



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

**DISTRICT BUNER
KHYBER PAKHTUNKHWA**

AUDIT YEAR 2015-16

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

AP	Advance Para
APRs	Actual Payee Receipts
B&R	Buildings & Roads Department
CSR	Composite Schedule of Rates
CTR	Central Treasury Rules
DAC	Departmental Accounts Committee
DG	Director General
FY	Financial Year
GFR	General Financial Rules
LGA	Local Government Act
LG&RDD	Local Government and Rural Development Department
NBP	National Bank of Pakistan
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PATA	Provincially Administered Tribal Area
RDA	Regional Directorate of Audit
UC	Union Council

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 Councils.

The report is based on audit of the accounts of Assistant Director Local Government & Rural Development Department and Union Councils Buner for the Financial Years 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. 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.

The observations included in this report have been finalized without replies of the management and without DAC meetings as the same were not 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 Assistant Directors Local Government & Rural Development Department and Union Councils. Its Regional Directorate of Audit Mardan has audit jurisdiction of Assistant Director Local Government & Rural Development Department and UCs of four Districts i.e. District Mardan, Swabi, Malakand and Buner.

The Regional Directorate has a human resource of 09 officers and staff, constituting 1878 man days and a budget of about Rs 11.906 million was allocated during financial year 2015-16. 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 Mardan carried out audit of the accounts of Assistant Director Local Government & Rural Development Department and 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 Buner 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 27 Union Councils in three (3) Tehsils of District Buner out of which the accounts of 10 Union Councils were examined in detail. These Union Councils were selected for detail audit by excluding the last year audited entities, on the basis of random sample of 03 UCs from Tehsil Daggar, six from Tehsil Gagra and one from Tehsil Khadokhil, keeping in view the available man days.

#	Tehsil	Total No. of UCs	No. of UCs Audited Last year	No. of UCs Audited This year
1	Daggar	10	04	03
2	Gagra (Swari)	13	05	06
3	Khadokhil (Totalai)	04	01	01

Detail of 10 UCs audited for the financial year 2014-15

#	UC Name	Tehsil
1	Batara	Swari
2	Elai	Daggar
3	Maikhranai	Swari
4	Malak Pur	Swari
5	Pacha Kally	Daggar
6	Pander	Swari
7	Rega	Swari
8	Shal Bandai	Daggar
9	Sori chargarzai	Daggar
10	Ghurghushto	Khadokhil (Totalai)

Out of the total expenditure of the Assistant Director Local Government & Rural Development Department and 27 UCs, District Buner, for the Financial Year 2014-15, the auditable expenditure under the jurisdiction of RDA was Rs 40.383 million. Out of this, RDA Mardan audited an expenditure of Rs 21.508 million which, in terms of percentage, was 53.26 % of auditable expenditure.

The receipts of Assistant Director Local Government & Rural Development Department and 27 UCs, District Buner for the Financial Year 2014-15, were Rs 2.187 million. Out of this, RDA Mardan audited receipts of 10 UCs Rs 0.810 million which, in terms of percentage, was 37% of auditable receipts.

The total expenditure and receipts of Assistant Director Local Government & Rural Development Department and UCs, District Buner, for the Financial Years 2014-15 were Rs42.570 million. Out of this, RDA Mardan audited the expenditure and receipts of Rs22.318 million.

b. Recoveries at the instance of audit

Recovery of Rs 7.053 million was pointed out during the audit.

c. Audit Methodology

Audit was conducted after understanding the business processes of Assistant Director Local Government & Rural Development Department and UCs, District Buner with respect to their functions, control structure, prioritization of risk areas by determining their significance and identification of key controls. This helped auditors in understanding the systems, procedures, environment, and the audited entity before starting field audit activity. Audit used desk audit techniques for analysis of compiled data and review of permanent files/record. Desk Audit greatly facilitated identification of high-risk areas for substantive testing in the field.

d. Audit Impact

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

e. 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.

