FINANCIAL ATTEST AUDIT REPORT

ON THE ACCOUNTS OF

COMPETITIVE INDUSTRIES PROJECT FOR KHYBER PAKHTUNKHWA

FINANCED BY MULTI DONOR TRUST FUNDS (MDTF)
GRANT NO.TF-14957-PK

GOVERNMENT OF KHYBER PAKHTUNHWA
INDUSTRIES & TECHNICAL EDUCATION DEPARTMENT

FOR THE FINANCIAL YEAR 2015-16

AUDITOR GENERAL OF PAKISTAN
ISLAMABAD
PART-II

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No.FAP/CIPK/2015-16/  

To  

The Project Director,
Competitive Industries project for Khyber Pakhtunkhwa,
MDTF Assisted Peshawar.

Subject:  **Annual Audit for the Financial Year 2015-16**

Annual Audit of accounts record of your project has been scheduled to be conducted in September, 2016 by an audit team of this Office as per audit plan approved by the Auditor General of Pakistan.

It is requested to ensure the production of all the relevant record of your project to enable the audit team to finalize the task within the scheduled time.

It is also requested to discuss the audit observations with the audit team at the end of the audit.

Audit Officer (FAP)
EXECUTIVE SUMMARY

The Directorate General Audit Khyber Pakhtunkhwa conducted audit of “Competitive Industries Project for Khyber Pakhtunkhwa” for the Financial Year 2015-16 in September 2016. The main objectives of the audit were to express an opinion on Financial Statements of the Project, to assess whether the project was managed with due regard to economy, efficiency and effectiveness, to review project performance against the intended objectives and to review compliance with applicable rules, regulations and procedures. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI).

Audit findings:-

1. Irregular transfer of funds from Assignment Account to Habib Bank Limited - Rs.73.673 million

Recommendations:

1. The irregular transfer of funds may be investigated, regularized from Finance Department besides getting opinion of the Sales Tax Department in the matter.

2. DAC meeting may be arranged.
The Project Director,
Competitive Industries Project in Khyber Pakhtunkhwa
House# 27/162 New Shami Road, Peshawar.

Subject: MANAGMENT LETTER ON “COMPETITIVE INDUSTRIES PROJECT FOR KHYBER PAKHTUNKHWA (MDTF)” FOR THE FINANCIAL YEAR 2015-16.

This office has recently completed audit of the financial statements of the “Competitive Industries Project for Khyber Pakhtunkhwa” for the year ended 30th June 2016. While executing the audit, International Standards of Supreme Audit Institutions (ISSAI) adopted by the Auditor General of Pakistan were applied to express audit opinion on the Financial Statements of the Project.

During audit, internal controls and other operational spheres were examined and result thereof is presented in the Appendix for consideration. The following are the audit findings:

1. Irregular transfer of funds from Assignment Account to Habib Bank Limited - Rs.73,673 million

The points contained in the appended report may please be looked into for remedial measures.

Dated: 26/12/2016
Peshawar

(Javed Iqbal)
Director General Audit,
Khyber Pakhtunkhwa
1. INTRODUCTION

The Director General Audit Khyber Pakhtunkhwa conducted Financial Attest Audit of the “Competitive Industries Project for Khyber Pakhtunkhwa” in September 2016. The project comes under the control of Government of Khyber Pakhtunkhwa Industries & Technical Education Department. The World Bank/MDTF financed the project. The PC-I cost of the project is Rs.891.00 million. The commencement date of the Project was September, 2013 and completion date was 12th June, 2016.

Project objectives:-

The Project objectives are to enhance the competitiveness of Khyber Pakhtunkhwa marble and food processing sectors by supporting investments in shared infrastructure alongwith the marble sector value chain, and by addressing information and coordination gaps along the food processing sector value chain. The ultimate goal of the project is to rebuild the economy of Khyber Pakhtunkhwa by helping the people to recover their livelihood and businesses lost due to militancy and floods crises.

2. AUDIT OBJECTIVES

2.1 The major objectives of the audit were to:-

i. Attest the Project’s Financial Statements.

ii. Report on compliance with relevant laws, policies and procedures.

iii. Report on the overall management of the Project.

3. AUDIT SCOPE AND METHODOLOGY

3.1 Audit Scope

The audit scope included the examination of documents, record and accounts, etc. of the project for the financial year 2015-16.
3.2 Audit Methodology

Audit methodology was devised as per the following terms of reference:

a) Eligibility of expenditure incurred

Expenditure was reviewed to check that funds were expended for authorized purposes only in line with the provisions of PC-I and Grant Agreement.

b) Amount expended was incorporated in the Project Account supported by documents and records.

