



## ZILLA ACCOUNTS COMMITTEES

# Manual for Review of Accounts and Audit Reports

Districts That Work Project

# CONTENTS

<b>1. Introduction</b>	<b>1</b>
1.1 District Government's Financial Management Cycle	1
1.2 Functions of ZAC	1
<b>2. Financial Reporting</b>	<b>2</b>
2.1 Accounting and Reporting Procedure for District Governments	2
2.2 Monthly Financial Report	2
2.3 Annual Financial Reports	4
<b>3. Auditing</b>	<b>5</b>
3.1 External Audit	5
3.2 Internal Audit	6
<b>4. Audit Process</b>	<b>7</b>
<b>5. ZAC Review</b>	<b>9</b>
5.1 Status of Accounts	9
5.2 Review of Appropriation Accounts	9
5.3 Review of Monthly Accounts	11
5.4 Review of External Audit Reports	12
<b>5.5</b> Case Studies – Audit Paras	13

## **SECTION 1 INTRODUCTION**

### **1.1 District Government's Financial Management Cycle**

The Local Government system has an elaborate system to devolve financial powers to the local governments. The local governments at different tiers have been given clear expenditure assignments, spending autonomy and powers to raise their own revenue by assigning taxes and user charges to them. A range of budget making, accounting and reporting mechanisms have been built into the local government system. These mechanisms come into force through provisions of the Local Government Ordinance (LGO) 2001 and related rules and notifications that have been made. The multiple checks and balances are designed to ensure that local governments are held accountable by their respective Councils for all the funds that they spend.

The District Government's Financial Management Cycle consists of the following major activities.

1. Budget Preparation and Approval
2. Budget Implementation
3. Accounting and Financial Reporting
4. Auditing
5. Accountability Review

The Zilla Accounts Committee (ZAC) is the key institution which allows the elected Zilla Council to carry out the accountability review, exercise oversight function and scrutinize management of public funds by the District Government. This accountability is not just for adherence to financial regulations but also for the outcomes and impact of the expenditure that the people's representatives authorize every year.

### **1.2 Functions of ZAC**

The Zilla Accounts Committee reviews the monthly/ annual accounts of the District Government and the reports of the Auditor-General of Pakistan thereon. The committee ensures that the principles of efficiency, economy, and effectiveness are followed while spending public money, the government officials have performed their work with due diligence and have complied with the general principles of financial propriety and the prescribed financial rules and procedures. The Committee holds public hearings to evaluate, review and hear objections to monthly and annual accounts of the District Government, audit report of the Auditor-General of Pakistan on the accounts of the District Government and internal audit reports.

## **SECTION 2 FINANCIAL REPORTING**

### **2.1 Accounting and Reporting Procedure for District Governments**

Section 114 of the Local Government Ordinance 2001 stipulates that the accounts of receipts and expenditure of District Government shall be kept in such form and in accordance with such principles and methods as the Auditor-General of Pakistan may, with the approval of the President, prescribe. The District Accounts Officer (DAO) or Treasury Officer, where the DAO

is not in position, shall maintain the accounts of the District Government. A statement of monthly and annual accounts and such other necessary statements shall be placed at a conspicuous place by the District Government for public inspection. The Zilla Accounts Committee shall hold public hearings in which objections to statement of accounts may be heard and if required, appropriate action may be taken.

The accounts of the District Government are prepared by the District Accounts Officer (DAO). However, the primary accounting record is kept by the Drawing and Disbursing Officers (DDO) within each executive department. Monthly Accounts of the District Government, prepared by DAO are in fact preliminary accounts prepared to provide available information as early as possible and to initiate the reconciliation process. Annual Accounts of the District Government are certified by the Auditor-General of Pakistan.

The receipts and expenditure details about each department are to be reconciled/ confirmed by the department with the DAO. This exercise is initiated at DDO level, who compiles an informal account and cashbook of the transactions. The reconciliation/ confirmation of monthly transactions are a continuous exercise to get an accurate and error-free picture of the District Government budget implementation. The exercise is coordinated and supervised by concerned EDOs, in respect of receipts and expenditure for which they are responsible.

