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**Financial Attest Audit Report on the Accounts of  
Water Sector Capacity Building and Advisory Services Project  
for the Financial Year 2018-19**

**International Development Association (IDA) World Bank  
Loan No.IDA-5760-PK**

**Auditor General of Pakistan Islamabad**

## PART-II

EXECUTIVE SUMMARY

MANAGEMENT LETTER

1. Introduction
2. Audit Objectives
3. Audit Scope and Methodology
4. AUDIT FINDINGS AND RECOMMENDATIONS
  - 4.1 Financial Management
  - 4.2 Procurement and Contract Management
  - 4.3 Overall Assessment
5. CONCLUSION

ACKNOWLEDGEMENT

## EXECUTIVE SUMMARY

The Directorate General Audit, Water Resources conducted audit of "Additional Financing for Phase-II, Water Sector Capacity Building and Advisory Services Project Loan No.IDA-5760-PK" under Ministry of Water Resources during October, 2019 for the Financial Year 2018-19. The main objectives of the audit were to express an opinion on Financial Statements of the Project, assess whether the Project was managed with due regard to economy, efficiency and effectiveness, review project performance against the intended objectives, review compliance with applicable rules, regulations and procedures. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

### **Key audit findings:**

- Non-adjustment of temporary advances - Rs. 0.85 million
- Unjustified payment of TA/DA to drivers who performed duties with Ministry – Rs.0.37 million
- Unjustified payment of POL and maintenance charges of vehicles - Rs.0.26 million
- Less receipt of bank guarantee against 10% advance payment – Rs.1.37 million
- Excess payment due to incorrect application of dollar rate – Rs.0.99 million
- Unjustified payment of income tax on behalf of foreign consultant – Rs.0.76 million

Based on the audit observations, it is recommended that steps may be taken to make procurements in line with prevailing rules & regulations with due regard to economy and efficiency to achieve the targets agreed with World Bank to avoid lapse of available funds for the project.



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No. DGA-WR/WCAP/IDA-WB/Loan-5760/2018-19/

Dated:

**MANAGEMENT LETTER**

Dear Sir,

We have audited the Financial Statements of Additional Financing for Phase-II, Water Sector Capacity Building and Advisory Services Project Loan Agreement No. IDA-5760-PK funded by International Development Association (IDA) World Bank for the financial year 2018-19 in accordance with International Standards of Supreme Audit Institutions (ISSAIs). While designing our audit procedures, we have considered internal controls of the Project as a basis for expressing our opinion. We have identified deficiencies in Project's internal control structure which are summarized as mismanagement regarding procurements and incurring other expenditures which may result in increase in cost of the Project.

In the light of Audit observations and recommendations, it is suggested that all necessary corrective actions may be taken in order to ensure smooth finalization of the Project and achievement of its objectives.

Yours Truly,

**MUHAMMAD KAMRAN RASHID MIRZA  
DIRECTOR GENERAL AUDIT  
WATER RESOURCES**

**MR. MUHAMMAD ASHRAF  
SECRETARY  
MINISTRY OF WATER RESOURCES**

**1. INTRODUCTION:**

The objectives of Additional Financing from World Bank for the Water Sector Capacity Building Advisory and Services Project Loan No.IDA-5760-PK is to improve capacity building of and support to federal institutions in water resources planning and management in Pakistan under Ministry of Water Resources. Total amount of loan was US\$ 34.95 million.

**2. AUDIT OBJECTIVES:**

- i. Review the Financial Statement of the World Bank Loan No.IDA-5760-PK.
- ii. Review Project's performance against intended objectives as per PC-II.
- iii. Assess whether the Project was managed with due regard to economy, efficiency and effectiveness.
- iv. Review compliance with applicable rules, regulations and procedures.

