FINANCIAL ATTEST AUDIT REPORT

ON THE ACCOUNTS OF
PUNJAB TOURISM FOR ECONOMIC GROWTH
PROJECT (PTEGP)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
(IDA LOAN NO. 5982-PK)

PLANNING AND DEVELOPMENT DEPARTMENT
GOVERNMENT OF THE PUNJAB

FOR THE FINANCIAL YEAR 2018-19

AUDITOR-GENERAL OF PAKISTAN
PART-II

COVER 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 Monitoring and Evaluation
   4.4 Compliance with Grant/Loan Covenants
   4.5 Environment
   4.6 Sustainability
   4.7 Overall Assessment

5. Conclusion

ACKNOWLEDGEMENT
To

The Director General
Audit (Works) Provincial,
Lahore.

Dear Sir,

This representation letter is provided in connection with your audit of the financial statements of Punjab Tourism for Economic Growth Project (PTEGP) IDA-5982-PK for the year ended 30 June 2019, for the purpose of expressing an opinion as to whether these financial statements give a true and fair view of the state of project's affairs as at 30 June 2019 and of its loss and cash flows for the year then ended in accordance with Approved Accounting Standards as applicable in Pakistan. We confirm that the representations we make in this letter are in accordance with the definitions set out in the Appendix to this letter. We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement referenced dated 24-07-2019, for the preparation and fair presentation of the financial statements (or preparation of financial statements that give a true and fair view) in accordance with Approved Accounting Standards as applicable in Pakistan.

2. We confirm that proper books of account have been kept by the project as required by applicable laws and regulations.

3. We confirm that the balance sheet, receipts and expenditure account together with the notes thereon have been drawn up in conformity with the applicable laws and regulations and are in agreement with the books of account.

4. We confirm that the expenditure incurred during the year was for the purpose of the projects business.

5. We confirm that the activities conducted and the expenditure incurred during the year was in accordance with the objects of the project. All the transactions entered during the period have been approved at appropriate levels according to materiality levels approved by the EA/IA.

6. We confirm that no Zakat was deductible at source under the Zakat and Usher Ordinance, 1980 (XVIII of 1980).

7. All events subsequent to the date of the financial statements and for which approved Accounting Standards as applicable in Pakistan require adjustment or disclosure have been adjusted or disclosed, wherever applicable.
8. We believe there are no uncorrected misstatements.

Information Provided

9. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;

- Additional information that you have requested from us for the purpose of the audit; and Unrestricted access to persons within the project from whom you determined it necessary to obtain audit evidence. All transactions have been recorded in the accounting records and are reflected in the financial statements. We acknowledge our responsibility for such internal control as we determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, we acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

11. We have disclosed to you all information in relation to:

a. There have been no instances of fraud or suspected fraud that we are aware of and that affect the project and involve:

   - Management;
   - Employees who have significant roles in internal control; or
   - Others where the fraud could have a material effect on the financial statements.

b. There have been no allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, analysts, regulators or others.

12. There have been no instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further we have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements in accordance with Approved Accounting Standards as applicable in Pakistan all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
13. We have disclosed to you the identity of the project's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with applicable laws and regulations. Included in the Appendix to this letter are the definitions of both a related party and a related party transaction.

14. The project has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, for example debt covenants.

15. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no line of credit arrangements.

16. We have no plans or intentions that may affect the carrying value or classification of assets and liabilities.

17. We have no plans to abandon lines of product or other plans or intentions on behalf of the project.

18. The project has satisfactory title to all assets. We confirm that we have completely and accurately recognized all transactions during the year involving expenditure incurred during the year.

19. We confirm that there are no unrecorded liabilities and all liabilities have been properly recorded I accrued at the balance sheet date.

20. We confirm that during the period there have not been any externally imposed capital requirements. We further confirm that to the best of our information and estimate and cash flow projections the project is expected to remain as a going concern in the foreseeable future.

21. Deferred tax is measured at the tax rates enacted or substantively enacted at the period end and represent those amounts that are probable of realization taking into account management's estimates of future taxable profit. In determining estimates of future taxable profit against which the deductible amounts can be utilized, management has considered the existence of taxable temporary differences that will reverse in the same period that deductible amounts will reverse and also has considered appropriate tax planning opportunities that the project is more likely than not to take advantage of in order to generate future taxable profit.

