



**AUDIT REPORT
ON THE ACCOUNTS OF
ASSISTANT DIRECTOR LOCAL
GOVERNMENT, ELECTION & RURAL
DEVELOPMENT DEPARTMENT AND
SELECTED UNION COUNCILS**

**DISTRICT BANNU
KHYBER PAKHTUNKHWA**

AUDIT YEAR 2015-16

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Programme
AP	Advance Para
BOQ	Bill of Quantity
B&R	Building & Road
CPWA Code	Central Public Works Account Code
CPWD Code	Central Public Works Department Code
CSR	Composite Schedule of Rate
DAC	Departmental Accounts Committee
DC	Deputy Commissioner
DG	Director General
GFR	General Financial Rules
IPSAS	International Public Sector Accounting Standards
LCB	Local Council Board
LGO	Local Government Ordinance
LG&CD	Local Government and Community Development
MB	Measurement Book
MC	Municipal Committee
MFDAC	Memorandum for Department Accounts Committee
MRS	Market Rate System
PAO	Principal Accounting Officer
PATA	Provincially Administrated Tribal Area
PC-I	Planning Commission document-I
PCC	Plain Cement Concrete
UAs	Union Administrations
UCs	Union Councils
WSS	Water Supply Scheme
ZAC	Zila Accounts Committee

Preface

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Sections-8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 and Section 168 of Local Government Act 2012 require the Auditor-General of Pakistan to conduct audit of the receipts and expenditure of Local Fund of Union Councils and Assistant Director Local Government.

The report is based on audit of the accounts of Local Government Department and Union Councils Bannu for the Financial Year 2014-15. The Directorate General of Audit, District Governments, Khyber Pakhtunkhwa, Peshawar conducted audit on test check basis during 2015-16 with a view to reporting significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systemic issues and significant audit finding. Relatively less significant issues are listed in the Annexure-1 of the Audit Report. The Audit Observations listed in the Annexure-1 shall be pursued with the Principal Accounting Officer at the DAC level and in all cases where the PAO does not initiate appropriate action, the Audit observation will be brought to the notice of Public Accounts Committee through the next year's Audit Report.

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

DAC meetings could not be convened despite repeated requests.

The Audit Report is submitted to the Governor of Khyber Pakhtunkhwa in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Section 168 of Khyber Pakhtunkhwa Local Government Act 2012 to be laid before appropriate legislative forum.

Islamabad
Dated:

(Rana Assad Amin)
Auditor General of Pakistan

EXECUTIVE SUMMARY

The Directorate General Audit, District Governments, Khyber Pakhtunkhwa, Peshawar, is responsible to conduct the audit of all District Councils, Municipal Committees (MCs) and Union Councils (UCs) and ADs LG&RD. Its Regional Directorate of Audit Bannu has audit jurisdiction of District Councils, Municipal Committees, AD Local Governments and UCs of two Districts i.e. Bannu and Lakki Marwat.

The Regional Directorate has a human resource of 04 officers and staff, constituting 835 man days and a budget of about Rs 8.646 million was allocated during 2014-15. It has the mandate to conduct financial attest audit, audit of sanctions, audit of compliance with authority and audit of receipts as well as the performance audit of entities, projects and programs. Accordingly Regional Director Audit Bannu carried out audit of the accounts of Assistant Director Local Government & Rural Development Department and 16 UCs for the Financial Year 2014-15 and the findings included in the Audit Report.

Assistant Director Local Government & Rural Development Department and UCs District Bannu perform their functions under Khyber Pakhtunkhwa Local Government Act, 2012. Administrative Secretary i.e. Secretary Local Government and Rural Development Department, Khyber Pakhtunkhwa is the Principal Accounting Officer for these local bodies. According to financial provisions of the Act the Secretary Local Government and Rural Development Department, Khyber Pakhtunkhwa authorizes the Annual Budget Statement for these local bodies in the form of budgetary grants.

a. Scope of audit

There are 49 Union Councils in District Bannu out of which the accounts of 16 Councils were examined in detail. These Union Councils were selected for detailed audit by excluding the last year audited entities keeping in view the available man days.

