



**AUDIT REPORT
ON
THE ACCOUNTS OF
PUBLIC SECTOR ENTERPRISES
GOVERNMENT OF BALOCHISTAN**

AUDIT YEAR 2016-17

AUDITOR GENERAL OF PAKISTAN

TABLE OF CONTENTS

	Page No.
ABBREVIATIONS & ACRONYMS	i
PREFACE	iii
EXECUTIVE SUMMARY	v
SUMMARY TABLES & CHARTS	
I. <i>Audit Work Statistics</i>	xi
II. <i>Audit Observations regarding financial management</i>	xi
III. <i>Outcome Statistics</i>	xii
IV. <i>Irregularities pointed out</i>	xiii
V. <i>Cost - Benefit</i>	xiv
CHAPTER1 INDUSTRIES AND COMMERCE DEPARTMENT	
1.1 Government Printing Press, Quetta	
1.1.1 <i>Introduction</i>	1
1.1.2 <i>Comments on the Audited Accounts</i>	1
1.1.3 <i>Compliance of PAC Directives</i>	1
1.1.4 AUDIT PARA	1
1.2 Small Industries Wing, Quetta	
1.2.1 <i>Introduction</i>	3
1.2.2 <i>Comments on the Audited Accounts</i>	4
1.2.3 <i>Compliance of PAC Directives</i>	5
1.2.4 AUDIT PARAS	5
ANNEXURES	
1 MFDAC Paras	11
2 Non-submission of Audited Accounts	12

Abbreviations & Acronyms

BPPRA	Balochistan Public Procurement Regulation Authority
CSIS	Computerized Store Inventory System
DAC	Departmental Accounts Committee
DGCA&E	Director General, Commercial Audit & Evaluation, Karachi
FBR	Federal Board of Revenue
GFR	General Financial Rules
GPP	Government Printing Press
IPSAS	International Public Sector Accounting Standards
NOC	No Objection Certificate
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PSDP	Public Sector Development Programme
PSE	Public Sector Enterprises
PPRA	Public Procurement Regulation Authority
P&SD	Printing & Stationery Department
QDA	Quetta Development Authority
QESCO	Quetta Electric Supply Company
QMC	Quetta Municipal Corporation
Q-WASA	Quetta Water and Sanitation Authority
QWSEIP	Quetta Water Supply and Environmental Improvement Project
SIW-Quetta	Small Industries Wing-Quetta
TBE	Trans Balochistan Enterprises
UP&DD	Urban Planning & Development Department

Preface

Articles 169 and 170 of the constitution of the Islamic Republic of Pakistan 1973, read with Sections 8 and 12 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 require the Auditor General of Pakistan to conduct audit of the accounts of Government Commercial Undertakings and of any Authority or body established by the Federation or the Province.

This report is based on audit of the accounts of Public Sector Enterprises of Government of Balochistan for the year 2015-16. The Directorate General of Commercial Audit and Evaluation, Karachi conducted audit of these formations during July 01, 2016 to November 15, 2016 on a test check basis, with a view to report significant findings to the stakeholders. The main body of the report includes only systemic issues and audit findings carrying value of Rs 1 million or more. Relatively less significant issues are listed in the **Annexure-1** shall be pursued with Principal Accounting Officers (PAOs) at the Departmental Accounts Committee (DAC) level and in all cases where the PAOs do not indicate appropriate action, the audit observations will be brought to the notice of Public Accounts Committee through the next year's Audit Report.

The observations included in the report could not be discussed to date with the Principal Accounting Officers as Departmental Accounts Committee meetings were not convened in these cases. The report has been finalized in the light of written responses of the departments.

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 Governor of Balochistan in pursuance of the Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 for causing it to be laid before the Provincial Assembly.

Dated:

(Rana Assad Amin)
Auditor-General of Pakistan

EXECUTIVE SUMMARY

The Directorate General of Commercial Audit & Evaluation (DGCA&E), South, Karachi carries out audit and evaluation of Public Sector Enterprises (PSEs) established by Government of Balochistan, which maintain their accounts on commercial pattern.

