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# Report on Pre Award Assessment of National Highway Authority (NHA)

December 2012

**Ernst & Young Ford Rhodes Sidat Hyder  
Pre Award Assessment of the  
National Highway Authority (NHA)  
December 2012**

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# Overall conclusion

**Private and Confidential**

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**Opinion on Pre Award Assessment of National Highway Authority (NHA)**

We have made a review and evaluation of the managerial capacity and internal control systems of the National Highway Authority (NHA) using those criteria established by ASP-RSPN in the task order received by us referenced RFQ No. 2-2012 dated 19 July 2012. Our review included interviews, observations and tests of compliance with NHA stated procedures to the extent that such testing was deemed necessary and feasible. Our review is not an audit of any financial statement(s) prepared by NHA.

The management of NHA is responsible for establishing and maintaining systems of internal controls and financial management. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. We understand that the objective of those financial management and internal control procedures comprehended in USAID's criteria is to provide similar assurance.

Based on this knowledge and the review and evaluation conducted by our firm, we believe NHA current policies and procedures are sufficient for USAID/Pakistan's purposes, assuming satisfactory compliance, except for the conditions described in section 2.3.1 of the report which we believe would be **material weaknesses**. The level of risk identified as a result of our assessment is considered to be **medium**. In addition to these weaknesses, other conditions that we believe would not be in conformity with the criteria referred to above be described in section 2.3.2 of the report.

Further, nothing came to our attention that would cause us to believe that NHA does not have the managerial, technical, administrative and financial capabilities to carry out the proposed USAID funded activities as far as such activities pertain to the nature of NHA's current operations and skills set as of the date of our review, except for the limitation of capacity detailed in section 4 of the report.

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# 1. Background

- 1.1 Introduction to NHA
- 1.2 Participants of this assessment
- 1.3 Objective of this assessment
- 1.4 Scope and methodology

## 1.1 Introduction to NHA

NHA was created in 1991 through an Act of the Parliament, for planning, development, operation, repair and maintenance of National Highways and Strategic Roads specially entrusted to NHA by the Federal Government or by a Provincial Government or other authority concerned. NHA is custodian of the Highway assets of Pakistan's road network. It is responsible to provide a safe, modern and efficient transportation system.

Mission statement of NHA is "To secure delivery of efficient, reliable, safe and environment friendly National Highway network with the view to improve quality of life in Pakistan".

Major functions of NHA includes plan, promote, organize and implement programs for construction, development, operation, repairs and maintenance of national highways / motorways and strategic roads.

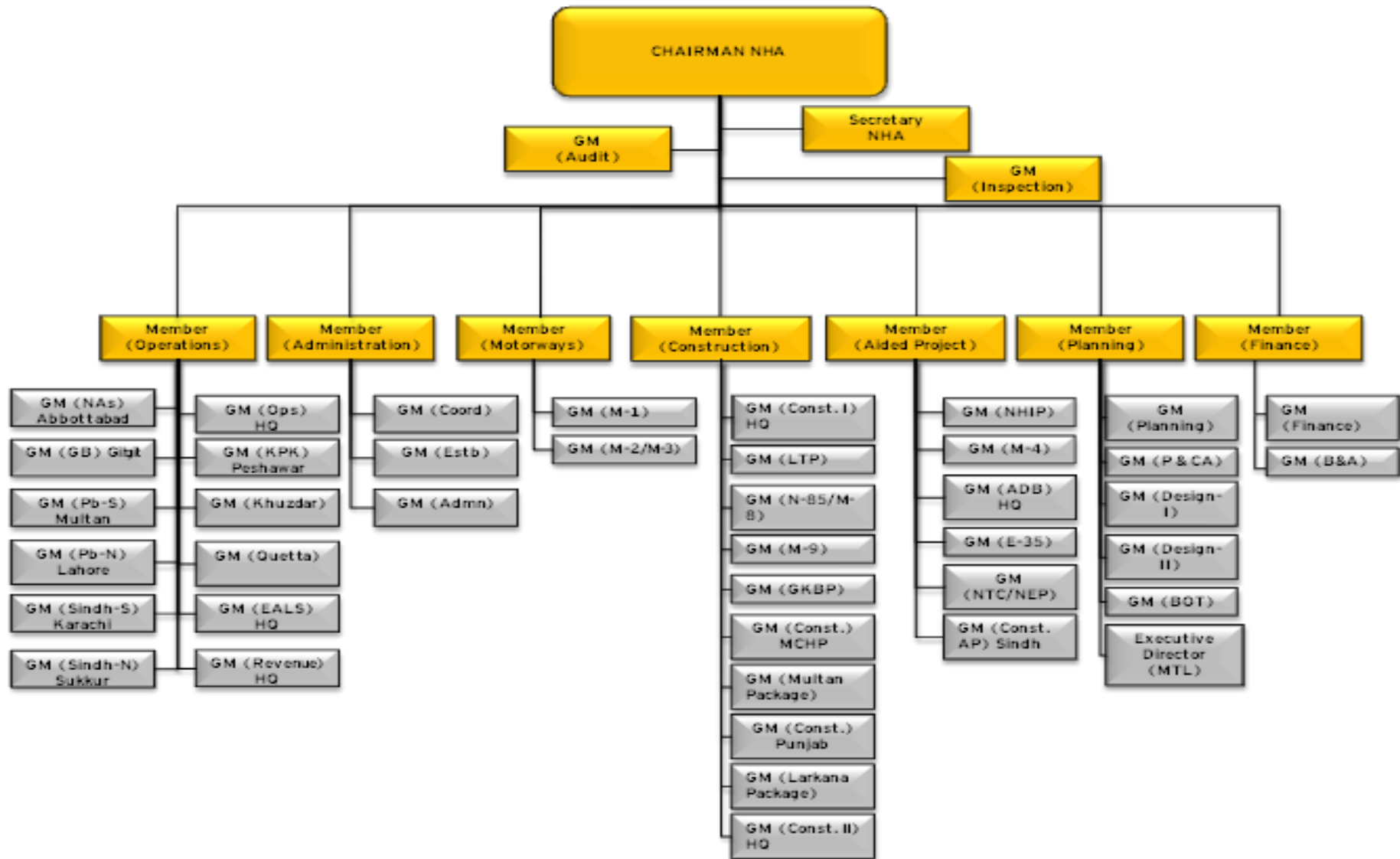
Major power and duties of NHA are as follows:

- ▶ Advise Federal Government on matters relating to National Highways and Strategic Roads.
- ▶ Frame a scheme or schemes for matters such as construction, expansion, operation and development of National Highways and Strategic Roads and undertake work / incur expenditure on such scheme(s).
- ▶ Acquire any land in accordance with legal procedure and obtain and dispose off moveable and immovable property of interests therein.
- ▶ Research and development in the field of Highways.
- ▶ Procure plant, machinery, instruments and materials required for its use.

- ▶ Enter into and perform all such contracts as it may consider necessary.
- ▶ Levy, collect or cause to be collected tolls on National Highways, Strategic Roads and such other roads as may be entrusted to it and bridges thereon.
- ▶ License facilities on roads under its control on such terms as it deems fit.
- ▶ Cause studies, surveys, experiments and technical researches to be made or contribute towards the cost of such studies, surveys, experiments or technical researches made by any other agency.

NHA has 9 regional offices located in Karachi, Sakkhar, Makran, Quetta, Lahore, Multan, Peshawar, Abbotabad and Gilgit while one head office in Islamabad. There are five core Wings (i.e. Planning, Operation, Construction, Finance and Administration) at head office level that support overall activities of NHA throughout Pakistan. Along these Wings, there are two major sections namely Secretary Section and Internal Audit Section that support NHA with governance point of view. In head office each Wing has various Sections that are headed by GMs which are listed as under.

The approved organization structure as provided to us by the management of NHA is as follows:



## 1.2 Participants of this assessment

This assessment was conducted by Ernst & Young Ford Rhodes Sidat Hyder (EYFRSH) for and on behalf of USAID; Pakistan through ASP-RSPN under requisition number ASP-CPO/Pre Award/NHA-2/12 dated 19 July 2012 to complete the Pre Award Assessment necessary for recipients receiving financial support. Our assessment of NHA was based on desk reviews of key information provided to us by management, interviews and discussions with key management and operational personnel, walkthroughs of critical transactions, and testing of key controls as considered appropriate, commencing on 13 August 2012 and field work concluded on 19 September 2012.

Current state understanding is based on our interviews and documentation provided to us by the management. Key findings have been discussed with relevant personnel of NHA for each area under review.

A comprehensive list of the key people we had meetings with, along with their contact information, forms part of Annexure 5 to this report.

## 1.3 Key objectives of this assessment

The objective of this pre-award assessment is to provide reasonable assurance to USAID/Pakistan through ASP – RSPN that NHA has an acceptable organizational and management structure, accounting, financial management systems and other systems of internal controls, quality assurance capabilities, as well as acceptable policies, procedures and practices. The specific objectives are as follows:

- ▶ Determine whether NHA's financial management / accounting system is adequate to properly manage and account for USAID funds.
- ▶ Determine whether the NHA has the financial management capacity to manage the proposed USAID activity;

- ▶ Determine whether NHA's internal controls are adequate to manage the proposed USAID funding;
- ▶ Determine whether NHA's procurement management units have sufficient systems and management capacity to implement USAID activities and manage USAID funds;
- ▶ Determine whether NHA can meet project goals and objectives;
- ▶ Determine whether NHA can obtain, maintain, and fairly disclose reliable data and information;
- ▶ Determine whether NHA has the institutional framework for sustainability; and
- ▶ Determine whether NHA can comply with applicable laws and regulations.

This report provides an assessment of NHA absorptive capacity and following key areas as required under the scope of work and based on our discussions with USAID:

- ▶ Governance and internal control structure;
- ▶ Financial management, budgeting and accounting system;
- ▶ Personnel policies and procedures;
- ▶ Travelling policies and procedures;
- ▶ Procurement and purchasing systems;
- ▶ Program management and monitoring; and
- ▶ Property management

This report has been structured to provide an overall assessment of the internal controls structure of NHA as a whole (please refer to Section 2 below) and for each of these areas in the ensuing chapters (please refer to Section 3 below). Key findings as reported in Section 3 of this report which

have been discussed with management and written comments received have been received and incorporated.

#### **1.4 Scope and methodology**

Our methodology has been based on the assumption that in order to be eligible for an award, the prospective recipient must either have in place, or have the capacity to have in place, identified fund management, project management and accountability systems, processes, and personnel. We have benchmarked NHA to the minimum requirement of such capacity as outlined in the USAID guidelines and better practices. Our scope and methodology for the assessment of NHA on this premise is outlined in Annexure 1 to this report.

For compilation of our report we have used exchange rate of 1USD – PKR 95 being the prevailing average rate as of the date of our report.

## 2. Executive Summary

- 2.1 Conclusion on capacity of NHA
- 2.2 Overall assessment of areas under review
- 2.3 Critical areas needing improvement

## 2.1 Conclusion on capacity of NHA

Based on analysis of information received from the management for project activities conducted in previous three years (i.e. 2008-09 till 2010-11), NHA has been able to complete 109 projects during the year ended 30 June 2011 worth PKR 25,718 million. Over the past 3 years its Overall Absorptive Capacity Index (which is an indicator of ability to utilize the allotments received) has improved from 96% to 130% as tabulated in section 4.1 of the report. Overall we understand that NHA seems to have the capacity to carry out the projects worth ranging PKR 40,000 million (USD 421 million) to PKR 45,000 (USD 474 million) based on the prior years' performance.

Based on our analysis of the audited financial statements of NHA as at 30 June 2011, we assess that liquidity ratio of NHA are significantly below acceptable standards and NHA could face working capital management issues in case additional projects are initiated on reimbursement method. We further noted sustainability / going concern risk (in the absence of funding for operations and projects) as NHA has substantial balance of long term loans outstanding as at 30 June 2011, and there has been no repayments being made due to very limited income being generated from its operations. Further, the financing cost against such loans is also outstanding with balance amounted to PKR 212 billion as of 30 June 2011. Based on the same, we assess that NHA lacks the capacity to repay the loans to the government and/or donors unless there is some alternate financing injection in form of equity or other long term loans arrangements to settle the current loans.

NHA has 2,180 sanctioned posts for regular staff out of which 1,681 posts (77%) are filled while remaining 499 posts (23%) are vacant under various grades and sub categories, which may have an adverse impact on the ability of NHA to implement the future projects. Further out of 2,621 sanctioned posts under PC 1, 1,268 (48%) posts are currently filled and 1,353 (52%) posts are vacant, which again may have adverse impact on the implementation of existing projects and cause delays.

We understand that the technical / operational capacity can be enhanced by engaging the external construction contractors, keeping in consideration NHA has the necessary technical skills set available for planning and supervising large projects through out Pakistan. Keeping in view the present scale of operations, NHA's financial and management capabilities and information / understanding given to us in this regard, we understand that NHA has adequate technical capacity to serve as a lead entity for USAID projects (assuming its value ranging USD 10 – USD 50 million construction contracts), except to the extent of observations reported in Section 3 below.

However, as per the assessment of financial statements we consider that it does not have adequate financial strength / capacity to pre finance the project of such value, mainly due to limited working capital availability, extensive long terms debts (including balance of finance cost payable) and the accumulated losses of PKR 334 billion (USD 3.52 billion).

Another key consideration would be NHA's capacity to manage the project in the conflict / high security areas of Pakistan. If USAID targets to fund the Quetta / Kalat / Chaman Road project completion (detailed current status provided in section 4 of the report) it must consider NHA / contractors capacity to complete the remaining project within specified time lines after recent escalation of violence in the province of Balochistan.

## 2.2 Overall assessment of areas under review

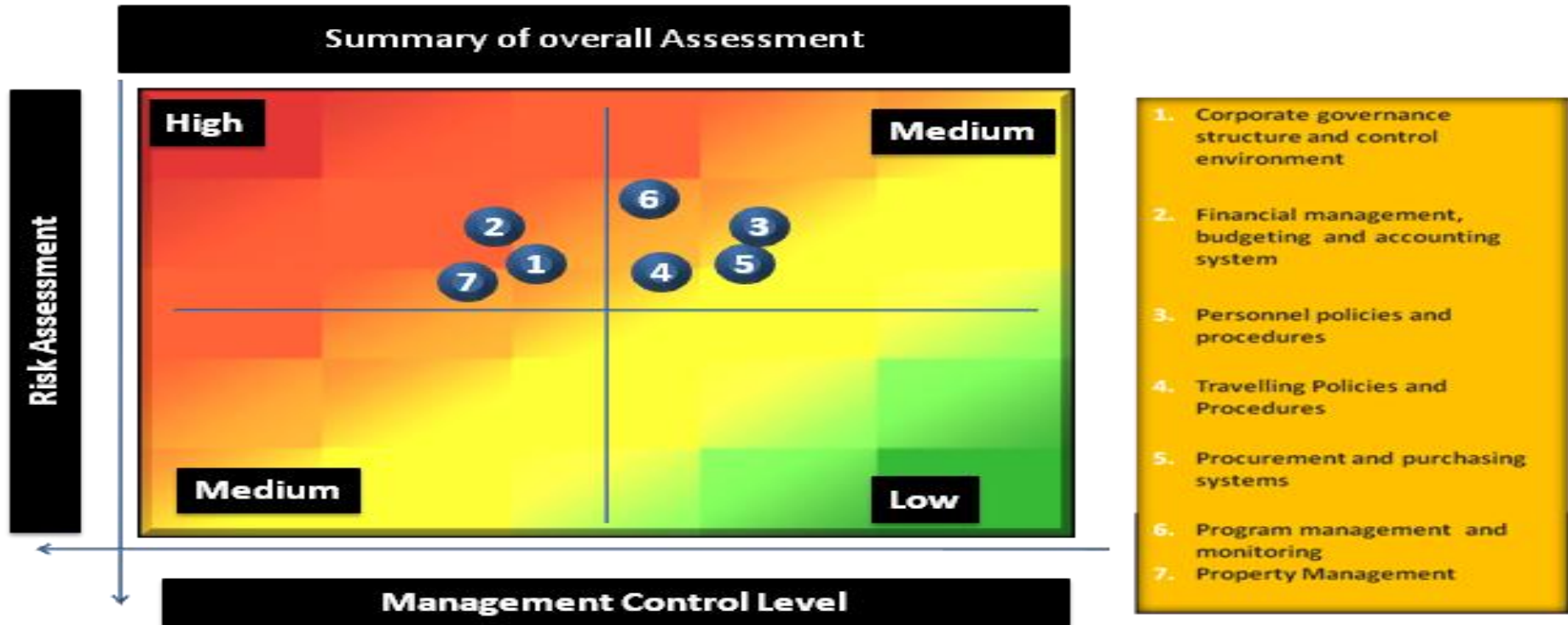
S. No.	Area under review	Overall area rating	Key issues noted during assessment	Issue rating
1	Governance and internal control structure	High	Lack of documentation of internal audit working papers.	High
			Engagement of internal audit in settlement of final bill payments for the projects. Further IA does not perform risk based audit which focuses on internal controls assessment.	High
			Internal audit report to Chairman NHA rather than independent committee.	High
			Non existence of proper follow ups for identified observation in internal audit reports.	Medium
			IT audits have not been carried out.	High
			Lack of process over calculation of contingencies and commitments as qualified by auditors in the audited financial statements of NHA for the year ended 30 June 2011.	High
			Lack of policy for data backup and business continuity / disaster recovery plan.	Medium
			Use of some unlicensed software by NHA.	Medium
			Non existence of IT strategic plan to align IT operations / capacity building with NHA's strategic plan.	Medium
2	Financial management, budgeting and accounting system	High	Non existence of proper documentation and controls over recording of income generated by NHA.	High
			NHA lacks the capacity to repay the loans to the government and/or donors.	High
			Accruals are not booked on a monthly/quarterly basis to provide updated financial records / statements on a monthly/quarterly basis.	Medium
			No mechanism of interim reporting of financial information.	Medium
			Lack of segregation of duties over preparation and approval of bank reconciliation statements.	Medium
			Lack of controls over preparation of monthly payroll.	Medium
			No budget module available to compile / monitor NHA's approved budget.	Medium
Reasons for variances from the budget are not documented.	Medium			
3	Personnel policies and procedures	Medium	Absence of annual recruitment plan.	High
			There is no process in place to make reference checks at the time of employee recruitment.	Medium

S. No.	Area under review	Overall area rating	Key issues noted during assessment	Issue rating
			Training need assessment not linked with performance evaluation of employees.	Medium
			No centralized attendance system and no practice in place to prepare and submit time sheets.	Medium
			39% of sanctioned positions under regular and PC 1 staff are currently vacant.	Medium
4	Travelling policies and procedures	Medium	There is no standard format for compilation of tour plan to obtain advance for travel.	Medium
5	Procurement and purchasing systems	Medium	There is no practice to develop detailed consolidated annual procurement plan for the procurement activities (except for some donor funded projects which requires preparation of such procurement plans).	Medium
			Pre qualification of vendors not in practice for procurement under PKR 300,000.	Medium
			Lack of controls over assessing procurement process efficiency as there is no monitoring control over turnaround time for various activities.	Medium
			No defined policy for mode of advertisement / dissemination of RFQs for procurement below PKR 300,000.	Medium
			No formal process for complaint management / monitoring related to procurement activities.	Medium
6	Program management and monitoring	Medium	Lack of ongoing independent monitoring of projects by Inspection Section.	High
			Lack of independent monitoring controls over non development projects.	Medium
			Inconsistent format of progress reports received from consultants.	Medium
			Lack of controls over follow up of findings from project inspection reports.	Medium
7	Property management	High	All fixed assets of NHA are not tagged	Medium
			No defined policy regarding physical verification of fixed assets at regular interval of time.	Medium
			Delay in capitalisation of completed project as highlighted by auditors in the Management Letter of NHA for the year ended 30 June 2011	High
			No insurance of fixed assets	Medium

\* Please refer to Annexure 2 for definition of rating

**Summary of our assessment**

This diagram summarizes our assessment of the seven areas under review.



The above graph identifies the risk ranking of each area covered in our scope of assignment. The rating is based on our assessment of existing inherent operational / financial / compliance risks within each area and the controls which have been designed and implemented by NHA management to mitigate such risks. Also we have kept in consideration related impact and likelihood of various findings noted for each area as detailed in Section 3 of this report.

Area plotted in top left corner indicates improve, bottom right corner indicates acceptable. The remaining two corners indicate area classified as monitor. For details on the definition of risk ranking, please refer to Annexure 2.

## 2.3 Critical areas needing improvement

Based on assessment of NHA as per the objectives detailed in section 1.3 of the report, we understand that USAID may consider **Modified FARA** arrangement as disbursement mechanism, subject to the following conditions. These conditions have been identified as pre-disbursement and post-disbursement requirements in order for NHA to easily establish timelines and develop a work plan towards compliance.

### 2.3.1 Pre-disbursement conditions

The following are the pre disbursement conditions which we recommend NHA should meet in order to be eligible for the funding:

- ▶ Pre conditions shall be included in the Implementation Letter between NHA and USAID:
  - For no delay in the release of funds to NHA;
  - Funds shall be utilized for identified projects within NHA; and
  - Funding shall come through the Government of Pakistan Revolving Assignment Account as it has been the case in most of the recent donor funded NHA projects.
- ▶ A separate mandate shall be provided to the Aided Section of Finance Wing who is responsible for managing donor funding or a separate Project Management Unit (PMU) should be set up in order to manage the funding and USAID sponsored projects.
- ▶ As NHA management has no prior experience of managing USAID funds, capacity of its staff shall be required to be built to ensure they are aware of / understand USAID regulations.

#### a) Governance and internal controls structure

- ▶ Internal Audit Section shall report directly to National Highway Council (NHC) or a subcommittee of NHC.

- ▶ A risk based internal audit plan shall be developed and process based internal audits shall be conducted. Further Internal Audit should not be engaged in approval process related to any payments as such activity are operational in nature and must be carried out by the management itself. Finance and monitoring functions should have their controls established over the payment approval process. Internal Audit should performed independent audit over such payment on a periodic basis based on the approved audit plan. Further, IT system audits shall also be part of the internal audit plan.
- ▶ It shall be agreed that the donor agreement compliance and financial audit of the projects, including PMU shall be carried out on an annual basis by the Auditor General of Pakistan (AGP).

#### b) Financial management, budgeting and accounting systems

- ▶ NHA has a significant amount of outstanding loans and interest, so a mechanism / strategy shall be introduced where repayment / settlement and interest payment for all long term loans shall be monitored and correspondence with the GoP regarding timing and rescheduling of such repayments shall be formally documented.
- ▶ Proper documentation and controls over recording of income generated by NHA should be established to ensure qualification raised by the external auditors is being satisfactorily resolved.
- ▶ NHA should establish policies and procedures/guidelines for periodical compilation and reporting of financial information.

#### c) Personnel policies and procedures

- ▶ To improve the current capacity of NHA we recommend that all key sanctioned positions which are vacant shall be filled.

#### d) Procurement and purchasing system

- ▶ We recommend that procurement should be done under the PPRA rules and regulations. For USAID funded projects during the

procurement process, there should be USAID involvement at following stages:

- Finalization of bidding document
  - Review of technical and financial evaluation of bids
  - Review of the contract signed.
- ▶ For all budgeted procurements under USAID project, a detailed procurement plan shall be compiled covering various types of procurements.

#### e) Program management and monitoring

- ▶ Inspection Wing of NHA shall carry out the monitoring and evaluation of all the USAID funded projects. However, the agreement shall specify that monitoring and evaluation personnel shall not be part of operational activities.
- ▶ The project plan to complete remaining portion of Quetta - Kalaat - Chaman project needs to take into consideration the current adverse security conditions in Balochistan province to ensure project is completed within specified time lines.

### 2.3.2 Post-disbursement conditions

Following are the conditions which NHA may meet post disbursement, keeping in consideration relatively lower risk findings than the conditions detailed in previous section:

#### a) Governance and internal controls structure

- ▶ IT strategic plan shall be developed to align IT operations / capacity building with NHA's strategic plan.
- ▶ A clear and robust data backup, business continuity and disaster recovery plan should be developed.

#### b) Financial management, budgeting and accounting systems

- ▶ NHA shall consider implementation of a budget module for efficient and effective monitoring of approved budgets.

#### c) Personnel policies and procedures

- ▶ A centralized attendance system shall be introduced and time sheets shall be prepared by all NHA staff which shall form basis of payroll processing. Further, there shall be formal mechanism for reconciliation of current and prior month payroll.

#### d) Procurement and purchasing system

- ▶ There shall be formal mechanism for complaint management and resolution to ensure transparency of procurement process.
- ▶ A policy for pre qualification of vendors for routine nature procurements shall be defined.
- ▶ NHA should define turnaround time for various key stages / activities of each project to assess the efficiency of the procurement process.

#### e) Property management

- ▶ All fixed assets of NHA shall be tagged and verified to ensure their completeness. Further all fixed assets need to be insured; or at a minimum, those purchased directly by USAID funds.
- ▶ NHA shall assess its fixed asset processes to ensure compliance with the capitalization policy to ensure qualification raised by the external auditors is being satisfactorily resolved.

#### f) Program management and monitoring

A formal monitoring and inspection plan shall be prepared by the Inspection Wing.

## 3. Assessment of current state of individual area at NHA

- 3.1 Governance and internal controls structure
- 3.2 Financial management, budgeting and accounting system
- 3.3 Personnel policies and procedures
- 3.4 Travelling policies and procedures
- 3.5 Procurement and purchasing systems
- 3.6 Program management and monitoring
- 3.7 Property management

### 3.1 Governance and internal controls structure

#### 3.1.1 Corporate governance structure

The overall powers of NHA as an authority, along with its duties are defined in NHA Act XI, 1991. In order to ensure the effective use of powers, and to discharge duties accordingly, delegation of authority and responsibility has been given to different wings of NHA. Section 10 of NHA Act XI, 1991 has specifically authorized NHA to exercise its powers and to take decisions, as necessary, in execution of relevant duties and functions of NHA as mandated by NHA Act XI, 1991. The major duties and powers of NHA along with the delegated duties to its respective Wings/Officers have been detailed in Annexure 7 of this report.

##### a) National Highway Council (NHC)

NHC is responsible for laying down national policies and providing guidance to NHA for performing its functions. NHC has the power to direct and regulate all affairs of NHA. NHC is established under Section 5 of NHA Act 1991, amended in 2001, with the Minister for Communications, Government of Pakistan as its President. NHC meets at least once each year to discuss the agenda as outlined below in the functions. Minutes of NHC meetings are documented by Secretary NHA. A meeting of NHC may also be convened on need basis on the instruction of President NHC. The composition of the NHC is given below:

Member	Seat at Board
The Minister for Communications, Government of Pakistan	President
The Secretary Finance Division, Government of Pakistan	Member
The Secretary Planning & Development Division, Government of Pakistan	Member
The Secretary Communications, Government of Pakistan	Member
A professional in the field of Highway Construction and Management (nominated by the President)	Member
A professional in the field of Finance & Accounts (nominated by the President)	Member
The Chairman NHA	Member /Secretary

Major functions of NHC are as follows:

- ▶ To approve five year plans and prospective plans, prepared by NHA Executive Board in consultation with the Planning & Development Division, for the construction, development, repair & maintenance of national highways & strategic roads specially entrusted to the NHA.
- ▶ To approve the annual development plan of NHA.
- ▶ To consider progress reports of NHA on various construction projects.
- ▶ To lay down national policies and guidelines to be followed by NHA in the performance of its functions.
- ▶ To review and reappraise projects.

**b) NHA Executive Board (NHAEB)**

In addition to NHC, NHA has an Executive Board constituted as per section 7 of NHA Act XI, 1991 as per which the general direction and administration of the NHA and its affairs vest in the Executive Board (EB) which may exercise all the powers, perform all functions and do all acts which may be exercised, performed and done by NHA. The composition of EB is given below:

Member	Seat at Board
The Chairman NHA	President
Inspector General, National Highways & Pakistan Motorway Police (or nominee)	Member
Additional Secretary Finance	Member
Member or Additional Secretary, (Planning & Development Division)	Member
Joint Secretary-II, Ministry of Communications	Member
Senior Chief, NTRC	Member
Vice President, NESPAK	Member
Member (Finance), NHA	Member
Member (Planning), NHA	Member

Major functions of NHA EB are as follows:

- ▶ To consider and approve proposals, schemes and projects between PKR 50 to 100 million.
- ▶ To consider and recommend, through the Ministry, to CDWP or ECNEC proposals, schemes and projects exceeding PKR 100 million.
- ▶ To review the progress reports of NHA for various projects.
- ▶ To perform other functions as delegated to it by NHC.
- ▶ To recommend to NHC for approval of the annual budget of NHA.
- ▶ To approve operational expenditures and non development projects to be funded through toll and other receipts from operation of highways.

Secretary NHA maintains a permanent record of all the decisions, directions or the orders, general or special, given by NHC or EB. He/she is also responsible for maintenance of a consolidated record of all the minutes of the meetings of the NHC or the EB in chronological order for subsequent reference. All policy guidelines for efficient administration of NHA affairs are provided by EB, which may delegate its technical, administrative and financial powers to the officers of NHA as briefly discussed in section (d) below.

### **c) NHA Operational Structure**

In accordance with the powers delegated by EB, NHA is geographically as well as functionally organized. Its head office is located in Islamabad, headed by the Chairman and functionally divided into the following:

- ▶ Planning Wing
- ▶ Operations Wing
- ▶ Construction Wing
- ▶ Finance Wing
- ▶ Administration Wing
- ▶ Internal Audit Section
- ▶ Inspection Section

Please refer to section 1.1 of report for organizational structure of NHA.

Each Wing is headed by a Member and is assisted by General Managers who are operational heads of wings. Each Wing then has sections working under it as demonstrated in current state sections of the respective areas. The head office controls the operations of NHA throughout the country including operations of regional and project offices.

NHA has 9 regional offices located in Karachi, Sakkhar, Makran, Quetta, Lahore, Multan, Peshawar, Abbotabad and Gilgit. Regional offices are headed by Regional GMs who reports to Member Construction, Member Finance and Member Operation at the head office for their respective matters. Each of these regional offices has an officer of the rank of Director Accounts as the representative of Member (Finance).

In addition to regional offices, throughout the country NHA has various Project Offices looking after construction projects currently in progress. Once a project is completed, generally a project office is converted into maintenance unit. Currently there are 35 maintenance units throughout the country looking after repair and maintenance of highways and motorways. The project offices / maintenance unit are generally headed by Project Director (PD). With an officer of the rank of Director Accounts acting as representative of the Member (Finance) is posted at each project office. The Director Accounts fall under administrative control of Member (Finance), whereas maintenance unit is headed by Deputy Director Maintenance who reports to respective Regional GM. There is no separate accounts section at maintenance unit and respective accounts section of the concerned regional office is responsible for managing accounts of the maintenance unit.

These project offices remain operative for the project period only and later on these are converted to maintenance unit that directly report to its concerned regional GM for all matters.

#### **d) Delegation of powers**

Following paragraphs briefly list down delegation of powers at various levels:

- ▶ Section 16 of the NHA Act empowers NHA to delegate its powers to the Chairman, any Member or other officer of NHA, by a general or special order.
- ▶ In case where NHA's rules covered in NHA Act or otherwise, are silent on subject matter, the Federal Government rules and procedures become applicable. Rules of Business notified by the Federal Government are observed in all cases while taking up a matter with any Ministry / Division of the government.
- ▶ The powers delegated under NHA Code also subject to certain general conditions specifying the objectives / basis for such delegation.
- ▶ NHA Code delegate powers to respective competent authorities for different level of approvals, pertaining to financial expenditure and operational decision making. Any incurrence of expenditure or operational decision making, on behalf of NHA, by an employee/officer requires approval from respective competent authority as per delegation of authority prescribed in NHA Code. In case of any exceptions to prescribed approving authority, full justification is required on the subject matter.
- ▶ Cases / items covered in powers delegated under NHA Code are referred to the NHA EB for decision.
- ▶ As per chapter one of the NHA Code, powers delegated to an officer may be further delegated to his immediate subordinate officer subject to the condition that the officer delegating the power gets prior approval of the Chairman to this effect.

### e) Committees

The following committees are being constituted at head office and regional office level as per NHA Code, NHA Act and Administrative Manual. Functions of these committees vary according to mandate provided to them from NHC or NHA EB from time to time. The Terms of References (ToRs) of these committees are covered in NHA Act & Servicer Rules, NHA Code and Administrative Manual accordingly. The minutes/proceedings of these committees are properly documented. It is the responsibility of the respective competent authority to ensure the effectiveness of these committees.

- ▶ Selection Committee
- ▶ Screening Committee
- ▶ Department Promotion Committee
- ▶ Inquiry Committee
- ▶ Anti Corruption Committee
- ▶ RMA Technical Scrutiny Committee
- ▶ Road Maintenance Account (RMA) Steering Committee
- ▶ Tender Opening and Evaluation Committee

Detail of each committee is as follows:

Committee name:	Role of Committee
Selection Committee	The role of this committee is selection and recommendation of suitable candidates to competent authority for appointment.
Screening Committee	The role of the Screening Committee is to check fitness of candidates by considering the following factors: <ul style="list-style-type: none"> <li>▶ The candidate fulfils all the requirements given in the advertisement.</li> <li>▶ Applications are containing copies of required documents.</li> <li>▶ Serving candidates have applied through proper channel.</li> <li>▶ Testimonials / certificates are in accordance with the resume of the candidate given in the application</li> <li>▶ Proof of relevant/required experience is attached with the application.</li> </ul>
Departmental Promotion Committee	The role of this committee is to evaluate the individuals under consideration for promotion and to recommend suitable candidate to the competent authority.
Inquiry Committee	The role of the inquiry committee is to review the case of major accident / theft and give its recommendations / findings while keeping in view the nature of case.

Committee name:	Role of Committee
Anti Corruption Committee	The role of this committee is to deal with all complaints raised by general public either through complaint boxes that are placed at various locations of head office and regional offices or complaint received through courier.
Road Maintenance Account (RMA) steering committee	Before administrative approval of PC-1 and PC-2 Performa's or project document as well as proposals of acceptance of necessity in respect of all projects are commercially scrutinized and evaluated by the RMA steering committee.
Committee for acceptance of tenders	This committee provides its recommendations to the competent authority for acceptance of tenders for capital and maintenance works.
Tender opening and evaluation committee	The role of this committee is to open sealed tenders retrieved from sealed box in the presence of representatives of tenderers and announces the financial proposal rates quoted by each bidder, the amount of cash deposit receipt, security deposit, bid guarantee or performance guarantee etc. Further, this committee is responsible for preparing a comparative statement of bids values and provides its recommendations to tender acceptance committee.
Committee for pre qualification of contractors	This committee invites applications for pre qualification for bidding process, P&CA section invites applications from interested parties through publicity in the media by Media Advisor. The role of the committee is to evaluate contractors for pre qualification purpose.
Committee for purchase of stores, tools and plants	This committee is responsible to ensure that all the rules laid in NHA code have been duly observed. This committee also ensures that bids received from different bidders are comparable. If not, then rates are re-computed after due adjustments for different items. Also they play the role of tender opening and evaluation committee, except that the recommendations of this committee are submitted to the authority competent to accord sanction for the stores in question.
Committee for purchase of vehicles	This committee is responsible for the decision of purchase of vehicle for NHA regional offices and head office. It ensures that vehicles which are manufactured or partially manufactured in Pakistan are preferred.
Re-rating committee	As per NHA policy no re-rating (cost extension) of contracts/enhancement of contract rate shall be made without the prior approval in principal of EB. This committee scrutinizes the details of re-rating proposal and submits its recommendations to the Chairman NHA through Member (Finance). Chairman then puts up the proposal to the EB for approval.

For composition of committees please refer to Annexure 8.

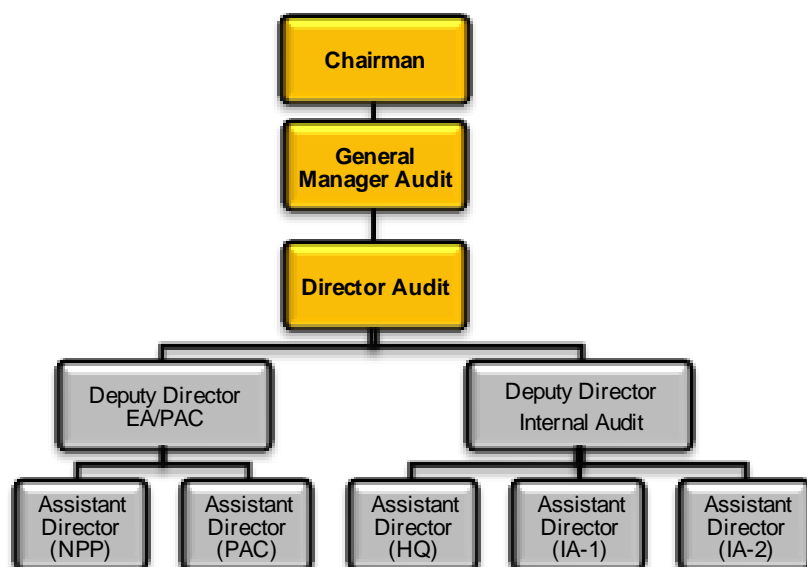
### 3.1.2 Internal Audit

NHA has a separate Internal Audit Section in place whose primary task is to conduct internal audits of entire entity both at the head office and regional office. Internal Audit Section also liaison with external audit and Auditor General of Pakistan team to facilitate retrieval of information / documentation during the execution of various audit.

Internal Audit Section is headed by GM Audit who reports directly to Chairman NHA. Currently there are 38 persons working with the Internal Audit Section. In this respect we noted that currently there is no independent Audit Committee responsible for oversight, and audit and accounting related affairs of NHA.

The following is an overview of the current structure of the Internal Audit Section:

The following is an overview of the current structure of the Internal Audit Section:



Following is the profile of the key team members of the Internal Audit Section:

S. No.	Designation	Qualification	Experience (Years)	
			NHA	Others
1	General Manager Audit	M.Com	25	2
2	Director Internal Audit	M.A Economics	25	-
3	Deputy Director (Internal Audit)	ACMA	5	6
4	Assistant Director (Internal Audit)	B.A	25	5

### 3.1.2.1 Preparation of audit plan

The internal audit process begins at the start of each quarter with the preparation of quarterly internal audit plan based on following criteria mentioned in Standard Operating Procedures (SOPs) of Internal Audit Section:

- ▶ Near to completion projects;
- ▶ Instruction by senior management;
- ▶ Request of regional GM/PD; and
- ▶ Due to emergent circumstances.

Audit plan is prepared by Assistant Director Audit and Director Audit in consultation with other respective team members. While preparing the audit plan for the upcoming quarter, the expenditure / volume of transaction and the observations noted in the previous quarter are considered for identification of auditable processes. Further surprise audits are also carried out as considered appropriate by the Internal Audit team.

We observed that there is no formal documented risk assessment to assess the impact and likelihood of risk involved at respective process level. We also noted that the Internal Audit Section performs financial / transactional audit, and process / risk and controls based audit is not performed.

As per discussion with the management, we were informed that since audit plan is mainly prepared based on near to completion projects, all the other ongoing projects having any material transactions in coming quarter may not be covered in such quarter audit, unless it is specifically requested to be covered by the management or any other emergency matter. Audit plan is reviewed and approved by GM audit.

Further as per SOPs of Internal Audit Section, final payment to contractors / consultants is made once internal audit for respective project has been conducted, which effectively results in internal audit being part of payment approval process and this may hamper independence of IA Section.

### 3.1.2.2 Execution of audit

#### a) Project audit

In case of project audits, the Internal Audit Section intimates the respective Section / Wing prior to start of the audit. The audits are performed to ensure compliance with applicable rules and regulations / policies and procedures. Internal audit teams use standard audit checklists / programs during internal audit activity.

Teams are formed by Director Audit for each audit assignment/project and generally comprises of three members lead by respective Assistant Director Audit.

Generally areas of examinations for a given projects are as follows:

- ▶ Bidding process / award of contract
- ▶ Advances, guarantees and insurance etc
- ▶ Payment of interim payment certificate
- ▶ Scrutiny of BOQ quantities recorded in measurement books
- ▶ Monthly contract administration report/progress status
- ▶ Payment of escalation payment certificate
- ▶ Re-appropriations, variations and extension in time
- ▶ Procurement of assets under bill
- ▶ Consultancy service

It is the responsibility of the internal audit team to execute audit in accordance with scope of work and all the audit observation need to be substantiated by documentary evidence. However we noted that there is no formal methodology to prepare / maintain audit work paper in form of files as per better practices. On completion of audit work, internal audit report is prepared which is reviewed by Deputy Director Internal Audit and by Director Audit. Later on draft report is shared with concerned GM for obtaining the response / comments. Concerned GM needs to provide written response / comments within 15 days.

