Pre Award Assessment on the
EA Consulting (Pvt.) Limited
September 2012
Ernst & Young Ford Rhodes Sidat Hyder
Pre Award Assessment of the
EA Consulting (Pvt.) Limited
September 2012

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Table of Contents

Overall conclusion .................................................................................................................................................. 1
1. Background ..................................................................................................................................................... 1
   1.1 Introduction to EA Consulting (Pvt.) Limited (EA Consulting) ................................................................. 2
   1.2 Introduction to Assignment ..................................................................................................................... 4
   1.3 Scope and methodology ......................................................................................................................... 5
2. Executive Summary ....................................................................................................................................... 7
   2.1 Conclusion on capacity of EA Consulting (Pvt) Limited ........................................................................... 8
   2.2 Overall assessment of areas under review ............................................................................................ 11
   2.3 Critical areas needing improvement ..................................................................................................... 14
3. Absorptive capacity of EA Consulting ....................................................................................................... 16
   3.1 Absorptive capacity of EA Consulting (Pvt.) Limited ........................................................................... 17
   3.2 Overall absorptive capacity assessment ............................................................................................ 24
4. Detailed assessment and key findings ........................................................................................................... 25
   4.1 Internal Controls Structure ...................................................................................................................... 26
   4.2 Control Procedures / IT structure ........................................................................................................ 40
   4.3 Accounting system ................................................................................................................................ 55
   4.4 Accounting, Record Keeping and Overall Financial Management System ....................................... 64
   4.5 Management Structure Personnel Policies and Procedures ............................................................... 75
   4.6 Procurement Policies and Procedures .................................................................................................. 91
   4.7 Property Management Standards and System ....................................................................................... 97
5. Disclaimer ....................................................................................................................................................... 103
Pre Award Assessment of EA Consulting (Pvt) Limited to carry out proposed USAID funded activities

We have made a review and evaluation of the managerial capacity and internal control systems of the EA Consulting (Pvt.) Ltd (EA Consulting) using those criteria established by ASP-RSPN in the task order received by us referenced ASP-CPO/A&C/Pre Award-EA/11/2012 dated 07 August 2012. Our review included interviews, observations and tests of compliance with EA Consulting 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 the EA Consulting.

The management of the EA Consulting 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 assessment criteria is to provide similar assurance.

Based on this knowledge and the review and evaluation conducted by our firm, we believe the EA Consulting current policies and procedures are sufficient for USAID/Pakistan’s purposes, assuming satisfactory compliance, except for the conditions described in section 2.3 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 of the report.

Further, nothing came to our attention that would cause us to believe that the EA Consulting (Pvt.) Ltd 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 Company’s current operations and skills set as of the date of our review.

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ADV/161/2013
26 September 2012
1. Background

1.1 Introduction to EA Consulting (Pvt.) Limited (EA Consulting)
1.2 Introduction to Assignment
1.3 Scope and methodology
1.1 Introduction to EA Consulting (Pvt.) Limited (EA Consulting)

EA is a full service Engineering, Architecture and Project Management firm, Headquarter in Karachi, Pakistan with a diversity of disciplines and expertise in multiple services. EA has successfully completed projects of Schools, Colleges, Residential Buildings, Heavy Industries, Bridge and Highways, Water Supply and Sewerage, Hospitals, Town Planning, Flood Control, Topographical Surveys as well as Electrical and Mechanical Installation and HVAC Projects in Pakistan. EA has also carried out projects of Bridges, Highways and Buildings in UAE.

EA has established itself as one of the leading technologically advanced and reputed consulting organizations of the country. The firm provides consultancy services for planning, engineering and design in multidisciplinary fields of Architecture, Civil, HVAC Electrical and Mechanical Engineering, including the Technical, Economic and Financial Management of projects. Engineer A. H. Siddiqui established EA as a proprietary firm in 1981, that was later converted to a private limited registered as EA Consulting Pvt. Ltd. Employed with the organization are hundreds of multidisciplinary professionals of diverse and rich experience and capabilities. These include highly qualified Architects, Engineers, Planners, Economists and Support personnel working in the Head Office and deployed on Projects being executed all over Pakistan. EA’s Head Office comprises a purpose built multi-storied building with a floor area of 30000 Square feet. In addition to various Federal and Provincial Government ministries and Departments, EA’s name also appears on the lists of approved Consultants for the World Bank, Asian Development Bank, UNICEF and Islamic Development Bank. (source: http://www.eaworld.com/)

It is worth to mention here that EA consulting (Pvt) Limited has its operations in Karachi and it has two small liaison offices; one in Lahore and the other in Islamabad. The company has been formed as a private limited company in June 2009. Prior to that, the same organization was operating as a proprietary firm, under the name “Engineering Associates”. The operations through branch office in Middle East are under Engineering Associates (Pvt.) Limited which is a separate legal entity incorporated in 1981 owned by the same family. From our discussions / review of documentation we understand that EA Consulting provides some services to Engineering Associates (Pvt.) Limited on various projects. However there are no formal arrangements between the two entities for charging / sharing costs. Accordingly there is no revenue / cost recovery is disclosed in EA Consulting financial records. Please note that as per scope of task order our assessment has been restricted to EA Consulting. Review of Engineering Associated (Pvt.) Limited is not part of the scope of our assignment. All the analysis and observations in this report are in restricted to EA Consulting (Pvt.) Limited only.
The organization structure of EA Consulting (Pvt.) Limited is as follows:

**CEO/Managing Director**
- AHSAN AZHAR SIDDQUI

**Executive Assistant**
- Zubair Ahmed

**Human Resources Manager**
- Shazia Mastoor

**Head of Operations/Director Projects**
- Tanveer Ahmed Khan

**Chief Financial Officer**
- Faisal Habib

**Director Highways**
- Jaleel Ahmed

**Director Architecture**
- Husnain Lotia

**Principal Engineer/Head of Structures**
- Moinuddin Khan

**Director Structures**
- Monis Suri

**Associate Public Health Engineering**
- Ali Asghar

**Director MEP**
- Shahid Zia

**Head of IT Department**
- Salman Ahmed

**Principal Engineer**
- Javed Iqbal Siddiqui

**Director**
- S. Sohail Abbas Abidi

**Director Highways**
- Jaleel Ahmed

**Director Architecture**
- Husnain Lotia

**Director**
- Syed Shaheen Pervaiz

**Executive Director North**
- Haris Aqil

**Regional Offices North**
- Lahore

**Regional Offices South**
- Islamabad
1.2 Introduction to Assignment

This assessment was conducted by Ernst & Young Ford Rhodes Sidat Hyder (EYFRSH) for and on behalf of the United States Agency for International Development (USAID) through Assessment and Strengthening Program (ASP) - RSPN to complete the Pre Award Assessment necessary for recipients receiving financial support under RFQ No. 03A-2012 dated 31 July 2012. Our review of EA Consulting (Pvt.) Limited was based on desktop reviews of key information provided to us by EA Consulting, interviews and discussions with key EA Consulting personnel, walkthroughs of critical transactions and testing of select transactions / controls, where appropriate. Our review commenced on 9 August 2012 and concluded on 31 August 2012.

Current state of understanding is based on our interviews and documentation provided to us by EA Consulting (Pvt.) Limited. Key findings have been discussed with relevant personnel within EA Consulting (Pvt.) Limited of each area under review.

A comprehensive list of the key people we had meetings with, forms part of Annexure 3 to this report.

Objectives of this assessment

This report provides an assessment of the following key areas as required under the Scope of Work:

- Internal control structure
- Control procedures
- Accounting system
- Accounting, record-keeping, and overall financial management system
- Management structure, personnel policies and procedures
- Procurement policies and procedures
- Property management standards and systems

The Scope of Work also requires a conclusion on the following:

a) To evaluate whether EA Consulting (Private) Limited has:

- An acceptable organizational and management structure.
- Accounting and financial management systems.
- Systems of internal control.
- Policies and procedures in place.
b) Whether EA Consulting has the capacity to comply with USAID and local guidelines.
c) Whether EA Consulting has the absorptive capacity for larger scale future funding by USAID.
d) To consider whether EA Consulting management and organizational strength have the capability to manage USAID funding.

These areas and our conclusions have been discussed in Section 2 to this report.

1.3 Scope and methodology

Our methodology has been based on the understanding 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, certain fund management, project management and accountability systems, processes, and personnel. We have benchmarked EA Consulting to the minimum requirement of such capacity as outlined in USAID guidelines, local regulation and better practices. Our scope and methodology for the assessment of EA Consulting on this premise is outlined in Annexure 1 to this report.

Our approach has been to assess EA Consulting at two levels:

I. Assessment of Capacity of EA Consulting

We have assessed EA Consulting, based on discussions with key management, information provided to us and testing of select transactions / controls, considering most of the policies and procedures currently in place. Specific attention has been paid to the following.

Whether EA Consulting:

► Has adequate financial resources or the ability to obtain such resources, as required during the performance of any award.
► Has adequate accounting system.
► Has satisfactory system for property control.
► Have satisfactory procurement policies and procedures.
► Has a satisfactory method for billing to clients for services provided.
► Has the ability to meet award conditions considering all existing and prospective recipient / contractor commitments, both governmental and non-governmental.
► Has a satisfactory record of performance.
► Has a satisfactory record of business integrity
► Is otherwise qualified to receive an award under applicable laws and regulation
II. Assessment of the areas identified in the Scope of Work

We have analyzed whether EA Consulting has the capacity in the areas identified in the Scope of Work, to meet USAID guidelines, local regulation and better practices. The requirements in each of these areas have been brought together in the form of a comprehensive Pre Award Assessment Checklist, submitted as a separate deliverable under the scope of work. The checklist has been designed based on guidelines provided along with Task Order for Pre-award assessment and BPA with USAID.

Meetings and interviews were conducted with key personnel at EA Consulting to obtain an understanding of the current processes in place around these areas. Walkthroughs were carried out to ascertain the validity of our discussions and where relevant, testing of select transactions / controls was also conducted.
2. Executive Summary

2.1 Conclusion on capacity of EA Consulting
2.2 Overall assessment of areas under review
2.3 Critical areas needing improvement
2.1 Conclusion on capacity of EA Consulting (Pvt) Limited

Adequacy of financial resources as an engineering consulting firm

EA Consulting had an accumulated profit as per the annual financial statements on 30 June 2011 of Rs. 92.2 million (Approx. $ 1 million), and cash and bank balances of Rs. 58 million (Approx. $ 0.6 million). Although, the company has an approved running finance line, however currently, the company has not utilized any financing line and all their projects are funded by their own sources. Further, the company has obtained non-funded financing facilities mainly performance guarantees from banks amounting to Rs. 2 million (Approx. $ 21,000) as at 30 June, 2011. As of 30 June 2011, their current ratio is approximately 1.49. The company as per analysis of audited financial statements appears to have sufficient financial strength to fund its own operations.

In year 2011 the Company has generated revenues in terms of fees amounting to Rs. 673 million (Approx. $ 7 million), out of which 65% pertains to supervision activities. We have been informed that the consulting fee income on an average varies between 1.5% - 3% of the estimated contract value. Currently, the EA Consulting is executing two major projects having cumulative fee income of Rs. 437 million (Approx. $ 4.6 million). Considering the above information and the magnitude of funding and related expenditure expected from the proposed USAID project (Approx. USD 10-50 million), we believe that EA Consulting has adequate financial resources to provide related consulting services for the USAID projects.

However, as the internal control structure, procurement system and human resource policies requires improvement to meeting the requirement under USAID guidelines and better practices, it is proposed that recommendations discussed in Section 2.3 are being met by EA Consulting in due course.

Ability to meet award conditions as an engineering consulting firm

EA Consulting has booked revenue from fee income amounting to Rs. 673 million (Approx. $ 37 million) for the year ended 30 June 2011. EA Consulting has successfully completed major consulting projects worth Rs. 562 million (Approx. $ 5.9 million) in the Financial years 2011 and 2012. Out of these projects, two project namely, Multan Inner Ring Road and Hyderabad-Mirpurkhas Road, having combined project fees of Rs. 282 million (Approx. $ 2.9 million) were undertaken with the National Highway Authority and were completed in 2011. In accordance with information and explanations made available to us, we understand that there have been no litigations and claims regarding any of the projects undertaken by EA Consulting in recent past. Currently EA Consulting is engaged in the design and supervision project of Rakhigajj Bewata section N-70 East West Road, for project fees Rs. 179 million (Approx. $ 1.9 Million). Further, other major projects with expected project fees of Rs. 258 million (Approx. $ 2.7 million) are also under way.

Further, from our assessment nothing came has come to our attention to indicate that the Company has not been compliant with local laws applicable to a private limited company including corporate law, labor laws and taxation requirements.

Requirements of USAID guidelines with respect to accounting, reporting and financial management which are relevant to EA Consulting have been analyzed. The Company has recently switched to a customized system by Intellect Solutions. A module relating to GL is being used by the concerned department from the current year. HR and project management module is in test phase. Policies and procedures around Procurement, Human Resource Management and
Financial Management have been drafted and put in to place. We have assessed the effectiveness of these policies and procedures through inquiries, discussions and walkthroughs of a limited sample of transactions. Based on our procedures, inquiries and discussions, nothing significant has come to our attention to suggest that the design of these policies and procedures would not enable EA Consulting to meet USAID award conditions, except as discussed in Section 4 of this report.