## **2.2 Monthly Financial Reports**

The District Accounts Officer (DAO) prepares the monthly accounts of the District Government on the prescribed format as per Local Government Accounts Manual, 2003 and provides it to the Executive District Officers. The EDO (F&P) places a copy of the monthly accounts on designated public places, as soon as these accounts are received, under intimation to the Secretary, Zilla Accounts Committee, to invite reactions of the people at large, and also provides a copy to the press.

As per the Local Government Accounts Manual, 2003, the monthly accounting information is to be provided in the following forms:

1. Overall Abstract of Accounts (Summary)
2. Monthly Accounts - Receipts
3. Summary Monthly Account - By Function
4. Summary Monthly Account - By Grant
5. Monthly Account - Public Account
6. Monthly Appropriation Account of Expenditure
7. Monthly Appropriation Account - Development Expenditure

The information contained in some of these forms is described in the following paragraphs. The ZAC's role is to review these accounts to ensure efficient use of public funds.

### **Overall Abstract of Accounts**

This information is provided in the Form LA 44. The main purpose of this statement is to provide a summary of all receipts and expenditures. It is essentially a summary-level movement, a top sheet, of the funds held by the district administration, starting from the Opening Balance

taking into account receipts and expenditures all the way down to the Closing Balance. The segregation for receipts is as follows:

1. Receipts in Local Government Fund: these are receipts received for the purpose of the District Government's affairs including receipts from own income sources and receipts from Provincial Governments.
2. Receipts in Public Account: Receipts into accounts held in trust for other parties e.g. amounts held in Employee Provident Funds.

The segregation for expenditures is as follows:

1. Expenditures from Local Government Fund:
  - a) Current Expenditure: The expenditures necessary to support the current level of the District Government's service
  - b) Development Expenditure: Expenditures on schemes/projects that will improve the service delivery capacity of the District Government.
2. Expenditures from Public Account

### **Monthly Account - Receipts**

This is a useful revenue-monitoring tool that can be used in the evaluation of the revenue recovery functions of the District Government. This statement provides a comparison for every receipt head such as Toll on Roads, of the budgeted amount for the entire year against the amount received in all the previous months of the current year, the amount received in the current month and the cumulative (progressive) amount received.

### **Summary Monthly Account - By Function**

This statement is useful in function-wise monitoring of expenditures made. It plots down every function head along with every associated grant therein and provides a comparison of the budgeted expenditure with all the previous months' (in the current financial year) cumulative expenditure and the Current Month's expenditure.

### **Summary Monthly Account - By Grant**

This information can be used in grant-wise monitoring of expenditures made. It plots down every grant head along with every function using that grant and provides a comparison of the budgeted expenditure with the previous months' (in the current financial year) cumulative expenditure and the Current Month's expenditure.

### **Monthly Appropriation Account of Expenditure**

This information provides an object-wise "drill-down" view of "Summary of Monthly Account-by Function". It plots down for each detailed function code the object heads down to the most detailed level e.g. Basic Pay of Officers. For these heads the statement provides the annual budgeted expenditure, previous months' cumulative budgeted expenditure and the current month's budgeted expenditure. Against these categories the statement provides the previous months' cumulative actual expenditure and the current month's actual expenditure.

## **2.3 Annual Financial Reports**

There are two financial reports, which are to be prepared as per the Local Government Accounts Manual 2003. These reports are:

- Annual Appropriation Account
- Annual Finance Account

The Annual Appropriation Account is an expenditure account only for each grant. It provides the allocated amount for each function head and the actual expenditure incurred against that function head under a grant for the whole year, and the savings or excess expenditure incurred against the each head as well as the grant. The Appropriation Accounts are certified by the Auditor-General of Pakistan before their submission to the Zilla Accounts Committee. The Appropriation Account is an effective medium of control and accountability of the District Government in the budget implementation and management.

