,084,031	Tax payment challans
02	IRO Business Circle Muzaffarabad	12	20,802,186	Authentic sale & purchase certificate
03	IRO Business Circle Mirpur	06	179,142	Tax payment certificate from concerned authority
04	IRO Dadyal	03	5,794,300	Tax deduction certificate from NSC / Post office department
05	IRO Salary Circle Muzaffarabad	03	109,845	Tax payment challans
06	IRO Company Circle Mirpur	03	47,422,991	Deduction certificate from concerned authority
07	IRO Professional Circle Mirpur	12	544,680	Tax payment challans
08	IRO Professional Circle Muzaffarabad	01	6,349,246	Certificate regarding deduction at source
<b>Total</b>			<b>82,286,421</b>	

Audit recommended that the department should furnished the relevant/ supporting documenting to Audit in order to justify its authenticity of amounts claimed / paid by the tax payers for the year 2011 accept tax returns in future as required under law.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No.09

#### **4.1.2 Loss of Government revenue due to non realization of Education-Cess on withholding tax amounting Rs. 165.991 million.**

According to Section 2 of the Education Cess Act 1975 there shall be levied a cess known as Education Cess chargeable at the rate of 5% of the amount of Income Tax /Super Tax assessed and payable except Government employees and all employees of autonomous bodies and Semi-Government organization.

According to Section 2 (63) of the Income Tax Ordinance 2001 tax means any tax imposed under Chapter II, and includes any penalty, fee or other charge or any sum or amount leviable or payable under this Ordinance.

During the scrutiny of Income Tax Record of following offices of the Inland Revenue Department for the year 2010-2011, it was observed that the department collected an amount of Rs. 3,319,828,804 as withholding tax during the year but did not collect the Education Cess on such amount from different Withholding Agents. The omission has resulted in a loss of Rs. 165,991,440 to the Government, detail as given below: -

S #	Name of Offices	AIR Para #	With Holding Tax Collected	Education Cess O/s (Rs.)
01	IRO Business Circle Mirpur	03	8,391,000	419,550
02	IRO Salary Circle Mirpur	01	15,762,426	788,121
03	IRO Chaksawari Circle	02	69,236,540	3,461,827
04	IRO Company Circle Mirpur	02	1,779,145,000	88,957,250
05	IRO WithHolding Circle Mzd	01	6,042,000	302,100
06	IRO Professional Circle Mirpur	01	198,811,000	9,940,550
07	IRO Dadyal Circle	02	278,661,000	13,933,050
08	IRO Pallandri Circle	01	46,071,838	2,303,592
09	IRO Rawalakot Circle	01	249,453,000	12,472,650
10	IRO Kotli Circle	01	198,232,000	9,911,600
11	IRO Business Circle Mzd.	02	112,738,000	5,636,900
12	IRO Bagh Circle	01	178,286,000	8,914,300
13	IRO Professional Circle Mzd	02	60,763,000	3,038,150
14	IRO Neelum Circle	01	52,358,000	2,617,900
15	IRO Bhimber Circle	01	65,878,000	3,293,900
<b>Total</b>			<b>3,319,828,804</b>	<b>165,991,440</b>

Audit recommended that the Arrear amount of Education Cess may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 02

#### **4.1.3 Loss of Government due to non recovery of arrears of Government revenue amounting Rs. 156.352 million.**

According to Para 26 of the GFR Vol-I it is the duty of the Departmental Controlling Officer to see that all sums due to Government are regularly & promptly assessed, realized and duly credited into the Public Account.

During the scrutiny of Income Tax record of the following Inland Revenue Offices for the year 2010-2011, it was observed that the department did not collect the arrears of Income Tax relating to previous years amounting to Rs. 156,351,881 till 31.03.2012. The omission resulted in a loss of Rs. 156,351,881 to the AJ&K Government / Council as detailed below.