S. No.	Tehsil	Total No of UCs	No of UCs Audit Last Year 2013-14	No of UCs Audited this year 2015-16
1	Bannu	43	14	14
2	Domail	6	2	2
Total		49	16	16

Out of the total expenditure of the Assistant Director Local Government & Rural Development Department and 16 UCs, District Bannu for the Financial Year 2014-15, the auditable expenditure under the jurisdiction of RDA was Rs 54.538 million. Out of this, RDA Bannu audited an expenditure of Rs 43.458 million which, in terms of percentage, was 79% of auditable expenditure.

The receipts of 16 Union Councils Bannu, for the Financial Year 2014-15, were Rs 1.820 million. Out of this, RDA Bannu audited receipts of Rs 1.020 million which, in terms of percentage, was 56 % of auditable receipts.

The total expenditure and receipts of Assistant Director Local Government & Rural Development Department and 16 UCs, District Bannu, for the Financial Year 2014-15 were Rs 56.358 million. Out of this, RDA Bannu audited the expenditure and receipts of Rs 44.478 million.

b. Recoveries at the instance of audit

Recoveries of Rs 3.152 million were pointed out during the audit, which were not in the notice of the executive prior to audit. None of the recovery pointed out has been made.

c. Audit Methodology

Audit was conducted after understanding the business processes of Assistant Director Local Government Office and Union Councils with respect to their functions, control structure and key controls. This helped auditors in understanding the systems, procedures, environment, and the audited entity before starting the audit. Audit used desk audit techniques for analysis of

compiled data and review of actual vouchers called for scrutiny and substantive testing in the Regional Directorate of Audit Bannu.

d. Audit Impact

Audit pointed out various irregularities of serious nature to the management. However, no impact was visible as the management failed to reply and the irregularities could not come to the light in the proper forum i.e. DAC.

a. Comments on Internal Control and Internal Audit department

The purpose of internal control system is to ensure effective operation of an organization. It consists of measures employed by the management to achieve objectives, safeguard assets, ensure accuracy, timeliness and reliability of financial and accounting information for decision making.

e. Key audit findings of the report;

- i. Fraud / Misappropriation of Rs 4.172 million was noted in four cases¹.
- ii. Irregularity & non-compliance of Rs 39.306 million were noted in ten cases².

f. Recommendations

- i. Corrective actions need to be taken to stop the practice of violation of rules and regulations while spending the public money.
- ii. Internal controls in all areas i.e. financial, managerial, operational, administrative and accounting need to be strengthened at AD LG&RD level as well as Union Council level to pre-empt the reported lapses and fair value for money is obtained from public spending.
- iii. Deduction of taxes on supplies and contracts needs to be ensured.
- iv. Inquiries need to be held to fix responsibility for losses, irregular payments and wasteful expenditure.

SUMMARY TABLES & CHARTS

Table 1: Audit Work Statistics

(Rs in million)			
S. No	Description	No.	Budget
1	Total Entities (PAOs) in Audit Jurisdiction	01	54.538
2	Total formations in audit jurisdiction	50	54.538
3	Total Entities(PAOs) Audited	01	44.478
4	Total formations Audited	17	44.478
5	Audit & Inspection Reports	01	44.478
6	Special Audit Reports	-	-
7	Performance Audit Reports	-	-
8	Other Reports	-	-

Table 2: Audit Observations classified by Categories

(Rs in million)		
S. No.	Description	Amount Placed under Audit Observation
1.	Unsound asset management	-
2.	Weak financial management	-
3.	Weak Internal controls	-
4.	Others	43.478
	Total	43.478

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

S. No	Description	Expenditure on Acquiring Physical Assets Procurement	Civil Works	Receipts	Others	Total For the year 2014-15	Total for the year 2013-14
1.	Outlays Audited	-	22.981	1.020	20.477	44.478	18.456
2.	Amount Placed under Audit Observation / Irregularities of Audit	-	22.981	1.020	19.477	43.478	7.567
3.	Recoveries Pointed Out at the instance of Audit	-	1.801	1.020	0.331	3.152	1.582
4.	Recoveries Accepted /Established at the instance of Audit	-	-	-	-	-	-
5.	Recoveries Realized at the instance of Audit	-	-	-	-	-	-

Note: The outcome figures reported for the year 2013-14 pertain to the sixteen (16) Union Councils audited last year. Since the PAO is the same therefore, these amounts have been included here to show cumulative effect against the PAO.