An Annual Finance Account is to be prepared by the District Accounts Officer under the Local Government Accounts Manual 2003. However, presently the Finance Account is not being compiled and submitted to the ZAC.

## **SECTION 3 AUDITING**

### **3.1 External Auditing**

According to Section 115(1) of the Local Government Ordinance (LGO) 2001, the Auditor-General of Pakistan shall, on the basis of such audit as he may consider appropriate or necessary, certify the accounts compiled and prepared by the respective accounts officials of the District Government for each financial year, showing under the respective heads the annual receipts and disbursements. In terms of Section 115(4) of LGO 2001, the Auditor-General of Pakistan is to conduct the audit of District Fund and Public Account. The audit reports are submitted to the Governor for transmittal to the District Nazim who shall cause them to be laid before the Zilla Council.

#### **Certification Audit**

Certification Audit provides assurance that the District Government Annual Accounts are true and fair. In simpler words, this means that all figures are correct and can be relied upon by the readers of the accounts to reflect truthfully the financial state of affairs of the District Government during the year and at the year-end.

#### **Regularity Audit to Evaluate Compliance with Applicable Regulatory Framework**

Regularity Audit seeks to evaluate whether the rules applicable to District Government's receipts or expenditures have been complied with. These rules include the General Financial Rules (GFR), Treasury Rules (TR), Local Government Accounts Manual (LGAM), Local Government Ordinance (LGO), Provincial Government Budget Rules for Local Governments and other relevant notifications. The audit report contains audit observations commonly called "audit paras" to point out the instances of non-compliance of relevant rules or regulations.

## **Performance Audit**

Performance Audit or Value for Money Audit is a comprehensive framework for evaluating the performance of an organization or project. The framework requires the consideration of the following:-

- a. **Economy:** implies the acquisition of resources at the competitive lowest cost to the District Government's service delivery mechanism without compromising the requisite quality of inputs required. Inputs may include labor, supplies and buildings. For example, the economical use of funds would mean the procurement of machinery of certain specification at the lowest possible rates.
- b. **Efficiency:** implies the maximization of outputs per input unit. For example, one of the outputs of the District Government is the building of roads. An input for this is contractor's effort. A basis of measurement for the contractor's efforts would be contractor fee. Efficient use of funds in this case would be the maximization of length of road build per thousand rupees of contractor fee.
- c. **Effectiveness:** implies that outputs of the service delivery process achieve their objectives. An example of this is the ability of the roads built to provide adequate transportation ease to local residents. If roads built are of a poor quality there may be an output (i.e. a built road) however the road was ineffective in achieving its objective of facilitating transportation of local residents.

## **3.2 Internal Audit**

In terms of Section 115A of LGO 2001, the Nazim of District Government shall appoint an Internal Auditor as may be prescribed. Internal Audit shall be an independent, objective assurance consulting activity designed to add value and improve District Government's operations. The Internal Auditor shall serve as a principal support person by providing information to Zilla Nazim and members of Zilla Council on District Government's performance.

The Internal Auditor is primarily responsible to the Zilla Nazim and acts as his eyes and ears in relation to service delivery by the District Government. The Internal Auditor's responsibility is to investigate specific areas of attention and to report as to how the working of the District Government could be improved. His audit covers the following three issues:

1. Risk Management
2. Internal Controls
3. Governance

At present, the internal audit function has not been fully developed in most District Governments.

## **SECTION 4     AUDIT PROCESS**

In order to review audit reports prepared by the Auditor-General of Pakistan, it is important to understand the basic steps of audit process, which are described as under:

### **Audit Observation**

Audit observation is issued by the audit team when it notices an irregularity/violation of rule etc. The observation is addressed to the auditee organization. The auditee organization is given opportunity to respond to the audit observations and discuss replies with audit team. If compliance to the audit observations has been made and the audit team is satisfied, the observation is settled. For example, if recovery of overpayment etc. has been made and evidence is shown to audit.

