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**AUDIT OF NATURAL DISASTER ASSISTANCE PROJECTS
LESSONS FROM PAKISTAN EXPERIENCE**

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1. **INTRODUCTION:**

The Department of the Auditor-General of Pakistan is the Supreme Audit Institution of Pakistan. The Auditor-General of Pakistan (AGP) derives his powers and functions from the Constitution of the Islamic Republic of Pakistan and the Auditor-General's Powers, Functions and Terms of Service Ordinance 2001. One of the Constitutional provisions also requires the Auditor-General to specify the format, methods and manner of accounts to be kept for the Federation and the Provinces. The Ordinance of 2001 requires three types of audits to be conducted by the AGP (as part of a regular planned exercise): i) Financial Attest of annual financial statements of the Federal and Provincial Governments ii) Compliance Audit relating to violation of laws, rules, regulations and procedures and iii) Value-for-money or Performance Audit. Special Audits are conducted at the behest of other accountability agencies and heads of executive in various Ministries and Departments. In

addition, Donor driven audits are also conducted in case of foreign-funded projects. Powerful audit tools and models developed in-house, with assistance of appropriate local and foreign, expertise are applied in conduct of these audits and evaluations.

Pakistan is a country of diversity not only of people, cultures and traditions but also topography. Perhaps a quotation from the book Pakistan Handbook by Dave Winter and Ivan Mannheim can convey what one can observe: ‘Everyone paints a picture of stunning natural beauty, an almost unbelievable range of landscapes and environments; mighty rivers, huge deserts; fertile plains, thick forests and towering mountains...and for once nobody has got it wrong’. These towering mountains referred to in the book are those of the Himalayan, Karakoram and Hindukush ranges and with K2, the second highest mountain in the world, are on the northern most border of the country. When the snow melts it finds its way to the Arabian Sea through two of the five major rivers of the country and their tributaries. The timing (melting of the snow) however coincides with the rainy season. Pakistan also has one of the largest canal irrigation systems in the world. Sounds impressive. But look at it from another angle and it becomes a perfect recipe for disaster. A little addition to the recipe from the social scene with rapid urbanization, industrialization and commercialization with a high population growth rate and the scene is set.

The snow from the high mountains with its timing with the rainy season leads to swelling of Indus River and its tributaries and almost every year they overflow their banks. Every seven or eight years have seen severe floods causing damage to crops, houses, livestock. Even human lives are lost. In some vulnerable areas roads and railways are damaged. Serious floods occurred in 1973, 1974, and 1978. The floods in 1973 inundated 3.6 million hectares, killed 1,600 persons and demolished 3 million huts and houses. Floods in 1995 were also severe causing extensive damage in all the Provinces, damaging roads and highways at various places due to inundation resulting from spill from rivers, local streams and heavy rains.

In the intervening periods when major floods occur, moderate to severe drought occur. Apart from floods no part of Pakistan is completely safe from earthquakes although some areas are more vulnerable. Two faults viz. Quetta and Chaman in Western Pakistan are most active (more than 62 earthquakes were recorded in two months in 1978). A major earthquake in Quetta, in 1935, destroyed the entire city with 30,000 lives lost. Two seismic zones of high intensity are also located in the complex mountainous north. Major earthquakes have occurred in this region and the minor ones are a recurrent feature year after year to date. Desertification and man-made pollution, soil toxicity and erosion, water logging and salinity, are further additions.

2. AUDIT OF NATURAL DISASTER ASSISTANCE PROJECTS-THE PAKISTAN EXPERIENCE

Under the circumstances and conditions narrated above, no government can be oblivious to the need for disaster management programs and their efficient, economical and effective operation. Notwithstanding the efforts made earlier the Federal Government launched the ‘‘Prime Minister’s Disaster Relief Fund’’ (PMDRF) during the year 1990-92 in all the four Provinces of Pakistan. A total of Rs 245.470 million were allocated for providing relief to those affected by natural calamities. Thereafter additional funds were released also from the Zakat (religious tax levied for poverty alleviation). It was in 1999 that the Auditor-General was requested by the executive agencies concerned to do a special audit of the P.M.D.R.F. and of subsequent releases.

