



**AUDIT REPORT
ON
THE ACCOUNTS OF
CHIEF OFFICER, DISTRICT COUNCIL &
TALUKA MUNICIPAL ADMINISTRATIONS
DISTRICT HYDERABAD
AUDIT YEAR 2013-14**

AUDITOR-GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

CMO	Chief Municipal Officer
CPWD	Central Public Works Department
CTR	Central Treasury Rules
DAC	Departmental Accounts Committee
DGA	Director General Audit
FD	Finance Department
GFR	General Financial Rules
M&R	Maintenance & Repair
MEFDAC	Memorandum for Departmental Accounts Committee
PAO	Principal Accounting Officer
PAC	Public Accounts Committee
POL	Petroleum Oil and Lubricants
PWD	Public Works Department
S&GAD	Services and General Administration Department
SFR	Sindh Financial Rules
SLGO	Sindh Local Government Ordinance
SPPRA	Sindh Public Procurement Regulatory Authority
SRO	Statutory Rules and Orders
TMA	Taluka / Town Municipal Administration
TMO	Taluka / Town Municipal Officer
TO (F)	Taluka/Town Officer (Finance)
TO (I&S)	Taluka/Town Officer (Infrastructure & Services)
TO (P&C)	Taluka/Town Officer (Planning & Coordination)
TO (R)	Taluka/Town Officer (Regulation)
UC	Union Council
GoS	Government of Sindh

PREFACE

Articles 169 & 170 (2) of the Constitution of the Islamic Republic of Pakistan, 1973, read with Sections 8 and 12 of the Auditor General (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, require the Auditor General of Pakistan to conduct audit of the receipts and expenditure of the Secretary Local Govt. Department, Karachi Metropolitan Corporation, Karachi Water & Sewerage Board, Taluka / Town Municipal Administrations and Union Councils.

The report is based on audit of Chief Officer, District Council & Taluka Municipal Administrations of District Hyderabad for the year 2012-13. The Directorate General of Audit Local Councils Sindh, Karachi, conducted audit during 2013-14 on test check basis with a view to reporting significant findings to relevant stakeholders. The main body of 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 the Annexure-A of the Audit Report. The Audit observations listed in the Annexure-A shall be pursued with the Principal Accounting Officer at the DAC level and in all cases where the PAO does not initiate appropriate action, the Audit observation will be brought to the notice of the Public Accounts Committee through the next year's Audit Report.

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

Observations included in this Report have been finalized without written responses & DAC meeting.

The Audit Report is submitted to the Governor of Sindh in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Section 116 of Sindh Local Government Act 2013, for causing it to be laid before the Provincial Assembly of Sindh.

Islamabad
Dated:

(Muhammad Akhtar Buland Rana)
Auditor-General of Pakistan

EXECUTIVE SUMMARY

The DG Audit, Local Councils, Sindh, Karachi is responsible to carry out the audit of Taluka / Town municipal Administrations and Union Councils. This Directorate General has a human resource of 33 officers and staff, resulting in 9,672 man days. Annual budget amounting to Rs 91.490 million was allocated to this office for the financial year 2013-14. The office has a mandate to conduct regularity audit (compliance with authority audit) on test check basis with a view to reporting significant findings to the relevant stakeholders. This office also conducts performance audit of programmes / projects.

Each Taluka Municipal Administration in District Hyderabad is headed by a Taluka Administrator and District Municipal Administration is headed by Chief Municipal Officer who carries out operations as per Sindh Local Government Ordinance, 1979. Taluka Administrative Officer is the Principal Accounting Officers (PAOs). Taluka Administrative Officer acts as coordinating and administrative officers, responsible to control land use, its division and development and to enforce all laws including Municipal Laws, Rules and Bye-laws.

Audit of Chief Officer, District Council was carried out with the view to ascertaining that the expenditure was made with proper authorization, in conformity with laws, rules, regulations and economy was ensured in procurement of assets and hiring of services and to review, analyze and comment on various Government policies regarding different sectors.