Expenditure trail was reviewed and with the help of supporting vouchers traced to accounting record and the financial statements.

c) Assessing effectiveness of monitoring and evaluation mechanism

Project internal controls were assessed and test checked for effectiveness.

d) Maintenance of books of accounts

Audit determined the quality and completeness of books of accounts.
4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

The implementing agency of the Project is the Department of Industries and Technical Education (GoKP) through its PMU that has been established for the Project. Technical inputs were provided by GoKP’s Department of Mines & Minerals, Agriculture Department. The Project Steering Committee provided overall strategic policy guidance and coordination. The Project Steering Committee was chaired by the Additional Chief Secretary and comprised authorized representatives from Department of Industries and private sectors.

4.2 Financial Management

The financing was made by the World Bank in the form of grant. Funds were transferred to the Project’s Designated US Dollar Bank Account by the World Bank on the basis of withdrawal/application submitted by the Project Management.

4.3 Procurement & Contract Management

4.3.1 Irregular transfer of funds from Assignment Account to Habib Bank Limited - Rs.73.673 million

According to Para 7 of GFR Vol-I, money may not be removed from the public account for deposit elsewhere without consent of the Finance Department.

The accounts record of Project Director Competitive Industries for the financial year 2015-16 revealed that Rs.73,673,318/- was transferred vide cheque No 28980494 dated 09-06-2016 to Escrow account in the Habib Bank Limited Civil Secretariat Branch without approval/consent of Finance Department. The amount so parked in the Escrow account in the Habib Bank Limited pertains to the disputed amount with the contractor M/s Multiline on account of recovery of Government taxes. The sale tax of Rs.73.673 million should have been paid to the Sales Tax Department instead of depositing in the current account in the Habib Bank Limited. The contractor was required to get a refund from the Sales Tax Department.

The lapse occurred due to violation of rules.
When pointed out the department replied that necessary No Objection Letter (NOL) was obtained from World Bank.

Audit recommends that the matter may be investigated, regularized from Finance Department besides getting opinion of the Sales Tax Department in the matter.

**4.4 Construction & Works**

No expenditure has been incurred on the construction and works component during the financial year 2015-16.

**4.5 Asset Management**

Physical verification of stock and assets of the Project was not carried out as required under Para 159 GFR Vol.1, which may be done under intimation to Audit.

**4.6 Monitoring and Evaluation**

For effective monitoring & evaluation of the Project, a Project Steering committee was constituted with specific TORs. The committee was required to have quarterly meetings. The system of monitoring and utilization reports were reviewed and the monitoring and evaluation system was found weak as targets of Rs.437.904 million were achieved against Rs.891.00 million in the PC-I. Thus grant to the extent of Rs.353.096 million was less utilized which needs to be looked into. Moreover, internal audit of the project was also not carried out by the Principal Accounting Officer as required under para-13 of GFR Vol-I, which may be carried out under intimation to Audit.

**4.7 Compliance with grants / loan covenants**

Shortcomings have been reported in the audit findings.

**4.8 Environment**

Potential environmental impacts from marble processing facility include particulate matter emissions, effluent and solid waste from marble processing, and health and safety concerns for the personnel employed in the processing facility and those from the machinery pool acquisition and usage – such as an increase in the mining activity and intensity and the resulting impact on geological and water resources, as well as health and safety concerns. None of these impacts, however, are expected to be severe or irreversible.
4.9 Sustainability:
The Project is sustainable. However, the Provincial Government would be required for funding the project after its completion.

4.9 Overall Assessment

4.9.1 Relevance: The project is in line with Government Sectoral policies.

4.9.2 Efficacy: The project management could not achieve the targets fully due to non-utilization of funds according to budget in the PC-I.

4.9.3 Efficiency: The project management should utilize the fund as per PC-I to achieve the objectives of the project efficiently.

4.9.4 Economy: The project management should utilize the fund as per PC-I to achieve the project objectives economically and avoid cost overrun.

4.9.5 Effectiveness: The internal controls should be strengthened to achieve the project objectives effectively.

4.9.6 Compliance with rules: As pointed out in the Financial Attest Report, the Financial Rules & Regulations were not followed.

4.9.7 Performance rating of the Project: The performance rating of the project is moderately satisfactory.

4.9.8 Risk rating of the Project: The risk rating of the project is medium.

5. CONCLUSION

5.1 Key issues for the future

i. The project should be implemented efficiently to avoid cost and time overrun.

ii. The DAC meetings should be arranged on the audit observations.

iii. Funds should be released/utilized as per PC-I.

5.2 Lessons identified

The internal controls should be further strengthened to achieve the project objectives effectively as per PC-I.
ACKNOWLEDGEMENT

We wish to express our appreciation to the management and staff of the project “Competitive Industries Project for Khyber Pakhtunkhwa” for the assistance and cooperation extended to the auditors during this assignment in financial year 2015-16.