**3. AUDIT SCOPE AND METHODOLOGY:**

The Directorate General Audit, Water Resources conducted audit of the Water Sector Capacity Building and Advisory Services Project Loan No. IDA-5760-PK under Ministry of Water Resources for the Financial Year 2018-19.

The assignment was a financial attest audit in which samples from all areas of expenditure were selected to ascertain whether the Financial Statement of the Project gives true and fair view of its financial position. The audit was conducted in accordance with International Standards of Supreme Audit Institution (ISSAIs). The results of examination are given under the heading "Audit Findings and Recommendations".

#### **4. AUDIT FINDINGS AND RECOMMENDATIONS**

##### **4.1 Financial Management**

##### **4.1.1 Non-adjustment of temporary advances - Rs.0.85 million**

According to Section-9.2.3 of WAPDA Accounting and Financial Reporting Manual, “the advances should be for WAPDA related business activities and unused advance shall be returned to WAPDA immediately after the activity completion.

During audit of the record of Water Sector Capacity Building & Advisory Services Project (WCAP), Islamabad, it was noticed that an amount of Rs.0.85 million was given as temporary advance by the office of General Manager (C&M) WAPDA to the employees of Project Director (H&R) WAPDA out of funds received from IDA. These advances were paid during March and May, 2019 on account of TA/DA and POL expenditure for joint survey activities pertaining to Automatic Weather Stations and up-gradation of existing flood telemetric stations. As per rules, these advances were required to be adjusted upon completion of activities but needful was not done.

Non-adherence to WAPDA Accounting and Financial Reporting Manual resulted in non-adjustment of temporary advances of Rs. 0.85 million during the Financial Year 2018-19.

The matter was taken up with the management in October, 2019. The management replied that the concerned WAPDA formation would be directed to produce adjustment accounts of advances at the earliest.

The DAC in its meeting held on 15<sup>th</sup> November, 2019 directed the management to provide the adjustment record of temporary advances for verification within 15 days. Further progress was not intimated.

Audit recommends that the management needs to ensure compliance of DAC decision.

##### **4.1.2 Unjustified payment of TA/DA to drivers who performed duties with Ministry – Rs.0.37 million**

According to Para-11.4 (b) Chapter-XI of the Hand Book for Drawing & Disbursing officer, “funds allotted to a Ministry / Division, its Attached or Subordinate Offices are spent for the purpose for which they are allocated”.

During audit of record of Water Sector Capacity Building & Advisory Services Project (WCAP), Islamabad, it was observed that an amount of Rs.0.37 million was paid as

TA / DA to different drivers of WCAP who performed duties with Minister / Secretary and Joint Secretary (Admn) Ministry of Water Resources (MoWR) for assignments other than those linked to WCAP project. As the MoWR had its own budget to meet its financial obligations, hence, the said amount was required to be paid from its own budget as these expenditures had no relevance to WCAP. The payment of TA / DA from Project's budget was not justified as it was made in violation of financial regulations.

Non-adherence to aforesaid rule resulted in unjustified payment of TA/DA amounting to Rs.0.37 million to drivers who performed duties with Ministry during the Financial Year 2018-19.

The matter was taken up with the management in October, 2019. The management stated that detailed reply would be submitted to Audit accordingly.

The DAC in its meeting held on 15<sup>th</sup> November, 2019 directed the management to get the record verified from Audit within 15 days. Further progress was not intimated.

Audit recommends that the management needs to ensure compliance of DAC decision.

#### **4.1.3 Unjustified payment of POL and maintenance charges of vehicles - Rs.0.26 million**

According to Tables-04 (b) & (c) of revised PC-II of the Water Sector Capacity Building and Advisory Services Project, there was provision of two vehicles for up-gradation of Automatic Weather Stations and study for river flow forecasting of Chenab & Kabul River Basin and their O&M cost @ Rs.50,000 per month.

