



## Winter Exam-2024

### Solutions – Performance Auditing (Application)

**Q.1. Referred to Chapter-4 and Annexure-F of Performance Audit Manual of Department of the Auditor General of Pakistan (DoAGP)**

**Name of Field Audit Office**

Director General Audit-Commercial

Government of Pakistan

**Subject Area to be covered.**

- Bulk Procurement of Oil from abroad
- Distribution of Oil, and other products,
- Inventory Management (Oil product and others)
- HRD, and Reservoirs located at different places in PSOCL by the respective Terminal(s)/Depots.

**Theme**

Theme is Procurement, Inventory management, distribution of oil product and HRD and Sub theme is its departments where these matters are related to.

**Back ground of the subject.**

Being an State Owned Entity it is the prime responsibility of the company to reserve the stock at least for a period of 02 months or more for the country need and particularly for the defense purpose. The company also to monitor the inventory of oil and other products as well.

**Some basic facts materiality and risk areas.**

The material is generally imported from abroad in bulk quantity on which huge foreign exchange consumed. The procurement of some important materials like oil products along with quantity and price during last five years will be examined in Performance Audit. There is strong need to evaluate the procurement procedure especially with reference to Public Procurement and other relevant government rules. Mostly material is procured from abroad while some time material is procured from local market as spot purchases.

**Executive Departments involved.**

The raw material is procured by the respective departments of Pakistan State Oil by adopting prescribed procedure and Finance Department, Inspection Department, Insurance Department, Store Department and Secretariat of BOD are also involved.

**Reasons for selecting the theme.**

The above mentioned departments are selected keeping in view its importance. These departments procure the raw material in bulk quantity for further distribution to the retail outlets. As regards HRD and the reservoirs these also perform key role in the PSOCL.

**Potential risks if the theme is not selected.**

- The departments are to be checked whether they are working within the prescribed manual/Standard Operating Procedure (SOPs) made for the purpose
- Whether the tendering process is not delayed
- The oil reservoirs are in healthy condition and are supplying frequently to the oil installations/depots for further transportation to the retail outlets
- The inventory control and physical safeguard are being properly monitored
- The quality of procured item is not of an appropriate standard

**Objective, Scope and approach of SAI's audit.**

- A review of Economy, efficiency and effectiveness of selected departments of Pakistan State Oil whether public procurement and inventory management process and laid down rules / regulations are effective and efficient. Ensure that the procurement made economic a land in fair and transparent manner.
- Determine the factors responsible for the failure /delay in supply of material in time.
- Risk management strategies adopted by the organization in the departments.
- Examine/evaluate the contracts/agreements signed for various purposes.



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#### Audit Criteria

- Procurements and distribution of oil product from oil installations located in different areas and to analysis the discrepancies and anomalies arrived at in appointment and promotion in HRD.
- Storage of oil product in reservoirs and to examine whether any dumping and storage of petroleum products are being carried out in the company.
- Price management
- Financial controls and accounting system of the department concerned
- Evaluation of the overall performance of the selected department

**Q.2.** 2.33 and 2.34 of Performance Audit Manual of Department of the Auditor General of Pakistan (DAGP)

#### **Q.3. Audit Objectives**

Major objectives of the audit:

- Examine that the objective of wheat procurement policy have been met effectively.
- Get assurance that FD has done procurement according to the wheat policy for the FY under audit, and that complete transparency was ensured during procurement.
- Check that the wheat procured is properly stored and wastage from pests, moisture and other environmental hazard is minimized.
- Ensure transportation charges from Wheat Procurement Centers (WPCs) to Government storage and to mills are according to Public Procurement Regulatory Authority rules, checking their mileage with reference to wheat stores.
- Verify whether release of wheat to flour mills (District-wise/Regions-wise) has been done as per allocation of the policy.

#### **Audit Scope and Methodology**

- The auditors should examine the procurement, transportation and storage of wheat, procurement of bardana (gunny bags) and tarpaulins and Financial Management of the Food Department.
- The auditors should select the main RDs as a sample because they are responsible for major operations.
- The auditors should check the record of randomly selected sampled areas for the period under audit
- The auditors should visit the selected (sampled) RDs for interviewing key personnel (Deputy Director, District Food Controllers, Assistant Food Controller, etc.).
- The auditors should review important documents (Physical Verification Reports, Complaints Register, etc.) of the Food Department.
- The auditors during the file review should use a sample of 10-12% of the available data for physical examination and photocopied as evidence from 3 to 5 percent of the same record for evidence.