S #	Name of Office	AIR Para #	Income Tax	Prof. Tax	Education Cess	Penalty	Default Surchg.	Total O/S as on 31.03.12 (Rs.)
1	IRO Chaksawari	01	9,140,717	3,400	457,036	-	-	9,601,153
2	IRO Company Circle Mirpur	01	103,779,651	-	5,188,983	-	-	108,968,634
3	IRO Dadyal	01	14,734,182	15,700	676,518	-	-	15,426,400
4	IRO Palandari	04	134,366	2,300	12,230	95,000	-	243,896
5	IRO Rawalakot	02	3,760,980	35,200	214,571	203,466	211,691	4,425,908
6	IRO Kotli	02	2,273,418	27,950	135,437	122,420	-	2,559,225
7	IRO Business Circle Mzd.	01	10,229,000	-	-	-	-	10,229,000
8	IRO Bagh	02	3,178,956	42,000	194,640	29,600	399,640	3,844,836
9	IRO Bhimber	02	964,990	-	51,839	36,000	-	1,052,829
<b>Total</b>			<b>148,196,260</b>	<b>126,550</b>	<b>6,931,254</b>	<b>486,486</b>	<b>611,331</b>	<b>156,351,881</b>

Audit recommended that the Arrear amount of Income Tax may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 01

**4.1.4 Concealment of Income Tax liability by reducing the value of stock and changing the figures of opening and closing stock balances worth Rs. 43.044 million.**

According to Section 114 (2) of Income Tax Ordinance 2001 a return of Income

- (a) Shall be in the prescribed form and shall be accompanied by such annexure, statements or documents as may be prescribed
- (b) Shall fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the tax payer.
- (c) Shall be signed by the person, being an individual, or the person's representative where section 172 applies.

During the scrutiny of Income Tax record of nine taxpayers for the year 2010-2011 under the jurisdiction of following Inland Revenue Offices, it was observed that in a number of returns of the taxpayers the Opening Stock value of the tax year was not shown exact to that value recorded as Closing Stock Balance during the previous tax year just to understate the tax liability for the said tax year. The detail of differences / variations is given below: -

S #	Name of Office	AIR Para No	Closing Stock (2010)	Opening Stock (2011)	Difference (Rs.)
1	IRO Company Circle Mirpur	04	64,520,298	19,792,206	44,728,092
2	IRO Business Circle Mzd.	03	1,095,000	2,419,000	(1,324,000)
3	IRO Neelum	03	200,000	Nil	200,000
4	IRO Professional Circle Mirpur	04	Un Verified	560,000	560,000
<b>Total</b>			<b>65,815,298</b>	<b>22,771,206</b>	<b>43,044,092</b>



Audit recommended that the concerned tax office should reopen and recalculate the tax liabilities against tax payers taking the exact figures of the sales value at their end and the results be communicated to Audit with documentary evidences of recoveries made from each tax payers as a result of such exercise. Further care be taken in future to compare and verify the value of the opening stock recorded in returns of tax payers with that of the previous tax year's closing balance in each and every case and measures be adopted to prove the departmental Internal Check System as meaningful, strengthened and effective.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 03

**4.1.5 Loss due to less/non realization of Income Tax amounting Rs.18.311 million.**

According to Section 04 (1) & Section 113 of the Income Tax Ordinance 2001, Subject to this Ordinance, Income Tax shall be imposed for each tax year, at the rate or rates specified in [Division I, IB or II] of Part I of the First Schedule, as the case may be , on every person who has taxable income for the year.

According to Section 137(1) the tax payable by a tax payer on the taxable income of the taxpayer [including the tax payable under section 113 or 113A] for a tax year shall be due on the due date for furnishing the tax payer's return of income for that year.

During the scrutiny of Income Tax record for the year 2010-2011 under the jurisdiction of the following Inland Revenue Offices, it was observed that some taxpayers filed their Income Tax returns and their liability was Rs 67,606,980 but they paid Rs 49,295,609 only leaving balance of Rs. 18.311 million outstanding and department have not collected such amount till to date. The omission has resulted in a financial loss of Government revenue amounting Rs. 18,311,371 as per detail given below.

Sr.#	Name office	AIR Para	Tax Due	Tax Paid	Amount Recoverable (Rs.)
01	IRO Company Circle Mirpur	05, 08	37,841,246	25,930,602	11,910,644
02	IRO Professional Circle Mirpur	08, 10	2,629,591	279,327	2,350,264
03	IRO Palandari	03	5,841,906	5,413,852	428,054
04	IRO Salary Circle Muzaffarabad	05	741,087	652,173	88,914