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

S. No	Description	Amount Placed under Audit Observation
1	Violation of Rules and regulations, principle of propriety and probity in public operation	36.613
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	6.865
3	Accounting Errors (accounting policy departure from NAM ¹ , misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	0
4	Quantification of weaknesses of internal control systems.	0
5	Recoveries and overpayment, representing cases of establishment overpayment or misappropriations of public monies	0
6	Non-production of record	0
7	Others, including cases of accidents, negligence etc.	0
	Total	43.478

Table 5: Cost benefit Ratio**(Rs in million)**

S #	Description	Amount
1	Outlays Audited (item 1 of Table 3)	28.489
2	Expenditure on audit	8.646
3	Recoveries realized at the instance of audit	0
	Cost-Benefit Ratio	1:0

CHAPTER-1

1.1 Assistant Director Local Government & Rural Development Department and Union Councils, District Bannu

1.1.1 Introduction

District Bannu has two tehsils i.e. Bannu and Domail. There is an Assistant Director Local Government & Rural Development Department and 49 Union Councils. Each Union Council has a secretary. Assistant Director Local Government & Rural Development Department Drawing and Disbursing Officer (DDO) for his office and union councils of the District Bannu. According to 1998 population census, the population of District Bannu is 677,350.

1.1.2 Comments on Budget and Accounts (variance analysis)

An amount of Rs 62.360 million was allocated as Grant in aid by the Provincial Government to Assistant Director Local Government and Union Councils of District Bannu. An amount of Rs 1.020 million was realized during the financial year 2014-15. Thus making a total of Rs 63.380 million at the disposal of AD LG&RD and local councils, against which an expenditure of Rs 55.958 million was incurred by the AD LG and Union Councils Bannu with a saving of Rs 7.422 million during Financial Year 2014-15. Detail is given below:

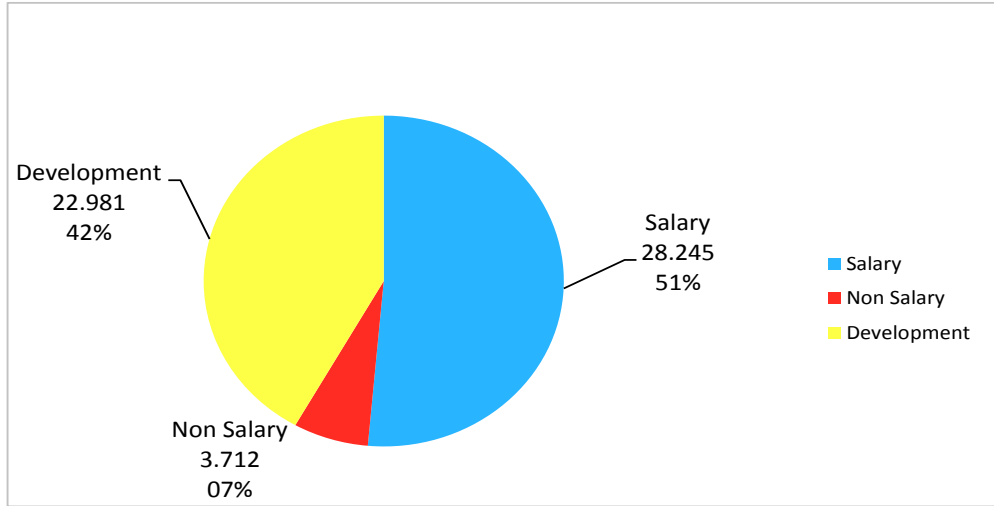
(Rs in million)

2011-15	Budget	Expenditure	Excess/(Saving)	Excess/Saving %age
Salary	32.460	28.245	-4.215	13
Non-Salary	6.919	3.712	-3.207	46
Developmental	22.981	22.981	0	0
Total	62.36	54.938	-7.422	59
Receipts	1.020	1.020	0	
Total	63.380	55.958	-7.422	

The savings of Rs 7.422 million in all head of accounts indicate weakness in the capacity of these local institutions to utilize the amount allocated.

