PERFORMANCE AUDIT REPORT

ON

PAKISTAN CHEMICAL & ENERGY SECTOR SKILL DEVELOPMENT COMPANY

FOR THE YEARS 2009 - 10 To 2011 - 12

AUDITOR GENERAL OF PAKISTAN

PREFACE

The Auditor General conducts audit as provided under Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with sections 8 and 15 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Performance Audit of Pakistan Chemical & Energy Sector Skill Development Company (PCESSDC), Daharki for the Years 2009-10 to 2011-12 was carried out accordingly.

The Directorate General of Commercial Audit & Evaluation (DG CA&E), Karachi conducted Performance Audit of PCESSDC during April 08, 2013 to May 20, 2013 with a view to report significant findings to stakeholders. Audit examined the economy, efficiency, and effectiveness aspects of the PCESSDC. In addition, Audit also assessed, on test check basis, whether the management complied with applicable laws, rules, and regulations in managing the affairs of PCESSDC. The Audit Report indicates specific actions that, if taken, will help the management realize the objectives. All the observations included in this report have been finalized in the light of discussions in the DAC meeting.

The Performance Audit Report is submitted under Section 10 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 to the President of Pakistan in pursuance of the Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 for causing it to be laid before both Houses of Parliament.

Islamabad
Dated:

Javaid Jehangir
Auditor General of Pakistan

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ABBREVIATIONS AND ACRONYMS

AGP	Auditor General of Pakistan
BoD	Board of Directors
CEO	Chief Executive Officer
DG CA&E	Directorate General of Commercial Audit & Evaluation
GoP	Government of Pakistan
INTOSAI	International Organization of Supreme Audit Institution
LD	Liquidated Damages
MoIP	Ministry of Industries & Production
NAB	National Accountability Bureau
NICL	National Insurance Company Limited
PAO	Principal Accounting Officer
PCESSDC	Pakistan Chemical & Energy Sector Skill Development Company
PEC	Pakistan Engineering Council
PIDC	Pakistan Industrial Development Corporation
PPR	Public Procurement Rules
SOP	Standard Operating Procedure
TTC	Technical Training Centre
UBL	United Bank Limited
VETC	Vocational Education and Training Centre

EXECUTIVE SUMMARY

Directorate General of Commercial Audit & Evaluation, Karachi (DG CA&E) conducted performance audit of Pakistan Chemical & Energy Sector Skill Development Company, Daharki for the years 2009-10 to 2011-12 w.e.f April 08, 2013 to May 20, 2013. The Company was incorporated on January 09, 2009 as a company limited by guarantee, under the Companies Ordinance, 1984. The Company is a subsidiary of Pakistan Industrial Development Corporation Pvt. Ltd. by virtue of having 99% shareholding in the Company.

Its mandate is to provide education & training to rural population in chemical & Energy sector and establishing Vocational education & Training Centres (VTCs) &Technical Training Centres (TTCs) and management schools for industrial development of Pakistan.

On the basis of Performance Audit, certain irregularities were pointed out in the initial draft audit report. The management was afforded reasonable time and opportunity to furnish the replies. The report was finalized in light of recommendation of the Departmental Accounts Committee (DAC).

Key audit findings:

i. Irregular insurance from unauthorized insurance company amounting to Rs. 131.40 million was reported in one case.

ii. Irregular investment of surplus fund amounting to Rs. 80.00 million was reported in one case.

iii. Irregular award of additional work amounting to Rs. 10.91 million was reported in one case.

iv. Excess expenditure amounting to Rs. 70.98 million was reported in one case.

Recommendations:

The management needs to take following steps:

- Make insurance of all its assets from government authorized insurance company i.e. National Insurance Company Limited.
- All investments may be made as per government directives.
- Audit recommends fixing of responsibility upon person(s) at fault for irregular additional work and non- compliance of DAC directives.

1. INTRODUCTION

Pakistan Chemical & Energy Sector Skills Development Company (PCESSDC) was incorporated as a non-profit public-private partnership on January 9, 2009. Its office is situated at Daharki, District Ghotki, Sindh and working under the control of Government of Pakistan Ministry of Production. Its mandate is to promote, facilitate and provide education and training to young and growing rural population in various disciplines of the chemical and energy sector in Pakistan. Its aim was to provide employment and invest in the productivity of locals for industrial development by establishing Vocational Education and Training Centers (VETCs), Technical Training Centers (TTCs) and Management schools. The total project cost was Rs.163.00 million as per PC-I.

