



**AUDIT REPORT
ON
THE ACCOUNTS OF
GILGIT-BALTISTAN COUNCIL
AUDIT YEAR 2021-22**

AUDITOR-GENERAL OF GILGIT-BALTISTAN

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS	i
PREFACE	iii
EXECUTIVE SUMMARY	v
CHAPTER-1	1
1. PUBLIC FINANCIAL MANAGEMENT ISSUES	1
1.1 Gilgit Baltistan Council Public Financial Management 2020-21	1
1.2 AUDIT PARAS	2
1.2.1 Irregular expenditure without approved budget – Rs. 620.00 million	2
1.2.2 Non-approval of revenue receipts estimates – Rs. 1,862.73 million	3
CHAPTER-2	4
2. GILGIT-BALTISTAN COUNCIL	4
2.1 Introduction	4
2.2 Classified Summary of Audit Observations	5
2.3 Comments on the status of compliance with PAC directives	5
2.4 AUDIT PARAS	5
2.4.1 Non-execution of schemes for provision of telecom services - Rs. 144.689 million	5
2.4.2 Non framing of mechanism to determine the GB Council share received from the telecom operators	6
2.4.3 Non-achievement of objectives and wasteful expenditure - Rs. 3.453 million	7
2.4.4 Irregular disbursement of pay and allowance – Rs.27.832 million	8
2.4.5 Non recovery of custom revenue - Rs. 26.330 million	9
2.4.6 Irregular establishment of council’s camp office - Rs. 1.437 million	10
2.4.7 Non recovery of advances - Rs.14.740 million	11
Annexure-I	12

ABBREVIATIONS AND ACRONYMS

APPM	Accounting Policies and Procedures Manual
CPS	Contingent Paid Staff
DAC	Departmental Accounts Committee
DDO	Drawing & Disbursing Officer
FBR	Federal Board of Revenue
FTR	Federal Treasury Rules
GAAP	Generally Accepted Accounting Principles
GB	Gilgit-Baltistan
GBC	Gilgit-Baltistan Council
GFR	General Financial Rules
INTOSAI	International Organization of Supreme Audit Institutions
MFDAC	Memorandum for Departmental Accounts Committee
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PPRA	Public Procurement Regulatory Authority
PTA	Pakistan Telecom Authority
SAP	System Application Program
USF	Universal Services Fund

PREFACE

Section-9 of the Auditor General of Gilgit-Baltistan (Functions, Powers and Terms and Conditions of Service) Act, 2012 enacted under Gilgit-Baltistan (Empowerment and Self-Governance) Order, 2009 mandates the Auditor General of Gilgit-Baltistan to conduct audit of receipts and expenditure of Gilgit-Baltistan Council.

The report is based on audit of the accounts of the Gilgit-Baltistan Council for the financial year 2020-21. The Directorate General Audit, Gilgit-Baltistan conducted audit during 2021-22 on a test check basis with a view to reporting significant findings to the concerned stakeholders. The main body of the Audit Report includes only the systemic issues and audit findings carrying value of Rs. 1 million or more. Relatively less significant issues are listed in Annexure-1 of the audit report. The audit observations listed in the Annexure-1 shall be pursued with the Principal Accounting Officer(PAO) at Departmental Accounts Committee (DAC) level and in all cases where the PAO does not initiate appropriate action, the audit observations will be brought to the notice of the Public Accounts Committee (PAC) 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 Audit Report is submitted to the Chairman of the Gilgit-Baltistan Council in pursuance of Section-8 of Auditor General of Gilgit-Baltistan (Functions, Powers and Terms and Conditions of Service) Act, 2012.

(Muhammad Ajmal Gondal)
Auditor-General of Gilgit-Baltistan

Islamabad
Dated:

EXECUTIVE SUMMARY

Section-98(1) of Government of GB Order, 2018 provides that there shall be an Auditor-General of Gilgit-Baltistan (GB) who shall be appointed by the Governor on the advice of Prime Minister. Presently, the Auditor-General of Pakistan holds the office of the Auditor General of Gilgit-Baltistan. Section-9 of the Auditor General of Gilgit-Baltistan (Functions, Powers and Terms and Conditions of Service) Act, 2012 mandates the Auditor General of Gilgit-Baltistan to conduct audit of receipts and expenditure of Gilgit-Baltistan Council.