The project is able to control the timing of reversal of all temporary differences in relation 10 investments in subsidiaries, branches and associates and investments in joint ventures for which deferred taxes have not been recognized, and it is probable
We have not received any advice or opinion that contradicts the project's support for
accounting for income taxes, that contradicts the financial statement amounts and
presentations in respect of tax, or that is necessary to understand the project's tax accrual
and related matters and has not been disclosed to you.

We confirm that impact of recognition of deferred tax relating to income under normal
tax regime would be immaterial in context of overall financial statements.

22. We confirm that income tax and all other duties, taxes and government levies have been
recorded completely and accurately, taking into account all the information available at
the balance sheet date and no additional significant liabilities are expected to arise in
respect of current or prior year with relation to the above-mentioned items

23. We confirm that accounting policies have been consistently applied

24. We have considered which currency is the currency of the primary economic
environment in which the project operates (the "functional currency"). In making this
assessment, we have used our judgment to determine the functional currency that most
faithfully represents the underlying transactions, events and conditions of the project.
We confirm that Pak Rupee is the functional currency of the project as substantial
expenses are incurred in Rupees.

Yours truly.

Financial Management Specialist
Punjab Tourism for Economic Growth Project (PTEGP)
GoPb, P&DD
EXECUTIVE SUMMARY

The Director General Audit Works (Provincial), Lahore conducted audit of the “Punjab Tourism for Economic Growth Project (PTEGP)” in August 2019 covering the financial year 2018-19. The main objectives of the audit were to express an opinion on financial statements of the project, 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. Audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

The project, funded under the World Bank Loan No. 5982-PK, was approved at a cost of Rs 5,775.000 million with commencement date of 13.10.2017 and completion date of 30.06.2022. The PD, “Punjab Tourism for Economic Growth Project” is maintaining US$ Revolving Fund Account No.221104-8 for World Bank Loan and Pak Rupees Assignment Account No.140 for Government of the Punjab Counterpart Fund in the National Bank of Pakistan, Main Branch Lahore.

An expenditure of Rs 90.939 million was incurred during the financial year 2018-19. The progressive expenditure upto June 2019 was Rs 183.046 million.

During audit it was observed that the system of internal controls as laid down in the departmental codes were not effectively implemented. This resulted in irregularities and violation of rules. The audit observations were discussed in the Special Departmental Accounts Committee meetings held on 31.10.2019. However, key audit findings were as follow:

Key audit findings

Major audit findings observed during the audit are as under:

i. Non-utilization of funds amounting to Rs 380.863 million.
ii. Loss due to accrual of interest on unnecessary withdrawal of donor funds amounting to Rs 12.178 million (US$ 98,000).
iii. Non-implementing Internal Audit Function.
iv. Non-obtaining the environmental and social report/plan.
v. Non-recovery on account of notice period pay from Senior Procurement Specialist for Rs 400,000.
vi. Unnecessary recruitment of Senior Procurement Specialist amounting to Rs 6.863 million.
Recommendations

Principal Accounting Officer was required to strengthen internal controls regime in the project in the light of following recommendations:

i. Action be initiated and responsibility be fixed against the officers concerned for non-utilization of funds. Fate of these funds may also be apprised to audit.

ii. Financial controls be strengthened to ensure the utilization of released funds in line with departmental financial rules.

iii. Effective internal audit function be implemented in order to avoid any financial risk.

iv. Strict compliance of financing agreement be ensured.

v. Internal controls be strengthened to ensure the recoveries in line with the contract agreement.

vi. Accountability mechanism be institutionalized/strengthened to avoid recurrence of such irregularities/lapses.
The Steering Committee,  
C/o PMU/Project Director,  
Punjab Tourism for Economic Growth Project,  
(PTEGP) IDA Loan No.5982-PK,  
175-A, Scotch Corner, Q-Street, Upper Mall Scheme, Lahore.

Subject: Management Letter on Audit of Punjab Tourism for Economic Growth Project (PTEGP) IDA Loan No. 5982-PK for Financial Year 2018-19

This office has recently completed audit of the financial statements of ‘Punjab Tourism for Economic Growth Project’ IDA Loan No. 5982-PK for the year ended 30th June, 2019. While executing the audit of the financial statements of the project, International Standards of Supreme Audit Institutions (ISSAI) were applied to express audit opinion on the financial statements of the project.

