



**AUDIT REPORT
ON
THE ACCOUNTS OF
UNION ADMINISTRATIONS
DISTRICT KHUSHAB**

AUDIT YEAR 2016-17

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATIONS & ACRONYMS

DAC	Departmental Accounts Committee
DDO	Drawing & Disbursing Officer
GST	General Sales Tax
MFDAC	Memorandum for Department Accounts Committee
PAO	Principal Accounting Officer
PCC	Plain Cement Concrete
PLGO	Punjab Local Government Ordinance
SRO	Statutory Regulatory Order
TMA	Tehsil Municipal Administration
TMO	Tehsil Municipal Officer
TO (F)	Tehsil Officer (Finance)
UAs	Union Administrations

PREFACE

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Section 115 of the Punjab Local Government Ordinance, 2001 require the Auditor General of Pakistan to audit the accounts of the provincial government and the accounts of any authority or body established by, or under the control of the provincial government. Accordingly, the audit of all receipts and expenditures of the Local Fund and Public Accounts of Union Administrations of the Districts is the responsibility of the Auditor General of Pakistan.

The Report is based on audit of accounts of Union Administrations of District Khushab for the Financial Year 2015-16. The Directorate General of Audit District Governments Punjab (North), Lahore conducted audit during 2016-17 on test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systemic issues and audit observations of serious nature. Relatively less significant issues are listed in the Annex-A of the Audit Report. The Audit observations listed in the Annex-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.

The audit results indicate the need for adherence to the regulatory framework besides instituting and strengthening internal controls to prevent recurrence of such violations and irregularities.

The observations included in this Report have been finalized after discussion of Audit Paras with the management. However, no Departmental Accounts Committee meetings were convened despite repeated requests.

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

Islamabad
Dated:

(Javaid Jehangir)
Auditor General of Pakistan

EXECUTIVE SUMMARY

The Directorate General Audit, District Governments, Punjab (North), Lahore, is responsible to carry out the audit of all District Governments and Local Governments in Punjab (North) including Union Administrations. Its Regional Directorate Sargodha has audit jurisdiction of District Governments, TMAs and UAs of four Districts i.e. Sargodha, Khushab, Mianwali and Bhakkar.

The Regional Directorate has a human resource of 11 officers and staff, total 2,739 man-days and the annual budget of Rs 14.220 million for the Financial Year 2016-17. It had the mandate to conduct Financial Attest Audit, Regularity Audit, Audit of Sanctions, Audit of Compliance with Authority and Audit of Receipts as well as the Performance Audit of entities / projects and programs. Accordingly, Regional Directorate Sargodha carried out audit of the accounts of 10 UAs of District Khushab for the Financial Years 2014-15 and 2015-16.

Each Union Administration in District Khushab conducts its operations under Punjab Local Government Ordinance, 2001. The Secretary is the Principal Accounting Officer (PAO). The financial provisions of the PLGO, 2001 require the establishment of Union Local Fund and Public Account for which Annual Budget Statement is authorized by the Union Nazim and Union Council / Administrator in the form of budgetary grants.

Audit of UAs of District Khushab was carried out with the view to ascertaining that the expenditure was incurred with proper authorization, in-conformity with laws / rules / regulations, economical procurement of assets and hiring of services etc.

Audit of receipts was also conducted to verify whether the assessment, collection, reconciliation and allocation of revenues were made in accordance with Laws and Rules.

a. Scope of Audit

Total expenditure of ten UAs of Khushab for Financial Years 2014-15 and 2015-16 was Rs 18.409 million. Out of this, Directorate General Audit, District Governments Punjab (North) Lahore audited expenditure was Rs 12.886 million which, in terms of percentage, was 70% of total expenditure. Directorate General Audit, District Governments, Punjab (North), Lahore planned and executed audit of ten

UAs in Audit Year 2016-17 i.e. 100% achievement against the planned audit activities.