The Directorate General Audit Gilgit-Baltistan is Field Audit Office of the Department of Auditor-General of Gilgit-Baltistan. Sanctioned strength of the office is 69 that includes officers and other staff. However, 14 officers are available for audit activities having 3,458 man-days. Total budget allocated for the financial year 2021-22 is Rs. 87.582 million. This office carries out audit of 01 PAO having 06 formations of Gilgit-Baltistan Council.

This report is based on audit of the accounts of Gilgit-Baltistan Council and its attached departments.

SCOPE OF AUDIT

Directorate General Audit GB conducted audit of 06 formations working under GB Council. Audit coverage relating to the expenditure of all the formations, comprises of the total expenditure of Rs.541.193 million for the financial year 2020-21.

In terms of percentage, the audit coverage for expenditure is 100% of auditable expenditure.

Audit coverage relating to receipt for the current audit year was Rs. 1,862.730 million for the financial year 2020-21. In terms of percentage, the audit coverage for receipt is 100%.

In addition to this compliance audit report, DG Audit (GB) also conducts Financial Attest Audit of Gilgit-Baltistan Council.

Recoveries at the instance of audit

As a result of audit, recovery of Rs. 14.74 million was pointed out in this report. However, during January to December, 2021 no recovery was effected.

Audit Methodology

Audit was conducted in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards as incorporated in Financial Audit Manual. Desk audit helped auditors in understanding the systems, procedures and environment of the audited entities before starting field activity. This was facilitated by access data, intranet, internet facility, and availability of permanent files. This greatly facilitated in the identification of high-risk areas for substantive testing in the field.

Audit Impact

On pointation of audit during 2021-22, GB Council Secretariat has notified fuel ceiling of operational vehicles.

Comments on internal controls and Internal Audit Department

Internal controls are a specific set of policies, procedures and activities designed to meet particular objectives in an organization. Internal controls and internal audit units are the critical risk mitigating factors in any organization. One of the objectives of the audit was to assess whether the controls were properly designed, implemented and working effectively. It was noticed that the internal audit units were non-existent to the large extent. Instances of internal control failures were also noted which have been highlighted in the Audit Report.

Key audit findings of the report

- i. There was 01 case of recovery amounting to Rs.14.74 million¹
- ii. There was 01 instance of violation of rules amounting to Rs.27.832 million²
- iii. There were 04 cases of weak internal controls amounting to Rs.149.579 million³

¹Paras 2.4.7

²Paras 2.4.4

³Paras 2.4.1, 2.4.2, 2.4.3, 2.4.6

- iv. There were 03 cases of financial management 2,509.06 million⁴

Audit paras for the audit year 2021-22 involving procedural violations, including internal control weaknesses and irregularities not considered worth reporting to PAC, have been included in MFDAC and incorporated in the report as **Annexure-1**.

Recommendations

- i. Budget should be approved by the GB Council
- ii. The case regarding GB Council share of custom revenue may be taken up with FBR.
- iii. The Power Development Board may be made fully functional for achieving its objectives.
- iv. All payments may be made in accordance with the applicable rules and regulations.
- v. Internal controls may be strengthened to avoid the recurrence of irregularities.

⁴Paras 1.2.1, 1.2.2, 2.4.5

CHAPTER-1

1. PUBLIC FINANCIAL MANAGEMENT ISSUES

1.1 Gilgit Baltistan Council Public Financial Management 2020-21

Total receipts of GB Council for the financial year 2020-21 were Rs. 1,862.73 million which included Grant from Federal Government.

S. No.	Composition of Receipts	Rs. in million	%age
1	Transfers from Federal Government	620.00	33.28
2	GB Council's Own Collection (Tax)	791.68	42.50
3	Revenue and Other Receipts (Non-Tax)	425.75	22.86
4	Recovery of loans and advances	25.30	1.36
Total Receipt		1,862.73	100.00

In a total revenue of Rs. 1,862.73 million, GB Council received Rs. 620 million from Federal Government as Grant which was almost 33.28% of its total receipts.