2. During audit, the focal areas of internal controls and other operational spheres were examined and findings thereon are presented for your consideration. Findings and recommendations were discussed with the Project Management as well as in SDAC meeting held on 31.10.2019 with the intention to improve internal controls and policies which may lead to cost effectiveness and operating efficiencies. Audit observations are as follows:

i. Non-utilization of funds amounting to Rs 380.863 million.

ii. Loss due to accrual of interest on unnecessary withdrawal of donor funds amounting to Rs 12.187 million (US$ 98,000).

iii. Payment to Consultant without fulfillment of agreed targets amounting to Rs 115.94 million (US$ 935,000).

iv. Non-implementation of internal audit function.

v. Unnecessary recruitment of Senior Procurement Specialist amounting to Rs 6.863 million.

vi. Non-recovery of PST from the consultants’ payments amounting to Rs 3.341 million.

vii. Non-recovery on account of notice period pay from Senior Procurement Specialist amounting to Rs 400,000.

viii. Unjustified provision of higher rates of remunerations of the project management team.

ix. Non-obtaining the environmental and social report/plan.
3. The above mentioned observations may be looked into and remedial measures be taken to make the project viable and successful by instituting strong internal controls.

(Muhammad Ali Asif Gilani)
DIRECTOR GENERAL
AUDIT WORKS (PROVINCIAL)
LAHORE
1. INTRODUCTION

1.1 The Director General Audit Works (Provincial), Lahore conducted audit of the project, “Punjab Tourism for Economic Growth Project” in August 2019 covering the financial year 2018-19.

1.2 Government of the Punjab (Planning and Development Department) has launched “Punjab Tourism for Economic Growth Project” in collaboration with World Bank Group (WBG) which aims to promote the tourism sector by strengthening institutional capacity through better skills development, boosting economic growth, job creation, regional cooperation and bolstering the country’s image abroad. The project is aimed optimally exploit the potential of recreational, adventure, cultural, historical and heritage tourism. Another feature of the project is to facilitate pilgrims of different religions coming from abroad by providing them facilities like quality accommodation, food services, transport, access roads, security, utilities, souvenir and refreshment stalls. The project has been envisaged to ensure these facilities at seven Gurdwaras in Nankana Sahib, Sheikhupura, Narowal, Hassan Abdal, Lahore and widening access roads to Jaulian Monastery in Taxila and Mankiala Stupa near Rawat.

1.3 The project development objectives (PDOs) aim to strengthen institutional capacity, increase private sector participation and improve infrastructure services in support of the tourism sector in the province of Punjab.

1.4 UNESCO as a partner of World Bank and Government of the Punjab is working as consultant with the project to provide technical assistance for formulating the governance policy for tourism and preservation of cultural heritage properties.

1.5 The project was approved by ECNEC for Rs 5,775 million on 26.07.2017. It is a five year project and part of Government of the Punjab’s Medium Term Development Framework.

The activities required to be executed under this project were as under:

i. Creating institutional capacity building with improving the governance level in Tourism Department in order to promote tourism.

ii. Developing heritage site management plans to provide better tourism amenities for the tourists.

iii. To create awareness about Punjab’s potential for tourism by arranging overseas exhibitions, road shows, workshops and seminars by involving national and international media and private sector.

iv. To encourage private sector to invest in tourism by providing investment facilities and encouraging entrepreneurship.
v. Raising skill standards to ensure availability of skilled workforce such as hotel staff, tour operators, tourist guides, heritage site managers and government functionaries.

vi. Improvement and up-gradation of several secondary and tertiary roads including ancillary footpaths etc. around key tourist sites.

vii. Improving basic infrastructure for parking, washroom facilities, rest areas, lighting, information counters, installation of direction signs, refreshment shops, parking facilities etc. with special attention to accessibility of women and people with disabilities.

All the Project activities aim to optimally exploit the potentials of recreational, adventure, cultural, historical and heritage tourism contributing towards economic growth through creation of jobs, foreign exchange earnings, opening up trade, knowledge sharing, regional development and much needed portrayal of a soft image for Pakistan.