### **Audit and Inspection Report (AIR)**

The audit observations which have not been complied with or their compliance is in process, all these observations are made part of the Audit and Inspection Report (AIR) and the observations are converted into paras. The AIR has two parts:

- Part-A: Title of paras of previous/past years AIRs
- Part-B: Audit paras of AIR of year(s) of which audit has been conducted/observation issued.

The AIR is issued by the head of audit team to the PAO/DAO as the case may be, with endorsement to the respective auditee offices/projects for replies/compliance within the stipulated time.

### **Draft Audit Report**

The paras of the AIR which are of substantial nature and involve systemic issues are included in the Draft Audit Report (DAR) of the Department. The DAR is issued to the PAO/DAO for replies/compliance within in stipulated time and to hold a meeting of Departmental Accounts Committee (DAC). This provides another opportunity to the auditee to present their point of view on issues raised by the audit.

### **Finalization of Consolidated Draft Audit Report**

In the light of recommendations/ decisions of the Departmental Accounts Committee, a consolidated Draft Audit Report comprising all Departments of the District Government is finalized.

### **Submission of Audit Report**

The Auditor-General of Pakistan submits the Audit Report duly signed by him to the Governor for transmittal to the Zilla Nazim who causes them to be laid before the Zilla Council.

## **SECTION 5    ZAC REVIEW**

### **5.1    Status of Accounts**

The Certified Annual Appropriation Accounts of a District Government are submitted by the Auditor-General of Pakistan to the Governor of the Province, who forwards these to the Zilla Nazim. The Nazim transmits these Certified Appropriation Accounts to the Zilla Accounts Committee. There is a possibility that the certified appropriation accounts have been given an unqualified certificate, or they may be qualified or disclaimed by the Auditor-General of Pakistan.

#### **Disclaimer or Qualified**

A disclaimer in relation to the accounts means that the Auditor has examined the accounts but was not in a position to state if these were true and fair. A qualification, in relation to the accounts means that the accounts have been examined but there was a deficiency as indicated in the certificate. A disclaimer therefore means that the accounts were not true and fair; whereas a qualification means that there was some deficiency that needs to be removed before the accounts become acceptable.

If the accounts of the District Government have been disclaimed or some qualification has been recorded, it indicates that the accounts have not been maintained properly. This is a serious situation as a set of accounts which is not true and fair cannot be relied upon.

#### **Unqualified**

If the Appropriation Accounts of the District are certified to be true and fair, it means that the accounts are arithmetically correct and are reconciled between the DAO and the District Government. If this is the case, the Zilla Accounts Committee should start its examination process and proceed with the review of the accounts. The usual practice is to review all the grants managed by a Department. For instance, if EDO (Health) is managing four grants, the committee should review expenditure for each of the four grants, one at a time.

### **5.2    Review of Appropriation Accounts**

In the District's Certified Appropriation Accounts, each grant is independent of the other and should be reviewed as such. For instance, a revenue grant for primary education is independent of the development grant for the same service, and the two should not be mixed with each other. This is because of the fact that each grant has been separately authorized by the Zilla Council.

There are three possibilities that may arise for each grant and each situation has to be dealt with differently.

#### **Actual expenditure is equal to budgeted expenditure as per the grant**

If the actual expenditure incurred by a department is equal to its grant allocation, no corrective measure is required to be taken by the committee.

### **Actual expenditure is less than budgeted expenditure as per the grant**

In case the actual expenditure is less than the grant allocation and there has been saving in the grant, the ZAC has to satisfy itself as to why the management failed to anticipate the savings and take corrective measures in time (there were always two options available; either to accelerate the rate of spending or to surrender the expected surplus to the District Government for utilization elsewhere) If the Committee feels that the savings under a grant were material; it could ask for a detailed investigation to examine the viewpoint of the Department concerned and come up to a conclusion, based on facts and the options available. The main emphasis in this exercise should be on the futurity and not on the past. This means that the ZAC should explore what institutional measures are necessary to ensure that there is better utilization of funds in future years.

