



**AUDIT REPORT  
ON  
THE ACCOUNTS OF  
PUBLIC SECTOR ENTERPRISES  
GOVERNMENT OF SINDH  
AUDIT YEAR 2012-13**

**AUDITOR – GENERAL OF PAKISTAN**

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## **ABBREVIATIONS & ACRONYMS**

BoD	Board of Directors
Cr	Credit
DAC	Departmental Accounts Committee
DGCA&E	Directorate General of Commercial Audit & Evaluation
DAP	Di Ammonium Phosphate
GFR	General Financial Rules
HBL	Habib Bank Limited
IPSAS	International Public Sector Accounting Standards
LMM	Local Manufactured Machinery
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
POL	Petrol Oil Lubricant
PSE	Public Sector Enterprises
Rs	Rupees
SGP	Sindh Government Press
SLMDC	Sindh Land Management & Development Company
SPPR	Sindh Public Procurement Rules
SPPRA	Sindh Public Procurement Regulatory Authority
SSC	Sindh Seed Corporation (SSC),
SSIC	Sindh Small Industries Corporation
UBL	United Bank Limited

## **Preface**

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

This report is based on audit of the accounts of Public Sector Enterprises of Government of Sindh mainly for the year 2011-12. Audit observations pertaining to previous financial year are also included in the report. The Directorate General of Commercial Audit and Evaluation, Karachi conducted audit of these formations during July 01, 2012 to Nov 15, 2012 on a test check basis with a view to report significant findings to the stakeholders. The main body of the report includes only systemic issues and audit findings carrying value of Rs 1 million or more. Relatively less significant issues are listed in the Annexure-I. The audit observations listed in the Annexure-I shall be pursued with Principal Accounting Officers (PAO) at the DAC level and in all cases where the PAOs do not indicate appropriate action, the audit observations will be brought to the notice of Public Accounts Committee through the next year's Audit Report.

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.

All the observations included in this report have been finalized in the light of discussions in the DAC meetings.

The Audit Report is submitted to the Governor of Sindh in pursuance of the Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 for causing it to be laid before the Provincial Assembly.

Dated:

**Muhammad Akhtar Buland Rana**  
**Auditor-General of Pakistan**

## **EXECUTIVE SUMMARY**

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

Section 15 of Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 empowers Auditor General of Pakistan to conduct audit of companies and corporations established in the public sector. For this, DGCA&E has a human resource of 8 officers and staff (worked out on pro-rata basis) resulting in 2,000 person days. The annual budget of DGCA&E for the year 2012-13 was Rs 4.69 million (worked out on pro-rata basis). The DGCA&E is mandated to conduct regularity audit (financial audit & compliance with authority audit) and performance audit of PSEs under administrative control of various departments of Government of Sindh.

### **a. Scope of Audit**

There are 5 commercial entities of Government of Sindh under the jurisdiction of DGCA&E, Karachi. These entities operate under administrative control of 3 different Principal Accounting Officers (PAOs). As per Audit Plan 2012-13, the DGCA&E audited the accounts pertaining to the year 2011-12 of 4 commercial entities.

Out of total expenditure of the entities for the financial year 2011-12, auditable expenditure under the jurisdiction of the DGCA&E was Rs 576.86 million which was audited on test check basis. Audit of receipts amounting to Rs 552.17 million concerning these formations was also conducted.

This report contains results of audit and evaluation of financial performance of PSEs for the financial year 2011-12 conducted during the audit year 2012-13. It was also assessed whether the organizations are managed in accordance with sound commercial practices, following canons of financial propriety and government policy directives. Internal controls were reviewed with the objectives of identifying weak areas and recommending improvements.

The analysis/comments on the annual audited accounts of Public Sector Enterprises was required to be included in this report; however, these entities (Annexure-II) failed to submit their annual audited accounts by Nov 30, 2012, the prescribed date.

**b. Recoveries upon pursuance of Audit**

A total amount of Rs 14.46 million as appearing recoverable in the accounts of audited entities was recovered by the management during the period under review upon pursuance of Audit (refer Annexure-IV).

