Financial Attest Audit Report on the
Accounts of the Sindh Barrages Improvement Project,
for the Financial Year 2015-2016,
World Bank-assisted,
Loan No. 5684

Auditor-General of Pakistan
PART - II

COVERING LETTER TO THE MANAGEMENT LETTER
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 and Contract Management
   4.4 Construction and Works
   4.5 Assets Management
   4.6 Monitoring and Evaluation
   4.7 Compliance with Grant / Loan covenants
   4.8 Environment
   4.9 Sustainability
   4.10 Overall Assessment

5. CONCLUSION

ACKNOWLEDGEMENT

ANNEXURES
No: DGAS/FAP/SBIP/2016-17/ Dated:

The Project Director,
Sindh Barrages Improvement Project (SBIP),
House No.S-77/1, Block-7, Kahkashan, Clifton,
Karachi.

Subject: MANAGEMENT LETTER IN RESPECT OF SINDH BARRAGES IMPROVEMENT PROJECT

We have recently completed our audit of the financial statements of Sindh Barrages Improvement Project (SBIP), funded by World Bank Loan No. 5684 for the year ended June 30, 2016. In planning and performing our audit of the financial statements of the project, we considered internal controls and other issues in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented in the report for your consideration. These comments and recommendations, all of which have been discussed with the Project Management, are intended to improve internal controls and policies which result in cost controls and operating efficiencies.

(Azhar Hameed)
Director General

Copy for information and necessary action to the Secretary, Irrigation Department, Government of Sindh, Karachi.

(Azhar Hameed)
Director General
EXECUTIVE SUMMARY

The Director General Audit Sindh, Karachi conducted an audit of Project Director, Sindh Barrages Improvement Project (SBIP) World Bank loan No. 5684 in October 2016 for the financial year 2015-16. The main objectives of the audit were to assess whether 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 INTOSAI auditing standards.

Sindh Barrages Improvement Project (SBIP) was initiated by Government of Sindh with financial assistance of World Bank loan No 5684. The US$ 208 Million program envisages for improved service delivery of Barrages. This project focuses on Rehabilitation of Guddu Barrage, improved barrages operations of the Sindh. The project objectives are to improve the reliability and safety of the Guddu Barrage and strengthen the Sindh Irrigation Department's capacity to operate and manage the barrage. The primary beneficiaries include (a) over 2.6 million people, across 1.2 million hectare of irrigated land at Kashmore, Ghotki, Jacobabad, Sukkur and Shikarpur districts of Sindh and Nasirabad and Jaffrabad districts of Baluchistan, who will receive reliable supply of water and (b) local communities in flood-vulnerable areas who will benefit from improvement in flood management and reduction in risk of embankment breaches.

Key audit Findings:

- Payments are being made without deducting the amount of taxes payable to Govt.
- Non-conducting of audits as per Project Agreement and trainings on the basis of annual work plans and budget allocations.
- Non-conducting of physical verification.
- Inadequate tender and pre-qualification procedures.

Recommendations:

- Taxes should be deducted as per rules.
- Strict efforts should be taken for compliance of the prevalent Government rules and regulations.
- As per project agreements, audits and trainings should be conducted.
- Tender and pre-qualification should be conducted properly.
1. INTRODUCTION

Pakistan has made progress in reducing poverty and improving shared prosperity over the last two decades. Progress, however, slowed between 2009 and 2011 due to two massive floods, conflict, and the global economic slowdown. A majority of the nation’s poor people still live in rural areas.

Pakistan is becoming water-scarce with a growing gap between demand and supply. The future impacts of climate change will pose not just an environmental challenge but also a fundamental threat to economic development and the fight against poverty. Continuing business-as-usual is likely to contribute to Pakistan’s economic woes. To close the gap between water supply and water demand, Pakistan is placing emphasis on modernizing its ageing hydraulic infrastructure and improving water resources management. The water sector will remain a critical contributor to sustained economic development. The sector plays an essential role in supporting the economy, particularly agriculture. The irrigation and drainage system has a total investment value estimated at around US$300 billion at current prices. Nearly 43 percent of the population gains employment from this system, it accounts for approximately US$16 billion or nearly 25 percent of the gross domestic product (GDP), and contributes to over 60 percent of the exports. Due to the country’s arid/semi-arid climate and high susceptibility to droughts, agriculture in Pakistan is predominantly (90 percent) irrigated and adequate irrigation infrastructure is critical. Sindh Province, in particular, contributes 23 percent to the agriculture GDP, and has high potential for further productive development.

