



**AUDIT REPORT
ON
THE ACCOUNTS OF
CHIEF OFFICER, KARACHI &
TOWN MUNICIPAL ADMINISTRATIONS
KARACHI
AUDIT YEAR 2013-14**

AUDITOR-GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

A.A	Administrative Approval
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 Government Department, Karachi Metropolitan Corporation, Karachi Water & Sewerage Board, Taluka / Town Municipal Administrations and Union Councils.

The report is based on audit of Town Municipal Administrations of District Karachi for the year 2011-12. 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 observations 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.

Some of the observations included in this Report have been finalized in the light of written responses and discussion with the management.

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 Karachi 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 Officer (PAO) and acts as coordinating and administrative officer and is responsible to control land use, its division and development and to enforce all laws including Municipal Laws, Rules and Bye-laws.

Audit of TMAs District Karachi was carried out with the view to ascertaining that the expenditure was incurred 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 and that there was no leakage of revenue and also that revenue did not remain outside Government account.

a. Scope of Audit

Out of total budget of Karachi for the Financial Year 2011-12, auditable Budget under the jurisdiction was Rs 13,478.530 million, out of which an expenditure of Rs 1,478.856 million was audited which was 10.97%.

b. Recoveries at the Instance of Audit

No recovery was pointed out during the audit.

c. Audit Methodology

Audit was performed through understanding the business process of TMAs with respect to 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

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. Non-Compliance of rules was noted in 07 cases - Rs 133.370 million.¹

Audit paras for the audit year 2011-12 involving procedural violations including internal control weaknesses and irregularities not considered worth reporting to the PAC are included in MFDAC (Annexure-A).

¹ Para 1.2.1.1, 1.2.1.2, 1.2.1.3, 1.2.2.1, .1.2.2.2, 1.2.2.3, 1.2.2.4

g. Recommendations

Audit recommends the Town 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	19	1,478.856
2.	Total Entities (PAOs) Audited	2	998.424
3.	Audit & Inspection Reports	2	998.424
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	0
2	Financial Management	0
3	Internal controls	0
4	Violation of rules	133.370
5	Others	0
Total		133.370

Table 3: Outcome Statistics

(Rupees in Million)

Sr.	Description	Expenditure on Acquiring Physical Assets (Procurement)	Salary	Non-Salary	Civil Works	Receipts (Revenue Targets)	Total Current year	Total Last year
1.	Outlays Audited	0	421.988	315.868	741.000	0	1,478.856	1,875.316
2.	Amount Placed under Audit Observation	0	0	107.287	26.083	0	133.370	317.127
3.	Recoveries Pointed Out at the instance of Audit	0	0	0	0	0	0	17.757
4.	Recoveries Accepted /Established at the instance of Audit	0	0	0	0	0	0	0.033
5.	Recoveries Realized at the instance of Audit	0	0	0	0	0	0	0.033

Table 4: 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.	133.370
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	0
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 overpayments, 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		133.370

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

CHAPTER 1

1.1 Chief Officer, District Council and Town Municipal Administrations, Karachi

1.1.1 Introduction

As per 1998 population census, the population of Karachi is 18.00 million people. Karachi comprises of one Chief Officer, District Council and eighteen TMAs namely Gulshan-e-Iqbal Town, Korangi Town, Landhi Town, Shah Faisal Town, Lyari Town, Saddar Town, Jamshed Town, Liaquatabad Town, North Nazimabad Town, Gulberg Town, New Karachi Town, SITE Town, Keamari Town, Baldia Town, Orangi Town, Malir Town, Bin Qasim Town, Gadap Town. Business of TMAs is run through the Administrator and Municipal Commissioner, Superintendent Engineer, Executive Engineer, Council Officer, Accounts Officer and Budget Officer under Sindh Local Government Ordinance, 1979. The functions of TMAs are as following:

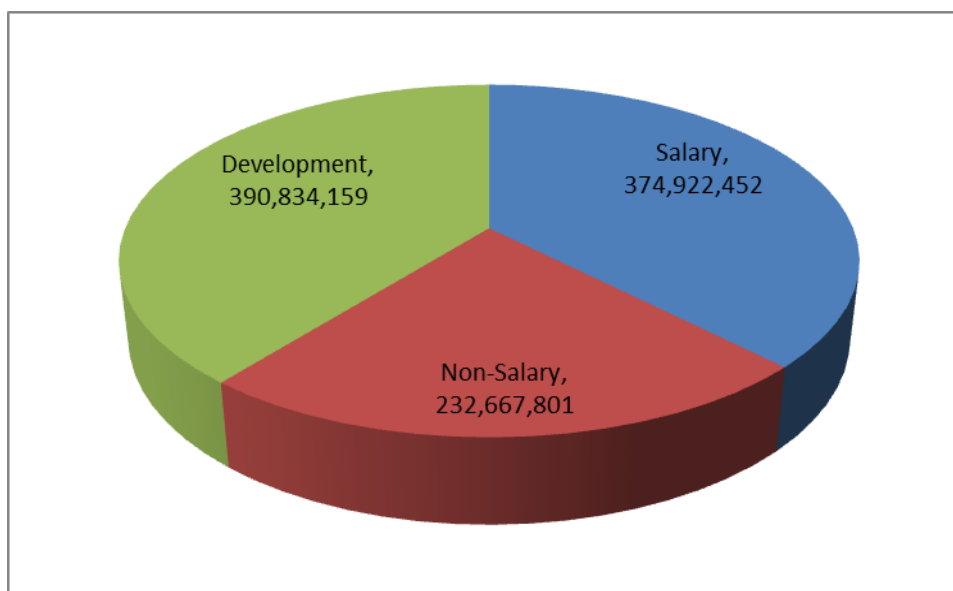
1. Prepare spatial plans for the Town including plans for land use, zoning and functions for which TMA is responsible.
2. Exercise control over land-use, land-subdivision, land development and zoning by public and private sectors for any purpose, including agriculture, industry, commerce markets, shopping 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)

Sr. No	Name of TMAs	Nature of Expenditure	Original Grant	Suppl: Grant	Revised/Final Grant	Actual Expenditure	(+) Excess (-) Saving
1	Orangi Zone	Salary	233,510,000	-	233,510,000	191,702,852	- 41,807,148
		Non-Salary	206,990,000	-	206,990,000	160,785,971	- 46,204,029
		Sub-Total	440,500,000	-	440,500,000	352,488,823	- 88,011,177
		Development	459,500,000	-	459,500,000	282,266,479	- 177,233,521
		Total	900,000,000	-	900,000,000	634,755,302	- 265,244,698
2	Baldia Zone	Salary	188,478,193	-	188,478,193	183,219,600	- 5,258,593
		Non-Salary	108,878,000	-	108,878,000	71,881,830	- 36,996,170
		Sub-Total	297,356,193	-	297,356,193	255,101,430	- 42,254,763
		Development	281,500,000	-	281,500,000	108,567,680	- 172,932,320
		Total	578,856,193	-	578,856,193	363,669,110	- 215,187,083
		Salary	421,988,193	-	421,988,193	374,922,452	- 47,065,741
		Non-Salary	315,868,000	-	315,868,000	232,667,801	- 83,200,199
		Non-Development	737,856,193	-	737,856,193	607,590,253	- 130,265,940
		Development	741,000,000	-	741,000,000	390,834,159	- 350,165,841
		Grand Total	1,478,856,193	-	1,478,856,193	998,424,412	- 480,431,781

Expenditure 2011-12



Original budget of Rs 1,478.856 million was allocated to TMAs Orangi Town and Baldia Town, under various grants and no supplementary grants/re-appropriation was provided. The revised/final budget of these TMAs was of Rs 1,478.856 million. The total

expenditure incurred by concerned TMAs during 2011-12 was Rs 998.424 million as detailed above.

The Variance Analysis of the Revised/Final Grant and Actual Expenditure for the Financial Year 2011-12 depicted that there was a saving of Rs 480.432 million.

1.1.3 Brief Comments on the Status of Compliance with PAC Directives

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

Audit Year	No. of Paras	Status of PAC Meetings
2011-12	Nil	Nil

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

1.2 AUDIT PARAS

Municipal Commissioner, Orangi Town

1.2.1 Non-Compliance

1.2.1.1 Non-Transparency in Government Spending - Rs 96.990 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”.

Municipal Commissioner, Orangi Town, incurred an expenditure of Rs 96.990 million, during 2011-12, 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 was 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: 14]

1.2.1.2 Non-Observance of Procurement rules - Rs 1.753 Million

Rule 17 (1) of Sindh Public Procurement Rules 2010, states that, “Procurements over one hundred thousand rupees and up to one million rupees shall be advertised by timely notifications on the Authority’s website and in print media in the manner and format prescribed in these rules”.