**c. Audit Methodology**

Planning and Permanent Files of auditees were maintained and updated during audit of accounts for the year 2011-12. Audit was carried out on the basis of risk and adequacy of Internal Control System in the auditee organizations, with specific emphasis on high value items and inherent risk areas. Audit checks were applied keeping in view the nature of transactions, current commercial accounting and best auditing practices in Pakistan, from the relevant financial and operational manuals.

**d. Audit Impact**

*“There were no changes in rules, practices, and systems.”*

**e. Comments on Internal Control and Internal Audit department**

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

- i. Receivables Management in almost all the organizations required immediate attention. The loans to borrowers under different schemes and trade debts were not being collected timely resulting in accumulation thereof with a risk of conversion into bad debts.

- ii. Financial Management needs to be strengthened by establishing a system of maintenance of accounts comprising immediate posting of financial transactions, periodical reporting within a financial year, observance of year-end procedures, timely preparation of financial statements upon close of financial year and timely audit of accounts. The Principal Accounting Officers will be in a position to control the affairs of their organizations by strengthening the financial management. The non-submission of audited accounts illustrates weakness of internal control.

The Principal Accounting Officers need to initiate necessary steps to evaluate, institute and strengthen the Internal Controls so that detective and preventive measures are taken at the right time. In this regard Internal Audit Departments need to be established/ strengthened which may directly report to the respective Principal Accounting Officers. A copy of the report so generated by the Internal Audit Departments as well as physical verification report needs to be provided to Audit.

**f. The key audit findings of the report;**

- i Splitting of expenditure on repair and maintenance works at H.O. building – Rs 1.56 million<sup>1</sup>
- ii Loss due to non-completion of work by the contractor due to defective agreement – Rs 1.18 million<sup>2</sup>
- iii Non- recovery of loans from borrowers – Rs 200.11 million<sup>3</sup>
- iv Irregular expenditure on setting up stalls at exhibitions- Rs 1.83 million<sup>4</sup>
- v Wastage of funds due to non utilization of cotton ginning plant Rs.6.40 million<sup>5</sup>
- vi Procurement in violation of SPPR, 2010- Rs.47.85<sup>6</sup>

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<sup>1</sup> Para 2.2.4.1

<sup>2</sup> Para 2.2.4.5

<sup>3</sup> Para 2.2.4.2, 2.2.4.3 and 2.2.4.4

<sup>4</sup> Para 2.2.4.6

<sup>5</sup> Para 1.1.4.1

<sup>6</sup> Para 2.1.4.1

**g. Recommendations**



The executive (Principal Accounting Officers) needs to take necessary steps to evaluate, institute and strengthen the management, budgeting and accounting controls to:

- i. Ensure observance of rules while making procurement. ( e.g. SSIC, SSC)
- ii. Ensure timely recovery of sundry debts, loans and advances (e.g., SSIC);
- iii. Arrange timely submission of annual audited accounts to audit authorities (refer Annexure-II); and
- iv. Expedite liquidation of closed enterprises to avoid recurring expenses and deterioration of their assets (refer Annexure-III).

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## **SUMMARY TABLES & CHARTS**

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**Table 1: Audit Work Statistics**

(Rs. in million)

<b>S. No.</b>	<b>Description</b>	<b>No.</b>	<b>Budget</b>
1	Total PAO's in Audit Jurisdiction	3	-
2	Total Commercial Entities in Audit jurisdiction	5	1,641.44
3	Total PAO's Audited	3	-
4	Total Commercial Entities Audited	5	1,641.44
5	Audit & Inspection Reports	5	1,641.44
6	Special Audit Reports	-Nil-	-
7	Performance Audit Reports	-Nil-	-
8	Other Reports	-Nil-	-

**Table 2: Audit observations regarding Financial Management**

(Rs. in million)

<b>S. No.</b>	<b>Description</b>	<b>Amount Placed under Audit Observation</b>
1	Unsound asset management	11.65
2	Weak financial management	-
3	Weak internal controls relating to financial management	261.23
4	Others	1.56
<b>Total</b>		274.44

**Table 3: Outcome Statistics**

(Rs. in million)