Total receipts of UAs of District Khushab for the Financial Year 2014-15 and 2015-16 were Rs 0.553 million. RDA Sargodha audited receipts of Rs0.370 million which were 67% of total receipts.

b. Recoveries at the Instance of Audit

No recovery was pointed out during audit.

c. Audit Methodology

Audit was performed through understanding the business process of UAs 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. Formations were selected for audit in accordance with risks analyzed. Audit was planned and executed accordingly.

d. Audit Impact

A number of improvements, as suggested by audit, in maintenance of record and procedures, have been initiated by the concerned departments. However, audit impact in shape of change in rules has not been significant due to non-convening of regular PAC meetings.

e. Comments on Internal Controls

Internal controls mechanism of UAs of District Khushab was not found satisfactory during audit. Many instances of weak Internal Controls have been highlighted during the course of audit which includes some serious lapses like withdrawal of public funds against the entitlement of employees. Negligence on the part of Union Administration authorities may be captioned as one of important reasons for weak Internal Controls.

f. Key Audit Findings

- i. Non production of record of Rs 7.903 million was noted in one case¹ and
- ii. Weaknesses of Internal Controls involving an amount of Rs 32.461 million were noted in two cases.²

Audit paras for the Audit Year 2016-17 involving procedural violations including internal control weaknesses and irregularities not considered worth reporting are included in MFDAC (Annex-A).

¹ Para: 1.2.1.1

² Para: 1.2.2.1 & 1.2.2.2

g. Recommendations

Audit recommends that the PAO/management of UAs should ensure to resolve the following issues:

- i. Proper maintenance of record and its production to audit for scrutiny
- ii. Compliance of relevant laws, rules, instructions and procedures, etc.
- iii. Appropriate actions against officers/officials responsible for violation of rules and losses
- iv. Addressing systemic issues to prevent recurrence of various omissions and commissions.
- v. Physical Stock Taking of fixed and current assets
- vi. Holding of investigations for wastage, fraud, misappropriation and losses, and take disciplinary actions against the person (s) at fault.

SUMMARY TABLES AND CHARTS

Table 1: Audit Work Statistics

(Rs in million)

Sr. No.	Description	No.	Budget (F.Ys. 2014-16)		
			Budget	Receipts	Total
1	Total Entities (PAOs) in Audit Jurisdiction	51	123.658	2.821	126.479
2	Total formations in audit jurisdiction	51	123.658	2.821	126.479
3	Total Entities (PAOs)/ DDOs Audited	10	24.537	0.553	25.090
4	Total Formations Audited	10	24.537	0.553	25.090
5	Audit & Inspection Reports	10	24.537	0.553	25.090
6	Special Audit Reports	-	-	-	-
7	Performance Audit Reports	-	-	-	-
8	Other Reports (Relating to UAs)	-	-	-	-

Table 2: Audit Observations Classified by Categories

(Rs in million)

Sr. No.	Description	Amount under audit observation
1	Unsound Asset Management	-
2	Weak Financial Management	-
3	Weak Internal Controls relating to Financial Management	17.696
4	Violation of Rules	-
5	Others	22.668
Total		40.364

Table 3: Outcome Statistics

(Rs in million)

Sr. No.	Description	Expenditure and Acquiring Physical Assets	Civil Works	Receipt	Others	Total
1	Outlays audited	-	0.185	0.553	18.224	18.962*
2	Amount placed under audit observation / irregularities	-	-	-	40.364	40.364
3	Recoveries pointed out at the instance of Audit	-	-	-	-	-
4	Amount accepted / established at the instance of Audit	-	-	-	-	-
5	Recoveries realized at the instance of Audit	-	-	-	-	-

*The amount in Serial No.1 column of "Total Current Year" is the sum of Expenditure and Receipts whereas the total expenditure for the Financial Years 2014-15 and 2015-16 was Rs 18.409 million.