05	IRO Business Circle Muzaffarabad	08	800,444	653,810	146,634
06	IRO Bagh	04, 13	7,604,407	6,846,147	758,260
07	IRO Professional Circle Muzaffarabad	05, 10	6,816,467	5,333,511	1,482,956
08	IRO Bhimber	06	4,373,952	4,165,662	208,290
09	IRO Business Circle Mirpur	01	957,880	20,525	937,355
<b>Total</b>			<b>67,606,980</b>	<b>49,295,609</b>	<b>18,311,371</b>

Audit recommended that the arrear amount of Income Tax may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 07

**4.1.6 Loss of Government revenue due to unexplained expenditure / investment amounting Rs. 7.364 million.**

According to Section 111(1) of the Income Tax Ordinance 2001, where;

- (a) any amount is credited in a person's book of account;
- (b) a person has made any investment or is the owner of any money or valuable article; or
- (c) a person has incurred any expenditure,

and the person offers no explanation about the nature and source of the amount credited or the investment, money, valuable article or funds from which the expenditure was made or the explanation offered by the person is not, in the commissioner's opinion, satisfactory, the amount credited, value of the investment, money, value of the article, or amount of expenditure shall be included in the person's income chargeable to tax under head income from other sources to the extent it is not adequately explained.

During the scrutiny of Income Tax Record of 17 Taxpayers for the year 2010-2011 under the jurisdiction of the following Inland Revenue Offices, it was observed that those tax payers have made new investments of Rs. 41,622,364 to run business but failed to provide the evidence of source of investment / expenditure. Therefore such unexplained expenditure should have been included in the person's income

chargeable to tax under the head income from other sources to this extent, which have not been done. The omission resulted in a loss of the AJ&K Council's Revenue (Rs. 7,012,641 Income Tax in addition to it Rs. 350,632 Education Cess and Rs. 850 Professional Tax) aggregating to Rs. 7,364,123. Detail is given below;

S #	Name of Office	AIR Para	Investment Made	Unexplained Investment	Tax Due	Education Cess	Prof Tax	Total Dues (Rs.)
1	IRO Professional Circle Mirpur	06	1,550,000	1,550,000	387,500	19,375	50	406,925
2	IRO Dadyal	04	15,863,364	4,863,364	1,215,841	60,792	50	1,276,683
3	IRO Rawalakot	03	16,159,000	16,159,000	3,621,800	181,090	500	3,803,390
4	Business Circle MZD	06	1,550,000	1,550,000	387,500	19,375	50	406,925
5	IRO Bagh	03	6,500,000	6,500,000	1,400,000	70,000	200	1,470,200
<b>Total</b>			<b>41,622,364</b>	<b>30,622,364</b>	<b>7,012,641</b>	<b>350,632</b>	<b>850</b>	<b>7,364,123</b>

Audit recommended that the arrear amount of Income Tax, Education Cess and Professional Tax may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 05

#### **4.1.7 Non realization of penalty for late/non filing of Income Tax returns amounting Rs. 7.136 million.**

According to Section 182(1) of the Income Tax Ordinance 2001, where any person fails to furnish a return of income or a statement as required under section 115 or wealth statement or wealth reconciliation statement or statement under section 165 within the due date, such person shall pay a penalty equal to 0.1% of the tax payable for each day of default subject to a minimum penalty of five thousand rupees and maximum penalty of 25% of the tax payable in respect of that tax year.

During the scrutiny of Income Tax record of various taxpayers for the year 2010-2011 under the jurisdiction of following Inland Revenue offices, it was observed that 1909 taxpayers filed their Income Tax returns after the due date for the tax year 2011 and 691 tax payers did not file their Income Tax returns for the tax year 2011. The

department did not impose/recover the amount of penalty Under Section 182 (1) of the Income Tax Ordinance 2001. The omission resulted in a loss of Rs 7,136,371 to the AJ&K Council's Exchequer.

Sr. #	Name of Office	AIR Para	No. of Returns Late Filing	No. of Returns Non Filing	Penalty to be Recovered (Rs.)
1	IRO Salary Circle Muzaffarabad	04, 06	55	45	133,500
2	IRO Palandari	05, 08	45	63	331,150
3	IRO Dadyal	05, 06	36	35	356,650
4	IRO Professional Circle Mirpur	13	Nil	06	30,000
5	IRO Company Circle Mirpur	13	Nil	14	70,000
6	IRO Chaksawari	04, 06	08	41	268,237
7	IRO Business Circle Mirpur	04	Nil	64	320,000
8	IRO Rawalakot	10, 12	17	17	150,344
9	IRO Kotli	11, 13	24	29	283,315
10	IRO Bagh	9, 10	62	30	293,675
11	IRO Professional Circle Muzaffarabad	03, 04	1152	295	3,387,500
12	IRO Bhimber	05, 11	37	43	254,500
13	IRO Neelum	05	Nil	01	5,000
14	IRO Business Circle Muzaffarabad	4, 9	559	08	1,252,500
<b>Total</b>			<b>1909</b>	<b>691</b>	<b>7,136,371</b>

