Financial Attest Audit Report
On the accounts of
Governance & Policy Reforms Program (GPP)
For Khyber Pakhtunkhwa
Funded by World Bank
Grant No. TF-A3361-PAK
Government of Khyber Pakhtunkhwa
Planning & Development Department
For the Financial Year 2018-19

Auditor General of Pakistan Islamabad
PART-II

COVERING LETTER TO THE MANAGEMENT
EXECUTIVE SUMMARY
MANAGEMENT LETTER
1. Introduction
2. Audit Objectives
3. Audit Scope and Methodology
4. AUDIT FINDINGS AND RECOMMENDATIONS
4.1 Organization and Management
4.2 Financial Management
4.3 Procurement & Contract Management
4.4 Assets Management
4.5 Construction and Works
4.6 Monitoring and Evaluation
4.7 Compliance with Grants / Loan covenants
4.8 Environment
4.9 Sustainability
4.10 Overall Assessment
5. CONCLUSION
ACKNOWLEDGEMENT
No. AO/Inspection/Audit Project/2018-19

To

The Project Coordinator,
Governance and Policy Reforms Programme
(GPP) for Khyber Pakhtunkhwa

Subject: Annual Audit for the Financial Year 2018-19

Annual Audit of accounts record of your project has been scheduled to be conducted 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.

Deputy Director Audit (FAP)
EXECUTIVE SUMMARY

Director-General of Audit, Khyber Pakhtunkhwa conducted an audit of the Financial Statements of the Project “Governance and Policy Reforms Programme (GPP) for Khyber Pakhtunkhwa” assisted by World Bank/MDTF Grant No.TF-3361-Pak for the Financial Year 2018-19 in October, 2019. 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:-

- Irregular payment on account of internships, reporting of expenditure of counterpart funds and expenditure on account of consultancy-Rs. 1351.624 million.
- Wasteful expenditure on account of Public Investment Management, individual consultants and on account of IT equipments-Rs.10.981 million.
- Doubtful expenditure on account of design and development of public financial management professional accreditation program-Rs. 12.699 million
- Overpayment on account of additional charge allowance-Rs. 69,594
- Improper maintenance of assets record.

Recommendation:-

- Irregular expenditure may be got regularized from the competent forum.
- Wasteful Expenditure may be investigated.
- Doubtful expenditure may be enquired into.
- Overpayment may be recovered.
- Proper record of assets be prepared and presented to audit for verification.

To

The Project Coordinator,
Governance and Policy Reforms Programme (GPP) for Khyber Pakhtunkhwa

Subject: Management Letter on “Governance and Policy Reforms Programme (GPP) for Khyber Pakhtunkhwa” World Bank/MDTF Grant No.TF-3361-Pak for the Financial Year 2018-19

This office has recently completed audit of the financial statements of the Project “Governance and Policy Reforms Programme (GPP) for Khyber Pakhtunkhwa” assisted by World Bank/MDTF Grant No.TF-3361-Pak for the year ended 30th June 2019. While executing the audit, International Standards of Supreme Audit Institutions (ISSAI) Auditing Standards as 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:

- Irregular payment on account of internships-Rs. 6.920 million
- Wasteful expenditure on account of Public Investment Management-Rs.3.302 million.
- Wasteful expenditure on account of payment to consultants-Rs. 6.446 million
- Doubtful expenditure on account of design and development of public financial management professional accreditation program-Rs. 12.699 million
- Irregular reporting of expenditure of counterpart funds-Rs. 1262.637 million
- Irregular expenditure-Rs. 2.618 million
- Wasteful expenditure on account of IT equipments-Rs. 1.233 million
- Overpayment on account of additional charge allowance-Rs. 69,594
- Irregular expenditure on account of consultancy-Rs. 79.117 million
- Improper maintenance of assets record

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

Dated: /12/2019
Peshawar

Deputy Director Audit (FAP)
1. INTRODUCTION


The Project is located in the Khyber Pakhtunkhwa Province of Pakistan for strengthening of Public Financial Management (PFM), Sales tax on Services and Public Investment Management (PIM). The grant agreement has been signed between Islamic Republic of Pakistan and International Development Association on May 23, 2017. The project is implemented by the Planning & Development and Finance Departments, Khyber Pakhtunkhwa.