Audit of receipts was conducted to verify that the assessment, collection, reconciliation and allocation of revenue was made in accordance with laws, there was no leakage of revenue and also revenue did not remain outside Government account.

a. Scope of Audit

Out of total budget of District Hyderabad for the Financial Year 2012-13, auditable Budget under the jurisdiction was Rs 1,501.480 million, out of which an expenditure of Rs 294.821 million was audited which in terms of percentage, was 19.635 %.

b. Recoveries at the instance of audit

Recoveries of Rs 3.000 million were pointed out during the audit but no recovery was affected till the time of compilation of this Report.

c. Audit Methodology

Audit performed through understanding of the business process of TMAs with respect to internal control structure, prioritization of risk areas determining significance and identification of key internal controls. This helped auditors in understanding the systems, procedures, environment, and the audited entity before starting field activity. The audit used intensive application of desk audit techniques facilitated through compiled data and review of permanent files/record. Desk Audit facilitated identification of high risk areas for substantive testing in the field.

d. Audit Impact

On the pointation of audit, TMAs have streamlined their work in accordance with rules & regulations and made efforts for realization of outstanding dues.

e. Comment on Internal Control and Internal Audit Department

Several loopholes in the internal control system were noticed during the audit years. Major internal control weaknesses have been reported in Chapter-1. Moreover, other internal control weaknesses have been incorporated in Annexure-A.

f. The key audit findings of the report

- i. Fraud / Misappropriation was noted in 01 case - Rs .096 million.¹
- ii. Non-Compliance of Rules Rs 4.558 million was noted in 02 cases.²
- iii. Internal Control Weaknesses of Rs 8.266 million were noted in 03 cases.³

¹ Para 1.2.1.1

² Para 1.2.2.1, 1.2.2.2

³ Para 1.2.3.1, 1.2.3.2, 1.2.3.3

Audit paras for the audit year 2012-13 involving procedural violations including internal control weaknesses and irregularities not considered worth reporting to the PAC are included in MEFDAC (Annexure-A).

g. Recommendations

Audit recommends the Taluka Municipal Administrations (TMAs) to focus on the following issues:

- i. The TMA needs to comply with the Public Procurement Rules for economical and rational purchase of goods and services.
- ii. Inquiries need to be held to fix responsibility for fraud, misappropriation, losses, theft and wasteful expenditure.
- iii. The PAO needs to make efforts for expediting the realization of various Government receipts.
- iv. The PAO and their teams need to ensure implementation of proper monitoring system.

SUMMARY TABLES & CHARTS

Table 1: Audit Work Statistics

(Rupees in Million)

Sr.	Description	No.	Budget
1.	Total Entities (PAOs) in Audit Jurisdiction	5	1,501.48
2.	Total Entities (PAOs) Audited	1	294.202
3.	Audit & Inspection Reports	1	294.202
4.	Special Audit Reports	-	-
5.	Performance Audit Reports	-	-
6.	Other Reports (relating to TMAs)	-	-

Table 2: Audit observations Classified by Categories

(Rupees in Million)

Sr.	Description	Amount under audit observation
1	Asset Management	-
2	Financial Management	-
3	Internal controls	8.266
4	Violation of rules	4.558
5	Others	0.096
Total		12.920

Table 3: Outcome Statistics

(Rupees in Million)

Sr.	Description	Expenditure on Acquiring Physical Assets (Procurement)	Salary	Non-Salary	Civil Works	Receipts (Revenue Targets)	Others	Total Current year	Total Last year
1.	Outlays Audited	0	123.422	40.780	125.000	5.000	0	294.202	731.713
2.	Amount Placed under Audit Observation of Audit	0	5.266	1.454	3.200	3.000	0	12.920	345.129
3.	Recoveries Pointed Out at the instance of Audit	0	0	0	0	3.000	0	3.000	2.213
4.	Recoveries Accepted /Established at the instance of Audit	0	0	0	0	0	0	0	0
5.	Recoveries Realized at the instance of Audit	0	0	0	0	0	0	0	0

Table 4: Table of Irregularities pointed out

(Rupees in Million)		
Sr.	Description	Amount Placed under Audit Observation
1	Violation of Rules and regulations and violation of principle of propriety and probity in public operations.	4.558
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	0.096
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.	5.266
5	Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public monies	3.000
6	Non-production of record.	0
7	Others, including cases of accidents, negligence etc.	0
Total		12.920

¹ The Accounting Policies and Procedures prescribed by the Auditor General of Pakistan which are IPSAS (Cash) compliant.