Table 4: Irregularities Pointed Out

(Rs in million)

Sr. No.	Description	Amount under Audit observation
1	Violation of rules and regulations and principle of propriety and probity.	-
2	Reported cases of fraud, embezzlement, theft, misappropriations and misuse of public funds.	-
3	Accounting Errors ³ (Accounting Policy departure from NAM, misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements	14.765
4	Quantification of weaknesses of internal controls system.	17.696
5	Recoveries, overpayments and loss to the government.	-
6	Non-production of record to Audit	7.903
7	Others, including cases of accidents, negligence etc.	-
Total		40.364

Table 5: Cost-Benefit Ratio

(Rs in million)

Sr. No.	Description	Amount
1	Outlays Audited (Items 1 of Table 3)	18.962
2	Expenditure on Audit	1.185
3	Recoveries realized at the instance of Audit	-
4	Cost –Benefit Ratio	-

³ The Accounting Policies and Procedures prescribed by the Auditor General of Pakistan.

CHAPTER-1

1.1 UNION ADMINISTRATIONS, DISTRICT KHUSHAB

1.1.1 Introduction

Each Union Administration of District Khushab consists of Union Nazim, Union Naib Nazim, Secretary and Administration. Each UA Khushab comprises one Drawing and Disbursing Officer i.e. Secretary. As per Section 76 of PLGO 2001, the functions of UAs are as follows:

- i. to collect and maintain statistical information for socio-economic surveys;
- ii. to consolidate village and neighborhood development needs and prioritize them into union-wide development proposals with the approval of the Union Council and make recommendations thereof to the District Government or Tehsil Municipal Administration, as the case may be;
- iii. to identify deficiencies in the delivery of services and make recommendations for improvement thereof to the Tehsil Municipal Administration;
- iv. to register births, deaths and marriages and issue certificates thereof;
- v. to make proposals to the Union Council for levy of rates and fees specified in the Second Schedule and to collect such rates and fees within the Union;
- vi. to establish and maintain libraries;
- vii. to organize inter-village or neighborhood sports tournaments, fairs, shows and other cultural and recreational activities;
- viii. to disseminate information on matters of public interest;
- ix. to improve and maintain public open spaces, public gardens and playgrounds;
- x. to provide and maintain public sources of drinking water, including wells, water pumps, tanks, ponds and other works for the supply of water;
- xi. to maintain the lighting of streets, public ways and public places through mutual agreement with the Tehsil Municipal Administration;

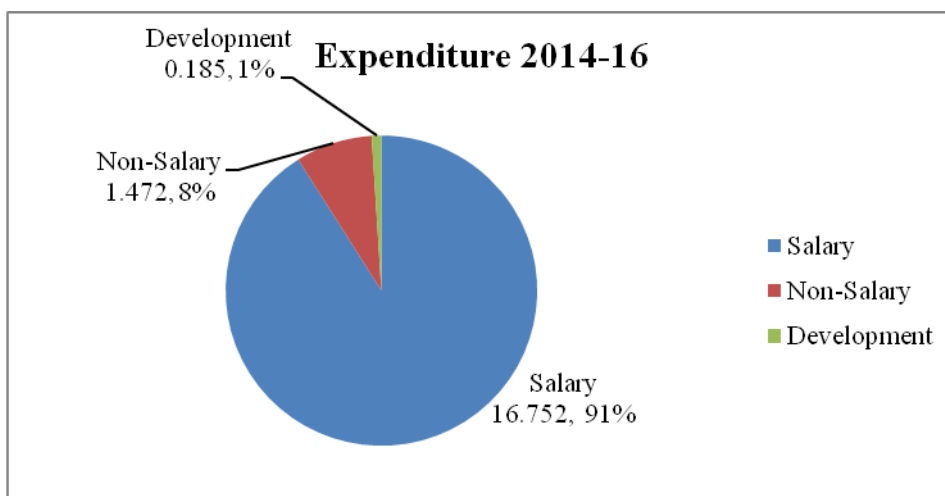
- xii. to execute the projects of the approved Union Annual Development Plan by contracting out to the private sector in the manner as may be prescribed and to obtain support of the Tehsil Municipal Administration or District Government for such execution and
- xiii. to assist the Village Councils or, as the case may be, Neighborhood Councils in the Union to execute development projects.