The commencement date of the Project is May 23, 2017 and completion date is 29th June, 2020. The project has three major components:

- Strengthening of Public Financial Management and Sales Tax on Services, USD $3.75 million
- Strengthening of Public Investment Management and Accountability of Public Service Delivery, USD $3.75 million
- Operational Support Unit, USD $2.50 million

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, accounts, etc. of the Project for the financial year 2018-19.

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 Contract Agreement.

b) **Assessment of procurement and consultancy services**

Procedure adopted by the Project Management for procurement was reviewed.

c) **Amount expended was incorporated in the Project accounts supported by documents and records.**

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

d) **Assessing effectiveness of monitoring and evaluation mechanism**

Project internal controls were assessed and test checked for effectiveness.

e) **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**

Planning & Development and Finance Departments of Govt. of Khyber Pakhtunkhwa are responsible for the implementation of the project. The Operational Support Unit is responsible for overall support of the project.

The OSU is headed by a full time Project Coordinator along with sector specialists, relating to Finance, Procurement, MIS, M&E, Governance, Communication, Citizen Engagement, Learning & Gender and PPP. The Project Coordinator reports to Secretary P&D department through Director General PCNA.

4.1.1 **Irregular payment on account of internship-Rs. 6.920 million**

According to Project Steering Committee decision, the rates of stipend fixed for young professionals were Rs. 20,000/- per month and Rs. 40,000/- to 60,000/- per month for those professionals who studied in LUMS, IBA, NUST, GIK and SZABIST.

In Governance and Policy Reforms Program (GPP), during financial year 2018-19, it was observed that Rs. 6,920,000/- were paid to Young Professionals @ 60,000/- per month.

Audit observed the following:
• Additional Chief Secretary approved the appointments of 17 young professional officers on 19-01-2015, but the candidates were interviewed on 02-01-2018 with a joining date of 15-01-2018.

• Among the 17 YPOs, 02 YPOs were students of Agriculture University Peshawar and University of Peshawar respectively in violation of the laid down rules.

• All the YPOs were appointed for CPEC cell, P&D Department, but verification of record disclosed that 11 YPOs were posted in various sections of P&D Department e.g. Foreign Aid, Water Section, Secretary Office and Resource Center etc.

• All other YPOs appointed were paid Rs. 25,000/- per month, which is a discrimination against the lower/middle class YPOs who simply could not afford education in the costly/expensive institution.

The lapse occurred due to weak internal control systems.

When pointed out in October, 2019, it was stated that replies will be given after consulting the record.

Audit recommends inquiry into the matter under intimation to audit.

4.1.2 Wasteful expenditure on account of Public Investment Management-Rs.3.302 million

According to Para 10 of GFR VOL-I, every government officer shall 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.

In Governance and Policy Reforms Program (GPP), during financial year 2018-19, it was observed that contract for the formulation of new Public Investment Management framework was awarded to M/S Cambridge Resource International in October 2016 at a cost of Rs. 29.90 million.

The verification of record disclosed that contract of the firm was terminated after submission of inception report for which payment of Rs. 3,301,787/- was made upto 04-12-2018.

Audit held the payment so made as wasteful on the grounds that neither the task was assigned to any other firm nor was completed by consultants of the project.
The lapse occurred due to weak internal control.

When pointed out in October 2019, it was stated that reply will be given later on.

Matter is reported to the competent forum for inquiry into the matter under intimation to audit.

4.1.3 Wasteful expenditure on account of payment to consultants-Rs. 6.446 million

According to Para 10 of GFR VOL-I, every government officer shall 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.