#### **Audit Findings and Recommendations**

##### **Findings**

- Achievements of the Program
- Human Resource Management at Grassroots Level
- Information Management
- Procurement of Gunny Bags
- Bardana (gunny bags) Distribution
- Physical Verification System of the Department
- Control over Incidental Expenses and Subsidy
- Poor Working Environments
- Security of Storage Godowns



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- Damaged and Disputed Wheat
- Non Functional Storage Capacity
- Transportation Function
- Releases of Wheat

#### Recommendations

- The Department to improve its information management by shifting over to computerization.
- Department should improve the management of its Wheat Procurement Centers (WPCs) by hiring qualified WPC Incharges, deploying appropriate number of persons at each center so that duties can be segregated for effective internal control.
- Department should take action to secure the storage godowns. .
- Department should take serious action for minimizing the losses.
- Non-availability of the existing capacity was compelling the Department to hire more space which could be reduced by making the existing capacity functional
- The Department needs to strengthen its controls and accountability of the store in-charge and those of the transporter.
- The Department should review its policy of supplying bags and managing its inventory.
- Independent survey to ensure least price for the jut bags should be carried out.

#### Q.4. Refer to Chapters 11 and 13 of Performance Audit Manual of Department of the Auditor General of Pakistan (DAGP)

Major objectives of the audit were as follows:

1. Examine that the objectives establishing EPZs have been met effectively.
2. Examine that the formulated policies are conducive of increase in investments in EPZs.
3. Check that Allotment of plots is done in a fair and objective manner to the genuine investor.
4. Ensure that the EPZA is providing environment conducive for export oriented investment activities.

#### AUDIT SCOPE AND METHODOLOGY

1. The auditors examined the functioning of EPZA in managing EPZs wherein export oriented activities are undertaken in the manufacturing, processing, assembly and service sectors. There are eight EPZs namely, Karachi, Risalpur, Sialkot, Saindak, Tuwairqi, Duddar, Gujranwala and Gawadar Export Processing Zones. Keeping in view the time and resources available for audit the auditors selected the EPZA main office and one zone that is KEPZ as a sample because major work of allotment of units is being done in this zone.
2. The auditors checked the record of randomly selected sampled areas for the period starting from July 2008 to June 2010.
3. The auditors visited the selected (sampled) EPZs for interviewing key personnel (Directors, General Managers, Managers, etc.).
4. The auditors reviewed important documents (Accounting data, Units allotment files, etc.) of the EPZA.
5. During the file review the auditors used a sample of 10-12% of the available data for physical examination and photocopied as evidence from 1.5 to 2 percent of the same record for evidence.

#### ISSUES TO BE HILIGHTED DURING AUDIT

1. The audit observed enhancement in the completion of cost of phase II of KEPZ, and delays in the completion of water supply and firefighting networks. Non Installation of effluent plant in KEPZ was also highlighted by the audit team.
2. The audit also highlighted need for greater efforts to improve the hygiene and cleanliness of surroundings, by managing disposal of garbage and waste in addition to covering of sewerage lines and manholes. Need to clear the sites dumped with wasted cloth was also identified by audit.



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3. The Facilitation Branch of EPZA is responsible to manage the working of units which are allotted plots in zones. Audit have identified that a number of units in KEPZ are not performing as per their planned feasibilities. Short or non- utilization of the raw material imported without tariff a inputs in the export products was also examined and reported by audit.
4. The audit has also observed grievances of the units with regard to policy making of the Government of Pakistan. These units solicit greater stability in incentives being awarded to the units over time.
5. The audit has suggested improving financial management in EPZA by finalizing previous years annual accounts and getting them audited and approved by the management.

**Q.5.**

	2023	2022	% increase
Shareholders' Equity	216,560	215,649	0.42
Non-Current Assets	60,047	53,624	11.98
Current Assets	923,349	845,830	9.16
Non-Current Liabilities	18,491	16,548	11.74
Current Liabilities	748,345	667,258	12.15

As of June 30, 2023, variation as compared to June 30, 2022 is as follows:

- Shareholders' equity increased by 0.42% primarily due to profit retained during the year.
- Non-current assets increased by 11.98% mainly due to additions in property, plant & equipment and increase in deferred tax asset due to imposition of super tax.
- Current assets increased by 9.16% primarily due to increase in trade debts on account of increase in receivables from SNGPL.
- Increase in non-current liabilities by 11.74% mainly due to increase in retirement & other service benefits and lease liability.
- Increase in current liabilities by 12.15% mainly due to increase in short-term borrowings to finance working capital needs

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