After getting comments on draft internal audit report, finalized report issued by the GM Audit which is then submitted to the Chairman NHA.

### **3.1.2.3 Pre audit of transactions**

Internal Audit Section also perform pre audit that includes pre-transaction audits of pay fixation of employees at the time of their joining, pension / claims / provident fund to be paid to outgoing employees, payments to consultants / contractors / third parties.

Such pre audit is a normal practice in case of government department / agencies, however, we understand that it causes independence / objectivity issues for Internal Audit team as it becomes self review of the approval process of the above mentioned transactions.

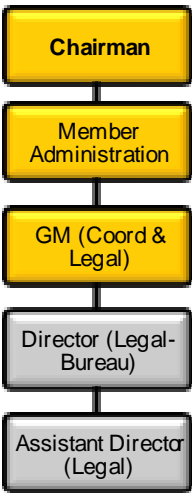
### **3.1.2.4 Audit recommendations and action plan**

On submission of internal audit report to Chairman NHA, the Chairman then officiate the office order for resolution of audit observation. Internal Audit Section is responsible for follow up / reminder for resolution of audit observations, however there is no formal mechanism in place to follow up on the issues raised by the Internal Audit, which may adversely impact the effectiveness of the internal audit function.

**3.1.3 Legal**

Legal Bureau is headed by GM Coordination and Legal who reports to Member Administration. Legal Bureau is responsible for ensuring compliance with legal requirements as well as advice on legal matters. The cases at head office level are looked after by the lawyers in the Legal Bureau, however, for legal cases at the regional level external lawyers are also hired on retainer ship basis to manage these. Legal Bureau at the head office only supervises the regional cases.

The following is an overview of the current structure of the Legal Bureau:



```

    graph TD
      Chairman[Chairman] --> MA[Member Administration]
      MA --> GM[GM (Coord & Legal)]
      GM --> DLB[Director (Legal-Bureau)]
      DLB --> ADL[Assistant Director (Legal)]
    
```

Following is the profile of the key team members of the Legal Bureau:

S. No.	Designation	Qualification	Experience (years)	
			NHA	Others
1	GM Coordination & Legal)	Master in Arts / LLB	27	13
2	Director Legal	LLB	6	16
3	Deputy Director Legal	LLB	4	13

Legal Bureau has provided standardized contract performa to different Section / Wing of NHA both at head office and regional level. These Section / Wing use standardized contract performa at the time of negotiating the contract with the vendors / consultants / contractors etc. Legal Bureau provides its legal advice if concerned Section / Wing request for that.

The nature of cases being dealt by the Legal Bureau of NHA includes:-

- ▶ Land acquisition disputes (enhancement of compensation for land acquired)
- ▶ FIDIC based contractual disputes

- ▶ Encroachment matters
- ▶ Cases regarding toll tax ,leasing of land for CNG/filling stations
- ▶ Service matters
- ▶ Criminal complaints/matters
- ▶ Complaints of Ombudsman Office
- ▶ Arbitration matters

Legal Bureau is involved generally in all court cases/arbitrations and cases of amicable settlement outside the courts at both the head office and regional levels.

For all open legal cases at the regions, GM of respective region reports to Legal Bureau at head office on daily / weekly basis about the status of pending cases in a prescribed format. The data from regions along with the status of cases at head office are compiled on fortnightly basis and submitted to Chairman NHA for review. This report contains the following matters in detail:

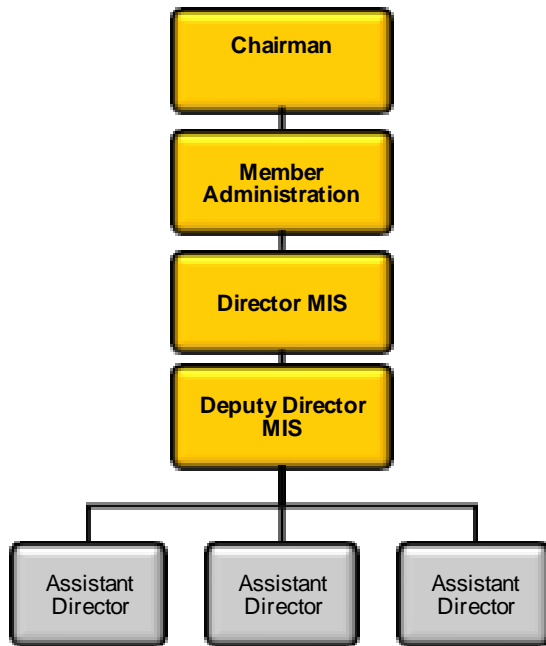
- ▶ Name of the case
- ▶ Forum of the case
- ▶ Brief description of the case
- ▶ Date of filing of the case in court
- ▶ Brief of proceedings held till reporting date
- ▶ Next date of hearing

However, there is no mechanism in place to calculate the financial impact of cases by or against NHA. Lack of underlying records for calculation of the financial estimates as well as absence of confirmations received from legal advisors has also been reported by the external auditors as a qualification in their audit report for the year ended 30 June 2011.

#### **3.1.4 Information Technology**

Computer Bureau is responsible for managing Information Technology (IT) related matters of NHA head office and also assists regional offices in managing IT related issues. Moreover there is designated staff allocated at regional offices to assist the regional office IT users. The basic role of Computer Bureau is to administer the IT and communication systems, maintenance of hardware and software and network management. Computer Bureau also provides IT related assistance to all other wings and sections of NHA. This section is headed by Director MIS.

The following is an overview of the current structure of Computer Bureau:



Following is the profile of the key team members of Computer Bureau:

S. No.	Designation	Qualification	Experience (Years)	
			NHA	Others
1	Director	MS, PhD Computer Sciences	24	3.5
2	Deputy Director	Graduate	24	1
3	Assistant Director	MS Computer Sciences	20	1
4	Assistant Director	MS Computer Sciences	2	-
5	Assistant Director	MS Computer Sciences	8	-

Following IT systems / modules are being used by NHA in different sections, which are managed by the Computer Bureau:

S. No.	IT systems/modules	Function
1.	GL accounting system	This software manages financial records of all regions and head office of NHA. The software is capable of voucher generation, creation of financial reports, schedules, trial balances and other reports.
2.	Revenue collection system	It keeps a record of all the revenue collections from various sources as detailed in section 3.2.3 of this report. At the month end reconciliations are prepared to check if the revenue received in the bank accounts and records of revenue as per this system is same.
3.	Payroll module	It is used by Finance Wing to process employees' salaries. It also keeps record of deductions to be made from the employees' gross salary and their disbursements.
4.	Inventory management system (currently under preliminary implementation/data entry phase)	This software keeps a record of all the assets of Computer Bureau while recording of all other assets is in this system. New items purchased and items disposed off are also recorded in this system.
5.	Human resource management module	It keeps a record of where the employees are posted and their track of postings.
6.	File management (P&CA) System	Scanned documents such as PC1s and tenders are archived in this system.

Some functions of Computer Bureau are centralized while others are being managed on a decentralized basis. Each wing has its own IT section which is responsible for managing the respective module operative in respective wing. Each IT section in respective wing directly reports to Computer Bureau. All the hardware related issues are managed centrally by Computer Bureau.

NHA has IT resource allocation policy which provides guidance on allocation of IT equipment to different employees. Different sections and their employees have restricted access to server, however, these policies have not been documented.

We have been informed that all the IT related hardware and software purchased are carried out directly by Computer Bureau without involvement of P&CA section. We have been also informed that NHA plans to implement Enterprise Resource Planning (ERP) system for which Request for Proposal (RFP) is being prepared. Both at head office and regional office level, NHA is using Panda Gate Defender firewall system to protect network from unauthorized access. Moreover, to ensure physical security all assets related to IT section are tagged. No asset can be taken out the premises of NHA without approved gate pass. A log is maintained by the security guard for the moveable assets (like laptops and security cameras) at entrance and exit points are also present.

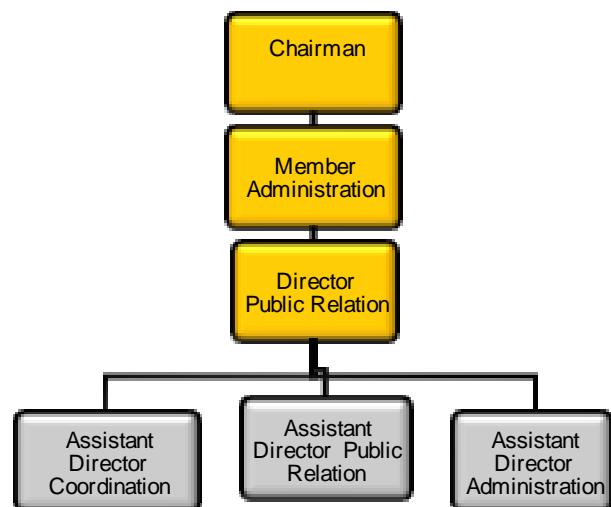
There is no organized system for data backup and disaster recovery. Access to database is decided by Computer Bureau on the basis of information requirements as per job description of respective designation.

We observed that there is no specified mechanism for raising IT related queries from different section to Computer Bureau at central level.

### 3.1.5 Public Relations

Public Relations (PR) Directorate is headed by Director PR who reports directly to the Member Administration. There are three Assistant Directors reporting to Director PR for day to day operations.

The following is an overview of the current structure of Public Relation Directorate:



Following is the profile of the key team members of Public Relation Directorate:

S. No.	Designation	Qualification	Experience (years)	
			NHA	Others
1	Director PR	Master Public Administration	2	15
2	Assistant Director PR	Master in Arts (MA)	1	16
3	Assistant Director Administration	Master in Arts (MA)	20	-
4	Assistant Director Coordination	M.Sc (Mass Communication)	2	-

PR Directorate is responsible for conveying the ongoing activities at NHA to the public through electronic/print media, advertisements, newsletter, brochures and website. PR Directorate also coordinates with print and electronic media for activities like inauguration ceremonies, projection of activities of NHA, daily submission of relevant press clippings from newspaper to higher officials of NHA, issuance of press release on significant occasions and releases of advertisement both classified and pictorial display section of the newspaper.

PR Directorate is responsible to ensure compliance with the Media Policy approved by NHA EB for authority's day to day operations. PR Directorate also facilitates Ministry of Communication in provision of information related to NHA activities.

Only Director PR and Chairman NHA are authorized to make public statements in media. No other employee can speak to media without prior approval from the Chairman NHA.

### 3.1.6 Key findings

Section rating	Section summary
<div style="background-color: red; color: white; padding: 5px; border-radius: 10px; display: inline-block;">High</div>	<p>Based on our assessment of the area and issues identified, we have rated this area as 'High'. Key findings noted during our assessment are as follows:</p> <ul style="list-style-type: none"> <li>i) Lack of documentation of internal audit working papers.</li> <li>ii) Engagement of internal audit in settlement of final bill payments for the projects. Further IA does not perform risk based audit which focuses on internal controls assessment.</li> <li>iii) Internal audit section reports to Chairman NHA rather than independent committee.</li> <li>iv) Non existence of proper follow ups for identified observation in internal audit reports.</li> <li>v) IT audits have not been carried out.</li> <li>vi) Lack of process over calculation of contingencies and commitments as qualified by auditors in the audited financial statements of NHA for the year ended 30 June 2011.</li> <li>vii) Lack of policy for data backup and business continuity / disaster recovery plan.</li> <li>viii) Use of some unlicensed software by NHA.</li> <li>ix) Non existence of IT strategic plan to align IT operations / capacity building with NHA's strategic plan.</li> <li>x) Non existence of IT help desk to facilitate the users.</li> </ul>

Ref	Issue	Impact	Recommendation
i)	<p><b>Lack of documentation of internal audit working papers</b></p> <p><b>Issue rating:</b> <span style="background-color: red; color: white; padding: 2px 5px; border-radius: 3px;">High</span></p> <p><b>Current state:</b></p> <p>In line with the requirements of the standards prescribed by the Institute of Internal Auditors (IIA), an internal auditor shall prepare sufficiently adequate working papers to maintain evidence of the necessary procedures carried out during the execution of internal audit. Further, working papers also serve as an evidence of assessment and review by the personnel supervising the execution of internal audit.</p> <p>We were informed by the management that internal audit procedures are based on detail checks defined in Standard Operating Procedures of Internal Audit Section.</p> <p><b>Gap:</b></p> <p>However, no formal working papers are maintained by the Internal Audit Section to evidence the execution of internal audit procedures.</p>	<p>The effectiveness of the internal audit section may be impaired due to:</p> <ul style="list-style-type: none"> <li>▶ Lack of evidence of the necessary procedures carried out during the execution of internal audit.</li> <li>▶ Lack of evidence of assessment and review by the personnel supervising the execution of internal audit.</li> </ul>	<p>We recommend that standardized guidelines should be developed to prepare and maintain internal audit working papers by the Internal Audit Section. These should serve as an evidence of the necessary procedures carried out during the execution of internal audit.</p> <p>As a minimum, the internal audit working papers should include:</p> <ul style="list-style-type: none"> <li>▶ Detail of procedures conducted</li> <li>▶ Nature, timing and extent of audit evidence obtained</li> <li>▶ Conclusions derived based on the audit evidence obtained</li> <li>▶ Review of working papers by the Director / GM audit.</li> </ul> <p><b>Responsible person:</b> GM Audit</p>
<p><b>Management comments</b></p>			
<p>In boarder perspective of Internal Auditing Function the assessment of the USAID consultants is quite relevant. But it is added that as per existing practices during audit engagements all significant risk areas identified and examined with due care, evidences obtained to support the findings, recommendations and opinions contained in the final audit reports. However, in order to apply best audit practices in the field of the formal working papers as per recommendations would be considered at appropriate level.</p>			

Ref	Issue	Impact	Recommendation
ii)	<p><b>Engagement of internal audit in settlement of final bill payments for the projects. Further IA does not perform risk based audit which focuses on internal controls assessment.</b></p> <p><b>Issue rating:</b> <span style="background-color: red; color: white; padding: 2px 5px; border-radius: 5px;">High</span></p> <p><b>Current state:</b> As per current practices at NHA (which is consistent with many public sector entities practices in Pakistan) and as it has been explained to us by the internal audit team, final payment to all contractors/consultants are made once internal audit has conducted the audit (pre audit) of the respective project and there are no material findings..</p> <p>Further Internal Audit Section at NHA is also responsible to perform pre-transaction audits of payments related to fixation /pensions /claims / provident funds of the employees.</p> <p>Above is in compliance with the SOPs prepared for NHA IA section</p> <p><b>Gap:</b> As per recent advancements made to the internal audit practices, we noted that the Internal Audit Section does not perform review of the policies and procedures, operational risk assessment of the processes, or monitor fraud indicators to conduct fraud risk assessment. Generally, the operational risk and fraud risk assessment and review of policies and procedures forms an integral part of the audit methodology .</p> <p>Further, above practice effectively causes internal audit to become part of the final bill payment approval process, which we understand impairs the internal audit independence / objectivity.</p>	<ul style="list-style-type: none"> <li>▶ In case an assessment of the operational risk within the existing processes is not carried out, gaps, loop holes and shortcoming within the system may remain undetected and impair the integrity of the system.</li> <li>▶ Self review threat for management functions / activities carried out by internal audit.</li> <li>▶ Engagement of Internal Audit Section in the payment / transaction approval process impairs its independence and objectivity.</li> </ul>	<p>We recommend that Internal Audit Section should not be engaged in an approval / decision making process related to payments / settlement of invoices.</p> <p>Finance and monitoring functions should have their management level controls established over the payment approval process.</p> <p>Internal Audit Section should perform (post) audit of such payment on a periodic basis as per its risk based internal audit plan.</p> <p>Further Internal Audit Section should design audit methodology in such a way that covers operational risk assessment of internal control, policies and procedures and processes and fraud risk assessment along with the compliance check over all transactions.</p>
<b>Management comments</b>			<p><b>Responsible person:</b> Executive Board</p>

Ref	Issue	Impact	Recommendation
	At present internal audit function is being carried out as per given mandate and approved SOP.		

Ref	Issue	Impact	Recommendation
iii)	<p><b>Internal audit reports to Chairman NHA rather than independent committee.</b></p> <p><b>Issue rating:</b> <span style="background-color: red; color: white; padding: 2px 5px;">High</span></p> <p><b>Current state:</b> On completion of project audit, GM Audit reviews and finalizes the internal audit report. A meeting is held with concerned GM and the action plan for the resolution of the observations is finalized. Subsequently, the report is submitted to Chairman NHA, who is the senior most management designation within NHA and also represents the NHA's management at NHC.</p> <p><b>Gap:</b> There is no independent reporting line of Internal Audit Section to the Governance (NHC or its sub committee). Chairman NHA is responsible for overall operations of NHA.</p>	<p>In the absence of an independent reporting to the board level committee (generally to an Audit Committee), the independence / objectivity of the internal audit Section may be impaired.</p>	<p>We recommend that a board level committee should be established that function as Audit Committee and the Internal Audit Section should report functionally directly to such committee.</p> <p>Administrative reporting of Internal Audit Section may remain under the Chairman NHA.</p> <p>Such board level committee should comprise of at least three members, with at least one member having detailed finance, accounting and internal controls / risk management background.</p> <p>The committee should meet at least on a quarterly basis. The committee should have a charter identifying their roles and responsibilities. The responsibilities of the board audit committee related to Internal Audit Section should include following at a minimum:</p> <ul style="list-style-type: none"> <li>▶ Review of the internal audit reports;</li> <li>▶ Approval of the annual Internal Audit plan;</li> <li>▶ Performance evaluation of the Internal Audit Section and as per better practice should be responsible to fix recruitment, termination, remuneration of internal auditors (to ensure complete independence);</li> </ul>

Ref	Issue	Impact	Recommendation
			<b>Responsible person:</b> National Highway Council
<b>Management comments</b>			
As per approved mechanism or Sop internal audit directly report to chairman NHA. However, in view of the best practices and for more independence of IA function we support the idea of formulation of Audit Committee.			

Ref	Issue	Impact	Recommendation
iv)	<p><b>Non existence of proper follow ups for identified observation in internal audit reports</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> As per current practices, once the internal audit report is finalised it is shared with concerned GM for formal comments/feedback on the respective audit observations. Further, it is the responsibility of Internal Audit Section to obtain follow up / reminder for the resolution of audit observations.</p> <p><b>Gap:</b> However, from our discussion we understand that there is no formal mechanism in place for the follow up audits to ensure implementation of the observations raised by the Internal Audit Section to ensure timely actions being taken by the concerned</p>	Lack of formal follow up audits may adversely impact effectiveness of internal audit activity as remedial actions may not be taken by the management in timely manner.	<p>We recommend that the Internal Audit Section should develop a formal mechanism whereby issues raised in the previous periods are formally followed up for compliance in the next period.</p> <p>This mechanism and the outcome of follow up audits should be adequately documented.</p> <p>Further, Internal Audit Section should compile a document detailing implementation status of the follow up actions and specify the reasons / implications for no actions taken.</p>


	management personnel.		<b>Responsible person:</b> GM Audit
<b>Management comments</b>			
As per practices in vogue audit reports being followed up. The responses of the concerned are being sought to finalize reported issues in the line with the recommendations. Various discussions meetings are being arranged for the resolution of left over issues with the involvement of all stakeholders.			


Ref	Issue	Impact	Recommendation
v)	<p><b>IT audits have not been carried out</b></p> <p><b>Issue rating:</b> <span style="background-color: red; color: white; padding: 2px 5px; border-radius: 3px;">High</span></p> <p><b>Current state:</b> Presently the Internal Audit Section is responsible for conducting a transaction / projects audits.</p> <p><b>Gap:</b> We observed that existing Internal Audit plan, does not perform any activity related to IT audit.</p>	<ul style="list-style-type: none"> <li>▶ NHA may not be able to ensure authenticity of the information being processed through IT systems.</li> <li>▶ Further performance of the IT systems and application controls may not be ascertained.</li> </ul>	<p>We recommend that NHA should build capacity of the Internal Audit Section to carry out IT audits.</p> <p>IT audit should also form part of the annual audit plan. NHA may also consider engaging external information system auditors.</p> <hr/> <p><b>Responsible person:</b> Director MIS</p>
<b>Management comments</b>			
Matter will discussed at appropriate level.			

Ref	Issue	Impact	Recommendation
vi)	<p><b>Lack of process over calculation of contingencies as qualified by auditors in the audited financial statements of NHA for the year ended 30 June 2011</b></p> <p><b>Issue rating:</b> <span style="background-color: red; color: white; padding: 2px 5px;">High</span></p> <p><b>Current state:</b> Currently, the audited financial statements of NHA include contingencies on account of legal cases filed either by NHA or against NHA. As of 30 June 2011 it amounted to PKR 81.06 billion. Auditors report states that claims and petitions are sub-judice and there may be uncertainties regarding the amount and timing of any potential outflow. Auditors were not provided with the underlying records nor do they receive confirmations in this respect from the legal advisors of NHA.</p> <p><b>Gap:</b> As per our review of the auditor's report findings and discussion with the management, we understand that there is lack of controls over completeness of records relevant to contingent liabilities. Further there is no formal policy to obtain input from the legal advisor when calculating the figure for contingencies and commitments to be included in the financial statements.</p>	<p>Reasonable estimation of contingencies and commitments is necessary to manage various risks. In the absence of adequate controls it may cause operational, financial and reputational risk for NHA.</p>	<p>We recommend:</p> <ol style="list-style-type: none"> <li>Compilation of complete records whereby all the outstanding legal cases and other matters resulting in contingent liabilities as per guidelines of IAS 37.</li> <li>Such records should be updated on a periodic basis and input should be taken from the legal Bureau to assess the status of various cases.</li> <li>Detailed working for the amount of contingent liabilities should be shared with the external auditors at the time of annual audit.</li> </ol> <p><b>Responsible person:</b> Director Legal / Member Administration</p>
<p><b>Management comments</b></p> <p>In response to the issue referred in NHA Pre-Award Assessment, it has been informed and reiterated time and again to the Auditors that land cases cannot be evaluated in pecuniary terms as there is mark difference between the amount awarded and amount sought by the affectees by way of references / appeals before the Courts of law.</p> <p>Hence, it has been discussed with the Auditors in detail, wherein examples were also quoted; therefore, reasonable estimation of contingencies cannot be ascertained at the very outset before the decision of the referee / appellate Court</p>			

Ref	Issue	Impact	Recommendation
	<p>The gap has been highlighted in the report cannot be filled despite diligence, whereas, if hypothetical assessments are made then it would further cause uncertainty and various financial implications.</p> <p>Furthermore, Auditors had been intimated about this issue orally as well as in writing that no formal guidelines or policies can be adequately framed to address the financial risk for NHA, in matters sub-judice before Courts of law/Tribunals.</p> <p>As far as litigation is concerned, NHA bears all the litigation record and up-dated status of all its Regional and site offices.</p> <p>All the land matters go through the grind of scrutiny committee duly categorized with the financial impact of the case, hence a proper Mechanism is established to defend such cases or not.</p>		

Ref	Issue	Impact	Recommendation
vii)	<p><b>Lack of policy for data backup and Business Continuity / Disaster Recovery Plan</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; border-radius: 10px; padding: 2px 10px; background-color: #FFD700; color: #FF8C00; font-weight: bold;">Medium</span></p> <p><b>Current state:</b> The information / documentation related to NHA business / operations is being maintained in the following forms:</p> <ul style="list-style-type: none"> <li>▶ Physical papers and files containing all supporting documents and approvals;</li> <li>▶ Various information systems including GL Accounting System, Payroll Module etc.; and</li> <li>▶ Soft copies of documents / reports on standalone computers with the staff.</li> </ul> <p><b>Gap:</b> There is no adequate process in place to ensure proper backup of critical documents being maintained as stated above. Also, there is no formalised documented policy for Business Continuity and Disaster Recovery Plan in place.</p>	<ul style="list-style-type: none"> <li>▶ Inadequate backup of critical data may lead to non-retrieval of data in case these are lost / mutilated; and</li> <li>▶ NHA may not be able to continue their function / operations or resume it efficiently in the event of any man made or natural disaster.</li> </ul>	<p>We recommend that a clear and robust Business Continuity and Disaster Recovery plan should be developed.</p> <p>Amongst other strategies, the plan should clearly document the mechanism for maintaining back up and subsequent retrieval of critical documentation / information.</p> <p><b>Responsible person:</b> Director MIS</p>
<b>Management comments</b>			
<p>More than 80% computers users are doing office automation work and making the backup of their data files on regular basis for which they have been provided CDs, USBs and external hard disks. the same issue was also well addressed in the SOPs. For various applications such as General Ledger, payroll, HRMIS, contract Management System. The concerned Database Administrators /Programmers are making regular backup of relevant data files</p> <p>Moreover, all concerned are being advised to place one backup file of critical data files on weekly basis to NHA Computer Bureau. In addition to this NHA is planning to establish a Proper Recovery Centre</p>			

Ref	Issue	Impact	Recommendation
viii)	<p><b>Use of some unlicensed software by NHA</b></p> <p><b>Issue rating:</b> </p> <p><b>Current state:</b></p> <p>NHA is currently using following key IT systems / modules, which are licensed versions:</p> <ul style="list-style-type: none"> <li>▶ Panda security system</li> <li>▶ Operating systems in laptops</li> <li>▶ Ms office in laptops</li> </ul> <p><b>Gap:</b></p> <p>However, we observed that operating systems and Microsoft office applications installed on stand alone systems of various users does not have a valid license.</p>	Using unlicensed software may result in penalties and legal proceedings against NHA.	<p>We recommend that only licensed software should be used for the IT systems at NHA.</p> <hr/> <p><b>Responsible person:</b> Director MIS</p>
<p><b>Management comments</b></p> <p>NHA Computer Bureau agreed to licensed software. A case for the purchase of licensed software for 500 users including Operating System, Ms Office, System and Application software is in process.</p>			

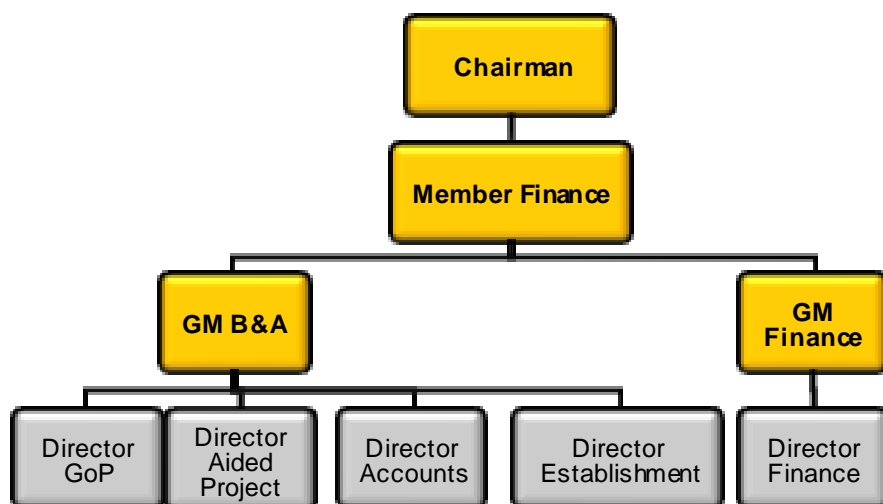
Ref	Issue	Impact	Recommendation
ix)	<p><b>Non existence of IT strategic plan to align IT operations / capacity building with entity's strategic plan</b></p> <p><b>Issue rating:</b> </p> <p><b>Current state:</b></p> <p>In order to focus on core objectives of the entity in the short, medium and long term, organisations develop strategic plan that lays out the direction of NHA. These plans are developed by the senior management after wide ranging consultations with various stakeholders of the organisation.</p> <p>An IT strategic plan is made because :</p> <ul style="list-style-type: none"> <li>▶ It involves high cost;</li> <li>▶ It is critical to the success of the organisation; and</li> <li>▶ It is part of the overall organisational strategy and critical for organisation success.</li> </ul> <p><b>Gap:</b></p> <p>We observed that NHA has formulated an overall entity level strategic plan, however, it does not include IT strategic plan.</p>	<p>IT strategies may not be aligned with NHA-wide strategic plan, causing inefficiencies and ineffectiveness in application of the overall plan.</p>	<p>We recommend that IT strategic plan should be developed which should be aligned with the overall strategic plan of NHA.</p> <hr/> <p><b>Responsible person:</b> Director MIS</p>
<p><b>Management comments</b></p>			
<p>Chairman NHA recently approved a road map for the development and deployment of Enterprise Resource Planner (ERP) software. It is agreed that IT Strategic plan should be aligned with the overall strategic plan NHA. For this purpose efforts are being started for the needful</p>			

Ref	Issue	Impact	Recommendation
<p>x)</p>	<p><b>Non existence of IT help desk to facilitate users</b></p> <p><b>Issue rating:</b> <span style="background-color: #FFD700; border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> As per current practice, concerned employee intimates the respective IT administrator for resolution of IT systems related query. IT administrator resolves the query or forwards the matter to the Director MIS if he/she cannot resolve the matter.</p> <p><b>Gap:</b> We noted that there is no formal mechanism for raising, maintaining records and resolving query / complaints in timely manner.</p>	<ul style="list-style-type: none"> <li>▶ This may impair operational efficiency of respective employee/office.</li> <li>▶ Users may get de motivated if they keep facing problems with the IT systems</li> </ul>	<p>We recommend a formal documented mechanism whereby:</p> <ul style="list-style-type: none"> <li>a) Queries are resolved and recorded assigning a query reference</li> <li>b) Defined responsibilities and turnaround time depending on nature of queries / complaints</li> <li>c) Escalation in case of queries / complaints resolution.</li> </ul> <p><b>Responsible person:</b> Director MIS</p>
<p><b>Management comments</b></p>			
<p>NHA Computer Bureau has IT help desk services in operation. To access the services of the help desk representatives for resolving the hardware, software, virus, networking and internet related problems, users are dialing extension No.655 &amp; 834 and register the complaint. A representative of NHA Computer Bureau is trying at his level best for immediate solution of problem. If problem cannot be solved locally, the user is supposed to fill a defect report form; the system is then handed over to the vendor for fixing the problem. Delay is only due to the shortage of Technical staffing.</p> <p>This procedure of repair &amp; maintenance is also given in SOPs .however recommendation of USAID team is noted for the further improvement</p>			

### 3.2 Financial management, budgeting and accounting systems

The Finance Wing is headed by Member Finance who reports directly to the Chairman NHA. Finance Wing is a decentralized function as activities are performed / approved at head office as well as at regional offices and self account units.

The following is an overview of the current structure of Finance Wing



Following is the profile of the key team members of the Finance Wing

S. No.	Designation	Qualification	Experience (Years)	
			NHA	Others
1	GM (B&A)	MBA / LLB	1	26
2	Director Aided Project	MBA	21	5
3	Director GoP	MA/ LLB	21	10
5	Director Accounts	MBA	4	20
6	DDO	MBA Finance	9	12
7	Financial Analyst	ACCA	4	5

Role of each section of Finance Wing at head office level, regional level and self account unit level is as follows:

Section name	Headed by	Responsible for dealing with matters pertaining to
<b>Head office level</b>		
GoP Section	Director GoP	Process of payments related to government funded projects
Aided Section	Director Aided Project	Process of payments related to donors funded projects
Payment Section	Drawing and Disbursement Officer	Disbursement of payments for both government funded and donor funded projects
Establishment Section	Director Establishment	Pay roll processing
Revenue Section	Director Accounts	Collection of revenues from different sources
Budget Section	Director Accounts	Preparation of budgets and variance analyses
Book Keeping Section	Financial Analyst	Reporting of Finance Wing
<b>Regional office level (in all 9 regional offices)</b>		
Account Section	Director Accounts (reports to GM budget and Account (GM B&A) at the head office.)	Finance and accounts of respective regional office including payroll processing, payment to contractors, payment to employees as per delegation of authority.

In addition to above sections and regional offices, three self accounts units are also working each under GM Construction, GM M1 (Bulkasar) and GM M2 (Burhan) and are responsible for dealing matters pertaining to finance and accounts including payroll processing, payment to contractors, payment to employees etc as per delegation of authority. They report to GM B&A at head office for finance related matters.

Broadly the activities of Finance Wing include the following:

- ▶ Planning and budgeting
- ▶ Cash and bank management (including petty cash)
- ▶ Pay roll management
- ▶ Fixed asset management
- ▶ Inventory management
- ▶ Books of accounts and reporting
- ▶ Financial management systems

### 3.2.1 Planning and budgeting

After every five years, NHA prepares a five years plan that is based on long term strategic objectives of NHA and it is approved by NHC. Every year the development and non development budgets are prepared separately and approved through a one line budget in the pink book. Non development budget is divided into further two components including maintenance and establishment.

#### a) Types of budget

##### Development budget:

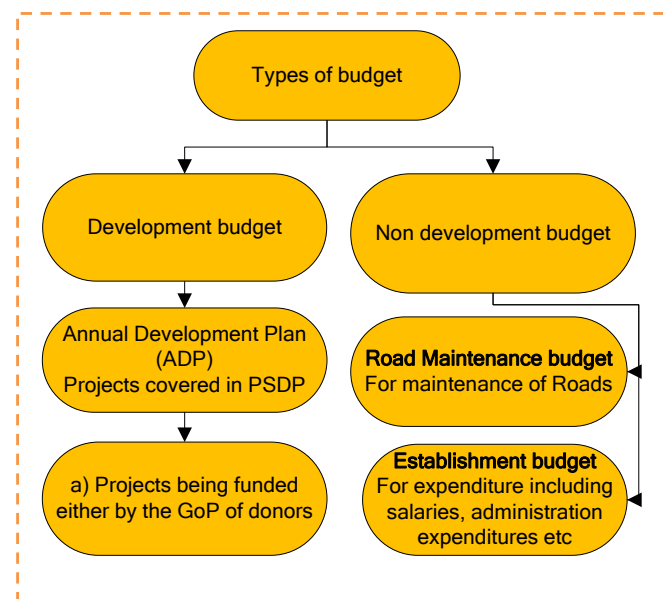
Annual Development Plan (ADP) relates to the projects and programs being covered in the Public Sector Development Program (PSDP) which includes the following:

- ▶ Projects being funded by the GoP denominated in local currency in the form of Cash Development Loan (CDL); and
- ▶ Foreign aid denominated in foreign currency that includes loans from different donor agencies (e.g. Asian Development Bank, World Bank, Japan International Cooperation Agency, Kuwait fund, Saudi Fund etc). CDL is interest free for first 5 years and foreign aid is a relent loan and GoP is responsible for their repayment.

##### Non development budget:

Non development budget is divided into the following:

- ▶ Road maintenance budget - pertains to maintenance of motorways and highways which is mainly funded through internally generated revenue and through government grants; and
- ▶ Establishment budget - pertains to routine nature expenditure including salaries, administration expenditures etc. and is normally 1% of total allocated amount of development budget along with designated amount in non development budget, grant from GoP and internally generated revenue.



## b) Preparation of budget

### Development budget:

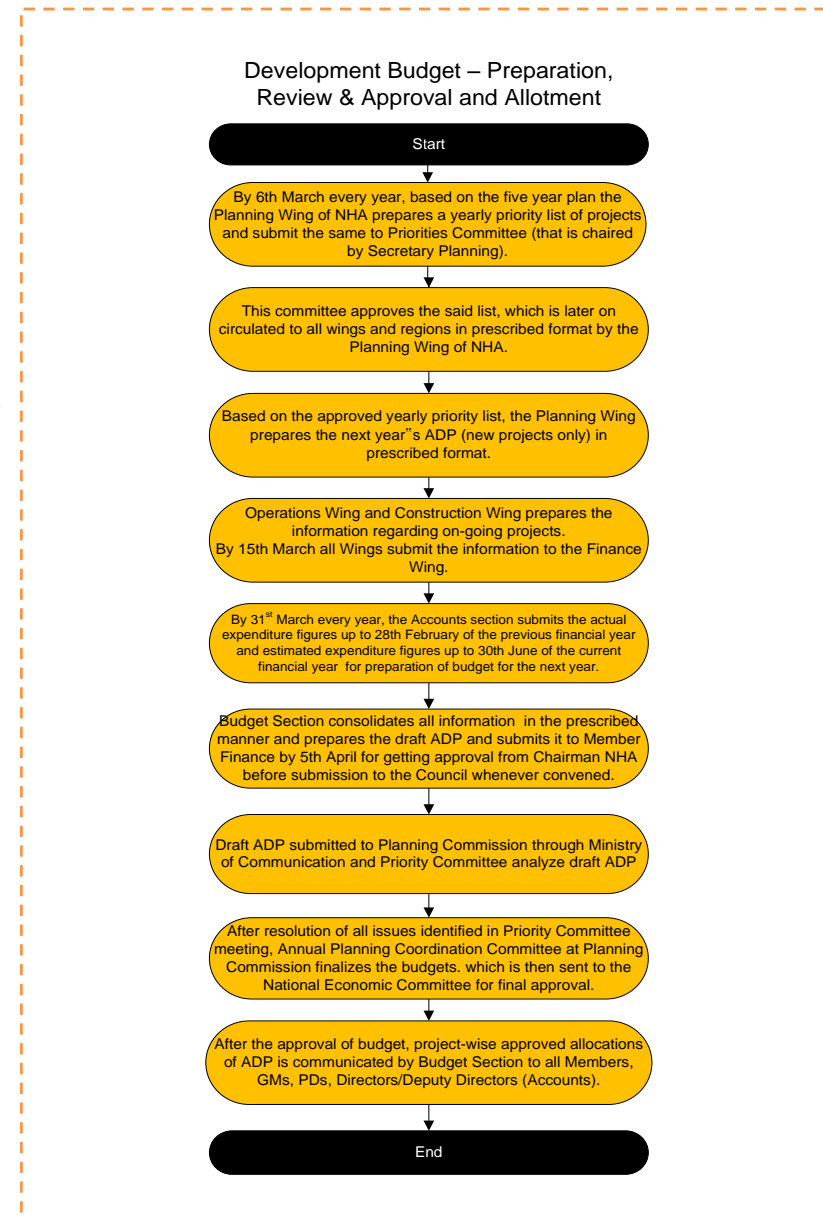
Preparation of ADP is a coordinated effort between the Planning, Operations, Construction and Finance Wings but ultimate responsibility for its consolidation is with the Finance Wing. On the basis of approved five years plan, the Planning Wing prepares ADP. Planning Wing is responsible for preparation of detailed project estimates as well as PC-1 where applicable in respect of each project included in the plan.

By 6th March every year, based on the five year plan the Planning Wing of NHA prepares a yearly priority list of projects and submits the same to Priorities Committee (that is chaired by Secretary Planning). This committee approves the said list, which is later on circulated to all wings and regions in prescribed format by the Planning Wing of NHA.

Based on the approved yearly priority list, the Planning Wing prepares the next year's ADP (new projects only) in prescribed format whereas Operations Wing and Construction Wing prepare the information regarding on-going projects. By 15th March, all Wings submit the information to the Finance Wing.

By 31st March every year, the Accounts section of Finance Wing at head office / regional offices submits to the Budget Section the actual expenditure figures up to 28th February of the previous financial year and estimated expenditure figures up to 30th June of the current financial year. These figures are in respect of each on-going project for preparation of budget for the next year.

Budget Section of Finance Wing consolidates the information received from all the concerned wings in the prescribed manner and prepares the draft ADP (inclusive of new as well as on-going projects) and submits it to Member Finance by 5th April. The approval of the ADP is obtained from Chairman NHA before submission to the Council, whenever convened.



As per the current mechanism, donor agencies are not involved in the budgeting process at the preparation stage of construction projects and are only requested to finance certain projects based on the approved budgets prepared under this process.