For the Sindh Barrages Improvement Project (SBIP) the primary beneficiaries include (a) over 2.6 million people, across 1.2 million ha of irrigated land in Kashmore, Ghotki, Jacobabad, Sukkur, and Shikarpur districts of Sindh, and Nasirabad and Jaffarabad districts of Baluchistan, who will receive reliable supply of water and (b) local communities in flood-vulnerable areas who will benefit from improvement in flood management and reduction in risks of embankment breaches; since the capacity of the barrage to pass flood waters will be improved.

Indirect beneficiaries include (a) urban households, industry, and public agencies that depend on water diverted through the Guddu canals that will continue to have reliable water supply; (b) people who rely on the Guddu thermal power plants, which will have reliable water supply for electricity generation; (c) communities who use the Guddu bridge as the means to cross the Indus River; (d) people who depend on the two major gas lines from the Sui Fields which cross the barrage to link with the Multan-Sukkur pipeline; and (e) temporary and permanent labors engaged in the rehabilitation-related construction work. The project consists of the three major components:
Component A: Rehabilitation of the Guddu Barrage (US$195 million). This component will support rehabilitation of the barrage and its associated structures. The component will finance:

- Gate replacement works to improve the regulation and the flow of the barrage. This includes replacing all 65 main barrage steel gates (the gates weigh 55 tons each), 25 main canal head regulator gates (the gates weigh 25 tons each), and hoist gears including all mechanical and electrical equipment.
- Concrete repairs along the upstream gate grooves and rehabilitation of both fish ladders.
- Removal of the left pocket dividing wall and construction of a new left pocket dividing wall to widen the left pocket and improve its ability to reduce the quantities of sediment entering the Ghotki Feeder canal.
- River training works through construction of a left-bank spur to promote favorable river approach conditions to the barrage and strengthen the upstream existing river training works.
- Staff offices for the O&M staff at the Guddu barrage, including a laboratory, residential buildings, dispensary, mosque, recreational facilities, access roads, and all supporting service infrastructure.
- Implementation of the environmental and social management plan (ESMP). • Consulting services for construction supervision, quality control, and construction management support.

Component B: Improved Barrage Operation (US$6 million). This component will support the establishment of the BMO and modernization and improvements to the barrage O&M. Institutionally this will include undertaking a study to design the BMO structure, defining roles and responsibilities, and moving towards a more service oriented culture. Technically the Bank will finance necessary upgrades to the monitoring instrumentation, such as piezometers, gatepositioning and water measurement equipment, replacement of surveillance and maintenance boats, and procurement of hydrographic equipment. The project will support workshops and provide a stock of spare parts, for use in maintenance activities. The instrument monitoring system for the barrage will be renovated, and the operations staff will be equipped with an updated operation, maintenance, and surveillance manual.

Component C: Project Management, Monitoring, and Evaluation (US$7 million). This component will support the coordination of all project-related activities as well as training and technical assistance in procurement, financial, social and environmental safeguards, and communication. This component will also finance the independent Panel of Experts (POE), who will review, monitor, evaluate, and help guide the rehabilitation process with regards to the safety of the barrage.
Objectives of the Project (as per PC I):
- Rehabilitation of the Guddu Barrage
- Improved Barrage Operation
- Project Management, Monitoring, and Evaluation

Financing of the Project:
The Project (SBIP) initiated by Government of Sindh with financial assistance of World Bank loan No 5684. The US$ 208 million program envisages for improved service delivery of Barrages. This project focuses on Rehabilitation of Guddu Barrage, improved barrages operations of the Sindh

Responsible Agencies:
Sponsoring Agencies: Government of Sindh (GoS) and World Bank
Executing Agency: Irrigation Department
Implementing Agency: Project Management Office, Irrigation Department GoS

Contract Awards of works, Equipment and studies:
A number of international and national contracts for works and studies are either completed or in the advanced stage of completion. Most of these projects were identified and are reflected in the Procurement plan.

2. AUDIT OBJECTIVES

The major objectives of the audit were to:
- Review project's performance against intended objectives.
- Assess whether project was managed with due regard to economy, efficiency, and effectiveness.
- Review compliance with applicable rules, regulations and procedures.

3. AUDIT SCOPE & METHODOLOGY

The audit of Sindh Barrages Improvement Project (SBIP) for the year 2015-16 was carried out by an audit team of Directorate General Audit Sindh, Karachi. This was a project audit and samples from all areas of transactions were selected to watch the accuracy and fairness of the accounts. The accounts have been audited in accordance with the instructions, guidelines issued by the Auditor General of Pakistan and special instructions of the donors. The results of examination are given under the heading "Audit Findings and Recommendations".
4. **AUDIT FINDINGS & RECOMMENDATIONS**

4.1. **Organization and Management**

Not applicable

4.2. **Financial Management**

4.2.1 **Non-deduction of Sindh Sales Tax on Services-Rs24.979 million**

As per Part-B of Sindh Sales Tax on Services Act, 2011, 14pc Sales Tax on Services needs to be deducted from the bills of the contractors.