Total non-development expenditure for the financial year 2020-21 was Rs. 620 million. However, there was no development expenditure during the year. The head wise expenditure was as under:

S. No.	Head	Rs. in million	%age
1	Salaries and employee benefits	528.24	85.2
2	Operating expenses	66.51	10.73
3	Transfer grants, Subsidies	12.56	2.03
4	Physical assets	2.10	0.34
5	Repairs and Maintenance	9.89	1.60
6	Loans and Advances	0.70	0.11
Total Expenditure		620.00	100

Out of total expenditure of Rs. 620.00 million, an expenditure of Rs. 528.24 million was incurred on salaries, which was 85.20% of the total expenditure. Similarly, an expenditure of Rs. 66.51 million which constituted 10.73% of the total expenditure was incurred on operating expenses. Besides, an expenditure of Rs. 12.56 million was incurred under the head 'transfer grants and subsidies' which is 2.03% of total expenditure. An expenditure of Rs. 9.89 million was incurred under the head 'repair and maintenance', which was 1.6% of the

expenditure. Moreover, physical assets valuing 2.10 million were created during the year.

The audit highlighted certain systemic weaknesses in the budgetary utilization and resource allocation by the Council. Audit observations included in the report are indicators of these weaknesses, which arise from lack of implementation of standard operating procedures, weak internal control mechanisms that primarily arise from financial and administrative mismanagement of financial resources.

1.2 AUDIT PARAS

1.2.1 Irregular expenditure without approved budget – Rs. 620.00 million

Para 3.1.1.3 of Accounting Policies and Procedures Manual (APPM) states that under the Constitution, the Federal/Provincial Government is required annually to lay before the National/Provincial Assembly, a statement of estimated receipts and expenditure for the forthcoming financial year. This is referred to as the Annual Budget Statement. This statement indicates separately the sums required to meet expenditure charged upon the Federal/Provincial Consolidated Fund and other expenditure to be made from the Federal/Provincial Consolidated Fund.

As per Appropriation Accounts of the GB Council, the total expenditure of Council and its attached departments for the financial year 2020-21 was Rs.620.00 million.

Audit observed that approval of the budget from the GB Council was not obtained.

Audit is of the view that non-approval of the budget by the Council was violation of the provision of the APPM.

The management replied that approval of budget would be obtained as and when status of the Council was finalized in the new Order of the GB Government.

The DAC in its meeting held on 28.10.2021 pended the para till promulgation of the new Order of the GB Government.

Audit recommends that budget of the Council may be got approved from the relevant forum.

1.2.2 Non-approval of revenue receipts estimates – Rs. 1,862.73 million

Para 3.1.1.3 of APPM states that under the Constitution, the Federal/Provincial Government is required annually to lay before the National/Provincial Assembly, a statement of estimated receipts and expenditure for the forthcoming financial year. This is referred to as the Annual Budget Statement. This statement indicates separately the sums required to meet expenditure charged upon the Federal/Provincial Consolidated Fund and other expenditure to be made from the Federal/Provincial Consolidated Fund.

The statement of comparison of budgeted and actual amounts by function for the year 2020-21 showed that the GB Council Secretariat collected an amount of Rs.1,837.41 million as tax and non-tax receipts besides capital receipt of Rs.25.320 million.

Audit observed that revenue/receipt budget was not approved by the GB Council in violation of provisions of APPM.

Audit is of the view that non-approval of the revenue/receipt budget by the Council was violation of the provisions of APPM.

The management replied that approval of the budget would be obtained as and when status of the Council was finalized in the new Order of the GB Government.

The DAC in its meeting held on 28.10.2021 pended the para till promulgation of the new Order of the GB Government.

Audit recommends that revenue budget of the Council may be got approved from the relevant forum.