During audit of record of Water Sector Capacity Building & Advisory Services Project (WCAP), Islamabad, it was noticed that an amount of Rs.0.26 million was incurred on POL and maintenance charges of vehicles by the office of General Manager (C&M) WAPDA out of funds received from IDA. As no vehicle was procured under this Project against a provision of two vehicles, hence, the expenditure incurred on account of POL and maintenance of vehicles was unjustified.

Non-adherence to PC-II provisions resulted in unjustified payment of POL and maintenance charges of vehicles amounting to Rs.0.26 million during the Financial Year 2018-19.

The matter was taken up with the management in October, 2019. The management replied that GM (C&M) WAPDA would be asked to justify the expenditure and reply received from WAPDA would be furnished to Audit accordingly.

The DAC in its meeting held on 15<sup>th</sup> November, 2019 directed the management to provide the log books for verification to Audit within 30 days. Further progress was not intimated.

Audit recommends that the management needs to ensure compliance of DAC decision.

#### **4.2 Procurement and Contract Management**

##### **4.2.1 Less receipt of bank guarantee against 10% advance payment – Rs.1.37 million**

According to Clause-41.2.1 of the Consultancy Services Contract for Hydrological Modeling for Flow Forecasting Study of Kabul River Basin using GIS/RS Technology, advance payment shall be made in equivalent Pak. Rupees after submission of the Bank Guarantee by the Consultant equal to 10% of local and foreign currency components.

During audit of record of Water Sector Capacity Building & Advisory Services Project (WCAP), Islamabad, it was noticed that the Consultant M/s NESPAK submitted advance payment invoice of Rs.10.22 million (gross amount) on January 14, 2019 against which bank guarantee of Rs.8.85 million was submitted. Thus, bank guarantee of Rs.1.37 million was less submitted by the Consultants which was required to be enhanced upto the gross amount of advance but the needful was not done.

Non-adherence to Contract Clause resulted in less receipt of bank guarantee amounting to Rs.1.37 million against 10% advance payment during the Financial Year 2018-19.

The matter was taken up with the management in October, 2019. The management stated that the concerned WAPDA formation would be directed to furnish reply in line with contract agreement.

The DAC in its meeting held on 15<sup>th</sup> November, 2019 directed the management to obtain opinion of Tax Directorate WAPDA within 30 days and intimate to Audit. Further progress was not intimated.

Audit recommends that the management needs to ensure compliance of DAC decision.

#### **4.2.2 Excess payment due to incorrect application of dollar rate – Rs.0.99 million**

According to Schedule of Prices of contract agreement between WAPDA and M/s SIAP+MICROS Italy entered in January, 2019, the contract price was US\$ 1,194,386 (for imported goods) and Rs.46.50 million (for local goods & services). As per SCC-16.1, payment for goods and services supplied from within the Purchaser's country shall be made in PKR or/and equivalent US\$ as desired by the Supplier. As per GCC-16.4, the currencies in which payments shall be made to the Supplier under this Contract shall be those in which the price is expressed.

During audit of record of Water Sector Capacity Building & Advisory Services Project (WCAP), Islamabad, it was noticed that a Contract for Procurement of Supply, Installation and Commissioning of Automatic Weather Stations and Up-gradation of existing Flood Telemetric Stations was awarded to M/s SIAP+MICROS, Italy in January, 2019. The contractor submitted two invoices of US\$ 156,950.06 (119,438.69 + 37,511.37) against 10% advance payment on account of imported and local goods & services on March 18, 2019. As per contract agreement, 10% advance payment of local component was Rs.4.65 million or equivalent 30,897.01 US dollars. The management at the time of making advance payment, paid US\$ 37,511.37 equivalent to Rs.5.64 million at prevailing dollar rate as on May 30, 2019 instead of US\$ 30,897.01 equivalent to Rs.4.65 million. Thus, an amount of Rs.0.99 million was paid in excess due to incorrect application of dollar conversion rate.

Non-adherence to Contract Clause resulted in excess payment of Rs.0.99 million due to incorrect application of dollar rate during the Financial Year 2018-19.