Municipal Commissioner, Orangi Town, incurred an expenditure of Rs 1.753 million, during 2011-12, without following the prescribed procedure, in violation of the above rule. Detail is as under:

(Amount in Rupees)

Budget Head	Name of Work	Name of supplier	Estimated Cost
C06-B-(04)	Removal of offal	Nil	1,752,500

Audit was of the view that management failed to invite open tender resulting into non-transparency in public spending and non-achievement of competitive rates which constituted weak financial management.

The matter was reported during September, 2013, 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 departments on account of non-transparency in awarding of contracts and failure in obtaining competitive rates.

[AIR Para: 12]

1.2.1.3 Un-Authorized Technical Sanction - Rs 9.633 Million

Director General (Technical) Local Government Department, Govt. of Sindh Hyderabad letter No.DB/ 329/ 2005 Hyderabad dated 16-08-2005, states that, “officers of grade-18 and above have the powers as under:”

Sr. No.	Category	Financial Powers
01	Assistant Engineer/ TO (I&S) (of B-17/ Below)	No Powers
02	Executive Engineer/ TO (I&S) (of B-18)	The work having A.A cost of Rs 0.6 M.
03	Superintending Engineer (of B-19)	The work having A.A cost of Rs 3.0 M
04	Director General/ Chief Engineer (of B-20)	No limit (full powers)

Municipal Commissioner, Orangi Town, executed work amounting to Rs 9.633 million, during 2011-12, in violation of the above rule. Detail is as under:

(Amount in Rupees)

Work Order No.	Date	Name of Work	Name of Contractor	Amount of Technical Sanction
64	07-01-2011	Construction/ Extension of TMA Building new block in TMA Office, Orangi	M/s Nisar & Brothers	9,633,205
TOTAL				9,633,205

Audit was of the view that the technical sanction accorded, was unauthorized

being without delegation of powers which constituted weak financial control.

The matter was reported during August and September, 2013 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 for not obtaining technical sanction from competent authority and the same may be regularized under intimation to audit.

[AIR Para: 09]

Municipal Commissioner, Baldia Town

1.2.2 Non-Compliance

1.2.2.1 Non-Transparency in Government Spending - Rs 10.297 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”.

Municipal Commissioner, Baldia Town, incurred an expenditure of Rs 10.297 million, during 2011-12, 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 above rule. Detail is provided in Annexure-B.

Audit was 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 constitute weak financial management.

The matter was reported during September, 2013 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 and same be prepared to justify the expenditure, under intimation to audit.

[AIR Para: 10]

1.2.2.2 Un-Authorized Technical Sanction - Rs 9.896 Million

Director General (Technical) Local Government Department, Govt. of Sindh Hyderabad letter No.DB/ 329/ 2005 Hyderabad Dated 16-08-2005 states that officers of grade-18 and above have the powers as under: -

<i>Sr. No.</i>	<i>Category</i>	<i>Financial Powers</i>
01	Assistant Engineer/ TO (I&S) (of B-17/ Below)	No Powers
02	Executive Engineer/ TO (I&S) (of B-18)	The work having A.A cost of Rs 0.6 M.
03	Superintending Engineer (of B-19)	The work having A.A cost of Rs 3.0 M
04	Director General/ Chief Engineer (of B-20)	No limit (full powers)

Municipal Commissioner, Baldia Town, executed work amounting to Rs 9.896 million, during 2011-12, in violation of the above rule. Detail is as under:

(Amount in Rupees)

Work Order No.	Date	Name of Work	Name of Contractor	Amount of Technical Sanction
-	17-11-2011	Supply of Asphalt Concrete at different roads & trenches in UC-01 to UC-04	M/s Waseem Builders Engineering Construction Co.	9,896,023
TOTAL				9,896,023

Audit was of the view that the technical sanction accorded, was unauthorized being without delegation of powers which constituted weak financial control.

The matter was reported during August and September, 2013 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 for not obtaining technical sanction from competent authority and the same may be regularized under intimation to audit.