Section 15 of Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 empowers Auditor General of Pakistan to conduct audit of companies and corporations established in the public sector. For this, DG (CA&E) South, Karachi has a human resource of 03 officers and staff (worked out on pro-rata basis) resulting in 750 man days. The annual budget of DG (CA&E) South, Karachi for the year 2016-17 was Rs 2.725 million (worked out on pro-rata basis). The DG (CA&E) South, Karachi is mandated to conduct regularity audit (financial audit & compliance with authority audit) and performance audit of PSEs under administrative control of various departments of Government of Balochistan.

a. Scope of Audit

There are 03 commercial entities of Government of Balochistan under the jurisdiction of DG (CA&E) South, Karachi. These entities operate under administrative control of 02 different Principal Accounting Officers (PAOs). As per Audit Plan 2016-17, the DG (CA&E) South, Karachi audited the accounts of 03 commercial entities pertaining to the year 2015-16.

Out of total expenditure of the entities for the financial year 2015-16, auditable expenditure under the jurisdiction of the DG (CA&E) South was Rs 395.843 million which was audited on test check basis. The audit of receipts of Rs1.728 million pertaining to these entities was also conducted.

This report contains result of audit and evaluation of financial performance of PSEs for the financial year 2015-16 conducted during the audit year 2016-17. It was also assessed whether the organizations are managed in accordance with sound commercial practices, following

canons of financial propriety and government policy directives. Internal Controls were reviewed with the objectives of identifying weak areas and recommending improvements.

The analysis/comments on the annual audited accounts of Public Sector Enterprises was required to be included in this report; however, these entities (**Annexure-2**) failed to submit their annual audited accounts by Nov 30, 2016, the prescribed date.

b. Recoveries at the instance of Audit

There was no recovery reported during 2015-16 at the instance of audit.

c. Audit Methodology

Planning and Permanent Files of auditee organizations were maintained and updated during audit of accounts for the year 2015-16. Audit was carried out on the basis of risk and adequacy of Internal Control System in the auditee with specific emphasis on high value items and inherent risk areas. Audit checks were applied keeping in view the nature of transactions, current commercial accounting and best auditing practices in Pakistan, from the relevant financial and operational manuals.

d. Audit Impact

Audit has contributed towards adding value to the control mechanism of organizations where compliance was made on audit recommendations. Audit has also played pivotal role in implementation of PPRA rules for transparency in procurement at the most competitive and economical rates. Audit has suggested many recommendations to the management for implementation of effective financial control system to avoid undue wasteful expenditure resulting into losses.

e. Comments on Internal Control and Internal Audit department

The organizations covered in the report require strengthening of financial and management controls to address weaknesses more specifically in the areas as under:

- i. Receivables Management in almost all the organizations required immediate attention. The loans to borrowers under different schemes and trade debts were not being collected timely resulting in accumulation thereof with a risk of conversion into bad debts.
- ii. Financial Management needs to be strengthened by establishing a system of maintenance of accounts comprising immediate posting of financial transactions, periodical reporting within a financial year, observance of year- end procedures, timely preparation of financial statements upon close of financial year and timely audit of accounts. The Principal Accounting Officers will be in a position to control the affairs of their organizations by strengthening the financial management. The non-submission of audited accounts illustrates weakness of internal control.

f. The key audit findings of the report;

- i Non-protection of assets in one cases – Rs 3.671 million.¹
- ii Blockage of funds in one case – Rs 4.884 million.²
- iii Non-recovery of dues in one case – Rs 12.416 million.⁴

¹Paras- 1.2.4.2

²Paras- 1.2.4.3

⁴Paras- 1.2.4.1

g. Recommendations

The Principal Accounting Officers need to take necessary steps to evaluate, institute and strengthen the management, budgeting and accounting controls to:

- i. Ensure deduction of government taxes at source.
- ii. Ensure timely recovery of dues from government/private sector.
- iii. Make arrangement for timely submission of audited accounts to audit authorities (**Annexure-2**).
- iv. The Principal Accounting Officers need to initiate necessary steps to evaluate, institute and strengthen the Internal Controls so that detective and preventive measures are taken at the right time. In this regard Internal Audit Departments need to be established / strengthened which may directly report to the respective Principal Accounting Officers.