**Satisfactory record of performance as an engineering consulting firm**

Based on the information and explanations made available to us, an indicator of satisfactory record of EA Consulting is completion of 18 major consulting and supervision project contracts in the last 3 years, aggregating consulting fees of Rs. 819 million (Approx. $8.6 million). As per information made available to us, no penalties for late completion or other defaults in the last 3 years have been invoked by the clients. The largest of such projects was with National Highway Authority having consulting fee amounting to Rs. 184 million (Approx. $1.9 million). This project was undertaken with the public sector in the years 2009-12. As per our discussions, we have been informed that the project was completed in 33 months without incurring any penalties or claims. Further, EA Consulting has been providing consulting services to many local organizations. Major projects in their profile are as follows:

► Roads and bridges in district Kohistan (ERRA)
► Road in Abotabad Manshera (Works and Services Department NWFP)
► Multan Inner Ring Road (National Highway Authority)
► Coal, clinker and cement terminal (Pakistan International Bulk Terminal)
► TMP Zahirpur N-5 dual carriage way (National Highway Authority)
► Rakhigajj Bewatta N-70 East West Road (National Highway Authority)
► Mental and Health Institute Nawabshah (Health Department Government of Sindh)

**EA Consulting as a lead firm providing engineering services including program management services and to procure construction services and commodities and equipments.**

In terms of adequacy of financial resources, EA consulting, as per their recent financial statements do not have adequate financial strength to manage from its own resources the project worth US $10 to 50 million. Since the nature of business of EA Consulting comprise mainly of provision of supervision, design and surveys services, they have certainly provided consultancy for projects of such magnitude, however not managed the as lead firm.
EA Consulting has no previous record of construction services and accordingly do not have adequate financial resources and absorptive capacity to provide the same. Consequently, should EA Consulting become the lead firm for award of USAID contract, the following recommendations may be met in addition to the recommendations discussed in Section 2.3, which are primarily to improve existing internal control framework:

► If the funding mechanism by USAID is on re-imbursement basis, then EA consulting should demonstrate the availability of funds at least equivalent to approximately 15% of the award either in the form of funds available with the company or through financing arrangements with the financial institutions;

► The BOD should consider establishing a procurement committee to oversee procurements for high value items above certain threshold. Formal TORs should be established for the procurement committee including roles and responsibilities and scope. Additionally, the procurement committee may include members with required technical knowledge to provide technical input in case of procurement of certain specialized items through competitive bidding;

► A designated procurement function should be established within the entity to streamline the procurement process;

► Detailed procurement / contracting procedures to manage construction activity should be established;

► Enhance Capacity of existing monitoring function to comply with USAID requirements mainly pertaining to procurements;

► Strengthen the finance function, and overall financial management to be able to manage construction contract accounting and reporting;

► To make the project implementation efficient an authority matrix clearly highlighting the approval limits of each personnel (capital as well as revenue expenses) should be formalized.
## 2.2 Overall assessment of areas under review

<table>
<thead>
<tr>
<th>Areas under review</th>
<th>Basis of assessment</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Internal Control Structure</td>
<td>The internal controls and governance structure of EA Consulting needs to be strengthened. The governance structure of the company includes the Board of Directors comprising of eight members all of them being executive directors. The chairman of Board of directors (Board) who is also the CEO of the company, Mr. Ahsan Azhar Siddiqui owns 81% of the shareholding and Mr. Mohsin Azhar, who is the brother of Mr. Ahsan, owns 15% of the shareholding. Remaining 4% of shareholding is owned by executive directors working within the organization. Currently there are no independent members on the BOD. Further, there is no Board Audit Committee for better oversight of matters relating to internal controls, accounting and financial reporting and Board HR &amp; Strategic committee for overseeing the HR and business related strategic issues of the organization. The terms of references (TORs) should be formalized for the Board and its sub committees Also, chairman of the board and CEO positions should be with separate individuals. Even though policies and procedures have been established for substantial areas of the company operations, additional policies and procedures needs to be developed (refer section 3.1.3), along with Business Continuity Plan (BCP) and Disaster Recovery Plan.</td>
<td>Improve</td>
</tr>
<tr>
<td>2. Control procedures</td>
<td>The company has implemented quality control procedures at different levels in its core business activities to maintain the quality standards. There are policies and procedures manuals developed for majority of the company's key functions. However, there are certain functions for which policy and procedures need to be documented (refer section 3.1.3). Currently, Internal Audit function is not in place to review and report on the design and operating effectiveness of these controls. IT audit has also not been conducted on the above mentioned system post implementation. In addition considering the nature of business EA consulting should have a dedicated project management office (PMO) to support project managers / organization in managing shared resources, monitoring contract compliance and compliance with laws, regulations, policies and procedures and coordinating communication across the projects.</td>
<td>Monitor</td>
</tr>
<tr>
<td>3. Accounting system</td>
<td>The Company has recently switched to a customized system by Intellect Solutions which mainly comprise of three modules namely; GL module for financial record keeping, HR module for payroll processing and project management module. Out of these HR module and project management modules are in UAT phase while GL module is fully operational. Further, no guidelines have been documented for opening and deactivation of account codes in the system.</td>
<td>Accept</td>
</tr>
<tr>
<td>Areas under review</td>
<td>Basis of assessment</td>
<td>Rating</td>
</tr>
<tr>
<td>--------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>4. Accounting, record-keeping, and overall financial management system</td>
<td>Although monthly and quarterly financial statements are being prepared by the management however at present project wise and function wise profitability is determined and monitored. Further, budgetary monitoring controls need to be put into place and guidelines for preparation of annual financial budgets needs to be documented. A budgetary reporting mechanism should also be put into place for the Chief Executive Officer (CEO) and the board.</td>
<td>Monitor</td>
</tr>
<tr>
<td>5. Management structure, personnel policies and procedures</td>
<td>Management hierarchies are in place and we assessed that adequate segregation of duties are in place. The personnel policies and procedures formulated are quite comprehensive. However, policies on training, fraud, payroll processing and whistle blowing are not yet formulated.</td>
<td>Monitor</td>
</tr>
<tr>
<td>6. Procurement policies and procedures</td>
<td>The procurement functions are being managed by Finance Department and Head of respective departments. All major procurements require the approval of CEO or Head of Operations, whereas small procurements maybe approved by the Head of department only. Policy and procedure manual has been developed for the procurement function. Policies and procedures for certain areas of procurement function are not developed. (refer section 4.6.1)</td>
<td>Monitor</td>
</tr>
<tr>
<td>7. Property management standards and system</td>
<td>The company does not maintain fixed assets register in accordance with the format specified by Technical Release (TR) 6 of ICAP. Except for IT equipments, other fixed assets are not tagged. Further, there is no practice in place to carry out physical count of fixed assets such as furniture and fixtures, computer and office equipment and reconciling the same with the fixed asset records. The company does not have any other inventory other than stationery.</td>
<td>Accept</td>
</tr>
</tbody>
</table>
This diagram summarizes our assessment of the seven areas under review.

**Residual Risk Profile of areas under consideration**

- **1. Internal Control Structure**
- **2. Control procedures**
- **3. Accounting system**
  - Accounting, record-keeping, and overall financial management System
- **4. Management structure, personnel policies and procedures**
- **5. Procurement policies and procedures**
- **6. Property management standards and system**
2.3 Critical areas needing improvement

We have laid down the requirements that USAID (as a donor for a project) may require EA Consulting to include as part of the contractual terms and conditions along with details as to why they are needed and whether they are necessary before USAID disburses funds or over a later period.

These requirements underpin our overall conclusion discussed in Section 2.1 of this report.

Material weaknesses

a) Independent / non executive directors shall be appointed on the BOD for independent monitoring of EA Consultant’s activities.

b) Board Audit Committee needs to be formed comprising at least 3 members, out of which at least one should be an independent / non executive director with financial expertise.

c) Currently, internal audit is not in place to ensure that organizations’ risks are properly identified and mitigated and that prescribed policies and procedures are duly complied with. This needs to be established for ensuring design effectiveness of internal controls, improved operational efficiency and increased level of accountability.

d) External auditors of EA Consulting should be appointed having approved QCR rating by ICAP.

e) Payment / Cheque signing authorities in all cases should be joint signatories.

f) IT and Project management modules of the new system should become fully operational.

g) Post implementation IT audit should be conducted to identify any gaps and risks in the management information system.

h) Business continuity plans and Disaster recovery plans shall be developed for ensuring continuity of operations in case of natural / man-made disasters.

i) Key operational policies i.e. fraud policy, whistle blower policy, security plan, outsourcing policy and transfer pricing policy should be developed. Also, any transactions with related parties should be in line with the transfer pricing policy.

j) Annual budgeting process should be formalized. Also cash flow management should be formalized.
k) Project management process need to be formalized by establishing Project Management Office (PMO) for centralized and coordinated management of projects.

l) Procurement policies and procedures need to be strengthened for purchase of survey equipment, pre approval of vendors, conflict of interest, settlement of disputes and disqualifications/termination of vendors.

m) Screening process need to be formalized and strengthened to ensure that the entity is not entering into business with banned/black listed entities/persons.

n) Financial statement closing process checklist needs to be developed.

o) Enhanced absorptive capacity to be contracted as lead firm for USAID project worth US$ 10-50 million as detailed in section 2.1 and 3 of this report.

**Other conditions**

p) The company should formalize its business strategy/business plan including IT strategy.

q) IT Policies and procedures need to be strengthened with respect to access controls, password, data backups, and service level agreements with third parties.

r) HR procedures need to be strengthened/formalized with respect to succession planning, exit interviews and payroll reviews.
3. Absorptive capacity of EA Consulting

3.1 Absorptive capacity analysis
3.2 Overall assessment of absorptive capacity of EA Consulting
3.1 Absorptive capacity of EA Consulting (Pvt.) Limited as an engineering consulting firm

Absorptive capacity, as it relates to the budget performance, is the ability of an organization to maximize the use of available financial resources and reflections on its ability to manage larger volumes of funds. There are many factors that affect the manner and extent over which available funding is utilized for programs and projects in a particular sector. In assessing EA Consulting’s absorptive capacity, key considerations have been:

3.1.1 Financial Statement Analysis of EA Consulting,
3.1.2 Current capacity in terms of staff strength / capability and
3.1.3 Service delivery.

3.1.1 Financial Statement Analysis of EA

In this section, we have reviewed the financial performance of EA Consulting by analyzing the company’s financial statements and the following common ratios:

► Liquidity
► Leverage
► Gross profit analysis
► Cash flow indicator ratios

The asset base of the Company has shown increasing trend since the base year of our analysis – 2010, due to increasing volume of operations and profitability. Key financial figures and ratio analysis is given in Annexure 4 and Annexure 5. A brief analysis of these is given hereunder:

► Liquidity

As per our analysis, the Company exhibits a healthy liquidity position. Its Current Ratio\(^1\) is 1.49, Quick Ratio\(^2\) is 1.20 and Cash Ratio\(^3\) is 0.32 for the year ended 30 June 2011. These ratios show that the company can cover its liabilities effectively both with readily convertible cash and liquid cash. Further, an improving trend has been observed in the current and quick ratios since 2010 as can be seen in Ratio Analysis in table given below. However the cash ratio decreased from 0.39 to 0.32. This is because current liabilities increased by Rs.50 million (Approx $526,000), while cash and bank has decreased by Rs. 2 million (Approx. $21,000) in the year ended 30 June 2011. This was mainly due to increase in the volume of operations of the company and increase in the credit payment cycle. As a result the trade debt and accrued expenses were increased.
Current ratio is used to ascertain whether a company’s short term assets are readily available to pay off its short term liabilities. ²Quick ratio is a liquidity indicator which further refines current ratio by measuring most liquid current assets there to cover liabilities. It excludes inventory and other current assets, which are more difficult to turn into cash. ³Cash ratio further refines both current and quick ratios by measuring the amount of cash and cash equivalents in current assets to cover liabilities.

► Leverage

The debt ratio and debt equity ratio of EA consulting for the year ended June 2011 are 4.60% and 27.56% respectively. However it is important to note that the interest free loan from sponsor of Rs.81 million has been included in equity for the calculation of this ratio.

► Gross Profit

Gross profit percentage of the company increased from 10% to 15% in the year 2011 while net profit increased from 4% to 11%. This increase reflects the increase in the operations of the entity and due to changes in tax regime (which resulted in reduced tax liability) of the company.

► Cash flow ratio

There is an increase in revenue in the financial year 2011 by 31% which should result in a similar increase in the operating cash flows; however, the cash flow from operating activities decreased from Rs.39 million to Rs.5 million in the year 2011. This is because majority of the revenue is still in receivables due to which the cash from operating activities has not increased correspondingly.
3.1.2 Current capacity in terms of staff strength, capability and service delivery

For EA Consulting we have used a combination of quantitative and qualitative factors to measure and assess the absorptive capacity of the organization viz. a viz. staff strength, capability and IT capability. Currently, the total staff strength of the company is 284 employees at head office and 6 employees at regional offices. The following table summarizes the department-wise staff strength of the company:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name</th>
<th>Architect</th>
<th>Engineers</th>
<th>Draftsmen</th>
<th>Quantity Surveyor</th>
<th>Surveyor</th>
<th>Under Graduate</th>
<th>Graduate</th>
<th>Consultant</th>
<th>Total Staff</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Architecture</td>
<td>9</td>
<td>-</td>
<td>10</td>
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<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
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<tr>
<td>2</td>
<td>Architecture (GAP)</td>
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<td>-</td>
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</tr>
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<td>3</td>
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<td>-</td>
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<td>6</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>3</td>
<td>-</td>
<td>28</td>
</tr>
<tr>
<td>4</td>
<td>Structure</td>
<td>-</td>
<td>19</td>
<td>18</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>37</td>
</tr>
<tr>
<td>5</td>
<td>Public Health</td>
<td>-</td>
<td>11</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>6</td>
<td>Survey</td>
<td>-</td>
<td>3</td>
<td>6</td>
<td>27</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>38</td>
</tr>
<tr>
<td>7</td>
<td>Ports &amp; Harbour</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>8</td>
<td>Project Management</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>9</td>
<td>Urban Planning</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>1</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>10</td>
<td>MEP</td>
<td>-</td>
<td>11</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>24</td>
</tr>
<tr>
<td>11</td>
<td>Consultant (Approximate)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>
As per management assessment each department is adequately resourced to carry out the day to day operations of the company.

### 3.1.3 Service Delivery

EA Consulting broadly provides the following three services:

1. Supervision
2. Design
3. Surveys and others
1. Supervision:

► Supervision involve three types of parties namely client (may be a joint venture), contractor (may have sub-contractors) and ‘The Engineers’ (Consultant). We have been informed that 65% of revenue of EA Consultancy is generated from supervision and 75% of staff is located on various projects nationwide on these projects.

► The Engineer is a professional who is sole responsible person for project, its execution and overall structure. In EA Consulting, head of concern department (Director) is designated as the Engineer.

► At the initial level each contractor provides planned schedule to client. Once client approves the plan, a contract is formed between contractor and client. Simultaneously client enters into another contract with the Engineer for supervision of the project. Mainly each contract creates obligation on the Engineer to ensure that project cost, quality and time should be as per requirements of client. To ensure that project cost, quality and time are as per the project plan provided by the contractor, EA Consulting has to monitor these projects vigorously.