2. AUDIT OBJECTIVES

The audit objectives were:

i. To express an opinion based on the audit exercise on the accompanying financial statements.

ii. To review project performance against the intended objectives.

iii. To assess whether project was managed with due regard to economy, efficiency and effectiveness.

iv. To review compliance with applicable rules, regulations and procedures.

3. AUDIT SCOPE AND METHODOLOGY

3.1 Audit scope covers the audit of Punjab Tourism for Economic Growth Project (PTEGP) executed during the financial year 2018-19.

3.2 The audit methodology includes understanding the entity, conducting risk assessment, defining detailed audit objectives, developing audit program, performing analytical procedures, conducting substantive tests, evaluating results, reporting and follow up to achieve the audit objectives. Discussions were also made with management.
4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

4.1.1 The Secretary, P&D Department is the Principal Accounting Officer of the project. The Project is supervised / monitored by Punjab Resource Management Project (PRMP) and headed by the Project Director to ensure that the works under execution were completed within the given time-frame and according to the approved specifications and design.

4.1.2 The project was being executed under the administrative control of Project Management Unit. The overall coordination and monitoring was being carried out by the consultant as per guidelines of the WB.

4.1.3 The accounts of the project were compiled on monthly basis and submitted to the Accountant General Punjab, Lahore for consolidation and onward transmission to the Government of the Punjab for incorporation thereof in the accounts of the province.

4.1.4 Progress reports were prepared on monthly basis and submitted to the P&D department and the WB.

4.1.5 Non-Implementing Internal Audit Function

As per PC-1, the project management had to engage qualified internal auditors or to outsource this function to a firm of Chartered Accountants by 30.10.2017.

During audit of PMU, PTEGP, it was observed that the management did not engage Internal Auditors despite lapse of a considerable time after initiation of the project. It was further observed that the management did neither hire the services of internal auditor nor outsourced to a firm of Chartered Accountants. This may cause high level risk of payment.

Audit was of the view that violation of PC-I provision resulted in increased financial vulnerability of the project funds.

Audit pointed out the matter in August 2019, however no response was initially provided by the department.

The matter was discussed in SDAC meeting held on 31.10.2019 wherein the department stated that the process of hiring of internal audit firm was in progress and the Secretary P&D Board notified Internal Audit Committee that had also conducted internal Audit Function of the project.

The Committee directed the department to fulfill the formality as provided in PC-I. The compliance of the Committee’s directive was not reported till finalization of the report.
Audit recommends immediate appointment of Internal Auditor, in order to provide assurance about financial discipline. It is also recommended that the internal auditors report directly to the Principal Accounting Officer.

(Para No.08)

4.2 Financial Management

4.2.1 Cash flows/releases of funds in respect of Government of the Punjab share are regulated by the Finance Department through its cash management plan. WB made direct payments of Rs 60.554 million to the consultant. Funds amounting to Rs 386.365 million were transferred in Project Assignment Account at the disposal of the project management.

4.2.2 Detail of allocation/releases/utilization for the FY 2018-19 was as under:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Sponsor</th>
<th>Allocation (Rs in million)</th>
<th>Release</th>
<th>Actual Expenditure (Rs in million)</th>
<th>Unutilized</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>WB</td>
<td>450.000</td>
<td>446.919</td>
<td>66.056</td>
<td>380.863</td>
</tr>
<tr>
<td>2</td>
<td>GoPb</td>
<td>25.000</td>
<td>25.000</td>
<td>24.882</td>
<td>0.118</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>475.000</td>
<td>471.919</td>
<td>90.938</td>
<td>380.981</td>
</tr>
</tbody>
</table>

(Source: Statement of Releases and Expenditure FY 2018-19)

Perusal of the above table showed that the project management unit could utilize only a portion (19.26%) of the funds received from World Bank and the GoPb during the year 2018-19.

4.2.3 Financial reports were prepared on monthly basis and submitted to Accountant General Punjab, Lahore.

4.2.4 Financial reports are prepared on IPSAS cash basis and the format as prescribed in accounting policies and procedures prescribed by the World Bank.

4.2.5 Reconciliation of expenditures was done with the Accountant General Punjab on monthly basis as prescribed in the Punjab Budget Manual.