CHAPTER-2

2. GILGIT-BALTISTAN COUNCIL

2.1 Introduction

A. The Gilgit-Baltistan Council (GBC) has been established under Section-60 (a) of the Government of Gilgit-Baltistan Order, 2018. The Council consists of:

- i. The Prime Minister of Pakistan (Chairman of the Council)
- ii. The Governor (Vice Chairman of the Council)
- iii. Six members nominated by the Prime Minister of Pakistan from time to time from amongst Federal Ministers and members of Parliament; provided that the Federal Minister for Kashmir Affairs and Gilgit-Baltistan shall be an ex officio member and Minister In charge of the Council.
- iv. The Chief Minister of Gilgit-Baltistan
- v. Six members to be elected by the Gilgit-Baltistan Legislative Assembly in accordance with the single non-transferable majority vote.

Audit Profile

Sr. No.	Description	Total Nos	Audited	Expenditure audited FY 2020-21 (Rs in million)	Revenue/Receipts audited FY 2020-21 (Rs in million)
1.	Formations	7*	6	541.193	1,862.730
2.	<ul style="list-style-type: none">• Assignment Accounts• SDAs	0	0	-	-
3.	Authorities/ Autonomous Bodies under the PAO	0	0	-	-
4.	Foreign Aided Projects	0	0	-	-

* Includes Directorate General Audit (Gilgit-Baltistan)

B. Comments on Budget & Accounts (Variance Analysis)

Budget allocation and expenditure of Gilgit-Baltistan Council for the Financial Year 2020-21 was as under:

(Rupees in million)

S. No.	Department	Original Budget	Re-appropriation (+/-)	Final Grant	Actual Expenditure	Excess/ (Saving)
1	Members GB Council	24.414	- 5.440	18.974	18.974	0
2	GB Council Secretariat	135.293	6.480	141.773	141.773	0
3	DG Audit	86.312	- 7.505	78.807	78.807	0
4	Tax Department	22.511	- 1.352	21.159	21.159	0
5	AG GB ISB	6.538	- 2.733	3.806	3.806	0
6	AG GB Gilgit	327.932	13.264	341.197	341.197	0
7	Pension Loan & Grants	17.000	- 2.715	14.285	14.285	0
Total		620.000	-0.001	620.000	620.000	0

2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs.2,701.211 million were raised in this report during current audit of GB Council. This amount also includes recoveries of Rs.14.740 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

S. No.	Classification	Amount (Rs. in million)
1	Recovery	14.74
2	Violation of Rules	27.832
3	Financial management	2,509.06
4	Internal Controls	149.579
Total		2,701.211

2.3 Comments on the status of compliance with PAC directives

No meeting of Public Accounts Committee (PAC) has been held to discuss audit paras of GB Council.

2.4 AUDIT PARAS

2.4.1 *Non-execution of schemes for provision of telecom services - Rs. 144.689 million*

Section 33B(2) of the Pakistan Telecommunication (Re-organization) Act, 1996 adopted by GBC states that the Universal Services Fund (USF) shall be utilized exclusively for providing access to the telecommunication services to

people in the un-served, under-served, rural and remote areas and other expenditure to be made and incurred by the Federal Government in managing USF.

The GBC established USF in pursuance of Section 33A of the Pakistan Telecommunication (Re-organization) Act, 1996 vide Notification No. F-I-I(6)/2011-GBC-PTA dated 06.01.2017. The GBC Secretariat received funds of Rs.144.689 million up to June, 2021.

Audit observed that despite having mandate, resources and a full-fledged company for provision of telecom services to the people in the remote areas of the GB, the management could not execute any project for the purpose.

Audit is of the view that due to non-execution of any project by the GBC, the purpose for which the USF was established could not be achieved and the people of un-served and rural areas were deprived from the benefits of telecom facilities.

The DAC in its meeting held on 30.12.2021 directed the management that the updated position may be conveyed to Audit.

Audit recommends that the USF may be utilized in accordance with Pakistan Telecommunication (Re-organization) Act, 1996.

AP-1151/2021-22

2.4.2 Non framing of mechanism to determine the GB Council share received from the telecom operators

Section 33A(4) of the Pakistan Telecommunication (Re-organization) Act, 1996 adopted by GBC states that USF among other sources shall consist of prescribed contribution by the licensees.

