



**Special Study Report  
on  
Reconciliation of Pension Payment  
between AG Sindh, National Bank  
& State Bank of Pakistan  
Audit Year 2017-18**

**AUDITOR GENERAL OF PAKISTAN**



# TABLE OF CONTENTS

<b>PREFACE</b>	<b>ii</b>
<b>ABBREVIATIONS AND ACRONYMS</b>	<b>iv</b>
<b>EXECUTIVE SUMMARY</b>	<b>vi</b>
	<b>Page</b>
	<b>No.</b>
<b>SECTION</b>	
<b>1. INTRODUCTION</b>	<b>1</b>
<b>2. SPECIAL STUDY OBJECTIVES</b>	<b>6</b>
<b>3. SCOPE AND METHODOLOGY</b>	<b>6</b>
<b>4. STUDY FINDINGS &amp; RECOMMENDATIONS</b>	<b>7</b>
4.1 Irregular Variation of pension payment between SBP and Treasury-Rs.49.079 million	7
4.2 Difference in pension payment between AG Sindh and Treasury – Rs.5.8329 million	9
4.3 Expenditure in excess of budget allocation – Rs1.026 Billion	10
4.4 Misclassification of expenditure – Rs7.037 million	12
4.5 Non-reconciliation of pension payments-Rs5.566 billion	13
4.6 Non-conduct of post-audit of pension payments – Rs1.046billion	15
<b>5. OVERALL CONCLUSION</b>	<b>17</b>
<b>ACKNOWLEDGEMENT</b>	<b>19</b>



## **PREFACE**

The Auditor-General conducts audits in terms of 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. The audit of Special study of Reconciliation of Pension Payment, Government of Sindh, for the financial year 2016-17 was carried out accordingly.

The Directorate General Audit Sindh conducted Special Study on Reconciliation of Pension Payment, Government of Sindh, for the financial year 2016-17 with a view to report significant findings to stakeholders. Audit examined the economy, efficiency, and effectiveness aspects of the Special study of Reconciliation of Pension Payment, Government of Sindh. In addition, Audit assessed, on test check basis, whether the management complied with applicable laws, rules, and regulations in managing the Special study of Reconciliation of Pension Payment, Government of Sindh. The Special study Report indicates specific actions that, if taken, will help the management to realise the objectives of the Reconciliation of Pension Payment. The observations included in this report have been finalized in the light of discussion in the Exit Conference.

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

**Javaid Jehangir**  
Auditor-General of Pakistan

Dated:



## ABBREVIATIONS AND ACRONYMS

AG	Accountant General
APPM	Accounting Policies and Procedures Manual
ATM	Automated Teller Machine
BPRD	Banking Policy & Regulations Department
CSRs	Civil Service Regulations
DAO	District Accounts Office
DCS	Direct Credit System
FY	Financial Year
GPS	Government Pension System
LPC	Last Pay Certificate
PPO	Pension Payment Order
SBP	State Bank of Pakistan
SOP	Standard Operating Procedure
SRO	Statutory Regulatory Order
TORs	Terms of Reference
TR	Treasury Rules





## **EXECUTIVE SUMMARY**

The Directorate General Audit Sindh conducted special study on reconciliation of Pension Payments, Government of Sindh, for the Financial Year 2016-17. The main objectives of the study were to examine Reconciliation of Pension Payment between AG Sindh, National Bank & State Bank of Pakistan, to evaluate adequate internal controls for proper processing of reconciliation of pension payment to prevent the irregularities. The controls were checked which prevented or detected payments being made in error. The study was conducted in accordance with the INTOSAI Auditing Standards.

In the A.G Sindh and Treasury Office Karachi, the study observed that there were, non-maintenance of the reconciliation of payment of pension and lack of internal controls. The study observed from pension record that non-reconciliation of pension, periodical non-verification of pension files, improper maintenance of record, variation between pension payments as per AG. Sindh and SBP statement.