1.1.2 Comments on Budget and Accounts (Variance Analysis)

Total Budget of ten UAs of District Khushab was Rs 24.537 million (inclusive Salary, Non-salary and Development) whereas the expenditure incurred (inclusive Salary, Non-salary and development) was Rs 18.409 million showing savings of Rs 6.128 million which in terms of percentage was 23% of the final budget as detailed below:

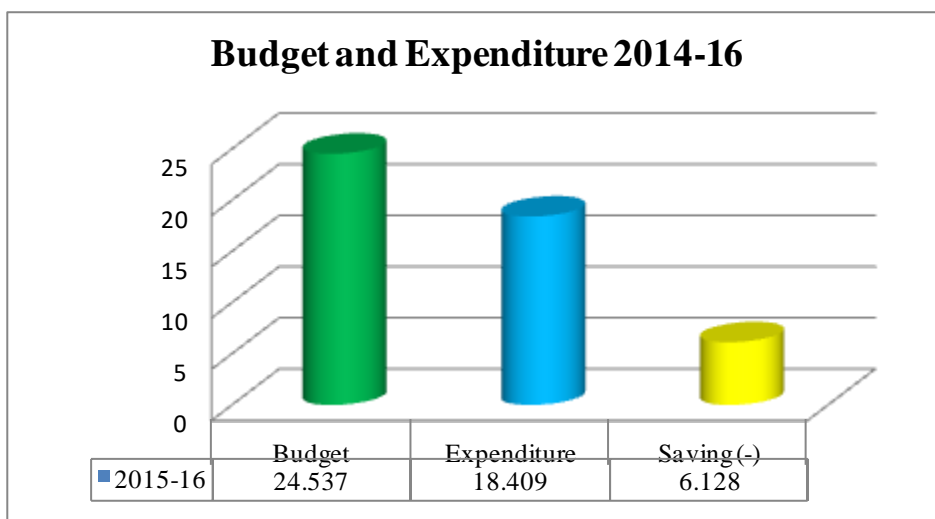
(Rs in million)

F.Y. 2014-16	Budget	Expenditure	Excess (+) / Saving (-)	% age (Saving)
Salary	18.648	16.752	(-) 1.896	10
Non-salary	3.189	1.472	(-) 1.717	54
Development	2.700	0.185	(-) 2.515	93
Total	24.537	18.409	(-) 6.128	25



The original and final budget of ten UAs of District Khushab for the Financial Years 2014-15 and 2015-16 was Rs 24.537 million. Against

the final budget, total expenditures incurred by the UAs during Financial Years 2014-15 and 2015-16 was Rs 18.409 million.



1.1.3 Brief Comments on the Status of Compliance with Ad-hoc Accounts Committee Directives

The Audit Reports pertaining to following years were submitted to the Governor of the Punjab:

Status of Previous Audit Reports

Sr. No.	Audit Year	No. of Paras	Status of Ad-hoc Accounts Committee Meetings
1.	2009-12	7	Not Convened
2.	2012-13	2	Not Convened
3.	2013-14	7	Not Convened
4.	2015-16	2	Not Convened

As indicated in the above table, no Adhoc Accounts Committee meeting was convened to discuss the audit report of UAs of District.

1.2 AUDIT PARAS

1.2.1 Non-production of Record

1.2.1.1 Non-production of Record – Rs 7.903 million

According to Section 14(1)(b) of Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the Auditor-General shall have authority to require that any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may direct for his inspection. Further, according to Section-115(5) & (6) of PLGO, 2001, at the time of audit, the officials concerned shall provide all record for audit inspection and comply with any request for information in as complete a form as possible and with all reasonable expedition.