[AIR Para: 08]

1.2.2.3 Non-Posting of Evaluation Report - Rs 2.587 Million

Rule 10 of Sindh Public Procurement Rules 2010, states that, "The procuring agency shall, immediately upon award of contract, make the evaluation report of the bid, and the contract agreement to public through hoisting on the Authority's website as well as on procuring agency's website, if the procuring agency has such a website".

Municipal Commissioner, Baldia Town, awarded development scheme to contractor amounting to Rs 2.587 million, during 2011-12, but failed to post evaluation report on SPPRA website, in violation of above rule. Detail is as under:

(Amount in Rupees)

Work Order No.	Date	Name of Work	Name of Contractor	Amount
1442	29-05-2012	Providing & laying pipe drain I/C flooring from Qayyum House to Khattak General Store at Sarhad Mohalla in UC-08	M/s Bilal Khan Associates	2,587,199
Total				2,587,199

Audit was of the view that non-posting of evaluation report resulted into non-transparency in public spending and non-achievement of competitive rates which constituted weak financial management.

The matter was reported during September, 2013 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 management for non-posting of evaluation report on SPPRA website.

[AIR Para: 09]

1.2.2.4 Un-Authorized Expenditure - Rs 2.214 Million

Rule 17 (1) of Sindh Public Procurement Rules 2010, states that, “Procurements over one hundred thousand rupees and up to one million rupees shall be advertised by timely notifications on the Authority’s website and in print media in the manner and format prescribed in these rules”.

Municipal Commissioner, Baldia Town, incurred an expenditure of Rs 2.214 million, during 2011-12, without following the prescribed procedure, in violation of the above rule. Detail provided in Annexure-C.

Audit was of the view that management failed to invite open tender resulting into non transparency in public spending and non-achievement of competitive rates which constituted weak financial management.

The matter was reported during September, 2013, 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 departments on account of non-transparency in awarding of contracts and failure in obtaining competitive rates.

[AIR Para: 07]

ANNEXURES

Memorandum for Departmental Accounts Committee (MFDAC) Paras

(Rupees in Million)

Sr.	Name of Formation	Para No.	Title of Para	Amount of Audit Observation
1	TMA Orangi	01	Loss due to non-deduction of sales tax	0.180
2	-do-	02	Non-deduction of house rent allowance + 5% maintenance charges	0.228
3	-do-	03	Unjustified payment of allowances	0.042
4	TMA Baldia	01	Loss due to non-deduction of income tax	0.049
5	-do-	05	Loss due to non-deduction of professional tax	0.012
6	-do-	07	Loss due to non-deduction of sales tax	0.013

Non-Transparency in Government Spending

(Amount in Rupees)

Bill No.	Date	Head of Account	Name of Supplier	Amount
446	12-10-2011	M/s Zia Service Station	Supply of Diesel from 16-09-2011 to 30-09-2011	1,989,740
447	11-10-2011	M/s Zia Service Station	Supply of Diesel from 01-09-2011 to 15-09-2011	1,962,807
448	12-10-2011	M/s Zia Service Station	Supply of Petrol from 01-09-2011 to 30-09-2011	1,331,181
1232	12-04-2012	M/s Zia Service Station	Supply of Diesel from 01-03-2012 to 15-03-2012	2,058,363
1233	12-04-2012	M/s Zia Service Station	Supply of Diesel from 16-03-2012 to 31-03-2012	2,107,353
1234	12-04-2012	M/s Zia Service Station	Payment for supply of POL for DMC West vehicle for the month of March, 2012	847,239
Total				10,296,683

Un-Authorized Expenditure

(Amount in Rupees)

Bill No.	Date	Name of Work	Name of Contractor	Estimated Cost
69	28-07-2011	M/s Baig Enterprises	Purchase of electrical accessories for "Clean & Green City Campaign"	222,500
176	06-08-2011	M/s Dilbar Khan & Sons	Transfer of Solid Waste	497,985
175	06-08-2011	M/s Dilbar Khan & Sons	Transfer of Solid Waste	497,230
73	29-07-2011	M/s Dilbar Khan & Sons	Transfer of Solid Waste	497,985
174	06-08-2011	M/s Dilbar Khan & Sons	Transfer of Solid Waste	498,420
TOTAL				2,214,120