<b>S. No.</b>	<b>Description</b>	<b>Expenditure on acquiring Physical Assets (Procurement)</b>	<b>Civil Works</b>	<b>Receipts</b>	<b>Others</b>	<b>Total current year</b>	<b>Total last year</b>
1	Outlays Audited	0.44	-	552.17	544.19	1,096.81	881.97
2	Amount Placed under Audit Observation/ Irregularities	-	-	217.93	56.37	274.30	881.56
3	Recoveries Pointed Out at the instance of Audit	- Nil -	- Nil -	- Nil -	- Nil -	- Nil -	- Nil -
4	Recoveries Accepted /Established at the instance of Audit	- Nil -	- Nil -	- Nil -	- Nil -	- Nil -	- Nil -
5	Recoveries Realized at the instance of Audit	- Nil -	- Nil -	- Nil -	- Nil -	- Nil -	- Nil -

**Table 4: Irregularities pointed out**

(Rs. in million)

<b>S. No.</b>	<b>Description</b>	<b>Amount Placed under Audit Observation</b>
1	Violation of Rules and regulations and violation of principle of propriety and probity in public operations.	51.24
2	Reported cases of fraud, embezzlement, theft, and misuse of public resources.	-
3	Accounting Errors (accounting policy departure from IPSAS, misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	-
4	Weaknesses of internal control systems.	215.34
5	Recoveries and overpayments, representing cases of established overpayment or misappropriations of public moneys	-
6	Non-production of record.	-
7	Others, including cases of accidents, negligence, etc.	7.83

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**Chapter- 1**  
**Agriculture Department**

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## **1.1 Sindh Seed Corporation, Hyderabad**

### **1.1.1 Introduction**

Sindh Seed Corporation (SSC) was established in the year 1976 for the systematic production, procurement, processing and marketing of all kinds of seeds of major crops on the scientific lines. The prime objective of the SSC is to supply high quality certified seed to the growers of Sindh on affordable price thus to enhance overall per acre yield in the Province of Sindh. The role and objectives of the organization are described below:

- i. Procurement of pre-basic and basic seed at SSC Farms.
- ii. Procurement, processing and marketing of certified seeds.
- iii. Provision of technical advices / services to the registered growers.

#### **1.1.2 Comments on the Audited Accounts**

The organization has failed to submit annual audited accounts since 2005-06 and onwards (refer Annexure-II)

#### **1.1.3 Brief comments on the status of compliance with PAC Directives**

The PAC has yet to discuss Audit Paras pertaining to SSC from the year 2004-05.

### **1.1.4 Audit Paras**

#### **1.1.4.1 Wastage of funds due to non-utilization of Cotton Ginning Plant – Rs 6.40 million**

Rule-10 of GFR provides that every Public Officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of accounts of SSC for the year 2011-12, it was found that a Cotton Ginning Plant valuing Rs 6.40 million was installed at Sakrand during the year 1983 but it could not become operational till close of audit in Sep 2012.

The irregularity was reported to the management in Oct 2012. The management in DAC meeting held on Dec 26, 2012 informed that the plant developed a mechanical fault during trial running in March 1983. They added that upon recommendation of the consultants, appointed to rectify the plant, additional ginning units of 5 sawgins have been installed, which are working satisfactorily. The DAC directed the management to initiate the process of disposing of the defective unit with approval of the BoD. Further progress was, however, not reported till the finalization of this report.

Audit requires implementation of DAC directives.

#### **1.1.4.2 Loss of revenue due to non-utilization of residential quarters – Rs 5.24 million**

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

During audit of accounts of SSC for the year 2011-12, it was found that out of 19 quarters SSC Residential Colony, Sakrand, only 5 were on rent, whereas 14 quarters were vacant since last 10 years resulting in loss of rental income of Rs 5.24 million.

The loss was reported to the management in Oct 2012. The management in DAC meeting held on Dec 26, 2012 informed that new staff has not been appointed against vacant posts and accordingly quarters/bungalows were lying vacant. They further added that negotiations were being made with Veterinary University for allotment of vacant quarters/bungalows. The DAC directed the management to furnish a revised reply to audit. Further progress was, however, not reported till the finalization of this report.