Drawing and Disbursing Officers of following Union Administrations did not produce record for audit verification pertaining to the financial year 2014-16. In the absence of record, authenticity, validity, accuracy and genuineness of expenditure of Rs 7.903 million could not be verified.

(Rs in million)

Sr. No.	Name of UA	AIR Para No.	Amount
1	Girod	1	1.970
2	Noshera	1	1.860
3	Khabeki	1	2.005
4	Khura	1	2.068
Total			7.903

Audit is of the view that non production of record may lead to apprehension of misappropriation and misuse of public resources.

This resulted in no production of record of Rs 7.903 million

The matter was reported to the PAO in April, 2017. The reply was not furnished and DAC meeting was also not convened till finalization of report.

Audit recommends fixing of responsibility for not production of record.

1.2.2 Internal Control Weaknesses

1.2.2.1 Improper Maintenance of Cash Book - Rs 17.696 million

As per rule 2.2 of PFR Vol.1,

- a. All cash transactions should be entered in the cash book and attested in token of check.
- b. At the end of each month, the head of office should personally verify the cash balance and, record below the closing entries in the cash book, a certificate to the effect over his dated signatures specifying both in words and figures, the actual cash balance.

Management of following Union Administrations of District Khushab did not maintain the cash book in true letter and spirit in violation of rule *ibid*.

Sr. No.	UA No.	Name of UA	AIR Para No.	Receipts (Rs)
1	36	Bandial	3	2,477,150
2	48	Jora Kalaan	3	4,268,000
3	46	Khatwaan	3	3,524,097
4	40	Okhli Mohla	4	2,337,326
5	38	Rangpur Bahgoor	3	2,509,545
6	13	Waheer	3	2,580,613
Total				17,696,731

Audit is of the view that government instructions were intentionally violated by the management, cash book was not maintained.

This resulted in improper maintenance of cash book.

The matter was reported to the PAO in April, 2017. The reply was not furnished and DAC meeting was also not convened till finalization of report.

Audit recommends fixing responsibility against the person(s) at fault under intimation to audit.

1.2.2.2 Non Reconciliation of Receipts with Bank – Rs 14.765 million

According to Rule 78(1) of PDG & TMA (Budget) Rules 2003, the Collecting Officers shall reconcile his figures with the record maintained by the Accounts Officer by the 10th day of the month following the month to which the statement relates. (2) In order to enable the Head of Offices

concerned to verify whether the amounts shown as realized in the statements have actually been realized and credited to the proper head of account, the Accounts Officer concerned shall provide the Head of Offices with statements confirming the actual amounts credited under the relevant receipt heads.

Management of following Union Administrations of District Khushab did not reconcile receipts with the banks for the financial years 2014-15 & 2015-16 in violation of rule *ibid*.

Sr. No.	UA No.	Name of UA	AIR Para No.	Receipts (Rs)
1	36	Bandial	1	2,477,150
2	48	Jora Kalaan,	2	2,517,031
3	46	Khatwaan,	2	2,343,745
4	40	Okhli Mohla	2	2,337,326
5	43	Rangpur Bahgoor	1	2,509,545
6	13	Waheer,	1	2,580,613
Total				14,765,410

Audit is of the view that due to weak internal controls and financial discipline, receipts figures were not verified / reconciled.

This resulted in non reconciliation of receipt of local Government.

The matter was reported to the PAO / Secretary in April 2017, but no reply was furnished. Despite of repeated requests, DAC meeting was not convened by management till the finalization of this Report.

Audit recommends early reconciliation of receipts figures besides fixing of responsibility under intimation to Audit.