CHAPTER-1

1.1 Chief Officer and Taluka Municipal Administrations, Hyderabad

1.1.1 Introduction

As per 1998 population census, the population of District Hyderabad is 2.500 million. District Hyderabad comprises of One Chief Officer, District Council and Four TMAs namely Hyderabad City, Hyderabad Rural, Qasimabad and Latifabad. Business of TMAs is run through the Administrator, TO (I&S), TO (Finance), TO (P&C) and TO (Regulations) under Sindh Local Government Ordinance, 1979. The functions of TMAs are as following;

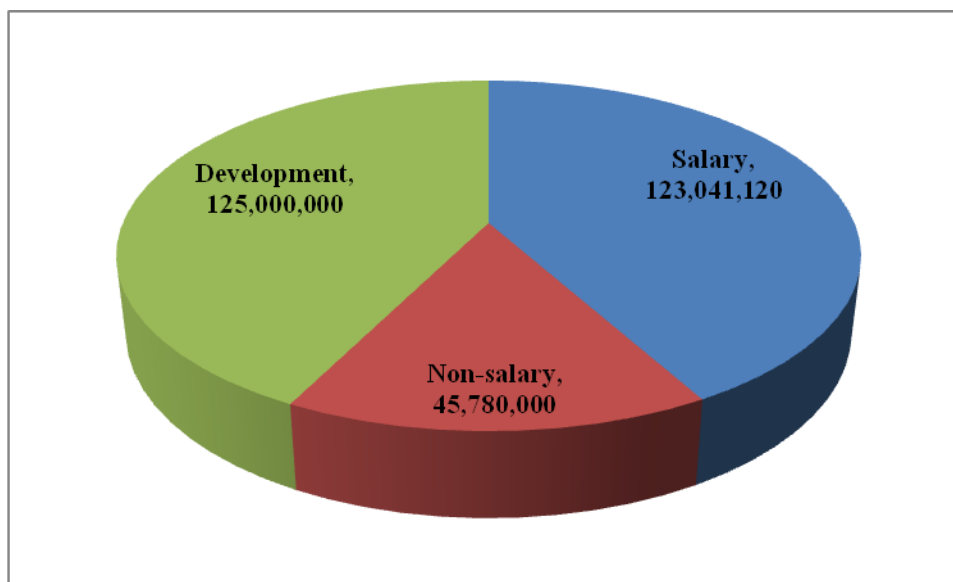
1. Prepare spatial plans for the Town including plans for land use, zoning and functions for which TMA is responsible.
2. Exercise control over land-use, land-subdivision, land development and zoning by public and private sectors for any purpose, including agriculture, industry, commerce markets, shopping and other employment centers, residential, recreation, parks, entertainment, passenger and transport freight and transit stations.
3. Enforce all municipal laws, rules and bye-laws governing TMA's functioning.
4. Prepare budget, long term and annual municipal development programmes in collaboration with the Union Councils.
5. Collect approved taxes, cesses, user fees, rates, rents, tolls, charges, fines and penalties.
6. Manage properties, assets and funds vested in the Town Municipal Administration.
7. Develop and manage schemes, including site development in collaboration with Union Administration.
8. Issue notice for committing any municipal offence by any person and initiate legal proceedings for commission of such offence or failure to comply with the directions contained in such notice.
9. Prosecute, sue and follow up criminal, civil and recovery proceedings against violators of Municipal Laws in the courts of competent jurisdiction.
10. Maintain municipal records and archives.

1.1.2 Comments on Budget and Accounts (Variance Analysis)

(Amount in Rupees)

Name of TMAs	Nature of Expenditure	Original Grant	Suppl: Grant	Revised/ Final Grant	Actual Expenditure	(+) Excess (-) Saving
Chief Officer, District Council, Hyderabad	Salary	123,422,366	0	123,422,366	123,041,120	381,246
	Non-Salary	45,780,000		45,780,000	45,780,000	0
	Sub-Total	169,202,366	0	169,202,366	168,821,120	381,246
	Development	125,000,000		125,000,000	125,000,000	0
	Total	294,202,366	0	294,202,366	293,821,120	381,246

Expenditure 2012-13



Original budget of Talukas Rs 294.202 million was allocated to Chief Officer, District Council, Hyderabad, TMAs, Hyderabad Rural, Qasimabad and Latifabad under various grants and no supplementary grants/re-appropriation was provided. The revised/final budget of these TMAs was Rs 294.202 million. The total expenditure incurred by concerned TMAs during 2012-13 was Rs 293.821 million as detailed above.