Audit emphasizes for taking effective steps for utilization of the asset.



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## **Chapter-2**

### **Industries and Commerce Department**

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## **2.1 Sindh Government Press, Karachi and Khairpur**

### **2.1.1 Introduction**

As a result of disintegration of one unit, the West Pakistan, Government Press was renamed as Sindh Government Press (SGP) w.e.f. July 01, 1970 under Controller, Printing and Stationery Department, Government of Sindh.

Main functions of the Press are as under:

- Printing of all kinds of jobs for all departments / offices of the Government of Sindh.
- Supply of all types of stationery articles to all departments / offices of the Government of Sindh.

### **2.1.2 Comments on the Audited Accounts**

**The organization has failed to submit annual audited accounts since 1984-85 and onwards (refer Annexure-II)**

### **2.1.3 Brief comments on the status of compliance with PAC Directives**

The PAC has yet to discuss Audit Paras pertaining to SGP from the year 2004-05.

### **2.1.4 Audit Paras**

#### **2.1.4.1 Unauthorized award of contract for procurement of stationery articles, printing and binding materials – Rs 47.85 million**

Rule-52 of SPPR-2010 provides that there shall be no negotiation with the bidder having submitted the lowest evaluated bid or with any other bidder.

During audit of accounts of SGP, Karachi for the year 2011-12, it was found that tenders worth Rs 47.85 million were published in the newspapers for procurement of stationery articles, printing and binding material. The rates quoted by the lowest bidders for different articles/materials were negotiated with other

bidders (who quoted higher rates at the time of submission of bids than the rates of lowest bidders). Thus, bidders who were not the lowest re-submitted their negotiated rates for different articles/materials down to the level of the lowest bidder's rates. Finally more than one bidder got qualified by way of negotiation in disregard of rules.

The irregularity was reported to the management in Oct 2012. The management in DAC meeting held on Dec 10, 2012 informed that negotiations were made only with the lowest bidder. Audit pointed out that negotiation even with the lowest bidder was against the rules as the rates are to be accepted after due evaluation process and in case of excessive rates, the bids are to be rejected, as seeking the firm and final rates is objective of the tendering. The DAC decided that the management may abide by the rules and settled the Para subject to verification that lowest bidders had been awarded the procurement contracts. However, the management could not produced record for verification till finalization of this report.

Audit emphasizes fact finding inquiry besides taking remedial measures to avoid recurrence.

#### **2.1.4.2 Non-recovery of dues from Government Departments – Rs 6.18 million**

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

During audit of accounts of SGP, Karachi for the year 2011-12, it was found that an amount of Rs 6.18 million was outstanding as on June 30, 2012 against various government departments on account of printing work done on credit basis. Had the amount been received in advance at the time of receiving the job, the dues would have not been accumulated to such an extent.

The non-recovery was reported to the management in Oct 2012. The management in DAC meeting held on Dec 10, 2012 informed that urgent printed items were provided on credit basis to the Government Departments. The DAC directed the management to pursue the recovery and status of recovery may be intimated to Audit for verification. Further progress was, however, not reported till the finalization of this report.

Audit requires implementation of DAC directives.

#### **2.1.4.3 Loss due to non-deduction of overhead charges on the stationery items supplied – Rs 2.53 million**

Clause 11.7 of the Printing and Stationery Manual states that the price will be fixed on the basis of actual expenses at the rate provided in the contract for the year plus 5% on account of overhead charges.

During audit of accounts of SGP, Karachi for the year 2011-12, it was found that stationery valuing Rs 50.60 million was supplied to different Government departments. The overhead charges @ 5% of the cost amounting to Rs 2.53 million was not deducted, which was a loss to the organization.

The loss was reported to the management in Oct 2012. The management in DAC meeting held on Dec 10, 2012 informed that recoveries had been started during the subsequent year. The DAC directed the management to pursue the recovery and status of recovered amount may be intimated to Audit for verification. Further progress was, however, not reported till the finalization of this report.

Audit requires implementation of DAC directives.