The audit conducted was basically a regularity audit but a performance audit orientation did exist in case where project audits were conducted. The approach was as follows.

- Auditors identified the objectives of the project
- They audited the project planning and financing processes commenting on project viability.
- Identified failures (defective planning, cost overrun, time overrun and linked them to systemic weaknesses.
- Made recommendations in case of on-going projects.
- Conducted sample-based audit and categorized irregularities/audit findings

-In categorizing the audit findings guidelines issued by the Auditor-General were followed. A

sample from an audit report is as under:

Table-1 Special Audit Report on Prime Minister's Disaster Relief Fund-Government of

Baluchistan.

Sr. No.	Title	No. of Cases	Amount: Rs in million
1	Fraud, Misuse, Embezzlement	2	21.789
2	Violation of Rules	4	03.289
3	Recoverable	2	04.709
4	Non-availability of complete of records	1	90.791
	Total	9	120.578

The audit guidelines issues by the AGP office however contain a comprehensive categorization of audit observations as under.

- Fraud, misuse and thefts
- Accidents
- Overpayment
- Accounting errors
- Negligence

- Violation of rules
- Violation of propriety
- Recoverable
- Non-production of record
- Others

Details were provided on the above classification in the audit reports regarding the various categories e.g.) type of irregularity and modus operandi, ii) place of occurrence iii) Responsibility centers iv) action taken or otherwise to report criminal action. Major irregularities related to procurement and distribution procedure of relief goods including foodstuffs. Major findings on systemic issues were as under.

- In most cases there was absence of proper accounting record and missing audit trails.
- Distribution was made in certain cases without proper survey to identify the real victims of disaster.
- Internal control was almost non-existent and where some procedures existed there was an override and instructions not followed.
- Proper guidelines were not prepared.
- Lack of training in financial management procedures was identified as a major cause of rule violations.

- Most of system collapse occurred because of compromising the standard financial management procedure for Government operations to favour procedures supposed to speed up operations and cut red tape.
- Payments were made for the purpose other than disaster relief. In their replies the executive agencies tried erroneously to establish linkages pointing thus towards faulty planning. (e.g. purchase of air conditioners, water coolers for offices of District Officers given additional duties for disaster relief)
- System did not ensure income tax deductions from contractors.

Performance audits of disaster relief/prevention projects presented difficult challenges for the auditors. This was mostly because of the technical nature of the projects specially those relating to disaster prevention. Multi-disciplinary audit teams may be required for such assignments. One such audit, conducted in the year 2000, by the Auditor-General was of Flood Protection Project in the Province of Punjab. The objective of the project was to reduce urban and rural flood damages and human suffering and to increase protection of agricultural land; infrastructure and communication set up in villages and cities. The methodology was to construct flood protection structures like Spurs and raising of protective walls. The project was planned to be completed in 5 years but took another 4 years. As a performance audit was conducted, the exercise did not focus on the financial irregularities

as in the case of previous example cited in the paper nor was a break-up provided as in the case of the Baluchistan project. Instead main findings related to management performance as under.

- Overall results of project reflected that the feasibility study was not done properly. Main indicator: Addition of eight schemes costing Rs 144.29 million to the original five costing Rs 79.50 million to make it a total of thirteen schemes costing Rs 223.79 million. To these thirteen schemes eleven were added afterwards to make it a total of twenty-four schemes against the original five approved.
 - The design of spurs was also changed while executing the work.
 - Raising of spurs was not required because floodwater had never exceeded the level in the past ever.
 - The 11 schemes added were not approved by competent authority.
 - The project executing authorities had managed to save Rs153.087 million out of the thirteen schemes but instead of surrendering the amount they diverted it to the 11 schemes they had not got approved from the competent authority. (Economic Committee of the National Economic Council, the country's highest level project approving body)
- This act was a serious violation of financial rules.

- Defective work was carried out in three spurs. Newly constructed spurs had to be restored despite the fact that there was no flood and very little water passed through them.
- Among the causes of delay identified during the performance audit faulty re-imburement procedure to the contractor stopped work innumerable times. It took two to
- three months for a single bill to get cleared.