► Before accepting any contract, Director plans its man power to be deployed and the cost to be incurred on proposed project, considering the project plan provided by contractor. For this purpose, Director meets with each concern department and decides on the following matters generally,

  o man hours required,
  o skill sets required,
  o project manager from the department to be deployed on the project, and
  o any specific issues involving administrative matters

► Project manager is responsible for overall operations and liaison between all departments, contractor, client and the Engineer at the head office.

► Once project is commenced, relevant staff is deployed on need and time basis. Project Manager reports daily progress verbally to the Director and discusses any issues. Project Manager submits monthly progress report to the concern Director.

► This monthly project report is a comprehensive and detailed report which broadly comprises the following matters,

  o Executive summary
  o Project details and particulars
  o Key contract terms
Percentage of completion in term of finance and structure. There is usually insignificant difference between these two types of percentage of completion.

Comparison of work done with contractor's provided project plan

Detailed technical information with graphical presentations etc

Pictures of project site

Moreover monthly attendance and expense sheet also send by Project Manager along with monthly progress report.

Director of each project has a summarized project control document for which he is designated as the Engineer. The report is updated accordingly on receipt of monthly project report and any delays are inquired. Moreover, the Director also inquires any technical matters which he deem necessary. Upon inquiry, the Director may issue such directions to the Project Manager for execution.

In case of any issue that is beyond the scope of Director (the Engineer), he immediately coordinates with the client or representative of contractor.

Issues mainly include quality compromise and time delays. Key classifications together with probable reasons for delay are as follows:

- Client (Land in-occupancy, utility replacement, provision of insufficient or delayed fund)
- Contractor (Inefficiencies or in-sufficiency of its resources)
- The Engineer (No timely provision of design or its approval)
- Others (Natural disasters, strike, wars, terrorist attack)

2. **Design**

Design project is usually a short period assignment usually ranging from few weeks to few months. It involves various departments based on the need of the project.

Design involve two parties namely client (may be a joint venture) and ‘The Engineer’ (Consultant). We have been informed that approximately 34% of revenue of EA Consulting is generated from design.

The Engineer is a professional who is sole responsible person for design of project. At EA Consulting, head of concern department (Director) is designated as the Engineer.
At the initial level client provides specification. Once specification is received, following documents are prepared:

- Concept design
- Preliminary design
- Detailed design
- Final report

All above documents are first approved by the head of department that is the Director, and then sent to the client for its approval for further processing.

To ensure timely provision of all the documents, Director is personally involved in the technical matters during the process of preparing above documents.

Usually designs projects are not delayed unless there are delays in approval process from client side. In case of government clients, approval process is very slow in comparison with corporate and other clients.

Billings are usually made on provision of each deliverable mentioned above.

3. **Surveys and others**

Survey project is usually a short period assignment usually ranging from few weeks to few months.

Survey involves two parties namely client (may be a joint venture) and surveyor (Consultant). We have been informed that approximately 1% of revenue of EA Consulting is generated from survey.

At the initial level, client provides detailed requirement to conduct a survey. Once requirement of survey is finalized, EA Consulting appoints a team that is supervised by a ‘Team Leader’ who is responsible for overall operation of team at field.

The Director is responsible for monitoring and execution of survey.

After completion of survey or stage of survey (e.g. survey of one area out of two), Project Manager submits the report to Director. Director reviews such report and issues the same to the client.
To ensure timely provision of the survey report, Director is personally involved in the technical matters during the process of survey as and when required.

Billings are usually made on percentage of completion of survey or on the completion of the assignment.

A key factor is the ability of EA Consulting to complete the projects budgeted for, within the initially estimated turnaround times and costs. EA Consulting has successfully completed various consulting projects. Out of which project fees earned from **some major consulting projects** reviewed by us in past three years was Rs. 819 million (Approx. $ 8.6 million). Out of these projects, two project namely, Multan Inner Ring Road and Hyderabad-Mirpurkhas Road, having combined project fees of Rs. 282 million (Approx. $ 2.9 million) were undertaken with the National Highway Authority and were completed in 2011. These projects were completed without incurring any penalties or claims. Multan Inner Ring Road having total project fees of Rs. 184 million (Approx. $ 1.9 million) was completed in 33 months time. Hyderabad-Mirpurkhas Road having total project fees of Rs. 98 million (Approx. $ 1 million) was completed in 39 months time. Currently EA Consulting is engaged in the design and supervision project of Rakhigaj Bewata section N-70 East West Road, project fees Rs. 179 million (Approx. $ 1.9 Million). Further, other major projects are also under way for which project fees amount to Rs. 258 million (Approx. $ 2.7 million).

### 3.2 Overall absorptive capacity assessment

Considering the nature of construction business, we understand that it is flexible enough to upscale the operations provided necessary skill set is available for planning and supervising the work. Keeping in view the present scale of operations, organization's financial and management capabilities and information/understanding given to us in this regard, we believe that the Company has adequate absorptive capacity to provide consulting services on the USAID projects (assuming $ 10 – $ 50 million construction contracts), except to the extent of observations reported in Section 2.3 above.

However, as a lead firm the entity would require to have enhanced capacity with respect to project management, procurement of construction services, commodities and equipments. Further, EA consulting, as per their recent financial statements do not have adequate financial strength / capacity to serve as a lead firm from its own resources for the project(s) worth US $ 10 to 50 million as that would require enhanced working capital.
4.  Detailed assessment and key findings

4.1 Internal Control Structure
4.2 Control Procedure
4.3 Accounting system
4.4 Accounting, Record Keeping and Overall Financial Management System
4.5 Management Structure, Personnel Policies and Procedures
4.6 Procurement Policies and Procedures
4.7 Property management Standards and System
4.1 Internal Controls Structure

4.1.1 Overview of Existing Internal Controls Structure.

Legal Structure and Regulatory framework

► EA Consulting is registered as a Private Limited Company under Companies Ordinance 1984.
► EA Consulting is a registered tax payer under Income Tax Ordinance 2001.
► We have not come across legal cases or penalties against EA Consulting for non compliance with any legal or statutory requirements.

Board of Directors (BOD)

► EA Consulting currently has 8 directors on the BOD. All the directors are employees of the company. The company does not have any independent directors on the BOD. The following are the Directors of the company:
  o Mr. Ahsan Azhar Siddiqui
  o Mr. Mohsin Azhar
  o Mr. Tanveer Ahmed Khan
  o Mr. Syed Sohail Abbas Abidi
  o Mr. Jaleel Ahmed
  o Mr. Muhammad Monis Suri
  o Mr. Shahid Zia
  o Mr. Hussain Lotia

► The BOD meets on an annual basis in BOD meeting and AGM to review the annual accounts.

► EA Consulting does not have any management level or BOD level committees such as Audit Committee etc.

► We have been informed that no remuneration is given to the BOD for attendance at the meeting. However, policy for the same is not documented.
Organization Strategy

► As per our discussion with the Director, we have been informed that the organization aims to expand its business. However, EA Consulting currently does not have a documented long term and short term organizational strategy, neither does it have any business plans to support the strategies.

Organization Structure / Departments

► EA Consulting operates through the following locations:

- Karachi
- Lahore
- Islamabad

► The organizational structure has been approved by the BOD.
► All the divisions/ departments are reporting to the CEO.
► The following table highlights the qualification and experience of key management personnel heading the various departments:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name of Operational Team</th>
<th>Designation</th>
<th>Qualification</th>
<th>Relevant Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Mr. Ahsan Azhar Siddiqui</td>
<td>CEO / Managing Director</td>
<td>MBA</td>
<td>21 years</td>
</tr>
<tr>
<td>2.</td>
<td>Mr. Tanveer Ahmed Khan</td>
<td>Head of Operations/Director Projects</td>
<td>B.E.</td>
<td>20 years</td>
</tr>
<tr>
<td>3.</td>
<td>Mr. Jaleel Ahmed</td>
<td>Director Highways</td>
<td>B.Sc. Engineering</td>
<td>39 years</td>
</tr>
<tr>
<td>4.</td>
<td>Mr. Hussain Lotia</td>
<td>Director Architecture</td>
<td>National Diploma of Architecture</td>
<td>35 years</td>
</tr>
<tr>
<td>5.</td>
<td>Mr. Moinuddin Khan</td>
<td>Principal Engineer/Head of Structures</td>
<td>M.S. Structural Engineering</td>
<td>19 years</td>
</tr>
<tr>
<td>6.</td>
<td>Mr. Monis Suri</td>
<td>Director Structures</td>
<td>M.S. Structural Engineering</td>
<td>15 years</td>
</tr>
<tr>
<td>7.</td>
<td>Mr. Ali Asghar</td>
<td>Associate Public Health Engineering</td>
<td>B.E. Civil</td>
<td>31 years</td>
</tr>
<tr>
<td>S. No.</td>
<td>Name of Operational Team</td>
<td>Designation</td>
<td>Qualification</td>
<td>Relevant Experience</td>
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</tr>
<tr>
<td>8.</td>
<td>Mr. Shahid Zia</td>
<td>Director MEP</td>
<td>MS Mechanical Engineering / B.E. Mechanical</td>
<td>23 years</td>
</tr>
<tr>
<td>9.</td>
<td>Mr. Javed Iqbal Siddiqui</td>
<td>Principal Engineer</td>
<td>B.E. Electrical Engineer</td>
<td>40 years</td>
</tr>
<tr>
<td>10.</td>
<td>Mr. Sohail Abbas Abidi</td>
<td>Director Business Development</td>
<td>M.S. Structural Engineering</td>
<td>23 years</td>
</tr>
<tr>
<td>11.</td>
<td>Mr. Masood Ul Hassan Jafri</td>
<td>Director/HOD Urban Planning</td>
<td>Bachelors in City and Regional Planning</td>
<td>43 years</td>
</tr>
<tr>
<td>12.</td>
<td>Ms. Shazia Mastoor</td>
<td>HR Head</td>
<td>MBA</td>
<td>7 years</td>
</tr>
<tr>
<td>13.</td>
<td>Mr. Faisal Habib</td>
<td>CFO</td>
<td>Chartered Accountant (CA)</td>
<td>18 years</td>
</tr>
<tr>
<td>14.</td>
<td>Salman Ahmed</td>
<td>Head IT</td>
<td>MCSE</td>
<td>19 years</td>
</tr>
</tbody>
</table>

- EA Consulting has prepared manuals for all the departments within the organization. The same are sent to HR for review and are then approved by the CEO. However, no manuals have been approved by the BOD.

- There is no independent monitoring mechanism in the form of an Audit Committee comprising of non executive independent members. Currently most activities are being monitored by senior management.

- All financial records are being maintained centrally at EA Consulting Head office. All financial and program management activities including payments, procurements, payroll and financial reporting are centralized.

**Segregation of Duties (SOD)**

- EA Consulting has developed departmental organization charts.
- We found adequate segregation of duties in all departments.
Accountability

► The financial year end of EA Consulting is 30th June. Feroze Aziz & Company is the external auditors of EA Consulting who provide their report to the BOD. The firm is not ICAP QCR rated.

► EA Consulting does not have an in-house / outsourced Internal Audit function to monitor the working of departments of the organization and check that the controls are operating effectively.

Information Technology (IT)

► The organization has an in-house IT department.

► EA Consulting does not have a documented IT strategy.

► IT department have developed policies and procedures for Archival, Backup, Complain Handling, Deactivation of ID, Email account creation, Internet access request, Login ID creation, new computer request and Project creation. However, policies and procedures for system change and password management have not been developed by the management.

Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP)

► We have been informed by management that Business continuity plans and Disaster Recovery plans are not documented, and are thus not available for the organization.

Please refer to section 4.1.2 of our report for details of key findings with respect to internal controls and governance structure of EA Consulting.
### 4.1.2 Key Findings

Following are some of the key findings noted during our pre assessment review based on the procedures discussed in section 1 of our report and management comments on the same:

<table>
<thead>
<tr>
<th>Section Rating</th>
<th>Brief Description of Findings</th>
<th>Issue Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve</td>
<td>We have noted following key findings:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) No independent directors on the BOD.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>b) There are no management level and BOD level committees including Audit committee.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>c) There is no Internal Audit Department.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>d) External auditors are not ICAP QCR rated and inconsistent accounting treatment.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>e) There is no formalized organization strategy</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>f) There is no formalized IT strategy.</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>g) There are no policy and procedure pertaining to system change.</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>h) There is no communication policy.</td>
<td>Low</td>
</tr>
<tr>
<td>Ref</td>
<td>Finding</td>
<td>Impact</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>a)</td>
<td>Governance structure</td>
<td>Lack of independent monitoring and provision of overall guidance to the organization.</td>
</tr>
</tbody>
</table>

**Issue Rating**: High

**Current State**

We have noticed a conflict of interest in the constitution of the BOD. Members of the BOD are heads of their respective departments. Further, Chairman of the BOD is also CEO of EA Consulting.

**Gap**

Lack of non executive Director on the board may impair the BODs’ ability of independent monitoring of EA Consulting operations.

**Management responses:**

Being a professional private limited Engineering Company, the need of independent directors are not envisaged. All the policy decisions within the company are taken with mutual consent of all directors and HOD’s of H.R &Finance.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>b)</td>
<td><strong>Management Level and BOD Level Committees</strong></td>
<td>The absence of BOD level and management level committees may be considered as lack of independent monitoring which may render financial management, reporting and audit activities ineffective.</td>
<td>We recommend that EA Consulting should consider forming an audit committee comprising of non executive independent Directors. Such audit committee should be provided with an approved Charter from the BOD.</td>
</tr>
<tr>
<td></td>
<td><strong>Issue Rating</strong></td>
<td><strong>High</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Current State</strong></td>
<td>There are no BOD level and Management level committees such as Audit Committee, HR Committee etc. to assist BOD in monitoring the company’s operations.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Gap</strong></td>
<td>The company shall have at least an Audit Committee, comprising of at least three members, out of which at least one should be an independent director, and shall be responsible for the following key activities on behalf of the BOD:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>► Financial management and reporting oversight;</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>► Guidance and oversight of internal/external audit activities;</td>
<td></td>
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<td></td>
<td></td>
<td>► Assess adequacy of procedures and policies for internal controls and risk management;</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>► Ensure that the BOD and the executive bodies act in compliance with legal requirements, and by laws</td>
<td></td>
</tr>
</tbody>
</table>

**Management responses**

Audit committee will be formed as per recommendation.
Ref | Finding | Impact | Recommendation
---|---|---|---
c) Internal Audit Department | Lack of independent monitoring activity having direct reporting line to the BOD. | We recommend that an independent and direct reporting line of the Internal Auditors to the BOD should be put in place. There should be a mechanism established where key findings of internal audit should be followed up for rectification.