### Non development budget:

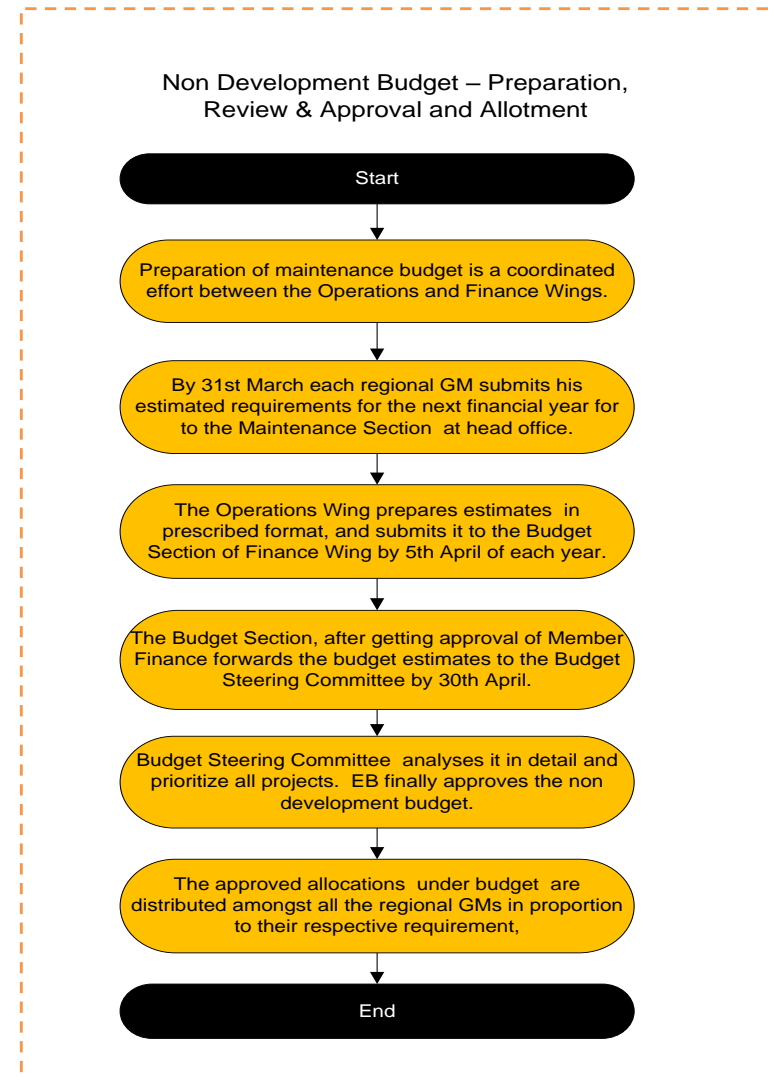
For maintenance budget – preparation of maintenance budget is a coordinated effort between the Operations and Finance Wings. By 31st March each regional GM is required to submit his estimated requirements for the next financial year for maintenance of national highways to the Maintenance Section of Operations Wing at head office. The Operations Wing (Maintenance section) prepares revised maintenance estimates for the current year and budget estimates for the next financial year in prescribed format, and submits it to the Budget Section of Finance Wing by 5th April of each year. The Budget Section, after getting approval of Member Finance forwards the budget estimates to the EB by 30th April.

For establishment budget – As establishment budget mainly relates with salaries of employees and other administrative expenses, the Administration Wing is responsible for preparing estimates for establishment budget in respect of the sanctioned strength of NHA plus any additional strength approved by the EB.

The establishment budget mainly contains two parts:

- ▶ For salaries and related cost, Establishment Section of Finance Wing at head office level while all regional GMs at regional level, provide their detailed head-wise demands, in respect of the employees posted in their respective areas, to the Administration Wing by 31st March every year. The latter then consolidates and forwards the same to the Budget Section by 5th April of each year.
- ▶ For all other costs, estimates are prepared on the basis of actual expenditure incurred during previous years and the anticipations for the next year.

The Establishment Section in Finance Wing at head office and each accounts section in regional office provides the information of their section such as detailed head-wise expenditure of establishment charges for the past three financial years, as well as the expenditure up to 28th February of the current financial year and expected figures up to 30th June to the Administration Wing by 31st March. The information is supplied in



prescribed format to Budget Section of Finance Wing by 5th April of each year. The Budget Section, after getting approval of Member Finance forwards the budget estimates to the EB by 30th April.

**c) Review and approval of budgets**

**Development budget:**

After arrangement of funds, the budgets are submitted to Planning Commission through Ministry of Communication. A Priority Committee meeting chaired by Secretary Planning is held at the Planning Commission where NHA is represented by Secretary Ministry of Communication. After resolution of all issues identified in Priority Committee meeting, Annual Planning Coordination Committee at Planning Commission finalizes the budgets. The budgets are then sent to the National Economic Committee chaired by the Prime Minister for final approval.

There is no involvement of donors in review and approval of annual budgets as the loan agreement is signed at the stage of fund arrangement before approval of budgets. However, compilation of annual budget does take into consideration the donor project time lines and funds availability.

**Non development budget:**

After preparation of consolidated non development budget which includes annual maintenance budget and establishment budget, Steering Committee which also consists of regional GMs (composition of this committee available in Annexure 8 of the report) analyse it in detail and prioritize proposed projects based on estimated available funds at that time along with urgency for project. After prioritization of projects, EB finally approves the non development budget.

**d) Budget allotment after approval**

**Development budget:**

After the approval of budget, project-wise approved allocations of ADP is communicated by Budget Section to all Members, GMs, PDs, Directors/Deputy Directors (Accounts). Such allocations specify the amount allocated for each project which is then required to be considered / monitored as detailed below.

**Non-development budget:**

The approved allocations for maintenance of national highways and establishment charges are distributed amongst all the regional GMs in proportion to their respective requirement, under intimation to the Directors/Deputy Directors (Accounts) concerned. The amounts allocated for maintenance and establishment budgets are defined region wise and final amounts allocated for the same are communicated to the respective regions and sections.

**e) Budget monitoring****Development budget:**

The Finance and Construction Wings are responsible for monitoring of development budget. The Finance Wing deals with financial aspects of monitoring whereas the Construction Wing deals with operational aspects of monitoring.

The Finance Wing ensures at the time of hiring of consultant / contractors that the amount of procurement does not exceed the allocated budget for the activity. Further, compliance with budget is also ensured at the time of processing of payments during life of the project. For this AD Accounts at head office level cross checks it with the approved PSDP to ensure that yearly allocation for the project is available before processing the payment.

Monthly progress reports prepared by independent consultant for different project also serve as monitoring tool of budget on a periodical level. On the basis of progress reports of all the projects, Finance and Construction Wing prepare consolidated progress reports on a monthly basis that shows current status of both financial and non financial aspects of all projects. This report is presented in each monthly EB meeting.

Moreover, quarterly review meetings are held at the Planning Commission in which the Secretary NHA presents overall progress of ongoing projects against allocated amount and actual spending to justify the reasons for variances.

**Non development budget:**

The Finance Wing and Operations Wing are responsible for monitoring of non development budget (including maintenance and establishment budget) that includes both maintenance and establishment expenses. The Finance Wing deals with financial aspects of monitoring whereas the Operations Wing deals with operational aspects of monitoring.

The Finance Wing ensures at the time of hiring of consultant / contractors, that the amount of procurement does not exceed that allocated budget for the activity, further, compliance with budget is also ensured at the time of processing of payments during life of the project. For this AD Accounts at head office level consults the approved non development budget to ensure that yearly allocation for the project is available before processing the payment.

Budget Section prepares progress reports by compilation of information provided from Finance Wing and Operation Wing on a monthly basis showing the current status of ongoing repair and maintenance projects. This report is presented in each monthly EB meeting.

**f) Budget re-appropriation:****Development budget:**

In case of development projects, for budget re-appropriations, Member Construction based on the quarterly consolidated report of projects prepares specific proposals for re-appropriations, if any, in prescribed format and forwards it to the Budget Section by the third quarter (15th April) of respective year. The Budget Section works out the exact amount of savings and additional requirement of funds, and prepares a case for re-appropriation in the prescribed format for submission to Chairman NHA for approval. As per Chapter 2 Section 9 (4) of NHA Act 1991, the Chairman NHA on the recommendations of the Executive Board has the power to re-appropriate funds from one project to another on the basis of progress of projects”.

In case there are no savings available with NHA to account for re-appropriation, the Planning Commission is approached for diversion of necessary funds from anticipated savings of other departments / autonomous bodies (outside NHA). The Budget Section prepares the case according to the format prescribed by the Planning Commission.

**Non development budget:**

In case of development projects, re appropriation is not in practice. At the time of preparation of non development budget, separate amount is designated as emergency fund to meet unexpected variations in project cost and other emergencies.

### 3.2.2 Cash and bank management

#### a) Bank accounts management

NHA EB approves the list of the designated banks with which all banking transactions of NHA are conducted. No bank account can be opened without the written approval of Member Finance. Foreign currency bank accounts are also maintained for receiving funds from international donors.

Each account is operated by joint signatures of at least two designated signatories as representatives of Member Finance. Detail of each bank account maintained at head office, regional office and project office level along with respective bank signatories is provided in table below:

Category of account	Type of account	Nature of bank account and name of bank	Purpose of account	Bank signatories
<b>Head office level bank accounts</b>				
NHA Fund Accounts	Main Account	<ul style="list-style-type: none"> <li>▶ Current Account in NBP</li> <li>▶ Profitable Account in ABL</li> <li>▶ Profitable Account in MCB</li> <li>▶ Profitable Account in UBL</li> </ul>	This bank account is maintained for crediting all GoP releases for the approved Annual Development Program (ADP) of NHA, including land acquisition, and any other government release.	The signatories to all NHA head office bank accounts except for Special Accounts (which are operated according to the agreement with the donors) are the following officers as designated by Member Finance: <ul style="list-style-type: none"> <li>▶ Director Budget &amp; Accounts (B&amp;A)</li> <li>▶ Director Establishment &amp; Accounts (E&amp;A)</li> <li>▶ Deputy Director Fund Management &amp; Coordination (FMC)</li> <li>▶ Drawing &amp; Disbursing Officer</li> </ul>
	Special FC Accounts	<ul style="list-style-type: none"> <li>▶ Current Account in NBP</li> </ul>	This bank account is maintained for crediting all donor funding. There may be a separate account for each donor agency if so required by it.	
	Maintenance Account	<ul style="list-style-type: none"> <li>▶ Current Account in NBP</li> <li>▶ Profitable Account in ABL</li> <li>▶ Profitable Account in MCB</li> <li>▶ Profitable Account in UB</li> </ul>	This bank account is maintained for crediting all GoP releases against approved allocations for maintenance of national highways.	
	Regular/Special Establishment Account	<ul style="list-style-type: none"> <li>▶ Current Account in NBP</li> <li>▶ Profitable Account in UBL</li> </ul>	This bank account is maintained for crediting all GoP releases against allocation for establishment charges.	
	Receipts Account	<ul style="list-style-type: none"> <li>▶ Profitable Account in UBL</li> </ul>	This bank account is maintained for crediting all types of receipts of NHA.	

Category of account	Type of account	Nature of bank account and name of bank	Purpose of account	Bank signatories
	Imprest Accounts	▶ Profitable Account in UBL	This bank account is maintained for crediting the amount advanced from any of the above Accounts for specific purposes.	
Non Fund Accounts	Retention Money Accounts	▶ Profitable Account in UBL	All retention money, security deposits, deposit works and fund approved for any other purpose is deposited in this Account.	
	CP/GP Fund Account	▶ Profitable Account in UBL	This bank account is maintained for crediting the amount deducted from the employees as CP/GP fund deductions and profit earned on investments.	
<b>Regional level office level bank accounts</b>				
NHA Fund Accounts	Establishment Account	▶ Profitable Account in UBL	This bank account is maintained for crediting all GoP funds transferred against allocation for establishment charges.	The signatories at all the regional offices bank accounts are the following officers as designated by Member Finance: ▶ Director Accounts of the region concerned ▶ DDA of the region concerned
	Maintenance Account	▶ Profitable Account in MCB ▶ UBL: Profitable Account	This bank account is maintained for crediting all GoP funds transferred against approved allocations for maintenance of national highways.	
	Receipts Account	▶ Profitable Account in UBL	This bank account is maintained for crediting all types of receipts of NHA, including tolls, quarries, bank profit on NHA funds etc.	
	Projects Account	▶ Profitable Account in MCB ▶ Profitable Account in UBL	This bank account is maintained for crediting all amounts transferred by the Head Office to cover any payment related with a construction project being executed in the region.	
Non Fund Accounts	Security Deposits Accounts	▶ Profitable Account in MCB ▶ Profitable Account in UBL	All security deposits, retention money, deposit works and fund approved for any other purpose is deposited in this account.	
<b>Project office level bank accounts</b>				
	Project Account	▶ Profitable Account in ABL ▶ Profitable Account in MCB	This bank account is maintained for crediting all releases of GoP funds from NHA head office to	The signatories to all Project Offices Bank Accounts are

Category of account	Type of account	Nature of bank account and name of bank	Purpose of account	Bank signatories
		▶ Profitable Account in UBL	the project.	the following officers as designated by Member Finance.
	Imprest Accounts	▶ Current Account in NBP ▶ Profitable Account in UBL	This bank account is maintained for meeting petty expenses like repair and maintenance, petrol, oil and lubricants, stationery item etc.	<ul style="list-style-type: none"> <li>▶ Director Accounts of the Project</li> <li>▶ DDA of the Project</li> <li>▶ Assistant Director Accounts (ADA) of the Region</li> </ul>

#### b) Imprest cash management for petty expenses

*Petty cash is not maintained at head office level. We have been informed that in past years, petty cash was maintained by Director Establishment for procurement of petty items but this practice was discontinued based on senior management decision.* The amount of imprest to be maintained at project sites is PKR 25,000 and is based on the size of the project and fund requirements at the site which can be increased at the discretion of Member Finance. Imprest at project sites is maintained in bank accounts. All payments above Rs. 5,000/- are made through crossed cheque. The project director at project site is the authorized signatory.

Imprest is approved by Member Finance who specifies in his order conveying sanction of the following:

- ▶ The maximum amount of the imprest.
- ▶ Method and Periodicity of replenishment of the imprest.
- ▶ Particulars of items of expenditure to be paid for in cash out of the imprest.
- ▶ Place/Station/Office where the imprest will be operated and the person entrusted with the operation of the imprest.

### 3.2.3 Revenue

Revenue Section in the Finance Wing is responsible for recording of all receipt generated from following sources.

- ▶ Toll income
- ▶ Income from weigh stations
- ▶ Police fines
- ▶ Rental income
- ▶ Sale of tender documents
- ▶ No Objection Certificate (NOC) and renewal fee

#### a) Toll income

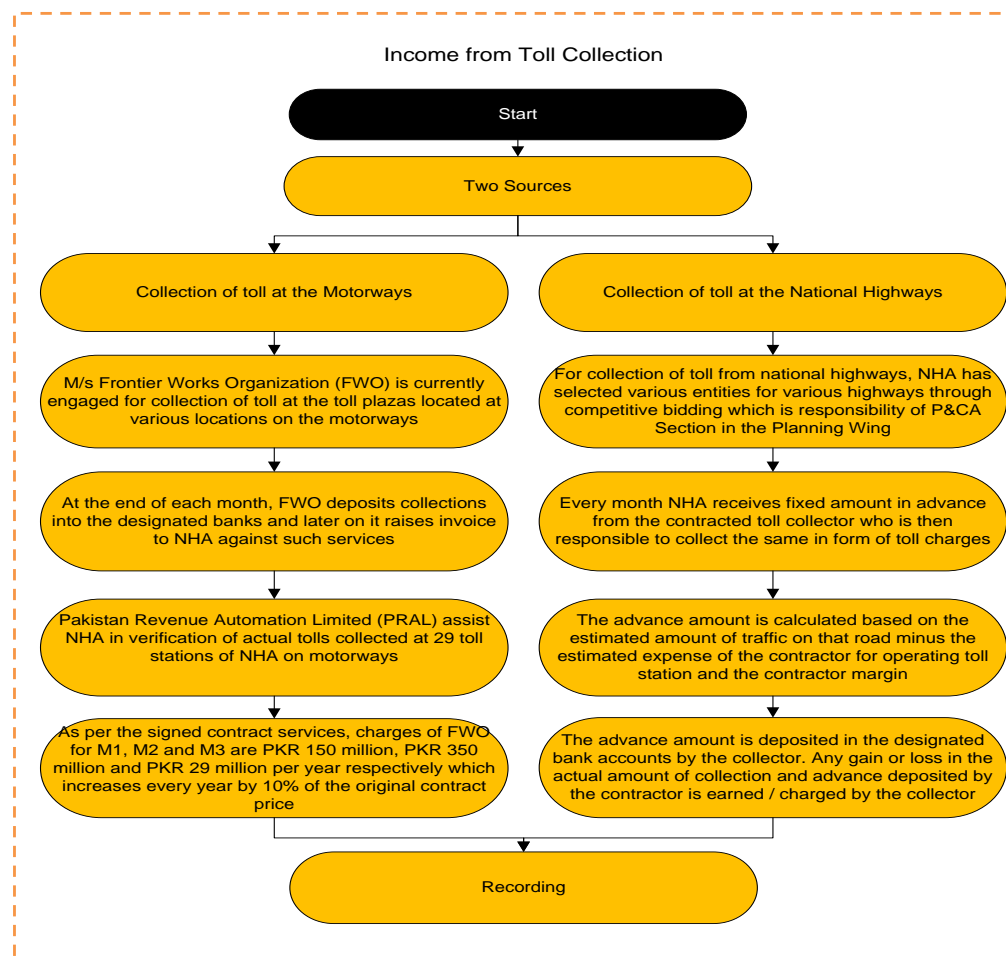
Major source of revenue for NHA is from receipt of toll charges collected from vehicles, which use the infrastructure of highways (both motorways and national highways). In 2011, as per the audited financial statements toll collection amounted to PKR 10.90 billion which is 85% of the total revenue (PKR 12.80 billion) of NHA.

As informed to us by the management, currently there are 92 toll collection plazas / spots all over the country. NHA has hired external contractors for maintenance and collection of toll from motorways and national highways as per agreed terms and conditions.

Detail of each mechanism under toll income is as follows:

- ▶ **Collection of toll at the motorways:** As per the audited financial statements for the year ended 30 June 2011, NHA generated revenue of PKR 2.83 billion from toll charges collected at the motorways, which is 25.82% of the total toll income in 2011.

M/s Frontier Works Organization (FWO) is currently engaged for collection of toll at the toll plazas located at various locations on



the motorways. At the end of each month, FWO deposits collections into the designated banks and later on it raises invoice to NHA against such services. The responsibility of cash collection and management is the responsibility of FWO.

Pakistan Revenue Automation Limited (PRAL) assists NHA in verification of actual tolls collected at 29 toll stations of NHA on motorways. Toll collection has been computerized by PRAL through a system which controls the ticket issuing machines, barriers, scanners, signal lights and lane access lights etc.

As per the signed contract services, charges of FWO for M1, M2 and M3 are PKR 150 million, PKR 350 million and PKR 29 million per year respectively which increases every year by 10% of the original contract price.

- ▶ **Collection of toll at the national highways:** As per the audited financial statements for the year ended 30 June 2011, NHA generated revenue of PKR 8.13 billion from toll charges collected at the highways, which is 74.18% of the total toll income in 2011

For collection of toll from national highways, NHA has selected various entities for various highways through competitive bidding which is responsibility of P&CA Section in the Planning Wing.

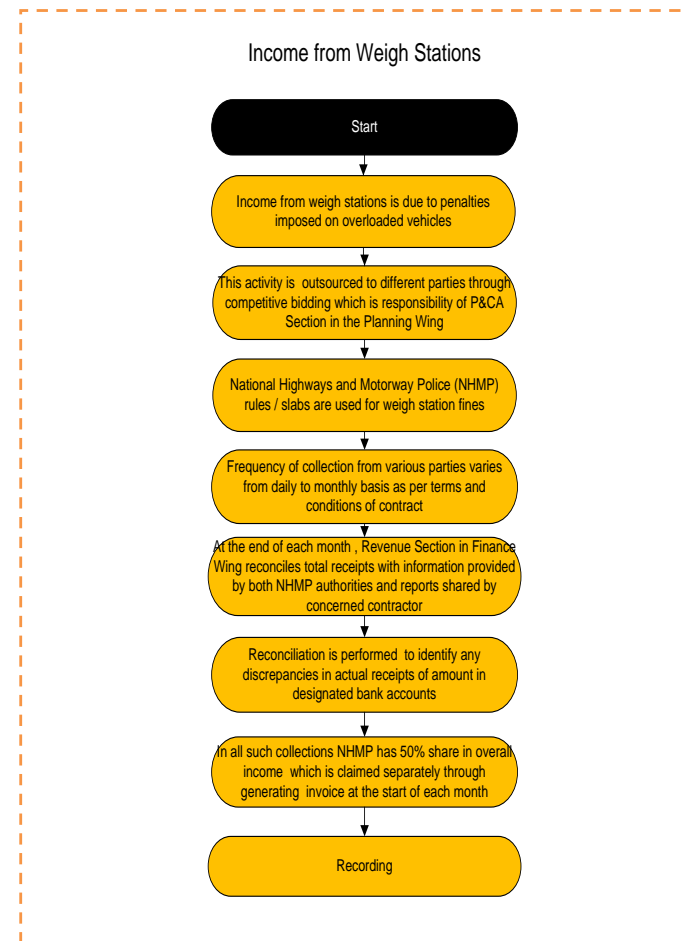
Under the arrangement, every month NHA receives fixed amount in advance from the contracted toll collector who is then responsible to collect the same in form of toll charges. The advance amount is calculated based on the estimated amount of traffic on that road minus the estimated expense of the contractor for operating toll station and the contractor margin. The toll rate is set by NHA and it is calculated by using a specific formula that considers Consumer Price Index (CPI).

The advance amount is deposited in the designated bank accounts by the collector. Any gain or loss in the actual amount of collection and advance deposited by the contractor is earned / charged by the collector.

**b) Income from weigh stations**

As per the audited financial statements for the year ended 30 June 2011 overload fines is PKR 730.20 million, being 6% of the total revenue (PKR 12.8 billion).

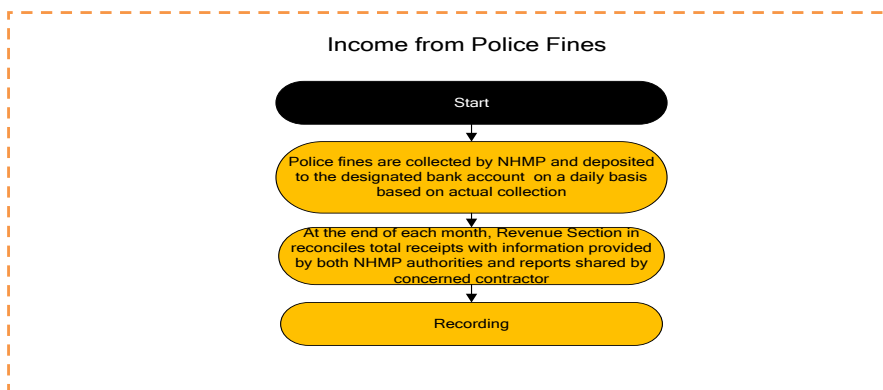
Another source of revenue of NHA is income from weigh stations due to penalties imposed on overloaded vehicles. This activity is also outsourced to different parties through competitive bidding which is responsibility of P&CA Section in the Planning Wing.



National Highways and Motorway Police (NHMP) rules / slabs are used for weigh station fines. Frequency of collection from various parties varies from daily to monthly basis as per terms and conditions of contract with different parties which is deposited into designated NHA bank account (operated at head office level).

At the end of each month, Revenue Section in Finance Wing reconciles total receipts with information provided by both NHMP authorities and reports shared by concerned contractor to identify any discrepancies in actual receipts of amount in designated bank accounts.

In all such collections NHMP has 50% share in overall income from weigh station fines which are claimed separately through generating invoice at the start of each month.



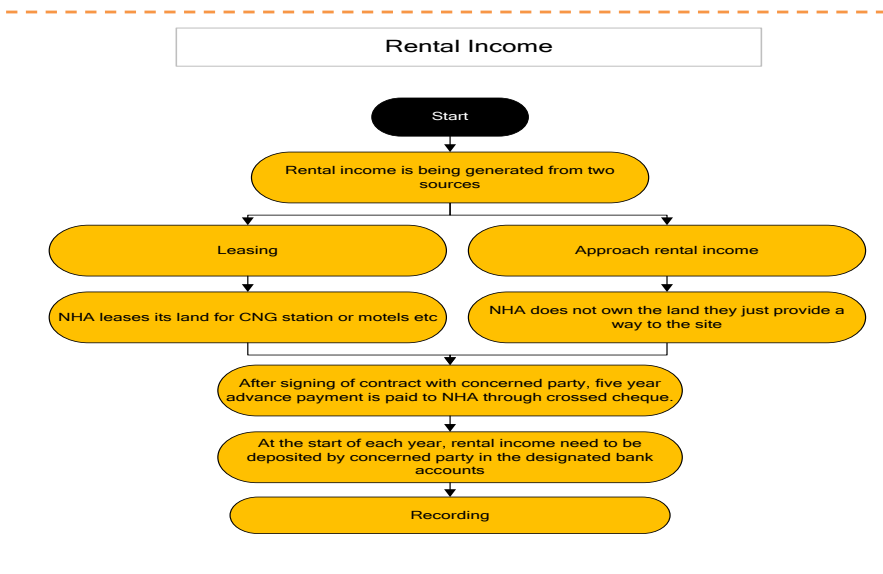
**c) Police Fines:**

As per the audited financial statements for year ended 30 June 2011 police fines collections amounted to PKR 722 million, being 6% of the total revenue for 2011 (PKR 12.80 billion).

Police fines are collected by NHMP and deposited to the designated bank account (operated by NHA head office) on a daily basis based on actual collection.

At the end of each month, Revenue Section in Finance Wing reconciles total receipts with information provided by both NHMP authorities and reports shared by concerned contractor to identify any discrepancies in actual receipts of amount in designated bank accounts.

In all fine collections NHMP has 50% share in overall income from police fines that are claimed separately through generating invoice at the start of each month.



**d) Rental Income**

As per the audited financial statements for the year ended 30 June 2011, rental income amounted to PKR 0.32 billion being 2.5% of the total revenue (PKR12.80 billion).

Rental income is being generated from two sources, as follows:

- ▶ Leasing – NHA leases its land for CNG station or motels etc.
- ▶ Approach rental income – where NHA does not own the land, they just provide a way to the site.

After signing of contract with concerned party, five year advance payment is paid to NHA through crossed cheque and later on, at the start of each year, rental income need to be deposited by concerned party in the designated bank accounts.

#### e) Other Income

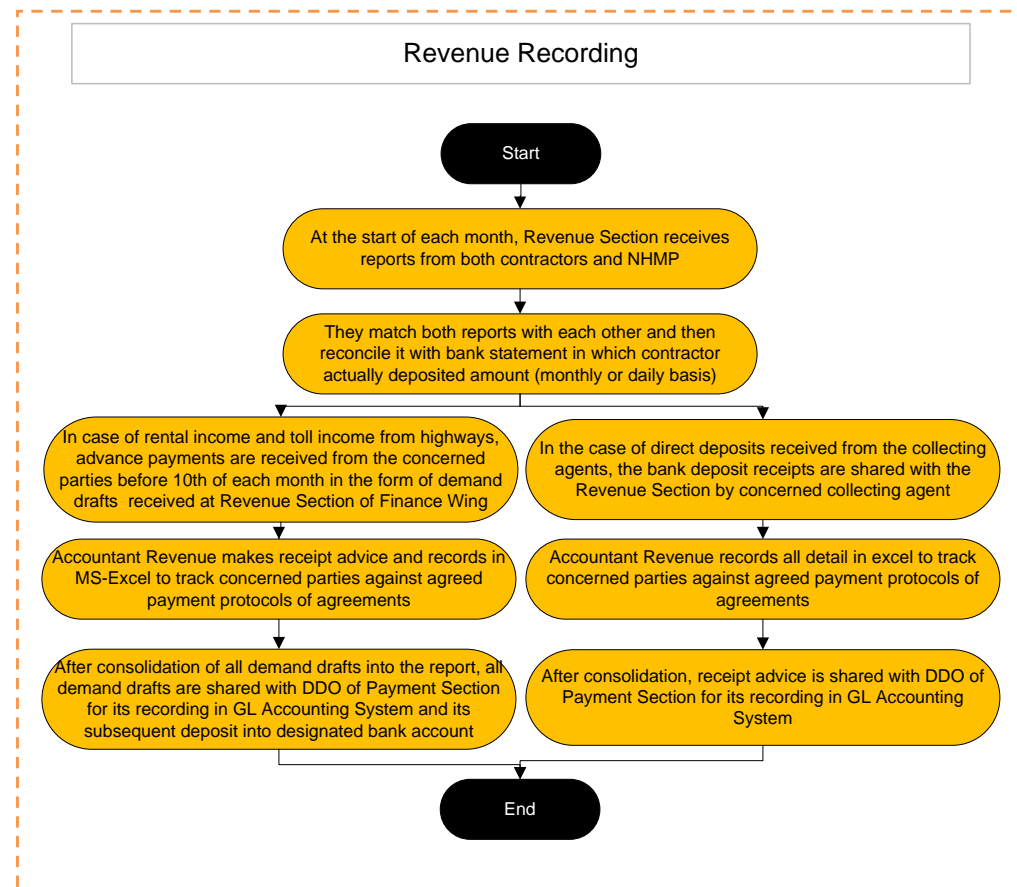
Other sources of revenue include receipts from car auctions, bank interest. In 2011, other income amounted to PKR 0.275 billion.

#### f) Recording of income at head office level

There is designated section (i.e. Revenue Section) in Finance Wing for recording of all types of revenue documented above.

At the start of each month, Revenue Section receives reports from both contractors and NHMP (related to toll income from motorway, police fines, weigh station income). They match both reports with each other and then reconcile it with bank statement in which contractor actually deposited amount (either on daily basis or monthly basis as per terms and condition of contracts).

In case of rental income and toll income from highways, advance payments are received from the concerned parties before 10<sup>th</sup> of each month in the form of demand drafts received at Revenue Section of Finance Wing. Accountant Revenue makes receipt advice and records in MS-Excel to track concerned parties against agreed payment protocols of agreements. After consolidation of all demand drafts into the report, all demand drafts are shared with DDO of Payment Section for its recording in GL Accounting System and its subsequent deposit into designated bank account.



In the case of direct deposits received from the collecting agents, the bank deposit receipts are shared with the Revenue Section by concerned collecting agent. Accountant Revenue records all detail in excel to track concerned parties against agreed payment protocols of agreements. After consolidation, receipt advice is shared with DDO of Payment Section for its recording in GL Accounting System.

### 3.2.4 Payments process

Payments are made for the following major categories:

- ▶ Payment for new construction projects (development projects) / land acquisition, removal of utilities and allied expenses.
- ▶ Payment for maintenance works (non development projects)
- ▶ Payment for establishment expenses

Payment for new construction projects and land acquisition, removal of utilities and allied expenses are made centrally from head office whereas all other payments are decentralized at the regional office and self account unit levels. Following is the delegation of authority matrix for processing of payments:

Designation	Approved limit (PKR)		
	Head office level	Self account unit level	Regional office level
	Payment Type		
	Payment for new construction projects (development projects)/land acquisition, removal of utilities and allied expenses.	Payment for establishment expenses	Payment for maintenance works (non development projects)
Member Finance	Above 50 million		-
GM B&A	20 to 50 million		-
Director Accounts	5 to 20 million		Above 20 million
Deputy Director Accounts	0.05 to 5 million		0.05 to 20 million
Assistant Director Accounts	Up to 0.05 million		

Below is the payment process for each of the above:

**a) Payment for new construction projects / land acquisition, removal of utilities and allied expenses**

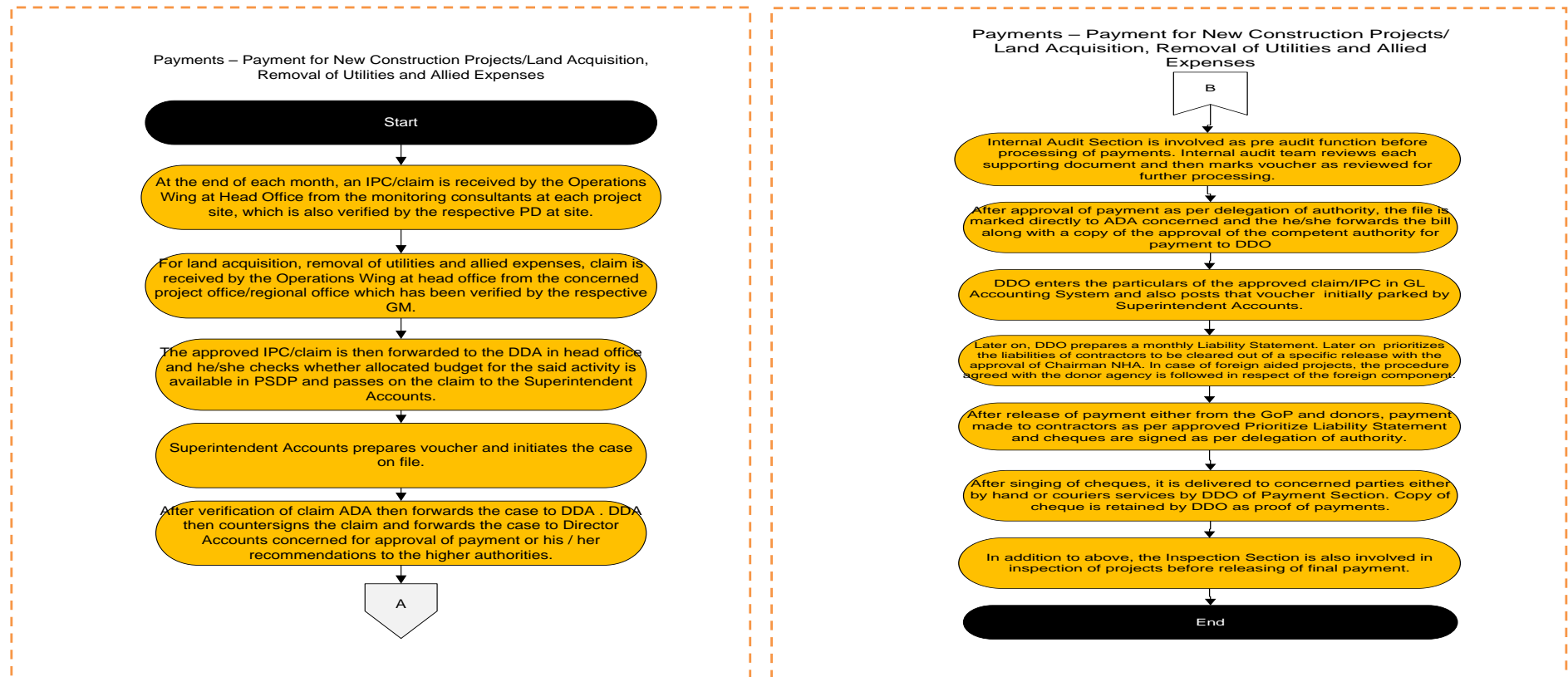
For new construction projects at the end of each month, an Interim Payment Certificate (IPC)/claim is received by the Operations Wing at Head Office from the monitoring consultants at each project site, which is also verified by the respective PD at site.

For land acquisition, removal of utilities and allied expenses, claim is received by the Operations Wing at head office from the concerned project office/regional office which has been verified by the respective GM.

Below is the detailed claim verification and payment process:

- ▶ The approved IPC/claim is then forwarded to the DDA in head office who marks it to the concerned ADA. ADA records the claim in the bills register maintained for recording all outstanding bills for payments. ADA checks whether allocated budget for the said activity is available in PSDP and passes on the claim to the Superintendent Accounts to conduct 100% arithmetic check of the claim.
- ▶ After performing 100% arithmetic check, the Superintendent Accounts prepares voucher, initiates the case on file and certifies on the noting portion that he has performed the prescribed check. ADA again thoroughly scrutinizes the claim.
- ▶ In addition to the above in case of checking claims of consultants, ADA also examines that recruitment of local staff of consultant is in accordance with designation, man months and cost given in the contract.
- ▶ After verification of claim, ADA then forwards the case to DDA with his / her specific recommendations. DDA examines the case and certifies on the noting portion of the file about verification of claim. DDA then countersigns the claim and forwards the case to Director Accounts concerned for approval of payment or his / her recommendations to the higher authorities.
- ▶ Internal Audit Section is involved as pre audit function before processing of payments. Internal audit team reviews each supporting document and then marks voucher as reviewed for further processing.
- ▶ After approval of payment as per delegation of authority, the file is marked directly to ADA concerned who records the approval of the competent authority in the bills register and forwards the bill along with a copy of the approval of the competent authority for payment to DDO and obtain his dated signatures in the relevant column of the bills register.
- ▶ DDO enters the particulars of the approved claim/IPC in GL Accounting System and also posts that voucher initially parked by Superintendent Accounts. Number and date of each check are entered in the relevant column of vouchers that maintained in GL Accounting System.

- ▶ Later on, DDO prepares a monthly Liability Statement in the format approved by Member Finance who with the approval of the Chairman NHA prioritizes the liabilities of contractors to be cleared out for a specific release. In case of foreign aided projects, the procedure agreed with the donor agency is followed in respect of the foreign component.
- ▶ After release of payment either from the GoP and donors, payment made to contractors as per approved Prioritize Liability Statement and cheques are signed as per delegation of authority .
- ▶ After signing of cheques, it is delivered to concerned parties either by hand or couriers services by DDO of Payment Section. Copy of cheque is retained by DDO as proof of payments.
- ▶ In addition to above, the Inspection Section is also involved in inspection of projects before releasing of final payment. Please refer to Section 3.6 of this report for details.