In Governance and Policy Reforms Program (GPP), during financial year 2018-19, it was observed that Rs. 6,446,167/- were shown paid to 05 consultants hired for the purpose to ‘strengthen the capacity for sales tax collection on services and improve public investment management and accountability of public service delivery in the water sector in Khyber Pakhtunkhwa’ as detailed below:

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of consultant</th>
<th>Description of consultancy</th>
<th>Contract signing date</th>
<th>Contract completion date</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Mr. Nasir Uddin Khan</td>
<td>Lead IT &amp; BPR expert</td>
<td>03-02-2017</td>
<td>02-02-2018</td>
</tr>
<tr>
<td>02</td>
<td>Mr. Farhat Ali</td>
<td>Lead private sector expert</td>
<td>03-02-2017</td>
<td>02-02-2018</td>
</tr>
<tr>
<td>03</td>
<td>Mr. Irfan Sarfaraz</td>
<td>Lead Monitoring risk Management &amp; revenue expert</td>
<td>03-02-2017</td>
<td>02-02-2018</td>
</tr>
<tr>
<td>04</td>
<td>Mr. Aized Mir</td>
<td>Lead mega projects technical expert</td>
<td>03-05-2017</td>
<td>31-12-2018</td>
</tr>
<tr>
<td>05</td>
<td>Mr. Masroor Ahmad</td>
<td>Sr. Technical Advisor Water Sector</td>
<td>28-08-2017</td>
<td>27-08-2019</td>
</tr>
</tbody>
</table>

Further verification revealed that the contracts of these consultants were terminated on the basis that consultants were not available on full time basis and priorities of the government have been changed.

Audit held that public money was wasted due to awarding the contracts in haphazard manner and their subsequent termination without achieving the planned objectives.

The lapse occurred due weak internal control.

When pointed out in October 2019, it was stated that reply will be given later on.

Audit recommends inquiry into the matter under intimation to audit.
4.1.4 Doubtful expenditure on account of design and development of public financial management professional accreditation program-Rs. 12.699 million

According to Para 10 of GFR VOL-I, every government officer shall 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.

In Governance and Policy Program (GPP), during financial year 2018-19, it was observed that Rs. 12,698,911/- were paid to M/S ACCA Pakistan for the successful completion and delivery of first set of phase 2 deliverables for the Design and Development of Public Financial Management Professional Accreditation Program (PFM-PAP).

Audit observed that the expenditure so incurred is doubtful on the following grounds:

- As per the invoice of the firm, the agreement was signed on 29-06-2019, while the payment was made on 14-06-2019, i.e. before the signing of the contract.
- No contract agreement was produced to audit for verification.
- The deliverables were not available on record.
- The selection process of the firm was not produced to audit.

The lapse occurred due to weak internal control.

When pointed out in October 2019, it was stated that reply will be given later on.

Audit recommends inquiry into the matter under intimation to audit.

4.1.5 Irregular reporting of expenditure of counterpart funds-Rs. 1262.637 million

According to Project Appraisal Document and agreement executed between Government of KP and MDTF, the GO KP contribution is $ 3.00 million as counterpart funding.

In Governance and Policy Reforms Program (GPP), during financial year 2018-19, it was observed that payment worth Rs. 612.811 million and Rs. 647.826 million in FY 2017-18 and 2018-19 were shown as counterpart contribution. The reported figures in the financial statement is objected on the following grounds:

- The total approved cost of PC-I is Rs. 1055.06 million including ADP (GOKP share) & MDTF share, but progressive expenditure of GPP comes to Rs. 1670.799 million, therefore, incurrence of expenditure of Rs. 615.739 million over and above the PC-I is irregular.
Note 7.1 to the FS show that the counterpart contribution included salaries and allowances of regular employees of P & D Department and FD KP, who are drawing salaries since long which were shown as counterpart funds without any actual/real contribution. The booking of expenditure as counterpart funds is mere window dressing of the FS as for operation purposes OSU is provided through MDTF share of grant.

Audit held that the counterpart contribution is mere adjustments of the regular pay and allowances of the employees of the departments mentioned above, hence the booking of the expenditure is irregular, over and above the PC-I cost and counterpart fund contribution ratio.

The lapse occurred due to weak internal control.

When pointed out in October 2019, it was stated that reply will be given later on.