PCESSDC focuses on the provision of employment to the young and expanding rural population of Pakistan. It aims to invest in the productivity of the rural community by filling the education gap and equipping graduates with the manufacturing and technical skills required to build a strong industrial economy. PCESSDC's fund donors / partners include Pakistan Industrial Development Corporation (PIDC), Engro Corporation, Mari Gas Company Ltd., Descon Engineering and Saipem Company, Italy.

2. AUDIT OBJECTIVES

The project aims to provide quality technical education by offering three years diploma in the fields of Chemical and Mechanical Technology through establishment of a recognized standard Technical Training Centre (TTC). It also aims for imparting education by providing complete practical training facilities along with suitable faculty. The objectives of the Performance Audit were to:

i. Examining of project performance as against the objectives provided in PC-I

ii. Assess whether project was managed with due regard to economy, efficiency, and effectiveness.

iii. Review compliance with applicable rules, regulations and procedures.

3. AUDIT SCOPE AND METHODOLOGY

The Performance Audit of PCESSDC for the years 2009-10 to 2011-12 was conducted as per following scope and methodology:

i. Examine the functioning of PCESSDC in compliance with rules and regulations.

ii. Check and scrutinize accounting record on random basis for the audit period.

iii. Visit the offices and conduct interviews/meetings with locals, candidates and concerned management of PCESSDC.

iv. Conduct physical examination of assets and other relevant material of the company.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

4.1.1 Irregular insurance from unauthorized insurance company – Rs. 131.40 million

Clause 166 (2a) & (3) of the Insurance Ordinance, 2000 provides that all insurance business relating to any public property, or to any risk or liability appertaining to any public property, shall be placed with the NICL only and shall not be placed with any other insurer.

During Performance Audit of PCESSDC for the years 2009-10 to 2011-12, it was observed that the management got an insurance policy worth Rs.131.40 from unauthorized private company M/s. Jubilee General Insurance Company for the period one year (September, 2012 to September, 2013) instead of NICL in violation of above rule.

Audit was of opinion that undue favour was extended to unauthorized insurance company, which showed weak internal controls in the organization.

The matter was reported to the management in October 2013. DAC meeting was held on February 02, 2014. The management informed the DAC that PCESSDC is registered Under Section 42 of the Companies' Ordinance as a private public partnership Company and not as a government or semi government company. The DAC directed the management that next year insurance will be made from NICL from September 2013. However, during verification no documentary evidence was produced to audit proving insurance was carried from NICL.

Audit recommends implementation of the DAC directives.

4.2 Financial Management

4.2.1 **Irregular investment of surplus fund - Rs. 80.00 million**

According to para No. 03 of the Govt. of Pakistan, Finance Division's letter No. F(1)/2002-BR.II dated July 02, 2003, the process of selection of bank should be transparent in case the total working balances exceed Rs. 10.00 million, selection of bank as well as the terms of deposits would be approved by the BoD on the basis of competitive bids from at least three independent banks.

During Performance Audit of PCESSDC for the years 2009-10 to 2011-12, it was observed that the management invested surplus funds of Rs. 80.00 million in UBL @ 12.50% per annum without obtaining competitive bids from three banks in violation of above rule. The detail is as under:

Sr. No.	Term deposit	As on	Deposit amount (Rs.)	Rate of interest
1	Term deposit for three months	30.06.2011	60,000,000	12.5%
2	Term deposit for three months	30.06.2012	20,000,000	12.5%
	Total		**80,000,000**	**-**

Audit was of view that undue favour was extended to the bank and company was deprived from investment at highest rates, which constituted weak financial management.

The matter was reported to the management in October 2013. DAC meeting was held on February 02, 2014. The management informed the DAC that the investment was made after bidding and approval of the BoD. The DAC settled the Para subject to verification. However, during verification by the audit on April 27, 2014 no documentary evidence was provided to audit by the management to ascertain that bidding was carried out.

Audit recommends fixing responsibility on the person(s) at fault for irregular investment.