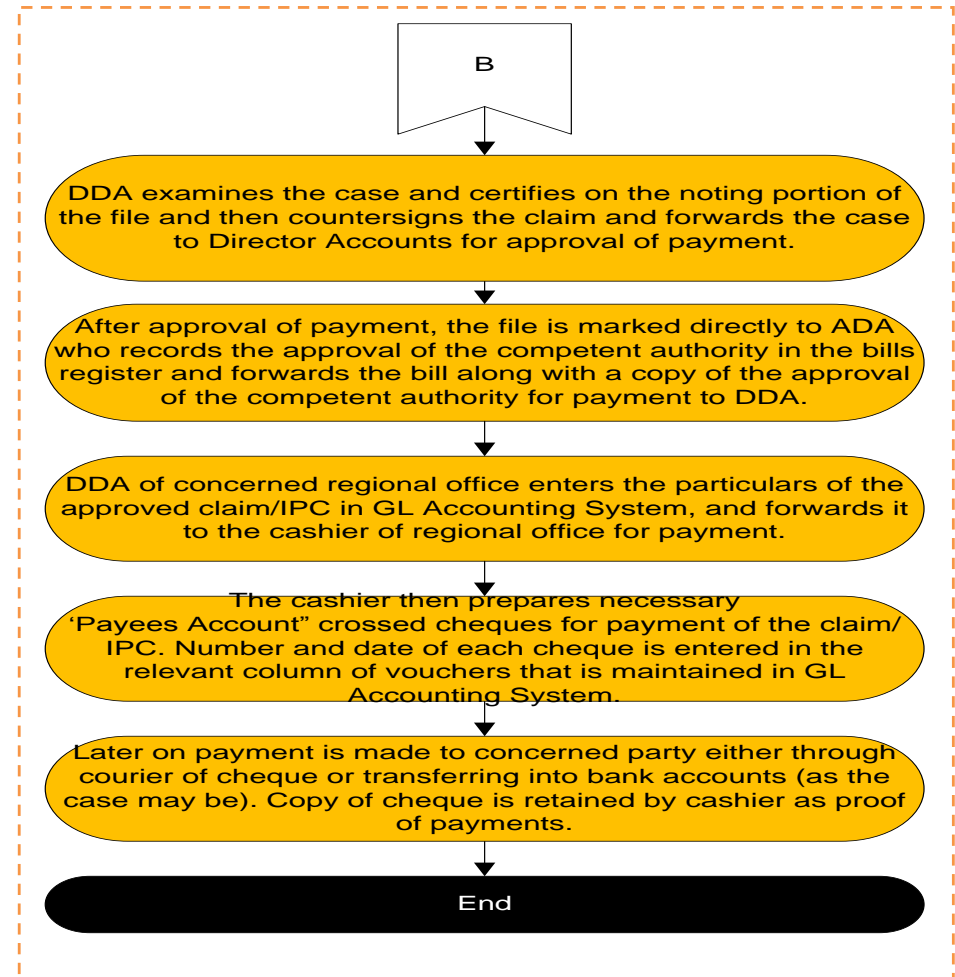
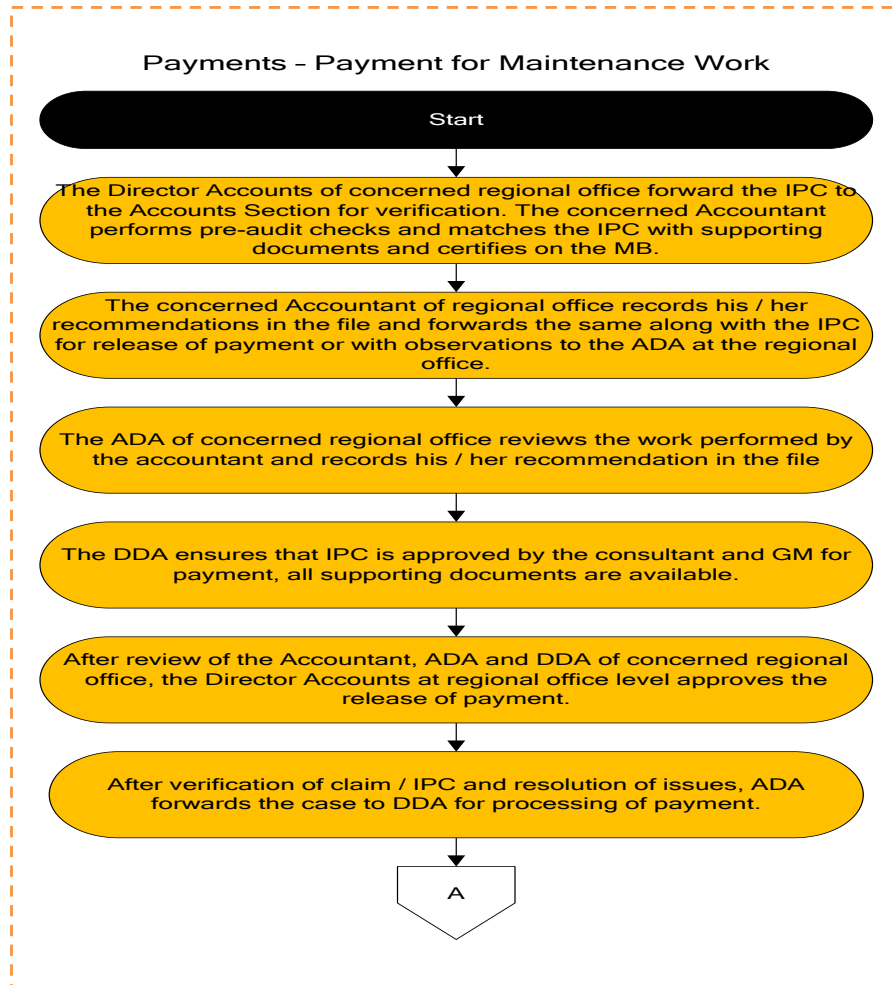


**b) Payment for maintenance works (non development projects)**

All payments for maintenance work are made at the regional office level. The respective PD/Deputy Director Maintenance of the concerned project forward the claim (IPC) of the contractor to the Director Accounts at the regional office for processing payments to contractors. Following is the process:

- ▶ Director Accounts of concerned regional office forwards the IPC to the Accounts Section for verification. The concerned Accountant performs pre-audit checks and matches the IPC with supporting documents and certifies on the Measurement Book (MB) that the IPC has been checked 100% arithmetically.
- ▶ The concerned Accountant of regional office records his / her recommendations in the file and forwards the same along with the IPC for release of payment or with observations to the ADA at the regional office.
- ▶ The ADA of concerned regional office reviews the work performed by the accountant and records his / her recommendation in the file and also certifies on MB that the IPC has been checked 100% arithmetically. The ADA of concerned regional office then forwards the file along with the IPC to the DDA at the regional office.
- ▶ The DDA ensures that IPC is approved by the consultant and GM for payment, all supporting documents are available, Accountant and ADA have certified the MB and arithmetic accuracy of the IPC and reviews their recommendations and observations on file.
- ▶ After review of the Accountant, ADA and DDA of concerned regional office, the Director Accounts at regional office level approves the release of payment or issues instructions to the Accounts Section for the issuance of observations and return of the IPC to the PD for removal of the deficiencies as pointed out by the Account Section. After resolution of all issues, claim is forwarded to Account Section for processing of payment.
- ▶ After verification of claim / IPC and resolution of issues, ADA forwards the case to DDA for processing of payment.
- ▶ DDA examines the case and certifies on the noting portion of the file that the prescribed checks have duly and correctly been exercised and that the claim is in order for payment. DDA then countersigns the claim and forwards the case to Director Accounts for approval of payment.
- ▶ After approval of payment, the file is marked directly to ADA who records the approval of the competent authority in the bills register and forwards the bill along with a copy of the approval of the competent authority for payment to DDA.
- ▶ DDA of concerned regional office enters the particulars of the approved claim/IPC in GL Accounting System, and forwards it to the cashier of regional office for payment. The cashier also generates vouchers in which each approved bill/claim is entered before payment. He also maintains a cheques register.

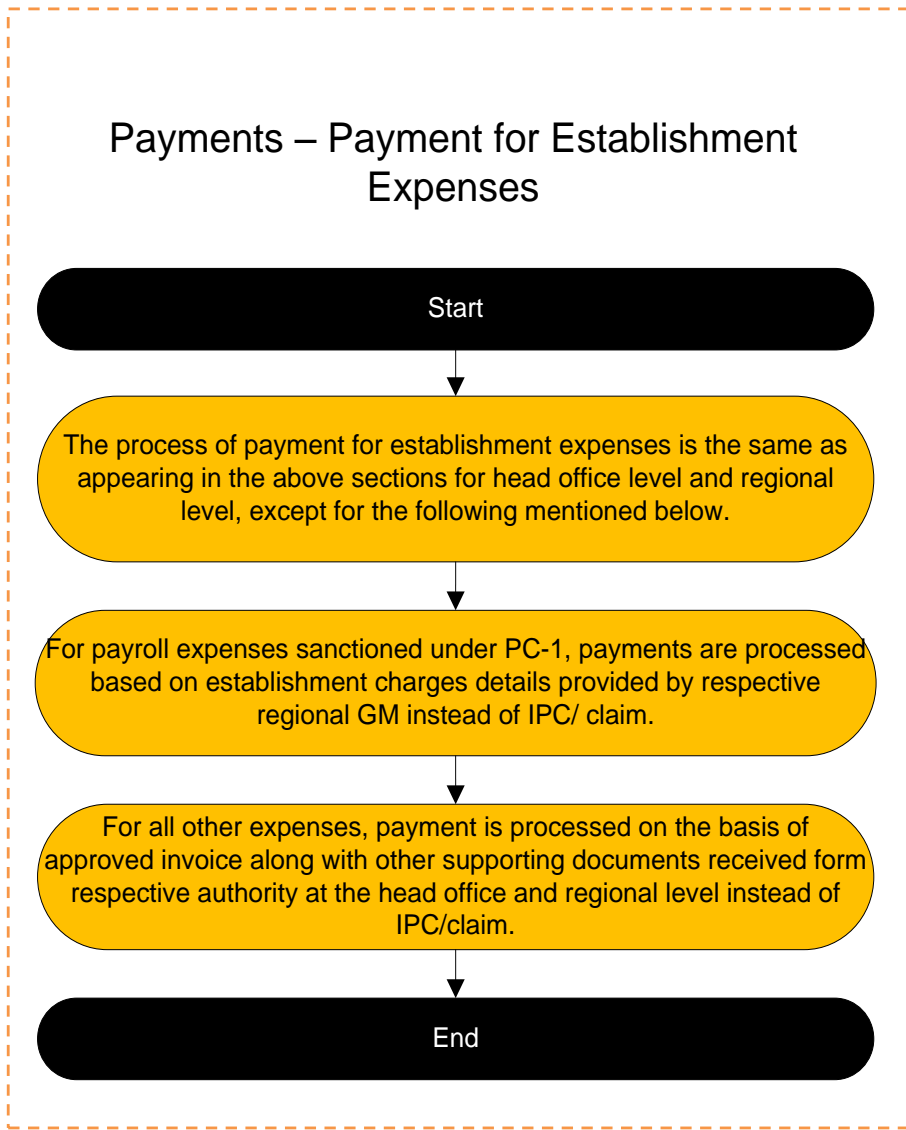
- ▶ The cashier then prepares necessary 'Payees Account" crossed cheques for payment of the claim/IPC. Number and date of each cheque is entered in the relevant column of vouchers that is maintained in GL Accounting System.
- ▶ Payment of withholding tax (deducted from the contractors' claims) are made in accordance with the provision of the Income Tax Ordinance 2001. Later on payment is made to concerned party either through courier of cheque or transferring into bank accounts (as the case may be). Copy of cheque is retained by cashier as proof of payments.



**c) Payment for establishment expenses**

The process of payment for establishment expenses is the same as appearing in the above sections for head office level and regional level, except for the following:

- ▶ For payroll expenses sanctioned under PC-1, payments are processed based on establishment charges details provided by respective regional GM instead of IPC/claim.
- ▶ For all other expenses, payment is processed on the basis of approved invoice along with other supporting documents received from respective authority at the head office and regional level instead of IPC/claim.



### 3.2.5 Payroll process

The process for addition to payroll begins when particulars of a new employee are received from HR Section to the Payroll Officer in the Establishment Section in the Finance Wing by 20th of each month. The details of the employee are added in the payroll system, including the compensation details. After entering employee details, the employee is requested to open an account in designated bank and provide the bank details to the Payroll Officer for updating the payroll system. Such additions / deletions are reviewed and approved by Director Accounts. Changes such as bonus detail, deduction of advances/loans and other in payroll are updated by the Accounts Assistant after receiving approval from Director Establishment.

For processing of payroll for regional employees, Payroll Officer receives data that includes employees leave records along with other necessary adjustments from each regional office by 20th of each month. Payroll Officer consolidates the payroll data of head office and all regional offices and processes the payroll till end of each month.

Payroll working is prepared by Accounts Assistant and is approved by Director Establishment and later on submitted to Payment Section for further processing. Payment Section instructs designated bank to transfer money to respective bank accounts of employees while total payroll amount of each region is transferred to their respective bank accounts for further payment to regional office employees. The above process of payroll compilation, review and approval commences on 20th of each month and gets completed (with transfer of amount to employees' bank account) by 28th of the same month. We noted that reconciliation of payroll expense with prior months is not formally documented to assess the reasons for any unusual variances.



### 3.2.6 Basis of accounting

NHA maintains its financial records on accrual basis of accounting. As per note 2.1 of the audited financial statements for the year ended 30 June 2011, NHA follows the requirements of applicable International Financial Reporting Standards (IFRS) for compilation / preparation of financial statements.

Management of NHA uses GL Accounting System as accounting software both at head office level and regional level for recording of all financial transactions. This accounting system has been developed internally by NHA Computer Bureau.

### 3.2.7 Books of accounts and reporting

Currently NHA maintains GL based computerized records, which details all accounting entries. There are double entry books of accounts being maintained. The financial records including general journal, general ledger, subsidiary ledgers, trial balance and financial reports are being maintained and prepared by accounting system.

Data from regions is received before 10<sup>th</sup> of every month in a CD which contains records of all posted transactions for respective regions. This data is consolidated at head office by 10<sup>th</sup> of each month.

The policy and procedure manual for Finance Wing is documented in reasonable details while we noted that no training is conducted by management for its staff.

The financial records are currently subject to government audits by the Audit General Pakistan (AGP) and external auditors (i.e. Ijaz Tabussum & Co Chartered Accountants) that carry out audits on an annual basis. Further, specific audits are also conducted by donors. Also, internal audit serves as an internal monitoring function over finance function.

### 3.2.8 Financial management systems

NHA manages its financial records using accounting system called GL Accounting System which has been developed in-house by the computer Bureau of NHA. The GL Accounting System is implemented at head office and regional level. The core modules of the system which are currently being used are as follows:

- ▶ General ledger
- ▶ Accounts receivables
- ▶ Accounts payables
- ▶ Financial reporting
- ▶ Pay roll
- ▶ Revenue collections
- ▶ Employee loan management

The GL Accounting System is used by the Finance Wing to record all transactions relating to development expenditures, non development expenditures including maintenance and establishment expenses and revenue. Roles, responsibilities and access to the accounting system are based on authorization limit. Computer access logs are maintained for all users.

Reports such as trial balance, accounting reports, cash book and accounting schedules can be extracted through the accounting system.

### 3.2.9 Key findings

Section rating	Section summary
<b>High</b>	<p>Based on our assessment of the area and issues identified, we have rated this area as 'High'. Key findings noted during our assessment are as follows:</p> <ul style="list-style-type: none"><li>i) Non existence of proper documentation and controls over recording of income generated by NHA.</li><li>ii) NHA lacks the capacity to repay the loans to the government and/or donors.</li><li>iii) Accruals are not booked on a monthly/quarterly basis to provide updated financial records / statements on a monthly/quarterly basis.</li><li>iv) No mechanism of interim reporting of financial information.</li><li>v) Lack of segregation of duties over preparation and approval of bank reconciliation statements.</li><li>vi) Lack of controls over preparation of monthly pay roll.</li><li>vii) No budget module available to compile / monitor NHA's approved budget.</li><li>viii) Reasons for variances from the budget are not documented.</li></ul>

Ref	Issue	Impact	Recommendation
i)	<p><b>Non existence of proper documentation and controls over recording of income generated by NHA</b></p> <p><b>Issue rating:</b> <span style="background-color: red; color: white; padding: 2px 5px; border: 1px solid black; border-radius: 5px;">High</span></p> <p><b>Current state:</b></p> <p>NHA generates major component of its income from toll, weigh stations and police fines. As detailed in section 3.2.3 of the report these are collected by collecting agents and then deposited in designated bank account of NHA or a fixed amount against collection is paid. As per audited financial statements of NHA for the year ended 30 June 2011, income from toll, weigh stations and police fines stands at PKR 10.9 billion, PKR 0.73 billion and PKR 0.72 billion respectively.</p> <p><b>Gap:</b></p> <p>As per our review of the auditor's report findings and discussion with the management, we understand that there are lack of controls over completeness of records being maintained related to income collection from toll, weigh stations and police fines.</p> <p>Further there are no relevant supporting records and relevant supporting documents being maintained for rental income which amounted to PKR 0.32 billion for the year ended 30 June 2011.</p>	<ul style="list-style-type: none"> <li>▶ In the absence of adequate controls over collection of toll income, actual revenue of NHA cannot be ascertained.</li> <li>▶ Revenue leakages may not be identified which may lead to financial loss to NHA.</li> </ul>	<p>We recommend:</p> <ul style="list-style-type: none"> <li>▶ Compilation of complete records with the relevant supporting records and documentation relating to income.</li> <li>▶ Such records should be updated on a periodic basis and input should be taken from the sources of income generation.</li> <li>▶ Detailed working for the amount of income collected from various sources should be shared with the external auditors at the time of annual audit.</li> </ul> <p>Responsible person: Member Finance</p>
<b>Management comments</b>			

All the income related to Toll, Weigh fines and Police fines is collected by the collecting agents who do not provide the supporting record regarding the collection made during the year. 50% of the revenue is guaranteed based, while remaining income is collected by FWO on motorways on collection basis.

**Updated Status:**

- The auditors have devised the program to visit respective collection premises at different toll plazas on motorway.
- Reconciled data regarding the revenue collected by collectors and booked in the books of NHA is provided to auditors for verification.
- Revenue collection for the year 2011-12 is Rs.13.241 billion out of which Rs.6.604 billion is Fixed guaranteed revenue which is not qualified by the auditors. The matter will be resolved through complete verification of collection made on Motorways in audit for the year 2012.

Ref	Issue	Impact	Recommendation
ii)	<p><b>NHA lacks the capacity to repay the loans to the government and/or donors</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; background-color: red; color: white; padding: 2px 5px; border-radius: 5px;">High</span></p> <p><b>Current state:</b> NHA obtained loan from GoP for its various functions that includes plan, promote, organize and implement programs for construction, development, operation, repairs and maintenance of national highways / motorways and strategic roads.</p> <p><b>Gap:</b> We noted that NHA has substantial balance of long term loans outstanding as at 30 June 2011, and no repayments were being made due to very limited income being generated from its operations. Further, the finance cost against such loans is also outstanding with balance amounting to PKR 212 billion as of 30 June 2011. Based on the same we assess that NHA lacks the capacity to repay the loans to the government and/or donors unless there is some alternate financing injection in form of equity or other long term loans arrangements to settle the current loans.</p> <p>Further, NHA has not been able to save from its own sources or revenue as the operational and finance cost expenses are on average 3 times of the total income of NHA. As a result of this the accumulated deficit of NHA has reached PKR 334 billion (USD 3.52 billion) as at 30 June 2011. The finance cost on long term loans contributes 50 percent of the total expenses which is the main reason for increase in this ratio.</p>	In the absens of repayment of loan to GoP, long term sustainability of NHA is at stake.	<p>We recommend that proper resolution / strategy should be made by NHA through consultation with GoP to ensure long term sustainability position of NHA.</p> <hr/> <p>Responsible person: Member Finance</p>
<b>Management comments</b>			

**Issue Background**

The Government of Pakistan provides funding (PSDP) through budgetary allocation every year to the National Highway Authority (NHA) as Cash Development Loan (CDL) and re-lent loan. Earlier at the time of National Highway Board (NHB), funds for development projects were given as "grants". The matter was taken up by NHA at various forums that earlier practice of treating PSDP funds as grants to NHA may be continued since the revenue being generated is not sufficient to meet even the maintenance expenditures of current National Highway network.

Upon directions of MoF / MoC a consultant was hired to evaluate NHA's loans' portfolio and recommend future course of action with regards to options available to the authority (NHA) for sustainable financing. Based on the final report of consultant the GOP was requested to:

- Convert entire debt of NHA into equity .
- Provide NHA with additional revenue stream through various road tariffs, fuel levies etc.
- In future NHA may be provided funds in the form of equity rather than loans.

**Proposals of NHA****(a) For immediate Concern**

- Interest accumulated to be written off .
- Cash Development Loan Foreign Relent Loans on actual basis may be converted into Government equity .

**(b) For Future**

- Future GOP funding to NHA investment program through grants or equity .

Meeting was held on 01-11-2010 regarding Conversion of Government Loan of National Highway Authority into GOP Equity wherein, initially, it was agreed to work further on the below mentioned areas:-

- a. NHA to engage a corporate lawyer/consultant to assess the legal and other modalities of Conversion of NHA's debt into government equity. In this respect, NHA Act has to be studied to accommodate changes being envisaged. It was a general consensus that the conversion of NHA's debt into government equity cannot be implemented under the present legal set up of NHA. The lawyer/consultant would have to work on this area and make recommendations appropriately wherever necessary.

Re-valuation of assets of NHA is another area on which NHA has to work which would help NHA's balance sheet look more realistic. At present NHA's worth in is negative. Prior to (b) above, NHA needs to work on collecting documents of ownership of its assets from the province/ concerned departments.

**Present Condition:**

Following provides an overview of current status of decision taken in a meeting held with MoF dated 01-November-2010

Agreed Action	Current Status
NHA would engage a lawyer who will study the NHA Act and advice about the change of legal status of NHA.	<p>The lawyer opined as follows:</p> <p>It doesn't seem legally or commercially prudent for the NHA to push for corporatization merely to create equity for the GOP. Further transformation infrastructure might be adversely affected by market forces and motivation of private investor. As per their opinion GOP can "write off" the accrued amount and consider future allocation as "grant" like any other ministry "</p>
Re-evaluation of assets of NHA to be worked upon so as to make its balance sheet look more realistic.	<p>A firm of Chartered Accountants (M/s M.Yusuf Adil Saleem &amp; Co) was hired who has completed first three phases &amp; submitted reports accordingly.</p> <ul style="list-style-type: none"> <li>- Inception report</li> <li>- Physical verification plan</li> <li>- Final assets listing template for physical verification</li> </ul> <p>The assignment has entered fourth phase and work is in progress.</p>
Prior to (ii) above NHA has to work on collecting documents of ownership of its assets from the province/concerned departments.	The concerned section of NHA has already started work on this and the task is expedited for early completion
On successful completion of above NHA long term loans and Interest on them will be converted in to GOP equity.	


Ref	Issue	Impact	Recommendation
iii)	<p><b>Accruals are not booked on a monthly/quarterly basis to provide updated financial records / statements on a monthly/quarterly basis</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> All head office level financial transactions are recorded on real time basis in the GL Accounting System of NHA by the IT Section of Finance Wing.</p> <p>Data from regions is received before 10th of every month in a CD which contains records of all posted transactions in the previous month for the respective regions. This data is consolidated at the head office level by 10th of each month.</p> <p><b>Gap:</b> We observed that the accruals for various expenditures are being recorded at the end of each financial year instead of being recorded in the same respective period.</p>	Financial statements may remain misstated till the time required for accruals to be entered in the financial statements.	<p>We recommend as per better industry practice that accruals should be booked on a more frequent basis (ideally on a monthly/quarterly basis) to ensure financial records / reports are updated.</p>
			<p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
Accruals are booked on Annual basis there is no chance of misstatement.			

Ref	Issue	Impact	Recommendation
iv)	<p><b>No mechanism for interim reporting of financial information.</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> As per our discussion with the Finance Wing, we were informed that financial reports / statements of NHA are prepared on an annual basis.</p> <p><b>Gap:</b> We understand that there is no formal financial reporting package for the senior management or board level on more frequent basis (i.e. monthly/ quarterly / bi annual basis).</p>	<p>Events having a major impact on the financial position occurring during the year may not be identified in timely manner. Hence this may cause problems for the key management personnel to take timely/preventive decisions considering the state of operations and financial affairs.</p>	<p>Based on better practices we recommend that the management should establish policies and procedures/guidelines for periodical compilation and reporting of financial information.</p> <p>Further, board reporting package should also be designed which should be submitted at least on a quarterly basis.</p> <p>As per better corporate practices, NHA may also consider getting its financial statements reviewed (lesser level of assurance than audits) on semi annual basis.</p> <p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
Reports regarding all donor projects NHA operating income, Long Term Loans and PSDP current status are prepared by the Finance Wing.			

Ref	Issue	Impact	Recommendation
v)	<p><b>Lack of segregation of duties over preparation and approval of bank reconciliation statements</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; border-radius: 10px; padding: 2px 10px; background-color: #FFD700; color: black; font-weight: bold;">Medium</span></p> <p><b>Current state:</b> As per our discussion we understand that Accounts Assistant in the Payment Section of Finance Wing is responsible for preparation of bank reconciliation statements every month for all the bank accounts maintained at the head office. Superintendent Accounts reviews all bank reconciliations and later on Drawings and Disbursement Officer approves these.</p> <p><b>Gap:</b> We observed that all personnel involved in preparation, review and approval of the bank reconciliation are also engaged in payments processing / approval. Further, Head of Finance Wing is not involved in reviewing and approving monthly bank reconciliation statements.</p>	<p>The lack of segregation of duties in preparation, reviewing and approval of bank reconciliation statements may result in conflict of interest and thus enhances the risk of entity's resources misappropriation.</p>	<p>Considering the sensitive nature and major financial impact, we recommend that complete segregation of duties should be established for preparation, reviewing and approval of bank reconciliation statements.</p> <p>Any major long outstanding reconciling item should be flagged and the same should be reviewed for timely follow-up and investigation. These items should be reported to higher authorities on timely basis.</p> <p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
<p>Payments are processed by different accounts offices whereas payments are disbursed by the D.D.O Cell. Bank Reconciliation statements are prepared by the D.D.O Cell involving three different officials who are duly approved and signed by the D.D.O (BS-18) officer.</p>			

Ref	Issue	Impact	Recommendation
vi)	<p><b>Lack of controls over preparation of monthly payroll</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> From 20<sup>th</sup> of every month the regional offices and respective Sections / Wings of head office submit data related to payroll to Establishment Section of Finance Wing at the head office. On this basis, the Establishment Section compiles the workings for employee payroll.</p> <p>Payroll workings are approved by Director Establishment and forwarded to Drawing and Disbursements Officer of Payments Section for payment to respective employees / regional offices through banking channel. Process for payroll processing and payment is completed by 28<sup>th</sup> of each month.</p> <p><b>Gap:</b> We observed lack of controls overall payroll processing as no formal reconciliation of payroll expense between current and prior months is documented to assess the reasons for any variances in the payroll.</p>	Any errors (intentional / unintentional) in processing of payroll may not be identified on a timely basis.	<p>We recommend that formal mechanism for reconciliation of current and prior month payroll should be implemented</p> <p>Any difference identified should be properly investigated and explained prior to approval of payroll.</p> <p>The responsibility for review and approval of the payroll reconciliation should be with the Head of Establishment Section.</p> <p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
This has been addressed through the centralized payroll from July 01, 2012.			

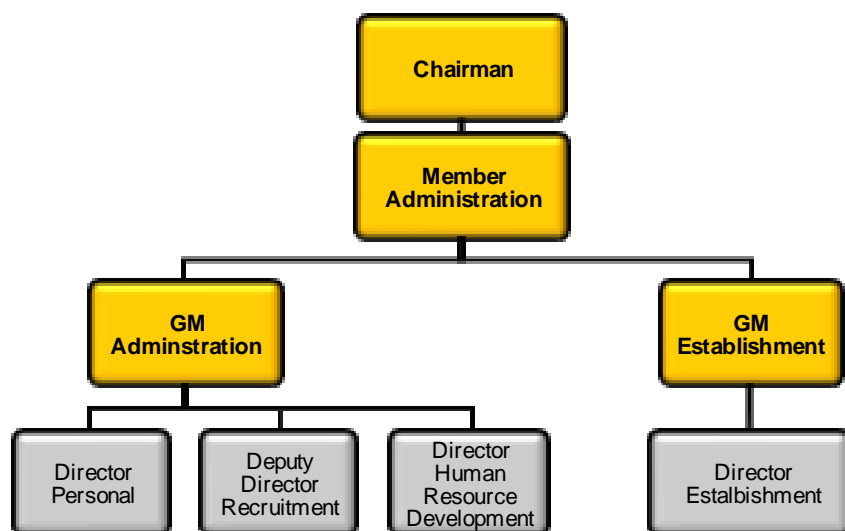
Ref	Issue	Impact	Recommendation
vii)	<p><b>No budget module available to compile / monitor NHA's approved budget</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> Following IT modules are being used at the head office and regional level for financial management and reporting:</p> <ul style="list-style-type: none"> <li>▶ General Ledger</li> <li>▶ Accounts receivables</li> <li>▶ Accounts payables</li> <li>▶ Payroll</li> <li>▶ Revenue</li> <li>▶ Employee loan management</li> </ul> <p><b>Gap:</b> We observed that the budget compilation, approval and monitoring is done using MS excel worksheets, as there is no budget module in the GL Accounting system used by NHA.</p>	<ul style="list-style-type: none"> <li>▶ Manual processes are prone to human error, inefficiency and require more efforts.</li> </ul>	<p>We recommend that a budget module should be implemented by NHA.</p> <p>The annual budget after approval should be updated in such system and then monitored through monthly variance reports. Further, payments system should also be linked to ensure availability of budget for each transaction.</p> <p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
<ul style="list-style-type: none"> <li>- Development PSDP Expenditure Reports generated.</li> <li>- Establishment Budget.</li> <li>- Daily Monitoring Reports System generated.</li> </ul>			

Ref	Issue	Impact	Recommendation
viii)	<p><b>Reasons for variances from the budget are not documented</b></p> <p><b>Issue rating:</b> </p> <p><b>Current state</b> In order to monitor the actual expenditures against the budget, a variance report is prepared on monthly basis. The same is also discussed in each NHA EB meeting on monthly basis.</p> <p><b>Gap</b> We observed that variance analysis does not include specific reasons for the variances, which may render the process ineffective.</p>	Significant variance from the budgeted activities and underlying reasons for the same may remain unnoticed and unidentified.	<p>We recommend that while preparing the variance analysis, the reasons for the variances should also be documented. A threshold can be determined and if there is any variance above such threshold, the reasons should be documented.</p> <hr/> <p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
<p>Two types of budget are being prepared in NHA i.e. Development and Non-Development. As far as the budget regarding development side is concerned NHA has no control on it as Government of Pakistan allocates funds on annual basis and released these funds on quarterly basis according to their financial position.</p> <p>Non-development budget comprises of maintenance budget and Establishment budget. NHA operation wing prepared and control the activities regarding maintenance budget. The Establishment budget is prepared and controlled by the Finance wing and NHA budget section does monitor it on monthly basis and take necessary action if any material variation noticed. For example review report of Abbottabad Region for the FY 2011-12 is enclosed.</p>			

### 3.3 Personnel policies and procedures

Administration Wing, which is headed by Member Administration, is also responsible for human resource management including strategic planning, training, capacity building, recruitments, postings, transfers, promotions, personnel & privileges and retirements. There is also an Administration Section in each regional office which is responsible to facilitate the regional GM in management of HR matters.

The following is an overview of the current structure of the Administration Wing which deals with the HR matters:



Following is the profile of the key team members of the Administration Wing which deals with the HR matters:

S. No.	Designation	Qualification	Experience (Years)	
			NHA	Others
1	Member Administration	M.A/ L.L.B	1	31
2	GM Administration	B.Sc	2	32
3	Director Personnel	B.A	30	-
4	Director HRD	Metric	30	-
5	Deputy Director HRD	MBA	8	5
6	Deputy Director Personnel	B.A	22	-
7	Deputy Director Personnel	MS(IT)/MBA	3.5	7
9	Deputy Director Recruitment	BSCS	3	-

The following sections under HR are responsible for handling various matters related to HR at head office and regional level:

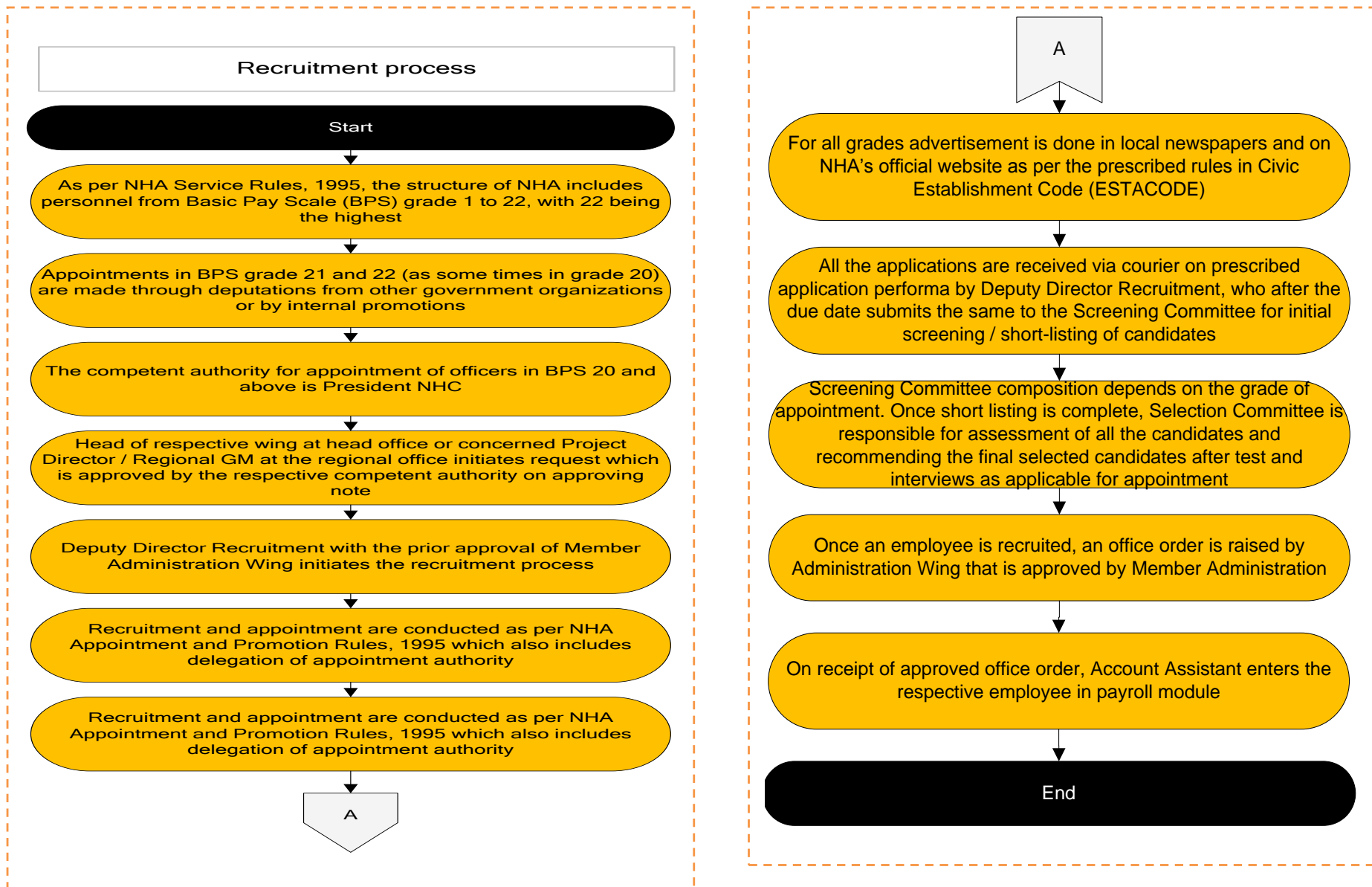
Section Name	Headed by	Responsible for dealing with matters pertaining to
<b>Head office Level</b>		
Recruitment Section	Deputy Director Recruitment	Hiring of employees, from BPS grade 1 to 20, with the assistance / authorization of respective committees constituted for different levels.
Human Resource Development (HRD) Section	Director HRD	Capacity building of NHA employees through training courses, workshops, seminars and meetings within Pakistan and abroad. Moreover, this section is responsible for preparation of job descriptions for employees.
Personnel Section	Director Personnel	Annual performance evaluation, efficiency and discipline, assets declaration, attendance and leave records along with maintenance of employees' master files.
<b>Regional level</b>		
Administration Section (Regional)	Deputy Director Administration (Regional)	Various administration / establishment matters and facilitating the employees at regional level in their day to day administration and HR matters.

### 3.3.1 Recruitment process

There is approved sanctioned staff strength for both contractual and regular employees for each wing/section of NHA which is revised on a need basis with prior approval from the EB. Rules and procedures for recruitment process are covered in Appointment and Promotion Rules, 1995 and Administrative Manual respectively. These rules and procedures are updated periodically and are approved by the EB. In case where these rules are silent on subject matter, federal government rules become effective i.e. Civil Establishment Code (ESTACODE).

- ▶ As per NHA Service Rules, 1995, the structure of NHA includes personnel from Basic Pay Scale (BPS) grade 1 to 22, with 22 being the highest. Appointments in BPS grade 21 and 22 (as some times in grade 20) are made through depositions from other government organizations or by internal promotions. The competent authority for appointment of officers in BPS 20 and above is President NHC.
- ▶ Head of respective wing at head office or concerned Project Director / Regional GM at the regional office initiates request which is approved by the respective competent authority on approving note. Deputy Director Recruitment with the prior approval of Member Administration Wing initiates the recruitment process

- ▶ Recruitment and appointment are conducted as per NHA Appointment and Promotion Rules, 1995 which also includes delegation of appointment authority. The overall selection process remains the same for all types of hiring. The following are the key steps involved:
  - Advertisement
  - Screening / short listing
  - Written / Professional / Technical test (only for BPS grade 1 to 19)
  - Interview by Selection Committee
  - Appointment and induction of employee by competent authority
  
- ▶ For all grades advertisement is done in local newspapers and on NHA's official website as per the prescribed rules in Civic Establishment Code (ESTACODE). All the applications are received via courier on prescribed application form by Deputy Director Recruitment, who after the due date submits the same to the Screening Committee for initial screening / short-listing of candidates. Screening Committee composition depends on the grade of appointment. Terms of Reference (TORs) of this committee are defined in Administrative Manual.
  
- ▶ Once short listing is complete, Selection Committee is responsible for assessment of all the candidates and recommending the final selected candidates after test and interviews as applicable for appointment. Composition of this committee depends on the grade of appointment. Terms of Reference (TORs) of this committee are defined in Appointment and Promotion Rules, 1995.
  
- ▶ Once an employee is recruited, an office order is raised by Administration Wing that is approved by Member Administration. This office order is circulated to concerned wings/sections including Establishment Section of Finance Wing for updating payroll. On receipt of approved office order, Account Assistant enters the respective employee in payroll module. Access rights for edition/modification are restricted to authorized users of payroll module. One copy of office order is also sent to Assistant Director MIS in Personnel Section who updates the employees' data base system held in Human Resource Management (HRM) MIS system (Oracle based). HRM MIS system is not integrated with payroll module.



### 3.3.2 Staff leave policy

Leaves are granted to employees in accordance with the rules of Federal Government set out in Revised Leave Rules, 1980. An employee may avail leaves under the following categories:

- ▶ 20 days as casual leaves (lapse each year)
- ▶ 48 earned (accumulated as leave preparatory to retirement)

Leaves are sanctioned by respective competent authority depending on type and length of leave, as defined in NHA code, 2005.

Recording and monitoring of casual leave is responsibility of concerned section In-charge whereas "Earned-leave" leaves recording and monitoring is done by Personnel Director in Administration Wing.

In case of "Earned-leave" availed, an office order is required from Administration Wing to officiate the leaves after being sanctioned by respective competent authority. An employee requests the earned leaves on standard format "leave request form" which is presented to the competent authority for approval. Once the earned leaves are approved, approved "leave request form" is submitted to Assistant Director Personnel by the respective employee. The Assistant Director Personnel prepares an office order which is approved by Director Personnel. The Assistant Director Personnel circulates the copies of office order to concerned employee, section/wing and to Finance Wing. The Assistant Director Personnel files the office order and approved "leave request form" in the respective Personal file. There is also balance maintained in Personal file for availed "earned leaves" which is updated as the leaves are availed by the employee.

In case of casual leaves, an employee submits his/her leave application to concerned section in-charge who approves it in case he/she is the competent authority, or recommends it to the competent authority. Once the leaves are approved, concerned section in-charge updates attendance register.

### 3.3.3 Maintaining attendance records

There is no centralized attendance system in place at NHA and each section in-charge / wing head is responsible for maintaining attendance of staff in manual register.

Each employee marks his / her attendance on arrival and concerned section In-charge reviews the attendance register once every one has marked his / her attendance. However, there is no evidence of such review.

Furthermore, due to absence of an automated system for managing attendance records we understand that there is no monitoring process to ensure the presence of staff for the whole day after the attendance has been recorded in morning.

Availing of casual leaves by the employees are marked and monitored by concerned section In-charge in the attendance register. There is no consolidated record available to ensure compliance with the casual leave policy.

### 3.3.4 HR management system

Currently staff information is maintained on HRM MIS system (Oracle based) which only provides personnel / employment details.

NHA is in process of development of new automated Human Resource Management Information System (HRMIS), which is its initial stage. Short listing of software developer firms has been completed and proposals are being called for finalizing the firm. As per the development plan of the new automated MIS system, it shall cater needs of payroll for all NHA employees.

### 3.3.5 Updation of employee personal/master file

Employees' master files are maintained by Dealing Assistant of Personnel Section of Administration Wing. Employees' master files are prepared at the time of joining of new employee. All the employee files (including head office and regional level staff) remain in the custody of Dealing Assistant and no other personnel can access the same without prior permission/approval from Director Personnel. Movement of personal files is properly recorded in Personal File Movement register on which proper receiving is taken. This register is in the custody of Director Personnel.

### 3.3.6 Staff appraisals process

There is a Personnel Section at the head office level that is responsible to ensure that appraisals of the employees are being carried out at the end of each calendar year. The following briefly details the existing performance evaluation mechanism being used at NHA:

- ▶ Performance Evaluation Report (PER) is used for appraisal of all employees ranging from BPS grade 5 and above both at head office and regional level. However, there is no appraising system in place for employees below BPS grade 4.
- ▶ Concerned employee fills PER form and submits it to immediate reporting officer who appraises his / her by filling in the appraisal section of the PER form.
- ▶ Countersigning Officer reviews and counter signs the PER form. Employee needs to obtain "fit for promotion" criteria in overall grading section for future promotions.
- ▶ Once the appraisal form is completed, it is forwarded to Deputy Director Confidential in head office by concerned office both at head office and regional office level. Performance Appraisal Report is not shared with respective employee for his/ her feedback / concurrence on the appraisal.

We also noted that performance evaluation tool as per better practices such as Key Performance Indicators (KPIs) mechanism has not been established for evaluation of employees at different grades.