4.2.6 Project’s bank accounts were maintained at National Bank of Pakistan Lahore.

4.2.7 No advances to the employees were paid.

Issues relating to the financial management observed during audit involving an amount of Rs 519.594 million were as under:

4.2.8 Non-utilization of funds – Rs 380.863 million

According to Chapter 14 of Punjab Budget Manual, “all anticipated savings should be surrendered to Government immediately, without waiting till the end of the year".
During audit of PMU, PTEGP for the year 2018-2019, it was observed that an amount of Rs 446.919 (386.365 + 60.554) million was received from the Bank on account of IDA receipt and third party payment respectively. An expenditure of Rs 66.056 million (60.554 + 5.502) could be incurred by the management during the year, leaving a balance of Rs 380.863 million (446.919 - 66.056) unutilized by the end of financial year. This indicated that the PMU could not achieve its planned targets and withdrew funds in excess of actual needs.

Audit was of the view that unutilized funds amounting to Rs 380.862 million not only showed poor progress of the development works, but also showed that funds were withdrawn unnecessarily by the PMU.

Weak financial controls resulted in non-utilization of fund of Rs 380.863 million.

Audit pointed out the matter in August 2019, however no response was initially provided by the department.

The matter was also discussed in SDAC meeting held on 31.10.2019. The department informed the Committee that all procurement activities were in process. Necessary approval from WB had been obtained and meeting with Consultant Selection Committee (CSC) are being convened. After detail discussion the Committee directed the department to produce the record regarding basis for demand and release of funds for the financial year 2018-19. No further progress was reported till finalization of this report.

Audit recommends a detailed probe into the matter, especially regarding fate of the lapsed amount.

4.2.9 Loss due to accrual of interest on unnecessary withdrawal of donor funds – Rs 12.187 million (US$ 98,000)

As per Section 2.05 of Financing Agreement made between Islamic Republic of Pakistan and International Development Association signed on 2.08.2017, the Interest Charge payable by the Recipient for each interest period shall be at a rate equal to 3.20% per annum.

During audit of PMU, PTEGP for the year 2018-2019, it was observed that an amount of Rs 386.365 million were withdrawn by the project management against the IDA receipt but only an expenditure of Rs 5.502 million (1.42 %) could be spent during the financial year 2018-19. The department could not utilize the funds amounting to Rs 380.863 million (386.365 – 5.502) by the end of financial year. This showed that funds withdrawn were in excess than immediate need. Withdrawal of excess funds than needed resulted in unnecessary accrual of interest payment on loan amount.

Audit was of the view that funds were unnecessarily withdrawn without immediate need by the
management resulting in accrual of interest payment amounting to Rs 12.187 million.

Weak financial and supervisory controls resulted in loss of Rs 12.187 million (US$ 0.098 million) due to accrual of interest on un-utilized funds received from donor.

Audit pointed out the matter in August 2019, however no response was initially provided by the department.

The paras were discussed in SDAC meeting held on 31.10.2019. The department informed the Committee that all procurement activities were in process. Necessary approval from WB had been obtained and meeting with Consultant Selection Committee (CSC) are being convened. The Audit informed the Committee as no civil works were awarded so releasing of extra funds was not justified causing the financial impact on repayment of loan for Rs 12.87 million in shape of interest charges and indicated the inefficiency and ill management of the PMU. Further, the cost overrun and time over run could also not be ruled out. After detail discussion the Committee directed the department to produce the record regarding basis for demand and release of funds for the financial year 2018-19. The compliance of the Committee’s directive was not reported till finalization of the report.

Audit recommends a thorough investigation of the matter at the level of the administrative department.

(Para No.4)

4.2.10 Payment to Consultant without fulfillment of agreed targets – Rs 115.94 million (US$ 935,000)

As per definition (f) of Article 1 of the Agreement between the Government of the Punjab and the UNESCO, “for Provision of Technical Assistance”, “Total Funding Ceiling” means the total cost of carrying out the Technical Assistance, as set forth in Article –III and further detailed in Annexure –III. Annexure III provides the schedule of payments against the targets achieved.

During audit of PMU, PTEGP for the year 2018-2019, it was observed that an amount of US$ 500,000 was paid as advance on signing the agreement vide invoice No. BFM/FAS/AR/2018/179 dated 27-2-2018. Another payment of US$ 435,000 was also made vide invoice No. BFM/FAS/AR/2018/726 dated 10-10-2018 on submission of the inception report. Thus a total amount of US$ 935,000 was paid during the first year of the contract period. As per Annexure III, 2nd payment was subject to completion of certain targets by the consultant. However, it was observed that the latter payment was released without complete fulfillment of the assigned targets. Further, the first year’s Funding Ceiling included in Annexure-III direct cost, staff cost and travel cost. UNESCO did not submit the detail of staff cost and travel cost.