Issue Rating | High

Current State
The organization does not have an independent department/ function in place to monitor the activities of different departments.

Gap
EA Consulting does not have an in-house / outsourced Internal Audit function to monitor the working of departments of the organization and check that controls are operating effectively.

Management responses
We have already appointed an internal auditor.
### Ref  
### Finding  
### Impact 
### Recommendation 

d) **External auditors** 

| Issue Rating | High |

**Current State**  
ICAP rates audit firms based on certain criteria in order to form an opinion that firms have carried out the audit of their clients in accordance with the International Standards on Auditing as adopted in Pakistan.

EA Consulting external auditors are Feroze Sons & Chartered Accountants and they have audited the financial statements of EA Consulting for the year ending 30 June 2010 and 2011. Moreover it is industry practice that auditors provide management letter and cover letter after completion of audit.

**Gap**  
We noted that EA Consulting external auditors are not ICAP QCR rated. And further we have been informed by the Management that the auditors have not provided management letter and cover letter for the financial year ended 2010 and 2011.

Additionally, as per latest financial statements for the year ended 30 June 2011, we noted that the company has booked unearned revenue amounting to Rs. 143 million ($1.5 million) against trade debts which is against the above approved accounting policy.

As per the approved accounting policy, trade debts originated by entity are recognized and carried at original invoice amount less provision for any uncollectible Audit may not be conducted in accordance with the requirements of International Standards on Auditing (ISAs). Thereby impairing the overall effectiveness of the audit opinion.

Cover Letter highlights major items of financial and non-financial aspects to the Board. In the absence of Cover Letter, the Board member may not focus on specifically identified matters.

Management letter explains audit findings and their respective risks and recommendations. In the absence of Management Letter, the management may not be able to aware of weaknesses identified during the audit.

Furthermore, due to inappropriate accounting treatment, financial statements may not reflect the true financial position of the affairs of the company.

We recommend that EA Consulting should appoint auditors that are ICAP QCR rated.

Moreover, we further recommend that the management should obtain Cover Letter and Management Letter from the auditors which will assist them in removing or rectifying key audit findings thereby strengthening the overall control environment of the company.

Additionally, EA Consulting should take appropriate measures to reverse the unearned revenue entry in 30 June 2012 financial statements which are currently in process of being finalized.
Further, as per International accounting standards, unearned revenues can only be booked against advance revenue received. However in case of EA Consulting has not actually been received and the same has been booked on the basis of future projections, therefore current assets and current liabilities are over stated by Rs. 143 ($1.5 million) million in the financial statements.

Management responses
Financial year June 30, 2012 is already closed and we will consider appointment of Auditor from ICAP’s QCR rated list for the year June 30, 2013.

Reversal of entity will be made.
e) **Organization strategy**

**Issue Rating**  
High

**Current State**
Organizational strategy is concerned with envisioning a future for the business, creating value in the eyes of the customers, and building and sustaining a strong position in the marketplace. An organization strategy comprises the following:

- Vision, Mission and Competitive Advantage
- External Assessment
- Internal Assessment
- Objectives, initiatives and goals

As per our discussion with management, we were informed that EA Consulting strategy is to expand in the engineering consultancy market.

**Gap**

However, we noted that organization does not have a documented long term and short term strategy, which is aligned with the business plans.

**Management responses**

Suggestion taken on board with regard to Business strategy, due for development in Q4 2012. Vision & Mission statements are already in place.

A formal corporate strategy is a crucial strategic tool because it allows a corporation to focus multiple resources on a single objective. Without a clear corporate strategy, companies lose sight of their main objectives and lack the drive and focus that a well-designed corporate strategy provides.

We recommend that EA Consulting should document its long term and short term organizational strategies.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>f)</td>
<td>IT Strategy</td>
<td>A formal IT strategy is a crucial strategic tool to support the overall corporate strategy of the company</td>
<td>We recommend that EA Consulting should document its IT strategy which should support the overall corporate strategy of the company.</td>
</tr>
</tbody>
</table>

**Issue Rating**

**Medium**

**Current State**

An Information Technology strategy is the overall plan which consists of objective(s), principles and tactics relating to use of the technologies within a particular organization. Such strategies primarily focus on the technologies themselves and in some cases the people who directly manage those technologies.

Currently, the organization does not have an IT strategy that caters to all the above mentioned areas.

**Gap**

We observed that the organization IT strategy is not formally documented.

**Management responses**

IT strategy will be developed in Q4 2012.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>g)</td>
<td>System Change / System Development</td>
<td>Lack of well defined change management procedures may lead to ineffective implementation of changes in system and applications thereby hampering the smooth functioning of systems and applications.</td>
<td>We recommend that the company should develop comprehensive change management procedures to ensure that any changes are managed with a more systematic, reliable, rigorous and disciplined approach.</td>
</tr>
</tbody>
</table>

**Issue Rating**
Medium

**Current State**
As per current practice, a change in system can be requested from the user, or may be an IT initiative. Before implementation of system, user acceptance testing (UAT) is conducted.

**Gap**
We observed that the system change process and UAT is not documented.

**Management responses**
UAT will be conducted before implementing new application in future. Policy under formulation in Q4 2012.
Ref. Communications policy

Finding

Impact In the absence of the above, employees may not have clear guidelines on the modes and considerations regarding corporate communication.

Recommendation We recommend that a clear and robust policy for communications should be developed by the organization.

The said policy should be approved by the BOD and circulated to all employees within the organization.

Compliance with the above policy should be checked by the Internal Audit Department (when developed).

Issue Rating Low

Current State

In line with better organizational practices, a communications policy is developed and circulated to all employees within the organization.

The purpose of this policy may include:

► Effectiveness of public communications and development;
► Strategies for external relations;
► Guidelines for disclosure of corporate information;
► Roles and responsibilities; and
► Procedure for accessing information.

Gap

We were informed that no communications policy has been developed by the organization.

Management responses

Suggestion taken on board, are under discussion with the Board of Directors & Head of Departments.
4.2 Control Procedures / IT structure

4.2.1 Overview of Existing Controls Procedures / IT structure

► Management of EA Consulting, over a period of time, has been able to develop controls design comprising of better industry practices. Controls have been documented in the manuals considering aspects such as:

  o Segregation of duties to minimize any conflict of interest (except as mentioned in section 4.1 of this report);
  o Review / approval and authorization of transactions; and
  o Physical custody and security of assets ensuring authorized use only.

► Organizational Chart of the entity depicts the departmental division within the entity. It mentions the designations of head of departments. Every department has specific policies and procedures implemented after approval from the CEO. Job descriptions of all personnel formulating key management have been devised.

► EA Consulting has three offices which are used for its operations, one in Karachi, one in Lahore and one in Islamabad. The Regional Office has been formed for the purposes of tapping business opportunities more effectively in those regions. Moreover, they are also used for managing projects undertaken in those regions. All key controls are, however, centralized i.e. at Head office in Karachi, and are being monitored by senior management on a day to day basis. Also, projects are being managed directly by the senior management which ensures close monitoring of project, and timely completion of the same.

► A comprehensive authority matrix defining the preparation and approval authorities for various administrative and financial activities is not formulated.

► The organization does have an Internal Audit Department.
Quality Control

Overview of Quality Control Process

► The core business activities of EA consulting are
  
  o Supervision Services
  o Design and
  o Survey

The following processes identify the quality control procedures at various levels undertaken by the company in execution of different projects:

i) Supervision Services

► Under supervision services, EA Consulting provides supervision of civil and construction work carried out by contractor on behalf of their clients.

► There are three levels of quality assurance within the supervision service activities.

► For each project, a dedicated team comprising of qualified engineers and architects is assigned which is responsible for providing on field supervision of the work carried out by the contractor. This serves as a first level of quality assurance.

► EA consulting field supervision team is headed by a Resident engineer also called Project Manager, who is a Senior Qualified Engineer. The project manager is responsible for ensuring timely completion of the project as well as serves as a second level in quality assurance.

► The schedule and budget is discussed and finalized by the project manager and principal engineer/architect (from head office) in the initial meeting with the client and contractor. The principal engineer/architect serves as a third level in quality assurance.
In order to monitor the progress, monthly progress meetings are conducted which is attended by principal engineers / architects, project manager, contractors and the senior on field team. In this meeting contractor presents a monthly progress report to the Principal Engineer.

Where the field team expects any deviation from the agreed schedule or budget, the same is immediately communicated to the Head office for obtaining future plan of action.

Principal engineers / architects from Head Office also conduct surprise field visits for ensuring the quality of supervision activities.

At the end of the project, a Completion Certificate, signed by the Principal engineer / architect, is given to the contractor after reviewing the field work executed.

In order to assess the effectiveness of the quality control procedures adopted by the EA consulting in supervision services, we carried out walkthroughs of the above mentioned activities and found no exception to the above mentioned procedures.

ii) Design

Under design services, EA Consulting provides development of detailed designs / master plan / blue print for their clients.

There are two levels of quality assurance within the design activities.

For each project, a dedicated project team comprising one or more Senior Engineers / Architects and Junior Engineers / Architects is assigned. The project team is responsible for preparation of design.

After preparation of design criteria by the project team, it is required to be approved by the client in order to ensure that it is in accordance with the needs of the client.

After approval of the design criteria by the client, the project team prepares the Concept Design under the supervision of Senior Engineer. The senior engineer serves as first level of quality assurance.
After review of the concept design by the senior engineer, it is reviewed and approved by the Principal before the preparation of final design and drawing. This serves as the second level of quality assurance.

The final design and report is also reviewed and approved by the Principal Engineer to ensure quality of work.

The report is sent to the client after it is signed by the Principal Engineer.

In order to assess the quality control procedures for design activities, we conducted walkthroughs of Structure, Public health and Architecture department and found no exceptions to the above mentioned procedures.

iii) Survey

Under the survey services, EA Consulting carry out surveys on behalf of their client for construction of bridges and roads. The survey is carried out to identify the most suitable routes for construction of bridges and roads,

There are two levels of quality assurance within the survey services.

For each project a dedicated project team for survey comprising of Senior Engineers and Junior Engineers is assigned.

The field team is mobilized after initial budget and schedule has been prepared.

Before conducting the actual survey, survey control data is prepared by the field team and sent to the Head Office to be approved by Survey Engineer.

The Senior Survey engineer is not a part of field team as he monitors the activities of field team from Head Office and serves as the first level of quality assurance.

After correction and approval of Survey control data by Survey Engineer, the data is sent back to field team.

The field team conducts the topographical survey and transmits the raw survey data to the Head office.
The survey engineer prepares a survey drawing using the raw data sent by the field team.

After finalizing the survey drawing, final survey map is prepared using AutoCAD software.

The final survey Map and report is reviewed and approved by the Head of Department after which it is transmitted to the client. The head of department serves as a second level of quality assurance.

In order to assess the quality control procedures for Survey Activities, we conducted walkthroughs of Survey Department and found no exceptions to the above mentioned procedures.

**Policies and procedures in place especially relating to budget management and utilization**

There are policies and procedures manuals developed which to the most part cover all material areas of control procedures. However there is no testing mechanism in place to report the efficiency and effectiveness of these controls as the organization does not have an Internal Audit function. Further, the following policies and procedures need to be developed to further strengthen the internal control environment within the company and ensuring effectiveness and efficiency of operations:

<table>
<thead>
<tr>
<th>Policies and procedures in place</th>
<th>Aspects missing from policy and procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Control/Governance Structure</strong></td>
<td>Business continuity Plan and Disaster recovery Plan</td>
</tr>
<tr>
<td></td>
<td>Remuneration and reward policy for BOD</td>
</tr>
<tr>
<td></td>
<td>Communication Policy</td>
</tr>
<tr>
<td><strong>Financial Management</strong></td>
<td>Financial statements closing process</td>
</tr>
<tr>
<td></td>
<td>Procedures for opening and closing of accounts</td>
</tr>
<tr>
<td></td>
<td>Preparation and development of Annual budgets</td>
</tr>
<tr>
<td></td>
<td>Fixed asset management</td>
</tr>
<tr>
<td><strong>Information Technology</strong></td>
<td>Comprehensive IT policy</td>
</tr>
<tr>
<td><strong>Human Resource</strong></td>
<td>Succession plan</td>
</tr>
<tr>
<td></td>
<td>Fraud Policy</td>
</tr>
<tr>
<td></td>
<td>Whistle blowing policy</td>
</tr>
<tr>
<td></td>
<td>Payroll processing</td>
</tr>
<tr>
<td>Policies and procedures in place</td>
<td>Aspects missing from policy and procedures</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-----------------------------------------</td>
</tr>
<tr>
<td><strong>Procurement</strong></td>
<td>➤ Procurement of survey equipment</td>
</tr>
<tr>
<td></td>
<td>➤ Pre-approval of vendors;</td>
</tr>
<tr>
<td></td>
<td>➤ Declaration of any conflict of interest by bidder;</td>
</tr>
<tr>
<td></td>
<td>➤ Settlement of disputes;</td>
</tr>
<tr>
<td></td>
<td>➤ Disqualification of vendors</td>
</tr>
<tr>
<td></td>
<td>➤ Procurement of Outsourced services</td>
</tr>
</tbody>
</table>

**Information Technology (IT)**

➤ The organization has an in-house IT department. IT department is responsible for ensuring the operational efficiency and effective discharge of all matters relevant to information technology.

➤ EA Consulting does not have a documented IT strategy.

➤ IT department have developed policies and procedures for archival, backup, device naming convention, email account creation, internet access and computer usage. However, policies and procedures for system change and password have not been developed by the management.

➤ The IT Department also develops in-house applications to aid smooth functioning and record keeping in other departments of EA Consulting.

➤ Employees of EA Consulting have password protected access to the financial system as well as server. Server access is as per need to know basis. However, there is no access controls over engineering softwares such as Auto Cad.

➤ Server room of EA Consulting has all the sensors like smoke, water, heat that is connected with a mobile device that can generate alert SMS to Head of IT and second in command in case of emergency. Moreover an email is also auto generated by the server in case of malfunctioning or unusual behaviour. We observed that there are no physical access controls over the server room.