Audit recommends regularization of expenditure incurred or and above the PC-I provision.

4.2 Financial Management

The project is funded through MDTF grant administered by the World Bank. The 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.

4.2.1 Irregular expenditure-Rs. 2.618 million

According to Section 4.3.1 of APPM, all payments should be made through crossed cheques. Read with the instructions issued by the Accountant General Khyber Pakhtunkhwa vide letter No. 11-24(74)Adr: Gen:/Vol/1224 dated 26-01-1998, wherein all Administrative Secretaries of the province are instructed to make payments through crossed cheques. Also read rule 187 of Treasury Rules and Note there under, to make all payments through cross cheque issued on the vendor number of the supplier instead of payments through DDO of the concerned department.

In Governance and Policy Reforms Program (GPP), during financial year 2018-19, it was observed that Rs. 2,618,285/- were drawn as advances and paid to various staff members.
Audit observed that cash payments were made to the suppliers and service providers instead of crossed cheques. It was also observed that the payments included advance payments for which no provision was available in the project documents. Moreover no advance payment register was maintained for advances and their adjustment.

The lapse occurred due to weak internal control.

When pointed out in October 2019, it was stated that reply will be given later on.

Matter is reported to the competent forum for inquiry into the matter under intimation to audit.

4.2.2 Wasteful expenditure on account of IT equipment-Rs. 1.233 million

According to Para 145 of GFR Vol-I, Purchases must be made in the most economical manner in accordance with the definite requirements of the public service. Stores should not be purchased in small quantities. Periodical indents should be prepared and as many articles as possible obtained by means of such indents. At the same time, care should be taken not to purchase stores much in advance of actual requirements, if such purchase is likely to prove unprofitable to Government.

In Governance and Policy Reforms Program (GPP), during financial year 2018-19, it was observed that Rs. 1,233,000/- were shown incurred on the purchase of 18 Samsung Galaxy Tabs in May 2017.

Verification of record revealed that 09 Tablets were still un-issued as evident from the stock register. Hence public money was wasted on un-necessary purchases.

The lapse occurred due to weak internal control.

When pointed out in October, 2019, it was stated that reply will be given later on.

Matter is reported to the competent forum for inquiry into the matter under intimation to audit.

4.2.3 Overpayment on account of additional charge allowance-Rs. 69,594

According to Finance Department letter No. FD (SR-1)3-19/92 dated 12.08.1997, the additional charge of a vacant post should be entrusted to another Govt servant in an equivalent scale/status. The arrangement should not exceed three months with the approval of the Secretary/Head of the attached Department not below the rank of BPS-20. However it may be extended by another three months by the next higher authority. After completion of
six months the post shall be treated as abolished. For payment of additional charge allowance approval of Finance Department should be obtained.

In Governance and Policy Reforms Program (GPP), during financial year 2018-19, it was observed that Budget Officer (Fund/Loan) was given additional charge of the post of Financial Analyst of Debt Management Unit, Finance Department.

Audit observed that the officer concerned drew additional charge allowance for 12 months amounting to Rs. 69,594/- un-authorizedly.

The lapse occurred due to weak internal control.

When pointed out in October 2019, it was stated that reply will be given later on.

Matter is reported to the competent forum for recovery of the amount.

4.3 Procurement and Contract Management

4.3.1 Irregular expenditure on account of consultancy-Rs. 79.117 million

According to Para 10 of GFR VOL-I, every government officer shall 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.

In Governance and Policy Reforms Program (GPP), during financial year 2018-19, it was observed that Rs. 79,117,939/- were shown paid to consultants of the project. The payments were held irregular on the following grounds.

- Public private partnership specialist was appointed on 01/11/2017 @ Rs.300,000 per month on the basis of qualification of chartered accountant, but without membership of Institute of Chartered Accountant of Pakistan which is mandatory for professional accountants and auditors in Pakistan.

- Promotion Investment Officer was appointed @ Rs.200,000 per month in CPEC Cell for achieving foreign investment but he did nothing. The verification of his personal file disclosed that no educational documents as well as experience certificates were available which made the selection and recruiting process questionable. Moreover, no record of his performance was available in the office record.