### 3.3.7 Staff promotion and annual increments

The promotion of an employee is based on his/her performance over the period of time and is as per Appointment and Promotions Rules, 1995. The procedures and other applicable guidance on promotion process are covered in Administrative Manual.

As and when a sanctioned post becomes available against the quota of promotion, Member Administration with prior approval of Chairman NHA, instructs the Director Personnel for commencement of process for promotion. Director Personnel instructs the Deputy Director (Personnel/Administration) to prepare the working papers and ensure completeness of the annual Performance Evaluation Reports (PERs). Working papers are prepared on prescribed outlined guidance mentioned in Administrative Manual. The working papers shall include the following documents properly indexed and referred:

- ▶ Vacancy position
- ▶ Seniority list
- ▶ Guidelines for Wing Promotion committee by NHA
- ▶ Copies of any charge sheets/show cause notices issued to the candidates
- ▶ Extract of NHA Appointments and Promotions Rules, 1995 about promotions
- ▶ Proformas of promotion for submission to Wing Promotion Committee
- ▶ Personal file/service book
- ▶ PER Quantification Proformas of each officer in panel

Once the working papers are prepared, these are evaluated/validated by a committee prescribed in Administrative Manual. This committee will quantify the PERs for each candidate and complete the working papers. Working papers are submitted to Selection Committee for Promotion. The composition of this committee depends on the Cadre/BPS for promotion vacancy and TORs/composition is prescribed in Appointment and Promotions Rules, 1995. This committee evaluates the working papers and interviews the relevant candidates. Selection is recommended to respective Competent Authority, as prescribed in NHA Code, for approval of promotions.

Annual increments are given to staff for all the BPS grades as per the government rules circulated by Finance Division, GoP. These rules prescribe the annual increment amounts for the entire BPS which are revised by GoP on periodic basis. Finance Wing is responsible for incorporating annual increments in respective pay roll.

We noted that increments are not based on performance of the employee and are given annually, irrespective of the performance evaluation outcome, which is not a better human resource management practice.

### 3.3.8 Disciplinary actions

Deputy Director Confidential is responsible for disciplinary proceedings on request from concerned section In-charge. In case of contravention with applicable rules and regulations, the Deputy Director Confidential is notified by the concerned section In-charge in writing. Depending on the level of misconduct, an Inquiry Officer is nominated or an Inquiry Committee is constituted as per NHA Efficiency and Disciplinary Rules, 1995 and in accordance with procedures defined in Administrative Manual. As per above mentioned rules, procedures to be observed by Inquiry Officer / Inquiry Committee are as follows:

- ▶ Framing the charge and communicating it to accused
- ▶ A written explanation from accused
- ▶ Review of evidences by Inquiry Officer / Inquiry Committee
- ▶ Submission of findings by Inquiry Officer / Committee to Competent Authority
- ▶ Penalty / Warning by Competent Authority

Any warnings given to employees are formally documented and maintained in the personal files.

As per the instructions from Ministry of Communication and Ministry of Interior dated 15 November 2010, an Anti Corruption Committee has been constituted along with its TORs by NHA and whistle blowing procedure has been devised, under which complain boxes have been installed in every office along with procedure notice. Further, NHA's website also facilitates lodging of complaints.

As per the procedure, complainant needs to send a written complaint along with his/her CNIC copy and reasonable evidence against the alleged officer/office/employee to GM Coordination, Once the complaint is received, Anti Corruption Committee reviews the evidence on the basis of this and makes preliminary assessment. If there is sufficient evidence, the case is referred to Personnel Section, and Deputy Director Confidential starts the inquiry, as per NHA Efficiency and Disciplinary Rules, 1995, as mentioned above.

In case where an employee is on deputation from another organization, all the findings of anti corruption/inquiry committee are communicated to Parent organization along with recommendations.

### 3.3.9 Training and Development

HRD Cell is responsible for training of employees. Training needs assessment has been conducted by independent consultant hired by NHA for capacity building of human resource function. Budget has been allocated for trainings planned in year 2012 / 2013:

S. No.	Description	Amount Allocated (PKR)
1	Nomination of 93 accounts cadre employees who do not possessed relevant PIPFA qualification	3 million
2	Designing and delivery of management development training program to NHA officers in BPS 17 to 20 including their TA\ DA.	5 million
3	Capacity building of employees through trainings, seminars, workshops, courses.	5 million

Training opportunities offered by different public / private institutes and by foreign donors have been availed by the management and employees were nominated by different wings for such training. These trainings are generally provided free of costs.

We noted that currently employee performance assessment and capacity development needs are not interlinked, which may render the whole process ineffective. Further, future training budget is significantly dependent on allocations being made by the donors.

### 3.3.10 Retirement, resignation and termination

Retirement, resignation and termination of NHA's employee is regulated under federal government rules covered in ESTACODE. As per the rules, retirement age is 60 years for government employee and employee is entitled to pension benefit after government service period of 25 years. These rules are also applicable to NHA employee.

At the start of every calendar year Assistant Personnel/MIS prepares list of retiring employees, during the coming year, from HRM MIS system (oracle based) and forwards it to Assistant Personnel/Pension. Assistant Personnel/Pension checks the accuracy of list against the seniority list maintained by Personnel Section. Seniority list is a formal gazette which provides the details of all the employees regarding their service period with NHA and this gazette is updated as new employee is inducted with approval of Chairman NHA.

On monthly basis, Assistant Personnel/Pension reviews the list of retiring employees and on the basis of this list prepares office note for employee retiring in next three to four months. This office note is counter signed by Director/Deputy Director Personnel and is sent to concerned GM/ Wing, concerned accounts section and to the respective employee. As per ESTACODE, an employee is required to be notified at least three months prior retirement.

On retirement of employee, Assistant Personnel/Pension obtains personal file from Dealing Assistant Personnel, with prior approval from Deputy Director Personnel, prepares a service statement and fills details of earned leaves utilized by the employee during the course of service. This service statement is forwarded to concerned accounts section for filling in the details regarding starting salary, increments during the service and final salary. Concerned Account Section completes the service statement and also obtains No Objection Certificate (NOC) from concerned sections and prepares Last Pay Certificate (LPC). Service statement along with NOC, LPC and break up of any dues receivable from employee are sent to Personnel Section.

Once the documents are received by Assistant Personnel/Pension, he/she prepares pension/gratuity papers and calculates the pension/retirement benefits payable to the employee as per federal rules in ESTACODE. Assistant Personnel/Pension also fills in the standard checklist for required documents for retirement and case is forwarded to Internal Audit Wing for final vetting of the case before payment. Internal audit vets the case which is approved by GM audit and is forwarded to Administration Wing for sanctioning the retirement benefits. Sanction memo is raised which is approved by Member Administration. The case along with sanction memo is forwarded to Accounts Section (HO) for processing of pension/gratuity payment.

Accounts Section (HO) prepares the final settlement and payment is made to employee via cross cheque by Drawing and Disbursement Section. In case where there is receivable from employee, the same is deducted from pension/gratuity and if required, deduction is also made from General/Contributory Provident fund.

In case of calculation and processing of General / Contributory Provident funds, the working is done by Accounts Section (HO). An application is required from concerned outgoing employee for processing of Provident funds along with the copy of approved office order (retirement/resignation). Working of Provident fund is done by Accounts Section at head office level and this is vetted by Internal Audit Section which is finally approved by Member Administration on sanctioned memo. Payment is made by Drawing and Disbursement Section.

In case of resignation, the employee mentions the reason for resignation on the respective resignation letter and submits it to respective immediate In-charge. There is neither a formal exit interview conducted for resigning employee nor there is any formal feedback taken from the employee.

Resignation letter is forwarded to Personnel Section. Resignation is put up to the respective competent authority for approval and in the mean time, final settlement process is initiated by Personnel Section which remains same as in retirement case mentioned above.

An employee is terminated from employee as per NHA Efficiency and Disciplinary Rules, 1995. The process of disciplinary action is covered above in "Disciplinary Actions" section. When an employee is terminated, he/she is notified in writing by the competent authority and also Personnel Section is instructed to proceed accordingly as per the outcome and approved recommendations of the Inquiry Committee. Generally on termination, post retirements benefits lapse and in case of any payments to be made to an employee, same process is followed as in case of retirement/resignation as mentioned above.


### 3.3.11 Key Findings

Section rating	Section summary
<div style="border: 1px solid black; border-radius: 10px; background-color: #ff9900; color: white; padding: 5px; text-align: center; width: fit-content; margin: auto;">Medium</div>	<p>Based on our assessment of the area and issues identified, we have rated this area as 'Medium'. Key findings noted during our assessment are as follows:</p> <ul style="list-style-type: none"> <li>i) Absence of annual recruitment plan.</li> <li>ii) There is no process in place to make reference checks at the time of employees' recruitment.</li> <li>iii) Code of conduct is not formally communicated to employees.</li> <li>iv) Training needs assessment not linked with performance evaluation of employees.</li> <li>v) No centralized attendance system.</li> <li>vi) Feedback on appraisal report not obtained from concerned employee.</li> <li>vii) There is no standard checklist for documents maintained in personal files of employees.</li> <li>viii) Formal exit interviews are not conducted at the time employee leaves NHA</li> <li>ix) 39% of sanctioned positions under regular and PC 1 staff are currently vacant.</li> </ul>

Ref	Issue	Impact	Recommendation
i)	<p><b>Absence of annual recruitment plan</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; background-color: red; color: white; padding: 2px 5px; border-radius: 5px;">High</span></p> <p><b>Current state:</b> Currently, recruitment is made as and when regular vacancies become available or concerned Project Director requests for contractual staff as per approved Project Cost (PC-1).</p> <p><b>Gap:</b> We noted that Recruitment Section does not prepare a formal recruitment plan based on the approved sanctioned positions and needs of NHA for the coming year.</p>	Lack of complete annual recruitment plan may adversely impact the HR planning process and cause operational issues in case key positions are not filled in a timely manner.	<p>We recommend that management should design a comprehensive staffing strategy. Further, a detailed annual recruitment plan should be prepared by Recruitment Section which should include specific information such as number of required staff and designations for each Section/Wing along with expected date of advertisement, test and interviews and recruitment finalization.</p> <p>This plan must also be approved by Member Administration and senior management of NHA.</p> <p>Further, there should be a monitoring mechanism to ensure HR recruitment is being done as per approved plan.</p>
<p><b>Management comments</b></p> <p>NHA is Body Corporate established through an Act of Parliament in the Public Sector. Post-wise strength has been sanctioned keeping in view the requirement of the Authority. Recruitment plan is made as per requirement and as &amp; when the vacancies in the direct recruitment share are available. NHA agrees with the necessity of preparing annual recruitment plan.</p>			

Ref	Issue	Impact	Recommendation
ii)	<p><b>There is no process in place to make reference checks at the time of employees recruitment</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px; background-color: #ff9900; color: white; border-radius: 5px;">Medium</span></p> <p><b>Current state:</b> After completion of hiring process, new employees submit joining report along with his/her educational documents to Personnel Section.</p> <p><b>Gap:</b> We noted that there is no process in place to complete the reference checks as per the references provided by the candidate / employee joining NHA.</p>	<p>Organisation may not be able to properly assess the history and background of the employee. This may expose NHA to unnecessary financial and operational risk.</p>	<p>We recommend that NHA should put in place a formal process for reference checks, whereby when a new employee is being recruited a letter on a predefined format should be forwarded to the referee. The referee should directly reply to NHA.</p> <p>The reference checks should be maintained in the personal file of the employee.</p> <p>In case of no response against the reference letter, verbal references should be obtained and the results should be documented.</p> <p><b>Responsible person:</b> Director Personnel – Administration Wing</p>
<p><b>Management comments</b></p> <p>Recruitment in NHA is made on all Pakistan basis in accordance with the Provincial/Regional quotas prescribed by the Federal Government for direct recruitment through advertising the vacancies in the press. As per policy applications of those candidates working in any Federal / Provincial Ministry / Division/Department/Organization are received through the parent department of the candidate. In this way, the information with regard to previous service record viz qualification, experience etc of such candidates are authenticated by their parent departments. Therefore, reference check after selection of any of such candidate would be duplication of activity. The qualification and other service record of all those working in any private organization is verified by the duly constituted documents Scrutiny Committee and Departmental Selection Committee before the interview process.</p>			

Ref	Issue	Impact	Recommendation
iii)	<p><b>Code of conduct is not formally communicated to employees.</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; border-radius: 10px; padding: 2px 5px; background-color: #FFD700;">Medium</span></p> <p><b>Current state:</b> As per our discussion with management we understand that all the employees of NHA need to be aware of the code of conduct mentioned in Administrative Manual to execute their responsibilities in appropriate manners.</p> <p><b>Gap:</b> We noted that code of conduct has not been formally communicated to employees; neither there is any other mechanism to communicate code of conduct such as publishing it on the official website.</p> <p>Further, no updations have been made to code of conduct since its compilation in 2002.</p>	<p>The employee may not be aware or forget specific requirements / policies provided in the code of conduct, which may cause operational and reputational risk to NHA.</p>	<p>We recommend that code of conduct and certification of no conflict of interest should be signed off by all employees at the time of their joining.</p> <p>The signed document should be kept in the permanent employee file.</p> <p>Further periodic training / awareness sessions should be carried out to serve as a reminder / refresher of NHA's code of conduct.</p> <p><b>Responsible person:</b> Director HRD – Administration Wing</p>
<p><b>Management comments</b></p> <p>Code of conduct to be followed by NHA employees during their service has been prescribed and available in NHA regulations. However, it is not formally communicated to the employees which may be done in future.</p>			

Ref	Issue	Impact	Recommendation
iv)	<p><b>Training needs assessment not linked with performance evaluation of employees.</b></p> <p><b>Issue rating:</b>  <b>Medium</b></p> <p><b>Current state:</b> HRD Cell is responsible for training of employees. Training needs assessment has been conducted by independent consultant hired by NHA for capacity building of human resource function.</p> <p><b>Gap:</b> We noted that currently employee performance assessment and capacity development needs are not interlinked, which may render the whole performance assessment process ineffective.</p> <p>Further we also noted that NHA training budget amount is significantly dependent on the allocations being made by the donors.</p>	<p>Training needs may not be timely identified and may not be linked to the specific development needs of the employees</p>	<p>We recommend that the training needs assessment should be carried out at the time of annual appraisals, so that any shortcomings of the employee and development needs are identified at that time and training requirements can be identified.</p> <p>Additionally, the training plan should also identify the timing of the training and same should be broken up in monthly components.</p> <p>There should also be a monitoring mechanism to ensure compliance with such training plan.</p>
<b>Management comments</b>			<p><b>Responsible person:</b> Director HRD Cell – Administration Wing</p>
<p>Performance Evaluation of NHA employees is carried out through annual performance evaluation report prescribed by the Federal Government duly written by his Supervisory Officer and countersigned by next higher Officer. The PER contains the actual work performed, level of integrity, intelligence, financial responsibility, aptitude, knowledge of relevant laws, quality and quantity of output, Officers strength and weaknesses with recommendation for future trainings.</p> <p>In order to implement recognized HRD practices, an International Advisory Firm M/s GHK was hired. The firm, apart from others suggestions, carried out a detailed Training Need Assessment of NHA employees and recommended Management Development Training Program, Technical Training Program for serving employees and Orientation Training Program at the time of fresh induction of employees. The implementation of these programs is at different stages of their implementation. The training budget of the Authority is allocated /met out of annual budgetary allocations earmarked by the Finance Wing of NHA and not dependent on donors allocations.</p>			

Ref	Issue	Impact	Recommendation
v)	<p><b>No centralized attendance system.</b></p> <p><b>Issue rating:</b></p> <p><b>Current state:</b> <span style="border: 1px solid black; padding: 2px 5px; background-color: #FFD700;">Medium</span></p> <p>As per current practices the attendance register is maintained separately by each Section/Wing for their respective employees. Each employee is marked / signed at the time of arrival. We have been informed that as per approved policy employees are marked as absent if they arrive after 8:30 am.</p> <p><b>Gap:</b></p> <p>We noted that there is no centralized attendance system in place at NHA. Moreover, there is no practice in place to prepare and approve time sheets by NHA staff.</p> <p>Further, we noted that there is no monitoring process to ensure the presence of staff for the whole day after the attendance has been recorded in the morning.</p>	<ul style="list-style-type: none"> <li>▶ Unauthorized attendance may be marked for employees resulting in incorrect pay roll processing.</li> <li>▶ Chances of malpractice in the attendance recording process.</li> </ul>	<p>We recommend that there should be an automated system for marking daily attendance of all employees. This can be either a card swapping mechanism or a bio-metric system. Such system would also ensure compliance with employees leaves entitlement.</p> <p>Additionally, surprise attendance should be carried out on a random basis by the HRD cell to ensure the validity of the attendance recorded.</p>
<p><b>Management comments</b></p> <p>As per existing policy attendance of employees is monitored by the Sectional Heads. Any kind of leave (except casual leave) granted to any employee is duly notified by the Personnel Bureau and circulated among concerned sections. The detail of leaves is also included in the Service Books of the employees.</p> <p>NHA is in the process of development of automated Human Resource Management Information system (HRMIS). The module of centralized attendance system are also part of HRMIS</p>			
			<p><b>Responsible person:</b></p> <p>Director HRD Cell – Administration Wing</p>

Ref	Issue	Impact	Recommendation
vi)	<p><b>Feedback on appraisal report not obtained by concerned employee.</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> At the end of each financial year, appraisal activity is performed for all employees both in regional office and head office level. In this activity, their immediate boss fills Performance Evaluation Report (PER) and submits it to the Personal Section of Administration Wing at head office.</p> <p><b>Gap:</b> We noted that appraisal report is not shared with the respective employee for his/ her feedback / concurrence on the assessment.</p>	<p>► In the absence of proper feedback of respective employee from appraisal point of view, employees will not be able to understand their weaknesses and development needs.</p>	<p>We recommend that PER should be shared with concerned employees and specific feedback should be obtained. This activity will help to improve performance of employees in their respective roles if his / her development needs are being fulfilled.</p> <p><b>Responsible person:</b> Deputy Director Confidential – Administration Wing</p>
<p><b>Management comments</b></p> <p>The appraisal of NHA employees is made as per Federal Government policy through Performance Evaluation Reports. The first and second part of the report which contains the assigned jobs and works performed are filled by the employee himself. In case reporting (RO) or countersigning officer (CO) differs or make any adverse remarks with regard to his performance, it is duly conveyed/shared with the respective employee and provided full opportunity to contest the assessment of RO/CO. The employees are also entitled to see the detail of his appraisal report</p>			

Ref	Issue	Impact	Recommendation
vii)	<p><b>There is no standard checklist for documents maintained in personal files of employees.</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px; background-color: #ffcc00; border-radius: 5px;">Medium</span></p> <p><b>Current state:</b> After completion of hiring process, new employees submit joining report along with his/her educational documents to Personal Section.</p> <p>The documents are filed in employee personal file which is in the custody of the Personnel Section.</p> <p><b>Gap:</b> We noted that there is no standard checklist maintained in personal files of employees to ensure that documents submitted by the employee are complete in all respects.</p>	<ul style="list-style-type: none"> <li>▶ Non availability of standard checklists may lead to the improper compilation of documents submitted by employees.</li> <li>▶ Further, completeness of all documentation in the personal file may not be ascertained.</li> </ul>	<p>We recommend that the Personnel Section should develop a standard checklist for documents to be maintained in the file.</p> <p>Additionally, a movement log should be maintained. The same should be filled when any document is taken out of the file.</p>
<b>Management comments</b>			
All necessary documents are placed and available in the personal files of NHA employees. However, no formal checklist is maintained which may however be done in future.			

Ref	Issue	Impact	Recommendation
viii)	<p><b>Formal exit interviews are not conducted at the time employee leaves NHA</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px; background-color: #ff9900; color: white; border-radius: 5px;">Medium</span></p> <p><b>Current state:</b> The employee submits his / her resignation in hard copy to the concerned Section/Wing head.</p> <p>After approval of resignation form concerned Section/Wing head, resignation letter is forwarded to the Personal Section of Administration Wing for further processing.</p> <p><b>Gap:</b> It was noted that no formal exit interviews are conducted by Personal Section of Administration Wing at the time of employee leaving NHA.</p>	<ul style="list-style-type: none"> <li>▶ Management may not be aware of the actual reasons for resignation.</li> <li>▶ Further, any adverse factors which are resulting in staff demonization and causing them to leave NHA may not be identified on a timely basis.</li> </ul>	<p>Exit interviews should be conducted by the Personnel Section for all leavers and exit interview forms should be prepared and filled as well. Further, reasons for employee leaving NHA should be ascertained and documented on the form to be used for such exit interview.</p> <p>The leaving employee should sign the exit interview form as an evidence of his / her concurrence to the information.</p> <p><b>Responsible person:</b> Director Personnel – Administration Wing</p>
<b>Management comments</b>			
<p>Generally the employees once enter into the service of NHA do not leave the authority except those who are terminated due to their misconduct or expiry of contract period of contract employees. The practice of exit interview does not exist in Public Sector Organizations and same is the case in NHA.</p>			

Ref	Issue	Impact	Recommendation
ix)	<p><b>39% of sanctioned positions under regular and PC 1 staff are currently vacant.</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px 5px; background-color: #ffcc00; border-radius: 5px;">Medium</span></p> <p><b>Current state:</b> Currently NHA employs 1,681 employees under regular posts while 1,268 employees under PC 1.</p> <p><b>Gap:</b> We observed that 23 percent (499) of the sanctioned positions under regular post while 52 percent (1,353) of the total sanctioned positions as per PC1 are vacant.</p>	<ul style="list-style-type: none"> <li>▶ Lack of required level of resources will have an adverse impact on NHA operational capacity.</li> <li>▶ In some instances, this may also require allocation of conflicting activities to same staff due to non availability of resources.</li> </ul>	<p>We recommend that the recruitment of at least key sanctioned positions, pertaining to project executions / monitoring and operations should be completed on a priority basis.</p>
			<p><b>Responsible person:</b> Member Admin</p>
<b>Management comments</b>			
Discussed the above finding with DD Recruitment. Management comment not yet provided despite of various follow ups.			

### 3.4 Travelling policies and procedures

NHA follows Manual of Travelling Rules as applicable to the federal civil servants in Pakistan along with its own established policies and procedures covered under Administrative Manual which has been approved by Executive Board in 2002 and are based on the above mentioned travelling rules. The rules set out in Manual of Traveling Rules are revised from time to time by GoP and same is communicated to NHA via circular by the Finance Division, GoP.

As far as Administrative Manual is concerned, there has been no major revision in overall traveling policies and procedures covered, although traveling rates and other allowances have been revised from time to time with prior approval of NHA Executive Board. The policy covers both travel entitlement for various designations within and outside Pakistan. It is the responsibility of Establishment & Accounts (E&A) section at HO level and Regional Accounts (RA) section at regional level to ensure implementation of the above travelling policies and procedures.

Broadly, travelling is divided into following two categories:

- ▶ Traveling within Pakistan
- ▶ Traveling outside Pakistan

#### 3.4.1 Traveling policy within Pakistan

As per the approved policy, both regular and contractual employees are entitled to TA/DA as per his/her Basic Pay Scale (BPS). Accommodation allowance is paid on actual expenditure basis. However, there is a maximum monetary limit prescribed i.e. the amount of accommodation allowance that can be paid to an employee per day should not exceed three times of daily allowance entitled to his/her respective BPS. Following are the details of entitlement regarding mode of transport, mileage rates and daily allowances for various designations in NHA: BPS

Employees Entitlement for Journey	
BPS Grade	Modes of Transport
BPS16 & Above	<ul style="list-style-type: none"> <li>▶ By Air (Economy Class)</li> <li>▶ Personal car/Hiring of full taxi</li> <li>▶ Train (Higher class)</li> </ul>
BPS-11 to 15	<ul style="list-style-type: none"> <li>▶ First class Lower AC Sleepover in Train</li> <li>▶ Personal motorcycle/scooter</li> </ul>
BPS 4 to 10	<ul style="list-style-type: none"> <li>▶ First class train or public transport</li> </ul>
BPS 1 and 3	<ul style="list-style-type: none"> <li>▶ Economy class train or public transport</li> <li>▶ Bicycle/animal back/foot</li> </ul>

Daily Allowances on official duty		
BPS Grade	Ordinary Rates (PKR)	Special Rates* (PKR)
BPS 22	1,750	3,000
BPS 21	1,750	2,500
BPS 19 to 20	1,550	2,050
BPS 17 to 18	1,250	1,600
BPS 12 to 16	700	900
BPS 5 to 11	390	550
BPS 1 to 4	310	500

\* Special rates are for all the major cities of Pakistan as designated by GoP.

Road Mileage rates in NHA	
Official Transportation/ Mileage Allowance	PKR per Km
Motor car (official car)	5
Motor cycle/Scooter	2.5
Personal car/taxi	10
Bicycle	2
Public Transport	2.5

**TADA claims for traveling within Pakistan (head office & regional level):** An employee is notified by respective office/section/GM for traveling within Pakistan for official purpose. On the basis of instruction the employee prepares a written tour plan, along with estimated advance claim and submits it to concerned section in-charge. Concerned section in-charge reviews the tour plan and ensures that estimated advance claim if any, is as per NHA's policy as per which advance shall not exceed 80% of the estimated TA/DA amount. Concerned section in-charge countersigns the tour plan, advance claim and forwards it to E&A section in case of head office and RA section for regional office.

Superintendent E&A at head office and Superintendent RA at region office scrutinize the estimated advance claim, tour plan and ensures that advance claim is as per the policy. Once satisfied, he prepares the standard advance claim voucher which is reviewed by Assistant Director E&A at head office and Deputy Director Accounts at regional office. Once reviewed the advance claim voucher is approved as per delegation of authority matrix (defined in Chapter thirteen of NHA code, 2005) as follows:

<b>Authority Matrix for approval of transaction voucher</b>			
<b>S. No.</b>	<b>Designation</b>		<b>Amount (PKR)</b>
	<b>Head office level</b>	<b>Regional office level</b>	
1	Director (E&A)	Regional GM	Full powers
2	Deputy Director (E&A)	Deputy Director (Regional Accounts)	From 0.1 to 0.5 million
3	Assistant Director (E&A)	Assistant Director (Regional Accounts)	Up to 0.1 million

Once advance claim voucher is approved, Superintendent E&A/RA prepares bank advice on the basis of approved voucher which is checked by Assistant Director E&A/RA and approved by Deputy Director E&A/RA. Bank advice along with voucher is sent to Disbursement & Drawing Officer (DDO) at the head office and Deputy Director RA at the regional office for preparation of bank advice/cross cheque, which is signed by the joint signatories as defined in section 3.2.2a of this report. In case of direct transfer to employee bank accounts, bank advice is sent to the bank for transfer of funds. In case of payment through cross cheque the same is handed over to employee after obtaining receiving from the employee on the copy of the cheque by Disbursement & Drawing Officer/Deputy Director RA. Please refer to section 3.2.4 for details of payment authorization.

On completion of tour, concerned employee prepares TA/DA claim on standard claim form along with all the supporting vouchers/receipts and forwards it to concerned section in-charge. Concerned section in-charge reviews the claims and countersigns it. TA/DA claim form is then submitted to E&A section/RA section as applicable. Standard TA/DA form is not pre-numbered and tracking with its respective advance claim form is done by name/designation of the employee which we understand may result in inadequate monitoring over completeness of the TA/DA forms received by concerned accounts section.

On receipt of TA/DA voucher, Superintendent E&A/RA retrieves the original approved tour plan of the respective employee from advances file which is maintained under his / her custody. Superintendent E&A/RA prepares a standard TA/DA adjustment voucher, for adjustment of advance and for further payment to the employee. Voucher is reviewed and approved as per delegation of authority matrix defined in Chapter thirteen of NHA code, 2005 (also mentioned above). TA/DA amount is disbursed to respective employee bank account via same process as for providing advance discussed above. In case there is a receivable from the employee (i.e. advance amount exceeds actual expense), deductions is made from his/her salary at the month end. For this

purpose Superintendent E&A/RA is responsible to notify Account Assistant in Establishment Section to ensure the amount is being adjusted from next month payroll.

In case where any employee does not avail estimated advance for TA/DA, tour plan is submitted to E&A/RA section along with TA/DA claim form on completion of tour. The whole process for review / approval and processing of payment remains same.

### 3.4.2 Traveling policy outside Pakistan

All permanent employees of NHA may travel outside Pakistan for training, education, meetings with donors or for any other official purpose with prior approval of competent authority. Competent authority depends on the grade of employee traveling as mentioned in the table below.

Approving authority for traveling outside Pakistan	
Competent Authority	BPS Grade
Chairman NHA	BPS 1 – 20
Ministry of Communication	BPS 21&22

Accommodation/Daily allowances are paid according to grade of the employee and country/city of travel which have been defined in the Manual of Travelling Allowance Rules.

**TADA claims for traveling outside Pakistan:** International travelling tours may be for following official purposes;

- ▶ Training courses offered by donors (sponsored by GoP or donors)
- ▶ Attendance of Seminars / Conferences
- ▶ Meetings with donors

Training courses offered by donors / GoP are fully funded by GoP or by respective donor. Tours for attendance of Seminars/Conferences or meeting with donors are funded through own resources of NHA. Once an employee is nominated by Chairman or by MoC, an office memorandum is issued by Chairman NHA to concerned wing for submission of tour plan. All the processing of TA/DA for international tour is being carried out at the head office level by E&A section.

A tour plan and estimated advance claim is prepared by the concerned employee or by the concerned section in-charge which is reviewed by the concerned Member Wing. This tour plan along with the estimated advance claim is submitted to the Chairman NHA for approval of the tour. In cases where employee is of grade 21 or 22, the tour plan is submitted to MoC for approval.


Once the approval is granted by the competent authority, approved tour plan along with approved advance claim is submitted to E&A section for further processing of advance and payment to the employee. The amount paid for foreign official tour, both for advance and reimbursement, is in PKR converted using the effective spot exchange rate on the day of payment.

Process for advance TA/DA claim and subsequent adjustment is the same as discussed above for TA/DA claims for traveling within Pakistan.

### **3.4.3 Advances Reconciliation for all types of tours**

On a monthly basis, Superintendent E&A/RA prepares reconciliation for all the TA/DA advances paid to employees. This reconciliation is prepared to ensure that advances are adjusted in accordance with actual claims/reimbursements. As per the current policy, an employee is required to submit TA/DA claim form within seven working days after completion of tour to adjust advances. This reconciliation is reviewed by the Assistant Director E&A/RA. In case, if an employee fails to settle an advance or submit the TA/DA claim within seven working days after completion of tour, deduction is made from his/her salary equal to the amount of advance outstanding against him.

### 3.4.4 Key Findings

Section rating	Section summary
 Medium	<p>Based on our assessment of the area and issues identified, we have rated this area as 'Medium'. Key findings noted during our assessment are as follows:</p> <ul style="list-style-type: none"><li>i) There is no standard format for compilation of tour plan to obtain advance for travel.</li><li>ii) Lack of controls over checking completeness of TA/DA forms.</li></ul>

Ref	Issue	Impact	Recommendation
i)	<p><b>There is no standard format for tour plan and advance claim</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; border-radius: 10px; padding: 2px 10px; background-color: #FFD700; color: black; font-weight: bold;">Medium</span></p> <p><b>Current state:</b> An employee is nominated by the respective competent authority for travelling within/outside Pakistan for official purpose. On the basis of this nomination, employee or respective section in-charge prepare a written tour plan, along with estimated advance claim which is approved by the concerned authority as per the delegation of authority .</p> <p><b>Gap:</b> We noted that there is no standard format defined for preparation of tour plan and advance claims.</p>	<p>▶ Non availability of standard documents/formats may lead to inconsistencies in documentation and may also result in non compliance with travelling policy .</p>	<p>We recommend that there should be standard format for documentation of tour plan and advance claims. Such documents should also outline the relevant travelling policies to facilitate the preparer and reviewer.</p> <hr/> <p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
<p>Though all control procedures are adopted in this regard however it is noted for compliance in future.</p>			

Ref	Issue	Impact	Recommendation
ii)	<p><b>Lack of controls over ensuring completeness of TA/DA forms</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px 5px; background-color: #90EE90;">Low</span></p> <p><b>Current state</b></p> <p>An employee is nominated by the respective competent authority, for travelling within/outside Pakistan for official purpose. On the basis of this nomination, employee or respective section in-charge prepares a written tour plan, along with an estimated advance claim which is approved by the concerned authority as per the delegation of authority .</p> <p>On completion of the tour, concerned employee prepares TA/DA claim on the standard claim form along with all the supporting vouchers/receipts. This TA/DA claim form is counter signed by concerned section in-charge which is forwarded to concerned superintendent accounts for processing.</p> <p><b>Gap</b></p> <p>We noted that TA/DA forms are not pre-numbered.</p>	<p>► In the absence of pre numbered documents there may be a greater risk to ensure completeness of documentation.</p>	<p>It is recommended that NHA should define a proper mechanism for pre numbering of TA/DA forms. Moreover, these forms should be sequentially pre numbered for more efficient control.</p> <p>Furthermore, a reference of the TA/DA form shall be provided on subsequent documents till clearance of payments.</p> <hr/> <p><b>Responsible person:</b></p> <p>GM B&amp;A</p>
<p><b>Management comments</b></p>			
<p>Noted for compliance in future.</p>			

### 3.5 Procurement and purchasing systems

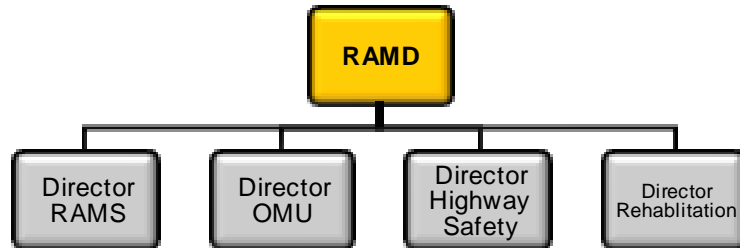
The procurement activities of goods, works and services for GoP as well as donor funded projects including development and non development projects are generally categorized in to the following three types and each type is looked after by a separate team as mention below:

Type of procurement	Description	Procurement limit	Responsible Wing/Section
<b>Capital procurements</b>	Procurements made from development budget and mainly include procurement for construction of roads and highways	All procurement is conducted at the head office level	P&CA Section under Planning Wing
<b>Repair and maintenance of roads</b>	Procurements made from non development budget and mainly include procurement for repairing of highways and motorways	Up to value of PKR 20 million at the regional office and above PKR 20 million at the head office level	RAMD Section under Operational Wing
<b>Operational procurements</b>	Includes procurement of domestic goods and services including stationary, office furniture and fixture, janitorial services, security and plantation contracts, maintenance of office buildings and vehicle maintenance and repair.	Up to value of PKR 500,000 at the regional office and above PKR 500,000 at the head office level.	Establishment Section under Administration Wing

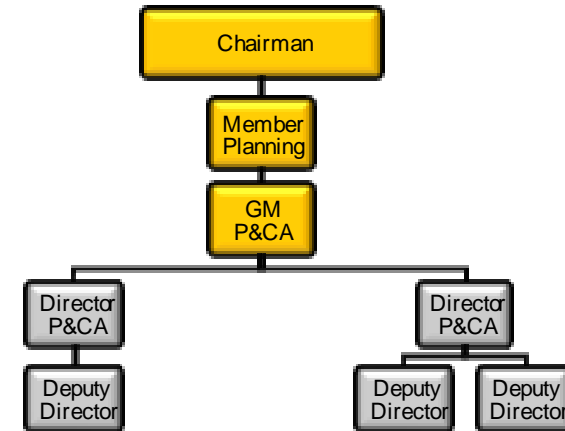
The policies and procedures relating to procurement are documented in the NHA Code. All procurements are made under the provisions of Public Procurement Regulatory Authority (PPRA) rules, Pakistan Engineer Council (PEC) guidelines and under specific guidelines of donors, if any. As mentioned in the above table procurement is a decentralized function except for capital procurements which are conducted only at the head office level. At regional office there is no dedicated staff for procurement. Procurement matters are mainly handled by the various committees as detailed in Annexure 8 of this report.

Following are the structures of the above Sections / Wings engaged in the procurement:

Following is an overview of the current structure of RAMD:



Following is an overview of the current structure of P&CA Section:



Following is the profile of the key team members that are involved in procurement function at head office level;

S. No	Designation	Qualification	Experience	
			NHA	Others
1	General Manager P&CA	B.Sc (Civil Engineering)	22	5
2	Director P&CA	M.Sc (Engineering Management)	6	20
3	Director P&CA	B.Sc (Civil Engineering)	8	1
4	Deputy Director P&CA	B.Sc (Civil Engineering)	8	12
5	Deputy Director P&CA	B.Sc (Civil Engineering)	1	13
6	GM Operations	B.E (Civil Engineering)	25	7
7	Director RAMS	B.Sc (Civil Engineering)	9	15
8	Deputy Director RAMS	B.Sc (Civil Engineering)	5	1
9	Director (Establishment)	B.A	30	-
10	Deputy Director (Administration)	M.A	18	6

### 3.5.1 Committees involved in procurement process

As per the NHA Code, the following committees are being constituted at head office and regional office level by NHA EB for execution of procurement process transparently :

Committee name:	Responsible for procurement of	Description
Road Maintenance Account (RMA) steering committee	Capital procurements	Before administrative approval of PC-1 and PC-2 Performa's or project document as well as proposals of acceptance of necessity in respect of all projects are scrutinized and evaluated by the RMA steering committee.
Committee for pre-qualification of contractors	Capital procurements	This committee invites applications through P&CA section from interested parties through publicity in the media by Media Advisor. The role of the committee is to evaluate the applications and forward recommendation(s) to the Member Planning.
Tender Opening and Evaluation Committee	Capital procurements	The role of this committee is to receive bids and tender documents and to recommend the most suitable bidder for acceptance to the tender committee after evaluation of bids.
Committee for acceptance of tenders	Capital procurements/ Operational procurements	After evaluation by the tender opening and evaluation committee this committee also provides its recommendations to the competent authority for acceptance of tenders for capital and maintenance works.
Committee for purchase of stores, tools and plants	Operational procurements	This committee receives bids from different bidders and plays the role of tender opening and evaluation committee. The recommendation of this committee is submitted to the competent authority to accord sanction for the stores in question.
Committee for purchase of vehicles	Operational procurements	This committee is responsible for decisions relating to the purchase of vehicles for NHA regional and head office including project and non project related.
Re-rating committee	Repair and maintenance of roads/ Capital procurements	The role of re-rating committee is to scrutinize the details of financial effect of re rating a contract.

For composition of these committees please refer to Annexure 8 of the report.

### 3.5.2 Annual procurement planning

#### a) Capital procurements

Once PSDP is approved, respective PD of each project is responsible for preparation of annual Cash plan and Work plan. Cash plan contains the estimated amount of expense to be incurred for the year (quarter wise breakup) while the work plan includes the summary of activities planned to be performed for the year. PEMU collects data from PDs (i.e. annual cash and work plan) by the mid of July each year and compiles all project plans to make one consolidated cash / work plan. The plan is forwarded to the GM Construction who then finalizes and signs the consolidated plan. The consolidated annual cash and work plan is then forwarded to General Manager Budgets & Accounts (GM B&A) who checks that the estimated amount stated in the cash / work plan does not exceed the amount approved for the similar activities in PSDP. The annual cash and work plan is then forwarded to Ministry of Finance through Ministry of Communication and Planning Commission by the end of July each year.

However, we have been informed by the management that no formal procurement plan is prepared for planning and monitoring of procurement activities and the above mentioned consolidated annual cash and work plan is used and considered adequate to manage the entire year capital procurement.

#### b) Repair and maintenance

After preparation of consolidated budget for repair and maintenance, steering committee that consists of regional GMs of NHA analyse it in detail and prioritize proposed projects based on estimated available funds at that time along with urgency for project. After prioritization of projects, NHA Executive Board that comprises of Chairman NHA, representative from Ministry of Finance, Ministry of Communication, Ministry of Planning and National Highway and Motorway Police finally approve non development budget.

The non development budget consists of repair and maintenance budget of roads (annual maintenance plan) and operational budget. We were informed by the management that no consolidated annual procurement plan is prepared.

#### c) Operational procurements (Goods & Services)

In case of Operational Procurements (Goods & Services), annual procurement planning is not in practice currently at NHA. Operational procurements are made on need basis of head wise annual budget allocated to all administration heads. Please refer to section 3.5.6 below for details of our findings in this respect and management comments on the same.