Appropriate recommendations were made to the Government of Punjab specially regarding the urgent necessity of simplifying the payment procedure for disaster prevention projects. (Had a flood occurred during the delayed period of completion some more explanations would have been required).

Keeping in view the nature of irregularities committed in disaster management and prevention programs; the Cabinet Division has asked the Auditor-General to conduct special audits of all the projects financed by the P.M Disaster Relief Fund.

In addition to the category of projects mentioned above the Auditor-General is also conducting special audit of environment regulatory authorities. One such project is on the impact of toxic discharge from tanneries located in the city of Kasur and the role played by the concerned regulatory authority to prevent it. The area being of a technical nature requires special expertise for which outsourcing is being done. Another project is the environmental audit of the impact of extensive plantation of Eucalyptus trees in Malakand Division of the North-West Frontier Province of Pakistan.

The potential disaster lies in the dramatic lowering of water table in the effected area that could seriously impact the only source of irrigation in that area: sub-soil water.

A recent development has been the initiation of the USD 130 million World Bank and Asian Development Bank funded Drought Emergency Relief Assistance (DERA) launched by the Government of Pakistan to provide relief to the drought effected areas in the last year's drought. An interesting feature of the project is that the Auditor-General and the Controller General of Accounts are part of the planning exercise for the project. Input has been provided by these two institutions on the accounting procedures and the external financial attest. The Auditor-General has insisted on setting up internal control structures in the executing agencies. Consultants are expected to be hired as proposed by the Asian Development Bank. The Auditor-General has also insisted on the payment procedure through existing channels wherein a 'pre-audit' is ensured' by the set-up of Controller General of Accounts. This procedure in fact ensures real-time internal audit. Concurrent audit is another option that can be considered in such cases provided that is cost effective.

Although the audits, relating to Disaster Relief and Prevention Projects, done by the Auditor-General have mostly an ex-post facto exercise there is an increasing awareness of the need for real-time audits. An initiative is underway currently to do an evaluation exercise regarding ability and state of readiness of disaster management agencies to handle major earthquakes and nuclear confrontation. In Islamabad, the capital city of Pakistan where no skyscraper is allowed, a muti-storied

building was destroyed by fire last month. The firemen could not reach the higher upper floors, as reportedly no fire engine was available with a ladder that could go high enough. In a country that is threatened by so many potential natural and man-made disasters, the state of readiness of the disaster relief agencies must be assured. The Auditor-General has decided to take the initiative in at least establishing the need to address the important issue.

3. MAIN ISSUES AND LESSONS LEARNT

There are certain lessons learnt and issues that have filtered from the special audit exercise done in respect of disaster relief projects in Pakistan. Disaster management is in fact crisis management. Not all crises can be anticipated. Even those that can be done may not be rigid enough to be free from surprises. The ideal course of action to handle the audit and financial management issues is to go into a preventive mode and prepare a set of guidelines for categorized set of disaster relief or management projects. These should spell out operating procedures for administrative actions by project executing agencies, financial releases to further authorization and payment checks other internal controls and post-audit. Where this has not been done, involvement of SAI, from case to case may be required, by law, the Constitution in fact, as in case of Pakistan, at the stage of developing accounting and control procedures, formats and the manner in which the system shall function.

An important issue concerns the audit evidence in disaster relief projects. Whether one can meet the requirements of sufficiency and relevance? The issue of obtaining recipient confirmation

should be resolved by evaluating various possibilities. Sometimes the administrative heads at county or district level are required to certify, for instance, distribution of relief goods to intended beneficiaries.

Another problem area is the level of expertise required to do audits of programs where specialized knowledge or skills are required. This issue can be resolved by either having in-house multidisciplinary teams or outsourcing. Evaluation of flood prevention projects or environmental projects has necessitated this in Pakistan. In case services of an expert, say an environmental specialist or an engineer are acquired it may become essential that auditors are also a part of the evaluation team, to have the right skill mix.

Timeliness of audit exercise also becomes important, mainly for the reason that corrective measures are taken to prevent any disaster management project from becoming a disaster itself, and also to ensure timely and effective accountability.