4.3 Procurement and Contract Management

4.3.1 Excess expenditure against PC-I - Rs. 70.981 million

According to Clause 7 and 8 of PC-I of PCESSDC, estimated costs of the operation was Rs. 14.00 million, construction cost was Rs. 83.20 million and vehicle cost was Rs. 3.00 million (total Rs. 100.20 million)

During Performance Audit of PCESSDC for the years 2009-10 to 2011-12, it was observed that the management incurred expenditure of Rs. 171.180 million against the approved estimated expenditure of Rs. 100.20 million as per approved PC-I resulting in excess expenditure of Rs. 70.981 million which shows 70.84% increase. The detail is as under:

Particulars	Total cost (Rs. in million)			%-age of increase
	As per PC-I	**Actual cost**	**Increase**	
Salaries	8.000	12.437	4.437	55.46
Non salary expenditure	6.000	15.647	9.647	160.78
Operational Cost	14.000	28.084	14.084	100.60
Land and building cost	83.199	138.748	55.549	66.77
Vehicles cost	3.000	4.348	1.348	44.93
Grand total	**100.199**	**171.180**	**70.981**	**70.84**

Audit was of view that excess expenditure was incurred due to poor planning and financial controls.

The matter was reported to the management in October 2013. DAC meeting was held on February 02, 2014. The management informed the DAC that reasons of the excess expenditure was inflation as PC-I was approved in 2008 and expenditure was incurred in 2011. The DAC showed dissatisfaction and directed the management to issue warning to persons at fault and take up matter with Govt. of Pakistan, Planning Commission through MoIP for revision/regularization. However, no progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

4.4 Construction and Works

4.4.1 Irregular award of additional work - Rs. 10.91 million

As per Rule 23(3) and 42(c) (iv) of PPR – 2004, where notification of such change, addition, modification or deletion becomes essential, such notification shall be made in a manner similar to the original advertisement and repeat orders not exceeding fifteen per cent of the original procurement.

During Performance Audit of PCESSDC for the years 2009-10 to 2011-12, it was observed that the management awarded contract of Rs. 47.00 million to M/s. Sattar & Company for construction of building. Later on, two additional work orders worth Rs. 10.91million (Rs. 5.99 & Rs. 4.91 million i.e. 23.01%) for the same work were issued without advertisement in violation of above rule. The detail is as under.

Particulars	**Amount of Additional Work (Rs.)**
Change order No. 01, dated 24.05.2011	5,994,211
Change order No. 02, dated 25.01.2012	4,913,669
Total	**10,907,880**

Audit was of view that undue favor was extended to the contractor and the organization was deprived of work at most competitive and economical rates.

The matter was reported to the management in October 2013. DAC meeting was held on February 02, 2014. The management informed the DAC that it was not an additional work as there were few mistakes in the BOQs, which were rectified to improve the design of the building. The DAC settled the Para subject to verification. However during verification by the audit on April 27, 2014, it was observed that the work was additional instead of mistakes in the BoQ.

Audit recommends fixing responsibility on the pe on(s) at fault for irregular additional work.

4.5 Monitoring and Evaluation

4.5.1 Non reporting of contract to NAB - Rs. 57.91 million

According to Clause 33-B of NAB Ordinance 1999, all Ministries, Divisions and Attached Departments of the Federal Government, all departments of Provincial and local governments, statutory corporations or authorities established by the Federal Government or Provincial Government and holders of public office shall furnish to NAB a copy of any contract, as the case may be, of the minimum monetary value of fifty million rupees or more, within such time as is reasonably practicable from the date of signing such contract.

During Performance Audit of PCESSDC for the years 2009-10 to 2011-12, it was observed that the management awarded a contract of building construction to M/s. Sattar & Company and paid Rs. 57.91 million, but a copy of contract was not furnished to NAB in violation of above rule.

Audit is of the view that non submission of copy of the contract to NAB authorities was irregular and chances of financial mismanagement could not be ruled out.

The matter was reported to the management in October 2013. DAC meeting was held on February 02, 2014. The management informed the DAC that Clause 33-B of NAB ordinance 1999 does not apply on PCESSDC directed the management to provide the copy of agreement to NAB authorities under intimation to audit. However during verification by the audit on April 27, 2014, no documentary evidence was produced to the audit that DAC directive was complied.

Audit recommends fixing responsibility on the person(s) at fault for non-reporting of contract to NAB.

4.5.2 Non achievement of target due to poor performance

Under the provision of annexure VII of PC-I of PCESSDC at serial No.11 (b), total 100 students were required to be trained each year in the Diploma of Associate Engineers (Mechanical) & (Chemical).

During the Performance audit of PCESSDC for the years 2009-10 to 2011-12, it was observed the management admitted only 121 students during two years (2009-10 to 2011-12) against target of 200 students resulting into 40% less admissions in violation of PC-1 (**Annex- 1).**

Audit is of the view that the management failed to achieve its targets due to negligence and poor operational control.