➤ EA Consulting has backup policy and take incremental backups on daily basis and complete backups on weekly and monthly basis. These backups are on magnetic tapes media and kept at another location for contingency situations which is 2 km away from the main server.
### 4.2.2 Key Findings

Following are some of the key findings noted during our pre assessment review based on the procedures discussed in section 1 of our report and management comments on the same:

<table>
<thead>
<tr>
<th>Section Rating</th>
<th>Brief Description of Findings</th>
<th>Issue Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitor</td>
<td>We have noted following key findings:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) IT audit never conducted</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>b) The organization does not have a documented BCP and DRP</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>c) Project Management standards not benchmarked</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>d) There is no policy for outsourced / third party services.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>e) There is no comprehensive IT policy manual</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>f) There are no access controls over engineering software and no password policy in place</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>g) No physical access controls over server room</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>h) Data backup in close vicinity of main server</td>
<td>Medium</td>
</tr>
<tr>
<td>Ref</td>
<td>Finding</td>
<td>Impact</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>a)</td>
<td>IT audit never conducted</td>
<td>Weaknesses in the IT infrastructure, resources and operations may not be identified timely.</td>
</tr>
</tbody>
</table>

**Current State**

The IT Department is an integral part of operations of EA Consulting. Upon enquiry, we observed that IT audit has never been conducted. We were informed that the management is considering having an IT audit conducted in near future.

**Gap**

With the increasing pervasiveness of IT function in organizations, IT audit is used for identification of weaknesses so as to continue using IT as a strategic tool for competitive advantage in an efficient and effective manner.

**Management responses**

Services of IT auditor will be hired. IT audit will be conducted.
### Finding

<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>b)</td>
<td>Business Continuity Plan and Disaster Recovery Plan</td>
<td>This may expose EA Consulting to financial as well as other critical losses in case of natural / manmade disasters.</td>
<td>We recommend that a comprehensive BCP and DRP should be implemented by EA Consulting. Amongst other strategies, the plan should clearly document the mechanism for resuming operations from alternate locations, maintaining and retrieving back-up data / documents.</td>
</tr>
</tbody>
</table>

#### Issue Rating

**High**

#### Current State:

We have been informed by management that Business continuity plans and Disaster Recovery plans are not documented, and are thus not available for the organization.

#### Gap:

Considering the security situation of the country, the organization may be exposed to the risk of delays in resumption of its operations in case of a natural or manmade disaster.

#### Management responses

Business Continuity Plan & Disaster Recovery Plan will be documented & implemented in Q4 2012.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>c)</td>
<td>Project Management Office</td>
<td>In the absence of formal project management methodology, chances of project failure are higher (i.e. failure to complete project either in time, budgeted cost, assigned scope).</td>
<td>EA consulting should formalize the project management office (PMO) for:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In the absence of project management office, the organization may not be able achieve the efficiencies and benefits of standardized and coordinated efforts across the various projects in hand.</td>
<td>► Managing shared resources across all projects;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>► Identifying and developing project management methodology, best practices, and standards;</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>► Coaching, mentoring, training, and oversight;</td>
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<td></td>
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<td></td>
<td>► Monitoring compliance with project management standards, policies, procedures, and templates via project audits;</td>
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<td></td>
<td></td>
<td></td>
<td>► Developing and managing project policies, procedures, templates, and other shared documentation (organizational process assets); and</td>
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<td></td>
<td></td>
<td></td>
<td>► Coordinating communication across projects.</td>
</tr>
</tbody>
</table>

**Issue Rating**

- High

**Current State**

At present the organization's formal organization structure is in functional form however from project execution perspective a hybrid form of organization structure is also in place. Project managers are essentially primarily responsible for all stages of the project management.

**Gap**

The organization's project management standards have never been benchmarked with the Global Standards on Project Management.

Further, there is no Project Management Office (PMO) responsible for the centralized and coordinated management of the projects.

**Management responses**

It is already under serious consideration.
d) Third party / outsourced services

Issue Rating: High

Current State
EA Consulting hires services for projects from third parties on need basis. Consultants / vendors are hired for their expertise in a particular field. A contract is signed for the required services.

Gap
We were informed that organization does not have a documented policy and procedure for procuring outsourced services.

As per better practices there should be a documented outsourcing or sub contracting policy to manage key outsourced activities in a better manner.

Impact
Key activities regarding projects outsourced without detailed assessment and defined policies may expose EA Consulting to financial and operational risks.

Recommendation
EA Consulting should consider developing a detailed outsourcing policy comprising of the following key components:

- Detailed framework for managing outsourcing arrangements
- Roles and responsibilities of the board of directors and management
- Risk mitigation measures and systems for review and monitoring of these activities
- Confidentiality of information in outsourced functions
- Redressal of grievances about outsourced services
- Contingency plan in case that service provider cannot continue provision of such services
- Contract audits and monitoring mechanism

Such policy should be reviewed and approved by the BOD.

Management responses
Policy will be implemented for procurement of Third party services.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>e)</td>
<td>IT policies and manual</td>
<td>Ambiguity as to IT policy and procedures may lead to operational</td>
<td>We recommend that a comprehensive IT policies and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>in efficiency and damage to and leakage of confidential data.</td>
<td>procedures should be developed to standardized IT</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>practices within the company.</td>
</tr>
</tbody>
</table>

**Issue Rating**  
Medium

**Current State**
EA Consulting has specific IT policies regarding following matters,
- Device Naming Conventions
- Computer Usage Policy-SOP
- Internet Usage Policy
- E-Mail Policy
- Electronic Backup and Recovery of Data
- Electronic Archive and Retrieval of Data.

**Gap**
EA Consulting does not have comprehensive IT manual designed by the management.

**Management responses –**
We will prepare IT manual by Q4 2012.
Ref | Finding | Impact | Recommendation
--- | --- | --- | ---
f) | Access controls over engineering software and password policies | Unauthorized access to data may lead to breach of confidentiality. | We recommend that access controls over engineering software should be formally defined and implemented. Further, the management should implement the following password policies,

► never share a computer account  
► never use the same password for more than one account  
► never tell a password to anyone, including people who claim to be from customer service or security  
► never write down a password  
► never communicate a password by telephone, e-mail or instant messaging  
► being careful to log off before leaving a computer unattended  
► changing passwords whenever there is suspicion they may have been compromised  
► operating system password and application passwords are different  
► password should be alpha-numeric

Issue Rating  
Medium

Current State  
Employees of EA Consulting have password protected access to the financial system as well as server. Server access is as per need to know basis. For example, a staff of one project cannot access files of another project over the server.

Gap  
We observed that there is no access controls over engineering softwares (e.g. Auto Cad). Moreover EA Consulting does not have any formal password policy.

Management responses  
There is need for access control of engineering software. Access control for PC and for file server is already implemented. We will introduce password policy of the company.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>g)</td>
<td>Physical access controls</td>
<td>In absence of physical access controls, following risk may arise,</td>
<td>We recommend that there should be at least 2 levels of physical access controls over server room. For that purpose EA Consulting should place manual lock as well as thumb recognition or combination door locks.</td>
</tr>
<tr>
<td></td>
<td>Issue Rating</td>
<td>Theft or malicious destruction</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Unintentional destruction of hardware or data by untrained employees</td>
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<tr>
<td></td>
<td></td>
<td>Mechanical failure of hardware</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Power interruptions</td>
<td></td>
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<tr>
<td></td>
<td>Current State</td>
<td>Server room of EA Consulting has all the sensors like smoke, water,</td>
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<tr>
<td></td>
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<td>heat that is connected with a mobile device that can generate alert</td>
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<td></td>
<td></td>
<td>SMS to Head of IT and second in command in case of emergency. Moreover</td>
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<td></td>
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<td>an email is also auto generated by the server in case of malfunctioning</td>
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<td></td>
<td></td>
<td>or unusual behaviour.</td>
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<tr>
<td></td>
<td>Gap</td>
<td>We noted that no controls are in place over physical access to server</td>
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<tr>
<td></td>
<td></td>
<td>room to prevent unauthorized access.</td>
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</tbody>
</table>

**Management responses**

Access control device will be added in the server room monitoring system.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>h)</td>
<td>Data backups</td>
<td>In case of natural disaster at area where server room is in place, closely stored backups may also affected by the same disaster.</td>
<td>We recommend that all backups should be stored at least 15km away so that they don’t get directly affected by any accident or natural disasters.</td>
</tr>
</tbody>
</table>

**Current State**

EA Consulting has backup policy and take incremental backups on daily basis and complete backups on weekly and monthly basis. These backups are on magnetic tapes media and kept at another location for contingency situations which is 2 km away from the main server.

**Gap**

We noted that data backups are in close vicinity of main server which defeats the very purpose of keeping backup at an offsite location.

**Management responses**

We will shift the off site location for backups from 2km to 15km.
4.3 Accounting system

4.3.1 Overview of Existing Accounting Systems

Accounting and Financial Reporting System

► The accounting system has been developed by Intellect Solution, an IT firm, using Visual Basic. The system is capable of providing a General Ledger, subsidiary ledgers, project-wise reports and receipt and expenditure listing for specified GL codes. The Finance module of this system is fully operational since 1st July 2012.

► There is a specified chart of accounts (COA) segregating accounting codes for various types / nature of items for income / revenue, expenditure, assets, liabilities, capital and general funds. Manager Finance cannot edit any account code however he / she can open new account code as per need basis, on approval of CFO. Any account code once created cannot be removed from the system.

► As per the approved policy, in case an amendment is required in the accounting records in terms of additions/ deletions/ editing, the Manager Finance will present a request before the CFO, which will include the reasons for the amendment. The administrator rights to the system and access for making the change is currently with the CFO.

► EA Consulting financial statements are being audited on an annual basis. As per audited financial statements for the year ended 30 June 2011, the financial statements are prepared on an accrual basis and comply with requirements of the International Financial Reporting Standards (IFRS). Moreover, there is a practice of preparing monthly financial reporting package for review by the CFO. However, there is no practice of internal reviews and approval of monthly / quarterly financial reporting package by the Board.

► The accounting system does not accept backdated accounting entries. Moreover each transaction posted in the GL can be traced through voucher reference. Voucher numbers are sequential and assigned automatically by the system.

► We observed that the Accounts Officer / Assistant Manager Finance have the access right to create a voucher in the system. The voucher is then forwarded to the Manager Finance for review and approval for posting of entry in the system. At the time of posting, the project code is allocated to the respective voucher. This enables the segregation of direct cost for various projects and generation of transaction listing at the project level.

► We observed that a MIS takes daily incremental backup and full system backups on weekly basis of the accounting system. The backup is maintained with IT department. The back-up is also stored at an offsite location however, the offsite location is within 2 kilometre radius of the main server.
Financial statements closing process (FSCP)

► **Revenue/ Receivable:**

At month end, Accounts officer checks that all invoices pertaining to the current month are recorded in the system, and the same is billed to the client.

► **Expenses / Liabilities:**

- At month end, Assistant Manager (AM) Finance runs Accrual Control Checklist. The checklist comprises of salaries, utilities, and interest payments if any. The checklist is signed by AM Finance, reviewed by Senior Manager Finance and approved by the CFO.

- At month end, Accounts officer inquires from Admin Department regarding any items purchased / services received for which no invoice has yet been received by the company.

► **Fixed Assets:**

At month end, fixed asset schedule is prepared by AM Finance. Depreciation entry is passed in the system by AM Finance and is approved by the CFO.

► **Bank Reconciliation**

Accounts officer prepares bank reconciliations by the 5th of the next month to identify any reconciling items. The same is reviewed by Manager Finance and is approved by the CFO.

► **Scrutiny of ledgers**

AM Finance / Manager Finance scrutinizes each ledger account to check for accounting errors and ensuring that there is no misclassifications.

► **Income taxes**

CFO prepares working for the income tax provision.
Year end process

- At year end, after all the adjustments and provision have been made, and all accruals are incorporated, a final trial balance is extracted from the system by Manager Finance.

- Manager Finance prepares 1st draft of the financial statements to be presented before the CEO. CEO reviews the financial statements, and after his approval, EA Consulting calls the auditors to conduct annual audit.

Audits

- Feroz Aziz & Company has been appointed by the Board in 1st Annual General Meeting (AGM) dated 31 October 2009 for financial year 2010, after incorporation of Company in June 2009. After that, same auditors were reappointed for financial year 2011.

- Feroz Aziz & Company has issued unqualified report in both 2010 and 2011 audit reports. However, no QCR rating is available at ICAP website of the audit firm.

- Audit has been conducted as per provisions of the Companies Ordinance and applicable International Auditing Standards.

- Auditor has not provided any management letter or covering letter to EA Consulting for 2010 and 2011 annual audit.

Billing

- For Design/ Survey, request is sent by the Core Department to Finance for generation of invoice. For Supervision/ Project Management, Accounts officer checks monthly payroll to verify attendance and on that basis invoice is generated.

- Manager Finance determines the value of invoice to be raised from copy of the agreement for the following:
  - For Design invoice, stage completion value is checked.
  - For Supervision invoice, charged rate is checked along with attendance from payroll.

- Accounts officer posts entry of invoice in GL system and generates Sales Voucher. Three copies of invoice are generated, one for client, one as a support for Sales Voucher and other for client file.
Finance Manager rechecks the invoices for any errors.

The invoices are signed by Finance Manger/ CFO/ Project Manager/ CEO.

Invoices are dispatched by Accounts officer.

Finance Manager / CFO follows up for recovery to concerned Accounts Manager/ Client.

Once cheques are received, Accounts officer prepares Bank Receipt Voucher and the cheque is deposited in the bank account.

Billing rates are mostly quoted in gross figures without any break-ups. After negotiation on rates with the client, billing is done on agreed negotiated rates as per the consultancy contract. All billing rates must form part of contract of consultancy. We have been informed that the billing rates charge to a client usually comprise of items as mentioned below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rates</th>
<th>Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary</td>
<td>-</td>
<td>Basic salary represents gross salary of an employee.</td>
</tr>
<tr>
<td>Social charges</td>
<td>25%</td>
<td>It is charged at 25% of basic salary. This includes EOBI, medical, group insurance, bonus, provident fund, gratuity etc. Refer Annexure 7 below.</td>
</tr>
<tr>
<td>Overheads</td>
<td>110%</td>
<td>It is charged at 110% of basic salary and social charges mentioned above. This includes allocation of support functions cost to each business units/employee. Refer Annexure 8 below.</td>
</tr>
<tr>
<td>Fee</td>
<td>10%</td>
<td>It represents percentage of profit margin over total expenses calculated above.</td>
</tr>
<tr>
<td>Hard area and field allowance</td>
<td>15%</td>
<td>It represents estimated allowance of 15% on basic salary. It depends upon nature of contracts and extent of field work.</td>
</tr>
<tr>
<td>Annual escalation</td>
<td>13%</td>
<td>Annual escalation estimated to be 13% of total fees.</td>
</tr>
</tbody>
</table>

These percentages were determined by the management seven years ago on the basis of past experiences and historical data. However, we have not been provided with any details (such as audited financial statements) to substantiate the above.
We have analyzed latest available financial statements for the year ended 30 June 2011 with respect to total revenue and total expenditures to derive estimated billing rates and compare it with those rates already provided.