Expenditure 2014-15

(Rs in million)



1.1.3 Brief comments on the status of Compliance with PAC/ZAC Directives

The audit reports on the accounts of Assistant Director Local Government & Rural Development Department and Union Councils Bannu prepared under the LGA 2012, and have not yet been discussed in PAC.

1.2 Audit Paras AD LGE & RDD and Union Councils Bannu

1.2.1 Misappropriation / Fraud

1.2.1.1 Fraudulent payment – Rs 2.804 million

According to Para 23 of GFR Vol.-I, every Government officer is personally responsible for any loss sustained by Government through fraud or negligence either on his part or on the part of his subordinate staff.

Assistant Director Local Government and Rural Development Bannu paid Rs 2,804,038 vide cheque No 684845 dated: 26.09.2014 received from Deputy Commissioner Bannu on account of emergency expenditure for IDPs during 2014-15. Audit observed that:-

- i. The cheques so received from DC Bannu was deposited in their designated bank Account No.8352-2 on 25.09.2014 and disbursed through cheque No 684845 on the next day dated 26.09.2014.
- ii. Neither purpose of disbursement was known to Audit nor acknowledgement was obtained to whom payment made.
- iii. Neither vouchers nor any detail of expenditure was available to ascertain the actual spending of public funds.

Audit observed that fraudulent payment of Public money occurred due to non-compliance of rules, which resulted in loss to Government.

Management did not respond to Audit observation.

Request for convening of the DAC meeting was made on 28.02.2016. DAC meeting could not be convened till finalization of this report.

Audit suggests inquiry besides recovery of amount and action against the person(s) at fault.

AP 154 (2014-15)

1.2.1.2 Misappropriation – Rs1.020 million

According to Para 23 of GFR Vol.-I, every Government officer is personally responsible for any loss sustained by Government through fraud or negligence either on his part or on the part of his subordinate staff.

Secretaries of 16 Union Councils, District Bannu collected Rs 20 per each case on birth cases, death cases and marriage registration during 2011-14. Accounts record of UCs revealed that the amount so collected was neither deposited in UCs respective bank accounts nor in to Government treasury, but was misappropriated by the dealing hands. Therefore, Government was put to loss of (51,000 cases x Rs 20) Rs 1.020 million.

Audit observed that misappropriation occurred due to non-compliance of rules, which resulted in to loss to Government.

Management did not respond to Audit observation.

Request for convening of the DAC meeting was made on 01.04.2016. DAC meeting could not be convened till finalization of this report.

Audit suggests inquiry besides recovery of amount and action against the person(s) at fault.

AP 169 (2014-15)

1.2.2 Irregularities & non-compliance

1.2.2.1 Award of work to project leaders without tenders – Rs 22.981 million

Tendering in the most open and public manner and to execute work under proper agreement is required under Para 144-145 GFR Vol.-I and Para 89 CPWD Code and the NWFP Procurement of goods, Works & Services Rules 2003.

Secretary of 16 Union Council, District Bannu awarded execution of 64 schemes valuing Rs 22,980,672 to project leaders without tendering the work in contravention of rules / regulations during 2011-13.

Audit observed that award of work occurred due to non-compliance of rules, which resulted in loss to Government.

Management did not respond to Audit observation.

Request for convening of the DAC meeting was made on 01.04.2016. DAC meeting could not be convened till finalization of this report.

Audit suggests regularization and action against the person(s) at fault.

AP 171 (2014-15)

1.2.2.2 Unauthorized opening of accounts and deposits – Rs 11.344 million

Section 162(1) of Local Government Act 2012, monies credited to a Local Fund or a Public Account shall be kept in the State Bank, Government treasury, a post office or a bank in such manner as shall be specified by the Government from time to time.

Secretaries Union Councils Khajamad Mandan, Jhando Khel, Khandar Khan Khel, Laloza, Kakki-I, Norar, Mandev of District Bannu received Rs 11,343,814 as Zilla tax share and deposited in their designated Banks other than NBP/SBP without getting prior permission from Government, which resulted into violation of rules.