During the course of audit of the Project Director, Sindh Barrages Improvement Phase-I Project, Karachi, for the year 2015-16, it was observed that Sindh Sales Tax at the rate of 14pc was not deducted from the bills of contractor of Rs24.979 million against the total expenditure of Rs178.425 million (Annex-A).

The lapse indicates improper application of sales tax rules / non-observance of internal controls.

The matter was pointed out to the department during the month of October 2016, and the report was issued to the Secretary of the department on 11/11/2016, followed by the reminders on convening the DAC meeting on 10/11/2016 and 18/11/2016. The DAC meeting was not convened by the Principal Accounting Officer till the finalization of the report.

The corrective steps need to be adopted and the amount should be recovered from the concerned. (Observation Memo # 01)

4.3 **Procurement & Contract Management**

4.3.1 **Hiring of consultant without tender or prequalification process-Rs178.425 million**

Rule 17 (1) & (2) of Sindh Public Procurement Rules, 2010 states that procurement over one hundred thousand rupees and up to one million rupees shall be advertised by timely notification on the Authority's websites and in print media in the manner and format prescribed in these rules. The advertisement shall appear in at least three widely circulated and leading daily newspapers of English, Urdu and Sindhi language.

During the course of audit of the Project Director, Sindh Barrages Improvement Phase-I Project, Karachi, for the year 2015-16, it was observed that the consultant was hired without tender or...
pre-qualification process. This resulted into irregular hiring of consultant who was paid an amount of Rs178.425 million.

The lapse indicates improper application of procurement rules / non-observance of internal controls.

The matter was pointed out to the department during the month of October 2016, and the report was issued to the Secretary of the department on 3/11/2016, followed by the reminders on convening the DAC meeting on 10/11/2016 and 18/11/2016. The DAC meeting was not convened by the Principal Accounting Officer till the finalization of the report.

The award of contract without following proper tendering process may be justified.  

(Observation Memo #02)

4.4. Construction and Works

Not applicable

4.5. Assets Management

Not applicable

4.6. Monitoring & Evaluation

4.6.1 Non-conducting of audit by independent audit firm

As per Section-II(C)(3) of the Project Agreement between International Development Association (IDA) and Sindh Barrages Improvement Project (SBIP) “Project implementing entity shall have its financial statements referred to in paragraph 1 of part C audited by the independent auditors acceptable to the association, in accordance with the consistently applied audit standards acceptable to the association”

During the course of audit of the Project Director, Sindh Barrages Improvement Phase-I Project, Karachi, for the year 2015-16, it was observed that the audit by a well reputed firm of Chartered Accountant was not conducted to obtain the fair view on the financial statements.

The lapse indicates improper application of project agreement / non-observance of internal controls.
The matter was pointed out to the department during the month of October 2016, and the report was issued to the Secretary of the department on 3/11/2016, followed by the reminders on convening the DAC meeting on 10/11/2016 and 18/11/2016. The DAC meeting was not convened by the Principal Accounting Officer till the finalization of the report.

The matter may be clarified and the compliance should be made of the project agreement.

(Observation Memo #03)

4.6.2 Non-conducting of trainings on the basis of annual work plans and budgets

As per Section-I(D)(3) of the Project Agreement between International Development Association (IDA) and Sindh Barrages Improvement Project (SBIP), “Project implementing entity shall ensure that trainings shall be carried out on the basis of Annual Work Plans and Budgets which shall inter alia identify: (a) particulars of the trainings envisaged; (b) personnel to be trained; (c) the selection method of the institution or individual conducting such trainings; (d) the institution conducting such trainings if identified; (e) the purpose and justification of such trainings; (f) the location and duration of such training; and (g) the estimate of cost of such training”.

During the course of audit of the Project Director, Sindh Barrages Improvement Phase-I Project, Karachi, for the year 2015-16, it was observed that the management did not impart trainings to the individuals which was a requirement to enhance the skillset to meet the requirement of annual work plans.

The lapse indicates improper application of project agreement / non-observance of internal controls.

The matter was pointed out to the department during the month of October 2016, and the report was issued to the Secretary of the department on 3/11/2016, followed by the reminders on convening the DAC meeting on 10/11/2016 and 18/11/2016. The DAC meeting was not convened by the Principal Accounting Officer till the finalization of the report.

The matter may be clarified and relevant trainings should be conducted.