The matter was reported to the management in October 2013. DAC meeting was held on February 02, 2014. The management informed the DAC that out of 504 applicants, only 17 qualified but total 60 students were admitted including 43 failures. The DAC showed dissatisfaction and directed the management to issue warning to persons at fault for poor planning and take up matter with Planning Commission through MoIP for revision. However, no progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

4.5.3 Unauthorized excess fee collection - Rs. 17.90 million

According to Annex VII of PC-I of PCESSDC, monthly tuition fee should be Rs.1,000 per student and fixed fee of Rs. 725 for one time. The fee will remain unchanged up to two years (i.e. 2011-12 to 2012-13).

During Performance audit of PCESSDC , for the years 2009-10 to 2011-12 it was observed that the management collected Rs. 21.72 million on account of monthly tuition fee including accommodation @ Rs.10,000 per student along with non-refundable admissions fee of Rs. 5000 and development fund fee of Rs. 2000/. The management collected Rs 21.72 million against prescribed fee of Rs 3.818 million causing excess collection of Rs17.90 million in violation of PC-I **(Annex- 2).**

Audit was of view that the management un-authorizedly collected excess fee amounting to Rs. 17.90 million from poor students which was loss to the students.

The matter was reported to the management in October 2013. DAC meeting was held on February 02, 2014. The management informed the DAC that PC-I was approved in 2008 whereas, the college was started in 2010 and revised fee plan was approved by the BoD. The DAC showed dissatisfaction and directed the management to issue warning to persons at fault and take up matter with Govt. of Pakistan, Planning Commission through MoIP for revision. However, no progress was reported till finalization of this report.

Audit recommends fixing responsibility on person(s) at fault for excess fee collection and non-compliance of the DAC directives.

5. CONCLUSION

5.1 key Issues for the Future:

i. The financial viability of PCESSDC depends on the donations, if the donations are not received from the donor agencies continuously in future, the viability of the project will be at risk.

ii. Fee collected under various courses was beyond approved PC-I; resultantly poor candidates' rural area could not get admission.

5.2 Lessons Identified:

i. Though teaching environment at PCESSDC is in accordance with standards required for technical activity but over all achievement of students remained 60.5% due to high fees.

ii. The project was not completed as per schedule of PC-I resultantly expenditure was increased and therefore, approval of revised PC-I be sought from Planning Commission for regularization of expenditure..

ACKNOWLEDGEMENT

We wish to express our appreciation to the management and staff of PCESSDC for the assistance and cooperation extended to the auditors during this assignment.

Annexes

<u>Annex-1</u>
(See Para No. 4.5.2)

Statement Showing the detail of Non-achievement of Targets of no. of Students Trained

Year - 01 (2011)			
Courses	**No. of students as per PC-I**	**Actual students**	**Achievement in %**
Diploma of Associate Engineers (Mechanical)	50	30	60
Diploma of Associate Engineers (Chemical)	50	30	60
Total	**100**	60	**60**
Year - 02 (2012			
Diploma of Associate Engineers (Mechanical)	100	61	61
Diploma of Associate Engineers (Chemical)	100	60	60
Total	**200**	**121**	**60.5**

Annex-2

(See Para No.4.5.3)

Statement Showing the detail of Excess Fee collection

(Amount in Rs.)

Courses	No. of students as per PC-I	Actual students	Estimated fee for the year	Actual fee
Year - 01 (2011-12)				
Diploma of Associate Engineers (Mechanical)	50	30	(50x1000x12)=600,000 (50x725)= 36,250 636,250	3,600,000
Diploma of Associate Engineers (Chemical)	50	30	(50x1000x12)=600,000 (50x725)= 36,250 636,250	3,600,000
Total	**100**	**60**	**1,272,500**	**7,200,000**
Year - 02 (2012-13)				
Diploma of Associate Engineers (Mechanical)	100	61	(100x1000x12)=1,200,000 (100x725)= 72,500 1,272,500	7,200,000
Diploma of Associate Engineers (Chemical)	100	60	(100x1000x12)=1,200,000 (100x725)= 72,500 1,272,500	7,320,000
Total	**200**	**121**	**2,545,000**	**14,520,000**
Grand total	**300**	**181**	**3,817,500**	**21,720,000**

Rs. 3,817,500 – 21,720,000 = 17,902,000/-