Audit observed that unauthorized opening of accounts occurred due to non-compliance of rules, which resulted in to violation of rules.

Management did not respond to Audit observation.

Request for convening of the DAC meeting was made on 01.04.2016. DAC meeting could not be convened till finalization of this report.

Audit suggests regularization and action against the person(s) at fault.

AP 166 (2014-15)

1.2.2.3 Non-recovery of profit from the project leaders – Rs 2.298 million

According to CSR 2009, 10% contractor profit is already included in the composite schedule rates.

Secretary of 16 Union Councils, District Bannu paid Rs 22,980,672 on execution of 64 schemes to project leaders including 10% contractor profit, which is not admissible to them as the element of profit was meant for contractors and not for the project leaders.

Audit observed that non-recovery of profit occurred due to non-compliance of rules, which resulted in loss to Government.

Management did not respond to Audit observation.

Request for convening of the DAC meeting was made on 01.04.2016. DAC meeting could not be convened till finalization of this report.

Audit suggests recovery and action against the person(s) at fault.

AP 172 (2014-15)

1.2.2.4 Loss due to non-credit of income tax – Rs 1.379 million

Para 8 and 26 of GFR Vol-I states that each administrative department to see that the dues of the government are correctly and promptly assessed collected and paid into government treasury.

Administrator Union Councils of District Bannu spent Rs 22,980,672 on the execution of developmental works during 2011-13. Income Tax worth Rs 1,378,840 was deducted from the bills of contractors but not deposited in to Government Treasury as per detail given below.

Sr. No.	Name of UC	Amount paid	Income Tax @ 6%
1.	Mandan	1,550,000	93,000
2.	Shamshi Khel	1,475,672	88,540
3.	Khajamad Mandan	1,400,000	84,000
4.	Jhando Khel	1,471,000	88,260
5.	Khojari	1,300,000	78,000
6.	Nar Jafar	1,500,000	90,000
7.	Takhti Khel	1,400,000	84,000
8.	Muhammad Khel	1,400,000	84,000
9.	Kakki-II	1,400,000	84,000
10.	Zeraki Pirba Khel	1,410,000	84,600
11.	Khandar Khan Khel	1,377,000	82,620
12.	Lalozai	1,497,000	89,820
13.	Kakki-I	1,400,000	84,000
14.	Norar	1,500,000	90,000
15.	Mandev	1,500,000	90,000
16.	Mama Khel	1,400,000	84,000
Total		22,980,672	1,378,840

Audit observed that non-credit of income tax occurred due to non-compliance of rules, which resulted in to loss to Government.

Management did not respond to Audit observation.

Request for convening of the DAC meeting was made on 01.04.2016. DAC meeting could not be convened till finalization of this report.

Audit suggests crediting the amount and action against the person(s) at fault.

AP 175 (2014-15)

1.2.2.5 Non Deduction of Sales Tax – Rs 0.481 million

As clarified by the Collectorate of Sales Tax & Federal Excise, Hayatabad Peshawar Vide C. No ST (Tech) Misc. Purchase 06/6097 dated 10.10.2006, there is no Sales Tax on services of repair and fixation of pipes etc., and however, the materials used in such services are chargeable to Sales Tax @ 17 % to the Sales Tax Act, 1990.

Assistant Director Local Government Bannu spent Rs 819,748 and Administrator Union Councils of District Bannu spent Rs 2,355,000 without deducting sales tax worth Rs 481,542 as per detail given below:

AD LGE & RDD

Sr. No.	Name of items	Amounts (Rs)	Sales Tax (Rs)
1	Purchase of Stationary	89,648	15,240
2	Purchase of Compressor	17,000	2,890
3	Purchase of Other items	80,000	13,600
4	Purchased Plant & Machinery	169,200	28,764
5	Purchased Furniture & Fixture	300,000	51,000
6	Purchase of item for vehicle	163,900	27,863
Total		819,748	139,357

Union Councils

Sr. No.	Name of UC	Amounts (Rs)	Sales Tax (Rs)
1.	Shamshi Khel	165,000	23,974
2.	Muhammad Khel	045,000	6,538
3.	Lalo Zai	150,000	21,795