ANNEXURES

Annex-A**MFDAC Para for the Audit Year 2016-17**

(Rs in million)

Sr. No.	UA No.	Name of UA	PDP No.	Description of Paras	Nature of violation	Amount
1	36	Bandial	02	Non maintenance of Record of Marriage Register	Weak internal control	-
2	42	Bandial	04	Doubtful deposit of NADRA Share	Weak internal control	0.478
3	42	Bandial	05	Non Incorporation of Receipts into system	Weak internal control	0.079
4	42	Bandial	06	Non Utilization of funds	Weak internal control	0.969
5	42	Jora Kalan	04	Doubtful deposit of NADRA Share	Weak internal control	0.265
6	42	Jora Kalan	05	Non Incorporation of Receipts into system	Weak internal control	0.044
7	42	Jora Kalan	06	Non Re-appropriation of funds	Weak internal control	4.268
8	42	Jora Kalan	07	Non Utilization of funds	Weak internal control	1.291
9	42	Jora Kalan	08	Difference between Cash book and bank Balance	Weak internal control	1.291
10	46	Khatwan	04	Doubtful deposit of NADRA Share –	Weak internal control	0.051
11	46	Khatwan	05	Non Incorporation of Receipts into system	Weak internal control	0.008
12	46	Khatwan	06	Non Re-appropriation of funds	Weak internal control	3.524
13	46	Khatwan	07	Non Utilization of funds	Weak internal control	0.997
14	46	Khatwan	08	Difference between Cash book and bank Balance	Weak internal control	0.997
15	40	Okhli Mohla	01	Non Clearness of Pending liabilities	Weak internal control	1.716
16	40	Okhli Mohla	03	Non maintenance of Record of Marriage Register Issuance	Weak internal control	-
17	40	Okhli Mohla	05	Doubtful deposit of NADRA Share	Weak internal control	0.130
18	40	Okhli Mohla	06	Non Incorporation of Receipts into system	Weak internal control	0.003
19	40	Okhli Mohla	07	Non Re-appropriation of funds	Weak internal control	2.337

20	40	Okhli Mohla	08	Non Utilization of funds	Weak internal control	0.075
21	39	Rangpur	03	Doubtful deposit of NADRA Share	Weak internal control	0.164
22	39	Rangpur	04	Non Incorporation of Receipts into system	Weak internal control	0.027
23	39	Rangpur	06	Non Utilization of funds	Weak internal control	0.008
24	13	Waheer	02	Non maintenance of Record of Marriage Register Issuance	Weak internal control	-
25	13	Waheer	04	Doubtful deposit of NADRA Share	Weak internal control	0.383
26	13	Waheer	05	Non Incorporation of Receipts into system	Weak internal control	0.063
27	13	Waheer	06	Non Utilization of funds	Weak internal control	1.870
28	13	Waheer	07	Non Re-appropriation of funds	Weak internal control	2.580
29	13	Waheer	08	Fraudulent Enrollment of Children in Birth Register	Weak internal control	-

UAs of Khushab District

Budget and Expenditure for the Financial Year 2014-15 and 2015-16

(Rs in million)

UA No.	Name of UAs	F.Y.	Budget	Expenditure	Saving
13	Waheer	2014-15	3.060	1.187	1.873
		2015-16	3.400	1.319	2.081
36	Bandial	2014-15	1.664	1.312	0.352
		2015-16	1.849	1.849	0
40	Okhly Mohla	2014-15	1.117	1.067	0.050
		2015-16	1.241	1.241	0
43	Rangpur	2014-15	2.368	2.368	0
		2015-16	2.632	2.632	0
48	Jaura Kalan	2014-15	2.023	1.335	0.388
		2015-16	2.248	1.483	0.765
46	Khatwan	2014-15	1.390	1.239	0.151
		2015-16	1.545	1.377	0.168
04	Noshehra	2014-15	-	-	-
		2015-16			
05	Khoora	2014-15	-	-	-
		2015-16			
28	Groat	2014-15	-	-	-
		2015-16			
06	Khabeki	2014-15	-	-	-
		2015-16			
Total			24.537	18.409	6.128