#### **2.1.4.4 Extra expenditure on overtime due to ill planned release of funds – Rs 1.43 million**

Rule-10 (i) of GFR provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money

as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of accounts of SGP, Khairpur for the year 2011-12, it was found that the management paid an amount of Rs 1.43 million on account of overtime. Audit observed that the Press was unable to provide printing and stationery material to different departments of Sindh Government located in ten Districts in accordance with their demand; therefore, the payment of over time was unjustified.

The matter was reported to the management on Jan 01, 2012. The management in DAC meeting held on Dec 10, 2012 informed that the amount of overtime reported by audit actually pertains to three years, i.e., 2008-09, 2009-10 and 2010-11. The management also informed that Finance Department releases funds under procurement head after lapse of about six months which necessitates carrying out work in extra time as the printing and binding material are received near end of each financial year. The DAC directed the management to take up the matter of release of funds with Finance Department. Further progress, however was not reported till the finalization of this report.

Audit requires implementation of DAC directives.

## **2.2 Sindh Small Industries Corporation**

### **2.2.1 Introduction**

Sindh Small Industries Corporation (SSIC), Karachi was established under Small Industries and Handicrafts Development Corporation Act, 1972. Its main functions are as under:

1. The Corporation shall take such measures as it thinks fit to provide assistance in the establishment and development of cottage, small and other industries.
2. The Corporation shall also be responsible for:
  - i. preparing and submitting schemes to Government for the development of handicrafts, cottage, small and other industries, such schemes may include schemes for research and mechanization in respect of cottage and small industries; and
  - ii. sponsoring the industries to be set up in the private sector in Sindh.

### **2.2.2 Comments on the Audited Accounts**

The organization has failed to submit annual audited accounts since 1987-88 and onwards (refer Annexure II).

### **2.2.3 Brief comments on the status of compliance with PAC Directives**

The PAC has yet to discuss Audit Paras pertaining to SSIC from the year 2004-05.

### **2.2.4 Audit Paras**

#### **2.2.4.1 Splitting of expenditure on repair and maintenance works at H.O. building – Rs 1.56 million**

Rule-17 of SPPR, 2010 provides that procurement 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. Further, Rule-12 *ibid* provides limitations on splitting or regrouping of proposed procurement.

During audit of accounts of SSIC for the year 2011-12, it was found that an expenditure of Rs 1.56 million was incurred on repair and maintenance of the head office building. The amount was spent in piecemeal keeping the expenditure well under Rs100, 000 per incidence of work. Hence it was a case of splitting the expenditure in order to defeat the provisions of advertising/bidding.

The irregularity was reported to the management in Oct 2012. DAC in its meeting held on Dec 10, 2012 decided to constitute a facts finding committee at the level of Industries and Commerce Department to ascertain factual position. Further progress was, however, not reported till the finalization of this report.

Audit requires implementation of DAC directives.

#### **2.2.4.2 Non-recovery from small industrial estates and industrial parks - Rs 130.75 million**

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

During audit of accounts of SSIC for the year 2011-12, it was found that an amount of Rs 130.75 million was outstanding against the allottees of small industrial estates and industrial parks in four regions of the corporation as detailed below:

(Rs. in million)		
<b>S. No.</b>	<b>Region</b>	<b>Outstanding Amount (as on 30-06-2012)</b>
1	Karachi	99.45
2	Hyderabad	19.55
3	Sukkur	8.30
4	Larkana	3.45
<b>Total</b>		<b>130.75</b>

The matter was reported to the management in Oct 2012. The management in DAC meeting held on Dec 10, 2012 replied that Rs 99 million out of the outstanding amount pertains to future installments of Karachi and Hyderabad regions which is an ongoing process. They added that Rs 34.65 million had been recovered from Karachi and Hyderabad region. The management also informed that the allottees of Sukkur and Larkana regions are chronic defaulters and almost all the cases were in different courts. The DAC directed the management to submit revised reply and the recovery position may be verified from Audit. Further progress was, however, not reported till the finalization of this report.

Audit requires implementation of DAC directives.