Audit recommended that the penalty be recovered and remitted in the AJ&K Council's Treasury and imposition and Collection of such penalty at the time of submission of Income Tax Returns be ensured in future.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 04

#### **4.1.8 Non realization of penalty of Rs. 6.272 million due to non / late filing of sales tax returns cum payment challans.**

According to Section 6(2) of the Sales Tax Act 1990, Sales Tax in respect of taxable supplies made during a tax period shall be paid by the registered person at the time of filing the tax return in respect of that tax period. In case of failure in payment of sales tax within due date, additional tax is realized at the rate specified under Section 34 and penalty under Section 33.

During the scrutiny of Sales Tax Returns cum Payment Challans for the year 2010-2011 in respect of different sales tax registered persons under the jurisdiction of following Inland Revenue Offices, it was observed that 130 number of sales tax registered persons did not file Sales Tax Return cum Payment Challans of various tax periods and 79 number of Sales Tax registered persons filed Sales Tax Return cum Payment Challans of various tax periods too late after the due dates. The Department did not impose penalty as per section 33(1) of the Sales Tax Act 1990. The omission resulted in a loss of Rs. 6,272,400 to the AJ&K Council's Account.

S #	Name office	AIR Para	No. Sales Tax Registered Persons	Amount (Rs.)
01	IRO Palandari	02, 07	48	1,583,500
02	IRO Rawalakot	04, 11	48	2,451,300
03	IRO Bagh	05, 12	21	436,000
04	IRO Bhimber	04, 08	54	515,100
05	IRO Kotli	05, 06	38	1,286,500
<b>Total</b>			<b>209</b>	<b>6,272,400</b>

Audit recommended that the amount be recovered from responsible and deposited into AJ&K Council's account forthwith and Imposition of penalty at prescribed rates on each defaulter be ensured in future.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 12

#### **4.1.9 Non realization of Education Cess amounting Rs. 3.489 million.**

According to section 2 of The Education Cess Act 1975 there shall be levied a cess known as Education Cess chargeable at the rates of 5% on the amount of Income Tax as defined in Section 2(63) of the Income Tax Ordinance 2001 except salary of Government employees and all employees of autonomous bodies and Semi-Government.

During the scrutiny of Income Tax record for the year 2010-2011 under the jurisdiction of following Inland Revenue Offices, it was observed that some taxpayers have paid Income Tax as final liability deducted at source. But the department did not recover the amount of Education Cess on the Income Tax paid as final tax liability. The omission resulted in financial loss of Rs. 3,489,842 to the AJ&K Government Account. Detail is given below;

S #	Name	AIR Para No	Taxable Income	Tax Due	EC not Paid (Rs.)
01	IRO Kotli	12	27,754,505	2,860,932	143,047
02	IRO Bagh	06	78,675,786	7,983,695	399,185
03	IRO Business Circle Mzd.	05	11,153,680	1,115,368	55,768
04	IRO Dadyal	07	26,200,338	2,704,230	135,212
05	IRO Professional Circle Mirpur	07	67,704,372	6,108,941	305,447
06	IRO Chaksawari	08	5,602,527	560,253	28,013
07	IRO Company Circle Mirpur	09	865,281,677	48,463,399	2,423,170
<b>Total</b>			<b>1,082,372,885</b>	<b>69,796,818</b>	<b>3,489,842</b>

Audit recommended that the Arrear amount of Education Cess may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 20

**4.1.10 Inadmissible and doubtful adjustment of input sales tax amounting Rs. 2.717 million.**

As per Section 7(2) of Sales Tax Act 1990 a registered person shall not be entitled to deduct input tax from output tax unless:-

- i. In case of claim for input tax in respect of a taxable supply made, he holds a tax invoice in his name and bearing his registration number in respect of such supply for which a return is furnished.
- ii. In case of goods imported into Pakistan, he holds bill of entry or goods declaration in his name and showing his sales tax registration number, duly cleared by the customs under Section 79 or Section 104 of the Customs Act, 1969 (IV of 1969).
- iii. In case of goods purchased in auction, he holds a treasury challan in his name and bearing his registration number showing payment of sales tax.