The study recommends that a comprehensive exercise for validity and reliability of reconciliation on pensioners' data should be conducted, the internal controls as prescribed in Accounting Policies and Procedures Manual and other relevant rules should duly be implemented and monitored and the payment claims without requisite documents may not be allowed. A comprehensive mechanism for processing, payment, booking, reporting and reconciliation of the pension payments should be ensured to avoid any chance of misappropriation. The reconciliation mechanism for pension payments shall be made effective enough to detect any irregular payment. Transparency and ready availability of the auditable record should be ensured. Difference in the record of provincial pensioners between AG Sindh data

and SBP/NBP data should need to be sorted out. Every payment of pension must be approved after ensuring that all the relevant information is available and the same is genuine and that there is no bar on allowing the payment.

## **1. INTRODUCTION**

- 1.1.** The Special Study on reconciliation of Pension Payment between AG Sindh, National Bank & State Bank of Pakistan for the Financial Year 2016-17 was assigned and reviewed the overall reconciliation of pension structure.
- 1.2.** Section 4.7 of APPM entails accounting policies and procedures for pension payment by direct credit, payment by cheque, Pension Payment Order (Pension Book), personal appearance of pensioner, undrawn pensions and arrears, death of pensioner, processing of pension application flowchart, procedure for processing of pension application, processing of pension payment flow chart specifying role of pension officer, pension supervisor officer and delegated officer in pension section, recording, consolidation reporting, reconciliation of pension expenditure.
- 1.3.** APPM Para 4.7.11 contains flowchart for processing of pension application. The prospective ex-employee prepares pension application, Pension Officer certifies pension application and updates pension application register, Pension Supervisor Officer authorizes pension application and updates pension application register, Delegated Officer in pension section updates pension register, prepares Pension Book, Delegated Officer (Pension Book Signatory) files authorized pension application and issues (Sign and Stamp) Pension Book to the pensioner.
- 1.4.** APPM Para 4.7.13 contains flowchart for processing of pension payment. Pension Officer updates pension register, prepares monthly pension for

pensioners on computer system as monthly pension is prepared through computer pension run, Pension Supervisor Officer authorizes monthly pension after review and updates Pension Register, Delegated Officer in pension section prepares pension cheque (if paid by cheque) and prepares pension credit advice for banks (if paid by direct credit). The Delegated Officer (cheque signatory) updates Cheque Register and another Delegated Officer mails cheque by registered post and Pension Credit Advice is sent to bank.

- 1.5.** For Consolidation of pension expenditure, in the Account Section the Delegated Officer records detail of pensions in the Sub-Ledger and Appropriation Control Register. The Delegated Officer in the Account Section of the DAO/AG consolidates the expenditures, on monthly basis, from the entries in the General Ledger and includes them in the Monthly Accounts.
- 1.6.** Pension expenditures are reported to the Accountant General as part of the Monthly Accounts prepared by the District Accounts Officer from which the AG produces the Consolidated Monthly Accounts for the Government.
- 1.7.** For reconciliation of pension expenditure, the bank sends the “Bank Return” to the Account Section, where a delegated officer checks the Bank Return with the copy of the Pension Advice Note and Pension Credit Advice. In respect of the pension credit advice the total will be reconciled with the total appearing on the Bank Return. The officer shall investigate any item which is on the Bank Return but not on the Pension Advice Note and the Pension

Credit Advice, and vice versa. Afterwards, these checked returns are sent to the officer who prepared the cheque. Once the delegated officer in the Accounts Section is finished with the Bank Returns, these returns are sent to the officer who prepared the cheque. This officer enters the details from the Bank Returns into the Cheque Register and reconciles the cheques issued by the office and cleared by the bank. A report/schedule of this reconciliation is sent to the Account Section. It also indicates those cheques which are not yet cleared by the bank.