Audit was of the view that the payment of US$ 935,000 without fulfillment of targets and provision of details of direct cost, staff cost and travel cost was unjustified.
Weak financial controls resulted in unjustified payment of US$ 935,000.

Audit pointed out the unjustified payment in August 2019, however no response was initially provided by the department.

The matter was discussed in SDAC meeting held on 31.10.2019 wherein the department stated that the payment was made to the UNESCO as per agreement. The Audit informed the Committee that no provision of advance payment was provided in the funding ceiling of the consultants. After detail discussion the Committee directed the department to produce the documents of payments in line with the total funding ceiling. The compliance of the Committee’s directive was not reported till finalization of the report.

Audit recommends early compliance of SDAC directives and its verification.

4.2.11 Unnecessary recruitment of Senior Procurement Specialist - Rs 6.863 million

As per Rule 2.33 of PFR Volume-I, every Government servant should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part, and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government servant subordinate to him. As per Annex-A of TOR for Senior Procurement Specialist, the Procurement Specialist will directly report to Project Director serving as focal point of all procurement activities. The specialist will work on fulltime basis while working in close liaison with relevant sections for implementation of various components.

PMU, PTEGP appointed the Senior Procurement Specialist on 09.10.2017 against the remuneration package of Rs 400,000 per month, subsequently reduced to Rs 300,000 per month. The officer served in the project from October 2017 to January 2019 and resigned from job on 04.02.2019. Audit observed that the services of Senior Procurement Specialist were not required by the project during the period as no significant procurements were envisaged to be made during this period. During this period an amount of Rs 6.863 million was incurred on this account. This resulted in unjustified recruitment of Senior Procurement Specialist and payment of his remuneration.

Audit was of the view that mismanagement resulted in unjustified and wasteful expenditure of Rs 6.863 million.

Audit pointed out the unjustified/wasteful expenditure in August 2019, however no response was initially provided by the department.

The matter was discussed in SDAC meeting held on 31.10.2019 wherein the department stated that the services of procurement officer were obtained during purchase of office equipments, IT
and furniture. Audit contended that as the civil works were not allotted yet i.e. upto August 2019 and no any major procurement was made from October 2017 to January 2019 despite the procurement of regular procurement, but a huge amount for Rs 6.863 million was paid to the procuring officer without obtaining his services. The Committee upheld the viewpoint of Audit and directed the department for probe. The compliance of the Committee’s directive was not reported till finalization of the report.

Audit recommends early compliance of SDAC directive. (Para No.17)

4.2.12 Non-recovery of PST from the consultant’s payment - Rs 3.341 million

As per Contract Agreement of class-3(A), the client (PMU) shall pay the consultant an amount which included all of the consultant’s cost and profit as well as tax obligation that may be imposed on the consultant. This will include Income Tax but exclude Sales Tax which will be charged separately.

During audit of PMU, PTEGP for the year 2018-2019, it was observed that payment of Rs 2,785,985 was made from local funds and Rs 555,277 from donor funds to Punjab Revenue Authority during the financial year 2018-19 on account of PST on the payment of consultants hired on the project. PMU was responsible for payment to the consultants up to the ceiling fixed in the contract agreements and no extra payment was due on any account.

Audit was of the view that undue payment of PST on behalf of Consultant from development budget was unauthorized and in violation of contract agreement.

Weak financial and supervisory controls resulted in non-recovery of PST from the consultants remunerations for Rs 3,341,262.

Audit pointed out the non-recovery in August 2019, however no response was initially provided by the department.

The matter was discussed in the SDAC meeting held on 31.10.2019 wherein the department stated that as per Clause-3 of agreement only Income Tax was required to be deducted from the consultant. Further, the PST was deducted from local and foreign account and deposited accordingly. The Audit informed the Committee that this was to be deducted from the consultant’s payments. The Committee upheld the viewpoint of Audit and directed the department to get the advice from the PRA. The compliance of the Committee’s directive was not reported till finalization of the report.