During Audit of following Inland Revenue Offices for the period from July, 2010 to June 2011, it was observed that some registered persons have adjusted Input Tax against output payable tax without production of the documentary evidences to prove the status of their claims in light of above 3 conditions. The amount mentioned below was inadmissible / doubtful which has resulted in a financial loss of Rs. 2,717,717 to the AJ&K Council's Treasury.

S.No	Name of Formation	Para No. of the AIR	Amount adjusted (Rs.)
01	IRO Kotli	03	2,194,720
02	IRO Bhimber	03	496,074
03	IRO Neelum	04	26,923
<b>Total</b>			<b>2,717,717</b>

Audit recommended that record of input sales tax of above registered firms be provided to the audit for verification otherwise amount be recorded and deposited into Council's Treasury under intimation to the Audit and without documentary evidence, as mentioned above, adjustment of output tax against input tax may be allowed in future.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 14

**4.1.11 Loss of Government revenue due to non recovery of Income Tax amounting Rs. 2.485 million from Association of Persons (AoP).**

According to Section 04 (1) of the Income Tax Ordinance 2001, Subject to this Ordinance, Income Tax shall be imposed for each tax year, at the rate or rates specified in [Division I, IB or II] of Part I of the First Schedule, as the case may be , on every person who has taxable income for the year.

According to Division - IB of Part – I of First Schedule the rate of tax imposed on the taxable income of Association of Persons for the tax year 2010 and onward shall be 25%.

During the scrutiny of Income Tax record of taxpayers for the year 2010-2011 under the jurisdiction of following 07 Inland Revenue Offices, it was observed that the 27 AOPs, (record of whom was provided to Audit) paid their Income Tax as an individual instead of an Association of Persons to understate the Income Tax liability for the tax year 2010-11. The Concerned Inland Revenue Offices did not observe the factual position during scrutiny of said returns which resulted in a loss of

Rs. 2,485,257 to the AJ&K Council's Account / Government Treasury as per detail given below:-

S #	Name office	AIR Para #	No. of AOPs	Income Tax Due	Income Tax Paid	Diff.	EC Due	Total Dues (Rs.)
01	IRO Professional Circle Mirpur	11	01	142,500	57,000	85,500	4,275	89,775
02	IRO Kotli	09	02	392,576	212,039	180,537	18,801	199,338
03	IRO Rawalakot	07	03	125,321	3,050	122,271	6,259	128,530
04	IRO Business Circle Mzd.	07	03	253,260	13,400	239,860	12,655	252,515
05	IRO Professional Circle Mzd.	07	06	402,630	14,082	388,548	18,557	407,105
06	IRO Business Circle Mirpur	02	05	1,453,509	516,404	937,105	46,855	983,960
07	IRO Chaksawari	03	07	500,462	96,199	404,263	19,771	424,034
<b>Total</b>			<b>27</b>	<b>3,270,258</b>	<b>912,174</b>	<b>2,358,084</b>	<b>127,173</b>	<b>2,485,257</b>

Audit recommended that the Arrear amount of Income Tax may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

**Advance Para No: 06**

#### **4.1.12 Loss of govt. revenue amounting Rs. 2.123 million due to late transfer of tax money into Council Account.**

According to Para 26 of the GFRS Vol-I it is the duty of the Departmental Controlling Officer to see that all sums due to Government are regularly & promptly assessed, realized and duly credited into the Public Account.



During the scrutiny of Income Tax records for the year 2010 -2011 of the following Inland Revenue Offices, it was observed that the department collected Income Tax amount from various tax payers during the year 2010-11 & deposited the same into Kashmir Council Account, but the bank credited the amount of Income Tax to the Kashmir Council's Treasury too late which is against the prescribed procedure, utilized the government money and did not pay interest on it. This omission resulted in a financial loss of Rs. 2,123,650 to the government treasury on account of interest.