There may be cases where a grant has been managed in a manner that while there is an overall saving, there is excess expenditure under certain heads of accounts, which has been compensated by corresponding savings under certain other heads within the same grant. This condition also indicates mismanagement of funds and should be examined in appropriate depth by the ZAC, and if the regulatory controls necessitate approval from a higher authority, the Department should be asked to get ex-post facto<sup>1</sup> regularization. The idea is to ensure that lapses do not occur in future.

### **Actual expenditure exceeds budgeted expenditure as per the grant**

In case actual expenditure is in excess of the budgeted expenditure as per the grant, it is a serious case of administrative lapse, as only the Zilla Council through a formal vote can regularize it. If a case of excess expenditure occurs, the District Government should prepare a self-contained proposal for regularizing the expenditure by the District Council. The proposal should also include the finding of the Zilla Account Committee and the directives issued by it to ensure that such a lapse does not recur in future.

The ZAC, after it has completed the examination of annual expenditure for the grants for the year, shall prepare a self-contained report for submission to the Zilla Council, discussing therein the overall implementation of the budget, the areas of attention, rectifying actions taken and the approvals required by the Council.

## **5.3 Review of Monthly Accounts**

The monthly accounts are required to be provided by the DAO to the EDO (F&P). The EDO (F&P) in turn is responsible for:

- a) Placing them on the designated notice boards for public information
- b) Informing the local press of the accounts' basic features;
- c) Providing the accounts to the ZAC secretariat for review; and
- d) Coordinating the reconciliation of the DAO's Accounts with other EDOs.

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<sup>1</sup> the ex-post facto approval is an approval issued to regularize an act of omission/commission that has already been performed to ensure that such lapses do not occur in future

The ZAC Secretariat should notify the meeting of the committee, with the prior approval of the Chairperson, as soon as accounts are received and placed on the notice board. The meeting should be given due publicity and should be open to public. Following are some of the issues that can be looked in to by the ZAC while reviewing the monthly accounts.

### **Collection of Receipts against the Budget**

The Zilla Council, while approving the annual expenditure budget of the District Government also approves its source of financing. It is important that the budgeted receipts are not only collected in full but also in a timely manner, so that the expenditure of the government is not constrained because of this bottleneck. Monthly monitoring of receipts of the District Government, by an independent overseeing agency is therefore an essential tool of management.

Once the council approves the resource budget, EDO (F&P) prepares a month-wise sheet of receipts projections, with the help of other EDOs, to ensure monitoring of actual collections. EDO (F&P) should submit a copy of the above projections to the ZAC which should be used by the Committee as criteria against which actual receipt collections are to be matched each month.

The ZAC, on receiving each month's receipt accounts, should compare the progressive actual receipts under each major head with the projected receipts, and if there is a variation, seek an explanation from the EDOs concerned. The ZAC should also discuss if the explanation of the department was satisfactory and if the department was making adequate efforts to raise the District Government's receipts.

The ZAC in its report to the Zilla Council should comment on this aspect and express an opinion as to whether the variation between actual and projected receipts is within an acceptable limit or beyond a reasonable limit. If the variation is beyond a reasonable limit, the Committee should comment on the adequacy of efforts made by the District Government to avoid receipt shortfalls below projections for future months.

### **Expenditure (Aggregate as well as for each Grant) Against the Budget**

The expenditure cycle also follows a similar pattern. Each EDO prepares a projected expenditure profile of the grants placed at his disposal, and communicates it to the EDO (F&P) who prepares a consolidated statement of projected expenditure of the District Government.

This expenditure profile contains a comparative statement showing the projected expenditure, the actual expenditure and the variation under each grant for each month. The ZAC should examine the comparative statements and identify if there are any major variations. This exercise is very useful especially in monitoring the implementation of development projects and major procurements. If the funds have not been used fully during the month, there is a cause for concern, which the ZAC should investigate with the help of EDO concerned. It is up to the ZAC to ensure that there are no unnecessary procedural hold-ups in the execution of the projects and delivery of services.