One of the basic component of Internal Control System, as envisaged under Para 13 of GFR Volume-I, is Internal Audit which was not prevalent in Assistant Director Local Government & Rural Development Department and UCs District

Buner. Neither rules for internal audit have been framed nor internal audit report as required was provided to audit.

f. Key Audit Findings

- i. Irregularities & non-compliance of Rs 30.054 million was noted in two cases¹
- ii. Internal control weaknesses of Rs 7.053 million was noted in two cases.²
 1. Para 1.2.1.1 & 1.2.1.2
 2. Para 1.2.2.1 & 1.2.2.2

g. Recommendations

- i. Disciplinary actions need to be taken to stop the practice of violation of the rules and regulations in spending the public money.
- ii. Technical Sanctions shall be accorded before execution of work and payments to contractors.
- iii. In case of payments to others cross cheques shall be issued instead of cash payments.
- iv. Reconciliation with NPB for detail of payees of the amount be made and APRs be produced for those payments which were made in cash instead through cross cheques.
- v. Recovery of unadjusted income tax in CSR shall be made from the concerned and all rates shall not be approved without adjustment of in built income tax in CSR.
- vi. Penalty for late completion of works shall be recovered.
- vii. All sectors of Assistant Director Local Government & Rural Development Department and UCs need to strengthen internal controls i.e. financial, managerial, operational, and administrative and accounting controls etc to ensure that reported lapses are preempted and fair value for money is obtained from public spending.

SUMMARY TABLES AND CHARTS

Table 1: Audit Work Statistics

(Rs in million)

S. No	Description	No.	Budget
1	Total Entities(PAO) in Audit Jurisdiction	01	42.570
2	Total formations in audit jurisdiction	27	42.570
3	Total Entities Audited	11	22.318
4	Total formations Audited	11	22.318
5	Audit and Inspection reports	01	22.318
6	Special Audit Reports	-	-
7	Performance Audit Reports	-	-
8	Other Reports	-	-

Table 2: Audit Observations classified by Categories

(Rs in million)

Sr. No.	Description	Amount under audit observation
1	Un sound Asset management	-
2	Weak Financial management	15.000
3	Weak Internal controls relating to Financial Management	7.053
4	Others	15.054
Total		37.107

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

S#	Description	Expenditure on Acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total for year (2014-15)	Total for the year (2013-14)
1.	Outlays Audited	-	9.864	0.810	11.644	22.318	25.859
2.	Amount Placed under Audit Observation /Irregularities of Audit	-	7.053	-	30.054	37.107	19.915
3.	Recoveries Pointed Out at the instance of Audit	-	7.053	-	-	7.053	-
4.	Recoveries Accepted /Established at the instance of Audit	-	-	-	-	-	-
5.	Recoveries Realized at the instance of Audit	-	-	-	-	-	-

Table 4: Irregularities pointed out

(Rs in million)		
S. No	Description	Amount under Audit observation
1	Violation of rules and regulations and principle of propriety and probity.	15.00
2	Reported cases of fraud, embezzlement, theft, misappropriations and misuse of public funds.	-
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	Quantification of weaknesses of internal controls system.	15.054
5	Recoverable, overpayments, or unauthorized payments of public money.	7.053
6	Non-production of record to Audit	
7	Others, including cases of accidents, negligence etc.	
Total		37.107

Table 5: Cost Benefit

(Rs in million)		
S. No	Description	Amount
1	Outlays Audited (Item 1 of Table 3)	22.318
2	Expenditure on audit	0.205
3	Recoveries realized at the instance of Audit	0
4	Cost Benefit Ratio	1:0

CHAPTER-1

1.1 Assistant Director Local Government & Rural Development Department and 10 Union Councils, District Buner

1.1.1 Introduction

District Buner has three tehsils i.e Daggar, Totalai and Swarai. There is an Assistant Director Local Government & Rural Development Department and 27 Union Councils. Each Union Council has a Secretary. Assistant Director Local Government & Rural Development Department is Drawing and Disbursing Officer (DDO) for his office and union councils of the District Buner. According to 1998 population census, the population of District Buner is 351,320