S #	Name office	AIR Para #	Total amount	Amount of Interest to be Recovered (Rs.)
01	IRO Neelum	02	28,452,384	93,617
02	IRO Salary Circle Mirpur	03	16,674,216	57,985
03	IRO Professional Circle Mirpur	05	33,217,215	526,489
04	IRO Chaksawari	07	12,242,525	37,835
05	IRO Company Circle Mirpur	10	97,313,313	1,144,653
06	IRO Salary Circle Muzaffarabad	07	772,743	2,594
07	IRO Kotli	14	20,419,897	109,552
08	IRO Palandari	12	3,318,200	13,975
09	IRO Business Circle Mirpur	08	674,086	16,921
10	IRO Professional Circle Muzaffarabad	11	31,700,465	87,689
11	IRO Bagh	14	2,317,283	14,008
12	IRO Business Circle Muzaffarabad	11	20,136,971	18,332
<b>Total</b>				<b>2,123,650</b>

Audit recommended that the Arrear amount of Interest may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No:08

**4.1.13 Loss of Government revenue due to non realization of Income Tax from property owners amounting Rs. 1.698 million.**

According to Section 66 read with Section 15 of the Income Tax Ordinance 2001,

- (1) For the purposes of this Ordinance and subject to sub-Section (2) where any property is owned by two or more persons and their respective shares are definite and ascertainable;
- a) the persons shall not be assessed as an association of persons in respect of the property; and
- b) the share of each person in the income from the property for a tax year shall be taken into account in the computation of the person's taxable income for that year.

During the scrutiny of the Income Tax record for the year 2010-11 under the jurisdiction of the following Inland Revenue Offices, it was observed that the property owners were being assessed Under Section 15 of the Income Tax Ordinance 2001. The tax payers were paying the tax after the distribution of property income among the Co-Owners to understate the Income Tax liability without definite and ascertainable share of their investment due to which Income Tax calculation has been reduced for that year. The Omission resulted in a loss of Rs. 1,698,213 to the Government / Council's Treasury. Office wise detail is given below.

S #	Name	AIR Para	Taxable Income	Tax Due	Tax Paid	O/S Income Tax	Ed. Cess	Total Outstanding (Rs.)
1	IRO Business Circle Mirpur	05	3,610,900	217,817	38,150	179,667	8,983	188,650
2	IRO Professional Circle Mirpur	02	22,717,777	1,600,373	262,024	1,338,349	66,917	1,405,266
3	IRO Chaksawari	05	2,196,216	127,944	28,469	99,475	4,823	104,297
<b>Total</b>			<b>28,524,893</b>	<b>1,946,134</b>	<b>328,643</b>	<b>1,617,491</b>	<b>80,723</b>	<b>1,698,213</b>

Audit recommended that the arrear amount of Education Cess may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also

brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 21

**4.1.14 Loss of Government revenue due to claim of inadmissible tax rebate amounting Rs. 1.489 million.**

According to Para – 02 of Part III of Second Schedule of Income Tax Ordinance 2001, The tax payable by a full time teacher or a researcher, employed in a non profit education or Research Institution duly recognized by Higher Education Commission, a Board of Education or a university recognized by the Higher Education Commission, including Government Training and Research Institution, shall be reduced by an amount equal to 75% of tax payable on his income from salary.

During the scrutiny of Income Tax record for the tax year 2010-2011 in respect of following Inland Revenue Offices, it was observed that some tax payers rendering their services in AJ&K University on Administrative posts had deducted/claimed inadmissible rebate of 75% Income Tax which is allowed only to full time teachers or researchers as per above Law. The omission has resulted in a loss of Rs. 1,489,241 to the AJ&K Council’s Account. Detail is given below: -

S #	Name	AIR Para No	Taxable Income	Tax Due	Tax Paid after deduction of 75% (Rs.)	Difference
01	IRO Salary Circle Mzd.	01	13,390,904	1,809,747	452,437	1,357,310
02	IRO Salary Circle Mirpur	02	1,491,021	175,908	43,977	131,931
<b>Total</b>			<b>14,881,925</b>	<b>1,985,655</b>	<b>496,414</b>	<b>1,489,241</b>

Audit recommended that the Arrear amount of Income Tax may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 22

**4.1.15 Non realization of penalty for non submission of wealth/reconciliation statements amounting Rs. 1.035 million.**

According to Section 116 (2) every resident taxpayer [being an individual] filing a return of income for any tax year [whose last declared or assessed income [or the declared income for the year], is five hundred thousand rupees or more] shall furnish a wealth statement [and wealth reconciliation statement] for that year along with such return.