If the actual expenditure under a grant or a head of account is above the budget or projected estimates, the ZAC will need to examine the causes of such overspending in depth and to instruct the concerned EDOs plan to take remedial measures.

The ZAC in its report to the Zilla Council, should comment on the flow of expenditure on the approved heads and specify the lapses or areas of attention. This would provide feedback to the District Government and an assurance that the budget is being managed satisfactorily. It would also help the District Government in diverting its available resources to areas where these can be gainfully employed and to avoid a lapse of funds at the end of the year. As part of the above activities, the Zilla Council members would also be able to better understand the problems being faced by the District Government.

### **Reconciliation of Receipts and Expenditure**

The ZAC should also monitor reconciliation of monthly receipts and expenditure by the concerned EDOs with the DAO. The reconciliation between the two agencies is important as it provides the basis for accurate and reliable accounting information.

## **5.4 Review of External Audit Reports**

### **Process with Regard to Audit Reports**

According to Punjab Local Governments (Accounts) Rules 2008 the Zilla Accounts Committees have been entrusted with the responsibility to review the audit and accounts reports of their respective District Government. Once the audit reports have been received by the ZAC, it has to ensure preparation of annotations of the audit reports by the concerned officers of the Local Council and its submission to the concerned authorities after observing prescribed formalities; and hold public hearings in which objections to statement of accounts shall be heard; and internal and external audit reports shall be discussed for appropriate action.

External audit reports or the audit report of the Auditor General of Pakistan discuss the exceptions or deviations made by the District Government as noticed by auditors, during their scrutiny of official records. Relevant extracts of the compliance audit report, when received, should be sent to the concerned EDOs for written comments by a certain date, by the ZAC secretariat, with the approval of the Chairman, indicating the probable date of the hearing.

The annotated reply of audit reports should be prepared and sent to quarters concerned by the Departmental Accounting Officers. The ZAC should have the explanation/comments of the concerned officer/official on the audit objection and after considering the view point of the general public, the audit objection/observation regarding procedural lapses is to be decided by the Zilla Accounts Committee and the remaining observations/objections along with explanation of the officer concerned, view point of general public and its own recommendations are to be forwarded to the Zilla Council concerned for consideration and further action, The Zilla Council shall discuss and review the annual accounts and audit reports along with viewpoint of general public and comments of ZAC in its meeting and;

- settle the objection; or
- take such measures as are considered necessary for speedy disposal of audit objections and recovery of amount of loss caused to the Local Government concerned by its member or a functionary of a Local council or any other person charged with the administration of the affairs of a Local Government.

The ZAC shall not drop an Audit objection without ensuring the completion of record or satisfying that its completion is not possible and that no financial loss is involved in it. If the ZAC finds that Nazim or a member of Council or official/officer of District Government is responsible for financial loss, misappropriation of funds or property belonging to the District Government, the ZAC after thorough investigation shall direct the person responsible to make good such loss within a period of one month.

## **Case Studies – Audit Paras**

### **Para 01 Irregular Drawal of House Rent Allowance – Rs 782,476/-**

According to Rule 2.31 of PFR Vol-I, drawer of a bill for pay allowances, contingent and other expenses will be held responsible for any overcharging, fraud and misappropriation.

During audit of accounts of District Officer (Health), scrutiny of record revealed that there were twenty eighty Basic Health Units in Tehsil XYZ in which designated residences of Medical Officers and Dispensers were available. However, the staff posted in these BHUs was drawing house rent. This resulted into irregular payment of Rs 782,476/- during F.Y 2005-06 which needs to be recovered.

#### **Departmental Reply**

The matter was reported to District Officer (Health). However the department did not respond to the observation.

#### **Further Audit Comments**

Audit recommends the recovery of amount and disciplinary action against the persons at fault under intimation to audit.

The DAC meeting held on 18-09-2008 directed to recover the amount from concerned officials. The department has not intimated the audit about the recovery till finalization of audit report.