(Observation Memo #04)

4.6.3 Annual physical verification of stock and stores not conducted

According to Rule-116 of Sindh Financial Rules, Volume-I, it is the responsibility of drawing and disbursing officer (Head Office) to carry out the annual physical verification of stores every
financial year and the results thereof communicated to the controlling authority with stock taking certificate.

During the course of audit of the Project Director, Sindh Barrages Improvement Phase-I Project, Karachi, for the year 2015-16, it was observed that annual physical verification of stock & stores was neither carried out nor any certificate was found recorded in the stock register.

The lapse indicates improper application / non-observance of internal controls.

The matter was pointed out to the department during the month of October 2016, and the report was issued to the Secretary of the department on 3/11/2016, followed by the reminders on convening the DAC meeting on 10/11/2016 and 18/11/2016. The DAC meeting was not convened by the Principal Accounting Officer till the finalization of the report.

It is mandatory that annual verification should be carried out and the certificate must be recorded under intimation of audit.

(Observation Memo # 05)

4.7. Compliance with Loan Covenants

Covenants – Program Support unit is ensuring to comply all the covenants of program loan. The overall compliance of loan covenants is very much on track. Some of actions are ongoing in nature and one is not yet due.

4.8. Environment

There was no impact of this project activities on the overall environment.

4.9. Sustainability

Pakistan is predominantly (90 percent) irrigated and adequate irrigation infrastructure is critical. Sindh Province, in particular, contributes 23 percent to the agriculture GDP, and has high potential for further productive development.

4.10. Overall Assessment

4.7.1 Relevance: Although the project is not included in five year plan but it is in line with Vision 2030 of Government of Pakistan for development on holistic basis.

4.7.2 Efficacy: The main aim of program is the rehabilitation of the Guddu Barrage, Improved Barrage Operations and Project Management, Monitoring, and Evaluation of Sindh province, which was done by the executing agency of Irrigation Department.

4.7.3 Efficiency: The project was planned initially at a cost of US $ 208 million in September, 2015 and the project was to be completed by December, 2020. As this was
the first fiscal year for the project, the achievement of the project objectives/targets could not be ruled out at this initial stage. It was pertinent to mention that the project management has not adopted any project implementation plan to enhance the efficiency.

4.7.4 Economy: The contracts of civil works will be awarded to the contractors and procurements shall be made from suppliers by fulfilling the SPPRA guidelines due to which the competitive rates could be obtained.

4.7.5 Effectiveness: The future impacts of climate change will pose not just an environmental challenge but also a fundamental threat to economic development and the fight against poverty. Continuing business as-usual is likely to contribute to Pakistan's economic woes. To close the gap between water supply and water demand, Pakistan is placing emphasis on modernizing its ageing hydraulic infrastructure and improving water resources management.

4.7.6 Compliance with Rules: Issues of poor contract management, including selection of consultants without criteria and non-observance of the rules were noticed. Little bit improper monitoring and evaluation was a critical area which needs to be given a serious thought for improving service delivery and ensuring timely execution of quality work.

4.7.7 Performance Rating: Average

4.7.8 Risk Rating: Low

5. CONCLUSION:

We have recently completed our audit of the financial statements of Sindh Barrages Improvement Project (SBIP), funded by World Bank Loan No. 5684 for the year ended June 30, 2016. In planning and performing our audit of the financial statements of the project, we considered internal controls and other issues for the purpose of expressing our opinion on the financial statements.

During audit we noted certain matters involving non-deduction of taxes, non-observance of codal formalities, poor contract management and non-compliance with government rules & regulations. These comments and recommendations, all of which have been discussed with project management, are intended to improve internal control and policies which resulted into cost controls and operating efficiencies.
ACKNOWLEDGEMENT

We wish to express our appreciation to the Management and staff of Sindh Barrages Improvement Project (SBIP) for the assistance and cooperation extended to the auditors during this assignment.
<table>
<thead>
<tr>
<th>Issued Date</th>
<th>Pay to</th>
<th>Cheque No.</th>
<th>Activity Category</th>
<th>Voucher Ref No.</th>
<th>Gross Amount (Rs)</th>
<th>Sindh Sales Tax Amount (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-May-16</td>
<td>M/s MM Pakistan Pvt Ltd</td>
<td>75066419</td>
<td>Consultant Services</td>
<td>18</td>
<td>116,309,554</td>
<td>16,283,337</td>
</tr>
<tr>
<td>25-May-16</td>
<td>Mott MacDonald Ltd</td>
<td>75066430</td>
<td>Consultant Services</td>
<td>26</td>
<td>62,115,859</td>
<td>8,696,220</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>178,425,413</strong></td>
</tr>
</tbody>
</table>