SUMMARY TABLES & CHARTS

SUMMARY TABLES & CHARTS

Table 1: Audit Work Statistics

(Rs. in million)

Sr. No.	Description	No.	Budget
1	Total Entities (Departments/PAO's) in Audit Jurisdiction	2	397.571
2	Total formations in Audit jurisdiction	3	397.571
3	Total Entities (Departments/PAO's) Audited	2	397.571
4	Total formations Audited	3	397.571
5	Audit & Inspection Reports	3	397.571
6	Special Audit Reports	Nil	-
7	Performance Audit Reports	Nil	-
8	Other Reports	Nil	-

Table 2: Audit observations regarding Financial Management

(Rs. in million)

Sr. No.	Description	Amount Placed under Audit Observation
1	Unsound asset management	-
2	Weak financial management	126.626
3	Weak internal controls relating to financial management	65.529
4	Others	-
Total		192.155

Table 3: Outcome Statistics

(Rs. in

million)

Sr. No.	Description	Expenditure on acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total current year	Total last year
1	Outlays Audited	-	-	1.728	395.843	397.571	5,133.680
2	Amount Placed under Audit Observation/ Irregularities	32.722	-	13.47	145.963	192.155	4,136.779
3	Recoveries Pointed Out at the instance of Audit	Nil	Nil	Nil	12.863	12.863	1,311.725
4	Recoveries Accepted /Established at the instance of Audit	Nil	Nil	Nil	12.863	12.863	1,311.725
5	Recoveries Realized at the instance of Audit	Nil	Nil	Nil	Nil	Nil	Nil

Table 4: Irregularities pointed out

(Rs. in million)

Sr. No.	Description	Amount Placed under Audit Observation
1	Violation of Rules and regulations and violation of principle of propriety and probity in public operations.	9.440
2	Reported cases of fraud, embezzlement, theft, and misuse of public resources.	-
3	Accounting Errors (accounting policy departure from IPSAS, 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.	169.852
5	Recoveries and overpayments, representing cases of established overpayment or misappropriations of public moneys	12.863
6	Non-production of record.	-
7	Others, including cases of accidents, negligence etc.	-

Table 5: Cost - Benefit

(Rs in

million)

Sr. No.	Description	2016-17	2015-16	2014-15
1	Outlays Audited	397.571	5,133.680	1,861.050
2	Expenditure on Audit	2.725	11.250	10.290
3	Recoveries realized at the instance of Audit	Nil	Nil	Nil
	Cost – Benefit Ratio	-	-	-

Chapter- 1

Industries and Commerce Department

1.1. Government Printing Press, Quetta

1.1.1 Introduction

Printing & Stationery Department, Government of Balochistan was established in July 1970. The Stationery Wing was responsible for procurement of all types of stationery articles and supply to all departments / offices of Government of Balochistan. It was abolished in 1985 and the Printing Wing of the department was brought under the supervision of a Controller and is responsible for:

- printing of all kind of jobs for all departments/offices of the provincial government;
- printing of provincial government Gazette, Annual Budget & PSDP, Provincial Assembly debates & proceedings, reports of Judiciary; and
- printing, stocking & supply of standard & non-standard and other departmental forms and registers.

1.1.2 Comments on Audited Accounts

1.1.2.1 The organization has failed to submit annual audited accounts since 1988-89, and onwards (**Annexure-2**)

1.1.3 Compliance of PAC Directives

PAC meeting has not been convened to discuss the Audit Report for last twenty-eight years.

1.1.4 AUDIT PARA

1.1.4.1 Non-finalization of accounts

Annual audited accounts of the organization for the year 2015-16, were to be provided to the Directorate General Commercial Audit by November 30, 2016.

Contrary to the above, the management did not provide audited accounts for the period 1988-89 to 2015-16 by the prescribed date.