- 1.8.** With respect to reporting on pensions, APPM entails that when a pension payment is made by cheque, the designated branch of the National Bank of Pakistan at which the cheque is personally presented by the pensioner shall send a monthly statement, together with their Bank Return to certify that all pensioners paid during the month were alive, and that all pensioners' Pension Books were stamped for the month.
- 1.9.** Monthly Report produced by the DAO/AG includes information on number of pensioners added during the month; number of pensioners expired, total pension payable and actually paid.
- 1.10.** Other Statutes and Rules for regulating pension payments are Civil Service Regulations (CSRs) 906-987, Treasury Rules from 319-75 about Pension Payments through PPO, Payment through Treasury Office, Pension-cum-Gratuity Scheme, 1954 and Liberalized Pension Rules, 1977.
- 1.11.** Source of Finance:
  - 1.11.1. Government of Sindh

**1.12. Mode of Payments:**

1.12.1. Issue of Pension Payment Order (PPO), along with Pass Book

1.12.1.1. Through Direct Credit System (DCS), processed by AG or DA offices.

**1.13. SBP Circular on Pension Disbursement**

1.13.1. Pension disbursements through banks vide BPRD Circular Letter No. 25 of **2010 pursuant to** Finance Division has notified the requisite changes in Federal Treasury Rules vide SRO No. 5(3) Exp-III/2007 dated 21st October 2010. Further, a Standard Operating Procedure (SOP) has been developed in consultation with the stakeholders. The SOP clearly stipulates responsibilities of the Pensioners, Accounts Offices, and Banks along with a mechanism of reconciliation between Banks and the Accounts Offices. All the banks are advised to ensure compliance of this Circular in letter and spirit and make necessary arrangements for disbursement of pension accordingly w.e.f. January 1, 2011. State Bank of Pakistan will monitor compliance of the instructions from January 1, 2011.

**1.14. Payment procedure of pension at NBP and other commercial banks**

1.14.1. Initially there was manual system of pension payment through pension bill (Form P-C-C-02), which form was filled in by the pensioner in concerned NBP branches, after payment it was sent to main branch of

NBP in district, on daily basis. From 2014 onwards, GPS (Government Pension System) computerized system, was introduced which has been implemented in 70 to 80 per cent branches in Sindh Province.

- 1.14.2. The registration process on NBP GPS starts when concerned bank branch receives sealed pension papers from AG Sindh/DAO with pension book. Authorized person of branch inputs complete information of pensioner on GPS and the same information is sent to Head office NBP, where centralized ID of pensioner is created for identification of the pensioner. The Branch creates a physical pension file of each pensioner and maintains the history in the serial-wise pension register. Pensioner personally visits the bank branch with Pension Payment Order (PPO) and the authorized person of the branch checks the Pension Book and detail of payments through GPS ID and make due payment of pension through bank account and receives payment acknowledgement on GPS-generated voucher and the same voucher with TRV list, reflecting amount of total vouchers entertained, sends to link branch (Main Branch) on daily basis.
- 1.14.3. In Direct Credit System (DCS), AG Sindh/ DAO sends the District-wise list of pensioners, with bank account numbers and concerned branch, to nominated branch of District. The nominated branch sends the selected list to concerned payment branch for direct credit of the pension amount as authorized by AG /DAO to relevant bank account of the pensioner.

## **2. SPECIAL STUDY OBJECTIVES**

The following Objectives were set for special study on reconciliation of pension payments:

- 2.1. To comparatively analyses the monthly expenditure booked in the Civil Accounts of the AG/ DAO in pension.
- 2.2. Evaluating whether mechanism of reconciliation of pension expenditure is adequate enough to investigate any item which is on the Bank Return but not on the Pension Advice Note and the Pension Credit Advice, and vice versa?

## **3. SCOPE & METHODOLOGY**

The special study on reconciliation of pension payments (Government of Sindh) included review of Financial Statement, Appropriation Account, Civil Account, Daily bank scroll, Face Sheet, monthly account of payment and other relevant material regarding reconciliation of pension payments as maintained by AG Sindh, Karachi, Treasury Office. For the special study the AG Sindh, Karachi and Treasury Office was selected.



#### 4. STUDY FINDINGS AND RECOMMENDATIONS

##### 4.1 Irregular variation of pension payment between SBP and Treasury- Rs49.079 million

As per 4.7.19.1 of APPM, reconciliation of pension expenditure shall be made by delegated officer of AG/DAO after getting “Bank Return” from bank.