4.	Khandar Khan Khel	135,000	19,615
5.	Zeraki Pirba Khel	135,000	19,615
6.	Jhando Khel	105,000	15,264
7.	Nurar	120,000	17,436
8.	Mandev	195,000	28,333
9.	Mama Khel	180,000	26,154
10.	Takhti Khel	120,000	17,436
11.	Kakki-I	210,000	30,513
12.	Kakki-II	225,000	32,692
13.	Khojari	225,000	32,692
14.	Khwajamad Mandan	120,000	17,436
15.	Mandan	120,000	17,436
16.	Nar Jafar	105,000	15,256
Total		2,355,000	342,185

Audit observed that non-recovery of sales tax occurred due to non-compliance of rules, which resulted in to loss to Government.

Management did not respond to Audit observation.

Request for convening of the DAC meeting was made on 01.04.2016. DAC meeting could not be convened till finalization of this report.

Audit suggests recovery and action against the person(s) at fault.

AP 159&174 (2014-15)

1.2.2.6 Irregular and unauthorized expenditure on account of Honoraria – Rs 0.320 million

Note below to Serial No. 19 (b) Second Schedule of Government of KPK Delegation of Powers and the Powers of Re-Appropriation Rules-2001 lays that,

- a. The sanction for the honorarium must show specific detail of the work done.
- b. The amount of honoraria for each individual shall not exceed one month Pay;
- c. Each Administrative department will send consolidated statement to the chief secretary and finance department showing their names and amount.

Secretaries of 16 Union Councils, District Bannu received Rs 320,000 during 2011-12 and 2012-13 on account of honoraria. Audit observed that:-

- i. As per Government orders detail of work done was provided, which was not given:
- ii. Funds were expended without the approval of chief secretary / Finance Department;
- iii. Payment was required to have been paid from A-01273 (honorarium) whereas due to non-availability of funds under the said head the local office incurred expenditure from the head meant for (Bonus) A-06104; and
- iv. Sanction for incurrence of expenditure from administrative department was also not obtained.

Audit observed that Irregular expenditure occurred due to non-compliance of rules, which resulted in to loss to Government.

Management did not respond to Audit observation.

Request for convening of the DAC meeting was made on 01.04.2016. DAC meeting could not be convened till finalization of this report.

Audit suggests recovery and action against the person(s) at fault.

AP 168 (2014-15)

ANNEXURES

Annexure-A

Detail of MFDAC Paras

(Rs in million)

Sr. No.	AP No	Gist of Para	Amount
1.	153	Irregular payment on account of POL & Repair of vehicle	0.686
2.	155	Irregular cash disbursement of salaries	0.500
3.	156	Improper maintenance of cash book	0.000
4.	161	Doubtful expenditure	0.300
5.	164	Non-surrendering of saving	0.500
6.	165	Unauthorized retention	0.461
7.	167	Fraudulent drawl	0.288
8.	158	Fraudulent drawl on Account of conveyance allowance	0.060
9.	162	Doubtful expenditure	0.249
10.	163	Doubtful expenditure	0.174
11.	173	Non Recovery of stamp duty	0.080

Annexure-B**AUDIT IMPACT SUMMARY**

S.No	Rules/System/Procedure	Audit Impact
1	According to GFR, physical verification of store/assets should be carried out once in a year.	Increase probability for safeguarding the Government assets and stock
2	According to Financial and Treasury rules all dues of the government should be correctly and promptly assessed, collected and paid into Government Treasury.	Increase in revenue collection on account of Government dues
3	According to GFR, receipts and expenditure should be reconciled.	To ensure that the departmental accounts are sufficiently accurate to render possible and efficient Departmental control of expenditure and receipts.

Budget and Expenditure Summary

2011-15	Budget	Expenditure	Excess/(Saving)	%age
Salary	32.460	28.245	-4.215	13.000
Non-Salary	06.919	3.712	-3.207	46.000
Developmental	22.981	22.981	0.000	0.000
Total	62.36	54.938	-7.422	59.000
Receipts	1.020	1.020	(0)	