Audit recommends:

- Fixing of responsibility on person(s) at fault for non-finalization of accounts.
- Efforts be made to finalize and provide the accounts at the earliest.
- Internal controls be strengthened to avoid recurrence

1.2 Small Industries Wing, Quetta

1.2.1 Introduction

As a result of dissolution of One Unit, the President of Pakistan dissolved West Pakistan Small Industries Corporation on July 01, 1972. The projects/centers existing in Balochistan were given under the administrative control of the Industries Department by creating a Small Industries Wing in the Directorate of Industries through a notification of the Governor; Balochistan dated August 25, 1972. The organization is being supervised by a Director, assisted by three Deputy Directors and a Chief Accounts Officer. Following objectives are being performed by the organization:

- i. Maintenance of Small Industries Estate, Quetta.
- ii. Service Centre Quetta.
- iii. Carpet Teachers Training Institute, Quetta.
- iv. 03 Sales Shops at Quetta and Karachi.
- v. 35 Handicrafts Development Centers in different parts of Province.
- vi. 39 Tailoring / Cutting Centers in different parts of Province.
- vii. 12 Leather Embroidery Centers in different parts of Province.
- viii. 34 Carpet Centers in different parts of the Province.
- ix. 03 Embroidery Centre Totazai, Joda Kalat, Sarwan at Kharan
- x. 01 Cotton and loom Centre, Quetta.
- xi. 06 Cotton Silk Centre in different parts of Province.
- xii. 06 Mizri Centre in different parts of Province.
- xiii. 03 Pottery Centre.

1.2.2 Comments on the Audited Accounts

1.2.2.1 The working results of the Organization for the year 2015-16 as compared with those of the preceding years are as follows:

(Rs. in million)							
	2015-16	% Inc / (Dec)	2014-15	% Inc / (Dec)	2013-14	% Inc/ (Dec)	2012-13
Sales	10.41	(10.73)	11.67	83.17	6.37	(9.17)	7.01
Cost of Goods Sold	(8.83)	(9.62)	(9.78)	83.68	(5.32)	(9.16)	(5.86)
Gross Profit	1.57	(16.48)	1.89	80.69	1.05	(9.12)	1.15
Operating Expenditure	(403.64)	11.90	(360.74)	8.70	(331.86)	(5.08)	(349.65)
Net Operating Loss	(402.06)	12.04	(358.85)	8.47	(330.82)	(5.07)	(348.50)
Appropriation Account	-	-	-	-	-	-	-
Balanced/ from Preceding year	27.67	-	-	-	11.11	(25.89)	14.99
Prior year adjustments	27.11	2697.73	0.97	26.68	0.03	(83.80)	0.22
Funds received from Government	396.20	2.24	387.49	21.57	318.74	(7.52)	344.66
Net Profit / (Loss)	21.26	(23.13)	27.67	2,955.31	(0.97)	(108.69)	11.15

(Source: Annual Accounts)

S ales decreased by 10.73% (2014-15: Rs 11.67 million, 2015-16: Rs 10.41 million) which needs justification.

1.2.2.2 During the year under review, operational expenditure increased by 11.90% from Rs.360.74 million in 2014-15 to Rs 403.64 million in 2015-16. The increase in expenditure resulted in to net operating loss of Rs.402.06 million against 358.85 million in 2014-15. Increase in operating expenditure needs justification.

1.2.2.3 There was no movement under the head “Reviewed from Estate Dues” and stood at Rs 4.682 million, which resulted in blockage of funds. Effective recovery mechanism needs to be established to realize the funds.

1.2.2.4 Net profit decrease by 23.13% from Rs 27.67 million in 2014-15 to Rs 21.26 million in the year 2015-16 needs justification

1.2.3 Compliance of PAC Directives

1.2.3.1 PAC meeting has not been convened to discuss the Audit Report for last twenty-eight years.

1.2.4 AUDIT PARAS

1.2.4.1 Non-recovery of outstanding dues from Govt. Departments - Rs 12.416 million

Rule-38 of GFR provides that it is primarily the responsibility of the departmental authorities to see that all revenues or other debts due to government which have to be brought to account, are correctly and promptly assessed , realized and credited to public account.’