Audit recommends early compliance of SDAC directive and its verification. (Para No.10)
4.2.13 Non-recovery on account of notice period pay from Senior Procurement Specialist - Rs 400,000

As per clause-15 of contract agreement (Termination by consultant), the Consultant may terminate this contract, by not less than thirty (30) days’ written notice to the Client, such notice to be given after the occurrence of any of the events specified as follows:

a) If the client fails to pay any money due to the consultant pursuant to this contract and not subject to dispute pursuant to Clause-12 within thirty (30) days after receiving written notice from the consultant that such payment is overdue; or

b) If, as the result of Force Majeure, the consultant is unable to perform a material portion of the Services for a period of not less than thirty (30) days.

During audit of PMU, PTEGP for the year 2018-2019, it was observed that the Senior Procurement Specialist was appointed on 09.10.2017 against the remuneration package of Rs 400,000 per month. The officer tendered his resignation from his job on 04.02.2019 without serving any notice in violation of the contract agreement. As per agreement, PMU was to recover the remuneration of one month i.e. Rs 400,000 from him which was not done resulting in non-recovery of one month’s pay.

Audit was of the view that weak administrative controls resulted in non-recovery of Rs 400,000.

Audit pointed out the non-recovery in August 2019, however no response was initially provided by the department.

The matter was discussed in SDAC meeting held on 31.10.2019 wherein the department stated that due to breach of contract by the Senior Procurement Specialist, the case regarding recovery was initiated and letter was issued to the defaulter. The Committee directed the department to effect the recovery within 30 days. The compliance of the Committee’s directive was not reported till finalization of the report.

Audit recommends early recovery and its verification.

4.2.14 Unjustified provision of higher rate of remunerations of the project management team

According to Rule 2.10 (a) (i) PFR Volume-I, every Government servant should exercise the same vigilance while sanctioning and incurring expenditure from Government revenue as a person of ordinary prudence would exercise from his own money.

During audit of PMU, PTEGP for the year 2018-2019, it was observed that Project Director made payment of consultants’ remuneration during the financial year 2018-19 for Rs 20,882,889. As per Annex-F of PC-I of the project, the remuneration of the project management team i.e.
Project Director, Deputy Project Director, Senior Procurement Specialist, Financial Management Specialist, Environmental Specialist, Social Safeguard & Gender Specialist, Admin & Accounts Officer was fixed at Rs 1,000,000, Rs 600,000, Rs 500,000, Rs 300,000, Rs 300,000, Rs 300,000, Rs 150,000 respectively. The project management team was appointed on contract which was to be renewed annually. When compared to other projects by GoPb, these packages were considered on higher side. This is evident from the fact that these remunerations were reduced during financial year 2018-19.

Audit was of the view that the fixing remunerations of the project management team without any rational basis resulted in unjustified payment.

Audit pointed out the unjustified remuneration in August 2019, however no response was initially provided by the department.

The matter was discussed in SDAC meeting held on 31.10.2019 wherein the department stated that the tourism project was a specialize project with international outreach to prompt a positive image of the country and province. The salaries mentioned in the PC-I were at maximum but the terms were negotiated with each individual and due to austerity measures the salaries were decreased. Audit informed to the Committee that similar foreign project of PICIIP, the pay of PD was Rs 475,000 and that of DPD was Rs 250,000. The Committee directed PMU to justify the higher rate of the remunerations of the PMU team. The compliance of the Committee’s directive was not reported till finalization of the report.

Audit recommends early compliance of SDAC directive.

4.3 Monitoring and Evaluation

4.3.1 Progress of project under execution was reviewed on monthly and quarterly basis by the PD, PMU, PTEGP, Principal Accounting Officer (PAO) concerned and Planning & Development Department.

4.3.2 Internal checks such as inspections, regular monitoring, supervision by field engineers and mechanized testing/laboratory test reports of the executed works were also vital to ensure qualitative execution of work in line with the specifications and approved design. Two levels of monitoring/supervision, firstly by the supervisory engineers/consultant and secondly by obtaining test from approved laboratories were prescribed in this regard.