For supervision and survey related contracts, billing is usually done on the man-days. While for design contracts usually billing is done on the basis of deliverable as mentioned above (refer section 3.1.3) provided to client. We have been informed that although for designing contracts, billing is done on the basis of deliverable. However total consultancy fee is calculated using the same basis as used for supervision and survey contracts that is man-days required into charge-out rate.

We have randomly selected 10 samples of contracts executed by EA Consulting to compare the actual charged rates with those provided to ASP-RSPN. Refer Annexure 6 for a comparison of charged rates agreed in recently executed contracts with that quoted to ASP-RSPN.

Please refer to section 4.3.2 of our report for details of key findings with respect to financial management and accounting system of EA Consulting.
### 4.3.2 Key Findings

Following are some of the key findings noted during our pre-assessment review based on the procedures discussed in section 1 of our report and management comments on the same:

<table>
<thead>
<tr>
<th>Section Rating</th>
<th>Brief Description of Findings</th>
<th>Issue Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>We have noted following key findings:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► No disclosure checklist is maintained for Financial Statement Closing Process (FSCP)</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>► There is no guideline in manual for opening and deactivation of GL account codes</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>► Accrual of membership fee is not made</td>
<td>Low</td>
</tr>
</tbody>
</table>
## Ref Finding

<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td><strong>Financial statements closing process checklist not in place</strong></td>
<td>In the absence of FSCP checklist, routine accruals or procedures ordinarily being performed when finalizing accounts, including obtaining un-booked supplier and customer invoices etc. may be missed, impairing reliability on the financial statements.</td>
<td>The Finance Department should develop a FSCP checklist, specifying the procedures which need to be performed for closing of books of accounts and preparation of financial statements.</td>
</tr>
</tbody>
</table>

### Issue Rating

**Medium**

### Current State:

We observed that the Financial Statement Closing Checklist (FSCP) is not available.

### Gap:

FSCP checklist is a very useful tool used by the Accounts and Finance Departments and related other departments to aid the process of finalizing accounts for management reporting and annual financial statements.

### Management responses

As per recommendation, we will develop the checklist.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>b)</td>
<td>Controls over opening and deactivation of general ledger accounts</td>
<td>General ledger codes specify the details of the information to be associated with a code. In the absence of guidelines for opening or editing of account code, an employee may not have clarity to place any account. Moreover, employee may open unnecessary account code or make inappropriate classification of code.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>We recommend that Finance Department should develop detailed guidelines for account opening and editing and incorporate the same in the finance and accounting manual.</td>
<td></td>
</tr>
</tbody>
</table>

**Issue Rating**  
Medium

**Current State**  
Manager Finance has the authority to open new account code in the system only. Any editing to the account code can only be done by the CFO.

**Gap**  
We have observed that there is no guideline in finance and accounting manual for opening of account codes and making changes to it. The access/edit rights are not defined.

**Management responses**  
We will prepare SOP for opening & deactivation of GL accounts.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>c)</td>
<td>Accounting of membership fee</td>
<td>Charging out of membership fee at once would create misrepresentation of expenses and prepayments.</td>
<td>We recommend that membership fee should be booked as prepayments at the time of payment and then taken to expenses on time proportion basis.</td>
</tr>
</tbody>
</table>

**Issue Rating**  
Low

**Current State**  
Membership fee for engineering and other associations of the company are charged as expense at the time of payment.

**Gap**  
We observed that the membership fees are not proportioned over time proportion basis.

**Management responses**  
It will be done from the current financial year.
4.4 Accounting, Record Keeping and Overall Financial Management System

4.4.1 Overview of Existing Accounting Record Keeping and Overall Financial Management System

Finance and Accounts Department

► The Finance Department has 9 employees and is headed by Chief Financial Officer (CFO) who is a Chartered Accountant and a member of Institute of Chartered Accountant of Pakistan (ICAP).

► The Finance Department on a daily basis is being managed by Manager Finance and Assistant Manager Finance and is monitored by the CFO. CFO, who is engaged in the financial reporting and is responsible for the financial matters of the company, has been employed by EA Consulting since March 2010. The Manager is assisted by the Assistant Manager Finance and Assistant Manager Accounts and the Accounts Officers.

► The Finance department has documented policies and procedures which have been approved by the CEO.

Cash and Bank Management

► EA Consulting funds are held in 43 bank accounts. Major banks include United Bank Limited, Faysal Bank Limited, JS Bank, HBL, Bank Al Habib, MCB, Citi Bank. All cheques are required to be signed by at least 2 signatories. However, CEO has been authorized by the BOD to singly sign any cheque.

► As per EA Consulting policy all key payments are made through banking channels except for petty cash payments. Cash cheque is issued only in case of withdrawal for petty cash or payment to contract employees having salaries below 15,000. For rest of the payments, cross cheques are issued.

► Cash balance of maximum of Rs. 500,000 is maintained at head office as per insurance cover limit, however on average, Rs. 100,000 is held with Assistant Manager Finance. As per policy, no cash payments are allowed for more than Rs.10,000 (US$ 65 approximately) for petty expenses and Rs. 15,000 (US$ 130 approximately) for petty expenses by Assistant Manager Finance.
approximately) for salaries. We have been informed by the management that electronic funds transfer is not allowed for making any payments; however bank statements can be obtained electronically.

► EA Consulting cash receipts are derived from professional receipts of various projects. 65% of revenue belongs to project supervision and 34% of revenue belongs to project design.

► As per approved policy, a bank account shall be opened in the name of EA Consulting. Instructions for opening of a bank account are signed by the authorized signatories.

► Such instruction letter accompanies filled account opening forms with signature cards signed by the authorized signatories.

► Instructions for any payment are required to be approved by head of the respective department.

► Such payment instructions are then forwarded to finance for processing the bank payment.

► Payment instructions are then reviewed/approved by CFO. Payments are made by cross cheque in the name of the payee (except for the instances notified earlier where cash payments are required to be made).

► Bank reconciliations are prepared on a monthly basis by the Accounts Officer by 5th of the next month which is then reviewed by Finance Manager and after that it is approved by the CFO. Moreover, main business account maintained with UBL is reconciled on a daily basis.

► A listing of cancelled cheques is maintained with the Finance Manager. Also, cancelled cheques are marked ‘cancelled’ and kept in the cheque book for future reference purposes.

► The above listed controls have been reviewed by us on test basis and no material exceptions were noted except for a few errors which were discussed with management for future compliance.
Petty Cash Management

► Petty cash payments shall be approved initially by the Assistant Manager Finance and then by CFO.

► Assistant Manager Finance shall be required to review the details of expenses attached with the petty cash vouchers after which it shall be approved by the CFO.

Please refer to section 4.4.2 of our report for details of key findings with respect to accounting system of EA Consulting.

Accounting Records Keeping

► Financial and accounting records generated/prepared are maintained at the head office in the custody of the CFO.

► Financial records are segregated, identifying the source of revenue receipt. Similarly, all payments are identified by nature of activity and allocate to specific project.

► EA Consulting maintains all bank accounts in local currency except for one foreign currency account with Faysal Bank in dollars. This account is held collateral for running finance facility and guarantees obtained from the bank. Combined approved limit for both facilities is Rs. 24.4 million. As per management accounts 2012, there were no balance of running finance however guarantees of Rs. 12 million is in place currently.

► All financial records of EA Consulting are maintained in local currency. The accounting system currently in use is capable of generating reports in foreign currency but management has not activated such function. Any such report is prepared manually in MS Excel.

► All cash and bank receipts/payments are being recorded in the system through pre numbered receipt and payment vouchers. Hard copies of signed vouchers are also maintained.

► All invoices paid are not marked / stamped as ‘Paid’.

► Acknowledgment for receipt of cash / cheque is taken from the concerned payee of which we have tested few vouchers to validate the same from records maintained. Acknowledgement is usually in the form of signing of payee on payment vouchers.

► Separate correspondence files are maintained for each project with respective department and a copy is maintained with finance department for all financial matters.
EA Consulting uses its common assets and staff for various projects and also for other associated company. However, revenue is allocated as per defined percentage for involvement of each department. However, there is no basis/strategy to allocate the common cost to various projects. Cost of common staff working on multiple projects is reviewed at departmental basis and charged to functional departments on the basis of direct cost such as direct labour, survey and travelling costs.

**Advance to Employees for Project Expenses**

- EA Consulting provides advances to the employees for incurring expenses for various projects. An advance approval form is filled and approved by the respective department head. Once approved, the advance payment is processed by the Finance department. However, advance for field staff is approved on the basis of summary provided by the Project Manager and no standard format is used for the same.
- Advances to employees are paid in their bank accounts and recorded as advance in the accounting records of the EA Consulting by opening a separate general ledger code for each employee.
- On submission of expense summary approved by department head and repayment of balance, the advance is adjusted. A journal voucher to that effect is prepared by the Manager Finance after reviewing all the supporting documents submitted. Once reviewed by Manager Finance, the voucher is approved by CFO.

**Budgets Approval and Monitoring**

- EA Consulting has a practice of preparing budget for each project before sending proposals. Such project budgets are then monitored closely by the respective department head at the periodic transaction level and to ensure compliance with approved budgets.
- Financial budget for financial year 2012-2013 has been prepared for the first time. However, no variance analysis has yet been done by the management. Further, no budgets were prepared since incorporation of the Company in June 2009 till 30 June 2012. Furthermore, EA Consulting does not have defined guidelines for development and approval of financial budgets.
4.4.2 Key Findings

Following are some of the key findings noted during our pre-assessment review based on the procedures discussed in section 1 of our report and management comments on the same:

<table>
<thead>
<tr>
<th>Section Rating</th>
<th>Brief Description of Findings</th>
<th>Issue Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitor</td>
<td>We have noted following key findings:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Transfer pricing policy not in place</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>b) The Chief Executive Officer (CEO) is single signatory of cheques</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>c) There is no standard format for issuance of advances against expenses</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>d) Cash flow projection is not prepared periodically</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>e) There are no guidelines available for development of financial budgets</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>f) Project wise profit and loss not done</td>
<td>Medium</td>
</tr>
<tr>
<td>Ref</td>
<td>Finding</td>
<td>Impact</td>
</tr>
<tr>
<td>-----</td>
<td>----------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>a)</td>
<td>Transfer pricing</td>
<td>As a result of not charging costs to its related party (transfer price), the company may:</td>
</tr>
<tr>
<td></td>
<td>Issue Rating</td>
<td>► Not be able to generate separate profit figures for each division and thereby evaluate the performance of each division separately.</td>
</tr>
<tr>
<td></td>
<td>Current State</td>
<td>► Inadequate allocation of an organization's resources to more profitable areas.</td>
</tr>
</tbody>
</table>

**Transfer pricing**

**Issue Rating**

High

**Current State**

Transfer pricing refers to the setting, analysis, documentation, and adjustment of charges made between related parties for goods, services, or use of property (including intangible property). Transfer prices among components of an enterprise may be used to reflect allocation of resources among such components.

EA Consulting is providing services to its sister concern. The services offered include technical assistance in project designing.

**Gap**

We observed that the services provided by EA Consulting to related parties are rendered free of cost. Moreover, EA Consulting does not have any defined transfer pricing policy.

**Management responses**

Transfer pricing policy shall be developed by Q4 2012.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>b)</strong> List of authorized signatories</td>
<td>Misappropriation / fraudulent activities may be carried out.</td>
<td>We recommend that cheque signing signatories should not be less than two.</td>
</tr>
</tbody>
</table>

**Issue Rating**

**Current State**
As per current practice of EA Consulting, at least 2 signatories are required to sign a cheque, however, in case of Chief Executive Officer (CEO) he has the authority to sign the cheque singly.

**Gap**
We observed that the CEO has a single signing authority for the company's cheques.

**Management responses**
This will be taken up for consideration in Board meeting in Oct 2012.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>c)</td>
<td>Advance issuance form</td>
<td>Critical details may not be completely available for processing advance against expenses.</td>
<td>We recommend that just as in the case of advance against expense at head office, there should also be standard format for issuance of advance against expenses for field staff for specific projects.</td>
</tr>
</tbody>
</table>

**Issue Rating**

Medium

**Current State**

Currently, at head office, for requesting advance against expenses for travel, a standard format is used. However, for field staff, advances against expenses are requested by employees verbally or through email or letter.

**Gap**

There is no standard format for issuance of advance against expenses for field staff for specific projects.

**Management responses**

All the requests are properly authorized & documented. There are no verbal requests, however no formal advance form is being used by Site staff, it will be implemented.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>d)</td>
<td>Cash flow projections</td>
<td>Inadequate working capital management may result in unnecessary financial cost to the company.</td>
<td>We recommend that cash flow projections should be prepared at least on a monthly basis by the Finance Department so as to assist in the better working capital management.</td>
</tr>
</tbody>
</table>

**Issue Rating**

Medium

**Current State**

EA Consulting prepare cash flow projection on need basis or on case to case basis.

**Gap**

EA Consulting does not prepare a cash flow projection on a monthly basis which can then be used for funds placement and arranging finance at best available terms.

**Management responses –**

Presently Cash flow statement is prepared along with monthly financial reports; however projected cash flows are prepared on need basis. As per recommendation, we will make it a part of the monthly financial package.
### Annual Budgets

<table>
<thead>
<tr>
<th>Issue Rating</th>
<th>Current State</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium</td>
<td>EA Consulting has prepared broad level budgeted profit and loss account and balance sheet for financial year 2012 for first time after incorporation of company since June 2009. Furthermore, we were informed that man power budgeting is not done at the start of the year since the company is a project based organization. Whenever, new projects are received, required personnel as per project need are hired.</td>
<td>EA Consulting does not have defined guidelines for development and approval of financial and man hour budgets.</td>
</tr>
</tbody>
</table>

In absence of an effective budgeting process, financial management procedures may be rendered ineffective and for effective budgeting, the management need to developed comprehensive guidelines for preparation of budgets. Lack of man hour budget and planning may cause delay in recruitment process. HR activities may not be monitored by the higher management.