#### **2.2.4.3 Non-recovery of loan from the defaulters of Supervisory Credit Scheme - Rs 8.04 million**

Section-23(4) of Sindh Small Industries and Handicraft Development Corporation Act, 1972 provides that the Corporation shall have the option to recover the amount due from a borrower either from him or from his surety and a certificate issued under sub-section(1) shall also be executable against the surety as if he himself were the borrower.

During audit of accounts of SSIC for the year 2011-12, it was found that the management launched a scheme in 1988-89 namely “Supervisory Credit Scheme”. The scheme remained operational for five years and was discontinued in 1993.

However, 15 parties became defaulters and an amount of Rs 8.04 million was still recoverable as on June 30, 2012.

The non-recovery was reported to the management in Oct 2012. The management in DAC meeting held on Dec 10, 2012 informed that Rs 0.94 million had been recovered. They added that almost all the cases of the defaulters were pending in different courts. The DAC directed the management that recovery may be got verified from Audit and court cases may be pursued vigorously. Further progress was, however, not reported till the finalization of this report.



Audit requires implementation of DAC directives.

**2.2.4.4 Non-recovery of loan from the defaulters of Self Employment Scheme  
– Rs 61.32 million**

Section-23(4) of Sindh Small Industries and Handicraft Development Corporation Act, 1972 provides that the Corporation shall have the option to recover the amount due from a borrower either from him or from his surety and a certificate issue under sub-section (1) shall also be executable against the surety as if he himself were the borrower.

During audit of accounts of SSIC for the year 2011-12, it was found that the management launched “Self Employment Scheme” in the month of Oct 1992 for purchase of Local Manufactured Machinery (LMM). Loans of Rs 95.86 million were disbursed among 162 units under the scheme from Oct 1992 onwards. The scheme was discontinued in 1996-97.

However, a total number of 76 parties defaulted and an amount of Rs 61.32 million was still outstanding as on June 30, 2012.

The non-recovery was reported to the management in Oct 2012. The management in DAC meeting held on Dec 10, 2012 replied that a sum of Rs 6.95 million had been recovered in the year 2011-12. They added that almost all the cases of the defaulters were pending in different courts. The DAC directed the management that recovered amount may be got verified from Audit and court cases may be pursued vigorously. Further progress was, however, not reported till the finalization of this report.

Audit requires implementation of DAC directives.

**2.2.4.5 Loss due to non-completion of work by the contractor due to defective agreement – Rs 1.18 million**

Rule-10(i) of GFR provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money

as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of accounts of SSIC for the year 2011-12, it was found that the management work for construction Demonstration/Convention Centre at Mithi was awarded to a firm, M/s. Hareesh & Company on Sep 13, 2008 with the tendered cost of Rs 2.75 million. The contractor left the work incomplete. In accordance with the clause-3(a)(c) of the agreement, the contract was rescinded and re-awarded to another firm, M/s. Dhatti Electric & Civil Works with the tendered cost of Rs 1.61 million. As such, the unfinished work had to be completed at additional cost of Rs 1.18 million. Since there was no penalty clause in the agreement, additional cost could not be recovered from M/s Hareesh & Company. Due to non inclusion of penalty clause in the agreement, the contractor left the work incomplete and caused loss to the corporation.

The irregularity was reported to the management in Oct 2012. The management in DAC meeting held on Dec 10, 2012 contended that no loss had been suffered by the organization and stated that they will communicate the complete position regarding this contract. The DAC directed the management to submit a revised reply within a week to Audit. Further progress was, however, not reported till the finalization of this report.

Audit emphasizes holding of a fact finding inquiry.

#### **2.2.4.6 Unauthorized expenditure on setting up stalls at fairs/exhibitions- Rs 1.83 million**

Rule-10(i) of GFR provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of accounts of SSIC for the year 2011-12, it was found that the management an amount of Rs 1.83 million was paid to employees of the corporation for setting up stalls of the corporation at fairs/exhibitions on different

events. After completion of the events, they submitted their bills for reimbursement/adjustment of advances. However, no record was produced to Audit as evidence of actually holding the events. Moreover, audit observed that after completion of the event, the furniture, fixture, equipments and other accessories of SSIC used for setting up of stalls were not returned to the corporation.