Pakistan Telecommunication Authority (PTA) receives the contribution on account of USF from the telecom operators in GB and AJK equivalent to 2% of adjusted gross revenue earned by the operators during a financial year after adjusting inter-operator and PTA/FAB mandatory payments. Before transferring the share to GB and AJK, PTA further charges 10% administrative surcharge on initial license fee and 5% administrative surcharge on all other billings.

The GBC Secretariat received funds of Rs. 144.689 million on account of USF contributions from the operators through PTA up to close of financial year 2020-21.

Audit observed as under:

- i. The management did not devise any mechanism for ensuring exact share and reconciliation of due share from the telecom operators
- ii. The management entirely relied on figures reported by the PTA which was not supported with data to substantiate whether the contribution was actually 2% of adjusted gross revenue earned by the operators
- iii. The USF contribution for the years 2019-21 was not received from the operators.

Audit is of the view that under existing arrangement audit could not ascertain the authenticity of the contribution transferred to the Council's fund by the PTA.

The DAC in its meeting held on 30.12.2021 directed the management to pursue the case with PTA for ensuring exact share of GBC.

Audit recommends that a mechanism may be devised to ensure the due share in accordance with agreed formula.

AP-1152/2021-22

2.4.3 Non-achievement of objectives and wasteful expenditure - Rs. 3.453 million

Section 8 of the GB Power Development Board Act, 2012 empowers the Board to prepare following policies and plan for power generation in GB:

1. Prepare a comprehensive plan for the development and utilization of the power and energy resources of the GB.
2. Board may frame schemes for GB for generation of power.
3. The Board shall make policies for power generation in GB in collaboration with the private sector based on the national and international best practices.

During financial year 2020-21, the Board incurred an expenditure of Rs. 3.453 million on account of pay and allowances.

Audit observed as under:

- i. Since its establishment, the board prepared draft policy for installation of power generation projects in GB in July, 2015 and GB Power Generation Policy, 2019.
- ii. Both the policies could not be approved from the competent forum.
- iii. According to the Act, the board was required to hold its meeting once in every three months. However, since its establishment, only three meetings of the board were convened including the last meeting held on 12.02.2014.
- iv. Despite great hydropower generation potential in GB, no plan could be devised for utilization of power resources in order to meet increasing energy requirements of region.
- v. The Board did not submit annual report to the Council on the conduct of its affairs as per requirement of Section 14 of the Act.

Audit is of the view that the Board could not achieve the laid down objectives regarding development of power resources of GB.

The DAC in its meeting held on 30.12.2021 directed the management to finalize the policies relating to power generation in the region at earliest.

Audit recommends that board may be activated to make plan for the development and utilization of the energy resources of the GB besides making policies for power generation in GB in collaboration with the private sector based on the national and international best practices.

AP-1153/2021-22

2.4.4 Irregular disbursement of pay and allowance – Rs.27.832 million

Rule 157(1) of FTR Vol-I states that the cheques drawn in favor of government officers and departments in settlement of government dues shall always be crossed "a/c payee only not negotiable".

The Gilgit Baltistan Power Development Board incurred an expenditure of Rs. 2.7 million on account of salaries and allowance during the period 2020-21.

Audit observed that entire payment of salary and allowances was made through DDO instead of making payment to the beneficiaries through cross cheque or through payroll.

Similarly, GBC Secretariat incurred an expenditure of Rs. 25.132 million during 2020-21 through cash payment instead of cheques.

Audit is of the view that the payment through DDO was irregular.

The management replied that as per audit directions the pay was transferred through banks via cross cheques.

The DAC in its meeting held on 30.12.2021 directed that expenditure should be incurred through cross cheques or through bank transfer in future as per provision of the rules.

Audit recommends that the irregular practice may be stopped forthwith.

AP-1154/2021-22

2.4.5 Non recovery of custom revenue - Rs. 26.330 million

The Special Committee of the GB Council on Taxation constituted by Chairman, GB Council in the 1st Session held on 22.10.2010 recommended that FBR was to deposit 100% income tax collected from GB and 80% of custom revenue share collected in GB at Sust border in GB Council Consolidated Fund Account.