In case of failure, penalty shall be charged Under Section 182(1) of the Income Tax Ordinance 2001.

During the scrutiny of Income Tax record for the year 2010-2011 under the jurisdiction of following Inland Revenue Offices, it was observed that some tax payers filed their Income Tax returns but did not file their wealth statements for the tax year 2011 as required under section 116. The department did not imposed/recover the amount of penalty under section 182 (1) of the Income Tax Ordinance 2001. The omission resulted in a loss of Rs. **1,035,000** to the AJ&K Council's Account.

S #	Name of Office	AIR Para #	Penalty to be Recovered (Rs.)
1	IRO Rawalakot	14	5,000
2	IRO Bhimber	07	70,000
3	IRO Kotli	16	40,000
4	IRO Bagh	11	65,000
5	IRO Business Circle Muzaffarabad.	10	20,000
6	IRO Dadyal	08	30,000
7	IRO Salary Circle Muzaffarabad.	02	125,000
8	IRO Professional Circle Mirpur	09	115,000
9	IRO Chaksawari	09	10,000
10	IRO Prof. Circle Muzaffarabad.	06	555,000
<b>Total</b>			<b>1,035,000</b>

Audit recommended that the Arrear amount of Penalty may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 19

**4.1.16 Loss to the AJ&K Council due to less deposit of the advance Income Tax and claiming of inadmissible tax rebate amounting Rs. 9.517 million**

According to Section 148(1) the Collector of Customs shall collect advance tax from every importer of goods on the value of the goods at the rate specified in Part II of the First Schedule.

[(2) Nothing contained in sub-section (1) shall apply to any goods or class of goods or persons or class of persons importing such goods or class of goods as may be specified by the Board.]

During the scrutiny of Income Tax record of office of the Deputy Commissioner Income Tax Company circle Mirpur for the year 2010-2011, it was observed that four companies imported some raw materials amounting to Rs. 831,531,707 for production, against that purchase due amount of Advance Income Tax was calculating to Rs. 24,945,951 but those companies paid only Rs. 19,601,361 . Therefore Advance Income Tax amounting to Rs. 5,344,590 was short paid by the importers. In additions to this an amount of Rs. 4,172,681 was found to have wrongly been claimed as rebate during the year. The omission resulted in a financial loss of Rs. 9,517,271 to the AJ&K Council's Account. Detail is given below;

S #	AIR Para #	Tax Due	Tax Paid	Difference	Wrong Rebate Claimed	Total Dues O/S (Rs.)
01	06	24,945,951	19,601,361	5,344,590	-	5,344,590
02	07	-	-	-	4,172,681	4,172,681
<b>Total</b>						<b>9,517,271</b>

Audit recommended that the Arrear amount of Advance Income Tax may be recovered and remitted into AJ&K Council account under intimation to audit and timely collection of the government dues be ensured in future by strengthening the Internal Control Systems of the department.

The matter was brought to the notice of the Department through Audit and Inspection Reports in April, 2012 but no reply has yet been received. The matter was also brought to the notice of head of Department in July and November, 2012 but the Department did not convene the Departmental Accounts Committee meeting.