During audit of Small Industries Wing (SIW) Quetta for the year 2015-16, it was observed that an amount of Rs 12.416 million was not recovered from various Govt. departments and industrial units on account of sales of its products as of June 30, 2016. The detail is as under:

Sr. No.	Particular	Total (Rs. in million)
1	SIW's own recovery from Govt. Departments	3.421
2	SIW's Joint Venture (Trans Balochistan Enterprises) recovery from Govt. Departments	8.995
	Total	12.416

Audit is of the view that the amount piled up to Rs 12.416 million due to negligence/slackness of the management.

The matter was reported to the management in September 2016. DAC meeting could not be held despite request vide letter No. 293/CS-I/12/DAC/Ind & Commerce/Balochistan/2016-17 dated December 30, 2016 and subsequent reminder No. 293/CS-I/12/DAC/Ind & Commerce/Balochistan/2016-17 dated January 20, 2017 till finalization of this report.

Audit recommends fixing of responsibility on the person(s) found at fault, besides, recovery of the outstanding amount.

1.2.4.2 Non-deposit of funds in to Govt. Treasury - Rs 3.671 million

Rule 26 of GFR provides that it is the duty of the controlling officer to see that all sums due to government are regularly and properly assessed, realized and duly credited to Government accounts.

During audit of Small Industries Wing (SIW), Quetta, for the year 2015-16, it was observed that an amount of Rs 3.671 million was not deposited in to Govt. Treasury. It was further observed that Rs 7.513 million was refunded by the tax authorities to SIW Quetta from time to time on account of income tax refunds on the share of profit of its joint venture (Trans Balochistan Enterprises) during the period 2003-04 to 2014-15. Out of which the management deposited only Rs 3.842 million in 2015-16, leaving a balance of Rs 3.671 million. The detail is as under:

Tax years	Date of refund	Amount (Rs)
1992-93	27-6-2004	49,103
1994-95	27-6-2004	46,360
1991-92 to,1996-97	20-05-2004	390,899
2000-2001 to 2002-2003	20-05-2004	23,785
1995-96 to 2002- 2003	21-05-2007	1,049,016
2003-2004	10-02-2009	220,359
2004-2005	10-02-2009	128,948
2005-2006	28-02-2009	467,393
2006-2007	18-04-2009	220,131
2007-2008	05-07-2010	485,412
2008-2009	22-12-2010	466,177
2009-2010	12-07-2011	1,123,448
2011-12 & 2012-2013	12-01-2015	2,842,260
Total		7,513,291
Deposited in Govt. Treasury	19-02-2015	2,842,260
Deposited in Govt. Treasury	01-01-2016	1,000,000
Balance		3,671,031

Audit is of the view that non-deposit of Rs 3.671 million in to Govt. Treasury despite lapse of considerable period shows negligence on the part of the management.

The matter was reported to the management in September 2016. DAC meeting could not be held despite request vide letter No. 293/CS-I/12/DAC/Ind & Commerce/Balochistan/2016-17 dated December 30, 2016 and subsequent reminder No. 293/CS-I/12/DAC/Ind & Commerce/Balochistan/2016-17 dated January 20, 2017 till finalization of this report.

Audit recommends that the funds should immediately be deposited in Govt. Treasury besides fixing of responsibility on the person(s) at fault.

1.2.4.3 Blockage of funds due to non-distribution of sewing machines - Rs 4.884 million

Rule-13 of GFR provides that every Government Officer must satisfy himself not only that adequate provisions exist within organization for systematic internal checks calculated to prevent and detect errors and irregularities in the financial proceedings of its subordinate offices and to guard against waste and loss of public money.