During the Special Study on reconciliation of Pension Payment for the Financial Year 2016-17, between AG Sindh, National Bank & State Bank of Pakistan, it was observed that there is variation Rs 49.079 million in the total amount of the pension payment as per treasury data and as per payment of State Bank of Pakistan through daily bank scroll. The details are as under:

Month	Amount as per TO	Amount as per SBP	Variation
July 2016	414,047,689	421,238,554	-
August 2016	533,391,979	525,496,274	-
September 2016	510,242,623	520,530,407	-
October 2016	497,271,936	506,958,406	-
November 2016	495,731,149	413,681,072	-
December 2016	16,392,226	499,749,612	-
January 2017	1,042,314,109	459,671,308	-
February 2017	431,865,564	411,673,284	-
March 2017	430,203,552	419,381,338	-
April 2017	281,074,370	396,898,646	-
May 2017	306,839,335	390,608,149	-
June 2017	613,707,016	551,559,520	-
	<b>5,573,081,548</b>	-	-
<b>Adjustment</b>	6,555,699	-	-
	<b>5,566,525,849</b>	<b>5,517,446,570</b>	<b>49,079,279</b>

The irregularities were pointed out to the Management vide this office letters No.DGAS/CS-V/Special Studies/2016-17/13-14 & 749, dated 30-08-2018 & 11-12-2018, but no response was received till finalization of this report. Further no DAC was convened by the PAO even repeated written requests.

The audit could not authenticate financial propriety of the expenditure.

It is recommended that reconciliation of payment of pension is necessary to mitigate the risk of variances and Proper maintenance of reconciliation record is needed.

#### 4.2 Difference in pension payment between AG Sindh and Treasury- Rs5.8329 million

As per 4.7.19.1 of APPM, reconciliation of pension expenditure shall be made by delegated officer of AG/DAO after getting “Bank Return” from bank.

During the Special Study on reconciliation of Pension Payment for the Financial Year 2016-17, between AG Sindh, National Bank & State Bank of Pakistan, it was observed that the payment of Rs 5,572.358 million was booked by AG Sindh, whereas, the payment of Rs 5,566.525 million was booked by Treasury Office, Karachi. Thus, difference of Rs 5.832 million between two sets of accounts which need to be unjustified. The details are as under:

Sr. No	Month	Amount as per AG	Amount as per TO	Variation
1	July 2016	414,047,689	414,047,689	-
2	August 2016	533,391,979	533,391,979	-
3	September 2016	510,242,623	510,242,623	-
4	October 2016	497,377,806	497,271,936	-
5	November 2016	495,805,669	495,731,149	-
6	December 2016	16,429,486	16,392,226	-
7	January 2017	1,042,314,109	1,042,314,109	-
8	February 2017	431,940,534	431,865,564	-
9	March 2017	430,203,552	430,203,552	-
10	April 2017	858,947,941	281,074,370	-
11	May 2017	307,656,745	306,839,335	-
12	June 2017	618,429,953	613,707,016	-
		6,156,788,086	5,573,081,548	-
	<b>Adjustment</b>	584,429,270	6,555,699	
		<b>5,572,358,816</b>	<b>5,566,525,849</b>	<b>(5,832,967)</b>

The irregularities were pointed out to the Management vide this office letters No.DGAS/CS-V/Special Studies/2016-17/13-14 & 749, dated 30-08-2018 & 11-12-

2018, but no response was received till finalization of this report. Further no DAC was convened by the PAO even repeated written requests.

The audit could not authenticate financial propriety of the expenditure.

It is recommended that reconciliation of payment of pension is necessary to mitigate the risk of variances and Proper maintenance of reconciliation record is needed.

### **4.3 Expenditure in excess of budget allocation – Rs1.026 billion**

As per Section-133 of Sindh Budget Manual, states that, “No government servant should, however, without previously obtaining an extra appropriation, incur expenditure in excess of the amounts provided under the heads concerned. When a government servant exceeds the annual appropriation, he runs the risk of being held responsible for the excess”.