We recommend that the management should develop detailed guidelines for preparation and monitoring of financial budgets and incorporate the same in the finance and accounting manual. Also, EA Consulting should develop an annual HR budget containing both the head count as well as the financial impact of the HR. It is also recommended that the approved HR budget shall be translated in to a HR plan to identify the recruitment activities in a better way. This will also help the higher management in effectively monitoring the HR activities. Management should also consider forming an HR committee for better monitoring of HR plan/budget and recruitment activities.

**Management responses –**

Our new Project Management Module is under testing phase and it includes comprehensive project wise- man hour & HR budgets for projects.

For the first time we develop an annual budget for the financial year 2012 and this practice will be continued in the future with further improvements. Further we will develop HR Budget for future HR requirement.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>f)</td>
<td><strong>Project wise profit and loss</strong></td>
<td>In the absence of project wise profit and loss account, EA Consulting may not be able to exactly identify financial aspect of a project. It may lead to budget overruns which may remain undetected. Moreover there is a risk that EA Consulting may quote higher or lower professional fee based on inadequate knowledge of past projects.</td>
<td>We recommend that EA Consulting should prepare project wise profit and loss account and compare it with project budget. It helps management to track project related costs and revenues and allow management to take future decisions as per knowledge and experience of past projects.</td>
</tr>
</tbody>
</table>

**Issue Rating**

| Medium |

**Current State**

Currently EA Consulting prepare profit and loss account of projects on case to case basis to assess profitability. In addition EA Consulting has developed a customized project module which is in testing phase. This module has ability to prepare project wise profit and loss account as well as prepare comparison with budgets.

**Gap**

We have noted that currently EA Consulting has no practice of formally preparing project wise profit and loss account of all the projects on periodic basis to compare it with project budgets and analyze variances.

**Management responses**

When our Project Management module will be implemented, Project wise & Department wise system generated profit & loss will be generated. Presently our new GL system can generate Project wise profit & loss statement.
4.5 Management Structure Personnel Policies and Procedures

4.5.1 Overview of Existing Management structure, Personnel Policies and Procedures

► There is a separate HR Department at EA Consulting. It is being headed by the HR Manager / Head and she is assisted by:
  
  o HR Executive responsible for attendance data of employees.
  o Assistant Manager HR in preparing the HR monthly payroll.

► The qualification and experience of key management personnel responsible for HR have been included in section 4.1.1 to this report.

► The current staff strength of EA Consulting is 284 employees and other on field staff.

► Assistant Manager HR / Head HR have the responsibility of maintaining records for HR activities, including:
  
  o Preparation of employee personal files and leave balance record.
  o Maintaining payroll records

► The records related to HR are being maintained on HRMS including payroll preparation.

► A policies and procedures manual related to Human Resource activities have been developed by HR department and the same is approved by the CEO. Since its implementation date, the Manual is being followed to manage all affairs related to EA Consulting’s employees. However we observed that the following policies and procedures were not documented by the organization:
  
  o Payroll processing
  o Increment and bonuses
  o Training
  o Staff loans
  o Whistle blowing
  o Fraud

The organization has developed a grading policy that identifies the grades of employees and the range of salary for that respective grade.
The human resource process has been divided into the following major processes:

- Recruitment Process
- Employee Services
- Performance Evaluation
- Trainings
- Payroll Processing

The above listed processes have been illustrated briefly in the following flow charts identifying key controls which are in the process of implementation.

**HR Budgeting and Recruitment Process**

- Currently no head count budget is being prepared by EA Consulting. Moreover, we observed a lack of HR Planning at EA Consulting as no periodic HR plan is developed for the sake of planning recruitment throughout the year. However, planning for additional human resource in organizing and executing various projects is done at the time of budgeting of those contracts.

- Since there is no proper HR plan linked to annual operational/work plan, currently the end user department prepares a recruitment request and forwards the same to the HR and CEO for approval. Job description is prepared for the position by respective HOD and HR.

- All recruitments require approval of the CEO. The recruitment process for staff is being conducted by HR department who conduct the initial screening of the employees responsible for short listing. The 2nd interview is conducted by the respective department Heads who evaluate the technical capabilities and competences of the staff required for the job.

- Orientation program is conducted for all new joiners by HR and their respective HODs.
**Employees Service**

- The employee is required to fill an application form. At the time of joining, an employee signs a joining report on the standard format and a service contract which contains references to all terms and conditions applicable to the employment. The joining report is signed by employee, HOD and HR Head.

- The employment contract is a formal document, executed between the employee and EA Consulting.

- Employees sign the employment contract at the commencement of their employment. However, there is no exercise regarding employees required to sign the statement of ethics and compliance on an annual basis to reinforce communication of integrity and ethical behaviour across the entity. The same is only available on the company’s intranet.

- All employees are required to mark their attendance by biometric hand scanner which has been installed in the office of EA Consulting. The HR department is responsible to extract the monthly attendance details of each employee from the system and the same is used in the preparation of monthly payroll. For on field staff, manual attendance sheet is sent by the project supervisor by the start of the next month. During our testing and observation nothing has come to our attention that suggests design or operating inefficiency of the said controls.

- EA Consulting has also adopted the rules and regulations contained in the HR Manual for handling employee leaves. Any employee requiring leave fills a leave application form and gets it approved from the respective Head of Department. After approval, the leaves record is updated in the personal file of each employee. Such record is referred to each time an employee applies for leaves. However, the leave entitlements are not automatically linked with the system.

- EA Consulting has a practice of maintaining separate personal files for all employees. Personal files are in the custody of HR department. During our testing and observation on a sample basis, we observed that the required documents were present in the personal

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**Employee Services**

**Attendance**

- All employees are required to mark their attendance by biometric hand scanner which has been installed in the office of EA Consulting. The HR department is responsible to extract the monthly attendance details of each employee from the system and the same is used in the preparation of monthly payroll. For on field staff, manual attendance sheet is sent by the project supervisor.

**Leaves**

- The Leave policy contained in the HR Manual is being followed at EA Consulting. The employee fills a leave application form and sends the same to the relevant authority for approval. Once approved the HR department updates the leave record and the same is manually checked at month end when running the employee’s payroll.

**Personal Files**

- Personal files are maintained for each employee by the HR Department containing the following:
  - Employment Contract and joining report
  - Employee personal data (degree, certificate etc)
  - Leave record
  - Other notification (transfer, promotion etc.)

**Disciplinary**

- Personal files are in the custody of HR Department.

**Resignation and Termination**

- If any employee wishes to resign, at least 1 month prior notice is required to be given. If the company wishes to terminate any employee, 1 month notice is required to be given by the management. A clearance form is filled by the Manager Finance to calculate the payable/recoverable to/from the employee. An exit interview is conducted by the HR department.

- All employees are required to observe the discipline, rules and regulations as available in code of conduct or intranet. HR Department and respective Head of Department are responsible to ensure compliance with the code of conduct and investigating violations. Warning letters are issued to employees found in violation of the established policies and procedures. The employee may be dismissed for continued violation with the approval of the CEO.
files of employees. Employment application form contains a checklist that enlists the documents that an employee is required to submit at the time of applying for the position. We found all those documents to be present in the file. Additionally, we found other documents present in the personal files of employees such as leave applications etc. The organization does not have a complete checklist, or any list of documents mentioned in the HR manual that should be maintained in the employee’s file other than those required at the time of joining such as appraisal forms, leave applications, warnings issued etc.

Performance Evaluation

► The appraisal of employees is conducted on yearly basis. The process is not documented within the HR Manual.

► The appraisal for each employee carried out by his Reporting Manager / Head of department and reviewed and approved by the HR Head and CEO.

► The appraisal for Heads of Departments is conducted by the HR Head and CEO.

► In both cases the appraisal forms shall be signed by the appraised.

► Discussions regarding goals for the next period and future development of the appraised are also documented on the form. The score of each employee determines the promotions in designation and/or salary.

► Bonus is awarded to employees irrespective of the performance. Bonus is awarded to employees on Eid festivals. 50% of the employees earning (averaged out per month) is awarded to employees on Eid-ul-Fitr and 50% on Eid-ul-Azha.

Trainings

► EA Consulting has currently no training policy in place. A training plan is made for 6 months on the basis of input from HOD and other staff. The input from both the parties assesses the areas on which training is required.

► Trainings have been conducted in the current year as per The Learning and Development Calendar. Attendance records reviewed by us show that all employees attended these training sessions.
Resignation and Termination

- If any employee wishes to resign, at least 1 month prior notice is required to be given. Similarly, if the company wishes to terminate any employee, 1 month notice is required to be given by the management. In both the cases, if an employee resigns or the company terminates employee with immediate effect, 1 month salary is withheld by the company or is paid to the employee respectively. Clearance is given by the CFO to calculate the payable/recoverable to/from the employee. An exit interview is conducted by the HR department. However, EA Consulting does not maintain an exit interview or feedback form.

Payroll Processing

- During the last week of the month, HR executive generates attendance data from the system and verifies it for accuracy and completeness. For on field staff, attendance sheet is received by HR department by the 1st week of the following month.

- HR Executive intimates HR Assistant Manager (AM) regarding any leaves of the employees that needs to be taken into account for processing payroll.

- HR AM runs the payroll process and generates the payroll sheet from the system. However, we observed that no authorization is required in the system by a supervising authority prior to generation of the payroll sheet from the system.

- The payroll sheet is reviewed by the HR Head. However, we observed that there is no evidence of the same.

- HR AM prepares the bank letter, and forwards the same along with payroll sheet to Finance Department.

- The authorized signatory signs the letter and the same is sent to the bank for transfer of funds to the employees accounts. Finance department passes entry in system for booking of salary.

- Salary is deposited in the employee account by the end of the month for Head Office staff and by the 1st week of the following month for on-field staff.
Travel Policy

- EA Consulting has recently formalized its travel policy in the Travel policy Manual in November 2011. Responsibility for implementation and compliance of the travel policy has been assigned to the Admin Department.

- All major travel related expenses are approved by the CEO / Head of operations. In case of small expenses, respective Head of departments have the authority to approve the payment. However there are no clearly defined thresholds for authorizations of expenses by the Head of Department.

- The travel policy drafted encompasses domestic as well as international travel for all levels of employees, including specification of class of travel, accommodation per diem and other allowable expenses. The rates specified have been reproduced below in this section.

- The travel arrangements, accommodation, pick and drop from and to the airport is arranged by the Admin department. Employees are entitled as per diem at prescribed rates on the basis of their grades, which includes their meal expense. Other expenses for the purpose of the project are reimbursable at actual.

- Vehicle running logs are maintained for pool vehicles of EA Consulting. These are reviewed by the admin department on a daily basis.

- The boarding, lodging, food expenses and per diem entitlements for domestic and international travel are reproduced hereunder:

<table>
<thead>
<tr>
<th>EMPLOYEE GRADE</th>
<th>TRAVEL CLASS</th>
<th><em>accommodation</em></th>
<th>Per Diem (Rs)</th>
<th>TRAVEL CLASS</th>
<th><em>accommodation</em></th>
<th>Per Diem ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>E*</td>
<td>Economy</td>
<td>Company Arranged</td>
<td>D1=1800 D2,3= 2000</td>
<td>Economy</td>
<td>Company Arranged Apartments or 4 star Hotel in case of non- availability</td>
<td>D1=$65 D2,3=$55</td>
</tr>
<tr>
<td>D*</td>
<td>Economy</td>
<td>Company Arranged</td>
<td>D1=1800 D2,3=1500</td>
<td>Economy</td>
<td>Company Arranged Apartments or 4 star Hotel in case of non- availability</td>
<td>D1=$60 D2,3=$50</td>
</tr>
<tr>
<td>C*</td>
<td>Economy</td>
<td>Company Arranged</td>
<td>D1=1600 D2,3=1200</td>
<td>Economy</td>
<td>Company Arranged Apartments or 4 star Hotel in case of non- availability</td>
<td>D1=$50 D2,3=$45</td>
</tr>
<tr>
<td>A – B*</td>
<td>Economy</td>
<td>Company Arranged</td>
<td>D1=1100 D2,3=800</td>
<td>Economy</td>
<td>Company Arranged Apartments or 4 star Hotel in case of non- availability</td>
<td>D1=$45 D2,3=$40</td>
</tr>
</tbody>
</table>

*Grades
<table>
<thead>
<tr>
<th>EMPLOYEE GRADE</th>
<th>GENERAL TITLE(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Junior Draftsmen, Peons, Sweepers, Watchmen</td>
</tr>
<tr>
<td>A2</td>
<td>Junior Draftsmen, Peons, Sweepers, Watchmen</td>
</tr>
<tr>
<td>A3</td>
<td>Draftsmen</td>
</tr>
<tr>
<td>B4</td>
<td>Junior Engineer, Junior Architects, Junior Quantity Surveyors, Draftsmen, Officers/Executives</td>
</tr>
<tr>
<td>B5</td>
<td>Junior Engineer, Junior Architects, Junior Quantity Surveyors, Draftsmen, Officers/Executives</td>
</tr>
<tr>
<td>B6</td>
<td>Design Engineer, Architect, Quantity Surveyors, Draftsmen, Document Controller/Assistant</td>
</tr>
<tr>
<td>C7</td>
<td>Design Engineer, Architect, Quantity Surveyors, Senior Draftsmen, Executive Assistant</td>
</tr>
<tr>
<td>C8</td>
<td>Design Engineer, Architect, Quantity Surveyors, Senior Draftsmen, CAD Managers, Assistant /Deputy Managers, Executive Assistants</td>
</tr>
<tr>
<td>C9</td>
<td>Senior Engineer, Senior Architect, Senior Quantity Surveyor, CAD Manager, Assistant/ Deputy Managers, Executive Assistants, Managers</td>
</tr>
<tr>
<td>D10</td>
<td>Senior Engineer, Senior Architects, Managers</td>
</tr>
<tr>
<td>D11</td>
<td>Principal Engineers, Principal Architects, Managers</td>
</tr>
<tr>
<td>D12</td>
<td>Principal Engineers, Principal Architects</td>
</tr>
<tr>
<td>E13</td>
<td>Principal Engineers / HOD</td>
</tr>
<tr>
<td>E14</td>
<td>Director/HOD, Chief Financial Officer</td>
</tr>
<tr>
<td>E15</td>
<td>Director/HOD, Head of Operations</td>
</tr>
</tbody>
</table>

- In the event of non-availability of particular class of travel, the approving authority may authorize the employee to travel by the next higher class. Reasonable expenses incurred for the purpose of the project shall be settled / reimbursed on an actual basis upon submission of original receipts.