During audit of Small Industries Wing (SIW), Quetta, for the year 2015-16, it was observed that the management purchased 4,728 Singer sewing and Singer zig zag machines valuing Rs 121.166 million @ Rs 16,309 and Rs 29,680 per machine respectively in 2012. The machines were purchased for distribution amongst trained workers and deserving person in order to make them self-employed. Out of which 4,481 machines were distributed. The remaining 247 machines valuing Rs 4.884 million were not distributed to any one till the finalization of this Report.

Audit is of the view that due to slackness of the management, 247 machines could not be distributed despite lapse of four years which resulted in blockade of funds and un-employment of 247 people.

The matter was reported to the management in September 2016. DAC meeting could not be held despite request vide letter No. 293/CS-I/12/DAC/Ind & Commerce/Balochistan/2016-17 dated December 30, 2016 and subsequent reminder No. 293/CS-I/12/DAC/Ind &

Commerce/Balochistan/2016-17 dated January 20, 2017 till finalization of this report.

Audit recommends fixing of responsibility on the person(s) at fault.

1.2.4.4 Non-deposit/deduction of General Sales Tax - Rs 1.919 million

Ministry of Finance, Economics Affairs Statistics and Revenue, Government of Pakistan has laid down vide clause-4 of its S.RO 660(1)2007 dated June 30, 2007 that the sales tax so deducted shall be deposited by the withholding agent in the designated branch of National Bank of Pakistan under Head of Account “B02341-Sales Tax” on sales tax return – cum payment challan

During audit of Small Industries Wing (SIW) Quetta, for the year 2015-16, it was observed that an amount of Rs.1.054 million was deducted/withheld by Trans Balochistan Enterprise (A Joint venture of SIW, Quetta) on account of General Sales Tax but the management did not deposit the same in Government Treasury, as required under the rules. It was further observed that the management purchased vehicles and its accessories amounting to Rs 25.433 million but did not deduct 1/5th GST amounting to Rs 0.865 million from the bills of the suppliers.

Audit is of the view that the Government was deprived of revenue due to non-deposit/deduction of GST by the management.

The matter was reported to the management in September 2016. DAC meeting could not be held despite request vide letter No. 293/CS-I/12/DAC/Ind & Commerce/Balochistan/2016-17 dated December 30, 2016 and subsequent reminder No. 293/CS-I/12/DAC/Ind & Commerce/Balochistan/2016-17 dated January 20, 2017 till finalization of this report.

Audit recommends fixing of responsibility on the person(s) at fault besides, deposit of GST in to Government Treasury.

ANNEXURES

Annexure-1**MFDAC Paras**

The Directorate General of Commercial Audit and Evaluation, Karachi on behalf of the Auditor-General of Pakistan, conducted the audit of organizations of Government of Balochistan which maintain their accounts on commercial pattern.

As a result of audit conducted during 2016-17, various types of financial irregularities and losses of public money, etc., were detected and reported to the Departments and organizations concerned. The important irregularities/ losses and malpractices pertaining to various organizations have been printed in this report, while irregularities/losses not considered worth reporting to the PAC as listed below were left for Departmental Accounts Committees. The same will be discussed with the respective Secretaries to the Departments by the Director General, Commercial Audit and Evaluation, Karachi.

Sr. No.	Title of Para	Rs in million	Remarks
Industries & Commerce Department			
Small Industries Wing - Quetta			
1	Unjustified expenditure on non-functional centers	24.336	Weak financial management
2	Incomplete record maintained in Trans Balochistan Enterprises (TBE) Quetta	15.047	Weak financial management
3	Non-recovery of shortages of finished goods raw material from employees	0.447	Weak financial management

Annexure-2

Non-submission of Audited Accounts

Annual audited accounts of Public Sector Enterprises for the year 2015-16 were required to be submitted to the Directorate General of Commercial Audit and Evaluation, Karachi by Nov 30, 2016. Despite requests, the organizations (listed below) failed to submit their annual audited accounts for the year(s) indicated against each by the prescribed date. While non-submission of audited accounts needs to be explained, Audit requires efforts by concerned PAOs for immediate finalization and submission thereof:

Industries and Commerce Department

Government Printing Press, Quetta

1988-89 to 2015-16