### 3.5.3 Procurement execution

As per provisions of PPRA, rules following methods are allowed for procurement:

Method of procurement as per PPRA rules	Description
Single source procurement	Up to PKR25,000 direct purchase can be made
Three quotations method	PKR 25,000 – PKR 300,000 all purchases can be made using three quotation method. (As per PEPPRA rules limit for the three quotation method is PKR 25,000 – PKR 100,000, however, PEPPRA allows the organizations to flex the maximum limit up to PKR 500,000). NHA has enhanced such limit to PKR 300,000 to keep the procurement process efficient.
All the procurements above PKR 300,000 are procured through competitive bidding procedures. There are various modes of competitive bidding as detailed below:	
Single stage – one envelope	In single stage – one envelope bidding the bid comprises one single envelope containing, financial proposal and technical proposal (if any).
Single stage – two envelope	In single stage – two envelope procedure the bid comprise a single package containing two separate envelopes. Each envelope contains separately the financial proposal and the technical proposal. Initially only the technical proposal is opened and no amendments in the technical proposal are allowed during the evaluation. After approval of technical proposal financial proposal is opened publically of the technically accepted bids. The financial bids of technically non-responsive are returned unopened.  Whether to use single stage (single or two envelope method) depends on the item to be procured and decided by respective authorities. These methods are not distinguished on the basis of monetary values,
Two stage – bidding procedure	In two stage bidding procedure, at first stage the bidders submit, according to the required specifications, a technical proposal without price. During this method the procuring agency can revise, delete, modify or add any aspect of the technical requirements or evaluation criteria, or it can add new requirements or criteria not inconsistent with the rules that procuring agency communicate to all the bidders equally at the time of invitation to submit final bids, and sufficient time is allowed to the bidders to prepare their revised bids.  In second stage those bidders whose technical proposals or bids have been technically shortlisted and who are willing to confirm their bids to the revised technical requirements of the procuring agency are invited to submit a revised technical proposal along with the financial proposal.

Method of procurement as per PPRA rules	Description
	As per management, this method is generally not used by NHA for its procurement as its nature of procurement does not require the same.
Two stage – two envelope bidding procedure	<p>In two stage – two envelope bidding procedure, in first stage the bids are received in a single package containing two separate envelopes. Each envelope contains separately the financial proposal and the technical proposal. In this, bidders who are willing to conform to the revised technical specifications and whose bids have not already been rejected submits a revised technical proposal along with the original financial proposal, according to the technical requirement</p> <p>This method is used where alternative technical proposals are possible, such as type of machinery or equipment or manufacturing plant.</p> <p>As per management this method is generally not used by NHA for its procurement as its nature of procurement does not require the same.</p>

As per PPRA rules 2004, section 14 (b) and NHA Code Section 5,10 (b) “Work order may be issued without formally inviting any tenders to a single contractor, provided (1) The estimated value of the work in question does not exceed PKR. 1 million in each case and (2) The contractor selected for the purpose is considered by the competent authority to be in a position to mobilize on short notice” However, we have been informed by the NHA management that in recent years no such single source contracting has been conducted and all procurements are on competitive basis.

#### a) Execution of capital procurements

P&CA Section of Planning Wing is responsible for the procurement of capital works. As project related procurements are generally above PKR 2 million NHA uses the following methods as allowed under PPRA rules depending upon the nature of procurement and time availability:

- ▶ Single stage one envelope method.
- ▶ Single stage – two envelope method.

Once a project budget is approved, Member Planning intimates GM P&CA to initiate the procurement process. The procurement process under each of the above mentioned process is as follows:

- ▶ For each procurement under the project in case of single stage one envelope method, advertisement for application for prequalification is published in two local newspapers and on PPRA and NHA website. All advertisements are approved by the Chairman.

- ▶ In parallel to the prequalification process P&CA Section request the Design Section to provide technical input for the bidding document and prepare the bidding document based on standard template approved by PPPRA and Pakistan Engineering Council (PEC).
- ▶ If required, Design Section also hire external consultant to assist them in developing the technical sections of the bidding document. Once bidding document is prepared the same is approved by the Chairman.
- ▶ Pre-qualification of bidders is done by Committee for Pre qualification of Bidders based on applications received by various bidders as a result of the above advertisement. The said committee submits its recommendation to Member Planning for approval.
- ▶ Once pre qualification is approved, P&CA section sends a letter for invitation to the successful bidders and request the pre qualified bidders to submit the technical and financial proposal.
- ▶ Financial and technical proposal (if any) are received in one envelope by Secretary Tender Opening and Evaluation Committee (TO&EC). Detailed evaluation on technical and financial aspects is conducted by TO&EC and lowest evaluated bidder is recommended by TO&EC to Acceptance of Tender Committee (ATC). Please refer to section 3.5.1 above for details of committee.
- ▶ ATC submits its recommendations to the Executive Board who have the power to approve the successful bidder. Once approved the P&CA section coordinates with the successful bidder for signing of contract.
- ▶ Once contract is signed the Construction Wing is responsible for monitoring the execution of work performed by the successful bidder.
- ▶ In case of single stage two envelopes method there is no prequalification of bidders and on approval of bidding document as mentioned in the above section of single stage one envelope method, invitation for bid is advertised in two local newspaper and on NHA and PPRA website against which technical and financial proposals are received in two different envelopes by Secretary TO&EC.
- ▶ Technical proposals are opened and evaluated by committee. Financial proposals of only technically qualified bidders are opened and lowest evaluated bidder is recommended by TO&EC committee to Acceptance of Tender Committee (ATC). The remaining process of selection and award of contract is similar as in single stage one envelope method mentioned above.
- ▶ NHA uses standard contracts designed by Pakistan Engineering Council (PEC) for all capital procurement, however, if there is any change required then assistance is obtained from Legal Section. However, there is no requirement to get each and every contract vetted by the Legal Section as a matter of regular practice / policy.

We have been informed by the management that there is no practice of publishing the name of successful bidder, further, rejection letters are also not sent to the unsuccessful bidders.

Further, in case of donor funded projects specific instructions if any, from the donor are complied for procurement under those projects.

**b) Execution of procurement for repairs and maintenance of roads**

For repair and maintenance of roads, the Operations Wing maintains a list of pre qualified bidders for each of its improvement program as follows:

- ▶ Geometric improvements
- ▶ Highway safety improvements
- ▶ Periodic maintenance
- ▶ Routine maintenance
- ▶ Functional rehabilitation
- ▶ Emergency improvement program

At the start of each year an invitation for pre qualification of bidders is published in two newspapers. The applications against pre qualification are received by Committee for Pre qualifications both at head office and regional office level. Committee for Pre qualification evaluates the bidders technically and recommends it to the Member Operations who gives the final approval.

For repair and maintenance of roads, as mentioned above, all procurement up to a value of PKR 20 million are conducted at the regional office level and all procurement above PKR 20 million are conducted at the head office level. However, in both cases the following procedures are being followed:

- ▶ The Member Operations Wing approves the initiation of the procurement transaction, and bidding documents are prepared by RAMS based on the standard bidding document provided by PPRA and PEC. Bidding document is approved by the Member Operations.
- ▶ Once prepared the bidding document is approved by the Member Operations and invitation for bid (only pre qualified bidders can apply) is published in two local newspapers and on PPRA and NHA website.
- ▶ Only financial bids are received against IFB and are received by Secretary TO&EC. TO&EC then evaluates the financial bids and recommends the lowest qualified bidder. ATC after re-ensuring that the selected bidder is fulfilling all needs of the project and its bid is in the authorized budget makes recommendation to NHA Executive Board / GM Regional Office for final approval.
- ▶ Once approved the Procurement Section in RAMS coordinates with the successful bidder for signing of contract. Once contract is signed the Operations Wing is responsible for monitoring the execution of work performed by the successful bidder.
- ▶ There are standardized templates used for contracts at head office and regional office level. We have been informed by the management that there is no practice of publishing the name of successful bidder, further, rejection letters are also not sent to the unsuccessful bidders.

**c) Execution of Operational Procurements (Goods & Services)**

As mentioned above operational nature procurements, which are being made from the non development budget, is a decentralized activity. For procurements above PKR 500,000 Director Establishment / Member Administration / Chairman can approve depending on the type and amount of procurement.

Threshold limits have been defined for operational procurements for head office and regional office level as below (which is also consistent with the PPRA requirements).

- ▶ Up to PKR 25,000 single source procurement can be made.
- ▶ Up to PKR 25,000 – PKR 300,000 three quotations method is used,
- ▶ For procurement value above PKR 300,000 competitive bidding is being carried out.

The concerned Section/Wing with the approval of the respective Director/GM raises a request to the Establishment Section on the prescribed format of the request form. If the demanded goods are available in stores Establishment Section delivers goods to concerned Section/Wing. If the goods are not in stock then the Stores Section or Deputy Director Administration calls for the quotations or advertise it in two local newspapers.

**i) Single source procurement**

Up to value of PKR 25,000 Deputy Director Administration has rights to procure item directly through single source quotation.

**ii) Procurements through 3 quotations method**

In three quotation method, Superintendent/Assistant Director Administration prepares the Request for Quotation (RFQ) which is approved by Deputy Director Administration or Director Establishment. Deputy Director Administration receives sealed quotations and forwards to committee for purchase of store, tool and plants who opens the quotations and ensures that all the aspects required are covered in quotation and compares the price quoted with the current market rates. Committee for purchase of store, tools and plant gives it recommendation to the Director Establishment for final approval.

At regional offices the process is managed by the committee for purchase of store, tools and plants and final approval is given by the GM Regional, remaining process is the same as above.

**iii) Procurements through competitive bidding**

After approval of Director Establishment, the IFB is advertised in two local newspapers. Bids are received by the committee for purchase of stores, tools and plants. The committee prepares the comparative statement and recommends the most appropriate bidder to the Director Establishment / Member Administration. Goods/services are ordered on a prescribed Purchase Order format prepared by Superintendent/Assistant Director and is reviewed by Deputy

Director Administration. Goods are received by the Store Section and are inspected by members of the committee for the purchase of store, tools and plants. The Goods Received Note is signed by the Warehouse Officer and stock register is also updated by him.

### **3.5.4 Contract management and closure**

#### **a) Capital procurements**

Capital procurement contract execution is managed and monitored by the Construction Wing. In case of contract for procurement of works, Project Director is appointed for each project. Project Director is responsible for overall monitoring of the project. Further, a consultant is engaged with required technical skills who provides technical assistance to Project Director and monitors project implementation as per terms of contract / project plan.

The Project Director and consultant verify the Monitoring Book (MB) prepared by the contractor after every month. After verification, it is sent to the Project Evaluation and Monitoring Unit (PEMU) which is responsible for desk monitoring of project. All the data / information is verified and entered into the GL accounting system by PEMU.

Based on such ongoing monitoring Interim Payment Certificates (IPCs) submitted by the contractor are verified by the consultant and respective PD at site. Based on the same interim payment are being processed as discussed in section 3.2.4 above.

NHA construction unit visits the field and performs inspection of the project implementation as per terms of contract and project plan and provides Acceptance Certificate, which then forms the basis for release of final payment to contractor and if there are any significant delays then Liquidated Charges are deducted from final payment and the site is handed over to NHA. Defect Liability Certificate (DLC) is issued at the time of completion of Defect Liability period (usually one year) and retention money is released

#### **b) Repair and Maintenance**

For repair and maintenance projects, respective Regional GM Deputy Director Monitoring and Deputy Director Maintenance are responsible for monitoring and managing work performed by contractors. The monitoring officers visits the sites and verifies the measurement books submitted by the contractor on the basis of which interim payment are being processed as discussed in section 3.2.4 above.

If there is any extension required in project timelines, the GM of concerned regional office sends a request to the Operations Wing at Head Office who after verifying the reason for extension approves or recommends it to Executive Board NHA for final approval.

On completion of work by the contractor RAMS Section at the head office visits the field and checks the planned implementations of the project. A completion certificate is issued and final payment is released as per the contract terms. Liquidated charges are deducted from the final payment if there are significant delays in the project completion. Defect Liability Certificate (DLC) is issued at the time of completion of Defect Liability period and retention money is released.

**c) Operational procurements (Goods & Services)**

For operational procurements, upon receiving of goods / services, the designated member of committee for purchase of stores, tools and plants, inspects the goods/services and prepares the inspection report.

No disbursement instructions for settlement of vendor invoices are approved unless there is a confirmation received from the respective section that the services / goods have been delivered as per the terms of contract.

**3.5.5 Procurement records / data management:**

Following are some of the key documents which are being generated / received and maintained in the procurement files:

- ▶ IFBs
- ▶ Proposals
- ▶ Correspondence with bidders
- ▶ Evaluation reports
- ▶ Payments related documents

All of these documents are prepared on standard templates and a manual sequential number/contract reference number is allotted to them. Responsibilities related to management of such documents have been detailed below:

**a) Capital procurements**

Planning Wing is responsible for maintaining the documents related to planning and design, while P&CA manages all the documents relating to procurement execution.

Relevant GM of each regional office is responsible for documentation. Individual files are being maintained for each contract. All the documents from the initiation of the transaction to close of project are required to be maintained in such files.

**b) Repair and Maintenance**

RAMS Section in Operations Wing is responsible to maintain documentation of all the transactions relating to repair and maintenance related procurement transactions at the head office level.

Files for the transactions at the regional level are maintained at the regional offices and relevant GM is responsible for the same.

**c) Operational Procurements (Goods & Services)**

Establishment Section under Administration Wing is responsible for maintaining all documents related to operational procurements. Files for regional level transactions are being maintained at regional level with Administration Section. However, from our discussion we noted that no one is responsible for review of procurement files on a periodic basis to check their completeness.

Also soft copy of key documents (such as bidding documents, signed contract, evaluation report, approval of relevant authorities, monitoring book / inspection report) of the particular procurement are updated in the File Management System (FMS) by Assistant Director MIS (P&CA).

### 3.5.6 Key Findings


Section rating	Section summary
<b>Medium</b>	<p>Based on our assessment of the area and issues identified, we have rated this area as 'Medium'. Key findings noted during our assessment are as follows:</p> <ul style="list-style-type: none"><li>i) There is no practice to develop detailed consolidated annual procurement plan for the procurement activities (except for some donor funded projects which requires preparation of such procurement plans).</li><li>ii) Pre qualification of vendors not in practice for procurement under PKR 300,000</li><li>iii) Lack of controls over assessing procurement process efficiency as there is no monitoring control over turnaround time for various activities.</li><li>iv) No defined policy for mode of advertisement / dissemination of RFQs for procurement below PKR 300,000</li><li>v) No formal process for complaint management / monitoring related to procurement activities.</li><li>vi) No involvement of Procurement Section in IT related procurements</li></ul>

Ref	Issue	Impact	Recommendation
i)	<p><b>There is no practice to develop detailed consolidated annual procurement plan for the procurement activities (except for some donor funded projects which requires preparation of such procurement plans).</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; border-radius: 10px; padding: 2px 10px; background-color: #FFD700; color: #FF0000; font-weight: bold;">Medium</span></p> <p><b>Current state:</b> Procurement activities of NHA are being managed by the Planning, Operations and Administration Wings based on input from Government Directives and respective regional offices.</p> <p>In case of both development and non development projects, cash plan and work plan being prepared and considered as adequate tool for procurement activities as it detail anticipated expenditure as per the approved budgets.</p> <p><b>Gap:</b> We observed that no consolidated annual procurement plan is prepared for any type of procurements (capital / repair and maintenance of roads / operational procurements) to be carried out during the year. As stated above in current state documents such as PC1 and cash / work plan are considered adequate as a procurement planning tool.</p>	<p>▶ Lack of procurement planning may render the procurement process inefficient which may also cause financial loss to NHA.</p>	<p>We recommend that based on the approved annual budget, designated section (i.e. P&amp;C Section) of Planning Wing should develop a consolidated procurement plan that covers all aspects of procurement along with timelines of procurements.</p> <p>Procurement plan contents may comprise the following as a minimum:</p> <ul style="list-style-type: none"> <li>▶ Description of item to be procured</li> <li>▶ Reference to budget allocation</li> <li>▶ Reference to detailed planning document</li> <li>▶ Planned time lines (month / week of the year)</li> <li>▶ Wing / Section / person responsible</li> <li>▶ Key activities for procurement</li> </ul> <p>Such procurement plan should be approved by the Member Planning at the start of each year and P&amp;C Section should strictly follow it to avoid any delays in procurement process.</p> <p><b>Responsible person:</b> Member Planning</p>
<b>Management comments</b>			
<p>Procurement planning depends upon the commitment of funding for planned projects. For donor funded projects i.e. Asian Development Bank, World Bank, JICA/ JBIC, IDB etc, procurement plans are prepared on project to project basis as per availability of funding. Procurement plans are approved by Member (Planning) NHA and shared with the donors and are closely monitored by both agencies.</p> <p>As regards Government funded development projects, the PSDP of the fiscal year reflects the allocation for planned projects and procurement is done in accordance with the given time frame of PPRA, PEC and NHA.</p>			

Ref	Issue	Impact	Recommendation
	In addition to above, NHA carries out annual maintenance of its network from Road Maintenance Account (RMA - funded by toll receipts) and for that purpose, annual maintenance plan is prepared at the start of fiscal year and procurement done accordingly .		

Ref	Issue	Impact	Recommendation
ii)	<p><b>Pre qualification of vendors not in practice for procurement under PKR 300,000</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px; background-color: #FFD700; border-radius: 10px;">Medium</span></p> <p><b>Current state:</b> Administration Wing is responsible for execution of procurement process for procurement of goods/services (excluding works). Administration Wing, with the input from relevant user offices, is also responsible for contract monitoring as per agreement with different suppliers/service providers</p> <p><b>Gap:</b> We observed that obtaining the benefits of economies of scale, pre qualification of different vendors for routine nature procurements (e.g. electric equipments, IT equipments etc) has not been established and implemented.</p>	<p>► In cases where no competitive bidding process is followed (less than PKR 300,000), Administration Wing may need to carry out quality assurance of the vendor every time.</p>	<p>We recommend that management should define a mechanism to pre qualify certain vendors/suppliers for routine nature procurements.</p> <p>These pre qualifications should be made on the basis of their past performance and quality of services delivered. Subsequently, the Deputy Director Administration should request quotations from these pre qualified vendors to ensure the quality and expedite procurement process. However, such prequalification should not render the procurement process non competitive.</p> <p>Further, such a pre approved vendors list should be monitored on a regular basis and updated based on vendor's performance as per NHA policies.</p> <p><b>Responsible person:</b> GM P&amp;CA</p>
<p><b>Management comments</b></p>			
<p>These come under the category of petty purchases. The basic objective is to be able to purchase petty store items or IT items as per the urgent requirement. Market mechanisms have also to be kept in mind. Therefore, it is thought prudent that cumbersome procedures may be avoided in these purchases and flexibility is inbuilt so that quality products can be delivered in shortest possible time. On the other hand, the stationary items and other routine procurements are made in bulk through advertisement in the press.</p>			

Ref	Issue	Impact	Recommendation
iii)	<p><b>Measurement of turnaround time for procurement activities not in practice.</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> To maintain efficiency and effectiveness for procurements being carried out, the Administration / Procurement Section in organizations prepare a tracking sheet, which provides the updated status of each procurement transaction (from ordering to receipt of goods). This helps in tracking purchases and monitoring turnaround times.</p> <p><b>Gap:</b> We observed that there is no turnaround time defined for various key stages / activities to assess the efficiency of the procurement process</p>	<p>▶ Delays in the procurement activities may not be identified on timely basis.</p>	<p>We recommend the following: Turnaround time should be defined for key procurement related activities such as time to be taken to:</p> <ul style="list-style-type: none"> <li>▶ Complete the needs assessment and approve PR,</li> <li>▶ Complete request for quotation/ bid process</li> <li>▶ Complete assessment of quotation / proposal</li> <li>▶ Raise the PO</li> </ul> <p>In the tracking sheet actual time taken should be compared with pre defined turnaround time to assess if there are any delays.</p> <p><b>Responsible person:</b> GM P&amp;CA</p>
<p><b>Management comments</b></p> <p>As explained in response to observation No. 1, procurement plans are developed on donor funded projects in which time for each procurement activity is detailed. These plans are regularly monitored in review meetings both within NHA and with the donor.</p>			

Ref	Issue	Impact	Recommendation
iv)	<p><b>No defined policy for mode of advertisement / dissemination of Request for Quotations for procurement below PKR 300,000</b></p> <p><b>Issue rating:</b> </p> <p><b>Current state:</b> As per the current practice of NHA, any item below the value of PKR 25,000 is directly purchased from the market, without any need for quotations from multiple vendors. Any item purchased above PKR 25,000 and up to PKR 300,000 is purchased through three quotations method. Above PKR 300,000 tenders are issued</p> <p><b>Gap:</b> We observed that there is no practice for advertisement/ dissemination for the items purchased between PKR 25,000 and PKR 300,000. Upon discussion with the management, we were informed that RFQ can be issued to approved vendors, as well as any other vendors as per the discretion of the management.</p>	<p>► The procurement process may not be competitive.</p>	<p>Although applicable PPRA Rules does not require management to carry out extensive procurement procedures (such as advertisement etc) for obtaining the quotation, we recommend that:</p> <p>a) The management should consider deciding a threshold (for example above PKR 25,000)</p> <p>b) For any procurement above such amount quotation should be obtained through wider sources by making advertisements in the news papers or organisation's website.</p> <p>Alternatively there should be a mechanism established, whereby quotations obtained by procurement function are independently verified by an independent designated person (at least for procurement above PKR 25,000) to ensure its authenticity</p> <p><b>Responsible person:</b> GM P&amp;CA</p>
<p><b>Management comments</b></p> <p>This is related to observation No. 2. As explained above, advertisement is not required for petty purchases and quotations (normally from 3 or more vendors) are the modus operandi. After obtaining necessary approvals, letters/ e-mails are issued to respective vendors for submitting quotations.</p>			

Ref	Issue	Impact	Recommendation
v)	<p><b>No formal process for complaint handling related to procurement issue.</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; border-radius: 10px; padding: 2px 10px; background-color: #FFD700; color: #FF4500;">Medium</span></p> <p><b>Current state:</b> Procurement activities of NHA are being managed by the Planning, Operations and Administration Wings based on input from Government Directives and respective regional offices.</p> <p>According to PPRA Rules Provision 48 (1), the procuring agency shall constitute a committee comprising of odd number of persons, with proper powers and authorizations, to address the complaints of bidders that may occur prior to the entry into force of the procurement contract</p> <p><b>Gap:</b> We observed that there is no such committee formed for publishing the notice of contract award and there is no formal procedure to record, manage and respond to the complaints, if any, lodged by the bidders</p>	<p>► Transparency and fair competition of the procurement process may not be maintained.</p>	<p>We recommend that there should be a register to record complaints and the solutions to those complaints provided by the specially assigned committee for this purpose.</p> <p>Moreover, a Complaint Handling Committee (as per PPRA rules) should be formed for this purpose, whose members should not include those who are the members of Procurement and Evaluation Committees.</p>
<b>Management comments</b>			<p><b>Responsible person:</b> GM P&amp;CA</p>
<p>Complaints are normally addressed to Chairman NHA who directs the respective section to address the complaint. However, it is agreed that a formal committee should be constituted for this purpose and efforts shall be made towards this end.</p>			

Ref	Issue	Impact	Recommendation
vi)	<p><b>No involvement of Procurement Section in IT related procurements</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; border-radius: 10px; padding: 2px 10px; background-color: #FFD700; color: #000;">Medium</span></p> <p><b>Current state:</b> As per our discussion with the management IT team is directly engaged in procurement of IT hardware and software.</p> <p><b>Gap:</b> There is no separate procurement team independent of the IT function to ensure adequate segregation of duties</p>	<p>▶ Transparency and fair competition of the procurement process may not be maintained.</p>	<p>IT being the owner / users of the IT systems should only be engaged in the procurement process from technical input aspect and should not solely execute the entire process.</p> <p>A separate team from Administration Wing may be assigned to carry out the task to ensure required level of segregation.</p>
<b>Responsible person:</b> GM P&CA			
<b>Management comments</b>			
IT related procurements are managed by the MIS section of NHA. However, they are not independent in their decisions and each procurement is approved after recommendation from committees defined under NHA Code. It may please be kept in purview that if IT related equipment is procured under Procurement section then the main task of procuring works and services for annual development programs shall be compromised in terms of effort and time.			

### 3.6 Program management and monitoring

Inspection Section is responsible for independent monitoring and evaluation of activities being performed under both development and non development projects. Both at the head office and regional office, Construction Wing deals with the execution of development projects while Operational Wing is responsible for the execution of non development projects, which mainly pertains to repairs and maintenance of roads and high ways. As per NHA practices both development and non development projects are being outsourced to the infrastructure / construction contractors mainly on a turnkey contract basis. Please refer to section 3.5.3 of this report for procurement of services for such contractors.

The M&E activities are mainly conducted through the following means:

- ▶ Day to day monitoring by the concerned Wing/Section through engaging external monitoring consultants and designated Project Directors (PDs) at respective sites.
- ▶ Independent monitoring by Inspection Section who directly reports to the Chairman.
- ▶ Monitoring of progress of development project only by the Planning Commission of Pakistan through its monitoring teams.
- ▶ Monitoring and evaluation by donor agencies for projects funded by them if any.

Details of each type of monitoring are provided below:

#### 3.6.1 Monitoring by concerned Section / Wing:

##### a) Internal monitoring mechanism of development projects

Internal monitoring of ongoing development projects is performed under Construction Wing through PDs and external consultants who are hired to provide technical assistance to PDs. As per nature and size of the project, one or more PDs can be assigned over the field to monitor execution of work by the contractor engaged by NHA. The external consultant is also involved who monitors / keeps inspecting (on an ongoing basis) the quality of work to be carried by the contractor.

Depending on the project requirements and agreed terms and conditions of contract, the consultants prepare the progress reports on weekly / monthly basis which is reviewed by respective PD and forwarded to Project Evaluation and Monitoring Unit (PEMU) in Construction Wing. The progress report mainly focuses on project status highlighting delays if any, quality control, mobilization details, IPC, important issues etc.

PEMU consolidates all progress reports and forwards to Member Construction after obtaining feedback from respective PDs against major issues if any that are reported in the progress reports. Once reviewed by the Member Construction, the report is submitted to the Executive Board for approval. Later on these reports are shared with the Planning Commission and Ministry of Communication.

#### b) Internal monitoring mechanism for non development projects

Each of the 35 maintenance units are headed by the Deputy Director (DD) Maintenance who is responsible for monitoring the progress and quality of work performed by contractor.

On a monthly basis, Deputy Director Maintenance submits a progress report for the respective projects on a standard template to the Deputy Director Monitoring who consolidates the progress reports from all maintenance units under the region and forwards it to respective regional GM.

The regional GM reviews the progress of the respective maintenance units and forwards it to the Director Road Asset Management Section (RAMS) through GM Operations. RAMS receives the progress reports and after evaluation prepares the consolidated report. Consolidated report is then submitted to the Member Operations for review on a monthly basis to provide an overall view of the progress on NHA non-development (repair and maintenance) projects.

### 3.6.2 Independent Monitoring by Inspection Section

#### a) Independent monitoring of development projects:

There is an Inspection Section at head office which is headed by the GM Inspection who is assisted by the Director Inspection, Deputy Director Inspection, Assistant Director Inspection and support staff. The Inspection Section independently inspects development and non development projects having value of more than PKR 500 million and reports directly to the Chairman. Inspection may also monitor any project below PKR 500 million on specific request of the Chairman.

Following is the profile of the key team members of the Inspection Section:

S. No.	Designation	Qualification	Experience	
			NHA	Others
1	GM Inspection	Bachelor of sciences (Civil Engineering)	25	8
2	Director Inspection	Bachelor of sciences (Civil Engineering)	2	25

We have been informed by the management that there is no formal monitoring plan being developed for monitoring activities which are only carried out before issuance of Taking Over Certificate (TOC) and Defect Liability Certificate (DLC), however, monitoring activities can be performed during the life of the project on specific request by the Chairman.

The Construction Wing intimates the Inspection Section whenever an inspection is due on a project, the Inspection Section nominates the staff for the head office level who visit the field for inspection as there are no staff at the regional level. On completion of inspection visits the respective staff prepares the inspection report using the standard format and submits the same to GM Inspection for review. After his/her review the report is submitted to the Chairman to take appropriate decision. Moreover, we observed that there is no particular committee who reviews the inspection report and follow ups on the actions agreed based on the report.

#### **b) Monitoring mechanism for non development projects**

We have been informed by the management that recently, the Chairman has established five monitoring teams for independent monitoring of non development projects. These monitoring teams are headed by GMs of different Wings. The role of these teams is to identify any discrepancies in non development projects and report it directly to Chairman. However, we have not been provided with any report submitted till date by such monitoring teams.

#### **3.6.3 External monitoring of NHA projects**


Planning Commission assigns monitoring team for different mega projects of NHA. These teams visit project sites and directly report to the Planning Commission about overall progress of projects. These teams also ensure that progress of work is complying with progress reports submitted to Planning Commission at regular interval of times.


#### **3.6.4 External monitoring of donor based projects**

For donor funded construction project respective donors also conduct independent monitoring and evaluation as per their own policies if any. The monitoring teams visit the field and prepare a report which is shared with the donor and NHA management and action plans are agreed based on the same.

### 3.6.5 Key Findings

Section rating	Section summary
<b>High</b>	<p>Based on our assessment of the area and issues identified, we have rated this area as 'High'. Key findings noted during our assessment are as follows:</p> <ul style="list-style-type: none"><li>i) Lack of planned ongoing independent monitoring of projects by Inspection Section.</li><li>ii) Lack of independent monitoring controls over non development projects.</li><li>iii) Inconsistent format of progress reports received from consultants.</li><li>iv) Lack of controls over follow up of findings from project inspection reports.</li></ul>

Ref	Issue	Impact	Recommendation
i)	<p><b>Lack of planned ongoing independent monitoring of projects by Inspection Section.</b></p> <p><b>Issue rating:</b>  <b>High</b></p> <p><b>Current state:</b> There is an Inspection Section at NHA responsible for independent monitoring. Inspection Section carries out inspection of work before issuance of Taking Over Certificate (TOC) and Defect Liability Certificate (DLC).</p> <p><b>Gap:</b> We understand that there is currently no mechanism / inspection plan to ensure ongoing independent monitoring by Inspection Section of the development projects, while these are being executed by the Contractor.</p> <p>Further, we have been informed that for the projects below PKR 500 million, Inspection Section does not perform any inspection even at the time of substantial completion of work and at the end of Defect Liability period.</p>	<ul style="list-style-type: none"> <li>▶ Lack of planned ongoing independent monitoring may lead to faults / issues being identified at the time of project close.</li> <li>▶ This may lead to delays in project completion as the contractor may seek time to close such project.</li> </ul>	<p>We recommend the following:</p> <p>An inspection plan should be prepared to carry out the inspection of all the development projects. Such inspections should be carried out at various stages of the project depending on its nature, value and complexity involved. Accordingly projects below PKR 500 million may be selected on sample basis on lesser frequency.</p> <p>A monitoring mechanism should be in place to ensure inspection plan time lines are being followed and reports are submitted to Chairman NHA in timely manner.</p>
<p><b>Management comments</b></p> <p>AS per SOP two committees are constituted headed by concerned General Manager (inspection) and his team are in attendance. As such each Project General Manger has definite plan for inspection and completion of his project. Accordingly, he requests committee members for their inputs at TOC and DLC stage. As per provision of FIDIC based contracts, independent Engineer is appointed on each project to monitor the progress and qualities of works during construction stage.</p> <p>In view of the above, it is not out of place to monitor that too much inspection by NHA inspection teams will defeat the purpose of independent Engineer and as such, NHA has kept limited role at TOC and DLC stages. However, random inspections being undertaken on specific instructions of Chairman NHA or concerned Member on case to case basis on ongoing project. It may be further mentioned that report for each inspection is submitted to concerned General Manger and copy too chairman NHA on regular basis.</p> <p>AS far as, inspection of project less than RS 500 Million is concerned, Inspection team does visit such projects as well. However, preference and more emphasis is given to mega projects.</p>			
			<p><b>Responsible person:</b> GM Inspection</p>

Ref	Issue	Impact	Recommendation
ii)	<p><b>Lack of monitoring controls over non development projects.</b></p> <p><b>Issue rating:</b>  <b>Medium</b></p> <p><b>Current state:</b> Chairman NHA has recently established five member monitoring teams for monitoring of non development projects in various regions. The role of these teams is to independently monitor the work performed, identify any discrepancies in work and report it to Chairman NHA directly.</p> <p>On the basis of such report Chairman NHA requests the Inspection Section to visit the sites and investigate the issues in further detail.</p> <p><b>Gap:</b> However, we noted that there is no formal mechanism / plan being developed for such monitoring teams.</p> <p>From our discussions we understand that such teams visit the field on random basis (without any defined frequency). Also reporting from such visits is not made as per a defined frequency.</p>	<ul style="list-style-type: none"> <li>▶ Due to lack of planning, completeness of monitoring cannot be ensured.</li> <li>▶ Also ad hoc reporting frequency may render the entire monitoring process as ineffective.</li> </ul>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>▶ A monitoring plan should be prepared for each of the monitoring activity covering all the non development projects.</li> <li>▶ Monitoring team should ensure such plan is being adhered to adequately and reports are compiled on specified frequency (monthly / quarterly) for submission and review of Chairman NHA.</li> </ul> <p><b>Responsible person:</b> GM Inspection</p>
<b>Management comments</b>			
<p>Annual maintenance plan is prepared, every year by NHA and accordingly works on Non development Projects are executed in every region of Operation wing. Dy Director (Monitoring) is deputed with each Regional General Manger to monitor non development Projects. In addition to this, chairman NHA has made five monitoring teams under his control. Each team is headed by General manger .Furthermore Chairman NHA may refer selective cases of monitoring teams submits written reports to Chairman NHA on regular basis.</p> <p>Forgoing in view clearly depicts that adequate monitoring system is already in place at various levels on non development projects and functioning satisfactorily .</p>			

Ref	Issue	Impact	Recommendation
iii)	<p><b>Inconsistent format of progress reports received from consultants for development projects.</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px 5px; background-color: #ffcc00; border-radius: 5px;">Medium</span></p> <p><b>Current state:</b> NHA hires consultants for each development project whose role is to provide technical assistance to Project Directors. The consultant prepares the progress report which are reviewed by Project Director and then forwarded to the head office.</p> <p><b>Gap:</b> We noted that NHA has not specified any formats for such monitoring consultants to be used for their reporting. Each consultant prepares reports on their own format which is then consolidated at head office level.</p>	<p>► Inconsistency in reporting format may lead to inconsistent monitoring and problems in consolidation of monitoring reports at head office level</p>	<p>We recommend that NHA should specify formats / overall contents of the monitoring reports to be compiled by the consultants.</p> <p>This will ensure consistency in reports and also it will save management time while consolidating progress reports of different projects.</p> <hr/> <p><b>Responsible person:</b> GM Construction</p>
<b>Management comments</b>			
<p>The inspection team under General Manger (inspection) consists of very competent Engineer and Material Engineer. The contract management aspect is checked by the General Manger (inspection) himself .Therefore, finding, opinion and recommendations of this team are the final stance of the Employer on any project execution.</p>			

Ref	Issue	Impact	Recommendation
iv)	<p><b>Lack of controls over follow up of findings from project inspection reports.</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px; background-color: #FFD700; border-radius: 5px;">Medium</span></p> <p><b>Current state:</b> Inspection Section carries out inspection of projects before issuance of Taking Over Certificate (TOC) and Defect Liability Certificate (DLC). On the basis of inspection, Inspection Section directly report to Chairman NHA for all issues identified during inspection.</p> <p><b>Gap:</b> We noted that there is no regular frequency for submission of reports to Chairman NHA. Moreover, we observed that there is no particular committee that review Inspection report with all respect and follow ups for all identified issues highlighted in that report.</p>	<p>► Recommendations given in the inspection report by Inspection Section may remain unresolved.</p>	<p>We recommend that a designated committee should be established, and responsibility should be assigned for managing the issues identified.</p> <p>Further, we recommend that on a monthly basis a follow up status of all issues should be obtained from the Inspection Section. The same should be discussed in the EB and action plans should be agreed accordingly .</p> <p><b>Responsible person:</b> GM Inspection</p>
<p><b>Management comments</b></p>			
<p>Report of the Inspection team is forwarded to respective General Manager who is employer's representative. It is duty of the General Manager of the project to ensure all the observations and recommendations of the inspection team are implemented in the letter and spirit. Contractually it is the employer representative who can make any communication with the contractor and the Engineer. No other person or team can interface in contract management. Therefore, implementation of the inspection report is responsibility of the Construction Wing .All inspection reports are forwarded to concerned Member with information to chairman NHA. In any case General Manager (inspection) cannot be involved in the execution of the project .Hence any committee or body at execution of the project. Hence any committee or body at Executive Board level will be superfluous and counterproductive.</p>			

### 3.7 Property management

#### 3.7.1 Fixed assets management

Fixed assets are purchased through the normal procurement procedure covered in the section 3.5.3c of this report. NHA major procurements are computers, laptops, printers etc Furniture and vehicles are part of project cost and after completion of project they are handed over to the NHA.

Book keeping Section of the Finance Wing is responsible for maintaining record of all assets purchased by entity while the Administration Section of Administration Wing is responsible for safe custody of assets. All procured items are recorded in the stock register by store keeper at the time of procurement of items. When an asset is procured a sequential number is assigned by the book keeping section for its easy identification and complete transaction audit trail.

As discussed in procurement section 3.5.3c operational procurements is a decentralized function at NHA. Each regional office maintains its own fixed assets register and there is a consolidated fixed asset register maintained at head office level. There is a defined process for asset transfers. Whenever there is an asset transfer, a request form is generated and approved by the respective Wing/section. However, we noted that the Finance Wing is not informed of such transfer.

In NHA, assets are not insured except for vehicles that are only insured for first three years. For disposal of assets a list of items for sale is prepared by the Deputy Director General Administration. A reserve price is calculated by the Finance Wing which is the base price for items selected for auction. Assets cannot be sold below the reserve price set by the Finance Wing. After the auction process, concerned party need to deposit money in advance as per terms and condition set by the Deputy Director General Administration after approval of Member Administration. Crossed cheques in the name of NHA received by DDO of Payment Section who deposits it in the bank along with generation of receipt voucher. After receipt of payments into bank account, DDO informs the Deputy Director General Administration for handing over of the concerned asset bid by the payee. After handover, Establishment Section of Administration Wing updates their assets record that is later on communicated to Book Keeping Section for its recording in GL Accounting System.


As per the management we were informed that once in every two years NHA performs physical verification of assets internally. However, we have not been provided with any evidence for such verification. Further, we noticed in the management letter issued by the auditors that no physical verification of fixed assets has been carried out for five years. External auditors perform fixed asset verification as part of their normal audit procedures, however, this is not considered as an adequate control.

### 3.7.2 Inventory management

NHA does not have any inventory items of significant value. Smaller value items like stationery (pens, pencils, writing pads, staplers, printer pages etc) are being held in inventory for day to day usage. Please refer to procurement procedure for the procurement process of inventory items. Any inventory procured is handed over to the store keeper which is responsible for the recording of the same in hard form. All inventory purchased is booked as an expense at the time of purchase.

Both at head office and regional level, when inventory is procured, the same is recorded in stock register which is prepared by the store. Inventory is requested through requisition form by the respective users. Store Section maintains copy of requisition form after the issuance of inventory item.