1.1.2 Comments on Budget and Accounts (Variance Analysis)

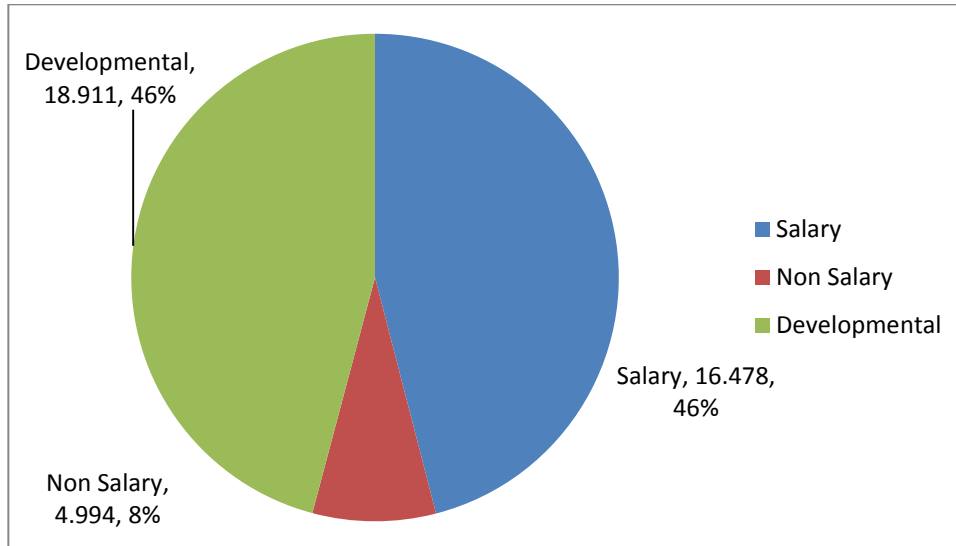
An amount of Rs 91.497 million was allocated as budget by the Provincial Government to Assistant Director Local Government & Rural Development Department and 27 Union Councils of District Buner. An amount of Rs 2.187 million was realized during the Financial Years 2014-15. Thus making a total of Rs 95.871 at the disposal of local councils, against which an expenditure of Rs 42.57 million was incurred by Assistant Director Local Government & Rural Development Department and 27 Union Councils of District Buner, with a savings of Rs 53.301 million during Financial Years 2013-14. Detail is given below:

(Rs in million)

2014-15	Budget (Rs)	Expenditure (Rs)	Excess / (Savings) (Rs)	%age of saving out of total savings
Salary	21.905	16.478	(5.427)	10
Non Salary	7.868	4.994	(2.874)	05
Developmental	63.911	18.911	(45.000)	85
Total	93.684	40.383	(53.301)	100
Receipts	2.187	2.187	0	
Grand Total	95.871	42.57	(53.301)	

The huge savings of Rs 53.301 million in all heads of accounts indicate weakness in the capacity of these local institutions to utilize the amounts allocated.

**EXPENDITURE ASSISTANT DIRECTOR LG & RDD AND 10 UCs
DISTRICT BUNER FY 2014-15**



Detail is given at Annexure-3.

1.1.3 Brief comments on the status of compliance with PAC Directives

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

1.2 AUDIT PARAS OFAD LG&RDD & UCs BUNER

1.2.1 Irregularities and Non compliance

1.2.1.1 Irregular expenditure without technical sanction Rs 15.054 million

According to Para 2.4 of B&R Department Code, no work shall be started without administrative approval, technical sanction and allotment of funds

Assistant Director LG&RDD Buner awarded contracts of 03 developmental schemes amounting to Rs 60,000,000 to various contractors during Financial Year 2014-15, out of which an expenditure of Rs 15,054,463 was also incurred but the schemes were not technically sanctioned. Detailed as below:

#	Name of Scheme	E/Cost (Rs)	Expenditure (Rs)
1	Rehabilitation / improvement & blacktopping of Mekho Khapa Road PK-78 Buner	20,000,000	4,230,577
2	Rehabilitation / improvement & blacktopping of Amnawar Shalbandai to Sangara Road Road PK-78 Buner	20,000,000	4,371,262
1	Rehabilitation / improvement & blacktopping of Bajkata Maizaro Road PK-78 Buner	20,000,000	6,452,624
	Total.	60,000,000	15,054,463

Audit observed that irregular execution of schemes was due to violation of rules which resulted in irregular expenditure.