During the Special Study on reconciliation of Pension Payment for the Financial Year 2016-17, it was observed that in appropriation accounts an expenditure of Rs1.026 billion appeared, which was in excess of the allocated budget under Grant–SC21107 Superannuation & Pension. The expenditure in excess of budget allocation shows poor financial management and override of government policies. The details are as under:

In Billion

<b>Demand #</b>	<b>Name of Grant</b>	<b>Final Grant</b>	<b>Expenditure</b>	<b>Excess</b>
7	Superannuation & Pension	69,000	70,026	1,026

The irregularities were pointed out to the Management vide this office letters No.DGAS/CS-V/Special Studies/2016-17/13-14 & 749, dated 30-08-2018 & 11-12-2018, but no response was received till finalization of this report. Further no DAC was convened by the PAO even repeated written requests.

The audit could not authenticate financial propriety of the expenditure.

It is recommended that Internal controls may be strengthened to avoid such lapses in future, the vouchers may be provided to audit for verification and responsibility be fixed upon the person(s) for the excess payment.

#### 4.4 Misclassification of expenditure – Rs7.037 million

According to Rule 12 of GFR, Volume-I, “A controlling officer is responsible to watch that the funds allotted to the spending units, are expended in the public interest upon the object, which the money was provided”

During scrutinizing of the Appropriation Accounts for the year 2016-17, it was observed that an expenditure of Rs7.037 million was incurred on Pay & Allowances and same was booked under wrong head of account under Grant # 107-Superannuation & Pension. Thus, misclassification or wrong booking of transaction may affect presentation of financial statements. The details are as under:

<b>Object</b>	<b>Expenditure</b>
A011-1 Pay of Officers	1,482,157
A011-2 Pay of Other Staff	3,235,911
A012-1 Regular Allowances	2,319,687
	<b>7,037,755</b>

The irregularities were pointed out to the Management vide this office letters No.DGAS/CS-V/Special Studies/2016-17/13-14 & 749, dated 30-08-2018 & 11-12-2018, but no response was received till finalization of this report. Further no DAC was convened by the PAO even repeated written requests.

The audit could not authenticate financial proprietary of the expenditure.

It is recommended that internal controls may be strengthened to avoid misclassification in future, and regularization of the expenditure besides taking remedial measures.

#### 4.5 Non-reconciliation of pension payments–Rs5.566 billion

As per 4.7.19.1 of APPM, reconciliation of pension expenditure shall be made by delegated officer of AG/DAO after getting “Bank Return” from bank.

During the Special Study on reconciliation of Pension Payment for the Financial Year 2016-17, it was observed that the payment of Rs5.566 billion was made to the pensioners through the Treasury office Karachi and NBP against pension payment, but the reconciliation of pension expenditure submitted by Treasury on monthly basis was not carried out by AG Sindh, Karachi. The detail are as under:

Sr. No	Month	NBP	Treasury	Total
1	July	338,760,519	82,478,035	421,238,554
2	August	416,436,766	109,059,508	525,496,274
3	September	417,135,308	103,395,099	520,530,407
4	October	395,207,424	111,750,982	506,958,406
5	November	321,913,457	91,767,615	413,681,072
6	December	396,972,088	102,777,524	499,749,612
7	January	359,820,042	99,851,266	459,671,308
8	February	317,664,355	94,008,929	411,673,284
9	March	348,691,324	70,690,014	419,381,338
10	April	333,590,360	63,308,286	396,898,646
11	May	329,910,330	60,697,819	390,608,149
12	June	494,656,169	56,903,351	551,559,520
		<b>4,470,758,142</b>	<b>1,046,688,428</b>	<b>5,517,446,570</b>

The irregularities were pointed out to the Management vide this office letters No.DGAS/CS-V/Special Studies/2016-17/13-14 & 749, dated 30-08-2018 & 11-12-2018, but no response was received till finalization of this report. Further no DAC was convened by the PAO even repeated written requests.