The custom department collected revenue of Rs. 32.914 million at Sust Port during 2020-21.

Audit observed that 80% share of GB Council amounting to Rs. 26.330 million was not transferred into the GB Council Consolidated Fund Account.

Audit is of the view that due to non-transferring of its share, the Council was deprived of its due revenue.

In the DAC meeting held on 30.12.2021 the management apprised that after promulgation of the Government of GB Order, 2018, income tax and custom revenue was made part of Federal Consolidated Fund. Since, the said Order was sub-judice in the Honorable Supreme Court of Pakistan, there the status quo of current arrangement would be maintained till the final decision of the Honorable Supreme Court of Pakistan.

Audit recommends that the case may be taken up with FBR.

AP-1155/2021-22

2.4.6 Irregular establishment of council's camp office - Rs. 1.437 million

Section 60A (13) of the Government of GB Order,2018 states the Council shall have a separate secretariat of which the Federal Minister for Kashmir Affairs and Gilgit-Baltistan shall be in-charge.

During audit of GB Council Secretariat for the financial year 2020-21, it was noted that a building in Gilgit was hired for camp office of the Council at a monthly rent of Rs.90,000 and an amount of Rs. 1.437 million was paid as rent during the year.

Audit observed that the establishment of camp office of the Council was not covered in the GB Order 2018.

Audit is of the view that establishment of camp office was irregular as the Government of GB Order, 2018 contains only provision of a secretariat.

The management replied that GB Council had started a development program of its members for up lift of the people of GB. Minerals, forests and tourism were the subjects of GB Council under Order, 2009 which required monitoring by GB Council. Moreover, most of the sessions of the GB Council were also held in GB.

The reply was not tenable as there was no provision of a camp office in GB Order, 2018.

The DAC in its meeting held on 30.12.2021 directed to provide the approval of competent authority regarding establishment of Council camp office at Gilgit.

Audit recommends that expenditure may be made in accordance with the provision of the Government of Gilgit Baltistan Order, 2018.

AP-1156/2021-22

2.4.7 Non recovery of advances - Rs.14.740 million

Rule 06(v) of the GB Council System of Financial Control and Budgeting Rules, 2010, provides that, in the matter of receipts pertaining to the wings, departments and subordinate offices, the PAO is expected to ensure that adequate machinery exists for due collection and bringing to account of all receipts of any kind, connected with the functions of the wings, departments and subordinate offices under his control.

During audit of the GB Council Secretariat for the financial year 2020-21, it was noted that HBA, MCA amounting to Rs.12.088 and 1.652 million, respectively were granted by GB Council Secretariat to various officers posted on deputation basis in the Council.

Audit observed that the concerned officers did not deposit the monthly recovery into GB consolidated fund after their repatriation to their parent offices.

Audi is of the view that non-recovery of advances resulted in loss to the Council.

The management replied that after repatriation of the officers this secretariat had requested their parent departments to deposit amount of HBA/MCA in the account of Council Secretariat.

The DAC in its meeting held on 30.12.2021 directed the management to expedite the recovery of outstanding advances from concerned officers/officials.

Audit recommends that advances may be recovered and deposited into Council Funds.

AP-1159/2021-22

Annexure-I

MFDAC Paras

S No.	AP#	Year	Subject	Rs. in million	Formation
1.	1157	2021-22	Irregular appointment of contingent paid staff	3.233	GB Council
2.	1160	2021-22	Irregular unjustified expenditure worth Rs. 8,912,456/- on account of payment to Contingent Paid Staff	8.912	Inland Revenue, Gilgit
3.	1161	2021-22	Non-maintenance of cash books for sales tax and income tax collections	0.000	Inland Revenue, Gilgit
4.	1162	2021-22	Irregular / un-justified expenditure of Rs. 4,485,728 /- on account of POL/repair & maintenance charges	4.486	Inland Revenue, Gilgit
5.	1166	2021-22	Improper / incomplete maintenance of Personal Files by GAD Section	0.000	AG-GB
6.	1167	2021-22	Improper maintenance of Budget Control Register by TA-II Section	0.000	AG-GB