When pointed out in March 2016, management did not respond to the audit observation.

Audit recommends regularization of expenditure and fixing responsibility against the person(s) at fault.

AP # 89(2014-15)

1.2.1.2 Unauthorized/doubtful cash payment from designated bank account –Rs 15.00 million

According to Para 174 of CTR Vol-I, all payment must be supported with acknowledgement.

Assistant Director Local Government & Rural Development Department Buner withdrew Rs 15,000,000 from Government Treasury through various cheques and deposited into designated bank account No. 4016180775 NBP Buner during 2014-15. The same was further disbursed in cash instead of issuing cross cheques to the payees. Furthermore, no Actual Payee Receipts (APRs) were available in support of cash payments. Cash payments to payees without (APRs) acknowledgements were unauthorized and doubtful.

Unauthorized payments occurred due to weak of financial controls, which caused in violation of rules/orders.

When pointed out in March 2016, management did not respond to the audit observation.

Audit recommends that all related record of cash payments be provided, reconciliation with NPB for detail of payees of the amount be made and APRs be produced besides fixing responsibility against the person(s) at fault.

AP #15(2014-15)

1.2.2 Internal Control Weaknesses

1.2.2.1 Non adjustment of income tax in developmental works Rs 1.053 million

According to letter No. SO (Dev-II) FD/12-6/12-13 dated 20th June, 2013 of Finance Department Government of Khyber Pakhtunkhwa, Income Tax on all developmental works should be adjusted against those works which fall in tax exempted area like PATA whose cost estimates are framed on the CSR basis that includes build in income tax in the item rate

Assistant Director LG&RDD Buner paid Rs 15,054,463 on account of developmental schemes during the financial year 2014-15 but failed to adjust 7% Income Tax of Rs 1,053,814 in violation of the above mentioned rules as per detailed below:

S. No	Name of Scheme	E/Cost (Rs)	Expenditure (Rs)	Income tax @7% (Rs)
1	Rehabilitation / improvement & blacktopping of Mekho Khapa Road PK-78 Buner	20,000,000	4,230,577	296,140
2	Rehabilitation / improvement & blacktopping of Amnawar Shalbandai to Sangara Road Road PK-78 Buner	20,000,000	4,371,262	305,990
3	Rehabilitation / improvement & blacktopping of Bajkata Maizaro Road PK-78 Buner	20,000,000	6,452,624	451,684
Total		60,000,000	15,054,463	1,053,814

Audit observed that non adjustment of income tax was occurred due to weak internal control, which resulted in loss to Government.

When pointed out in March 2016, management did not respond to the audit observation.

Audit recommends recovery and deposit of income tax into government treasury and action against the person(s) at fault

AP # 90(2014-15)

1.2.2.2 Non imposition/recovery of penalty for late completion of works- Rs 6.00 million

According to Clause-2 of the conditions of the Contract Agreement, the contractor has to pay compensation @ 1 to 10% of the estimated cost per day for the delay in completion of work.

Assistant Director LG&RDD Buner awarded various works to different contractors but the contractors failed to complete the contracts within the stipulated period of time. Penalty of Rs6,000,000 @ 10% was required to be imposed / recovered from the contractors which was not done. Detail is as given below.

#	Name of Scheme	E/Cost (Rs)	Penalty @ 10% (Rs)
1	Rehabilitation / improvement & blacktopping of Mekho Khapa Road PK-78 Buner	20,000,000	2,000,000
2	Rehabilitation / improvement & blacktopping of AmnawarShalbandai to Sangara Road PK-78 Buner	20,000,000	2,000,000
3	Rehabilitation / improvement & blacktopping of BajkataMaizaro Road PK-78 Buner	20,000,000	2,000,000
Total		60,000,000	6,000,000

Audit observed that non imposition of penalty occurred due to weak internal control which resulted in loss to government.

When pointed out in March 2016, management did not respond to the audit observation.