### **Para 02 Irregular Expenditure Beyond Competency – Rs 843,370/-**

According to Delegation of Financial Powers 2006, Special Rules of Health Department Sr. No. 2 (iii), Officer in category II can sanction expenditure up to Rs 50,000/- at a time for purchase of local medicines.

During audit of the accounts of Health Department scrutiny of record revealed that Medical Superintendent Tehsil Headquarter Hospital XYZ spent an amount of Rs 843,370/- on account of local purchase of medicines through various bills exceeding Rs 50,000/- without obtaining sanction from competent authority.

#### **Departmental Reply**

Purchase of medicines was made in the best interest of patients after observing all codal formalities.

#### **Further Audit Comments**

The departmental reply is not cogent as expenditure was incurred without obtaining sanction of competent authority. Audit recommends departmental action against the DDO for sanctioning expenditure beyond delegated financial powers under intimation to audit.

The DAC directed to observe all rules and regulations in procurement of medicines in future, and get ex post facto approval of competent authority for purchases made beyond the delegated financial powers.

The ex post facto approval was not intimated to audit till finalization of audit report.

### **Para 03 Irregular Purchase of Medical Instruments Without Open Competition – Rs 412,308/-**

According to Para 7 (i) of Punjab Purchase Manual, Indent of the value exceeding Rs 100,000/- should be advertised in the press.

Contrary to above instructions, during audit of accounts of Medical Superintendent, DHQ Hospital ABC, scrutiny of record revealed that an amount of Rs 412,308/- was spent on account of purchase of medical instruments by calling quotations instead of inviting tenders during F.Y 2005-06. This resulted into irregular expenditure of Rs 412,308/-.

#### **Departmental Reply**

The matter was reported to the concerned DDO. It was replied that purchase was made in emergency due to acute shortage.

#### **Further Audit Comments**

The reply is not tenable as purchase was made in violation of rules. Audit recommends fixing of responsibility and departmental action against person at fault under intimation to audit.

The DAC meeting held on 11-05-2007 agreed that audit observation is correct.

### **Para 04 Irregular Expenditure on Repair of Vehicle by Splitting Sanctions – Rs 286,110/-**

According to Rule 15.2 (c) of Punjab Financial Rules Vol-1, purchase order should not be split up so as to avoid the necessity for obtaining the sanction of higher authority required with reference to the total amount of all orders.

Contrary to above instructions, during audit of accounts of Medical Superintendent THQ Hospital XYZ scrutiny of record revealed that an amount of Rs 286,110/- was spent on account of repair of ambulance by splitting the expenditure into two bills to avoid the sanction of competent authority. This resulted into irregular expenditure of Rs 286,110/-.

#### **Departmental Reply**

The matter was reported to MS THQ Hospital. However, the DDO did not respond to the observation.

#### **Further Audit Comments**

Audit recommends fixing responsibility for splitting the expenditure to avoid the sanction of higher authority and departmental action against the person at fault under intimation to audit.

### **Para 05 Non-forfeiture of Security Deposit due to Short Supply of Furniture – Rs 132,841/-**

According to Rule 16 (iii) (c) Annexure-XX of the Punjab Purchase Manual, if a contractor fails to deliver the stores or any consignment thereof within the period prescribed for such delivery the purchaser shall be entitled to cancel the contract against forfeiture of security.

During audit of accounts of EDO (Education) scrutiny of record revealed that supply order was issued to M/s ABC Furnitures on 14-12-2005 for Rs 1,328,410/-. The firm failed to supply furniture valuing Rs 432,147/-. However, the EDO (Education) neither took any action against the firm e.g. forfeiture of security deposit of Rs 132,841/- and imposing of liquidated damages nor firm was black listed.

**Departmental Reply**

The matter was reported to the DDO concerned. It was replied that supply orders were issued through EDO (Education) who will be requested to take action against the firm.

**Further Audit Comments**

The reply of the department is not cogent as no record in support of reply was produced. Audit recommends that action be taken against concerned officer for non-recovery of liquidated damages, non-forfeiture of security deposit besides black listing the firms under intimation to audit.