The audit could not authenticate financial proprietary of the expenditure.

It is recommended that reconciliation of payment of pension is necessary to mitigate the risk of variances and Proper maintenance of reconciliation record is needed.



#### **4.6 Non-conduct of post-audit of pension payments – Rs1.046 billion**

As per Para-160 of Audit Manual, approximately 16 per cent of payment vouchers relating to pensions (not gratuities or anticipatory pensions) received from treasuries need to be post-audited every month, the selection for the check being made by a Gazetted Officer in such a way as to ensure that all the vouchers received from a treasury during the month shall be audited at the same time, and that the vouchers of each treasury shall be audited at least twice in each year.

During the Special Study on reconciliation of Pension Payment for the Financial Year 2016-17, it was observed that payment Rs1.046 billion was made to pensioners on account of pension through Treasury Office Karachi, but post audit was not conducted, in violation of above rule. The details are as under:

<b>Sr. No.</b>	<b>Month</b>	<b>Treasury</b>
1	July	82,478,035
2	August	109,059,508
3	September	103,395,099
4	October	111,750,982
5	November	91,767,615
6	December	102,777,524
7	January	99,851,266
8	February	94,008,929
9	March	70,690,014
10	April	63,308,286
11	May	60,697,819
12	June	56,903,351
		<b>1,046,688,428</b>

The irregularities were pointed out to the Management vide this office letters No.DGAS/CS-V/Special Studies/2016-17/13-14 & 749, dated 30-08-2018 & 11-12-2018, but no response was received till finalization of this report. Further no DAC was convened by the PAO even repeated written requests.

The audit could not authenticate financial propriety of the expenditure.

It is recommended that Internal controls may be strengthened to avoid such lapses in future, the vouchers may be provided to audit for verification and responsibility be fixed upon the person(s) at fault.

## **5. OVERALL CONCLUSION**

### **5.1 Key Issues for the Future:**

The following are the main issues in the reconciliation that result into irregular pension disbursements:-

- Late commencement /conversion of family pension after death of pensioner without justification
- Non-reconciliation of pension payment.
- Periodical verification of pension files / pension books not conducted
- Improper maintenance of pensioners' record
- Non-recovery of excess payment on account of family pension
- Difference in the record of provincial pensioners between AG Sindh data and SBP/NBP data
- Manual payment of pension instead of through Government Pension System (GPS)
- Variation between pension payment amount as per bank statement and PPO ledger partially reconciled from treasury
- Pension payment disbursement through cash
- Lack or inadequate Internal Controls in payment of pension cases
- Non-maintenance of record of the expenditure of the pensioners
- Distribution of pension work without checks and balance

### **5.2 Lessons Learnt:**

- Though there were some appropriate internal controls in place for processing for reconciliation of pension, yet the same are not followed and PPO/ Passbooks are not duly issued. There is lax attitude in

certifying and authorizing the issuance of PPOs and the control registers are not duly maintained and updated by the delegated authorized officers.

- Consolidation of pension expenditure in the Account Section of AG offices and reporting pension expenditures to the Accountant General as part of the Monthly Accounts prepared by the Treasury office / District Accounts Officers from which the AG produces the Consolidated Monthly Accounts for the Government are not effective enough to detect irregular booking in the pension payments.
- Reconciliation of pension expenditure on the Bank Return by a delegated officer in Account Section against the copy of the Pension Advice Note and Pension Credit Advice is not effective in detecting the irregular disbursement of pension.
- On reporting of pension disbursement, the Treasury offices / DAOs do not certify that all pensioners paid during the month are alive, and that all pensioners' Pension Books are stamped for the month.
- Monthly Report produced by the DAO/AG is silent for the information on number of pensioners added during the month, number of pensioners expired, total pension payable and actually paid.

## **ACKNOWLEDGEMENT**

We wish to express our appreciation to the Management and staff of the reconciliation of Pension Payment, for the assistance and cooperation extended to the auditors during this assignment.