Audit suggests recovery, deposit into government treasury and action against the person(s) at fault.

AP # 91(2014-15)

ANNEXURES

Annex-1

Detail of MFDAC Para

#	AP #	Caption of the Para	Amount (Rs in million)
AD LG&RDD			
1	92	Loss due to non-conversion of current account into PLS account	0.00
2	93	Non deposit of Registration fee	0.180
3	94	Non deposit of tender form fee	0.09
4	95	Non deduction of stamp duty and professional tax	0.131
5	97	Unauthorized disbursement of gifit and entertainment	0.279
6	98	Doubtful withdrawal from bank account	0.071
7	99	Non transfer of 90 % Zilla Tax	19.915
8	100	Overpayment due to extra paid stone filling in GI wire creates	0.673
UCs			
9	101	Unjustified execution of PCC (1.3.6) 50% boulders	0.318
10	102	Non adjustment of income tax in developmental works	0.029
11	103	Irregular payment of commission to NADRA	0.0627
12	104	Non collection of tender form fee	0.007
13	105	Non adjustment of income tax in developmental work	0.057
14	106	Irregular payment of commission to NADRA	0.063
15	107	Non collection of tender form fee	0.010
16	108	Unauthorized payment on account of rent	0.024
17	109	Non adjustment of income tax in developmental work	0.045
18	110	Irregular payment of commission to NADRA	0.038
19	111	Non collection of tender form fee	0.008
20	112	Unauthorized payment on account of rent	0.012
21	113	Non adjustment of income tax in developmental work	0.033
22	114	Non collection of tender form fee	0.009
23	115	Irregular payment of commission to NADRA	0.038
24	116	Non adjustment of income tax in developmental work	0.030
25	117	Irregular payment of commission to NADRA	0.032
26	118	Non collection of tender form fee	0.01
27	119	Non adjustment of income tax in developmental work	.018
28	120	Irregular payment of commission to NADRA	.027

29	121	Doubtful payment an account of charcoal	.037
30	122	Unauthorized payment on account of rent	.024
31	123	Non adjustment of income tax in developmental work	.024
32	124	Non collection of tender form fee	.007
33	125	Less deposit of registration fees	.072
34	126	Unauthorized payment on account of rent	0.014
35	127	Non adjustment of income tax in developmental work	0.024
36	128	Irregular payment of commission to NADRA	0.071
37	129	Non collection of tender form fee	0.007
38	130	Unauthorized payment on account of rent	0.042
39	131	Non adjustment of income tax in developmental work	0,.032
40	132	Non collection of tender form fee	0.006
41	133	Unauthorized payment on account of rent	0.024
42	134	Non adjustment of income tax in developmental work	0.069
43	135	Non collection of tender form fee	0.016
44	136	Non deposit of additional security	0.070
45	137	Non collection of tender form fee	0.005
46	138	Unauthorized deposit of registration fee	0.031
47	139	Unauthorized payment on account of rent	0.018

Audit Impact Summary**Annex-2**

S.No	Rules/System/Procedure	Audit Impact
1	The Auditor General has the authority to require any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to transactions to which his duties in respect of audit extent.	DAC meetings could not be convened due to which audit impact is not visible.
2	According to GFR, all dues of the Government should be correctly and promptly assessed, collected and paid into Government Treasury.	-do-
3	According to terms and conditions of the contracts; the contract for the present year must have 15% increase over the bid of last year.	-do-
4	Withholding tax collection under section 236A on sale of property was required at enhanced rate of 10%.	-do-
5	The procuring entity shall use open competitive bidding as the principal method of procurement for the procurement of goods over the value of Rs 100,000.	-do-

**Budget & Expenditure of AD LG & RDD and 10 UCs of District Buner
FY 2014-15**

Annex-3

(Rs in million)

2014-15	Budget (Rs)	Expenditure (Rs)	Excess / Savings (Rs)	%age
Salary	21.905	16.478	(5.426)	25
Non Salary	5.794	2.929	(2.865)	49
Developmental	61.440	16.440	(45.000)	73
Total	89.139	35.847	(53.291)	60
Receipts	0.810			