The irregularity and the position of missing inventory (furniture/equipment) were reported to the management in Oct 2012.

The DAC in its meeting held on Dec 10, 2012 decided to constitute a facts finding committee at the level of Industries and Commerce Department to ascertain factual position. Further progress was, however, not reported till the finalization of this report.

Audit requires implementation of DAC directives.

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**Chapter- 3**  
**SPECIAL INITIATIVE DEPARTMENT**

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### 3.1 Sindh Land Management & Development Company

#### 3.1.1 Introduction

Sindh Land Management & Development Company (SLMDC) was incorporated in Pakistan on June 24, 2010 as a public limited company by shares under the Companies Ordinance, 1984 and is located in the province of Sindh. The company is mainly engaged in the business of land development in line with the government policy in the province and for making available land for the purpose of designing cities, towns, townships, new residential, commercial, industrial, recreational, and other such projects. The registered office of the company is situated in Karachi.

#### 3.1.2 Comments on Audited Accounts

**3.1.2.1** The comments are prepared on the basis of accounts of the company initialed by External Auditors. The audited accounts are yet to be formally approved and signed by the executive and formally signed by External Auditors. The working results of the Company for the year ended June 30, 2012 as compared with the previous year are as under:

(Rs. in million)

	<b>2011-12</b>	<b>% Inc/ (Dec)</b>	<b>2010-11</b>
General and Administrative expenses	(27.60)	87.7	(14.70)
Finance Cost	(0.01)	400.0	-
Other Income	7.59	-	-
<b>Profit / (loss) before taxation</b>	<b>(20.02)</b>	<b>36.1</b>	<b>(14.70)</b>
Taxation	-	-	-
<b>Profit / (loss) after taxation</b>	<b>(20.02)</b>	<b>36.1</b>	<b>(14.70)</b>
Accumulated losses carried forward	(34.72)	136.1	(14.70)

(Source: Annual Audited Accounts)

**3.1.2.2** The Certificate of Commencement of Business was not obtained from Securities Exchange Commission of Pakistan and the company had also not started its business, hence no revenue was earned and/or booked in the accounts of the company. The Certificate of Commencement was not issued to the

company due to some filing error on the part of the company in respect of value of shares. Resultantly statutory meeting was also not held. This raised doubt over going concern of the company.

**3.1.2.3** General and administrative expenses of the company increased by Rs 12.89 million (i.e., 87.7%) in comparison with the previous year. This increase was mainly on account of salaries, allowances and benefits (i.e., 2012: Rs 15.58 million and 2011: Rs 7.18 million) which were increased by 117.03% of last year's expense and constituted 56.45% of the total increase in expenses for the year 2012.

**3.1.2.4** Moreover, upon reviewing the accounts for the year under review, the details and reasons of following indications were needed.

- Office rent expense increased by Rs 2.03 million, which was 540% of the last year 2011.
- Depreciation expenses increased by Rs 1.98 million, which was 155.2% of the last year 2011.
- Receivables written off amounting to Rs 0.96 million. The base of these written off receivables needed elaboration as no revenue was earned.

**3.1.2.5** The net cash and cash equivalent were decreased by 20.6% amounting Rs 35.87 million in comparison with last year. This will lead the company in difficulty to discharge its liabilities and perform its operations efficiently.

**3.1.2.6** The company received an amount of Rs 100 million from Sindh Government for development of a project. The project was later transferred to Director General Lyari Development Authority but the funds of Rs 100 million remained with the company and classified as current liability. The Company has planned to use the funds in near future for use as capital and operational expenses. The approval sought by the entity from authorities was awaited. The status of the fund needed elaboration.

**3.1.3** Brief comments on the status of compliance with PAC Directives

The PAC has yet to discuss Audit Paras pertaining to SLMDC from the year 2011-12.

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## ANNEXURES

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**Annexure-I****MFDAC Paras**

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

As a result of audit conducted during 2012-13, various types of financial irregularities and losses of public money, etc., were detected and reported to the Departments and organizations concerned. The important irregularities/ losses and malpractices pertaining to various organizations have been printed in this report, while the irregularities/losses not considered worth reporting to the PAC as listed below were left for Departmental Accounts Committees. The same will be discussed with the respective Secretaries to the Departments by the Director General, Commercial Audit and Evaluation, Karachi.