Advance Para No: 23

**Annexure-I****MEMORANDUM FOR  
DEPARTMENTAL ACCOUNTS COMMITTEE**

S.#	Name of office	Period	AIR Para	Nature of Audit observation	Amount
1.	AG AJ&K sub office Islamabad	7/2011 to 6/2012	Certification 2011-12	Wrong booking of pension expenditure	32,454
2.	AG AJ&K sub office Islamabad	7/2011 to 6/2012	Certification 2011-12	Irregular payment and non recovery of HBA	940,000
3.	AG AJ&K sub office Islamabad	7/2011 to 6/2012	Certification 2011-12	Irregular payment of TADA	100,000
4.	AJ&K Council Secretariat	7/2011 to 6/2012	33	Undue payment of telephone calls	66,985
5.	AJ&K Council Secretariat	7/2011 to 6/2012	10	Loss of Govt. due to theft of RCC Columns	100,000
6.	Assistant Director Local Government Rawalakot (AJK Council fund)	7/2011 to 6/2011	16	Over payment above than the work done	161,452
7.	Assistant Director Local Government Bagh(AJK Council fund)	7/2011 to 6/2011	12	Over payment above than the work done	96,000
8.	Assistant Director local Govt. Rawalpindi(AJK Council fund)	9/2009 to 6/2011	20,24	Over payment due to wrong calculation on MB	91,204
9.	Assistant Director local Govt. Rawalpindi	9/2009 to 6/2011	22	Loss to Govt. due to double payment	96,000
10.	Assistant Director Local Govt. Rawalakot(AJK Council fund)	7/2011 to 6/2012	9, 17	Non deduction of Income Tax, Education Cess, General Sales Tax, Tajveed-ul-Quran Trust Fund and Stamp Duty	588,391
11.	Assistant Director Local Govt. Muzaffarabad(AJK Council fund)	7/2011 to 6/2012	24, 27	Non remittance of govt. receipts into treasury	33,444
12.	Assistant Director Local Govt. Bagh(AJK Council fund)	7/2011 to 6/2012	10	Non remittance of govt. receipts into treasury	11,958
13.	Assistant Director Local Govt. Bagh(AJK Council fund)	7/2011 to 6/2012	15	Non deduction of Income Tax, Education Cess, Tajveed-ul-Quran Trust Fund	59,500
14.	IRO Rawalakot	7/2010 to 6/2011	05	Non imposition of penalty	285,000
15.	IRO Bhimber	7/2010 to 6/2011	12	Non imposition of penalty	35,000
16.	IRO Kotli	7/2010 to 6/2011	15	Non imposition of penalty	90,000
17.	IRO Bagh	7/2010 to 6/2011	07	Non imposition of penalty	160,000
18.	IRO Palandari	7/2010 to 6/2011	09	Non imposition of penalty	85,000

19.	IRO Company Circle Mirpur	7/2010 to 6/2011	12	Non imposition of penalty	140,000
20.	IRO Bagh	7/2010 to 6/2011	08	Non imposition of penalty	150,000
21.	IRO Palandari	7/2010 to 6/2011	06	Non imposition of penalty	160,000
22.	IRO Kotli	7/2010 to 6/2011	07	Non imposition of penalty	270,000
23.	IRO Rawalakot	7/2010 to 6/2011	06	Non imposition of penalty	190,000
24.	Company Circle Mirpur	7/2010 to 6/2011	11	In admissible depreciation expenses	519,083
25.	Professional Circle Mirpur	7/2010 to 6/2011	15	In admissible depreciation expenses	2,250
26.	Professional Circle Mirpur	7/2010 to 6/2011	15	In admissible depreciation expenses	6,300
27.	IRO Rawalakot	7/2010 to 6/2011	09	Loss due to non realization of arrears of motor tax	100,392
28.	IRO Bhimber	7/2010 to 6/2011	10	Loss due to non realization of arrears of motor tax	46,056
29.	IRO Kotli	7/2010 to 6/2011	08	Loss due to non realization of arrears of motor tax	252,006
30.	IRO Palandari	7/2010 to 6/2011	10	Loss due to non realization of arrears of motor tax	80,856
31.	IRO Neelum	7/2010 to 6/2011	06	Loss due to non realization of arrears of motor tax	3,980
32.	IRO Kotli	7/2010 to 6/2011	10	Less realization of sales tax	182,999
33.	IRO Bhimber	7/2010 to 6/2011	09	Less realization of sales tax	54,253
34.	IRO Rawalakot	7/2010 to 6/2011	08	Less realization of sales tax	121,920
35.	IRO Professional Circle Muzaffarabad	7/2010 to 6/2011	08	Non realization of professional tax	320,100
36.	IRO Bhimber	7/2010 to 6/2011	13	Non realization of professional tax	34,400
37.	Deputy commissioner professional circle Mzd	7/2010 to 6/2011	11	Non realization of income tax	271,852
38.	IRO Rawalakot	7/2010 to 6/2011	13	Non realization of penalty	12,000
39.	IRO Bhimber	7/2010 to 6/2011	14	Non realization of penalty	3,000
40.	IRO Kotli	7/2010 to 6/2011	17	Non realization of penalty	10,100
41.	IRO Bagh	7/2010 to 6/2011	15	Non realization of penalty	4,000
42.	IRO Palandari	7/2010 to 6/2011	11	Non realization of penalty	23,000
43.	IRO Neelum	7/2010 to 6/2011	07	Non realization of penalty	2,000
<b>Total</b>					<b>5,992,935</b>