### 3.7.3 Key Findings

Section rating	Section summary
 High	<p>Based on our assessment of the area and issues identified, we have rated this area as 'High'. Key findings noted during our assessment are as follows:</p> <ul style="list-style-type: none"><li>i) All fixed assets of NHA are not tagged</li><li>ii) No defined policy regarding physical verification of fixed assets at regular interval of time.</li><li>iii) Impairment testing of assets not in practice.</li><li>iv) Delay in capitalisation of completed project as highlighted by auditors in the Management Letter of NHA for the year ended 30 June 2011</li><li>v) No insurance of fixed assets</li></ul>

Ref	Issue	Impact	Recommendation
i)	<p><b>All fixed assets of NHA are not tagged</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> Book Keeping Section of Finance Wing is responsible for maintaining all the records of fixed assets in the system while Establishment Section of the Administration Wing is responsible for the safe custody of assets.</p> <p>During our discussion with the management we were informed that majority of fixed assets are tagged both at head office level and regional level.</p> <p><b>Gap:</b> However, we were noted all of the fixed assets of NHA have not being tagged for the last five years. Further, the practice of tagging is not consistently followed both at head office and regional office level. This issue has been raised by external auditor in management letter for the financial year ended 30 June 2011.</p>	<p>► Incomplete fixed assets tagging increases the risk of assets' misappropriation.</p>	<p>We recommend that a formal documented policy shall be prepared and implemented for tagging of assets.</p> <p>For existing assets an exercise should be carried out internally or with the help of external consultants for tagging of all the assets of NHA at all the locations. Based on the same fixed assets register should be updated.</p> <p>For new assets such tagging should be ensured at the time of procurement of assets.</p> <p>Asset tags shall be generated systematically so that reconciliation can be prepared between physical assets and records.</p> <p>Also, a unique asset code shall be assigned to each asset.</p>
<p><b>Management comments</b></p> <p>Fixed assets additions after 2007 have not been tagged.</p>			

Ref	Issue	Impact	Recommendation
ii)	<p><b>No defined policy regarding physical verification of fixed assets at regular interval of time</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; border-radius: 10px; padding: 2px 10px; background-color: #ffcc00; color: black; font-weight: bold;">Medium</span></p> <p><b>Current state:</b> The Book Keeping Section of the Finance Wing and General Administration Section of Administration Wing is responsible for carrying out the physical verification of fixed assets. We were informed that the physical verification is carried out once in 2 years.</p> <p><b>Gap:</b> We noted that there is no practice of preparing formal reports for the issues identified during physical verification and reconciling the outcome with the Fixed Assets Register (FAR) to ensure actual physical assets and recorded in the FAR are consistent.</p>	<ul style="list-style-type: none"> <li>▶ Lack of physical control over assets may lead to misappropriation of assets, which may not be identified in timely manner</li> <li>▶ Assets record may not be reconciled with the physical assets.</li> </ul>	<p>We recommend that a formal plan should be prepared for carrying out physical verification of all the fixed assets at all the locations of NHA. Such physical verification should be observed by the internal audit team. Further the results shall be compiled in a formal report and presented to the higher management.</p> <p>There should also be a policy documented and implemented to deal with instances of assets misappropriation / misuse / lost / damage.</p> <p>Also based on outcome of physical verification reconciliation should be prepared with the FAR.</p>
			<p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
Agreed			

Ref	Issue	Impact	Recommendation
iii)	<p><b>Impairment testing of assets not in practice</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> As per IAS 36 "Impairment of Assets", an asset is impaired when its carrying amount exceeds its recoverable amount.</p> <p><b>Gap:</b> We noted that NHA has no formal policy nor an exercise has been carried out to assess the impairment test of its property, plant and equipment, which amounted to PKR 83 billion (net book value) as of 30 June 2011.</p>	<p>► This might result in overstatement of property, plant and equipment and the depreciation charge for the year as disclosed in the financial statements of NHA.</p>	<p>We recommend management should consider conducting an impairment test of its property, plant and equipment as per the requirements of International Financial Reporting Standards and recognize the resulting impairment loss in the financial statements, if any.</p> <p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
The impairment of assets is addressed through Annual Maintenance Plan. Assets like Roads are maintained according to best practices through the routine maintenance & emergency maintenance.			

Ref	Issue	Impact	Recommendation
iv)	<p><b>Delay in capitalisation of completed project as highlighted by auditors in the Management Letter of NHA for the year ended 30 June 2011</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; background-color: red; color: white; padding: 2px 5px; border-radius: 5px;">High</span></p> <p><b>Current state:</b> As per NHA capitalization policy , a project is capitalized once completed and operational.</p> <p><b>Gap:</b> However, based on our review of auditor's management letter for the year ended 30 June 2011, we noted that the several projects i.e. Islamabad Peshawar Motorway Project, Islamabad Murree Dual Carriage Way, M-Z having total value of PKR 23.05 billion as of 30 June 2011, have been completed and are operational for traffic but not yet capitalized. Cost of such assets is still appearing in the financial statements as capital work in progress.</p>	<p>▶ Non compliance with the capitalisation policy may result in understatement of assets and depreciation charge.</p>	<p>We recommended that:</p> <ul style="list-style-type: none"> <li>▶ NHA should assess its processes / controls to ensure compliance with capitalization policy .</li> <li>▶ Matters highlighted in the auditor's report should be resolved to avoid qualified opinion in the future period.</li> </ul> <p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
There is no qualification regarding Capitalization of projects, However projects are normally capitalized on provision of Completion certificate.			

Ref	Issue	Impact	Recommendation
v)	<p><b>No insurance of fixed assets</b></p> <p><b>Issue rating:</b> <span style="border: 1px solid black; padding: 2px;">Medium</span></p> <p><b>Current state:</b> Organizations insure their assets against the risk of loss or damage due to unforeseen events.</p> <p><b>Gap:</b> We observed that NHA does not have any policy of arranging insurance contracts for its assets.</p>	<p>► Financial risk due to loss or damage of assets</p>	<p>We recommend NHA should assess the value of its assets and get at least high value assets insured.</p> <hr/> <p><b>Responsible person:</b> GM B&amp;A</p>
<b>Management comments</b>			
Only vehicles are insured.			

### 3.8 Our Assessment of Kalat – Quetta – Chaman section of N-25

As per specific request from the RSPN team we have assessed the project for Kalat – Quetta – Chaman road (N-25) project status as per our discussion with the management and review of progress report of M/s SMEC International Pty Ltd for the month of July 2012:

**Project background:** For the purpose of improvement and widening of the existing Kalat-Quetta-Chaman road, had been approved in 2004 by the Executive Committee of National Economic Council (ECNEC), the approving authority for all the Government Projects at such time. A loan agreement was signed in 2005 between Economic Affairs Division (EAD) and the donor Asian Development Bank (ADB) for this project. Further, a project agreement was also signed in the same year between National Highway Authority (NHA) and ADB.

As per agreement, the Government of Pakistan (GoP) agreed to share 100% of the project Land and 38% of the cost of civil work contracts. The remaining 62% cost of civil work were agreed to be funded by ADB. Further, independent international consultant M/s SMEC International Pty Ltd was hired for monitoring of the project for which 100% cost were agreed to be borne by ADB. ADB sanctioned a loan amounting to USD 85.7 million for this project.

**Project details:** The project involved construction of 231 km road with revised PC-1 cost of PKR 6,671 million (USD 70.22 million) including amount to be received in foreign currency from donor of PKR 4,574 million.

**Project execution:** The procurement process for the project was started in 2005 after the loan agreement and two years contracts were awarded in 2006 to M/s Saadullah Khan & brothers and M/s Hussain Cotex Limited. The project was divided into four packages / contract as below:

Contract reference	Road section	Length	Contractor	Remarks
ICB-1	Kalat-Quetta Section – I	60 km	M/s Saadullah Khan & brothers	The ICB-1 contract pertaining to Kalat – Khud – Kocha section I was awarded to M/s Saadullah Khan & Brothers. The contract start date was 16 March 2006 and the expected completion date at that time was 15 September 2008. The package involves the construction of 60 km road with the original contract value of PKR 1,319 million.
ICB-2	Kalat-Quetta Section – II	54 km	M/s Hussain Cotex Limited	The ICB-2 contract pertaining to Khud – Kocha – Sairab Section II was transferred to M/s Ayub & Brothers from M/s HCL in 2009. The contract start date was 11 May 2009 and the expected completion date at that time was 11 August 2010. The package involves the construction of 54 km road with the original contract value of PKR 1,436 million.

Contract reference	Road section	Length	Contractor	Remarks
ICB-3	Kalat-Chaman Section - I	60 km	M/s Saadullah Khan & brothers	The ICB-3 contract pertaining to Quetta – Jungle Piralizai section III was awarded to M/s Saadullah Khan & Brothers. The contract start date was 16 March 2006 and the expected completion date at that time was 15 September 2008. The package involves the construction of 60 km road with the original contract value of PKR 1,427 million.
ICB-4	Kalat-Chaman Section - II	57 km	M/s Hussain Cotex Limited	The ICB-4 contract pertaining to Jungle Piralizai – Chaman Section IV was transferred to M/s Ayub & Brothers from M/s HCL in 2009. The contract start date was 11 May 2009 and the expected completion date at that time was 11 August 2010. The package involves the construction of 57 km road with the original contract value of PKR 1,461 million.

In 2007, the contractors requested to extend the contracts and after monitoring of the work completion stage the contracts were extended to 2009 through variation order mutually approved by ADB and NHA. In August 2009, the packages of M/s Hussain Cotex Limited were transferred to new contractor M/s Muhammad Ayub and Brothers joint venture with REX construction Company due to failure of M/s Hussain Cotex Limited to meet the targets. In December 2009 the contracts were further extended to August 2010 due to worst law and order situation, floods, inadequate financing and slow performance of the contractors.

In August 2010, ADB stopped funding for the projects and since then remaining works on all the 4 contracts has been financed entirely by the Government of Pakistan. ADB disbursed USD 56.4 millions which is 71.86% of the initially agreed sanctioned amount.

**Project status as at 31 July 2012 as per M/s SMEC International Progress report:** In November 2010, the two packages ICB-1 and ICB-3 of M/s Saadullah Khan were completed in all respects and Defect Liability Certificate (DLC) were issued with effect from 30 April 2012. Further extension has been provided to M/s Muhammad Ayub and Brothers joint venture with REX construction Company up to 31 October 2012.

Currently as per consultant M/s SMEC International (Pvt.) Limited report, up to 31 July 2012 as tabulated below:

Contract reference	Original contract cost as per PC1	Expenditure to date as per progress report	Claims / remaining work as per contractors	Estimated/ Final Cost after contractor claim	Physical progress as per report	Financial progress as per report	Remarks
	Amounts in Millions*						
ICB-1	PKR 1,319 USD 13.88	PKR 1,972 USD 20.76	PKR 224 USD 2.36 (only contractor claim for extra work)	PKR 2,196 USD 23.12	100%	100%	There is no outstanding accrued by NHA in its financial records against the claims of PKR 224 million for extra work submitted by the contractor. As per management the final bill of the contractor will be prepared and processed after mutual agreement and required verification process for such extra cost. Further as per progress report performance security from contractor has also been released.
ICB-2	PKR 1,436 USD 15.12	PKR 1,861 USD 19.59	PKR 589 USD 6.20 (contractor claims for extra work and additional estimated cost to be incurred)	PKR 2,450 USD 25.79	63%	55%	The outstanding liability of contractors in the books of NHA under this project amounts to PKR 50 million as at the date of our review. Further, we noted that claims filed by the contractor and remaining work to be carried out on these projects amounts to PKR 589 million.
ICB-3	PKR 1,427 USD 15.02	PKR 2,520 USD 26.53	PKR 169 USD 1.78 (only contractor claim for extra work)	PKR 2,689 USD 28.31	100%	100%	There is no outstanding accrued by NHA in its financial records against the claims of PKR 169 million for extra work submitted by the contractor. As per management the final bill of the contractor will be prepared and processed after mutual agreement and required verification process for such extra cost. Further as per progress report performance security from contractor has also been released.

Contract reference	Original contract cost as per PC1	Expenditure to date as per progress report	Claims / remaining work as per contractors	Estimated/ Final Cost after contractor claim	Physical progress as per report	Financial progress as per report	Remarks
	Amounts in Millions*						
ICB-4	PKR 1,462 USD 15.39	PKR 1,442 USD 15.18	PKR 1,485 USD 15.63 contractor claims for extra work and additional estimated cost to be incurred	PKR 2,926 USD 30.80	64%	57%	The current outstanding liability of contractors in the books of NHA under this project amounts to PKR 9 million as at the date of our review. Further, we noted that the claims filed by contractor and remaining work to be carried out amounts to PKR 1,485 million.
<b>Total</b>	<b>PKR 5,643 USD 59.40</b>	<b>PKR 7,794 USD 82.04</b>	<b>PKR 2,467 USD 25.97</b>	<b>PKR 10,261 USD 108.01</b>	<b>82%</b>	<b>76%</b>	

\* PKR converted to USD using exchange rate of 1 USD = 95 PKR

**Way forward / consideration for completion of project:** As per the monthly progress report no. 76 for the month of July 2012 submitted by M/s SMEC International (Pvt.) Limited, it would be extremely difficult for the contractor to complete the two under progress projects i.e. ICB-2 and ICB -4 by 2<sup>nd</sup> October 2012 as the progress of work has been adversely affected by the prevailing law & order situation in the area and contractors lack of capacity. While the contractor, M/s MAB/REX JV needs to put in extraordinary efforts by major improvements (mainly in the contract management and induction of additional resources in terms of skilled manpower/equipment/materials) to achieve completion by the year end.

NHA also has to ensure improvement in the security situation through the provincial government as well as availability of adequate funding for successful completion of the project. Respective Engineer has recommended to extend both the contracts up to 31<sup>st</sup> December and to 3<sup>rd</sup> December respectively. Further as per the report.

Further as per the progress report, M/s HCL (previous vendors for ICB 2 and 4) accounts on ICB 2 and 4 have been finalized by the Engineer but were not accepted by HCL who had also submitted some additional claims which were rejected by the Engineer. M/s HCL has filed a writ petition in the High Court on this issue and the court has issued a restraining order to NHA. M/s HCL has also referred a number of issues for arbitration. The arbitration award was issued which has been challenged in the court of law by NHA. The M/s HCL accounts would be settled once all legal and contractual issues are resolved.

Further, during our review of the project audit reports issued by Auditor General during the last three years certain issues have been reported and key issues have been documented in Annexure 4 of this report.

## 4. Absorptive capacity assessment

- 4.1 Project allocations and spending trend analysis
- 4.2 Financial analysis based on ratio / variance analysis of the financial statements;
- 4.3 NHA capacity for financial statements compilation and reporting
- 4.4 Current capacity in terms of staff strength and capability.

The following are certain analysis through which we have assessed that absorptive capacity of NHA which determines its ability to maximize the use of available financial resources and reflections on its ability to manage larger volumes of funds:

- ▶ Project allocations and spending trend analysis;
- ▶ Financial analysis based on ratio / variance analysis of the financial statements;
- ▶ NHA capacity for financial statements compilation and reporting
- ▶ Current capacity in terms of staff strength and capability.

#### 4.1 Project allocations and spending trend analysis

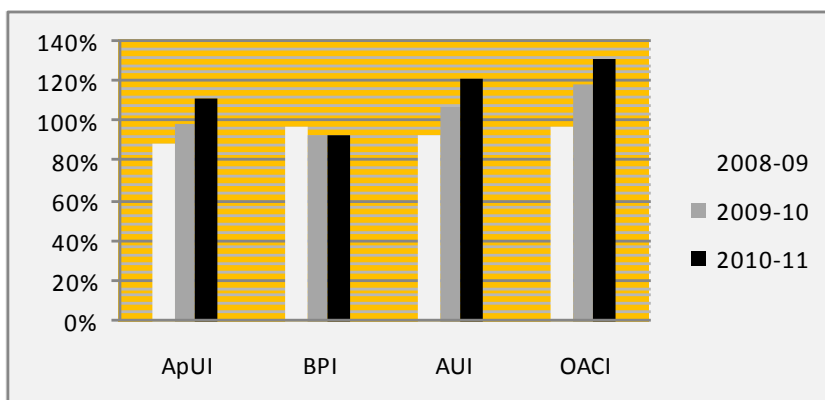
Based on information received from management for project activities conducted in three years, following is an analysis to assess the absorptive capacity of NHA:

Year	No of Projects	Allocated(GoP and donors)	Released	Spent	ApUI	BPI	AUI	OACI
2010-11	109	25,718	23,655	28,329	110%	92%	120%	130%
2009-10	90	45,706	41,914	44,811	98%	92%	107%	117%
2008-09	81	36,500	35,071	32,276	88%	96%	92%	96%
Appropriation Utilization Index (ApUI) = Spending/Allocation (ability to utilize funds relative to the development spending target)								
Budget Programming Index (BPI) = Released/Allocation (extent to which the development budget for the year has been prioritized by Government of Pakistan)								
Allotment Utilization Index (AUI) = Spending/Released (extent to which NHA effectively utilized the available resources at any given time)								
Overall Absorptive Capacity Index (OACI) = AUI/BPI (ability to utilize the allotments received and the relative priority given to NHA by the Government of Pakistan).								

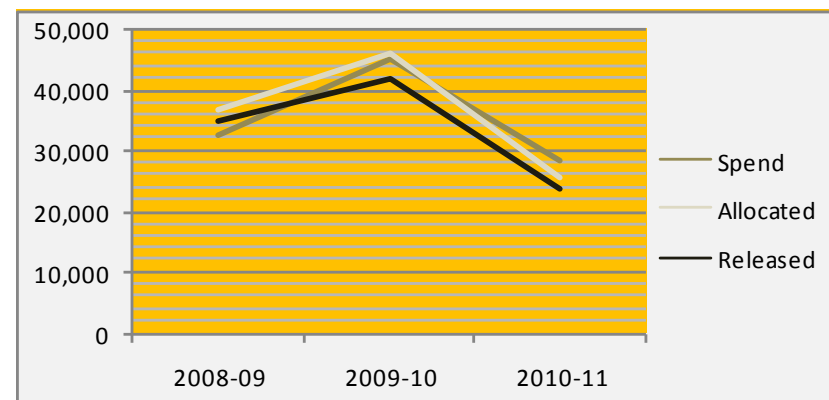
- a) **Appropriation Utilization Index (ApUI):** The Appropriation Utilization Index (ApUI) ratio has shown a steady growth over the three years and improved from 88% in 2008-09 to 110% in 2010 – 11. This indicates that as compared to 2008-09 in 2009-10 and 2010-11 NHA management has been able to fully utilize its targets of spending specially in 2010-11 where achievement of spending over allocated fund is 110%. However, it should also be considered that the value of allocations has significantly reduced in 2010-11 as compared to prior years due to the cut down in the development budget by the GOP as more funds were diverted to provide relief to people affected from flood.

- b) Budget Programming Index (BPI):** The results show that NHA projects have been reasonably prioritized by the Government of Pakistan as in each of the three years funds received are more than 92% of the funds allocated by the Government of Pakistan and through donor agencies. Although due to reasons stated above regarding rehabilitation of people affected from flood the BPI ratio has decreased from 96% in 2008-09 to 92% in 2009-10 and 2010-11.
- c) Allotment Utilization Index (AUI):** The Allotment Utilization Index (AUI) ratio has also shown a steady growth over the three years and improved from 92% in 2008-09 to 120% in 2010 – 11. This indicates that as compared to 2008-09 in 2009-10 and 2010-11 NHA management has been able to spend more than funds actually released from GoP. The spending is calculated based on the actual work performed by various contractors on various projects so in 2009-10 and 2010-11 the ratio is over 100%, the impact of this has resulted in increase of payables to contractors, consultants and suppliers in the balance sheet by PKR 3,205 million. As informed to us by the management internal borrowing are also obtained from Operations Wing whose sources of revenue are through internal collection (including toll income and income from other sources as detailed in section 3.2.3 of this report) and government grants.
- d) Overall Absorptive Capacity Index (OACI):** The Overall Absorptive Capacity Index (OACI) ratio has also shown a steady growth over the three years and improved from 96% in 2008-09 to 130% in 2010-11. This indicates that NHA has over achieved the available resources in 2010-11 and has the ability to absorb more funds in future. This is also understandable from the fact that in 2009-10 NHA spent PKR 44,811 million for its development project and in 2010-11 it has only spent PKR 28,329 million due to cut in the budget as detailed above. Overall, NHA seems to have the ability to spend funds ranging from PKR 40,000 million to 45,000 based on prior year performance.

Absorptive capacity ratio



Amount allocated, released and spent in millions



## 4.2 Financial analysis based on ratio / variance analysis of the financial statements

Based on the audited financial statement provided to us for the five years ended 30 June 2011, we have performed a detailed ratio analysis to analyze the financial capacity of NHA. Following are some of the key observations as a result of the same:

### a) Ratio analysis

#### Liquidity ratios:

S. No.	Description*	2007	2008	2009	2010	2011
1	Current ratio	0.05	0.05	0.05	0.06	0.04
2	Cash ratio	0.04	0.03	0.02	0.02	0.01

\*Please refer to Annexure 10 for the formula use to calculate the ratio

As at 30 June 2011 current ratio stands at 0.04 and cash ratio stands at 0.01 which are significantly below acceptable standards, further trends over previous five years also shows a consistent decrease in these ratios indicating that NHA ability to pay off its current liabilities is decreasing and it has not been able to repay current installments of its long term loans, associated finance costs and payments to contractors.

So in case if additional projects are assigned to NHA, funding mechanism needs to have some advance payments, so that NHA can manage its working capital requirements and finance project cost.

#### Debt ratios:

S. No.	Description	2007	2008	2009	2010	2011
1	Total debt ratio	1.96	2.03	2.11	2.11	2.16
2	Interest cover ratio	-2.20	-1.69	-1.43	-1.42	-2.60
3	Asset coverage ratio	0.29	0.25	0.21	0.18	0.13

\*Please refer to Annexure 10 for the formula use to calculate the ratio

The debt ratios show that NHA is heavily dependent on its long term loans to finance its investment activities, which is understandable considering that all the funding are received from GoP and donors for construction of various projects. These funds are generally in form of long term loans.

However, there are serious concerns over NHA's ability to repay such loans and interest costs associated with it, as since 2009, we did not note any repayment of loans made by NHA. Further the interest cost paid by NHA since 2009 to 2011 only amounts to PKR 0.5 billion and the outstanding balance of finance cost stands at PKR 212 billion as at 30 June 2011. So in case additional projects are to be awarded to NHA through long term loan arrangements there would be serious doubts over repayment of such loans and interest cost associated with it.

In this respect we noted that NHA carried out an exercise in 2005 through external consultants to assess the available options for sustainable financing of NHA's programme. The consultants came up with the report containing with the fact that NHA cannot continue solely on the basis of its own operations. The consultants suggested short terms, medium terms and long terms solutions through good practices across the world. Further, consultant also suggested Public Private Participation (PPP) for motorways. However, we noted that no material steps have been taken by management in connection with this study and loans are still appearing in the balance sheet.

#### Overall asset ratio:

S. No.	Description	2007	2008	2009	2010	2011
1	Fixed asset ratio	47%	45%	38%	32%	29%
2	Capitalization ratio	10%	15%	2%	4%	3%

\*Please refer to Annexure 10 for the formula used to calculate the ratio

The overall assets position of NHA is satisfactory; however, while analyzing the capitalization ratio we noted that the ratio has decreased over the five years from 15% to 3% which signify that NHA is stuck in long term projects. However as per discussion with the management we were informed that projects are capitalized on clearance of final invoice of contractors and issue of completion certificate, which causes delay in capitalization process. Due to this clearance problem the actual capitalization rate is low in the financial statements.

Further the management letter of external auditor for the year ended 30 June 2011 also raised the issue that several projects i.e. Islamabad Peshawar Motorway Project, Islamabad Murree Dual Carriage Way, M-Z etc. have been completed and are open for traffic but not yet capitalized and still appear in the financial statements as capital work in progress.

On discussion with management we understand that such projects which are not capitalized despite being operational has resulted in undercharging of depreciation expenses to the income and expenditure account as well.

**Total expense to total income ratio:**

S. No.	Description	2007	2008	2009	2010	2011
1	Total expense to total income	311%	334%	298%	268%	318%

\*Please refer to Annexure 10 f for the formula use to calculate the ratio

The overall expense to income ratio ranges from 268% to 334% over the five years. This ratio shows that the expenses of NHA are average 3 times of the total income of NHA. As a result of this the accumulated deficit of NHA has reached to PKR 334 billion at the end of 30 June 2011. The finance cost on long term loans contributes 50% of the total expenses which is the main reason for increase in this ratio.

**a) Variance analysis - Horizontal analysis**

Description	From 2007 to 2008	From 2008 to 2009	From 2009 to 2010	From 2010 to 2011
Total Assets	11%	10%	16%	7%
Total Liabilities	14%	14%	16%	10%
Total Income	0%	38%	22%	-29%
Total Expenses	8%	24%	10%	-16%

**i) Balance Sheet**

**Total Assets:** The variation in total assets over the five years ended 30 June 2011 ranges from 7% to 16%. Based on size and operations of NHA these variations are considered as acceptable. One of the major reasons for increased in total assets was due to increase in capital work in progress over the years. As at 30 June 2011 capital work in progress constitutes 55% of total assets. The reason behind increase in capital work in progress was due to slow

capitalization rate. We were informed by management that projects are capitalized on clearance of final invoice of contractors and issuances of completion certificate, which causes delay in capitalization process. Property plant and equipment has decreased due to depreciation charged for the years. Further no unusual variations have been noted in current assets.

**Total liabilities / loans management:** As per audited financial statements as at 30 June 2011, long term loans of NHA amounted to PKR 385 billion with the current maturity of PKR 88 billion. Following table shows the long term loan of NHA for the four years.

Description	2008	2009	2010	2011
	PKR in billions			
Un-secured long term loans	284	319	361	385
Current maturity of long term loans	69	79	82	88
Finance cost	21	23	24	27
Percentage increase in loans	11%	12%	16%	6%

As per above analysis long term loans have increased significantly over the period. No major repayment has been made by NHA against such loans. Further interest of only PKR 0.5 billion has been paid against the total liability of finance cost of PKR 212 billion as at 30 June 2011.

As per management the non repayment is due to shortage of funds with NHA. The operations of NHA are not sufficient to generate income for repayment of the loans. Further the ongoing projects of NHA are being fully utilized for execution and maintenance of various projects. The long term loans of NHA comprised of following three types:

- ▶ Cash and development loans (CDL)
- ▶ Foreign re-lent loans
- ▶ Foreign direct loans

#### **Cash and development loans (CDL)**

The CDL as at 30 June 2011 stands at PKR 303 billion with current maturity of PKR 11 billion. Further, the interests payable on this date amounts to PKR 123 billion. NHA receives Cash Development Loans (CDL) from Ministry of Finance (MoF) for the development and construction work on various roads and bridges under the development budget. CDL are repayable in 20 years in accordance with the terms mentioned in respective agreements with the first repayment due after 10 years. Further no interest is charged for the first 5 years on any CDL loan.

On issuance of release order to MoF by Planning Commission, MoF issues sanction letter to Accountant General Pakistan Revenue (AGPR). AGPR then sends sealed letter to National Bank of Pakistan for the issuance of amount to NHA together with intimation to NHA about the same. National Bank transfers the amount of loan from the State Bank of Pakistan Government account to NHA account. Such funds are then further transferred to respective NHA project accounts. The Drawing and Disbursement Officer in payment section records the loans liability on receiving the letter from AGPR.

The interests on loans are booked on annual fixed rate in project account 786 at the end of each financial year. Every year interest rate is provided by the GoP through Economic Affairs Division. The interest is booked in the GoP section and reviewed in bookkeeping section where Financial Analyst assures the accuracy and completeness of the data. The interest rate on CDL as at 30 June 2011 ranges from 7.42% to 18.03% per annum.

NHA is also delivered with the payment request from the GoP recovery department containing the details of outstanding loan and interest payable thereon. Loan and finance cost repayments are made as per the payment procedures documented in section 3.2.4 of this report. However, we noted that no repayment has been made to the GoP under this category since inception of liability.

#### Foreign re-lent loans

Foreign re-lent loans approved specifically in PC-1 for different projects are first lent to the GoP and then the GoP re-lends the funds to NHA. There is a separate Aided Section in Finance Wing responsible for foreign re-lent loans. As at 30 June 2011, following was the breakup of loans outstanding balances:

Donor	As at 30 June 2011 (PKR in billions)
International Bank for Reconstruction and Development (IBRD)	4
Japan Bank for International Corporation (JBIC)	11
International Development association (IDA)	1
Asian Development Bank (ADB)	22
<b>Total</b>	<b>38</b>

The sanctioned amount of the loan is intimated to NHA through Economic Affairs Division, however, under this arrangement funds are not actually transferred to NHA, instead direct payments are made to the contractor by the donor based on the invoices, which contractor sends to NHA as per prescribed terms and conditions mentioned in the contract agreement. After detailed verification of invoice received from contractor, withdrawal application is prepared by NHA's

Aided Section. Withdrawal application is forwarded to donor according to prescribed format along with the relevant documents mentioned in the application. Afterwards, the payment is released by donor directly to contractor.

The liability is recorded in G/L accounting system when the invoice is received from contractor. An adjustment voucher is prepared against the invoice received from contractor. The adjustment voucher is prepared in Aided Section where it is generated by Assistant Account Aided, checked by Superintendent Aided and reviewed by Assistant Director Aided. Further, it is certified by Deputy Director Aided which is then approved by Director Aided.

The actual exchange gain / loss risk remains with GoP. NHA is charged with the fixed exchange rate fee on annual basis by GoP which includes the component of exchange risk.

The interests on loans are booked in Aided Section in relevant project accounts on the basis of terms and conditions mentioned in the relevant contracts. The calculation of interest is reviewed in Bookkeeping Section where Financial Analyst assures the accuracy and completeness of the data. The interest rate on foreign relent loans as at 30 June 2011 ranges from 11% to 17% per annum. Further the exchange risk fee as on this date ranges from 3% to 6% per annum.

**We were informed that till the date of our assessment no loan has been repaid to GoP by NHA on account of foreign relent loans.**

#### Foreign direct loans:

All the foreign loans which are directly sanctioned to NHA without any involvement of GoP come under this category. NHA is responsible for the payment of principal and interest of these loans. As per discussion with management we were informed that NHA has received Foreign Direct Loan only once from Daewoo Express and Turk Exim Bank in 1996 and 2003 respectively following are the details:

Donor	Project	Amount of loan (USD)	Period of sanction of loan	Repayment terms	Interest rate	Outstanding balance as at 30 <sup>th</sup> June 2011 in PKR
Daewoo Corporation	Construction and design of Lahore – Islamabad motorway	697 million	Feb 1996 – Jul 2003	Semi-annual installments from Jul 2003 – Aug 2008	Six months LIBOR for USD deposit plus a margin of 4.5% per annum fixed two banking days before the beginning of relevant interest period i.e. 31 May and 30 November each year	56 billion
Turk Exim	Islamabad – Peshawar	58 million	Mar 2003-	Four equal semi-	Six month LIBOR for USD deposit plus	4 billion

Donor	Project	Amount of loan (USD)	Period of sanction of loan	Repayment terms	Interest rate	Outstanding balance as at 30 <sup>th</sup> June 2011 in PKR
Bank	motorway		Mar 2006	annual installments from May 2005	a margin of 4.5% per annum fixed two banking days before the beginning of relevant interest period i.e. 31 May and 30 Nov each year.	

These loans were obtained for specific mega projects. The amounts were directly received by NHA and as per initial agreement NHA was liable to repay these loans. Two equal installments of Daewoo loans amounting to USD 68 million were made by NHA. However, later on, in 2003, due to shortage of funds these loans were taken over by GoP through direct agreements with the lenders.

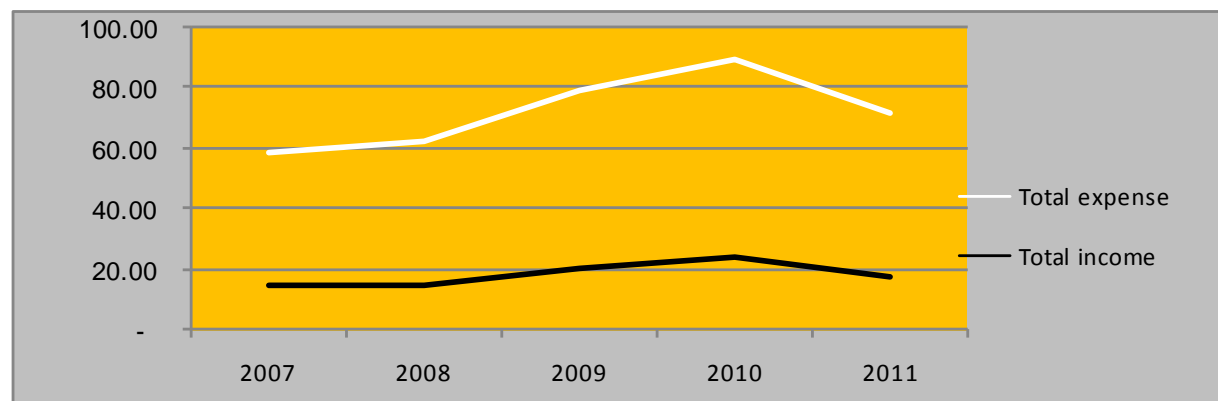
Now repayments of these loans are made by GoP and NHA is liable to repay to GoP. In this respect we noted that external auditor of NHA has raised concerns in their management letter of 2011 that there have been no relending arrangements between GOP and NHA to repay these loans. As per the discussion with management, we have been informed that NHA is liable to repay these loans to GoP on the same terms and conditions as those initially entered with the foreign lenders. Aided section of Finance Wing is responsible for calculation of interest payment according to loan agreement signed between NHA and donor. The calculation of interest is reviewed by the bookkeeping section where Financial Analyst assures the accuracy and completeness of the data. Further, exchange gain / loss is booked annually on foreign currency loans. Loans are translated into Pak Rupee at the rate of exchange rate prevailing on the balance sheet date. The difference is charged under income and expense account.

## ii) Income and expenditure account

**Total income:** The variation in the total income for the year ended 30 June 2011 ranges from -29% to 38%. Major fluctuation in this category was observed in 2011 when the total income decreased by 29% as compared to 2010. The main reason for this decrease was due to decrease in grant income by PKR 7 billion (62%) when compared with grant income of 2010. This was due to World Bank grant received in 2009 and 2010 which was mainly utilized in National Highway Improvement Programme and Road Maintenance Projects. Further we noted average increase of 16% in toll income due to introduction of the system of awarding toll operation & management contracts through open bidding on guaranteed revenue basis on National highways. With respect to income from toll collections, please refer to qualification (as detailed in section 3.2.9i as included by the external auditors in their report on the financial statements for the year ended 30 June 2011).

**Total expense:** The variation in the total expense for the years ended 30 June 2011 ranges from -16% to 24%. Major fluctuation in this category was observed in 2011 when the total expenses are cut down by 16% as compared to 2010. The exchange loss on foreign currency loans was reduced by PKR 11 billion due to stable rate of US dollar in 2011 as compared to 2010. The operating cost has also reduced by 16% due to less maintenance work carried out in 2011. However, we noted that finance cost of NHA is constantly increasing over the period. In 2011 the finance cost contributes 50% to total expenses.

### Comparison of total income and total expense for the five years from 2007 to 2011 (PKR in billions)



### 4.3 NHA capacity for financial statements compilation and reporting

During our review of financial statements of NHA for the year ended 30 June 2011, we noted certain qualifications included by the external auditors, Ijaz Tabussum & Co Chartered Accountants, in their audit report, which reflects on the management capacity to compile and present the financial statements as

per applicable financial reporting standards. Based on our discussion with the management we noted that no material steps have been taken by management on the mentioned issues to resolve the same. Following are the details:

- ▶ **Qualification 1** - As per auditors" NHA has not maintained adequate records in respect of freehold land valuing PKR 3,813,741,482 for 2011 and 2010 and land acquisition advances amounting to PKR 13,248,144,276 for 2011 and PKR 13,350,118,557 for 2010, in the absence of which, we are unable to verify the completeness, existence and accuracy of the amounts at which the respective assets are included in the financial statement".

On discussion with the management we have been informed that it is a normal procedure of NHA to provide loans to Land Acquisition Collectors for the acquisition of land for different projects. These advances need to be classified as land after the land is mutated in the name of NHA. The records in respect of these advances and title documents of land are maintained at remote locations all over the country. NHA has not reconciled its accounting records with the records of land department due to which there are huge differences between the amount of advances and the land recorded in the accounting records as per the record of land department. To remove this qualification management has planned auditor's visits to these locations for verification of records of land department.

**Management Response:**

Following is the current status of such qualifications as per NHA management as informed to us after completion of field work and the exit meeting:

- Complete listing of Land and Land Advances record is prepared
  - Only two locations were remained un-verified during the last audit.
  - The verification of Land advances and title documents by the current auditors is in progress.
  - The qualification will be resolved in audit for the year ended June 30, 2012.
- ▶ **Qualification 2** - As per auditors: The financial statements of NHA include toll income, income from weigh stations and Police fine collected and deposited in the NHA's bank accounts through various Collecting Agents. The Agents have not provided the NHA with the relevant supporting records in respect of such income. We are also not provided with sufficient records and relevant supporting documents with respect to rental income. In the absence of adequate records, we are unable to verify the completeness and accuracy of the amounts at which the income from respective sources and related receivables are included in the financial statements of 2011 and 2010, except for the toll income amounting to PKR 5,284,391,848 for the year ended June 30, 2011 and PKR 4,231,656,660 for the year ended June 30, 2010 related to contracts based on fixed guaranteed revenue."
  - ▶ On discussion with the management we have been informed that the toll income which is based on fixed monthly payment to NHA has already been excluded from the qualified amount. Documents from other toll plazas are difficult to be maintained at the head office due to volume of documentation involved in these transactions. NHA is planning to convert the remaining toll plaza to fixed monthly payments to remove this qualification. Further as corroborative evidence NHA is planning to provide the auditors with the audited financial statements of the respective collection agents. Please refer to section 3.2.3 of this report for details of processes / controls over income (including toll income) collection.

**Management Response:**

- Following is the current status of such qualifications as per NHA management as informed to us after completion of field work and the exit meeting:  
Complete details regarding the contingencies and commitment have been provided to auditors.
- The confirmations to legal advisors on prescribed format have been sent by the auditors.
- The legal directorate of NHA possibly able to resolve the matter through close coordination by following up all the confirmations and ensure replies.

- **Qualification 3** - As per auditors: The financial statements of the NHA include contingencies on account of pending legal cases filed by or against the Authority as referred to note 15 to the financial statements. We were neither provided with the underlying record nor did we receive confirmations in this respect from legal advisors of the NHA, in the absence of which, we are unable to verify the completeness of the amounts as well as related disclosures of the contingencies included in the financial statements for the year ended June 30, 2011 and for the year ended June 30, 2010. The financial statements also do not include appropriate disclosure with respect to the amounts of capital commitments as at 30 June 2011 and 30 June 2010”.

On discussion with the management we have been informed that contingent liabilities of NHA relate to cases filed by or against NHA by land owners, contractors or other parties. The legal section/wing of NHA has maintained record in respect of all such cases. However, they have not maintained an estimate of possible financial obligations that may arise on part of NHA if a case is decided against NHA. Now management has planned to obtain from legal advisors such estimate further coordination with legal advisors are also made to resolve the issue of no replies for audit confirmations.

**Management Response:**

- Following is the current status of such qualifications as per NHA management as informed to us after completion of field work and the exit meeting:  
Auditors have devised the program to visit respective collection premises at different toll plazas on motorway.
- Reconciled data regarding the revenue collected by collectors and booked in the books of NHA is provided to auditors for verification.
- Revenue collection for the year 2011-12 is Rs.13.241 billion out of which Rs.6.604 billion is Fixed guaranteed revenue which is not qualified by the auditors. The matter will be resolved through complete verification of collection made on Motorways in audit for the year 2012.

**4.4 Current capacity in terms of staff strength and capability**

NHA is a large entity in terms of its size, in addition to its head office has nine regional offices in all major cities of Pakistan and 35 maintenance units all over the country. Its presence all over the country has helped NHA implementation of large projects throughout. In terms of staff, below is a comparison of sanctioned and working staff currently at NHA based on information provided by the management:

Description	Regular	Contractual (under PC-1)*	Total
Sanctioned	2,180	2,621	4,801

Description	Regular	Contractual (under PC-1)*	Total
Current	1,681	1,268	<b>2,949</b>
Vacant positions	<b>499</b>	<b>1,353</b>	<b>1,850</b>
Percentage of vacant vs. sanctioned	<b>23%</b>	<b>52%</b>	<b>39%</b>

\*Engaged for specific projects

The above table shows that in terms of regular staff 23% of the sanctioned positions are currently vacant which may have an adverse impact on the ability of NHA to implement future projects specially keeping in consideration that 254 out of 499 positions are from grade 16 and above. However, at the same time management has to consider the budget available from the Government to fill the gap between filled and sanctioned positions.

Further for contractual staff under PC -1, 52 % of sanctioned positions are currently vacant. As per management such vacant positions under PC - 1 are temporary and will be filled once the progress is made on various open projects. A total of 349 staff out of 1,353 belong to grade 16 and above.