4.3.3 Non-obtaining the environmental and social report/plan

As per Article 8 of Financing Agreement between GoP and IDA, Environmental and Social Safeguard Management Plan (ESMP) was to be prepared by the Implementing Entity setting out the (i) measures to effectively manage the Environmental and Social issues and concerns identified under the ESMP for the site (ii) required monitoring associated with the mitigating
measures and (iii) implementation arrangements, including institutional requirements and responsibilities during the pre-construction, construction and operation phases. WB operational policies (4.01 Environmental Assessment) also emphasizes to address all activities which may potentially cause negative environmental and social impacts and to suggest safeguard instrument accordingly.

During audit of PMU, PTEGP for the year 2018-2019, it was observed that ESMP was not prepared by the project management despite lapse of a considerable time of 2 years. Screening reports of the sites of the project were provided which did not serve the purpose of a thorough plan as envisaged in the Financing Agreement. This showed that the human resources hired for the purpose were not utilized efficiently. Moreover, this was also necessary for sustainability of the project, especially with regard to environmental protection and social safeguards.

Lack of efficient utilization of resources resulted in non-preparation of Environmental and Social Report/plan which may cause the hindrance and delay in execution of the project.

Audit pointed out the lapses in August 2019, however no response was initially provided by the department.

The matter was discussed in August 2019 wherein the department stated that screening reports are developed only for assessment of social impact and the gap analysis regarding available and required facilities at all sites. Further the development of ESMP is not the responsibility of safeguard team of PMU. During discussion, the representative of the department stated no such document is required. The Committee directed the department to submit a comprehensive reply supported with evidence. The compliance of the Committee’s directive was not reported till finalization of the report.

Audit recommends early compliance of SDAC directive and its verification.

4.4 Compliance with Grant/Loan Covenants

The project was being executed with Donor (World Bank) funding and compliance of loan agreement was being made.

4.5 Environment

Environmental Impact Assessment (EIA) was not carried out as required under Section 12 of Punjab Environmental Protection (Amendment) Act, 2012.

4.6 Sustainability

4.6.1 Sustainability was an integral part of operational performance. Sustainability of the project depends mainly upon the sufficient flow of financial resources both during implementation phase and operation & maintenance stage.
4.6.2 Recurring cost will be provided through ADP provision by the department. Funding for maintenance of existing structure will generally be made as per fixed yardstick.

4.6.3 Planning and Development Department would be responsible for maintenance of the project after its completion.

4.6.4 Recurring cost would be met through annual budget provision under Grant-37 (M&R).

4.7 Overall Assessment

4.7.1 Relevance: The project was within the Medium Term Development Framework (MTDF) and in line with Government's sectoral policies and sectoral priorities identified for the Punjab's Tourism Sector.

4.7.2 Efficacy: This could not be ascertained at this stage as the project is at its initial stage of progress.

4.7.3 Efficiency: The funds provided during the financial year were not fully utilized. However, the overall cost and time overrun could not be assessed as project is under initial stage of execution.

4.7.4 Economy: The contracts will be awarded through open competition on competitive and economical rates to the pre-qualified contractors.

4.7.5 Effectiveness: Since the project is at its initial stage of progress, therefore, successful achievement of objectives, targets and desired results cannot be analyzed and assessed.

4.7.6 Compliance with rules: Issues of poor contract management and not utilizing the given budget fully needs to be given a serious thought for improving service delivery to avoid likely delay of the project.

4.7.7 Performance Rating: Not possible at this stage.

4.7.8 Risk Rating: Medium.

5. CONCLUSION

5.1 Key Issues for the Future:

5.1.1 The nature of the project is multifaceted involving various Federal and Provincial Departments but Project is being run by the PD on additional charge basis. There is need for a Project Director who may be appointed on regular basis so that project may be looked after properly.
5.1.2 Issues relating to the tax management needs to be addressed.

5.1.3 Management should take prompt steps to prepare the comprehensive procurement plan so that all the budget allocation would be utilized fully and no amount of budget goes unutilized.

5.2 Lessons learnt: Certain areas are identified that require the special attention/ focus of the management. These are, slow or delayed start of the work, selection of the contractors keeping in view their capacity, unnecessary withdrawals and late achievement of results that adds the extra financial burden in the shape of commitment charges. All these issues demand the implementation of strict monitoring at principle account level and enforcement of proper financial discipline at managerial level.
ACKNOWLEDGEMENT

We wish to express our appreciation to the Management and staff of "Punjab Tourism for Economic Growth Project" for the assistance and cooperation extended to the auditors during this assignment.