The matter was taken up with the management in October, 2019. The management replied that Hydrology & Research Directorate / GM (C&M) WAPDA would be asked to furnish reply and the same would be submitted to audit accordingly.

The DAC in its meeting held on 15<sup>th</sup> November, 2019 directed the management that recovery be effected within 30 days and get it verified from Audit. Further progress was not intimated.

Audit recommends that the management needs to ensure compliance of DAC decision.

#### **4.2.3 Unjustified payment of income tax on behalf of foreign consultant – Rs.0.76 million**

According to SCC-39.1 and 39.2 of the Consultancy Services Contract for

Hydrological Modeling for Flow Forecasting Study of Kabul River Basin using GIS/RS Technology, the Client shall reimburse the Consultant, the Sub-consultants and Experts any indirect taxes, duties, fees, levies and other impositions imposed under the applicable laws in the Client's country on the Consultant, the Sub-consultants and Experts. Moreover, Direct Taxes (Income Tax, Corporate Tax etc) are taxes which are applied on individuals and organizations directly by the government.

During audit of record of Water Sector Capacity Building & Advisory Services Project (WCAP), Islamabad, it was noticed during scrutiny of Consultancy agreement signed between WAPDA and M/s NESPAK JV that income tax amounting to Euro 15,950 on Remuneration of Foreign JV Partner was included in the Breakdown of Contract Price (Appendix-C). An amount of Euro 47,850 was paid to the foreign consultant through two invoices and income tax of Rs.0.76 million (Euro 4,785) was paid on behalf of the foreign consultant. As the income tax was levied on income of a person / organization and it was not the responsibility of the client to pay such direct taxes. Hence, payment of income tax due to inclusion of provision in the contract in violation of tax laws was unjustified and resulted in loss to the Authority.

Poor contract management resulted in unjustified payment of income tax amounting to Rs.0.76 million on behalf of foreign consultant during the Financial Year 2018-19.

The matter was taken up with the management in October, 2019. The management replied that GM (C&M) WAPDA would be asked to furnish reply and the same would be submitted to Audit accordingly.

The DAC in its meeting held on 15<sup>th</sup> November, 2019 directed the management to obtain opinion of Tax Directorate, WAPDA within 30 days and intimate to Audit. Further progress was not intimated.

Audit recommends that the management needs to ensure compliance of DAC decision.

#### **4.3 Overall Assessment**

The overall assessment of the Project with regard to its deliverance to the intended purposes is based upon the following major elements:

**i. Relevance:**

The loan remained in line as per loan agreement.

**ii. Efficacy & Effectiveness:**

The project is at execution stage and its efficacy & effectiveness is subject to its successful completion. The management needs to strictly adhere to the agreed timelines.

**iii. Efficiency:**

The loan remained available for disbursement according to the release request. The project management utilized only 8.5% of the loan amount uptill now, whereas the project started on 5<sup>th</sup> February, 2016.

**iv. Economy:**

The management needs to adhere to the applicable procurement guidelines in order to ensure economical utilization of the loan.

**v. Compliance with Rules:**

No serious non-compliance to rules was observed in execution of project.

**vi. Performance Rating of Project:**

Overall performance of the Project is satisfactory.

**vii. Risk Rating of Project:**

The risk rating of the Project is low.

## 5. CONCLUSION

It is concluded that the loan has been utilized only for the purposes for which it was received and also with due attention to consideration of economy and efficiency. However, the project management needs to resolve the issues of procurement management as highlighted in the audit findings. The management needs to adhere to the implementation schedules agreed with the bank in order to make the grant more effective and for successful completion of the Project.

## ACKNOWLEDGEMENT

We wish to express our appreciation to the management and staff of the Water Sector Capacity Building and Advisory Services Project, Islamabad for the assistance and cooperation extended to the auditors during this assignment.