# 5. Disclaimer

We have carried out the pre award assessment and developed this report as per the scope of work mentioned under task RFQ No. 02-2012 dated: 19 July 2012. This report is solely for assisting the ASP-RSPN in their decision to extend funding to NHA and is for their own internal purposes.

Our work in connection with this assignment is of a different nature to that of an audit. As the above work steps do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance thereon. Had we performed additional work steps or had we performed an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our comments are based on the work carried out on the basis of information provided by NHA, the stakeholders and other publicly available information. In performing our work, we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us, whether original or copies.

In accordance with our policy, neither EYFRSH nor any Partners or employees undertake responsibility arising in any way whatsoever, to any person other than the management of ASP-RSPN in respect of the matters dealt with in this report, including any errors or omissions therein, arising through negligence.

All analysis in this report, conclusions or assessments has inherent limitations.

The findings in our report are based on our field work from 13 August 2012 and up to 19 September 2012. We have not undertaken to update our report for events or circumstances arising after that date.

Any changes to the key internal controls, policies and procedures subsequent to our discussion with management, which have not been informed to us, have not been evaluated by us and accordingly we do not report on any shortcomings in the same.

The information, advice or recommendations relating thereto contained in this report, in draft or final form, provided to the ASP-RSPN by us during this engagement are given in confidence.

No other EY Entity other than EYFRSH shall have any legal duty of care to the client in connection with the performance of any of the Services by its personnel, and the client shall be entitled to rely only on EYFRSH for the performance of the Services or with respect to any Report. The client [and its affiliates or other persons or entities for or in respect of which any of the Services are provided] shall have no recourse, and shall bring no claim whether based on breach of contract, tort, strict liability, breach of warranty, failure of essential purpose or otherwise against any EY Entity (other than EYFRSH), or against any subcontractors, members, shareholders, directors, officers, managers, partners, principals or employees of EYFRSH or any other EY Entity ("EY Persons"), or any of the assets of any thereof, in connection with the performance of the services or otherwise under this Agreement.

Neither EYFRSH nor any of its subcontractors will be liable to the ASP-RSPN or NHA for any consequential, incidental, indirect, punitive or special damages (including loss of profits, data, business or goodwill, collectively, "Excluded Damages") in connection with the performance of the Services or otherwise under

this Agreement, regardless of whether such liability is based on breach of contract, tort, strict liability, breach of warranty, failure of essential purpose or otherwise, and even if the Company is advised of, or the parties had contemplated, the likelihood of such Excluded Damages.

The aggregate liability of EYFRSH and its subcontractors to ASP-RSPN and NHA in connection with the performance of the Services or otherwise under this Agreement shall be limited to the fees actually received by EYFRSH in respect of the services directly relating to and forming the basis of client's claim, regardless of whether liability is based on breach of contract, tort, strict liability, breach of warranty, failure of essential purpose or otherwise. The preceding limitation shall not apply to liability that has been finally determined to have resulted from the fraud or other willful misconduct by or on behalf of EYFRSH.

ASP-RSPN shall not bring any claim relating to the services or otherwise under this Agreement after 12 months of the act or omission alleged to have caused this claim.

Any liability shall be governed by, and construed in accordance with, the laws of Pakistan as if it were made and fully to be performed in such jurisdiction by residents thereof.

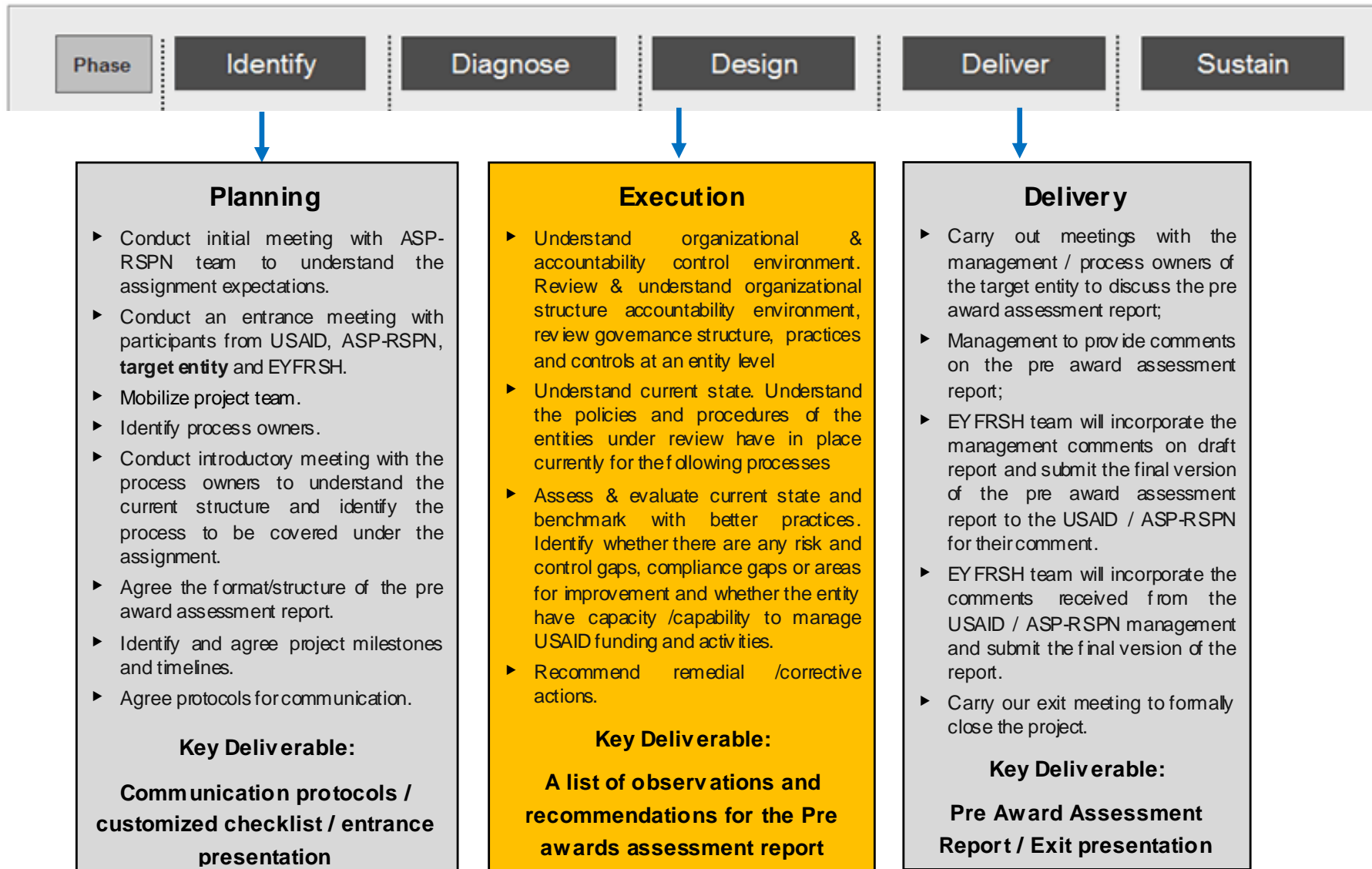
The Services and the information, records, data, advice or recommendations relating thereto contained in any reports, materials, presentations or other communications, written or otherwise, in draft or final form, provided by EYFRSH (collectively, "Reports") are intended solely for ASP-RSPN and NHA information and internal use (consistent with the purpose of the engagement). The client may not rely on any draft Report. EYFRSH shall have no obligation to update any final report for events occurring after its delivery.

Our report to you is based on the information provided, discussion with management personnel, and interviews as provided in Annexure 5 and work steps as provided in Annexure 1. We have not, except to such extent as you requested and we agreed to undertake, sought to verify the accuracy of the data or the information and explanations provided by management. There is an inherent risk involved in deriving factually incorrect information from these sources; accordingly the correctness of information contained therein cannot be assured.

EYFRSH assumes no responsibility whatsoever in respect of or arising out of or in connection with the contents of this report to any third parties. If others choose to rely on the contents of this report, they do so entirely at their own risk.




# 6. Annexure

**Annexure 1: Scope and Methodology of this assessment**






## Annexure 2: Basis of assessment

### 1. Individual area assessment

Rating	Description
 High	An area where the quantum of findings represents a critical exposure to NHA in one or more of the following risk criteria; financial, information transfer, personnel strength and quality and regulatory
 Medium	An area where the quantum of findings represents a moderate exposure to NHA in one or more of the following risk criteria; financial, information transfer, personnel strength and quality and regulatory
 Low	An area where the quantum of findings represents a lower exposure to NHA in one or more of the following risk criteria; financial, reputation, regulatory, product/service

### 2. Findings level assessment

Rating	Description
 High	A finding of significance requiring the immediate attention of senior management
 Medium	A finding of importance requiring the attention of the line management and an agreed action plan for prompt resolution
 Low	A finding requiring an action plan for resolution

**Annexure 3: Guidelines that NHA is expected to be compliant with**

For the purposes of assessment as to the eight areas identified and the financial and management capacity of NHA, we have considered, but not been restricted to, ADS 303 and its mandatory references and 22 CFR 226.

While assessing NHA, we have kept in mind that although NHA might not have all requirements in place in its current operations, it must have the capacity to do so in the event of receiving funding from USAID.

**Annexure 4: Issues related to Quetta-Kalat - Chaman project appearing in audit reports issued by Auditor General**

S. No.	Issue summary
1.	<p><b>Excess payment of PKR 113.154 million due to excessive quantities than BOQ:</b></p> <p>Supplementary Specification 21 Provided In agreement denotes that the measurements of the work shall be performed as the basis of specification. If the measurement exceeds the measurements indicated in the specifications and drawing, excepting those directed by the Employer, such excess shall be on the account of the contractor and he shall not be entitled to any compensation thereof. Furthermore, National highway authority General specifications 100-10 also describes that Excavation and filling beyond the lines and levels shown on the approved drawing profiles and cross section will not be paid for.</p> <p>Kalat-Quetta-Chaman, package (ICB -1, 2, 3 &amp;4) executed excess quantities for certain items than the BOQ involving RS 113.154 Million, without prior approval for the competent Authority. Non adherence to the specifications resulted in excess payment.</p> <p>NHA management response to this observation was that variation orders for excessive quantities are under process of approval of the competent authority.</p>
2.	<p><b>Excess payment of PKR 35.248 million for escalation than admissible limit.</b></p> <p>Appendix to bid, integral part of the agreement (page -85) describes guidance to the bidders and for the purpose of checking their submission, the Employer has estimated and provided a range of acceptable weightings for related major construction inputs in the accordance with the potential range of construction inputs in methodologies, based on the estimated cost in the common currency section of the works describes 60%weighting was fixed while 40% for specified material and labor for the purpose of escalation.</p> <p>Kalat-Quetta-section-1, package,(ICB 1), paid escalation of Rs 587.470 Million which was 46.23% of the total value of work done of Rs 1,270.756 million against the admissible escalation up to limit of 40% involving RS 552.222 million on adherence to agreement resulted in an excessive escalation of Rs 35.248 million.</p> <p>NHA management response to this observation was that a revised mechanism for calculation of escalation had been approved by NHA Executive Board in Sep -2009. A contract Amendment no.5 was issued to implement the revised mechanism. Escalation has been paid to the contractor strictly in accordance with the provision of the contract and there was no overpayment. A final review of the all payments will be made before payment of the bill. Discrepancies, if any, will be removed before payment of the bill.</p> <p>As per Auditor General this reply from NHA management was not tenable because the amendment in agreement was made after execution of agreement, which is irregular. Escalation was paid according to amended formula, due to which payment was made in excess of the permissible limit, as provide in original agreement clause.</p>
3.	<p><b>Inadmissible execution of item worth Rs 34.102 million</b></p> <p>SECTION 3 OF General Specification (Table for sampling) denotes that term no 307 Bitmac is admissible for Rehabilitation and Maintenance works,</p>

S. No.	Issue summary
	<p>not for new construction. Quetta - Chaman section 2 (package ICB 4) executed item No.307a "BITMAC" as non BOQ, item for new work at RD.no.KM 89+00to KM98+955 with the quantity of 3,377.42 cubic meters payment made @ Rs10,097 per cum involving RS 34.102 million without detailed justification the execution of the item stands inadmissible.</p> <p>NHA management response to this observation was that the work comprised of the construction and complete rehabilitation, widening and improvement of existing deteriorated black top road to standardize widening carriage way. It was decided by the competent Authority to replace Asphalt concrete Base course with Bitmac for the Khojak pass section in order to get the work executed on priority basis to facilitate traffic. There was an overall saving of Rs 33.173 million by replacing Asphalt concrete base course with Bitmac which will be regularized through a variation order which is under preparation.</p> <p>As per Auditor General this reply from NHA management is not acceptable because specification is very clear that the item BITMAC is for maintenance work which is executed without approval and without provision in BOQ. Moreover the RDs from KM-89 to KM99 were awarded to other contractors whereas BITMAC was laid by M/S REX MAB.</p>
4.	<p><b>Excessive payment due to award of work to other contractors of Rs 34.28 millions</b></p> <p>As per Financial Manual of NHA, every public servant is expected to exercise the same vigilance in respect of expenditure from public money, as a person of ordinary prudence would exercise in respect of expenditure of his own money.</p> <p>Contrary to above National Highway Authority Project "Widening &amp; Improvement of National Highway(N25)"Quetta – Chaman Road section 2 contract (package ICB 4), awarded the work Khojak Pass on emergency basis without approval of NHA Board to other the rates provided in CRS-2009 plus 10% premium, whereas the original contractor had quoted the rates on the basis of CSR-2005. Non adherence to financial propriety resulted in excessive payment of Rs 34.28million</p> <p>NHA management response to this observation was that Federal Minister for communication and chief Minister Baluchistan visited the road and asked Chairman NHA to get the Khojak pass road completed on priority due to its strategic importance. It was accordingly decided to engage five 5 local contractors (on CSR-2009 plus 10% premium) to expeditiously complete the Khojak pass works. The main contractor was entitled to payment of escalation whereas the sub-contractors have no provision of escalation.</p> <p>As per Auditor General this reply from NHA management is not acceptable because award of the work to other contractors was without competition further GM Baluchistan letter Discloses that four 4 contractors, to whom work of Khojak Pass was awarded, were declared as sub contractors of the main contractor.</p>
5.	<p><b>Non-recovery of income tax surcharge Rs. 241,055</b></p> <p>According to amendment of Section-2, Ordinance XLIV of 2001, Government of Pakistan decided that a surcharge shall be payable by every taxpayer at the rate of fifteen percent of income tax payable under this Ordinance including the tax payable under Part-V of Chapter XII, as the case may be, for the period from promulgation of the Ordinance (15.03.2011) till the 30<sup>th</sup> June 2011.</p> <p>Project Director, Kallat - Quetta - Chaman Section, Road Project NHA did not deduct surcharge @15% from the payments made to the contractors</p>

S. No.	Issue summary
	<p>during the period from 15<sup>th</sup> March, 2011 to 30<sup>th</sup> June, 2011. This resulted into non-recovery of Income Tax Surcharge of Rs.241,055.</p> <p>Audit observed that Income Tax Surcharge was not deducted due to weak internal controls.</p> <p>NHA management response to this observation was that income tax amount was added in deductible amount of income tax against the next IPC.</p>
6.	<p><b>Overpayment due to unjustified measurement of items of work Rs. 443,968</b></p> <p>According to Specification 108.4.2 (Formation of embankment from Borrow excavation) of NHA General Specifications, 1998, the quantity to be paid for shall be the number of cubic meters placed in embankment, measured for material from borrow excavation and such payment will be deemed to include cost of excavation, payment of royalty, levies and taxes of Local, Provincial and Federal Government, cost of hauling, all lead and lift, spreading, watering, rolling, labor equipment, tools and incidental necessary to complete this item.</p> <p>Project Director, NHA, Quetta measured and paid an item of BOQ viz "Structural Excavation" for quantity of 2,069.779 cubic meters. This quantity was required to be deducted from the quantity of "Formation of Embankment from Borrow Excavation" which was not done. Non-deduction of structural Formation of Embankment resulted in overpayment of Rs. 443,968 (2,069.779 x Rs. 150 per cubic meters = Rs. 310,467 plus 43% escalation).</p> <p>Audit observed that overpayment was made due to negligence of the Authority.</p> <p>NHA management admitted the overpayment.</p> <p>Audit stresses for early recovery of the overpaid amount.</p>
7.	<p><b>Non-extension of performance guarantee of the work Rs.200 million and obtaining of guarantee for less amount of Rs. 46.442 million.</b></p> <p>According to clause 10.1 of agreement, the contractor was required to provide Performance Security to the employer in prescribed form within 28 days after the receipt of the Letter of Acceptance. The Performance Security was to be of an amount equal to 10% of the contract price stated in the Letter of Acceptance in the form of either (a) bank guarantee from any scheduled bank or (b) bank guarantee from a bank located outside Pakistan duly counter guaranteed by a scheduled bank in Pakistan. The cost of complying with requirements of this sub-clause was to be borne by the contractor.</p> <p>Project Director, Kallat-Quetta-Chaman Section, Road Project, NHA awarded the balance work of "Widening &amp; Improvement of National Highway (N-25) Kalat-Quetta-Chaman Section to M/s MAB-Rex (JV) (Packages ICB-II &amp; ICB-IV) and executed agreements for Rs. 1,438,169,367 and Rs. 1,026,251,036 respectively (Total Rs. 2,464,420,403). The works were started on 11.05.2009 and were to be completed by 10.08.2010. The completion period was extended upto 31.12.2011. The contractor submitted Performance Guarantee for Rs. 200 million on 04.05.2009 against required amount of Rs. 246,442 million which was valid up to 31.07.2010. The Performance Guarantee was expired but no fresh /extended Bank Guarantee/ Performance Guarantee for the required amount was obtained from the Contractor. This resulted into putting the interest of the Government on risk due to obtaining Guarantee for less amount of Rs. 46.442 million and non-extension of Performance Guarantee of Rs. 200 million.</p>

S. No.	Issue summary
	<p>Audit observed that Performance Guarantee was not extended/ obtained due to negligence &amp; weak internal controls of the Authority .</p> <p>NHA management response to this observation was that the remaining work was still to be confirmed through joint survey. Therefore, the contractor was asked to provide Bank Guarantee for Rs. 200 million as per estimated cost of balance works. The Contractor was unable to provide the Performance Security from AA rated Insurance Company as required due to uncertain security situation in Baluchistan. Reply was not accepted because at the time of bidding contractor was aware of all such risks and quoted his rates keeping in mind all such expenses.</p> <p>Audit stresses for early extension of Performance Guarantee along with obtaining of Guarantee for full amount.</p>
8.	<p><b>Irregular expenditure due to non-revision of PC-I of Rs. 2,400 million</b></p> <p>According to Planning and Development Division, Government of Pakistan OM No.29 (1)/PC/79-Vol.XIV dated 23<sup>rd</sup> June, 1980, "if the total estimated cost, as sanctioned increases by a margin of 15% or more, or if any significant variation in the nature or scope of the project has been made, irrespective of whether or not it involves an increased outlay, the approval of the ECNEC/Competent authority shall be obtained in the same manner as in the case of the original scheme without delay .</p> <p>The ECNEC approved PC-I cost of Rs.6,671 million in January, 2004 of the work "Construction of National Highway N-25-Kalat-Quetta-Chaman Section (247 K.M). Against approved cost of Rs. 6,671 million, the Authority booked expenditure of Rs. 9,071 million up to 20 10-11 which is about 36% excess than original PC-I. This resulted in irregular expenditure of Rs. 2,400 million without approval of PC-I.</p> <p>Audit observed that irregular expenditure was made due to negligence of the Authority .</p> <p>NHA management response to this observation was that the project was delayed due to extremely adverse security situation and land acquisition problems. The revision of PC-I had been delayed but all efforts are being made to submit the revised PC-I within one month. Reply was not acceptable. Expenditure was incurred without revision of PC-I.</p> <p>Audit stresses for early approval of revised PC-I.</p>

**Annexure 5: People who we had discussions with for the Project at NHA**

Name	Designation	Wing / Section
Mr. Irfan Rafique	Deputy Director	Internal Audit Section
Mr. Asim Khan	Director Legal Bureau	Legal Bureau
Mr. Khurshid Ahmed	Director	MIS
MR. Arshad Muneer	Director PR	Public relations
Mr. Adnan Ahmed Khan	Deputy Director Accounts	Cash Section
Mr. Zafar ul Hassan	Financial Analyst	Finance
M. Aurangzaib Anwar Mirza	Superintendent Accounts	Finance Wing
Mr. Waqar Ali	Superintendent Accounts	Budgeting
Mr. Barkat Ali	Director HRD	Human Resource Development
Syed Hassan Amir	Director Aided Project	Aided Section
Mr. Muhammad Talha	Deputy Director	P&CA Section
Mr. Tariq Raiz	Assistant Director	P&CA Section
Mr. Asim Amin	GM Design	Planning Wing
Mr. Sajjad Hussain	Deputy Director	Construction Wing
Mr. Majid Fazal	Database Officer	PEMU Cell
Mr. Raiz Hussain Kazmi	Deputy Director Administration	Administration Wing
Mr. Tahir Aslam	Assistant Director	Establishment Section
Mr. Ibrar Wani	Financial Analyst	BK&C
Mr. Arshad Mehmood Chaudry	GM Inspection	Inspection Section

**Annexure 6: Abbreviations used in this report**

AD	Assistant Director	FWO	Frontier Works Organisation
ADA	Assistant Director Accounts	GL	General Ledger
ADP	Annual Development Plan	GM	General Manager
AGP	Auditor General of Pakistan	GOP	Government of Pakistan
ATC	Acceptance of Tender Committee	GP fund	General Provident Fund
B&A	Bookkeeping & Accounts	HR	Human Resource
BOQ	Bill of Quantities	HRD	Human Resource Development
BPS	Basic Pay Scale	HRM	Human Resource Management
CD	Compact disk	IA	Internal Audit
CDL	Cash Development Loans	IFB	Inv itation f or Bid
CNG	Compressed Natural Gas	IFRS	International Financial Reporting Standards
CNIC	Computerized National Identity Card	IPC	Interim Payment Certificate
CP	Contributory Provident Fund	KPI	Key Performance Indicators
CPI	Consumer Price Index	MB	Measurement Book
DD	Deputy Director	MB	Monitoring Book
DDA	Deputy Director Accounts	MIS	Management Information System
DDO	Drawing and Disbursement Officer	MOC	Ministry of Communication
DLC	Defect Liability Certificate	NH&MP	National Highway & Motorway Police
E&A	Establishment & Accounts	NHA	National Highway Authority
EB	Executive Board	NHC	National Highway Council
ESTA	Establishment Code	NHIP	National Highway & Improvement Program
FIDIC	Fédération Internationale Des Ingénieurs-Conseils	NOC	Non Obligation Certificate
FMC	Fund Management & Coordination	NTRC	National Transport Research Centre
FMS	File Management System	P&CA	Procurement & Contract Administration
		PC	Planning Commission
		PD	Project Director

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PEC	Pakistan Engineering Council
PEMU	Project Evaluation & Management Unit
PER	Performance Evaluation report
PIPFA	Pakistan Institute of Public Finance Accountants
PKR	Pakistani Rupee
PPRA	Public Procurement Regulatory Authority
PR	Public Relation
PRAL	Pakistan Revenue Automation Limited
PSDP	Public Sector Development Program
RA	Regional Accounts
RAMD	Road Assets Management Division
RAMS	Road Assets Management System
RMA	Road Maintenance Account
SOP	Standard Operating Procedures
TA/DA	Travelling Allowance Daily Allowance
TO&EC	Tender Opening & Evaluation Committee
TOC	Taking Over Certificate
TOR	Terms of Reference

**Annexure – 7 Major duties and powers of NHA along with Wing/Officers responsible to act on its behalf**

<b>Section</b>	<b>Duties And Power</b>	<b>Wing/Officers Responsible to act on Authority's behalf</b>
10(2)(i)	NHA may advise the Federal Government on the matters relating to the National Highways and Strategic roads.	NHA Executive Board and the Chairman, NHA with the assistance of Members concerned.
10(2)(ii)	Acquisition of land	Member (Operations) / (Construction) through GM (Regions) / (Projects) shall supervise acquisition of land, obtaining and disposal of moveable or immovable properties or interests therein as per approved procedures and policies of NHA. After completion of the project, the assets if not auctioned by the project management shall be handed over to the Regional GMs for further disposal as per the directions of Operation Wing.
10(2)(iii)	NHA may undertake any work specified in sub section (1) and (2) of section 11.	As mentioned against the relevant sections.
10(2)(iv)	NHA may incur expenditure on works specified in clause (iii).	NHA to whom powers have been delegated under this Code.
10(2)(v)	Procurement of plant, machinery, instruments and materials	Member concerned in concurrence with Member (Finance) as per policies, rules and procedures of NHA.
10(2)(vi)	Contract Agreement	Signing of the contract agreement after approval of competent forum as given in Chapter 3 in accordance with delegation of powers for PSDP and RMA works/stores.
10(2)(vii)	Toll Collection	Operation Wing is responsible for initiating proposals for submission to NHA Executive Board.
10(2)(viii)	Licensing of Facilities	Operation Wing prepares such proposals, in accordance with the National Highways and Strategic Roads Control Rules 1998 as amended in 2002, Regulatory Framework & SOPs for Preservation & Commercial use of ROW, 2002 revised in September 2004.
10(2)(ix)	Fixation of Building Line	Operation and Construction Wings

Section	Duties And Power	Wing/Officers Responsible to act on Authority's behalf
10(2)(x)	NHA may cause studies, surveys experiments and technical researches to be made or contribute towards the cost of any such studies, surveys, experiments or technical researches made by any other agency .	Planning Wing
10(2)(xi)	Award of negotiated contracts through Private Sector Financing Program	<p>i) Public – Private – Partnership (PPP) Projects in highway sector by Member (Planning) in consultation with Member (Finance) and Member (Operations) / (Construction).</p> <p>ii) Service areas, maintenance concessions, commercialization of RoW on BOT basis, etc by Member (Operations) in accordance with the provisions of National Highways &amp; Strategic Roads (Control) Rules, 1998, as amended in 2002.</p> <p>iii) Rates of various facilities/schemes are fixed with the approval of the Chairman NHA / Executive Board.</p> <p>iv) Necessary financial limits are defined in Chapter-8 of this Code.</p>
10(2)(xii)	NHA may seek and obtain advice and assistance for preparation and executing of any plan, program or Project.	The concerned Wing initiates the proposal for seeking or obtaining such an advice or assistance in accordance with the prescribed procedures.
10(2)(xiii)	Fund raising through borrowing, floating of bonds, sharing or leasing of assets	<p>Fund raising through:</p> <p>i) borrowing &amp; floating of bonds – Member (Finance)</p> <p>ii) Sharing / leasing / licensing / renting of assets as per delegation of powers given below:</p> <p>Executive Board above Rs. 20 Million (in each case) for lease period  Chairman NHA up to Rs. 20 Million (in each case) for lease period  Member (Ops) up to Rs. 5 Million (in each case) for lease period</p>

Section	Duties And Power	Wing/Officers Responsible to act on Authority's behalf
10(2)(xiv)	NHA may perform any other function supplemental, incidental or consequential to the purposes and functions aforesaid.	Any Wing or officer authorized by NHA Executive Board.
10(2)(xv)	Mutation of land and taking over of ROW	Member (Operations) through Regional GMs
11	Preparation of Master Plan	Preparation of Master Plan for: i) Development and Construction Member (Planning) ii) Operation and Maintenance (Annual) Member (Operations) iii) Rehabilitation and Reconstruction Member (Operations) in consultation with Member (Planning)
11(2)(i)	Framing of schemes	Framing of Schemes for: i) Construction, Expansion and Development Planning Wing ii) Operation and Maintenance Operation Wing
11(2)(ii)	NHA may frame a scheme or schemes for research and development in field of highways.	Planning Wing.
11(2)(iii)	NHA may frame a scheme or schemes for training of the employees.	Secretary NHA in consultation with concerned Wings prepares Yearly Training Plan.

Section	Duties And Power	Wing/Officers Responsible to act on Authority's behalf
11(2)(iv)	NHA may frame a scheme or schemes for welfare of the employees.	Administration Wing.
11(2)(v)	NHA may frame a scheme or schemes for any other matter pertaining to the Purposes and functions of the Authority or incidental thereto.	Concerned Wing
12	Ejection of unauthorized occupants and demolishing of unauthorized structures constructed by them on the national highways	i) Operation Wing ii) Construction Wing (for new projects)
13	NHA may from time to time employ such officers, staff, experts or consultants as it may consider necessary	i) For employment of officers and staff – Member concerned in consultation with the Administration Wing with the approval of the Chairman NHA ii) For experts and consultants – Member concerned with the approval of the Chairman NHA
14	NHA with the approval of Council prescribe the procedure for appointment and terms and conditions of service of its officers and servants.	Administration Wing is responsible for necessary working papers for framing procedures for appointment and terms and conditions of service of its employees to be framed or any subsequent amendments in these procedures and terms and conditions to be carried out.
16	NHA may by general or special order delegate to the Chairman, a Member or officer of the Authority any of its powers, duties or functions under this Act, subject to such conditions as it may think fit to impose.	Finance Wing prepares necessary working paper and Draft for approval of the Executive Board.
25	Any sum due to NHA is recoverable as arrears of land revenue.	Operation and Construction Wings with the help of the concerned land authorities
26	Acquisition of Land under the Land Acquisition Act, 1894	Operation and Construction Wings

<b>Section</b>	<b>Duties And Power</b>	<b>Wing/Officers Responsible to act on Authority's behalf</b>
28	Orders, decisions and other instruments of the Authority is authenticated by the signatures of the Chairman and any Member or officer of the Authority authorized by him	Detailed procedure in this respect is issued by the Administration Wing in consultation with the Finance plus the relevant wing and the Secretary NHA.

## Annexure – 8 Compositions of Committees

### a) Selection Committee

Composition of this committee is as follow;

Selection Committee	
At head office	
Grade	Composition
BS – 20 & above	Ministry In-charge / Secretary (c) – Chairman Secretary (c) – Member Joint Secretary – Member Chairman NHA – Member Member (Administration) – Member / Secretary
BS – 17 to 19	Chairman NHA – Chairman Joint Secretary – Member Member (Concerned) – Member Member (Administration) – Member / Secretary
BS – 11 to 16	Member (Administration) – Chairman Member / GM (Concerned) – Member Secretary NHA – Member Director (Administration) – Member / Secretary
BS – 1 to 10	Director (Administration) – Chairman Deputy Director (Accounts) – Member Deputy Director (Concerned) – Member Deputy Director (Administration) – Member / Secretary

### b) Screening Committee

Composition of this committee at head office level is as follow;

Screening Committee		
At head office		
Cadre	Level of post	Screening Committee
Engineering	BS 17 and above	Director Planning
		Director Construction
		Deputy Director Administration
	BS 16 and below	Deputy Director Construction or maintenance
		Assistant Director Planning
		Assistant Director Administration
Finance	BS 17 and above	Director Audit or Finance
		Deputy Director Audit or Finance
		Deputy Director Administration
	BS 16 and below	Deputy Director Audit or Finance
		Assistant Director Audit or Finance
		Assistant Director Administration
Others	BS 17 and above	Director Legal or LM&IS
		Deputy Director Finance
		Assistant Director Administration
	BS 16 and	Deputy Director Computer

	below	Assistant Director LM&IS
		Assistant Director Administration

	Secretary
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**c) Departmental Promotion Committee**

Selection Committee	
At head office	
Grade	Composition
BS – 20 & above	Ministry In-charge / Secretary (c) – Chairman Secretary (c) – Member Joint Secretary – Member Chairman NHA – Member Member (Concerned) Member (Administration) – Member / Secretary
BS – 17 to 19	Chairman NHA – Chairman Joint Secretary – Member Member (Concerned) – Member Member (Administration) – Member / Secretary
BS – 11 to 16	Member (Administration) – Chairman GM (Concerned) – Member Secretary NHA – Member Director (Administration) – Member / Secretary
BS – 1 to 10	Director (Administration) – Chairman Deputy Director (Accounts) – Member Deputy Director (Concerned) – Member Deputy Director (Administration) – Member /

**d) Inquiry Committee**

Inquiry Committee	
Composition	Concerned Official
<b>Chairperson</b>	Respective Nominated Officer by Chairman / Concerned GM (at least 1 grade higher than accused)
<b>Member</b>	Nominated Officer
<b>Member</b>	Nominated Officer

**e) Anti Corruption Committee**

Anti Corruption Committee	
Composition	Concerned Official
<b>Chairperson</b>	GM Coordination
<b>Member</b>	Deputy Director Personnel
<b>Member</b>	Deputy Director Internal Audit

**f) RMA steering committee**

Composition of this committee is as follow;

<b>RMA Steering committee</b>	
<b>Composition</b>	<b>Concerned Official</b>
<b>Chairperson</b>	Member Operations
<b>Member</b>	Joint Secretary MOC
<b>Member</b>	Member Finance Wing NHA
<b>Member</b>	Member Planning Wing NHA
<b>Member</b>	Chief T&C Planning Commission
<b>Member</b>	Representative of NH&MP
<b>Member</b>	Deputy Chief NTRC
<b>Secretary</b>	General Manager Operations

**g) Committee of acceptance of tenders**

Composition of this committee is as follow;

<b>Committee of acceptance of Tenders</b>			
<b>Composition</b>	<b>Each Region RMA for works up to PKR 20 Million</b>	<b>For capital / RMA works</b>	
		<b>Up to PKR 50 Million</b>	<b>PKR &gt; 50 Million</b>
<b>Chairman</b>	GM Region	Member Operation/ construction	Chairman NHA
<b>Member</b>	Director/DD RAMS	Member Finance	Member Finance
<b>Member</b>	DD Accounts	Member Planning	Member Planning
<b>Secretary Member</b>	Director Operations	GM (P&CA)	Member Operation/ construction

**h) Tender Opening and Evaluation Committee**

Composition of this committee is as follow;

<b>Tender Opening and Evaluation Committee</b>		
<b>Composition</b>	<b>Region RMA PKR 20 Million</b>	<b>Capital + RMA PKR &gt; 20 Million</b>
<b>Chairman</b>	GM (Region)	GM (P&CA)
<b>Member</b>	Director (Operations)	Director (Planning)
<b>Member</b>	Director/DD (RAMS)	Director (B&A)
<b>Member</b>	DD (Accounts)	Director (Construction/ Maintenance)
<b>Secretary</b>	<b>DD (Operations)</b>	<b>Director (Contracts)</b>

**i) Committee for pre-qualification of contractors**

Composition of this committee is as follow;

<b>Committee for pre-qualification of contractors</b>		
<b>Composition</b>	<b>A) Capital / RMA Works &gt; 20 Million</b>	<b>RMA Works &lt; 20 Million</b>
<b>Chairman</b>	GM (P&CA)	GM (Region)
<b>Member</b>	GM operations / Construction	Director Planning
<b>Member</b>	GM Planning	Director (RAMS)
<b>Member</b>	GM ( B&A)	DD (Accounts)
<b>Secretary</b>	Director Contracts	Director Operations

**j) Committee for purchase of stores, tools and plants**

Composition of this committee is as follow;

<b>Committee for purchase of Stores, Tools and Plants</b>	
<b>Composition</b>	<b>Concerned Official</b>
<b>(a) Head office committee-1 (bids up to PKR 0.05 Million)</b>	
Chairperson	DD( Establishment)
Member	DD (P&CA)
Member	DD(B&A)
Member	DD (Welfare)
Secretary	AD (Establishment)
<b>(b) Head office committee-2 (bids above PKR 0.05 Million but not exceeding PKR 0.5 Million)</b>	

**Committee for purchase of Stores, Tools and Plants**

<b>Composition</b>	<b>Concerned Official</b>
Chairperson	GM (operations)
Member	GM (P&CA)
Member	Director (Establishment)
Member	Director (MIS)
Member / Secretary	DD (Establishment)
<b>(c) Head office committee-3 (bids exceeding PKR 0.5 Million)</b>	
Chairperson	Member / DG (Administration)
Member	GM Concerned
Member	GM (Finance)
Member	GM (P&CA)
Member / Secretary	DD (Establishment)
<b>(d) Regional office / Project office committee-1 (bids up to PKR 0.05 Million)</b>	
Chairperson	Director (Construction/ Maintenance)
Member	DD (Accounts)
Member / Secretary	DD (Administration)
<b>(e) Regional office / Project office committee-2 (bids above PKR 0.05 Million)</b>	
Chairperson	GM (Region / Project)
Member	Director (Construction / Operations)
Member	DD (Accounts)
Member / Secretary	DD (Administration)

**k) Committee for Purchase of Vehicles**

Composition of this committee is as follow;

committee for purchase of vehicles	
Composition	Concerned Official
(a) Head office committee	
Chairperson	Member / DG Administration
Member	Finance Wing officer not below B-20
Member / Secretary	B-19 officer from Administration Wing
(b) In each regional office / Projects	
Chairperson	GM Region / Project
Member	Finance Wing officer not below B-19
Member / Secretary	B-18 officer from admin section of region

**l) Re-rating committee**

Composition of this committee is as follow;

Re-rating Committee		
Composition	Capital and RMA works > PKR 20 Million	RMA works < PKR 20 Million
Chairman	Member (Finance)	Member (Operations)
Member	Member (Operations / Construction)	GM (Finance)
Member	GM (Regions / Projects)	GM (Operations)
Member	GM (P&CA)	GM (P&CA)
Secretary	Director (Construction / RAMS head office)	Director (RAMS head office)

## Annexure – 9 Measures of absorptive capacity

### Measures of absorptive capacity

#### Appropriation Utilization Index (ApUI) = Spending / Allocation

ApUI indicates NHA's ability to utilize funds relative to the development spending target. In principle, the index takes on values that range from 0 to 100%. At one end of the scale, an index = 100% would imply full achievement of the target. At the other end, an index = 0 would mean extremely poor performance. In practice, however, the index for a specific project (or NHA as a whole) may exceed 100%. This happens when specific items in the Budget are realigned in favor of NHA. This is a key indicator in absorptive analysis.

#### Budget Programming Index (BPI) = Released / Allocation

This index basically shows the extent to which the development budget (allocation) for NHA for the year has been prioritized by fiscal authorities, given the actual availability of funds from local and foreign sources. In comparison with the BPI of other entities, this index indicates the relative importance given to NHA's projects by the Planning Commission of Pakistan.

#### Allotment Utilization Index (AUI) = Spending / Released

AUI shows the extent to which NHA effectively utilizes the available resources at any given time. For instance, NHA, in spite of the inroads it made regarding reforms, still has to address a number of issues that could help improve its utilization rates especially with respect to foreign-assisted projects.

#### Overall Absorptive Capacity Index (OACI) = AUI / BPI

This measures the congruence between NHA's ability to utilize the allotments received (AUI) and the relative priority given to NHA by the Planning Commission of Pakistan (BPI). OACI exceeds unity if the allotment utilization rate is greater than the relative priority given to NHA by the Planning Commission of Pakistan. An OACI > 100% suggests that the agency can still absorb more funds, if funds would have increased. Conversely, OACI falls short of 100% if the allotment utilization rate is lower than the relative priority given to the entity by the Planning Commission of Pakistan. An OACI < 100% indicates that the Planning Commission of Pakistan programmed more funds for the entity than what it can absorb. On the other hand, an OACI = 100% represents the midpoint that is achieved when budget programming matches NHA's capacity for fund absorption. This is dependent upon budgets allocated to NHA by the Planning Commission of Pakistan and not completely in NHA's control.

**Annexure – 10 Measures of financial ratio****Measures of financial ratio**

Current ratio =  $\frac{\text{Current asset}}{\text{Current liabilities}}$

Cash ratio =  $\frac{\text{Cash} + \text{Cash Equivalents} + \text{Invested Funds}}{\text{Current Liabilities}}$

Total debt ratio =  $\frac{\text{Total Liabilities}}{\text{Total assets}}$

Interest cover ratio =  $\frac{\text{Finance cost}}{\text{Deficit before tax}}$

Asset coverage ratio =  $\frac{((\text{Total Assets} - \text{Intangible Assets}) - (\text{Current Liabilities} - \text{Short-term Debt}))}{\text{Total debt}}$

Fixed asset ratio =  $\frac{\text{Fixed assets}}{\text{Total assets}}$

Capitalization ratio =  $\frac{\text{Transfer to Property Plant and Equipment}}{\text{Capital work in Progress}}$

Total expense to total income =  $\frac{\text{Total expense}}{\text{Total income}}$



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