The Variance analysis of the Revised/Final Grant and Actual Expenditure for the Financial Year 2012-13 depicted that there was a saving of Rs 0.381 million.

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

The audit reports of pertaining to following years have been submitted Governor of Sindh. Detail of PAC/ZAC meeting is given below:

Audit Year	No. of Paras	Status of PAC Meetings
2012-13	Nil	Not Formed

As indicated in the above table, no PAC meeting was convened to discuss the audit report of TMAs, Hyderabad.

1.2 AUDIT PARAS

Chief Officer, District Council, Hyderabad

1.2.1 Fraud / Misappropriation

1.2.1.1 Embezzlement on Account of POL on Off Road Vehicles Rs 0.096 million

Para 155 of GFR Volume-I read with Para 113 of SFR Volume-I, states that, “A reliable list, inventory or account of all stores in the custody of government officers should be maintained in a form prescribed by competent authority, to enable a ready verification of stores and check of accounts at any time and transactions must be recorded in it as they occur”. Furthermore, Rule 10 of GFR, states that, “Every officer authorized to incur expenditure from the public fund should observe high standards of financial propriety”.

Chief Officer, District Council, Hyderabad, incurred an expenditure of Rs 95,958, during 2012-13, on account of purchase of POL for the off road vehicles, in violation of the above rules. Detail is as under: (Further details provided in Annexure-B).

(Amount in Rupees)

Sr.	Description	Vehicle No	Amount
01	POL Charges	GS-6464	73,641
02	POL Charges	GS-6430	22,317
TOTAL			95,958

Audit is of the view that expenditure incurred on account of POL on off road vehicles resulting into embezzlement of public money amounting to Rs 95,958 which constituted weak financial management.

The matter was reported during January, 2014 but management failed to provide departmental point of view. The PAO failed to convene the DAC meeting to discuss audit paras despite pursuance by audit.

Audit recommends fixing responsibility on account of embezzlement of public money and same may be recovered, under intimation to audit.

[AIR Para: 3]

1.2.2 Non-Compliance

1.2.2.1 Wasteful Expenditure on Construction of Community Centre Rs 3.200 Million

Chief Minister Secretariat Sindh Karachi letter No DS(III) /DEV/22(10)/09/165 dated 10-07-2010, states that, “The ban was imposed on construction of decorative gates, community centres or monuments”.

Chief Officer, District Council, Hyderabad, incurred expenditure of Rs 3.200 million, during 2012-13, on construction of community centre & monument, in violation of the above rule. Detail is as under:

(Amount in Rupees)

Sr.	Name of work	Name of contractor	Amount
1	Beatification /monument at UC Hatri	Riaz & Brothers	1,600,000
2	Beatification /monument at UC Tando Hyder	Riaz & Brothers	1,600,000
Total			3,200,000

Audit is of the view that execution of development schemes related to monuments banned by the GoS, resulted into unauthorized expenditure which constituted weak financial management.

The matter was reported during January, 2014, but management failed to provide departmental point of view. The PAO failed to convene the DAC meeting to discuss audit para despite pursuance by audit.

Audit recommends fixing of responsibility on account of wasteful expenditure.

[AIR Para: 4]

1.2.2.2 Non-Transparency in Government Spending - Rs 1.358 Million

Rule 20 of the Staff Car Rules 1980, as amended in 2001, states that, “The Log Book, History Sheet, and Petrol Account Register shall be maintained for each official vehicle”.

Chief Officer, District Council, Hyderabad, incurred an expenditure of Rs 1.358 million, during 2012-13, on purchase of POL for official vehicles but the Log Books, History Sheets and Petrol Account Registers were not maintained to justify the expenditure, in violation of the above rule.

Audit is of the view that expenditure incurred on POL without preparation of Log Books, History Sheets and Petrol Consumption Account resulted into non transparency in spending from public funds which constituted weak financial management.

Matter was reported during January, 2014, but management failed to provide departmental point of view. The PAO failed to convene the DAC meeting to discuss audit para despite pursuance by audit.