<b>S. No.</b>	<b>Name of Organization</b>	<b>Audit Observation</b>
<b>INDUSTRIES AND COMMERCE DEPARTMENT</b>		
1.	<b>Sindh Small Industries Corporation</b>	Loss due to non-deduction of income tax at source from the suppliers- Rs 0.59 million
<b>AGRICULTURE DEPARTMENT</b>		
2.	<b>Sindh Seed Corporation</b>	Irregular purchase of fertilizers in violation of SPPR, 2010 – Rs 15.60 million
3.	<b>-do-</b>	Non-utilization of Mini Processing Plant of wheat seed –Rs 2.63 million
4.	<b>-do-</b>	non-recovery of rent from tenants of farms Rs 6.56 million

**Non-submission of Audited Accounts**

Annual audited accounts of Public Sector Enterprises for the year 2011-12 were required to be submitted to the Directorate General of Commercial Audit and Evaluation, Karachi by Nov 30, 2012. Despite requests, the organizations (listed below) failed to submit their annual audited accounts for the year(s) indicated against each by the prescribed date. While non-submission of audited accounts needs to be explained, efforts should be made for immediate finalization and submission thereof:

**Agriculture Department**

- |    |   |  |
|----|---|--|
| 1. | Sindh Agricultural Supplies Organization, Karachi | 2002-03 to 2011-12 (under process of winding up since 2001-02) |
| 2. | Sindh Seed Corporation, Hyderabad                 | 2005-06 to 2011-12   |

**Industries Department**

- |    |   |   |
|----|---|---|
| 3. | Sindh Government Press, Khairpur            | Commercialized w.e.f. July 01, 1984 but accounts for the years 1984-85 to 2011-12 were either not compiled on commercial pattern or not submitted to Audit for certification. |
| 4. | Sindh Government Press, Karachi             | Commercialized w.e.f. July 01, 1984 but accounts for the years 1984-85 to 2011-12 were either not compiled on commercial pattern or not submitted to Audit for certification. |
| 5. | Sindh Small Industries Corporation, Karachi | 1987-88 to 2011-12  |

6	Sindh Sugar Corporation, Hyderabad	1998-99 to 2011-12 (under liquidation since 1998-99)
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## **Organizations under liquidation**

The following organizations/units closed their operational activities since the year mentioned against each. The decision about their privatization/liquidation had already been taken but the implementation of the same was awaited.

### **Agriculture Department**

- |   |  |
|---|--|
| 1. Sindh Agricultural Supplies<br>Organization, Karachi | Under process of winding up<br>since 2001-02 |
|---|--|

### **Industries Department**

- |                                       |                                    |
|---------------------------------------|------------------------------------|
| 2. Sindh Sugar Corporation, Hyderabad | Under liquidation<br>since 1998-99 |
|---------------------------------------|------------------------------------|

**Annexure-IV****Recoveries made upon pursuance of Audit**

During the year 2012-13, audit of the accounts for the year 2011-12 of commercial organizations of Government of Sindh was conducted and results thereof, containing various types of financial irregularities, losses of public money, etc., were communicated to the Authorities concerned.

As per details given below, the concerned commercial entities (in whose accounts outstanding recoveries were appearing), made recoveries to the tune of Rs 14.46 million upon pursuance of Audit.

(Rs. in million)

<b>S. No.</b>	<b>Name of Ministry/Division</b>	<b>Brief Particulars of recoveries</b>	<b>Amount</b>
1	S.S.I.C. Karachi	An amount of Rs 1.37 million was recoverable from an office, against which recovery of Rs 1.64 million was made	1.64
2	S.G.P. Karachi	Dues amounting to Rs 1.52 million were recoverable from Govt. Departments. The management so far recovered Rs 0.35 million	0.35
3	Sindh Seed Corporation, Hyderabad	Amount of Rs 40.47 million was recoverable from employees, suppliers and Govt. Departments. The whole amount has been recovered	12.47
<b>Total</b>			<b>14.46</b>