- The performance of the Financial Specialist is also questionable as he was appointed in Urban Policy Unit P & D Department 2013 as Local Government Finance Specialist and a committee was formed to review his work, performance and...
attitudinal issues. The findings of the committee were that his attitude is not in conformity with official norms and his total denial to submit any report on his work assigned is an admission of his non capacity to deliver, a fact which augmented by his previous record, but he was again selected a FMS in GSP and GPP.

The lapse occurred due to weak internal control.

When pointed out in October 2019, it was stated that reply will be given later on.

Audit concluded that the whole process of engagement of consultants was doubtful. Therefore all the educational documents and past experience certificates should be verified from the relevant institutes and past employers by the local office as the consultants were hired on handsome remuneration on mere collecting the CVs along with security clearance of all project staff.

4.4 Construction and Works

No construction works have been carried out.

4.5 Asset Management

4.4.1 Improper maintenance of assets record

According to Para 148 of GFR Vol I, all materials received should be examined, counted, measured or weighed as the case may be when delivery is taken and they should be taken in charge by a responsible government officer who should see that the quantities are correct and their quality good, and record a certificate to that effect. The officer receiving the stores should also be required to give a certificate that he has actually received the materials and recorded them in the appropriate stock register.

In Governance and Policy Reforms Program (GPP), during financial year 2018-19, it was observed that while going through the stock register, audit observed the following:

- GPP taken over all the staff and assets of another project namely, Governance Support Program GSP, however, no record of these assets was available in the project. Moreover, neither the physical verification report of these assets was available nor it was verified from audit, despite repeated requests.
- Millions of rupees were expended on the procurement of different kinds of permanent assets, but no proper stock/asset register was maintained to authenticate the receipt and issue of these assets.
The lapse occurred due to weak internal control.

When pointed out in October 2019, it was stated that reply will be given later on.

Matter is reported to the competent forum for investigation into the matter under intimation to audit.

4.6. Monitoring and Evaluation

Monitoring and Evaluation system should be strengthened so that to avoid cost overrun and to achieve the objectives within the ambit of provided resources.

4.7 Compliance with grants / loan covenants

Shortcomings have been reported in the audit findings.

4.8 Environment

There was no negative environmental impact of the project.

4.9 Sustainability

After completion of the Project, the performance of various government departments will be improved. Thus the project is sustainable.

4.10 Overall Assessment

This project will strengthen Public Financial Management, Sales Tax on Services, Public Investment Management and Accountability of Public Service Delivery.

4.10.1 Relevance

The project is in line with Government Sector policies.

4.10.2 Efficacy

The overall physical and financial performance indicates that the project is likely to achieve its objectives.

4.10.3 Efficiency

Internal controls should be strengthened to achieve the project objectives within the approved budget and time.

4.10.4 Economy

The funds should be released in accordance with the PC-I to avoid cost overrun.

4.10.5 Effectiveness

The project is likely to achieve its objectives effectively.
4.10.6 Compliance with rules
The Financial Rules & Regulations of Government were violated in certain cases.

4.10.7 Performance Rating of Project
The performance rating of the project is moderately satisfactory.

4.10.8 Risk Rating of Project
The risk rating of the project is medium.

5. CONCLUSION
The overall progress of the Program is satisfactory. The internal control system should be strengthened. The financial management of the Program requires an improvement specifically during procurements.

Key Issues for the Future:

i. Issues that could limit/hamper project/program's performance and achievement of intended objectives were:
   • The Program should be implemented efficiently to avoid cost and time overrun.
   • DAC meeting should be arranged on the audit observations.
   • Funds should be released/utilized as per PC-I.

ii. Lessons Identified:
   Funds should be released in line with the approved PC-I.
ACKNOWLEDGEMENT

We express our grate concern to the management and staff of the project “Governance and Policy Reforms Programme (GPP) for Khyber Pakhtunkhwa” for assistance and cooperation extended to the audit team in completion of this assignment during audit of financial year 2018-19.