Audit recommends fixing responsibility for incurring expenditure without supporting record to justify the expenditure and same be prepared, under intimation to audit.

[AIR Para: 7]

1.2.3 Internal Control Weaknesses

1.2.3.1 Irregular Payment of Salaries from Security Deposits of Contractors – Rs 5.266 Million

Rule 39 of SPPRA 2010, states that, “Procuring Agency shall, in all procurement of goods, works and services, carried out through open competitive bidding, require security in the form of pay order or demand draft or bank guarantee, an amount sufficient to protect the procuring agency in case of breach of contract by the contractor or supplier or consultant, provided that the amount shall not be more than 10% of contract price; (2) The security shall be provided in an appropriate form and amount, as provided in the bidding documents; (3) Validity of performance security shall extend at least ninety days beyond the date of completion of contract to cover defects liability period or maintenance period subject to final acceptance by the procuring agency.”

Chief Officer, District Council, Hyderabad, incurred expenditure of Rs 5.266 million on account of salaries of employees from the security deposits of contractors, during 2012-13, in violation of the above rule.

Audit was of the view that payment of salaries from the amount collected on account of security deposits from the contractors constituted weak internal control.

The matter was reported during January, 2014, but management failed to provide departmental point of view. The PAO failed to convene the DAC meeting to discuss audit para despite pursuance by audit.

Audit recommends fixing responsibility on officer(s) on account of irregular payment of salaries from the security deposit, under intimation to audit.

[AIR Para: 1]

1.2.3.2 Non-Recovery of Rent - Rs 3.000 Million

Section 60 (1) of SLGO 1979, states that, “A council may levy in the prescribed manner any of the taxes, fees, rates, tolls, and fees mentioned in Schedule IV”.

Further, Para-28 of GFR Volume-I, states that, “No government amount should be left outstanding without sufficient reason and where any dues appear to be irrecoverable, the order of competent authority for its adjustment must be obtained”.

Chief Officer, District Council, Hyderabad, failed to realize rent of shops, resulting into outstanding dues of Rs 3.000 million, during 2012-13, as per estimated revenue, in violation of the above rules.

Audit is of the view that due to non-realization of rent authority was deprived of revenue which constituted weak internal control.

The matter was reported during January, 2014 but management failed to provide departmental point of view. The PAO failed to convene the DAC meeting to discuss para despite pursuance by audit.

Audit recommends fixing responsibility on account of laxity of management to recover outstanding dues and same may be realized without delay, under intimation to audit.

[AIR Para: 6]

1.2.3.3 Un-Authorized Appointments

Local Government Department Sindh, Karachi Notification No.SOA/(LG)1/(27)/2011, dated 6th June 2011 states that, “In continuation to this department’s letter even number dated 27-5-2011 ad 28-5-2011, i am directed to convey that no appointment in any grade shall be made henceforth without consolidated advertisement and fresh approval of the government. Moreover, approval, if any, earlier issued in this regard may be treated cancelled/withdrawn”.

Chief Officer, District Council, Hyderabad, appointed 21 officers/officials without proper advertising of their posts in newspapers, in violation of the above letter.

Audit was of the view that appointments without adopting prescribed procedures / rules constituted weak administrative and internal control.

The matter was reported during January, 2014, but management failed to provide departmental point of view. The PAO failed to convene the DAC meeting to discuss audit para despite pursuance by audit.

Audit recommends fixing responsibility on officer(s) at fault for unauthorised appointments, under intimation to audit.

[AIR Para: 8]

ANNEXURES

Memorandum for Departmental Accounts Committee (MFDAC) Paras

(Amount in Rupees)

Sr.	Name of entity	Para	Description	Amount
1	Chief Officer,	5	Non-maintenance of contractor register	0
2	District Council	9	Unauthorized expenditure on account of TA/DA without counter signature	46,125

Embezzlement on Account of POL on Off Road Vehicles

(Amount in Rupees)

Month	Petrol in Litres	Amount
Vehicle No. GS-6464		
Aug-12	290	27,425
Aug-12	175	17,146
Jul-12	333	29,070
Sub-total		73,641
Vehicle No. GS-6430		
Aug-12	105	9,930
Aug-12	40	3,919
Jul-12	97	8,468
Sub-total		22,317
Total		95,958