- Company allows advance cash needed for travelling up to a maximum of 90% of the company estimated cost. The remaining amount is claimed through reimbursement.

Please refer to section 4.5.2 of our report for details of key findings with respect to Existing Management structure, Personnel Policies and Procedures.
### 4.5.2 Key Findings

Following are some of the key findings noted during our pre-assessment review based on the procedures discussed in section 1 of our report and management comments on the same:

<table>
<thead>
<tr>
<th>Section Rating</th>
<th>Brief Description of Findings</th>
<th>Issue Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitor</td>
<td>We have noted following key findings:</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>a) No authorization in payroll process.</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>b) No exit interviews and feedback form.</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>c) No authorization in system for additions / deletions from payroll.</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>d) There is no formalized succession planning for employees.</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>e) There is no formalized Fraud policy.</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>f) There is no Whistle blowing policy.</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>g) Employee security policy not in place</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>h) Code of conduct not signed by employees</td>
<td>Low</td>
</tr>
<tr>
<td>Ref</td>
<td>Finding</td>
<td>Impact</td>
</tr>
<tr>
<td>-----</td>
<td>---------</td>
<td>--------</td>
</tr>
<tr>
<td>a)Authorization in Payroll</td>
<td><img src="image_url" alt="Image" /></td>
<td><img src="image_url" alt="Image" /></td>
</tr>
</tbody>
</table>

**Issue Rating**

**Current State**

As per current practice, HR Assistant Manager (AM) generates the payroll sheet based on attendance data. The payroll sheet is reviewed by HR Head. The payroll sheet is sent to Finance along with a Bank letter. The letter is signed by the CEO or Director Operations and CFO and the same is submitted to the bank for transfer of salary in employees account.

**Gap**

We observed that at the time of processing of payroll by HR AM, no authorization of the same is done. Although, we were informed that HR Head reviews the payroll sheet before forwarding the same to Finance, no evidence of the same is available.

**Management responses**

Accepted & implemented from the next salary cycle.
b) **Exit Interview**

**Issue Rating**  
Medium

**Current State**  
As part of the current process, whenever employee is about to leave the organization, exit interviews are conducted by HR Assistant Manager and HR Head (depending on the designation).

**Gap**  
However, the company currently does not maintain the exit interview and feedback form. We were informed that the same is in the process of being developed.

**Management responses**  
Accepted. HR department does the verbal Exit interview & it will be documented also in future.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>c)</td>
<td>Additions / deletions from payroll</td>
<td>Fictitious / unauthorized additions / deletions may be made to the payroll.</td>
<td>We recommend that organization’s HR system should be updated so that no additions / deletions from the payroll can be made without proper authorization by a supervising authority.</td>
</tr>
</tbody>
</table>

**Current State**

As per our understanding of the additions / deletions to payroll process, additions / deletions from payroll are done by HR Assistant Manager.

**Gap**

However, we observed that for additions/ deletions from the payroll, there is no authorization required by a supervisor in the system.

**Management responses**

Accepted & it will be implemented.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>d)</td>
<td>Succession Planning</td>
<td>Lack of succession planning for employees may lead to organization</td>
<td>We recommend that EA Consulting shall develop an employee succession plan at all</td>
</tr>
<tr>
<td></td>
<td></td>
<td>being not prepared with a plan to support service continuity when the</td>
<td>levels in order to ensure that operations are not affected upon leaving of key</td>
</tr>
<tr>
<td></td>
<td></td>
<td>executive director, senior managers or key people leave.</td>
<td>personnel.</td>
</tr>
</tbody>
</table>

**Current State**

Formal succession planning is a systematic approach for preparing employees at lower levels to handle the responsibilities of next higher levels in the coming years. The process involves a lot of serious planning and careful HR forecasts in identifying the capable employees who have the potential to be promoted to next level in the hierarchy.

**Gap**

We were informed that the organization does not currently have a succession plan. However, the same is in the process of being developed.

**Management responses**

It is already in place through respective directors/HODs discussion.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>e)</td>
<td>Fraud Policy</td>
<td>Lack of formalized fraud policy may lead to the management being unaware of the procedures that should be taken in case a fraud is detected.</td>
<td>EA Consulting should develop fraud policy that clearly highlights management responsibility to prevent fraud, consequences in case fraud is detected and procedures for reporting and investigating fraud. The policy should be distributed to all the employees of the company so that it is understood and acted on by the all personnel within the company.</td>
</tr>
</tbody>
</table>

**Current State**

A Fraud Policy should apply to the directors and employees of an organization and, equally important, should demonstrate the organization’s commitment to prevent fraud and corruption.

**Gap**

We were informed that the organization does not have documented fraud policy.

**Management responses**

Accepted. It will be developed in Q4 2012.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>f)</td>
<td>Whistle blowing policy</td>
<td>Absence of whistle blowing policy can lead organization to risk of fraud, malicious practices and loss of business reputation.</td>
<td>EA Consulting shall develop a whistle blowing policy that should contain the following:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>► Provides examples distinguishing whistle blowing from grievances;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>► Gives employees the option to raise a whistle blowing concern outside of line management;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>► Provides access to an independent helpline offering confidential advice;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>► Offers employees a right to confidentiality when raising their concern;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>► Explains when and how a concern may safely be raised outside the organisation (e.g. with a regulator).</td>
</tr>
</tbody>
</table>

**Issue Rating**  
Medium

**Current State**  
Whistle blowing policy encourages employees to raise serious concerns within the organization rather than overlooking a problem without fear of reprisals. Whistle blowing is where an employee has a concern about danger or illegality that has a public interest aspect to it: usually because it threatens others (e.g. customers, organization itself or the public). A grievance or private complaint is, by contrast, a dispute about the employee’s own employment position and has no additional public interest dimension.

**Gap**  
We observed that although the organization has a grievance handling policy, but does not have a documented whistle blowing policy.  
A formally documented whistle blowing policy can help alert employees and management to risks such as:
- A danger in the workplace;
- Fraud in, on or by the organisation;
- Miss-selling or price fixing;
- Offering, taking or soliciting bribes;
- Misreporting performance data.

**Management responses**  
Accepted & it will be developed.
g) **Employee security policy**

**Issue Rating**  
Medium

**Current State**  
Currently, the organization has in place a travel policy that mainly covers travel rate allowance, arrangement of accommodation and logistics, etc. Travel policy does not cover element of employee's security.

An employee travel security policy takes into account the risk to the safety and security of all employees while on international and domestic travel, and precautions to mitigate those risks. The company should:

► Conduct a risk assessment on destination regions
► Monitors the well-being of employees on travel status
► Review of travel plans to identify any security risks

**Gap**  
We observed that the company does not have a comprehensive employee security policy in relation to travel.

**Impact**  
Employees may be exposed to security risks in case of travelling to unsafe areas.

**Recommendation**  
We recommend that the company should in place as appropriate security plan for the employees who are travelling whether locally or abroad, taking into account the security situation in the region where the services are being rendered.

Also, the company should assume all risks and liabilities related to the employee’s security while in travel, and the full implementation of security plan.

**Management responses**  
Accepted
### Code of conduct for employees

**Issue Rating**

<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>h)</td>
<td>Code of conduct for employees</td>
<td>Employees may not be well aware of the code and thus may indulge in improper or unethical practices.</td>
<td>The management should ensure that the employee has read and understood the code. The employee should be required to sign the code as acknowledgement that the same has been read by him / her. Additionally, the management should conduct awareness sessions regarding on code of conduct of employees. Furthermore, management should ensure that code is refreshed to the employees at least annually.</td>
</tr>
</tbody>
</table>

**Current State**

A code of conduct for employees sets out rules outlining the responsibilities or proper practices for an individual, the procedures to be used in specific ethical situations, such as conflicts of interest, and delineate the procedures to determine whether a violation of the code of ethics occurred and, if so, what remedies should be imposed.

Employees at EA Consulting are briefed about the code at the orientation session. Furthermore, the code is available on the company's intranet.

**Gap**

We observed that although the code is available at the intranet, there is no evidence that the employee has read and understood the code.

**Management responses**

Accepted & it will be implemented.
4.6 Procurement Policies and Procedures

4.6.1 Overview of Existing Procurement Policies and Procedures

Procurement Policies and Procedures

- There is no separate procurement department established in EA Consulting. All the procurement functions are being managed by Finance Department and Head of respective department.

- EA Consulting have documented policies and procedures for procurement. However the current policy and procedure were approved in November 2011 and have not yet been implemented completely. The manual provides separate procedures for procurement of consumables items and computer related assets. These have been illustrated in the given process flow charts. However, there were no policies and procedures for the purchase of survey equipments.

- Documented procurement policy of EA consulting places the responsibility on the finance department to ensure compliance with the procurement policies specified therein.

- All major procurements require the approval of CEO or Head of Operations, whereas small procurements maybe approved by the Head of department only. However, we observed that there is no formally defined expense approving authority matrix. Additionally, we observed that no procurement committee has been formulated to oversee the procurement of high value assets.

- As per existing policy the purchase requisition from the relevant department shall be the triggering document for the procurement process. The format for all documents required to be prepared in the procurement process are specified in the Finance and Accounting Manual.
As per our discussion with management, for purchase of technical survey equipment, a request is generated by the department to the finance department for purchase of the equipment. The Survey department takes quotations from the vendors and after selecting the vendors on the basis of cost and quality of equipment, sends the details of the equipment to be purchased and the selected vendor to the finance department, which then carries out the purchase process. However, the process of procurement of survey equipment is not defined in the procurement or finance and accounting manual.

All goods are to be received at EA Consulting premises. The designated person from the Admin department ensures that the goods received are in accordance with vendor’s bill and after inspection signs the bill. We noted that as per the procurement manual a predesigned Good Received Note (GRN) is to be filled at the time of receipt of goods; however a predesigned GRN is not being currently used by the management and when the goods are received from the vendor, the purchasing officer matches the quantity and types of goods with the purchase order or bill and signs on the bill as evidence of receipt of goods.

During review of the policies and procedures related to the procurement process, we observed that there are no defined timelines in the policy document within which to complete the procurement cycle. This may result in significant delays in carrying out procurement transactions. Moreover, it was observed no policies have been determined for the following:

- Pre-approval of vendors;
- Declaration of any conflict of interest by bidder;
- Settlement of disputes;
- Disqualification of vendors;

We have assessed that the management possesses the required technical experience required for procurement. Further we have been informed, and also reviewed in one of our sample transaction for a procurement made in 2011 for survey equipment, that technical input is being obtained for specialized items.

Based on our discussion with the management regarding the procurement process and the responsibilities of various officials therein, we observed that although quotations are obtained for procurement by the respective departments, there are no defined policies and procedure for this process.

We noted that all procurement related records are kept in hard form. The original invoice / contract is maintained by the Finance department while a copy of the invoice / contract is maintained by the admin department for backup.

In order to ensure that all payments are made in accordance with the procurement invoice / contract, a weekly aging report of amounts due to vendors is presented to the CFO. Currently, no contract based procurements have been made by the company.

Please refer to section 4.6.2 of our report for details of key findings with respect to Procurement policies and procedures of EA consulting.
### 4.6.2 Key Findings

Following are some of the key findings noted during our pre assessment review based on the procedures discussed in section 1 of our report and management comments on the same:

<table>
<thead>
<tr>
<th>Section Rating</th>
<th>Brief Description of Findings</th>
<th>Issue Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitor</td>
<td>We have noted following key findings:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Gaps in the procurement policies</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>b) No Defined Policies and procedures for purchase of Survey Equipment.</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>c) Good received notes not used</td>
<td>Low</td>
</tr>
<tr>
<td>Ref</td>
<td>Finding</td>
<td>Impact</td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>a)</td>
<td>Gaps in the procurement policies</td>
<td>Absence of key items as listed herein may render procurement policy in</td>
</tr>
<tr>
<td></td>
<td>Issue Rating: High</td>
<td>effective.</td>
</tr>
<tr>
<td></td>
<td>Current State</td>
<td></td>
</tr>
<tr>
<td></td>
<td>As mentioned above procurement policy has</td>
<td></td>
</tr>
<tr>
<td></td>
<td>been documented in the Finance Manual which</td>
<td></td>
</tr>
<tr>
<td></td>
<td>is in the process of implementation.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gap</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The following items are currently not</td>
<td></td>
</tr>
<tr>
<td></td>
<td>documented in the procurement policy:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Pre-approval of vendors / contractors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>including screening procedures;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Declaration of any conflict of interest</td>
<td></td>
</tr>
<tr>
<td></td>
<td>by bidder;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Settlement of disputes;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Disqualification of vendors / contractors;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management responses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>These are specialized equipment(s) &amp; Head</td>
<td></td>
</tr>
<tr>
<td></td>
<td>of Survey department is authorized to</td>
<td></td>
</tr>
<tr>
<td></td>
<td>procure.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Whenever a need arises quotations are</td>
<td></td>
</tr>
<tr>
<td></td>
<td>evaluated and approval of CEO is taken.</td>
<td></td>
</tr>
<tr>
<td>Ref</td>
<td>Finding</td>
<td>Impact</td>
</tr>
<tr>
<td>-----</td>
<td>---------</td>
<td>--------</td>
</tr>
<tr>
<td>b)</td>
<td>No Defined Policies and procedures for purchase of Survey Equipment</td>
<td>Lack of defined policies and procedures may cause ambiguity in roles and responsibility and may result in unnecessary financial loss to the company.</td>
</tr>
</tbody>
</table>

**Issue Rating**  
**Medium**

**Current State**
As per our discussion with management, for purchase of survey equipment, a request is generated by the user department to the finance department for purchase of the equipment. The Survey department takes quotations from the vendors and, after selecting the vendors on the basis of cost and quality of equipment, sends the details of the equipment to be purchased and the selected vendor to the finance department, which then carry out the purchase process.

**Gap**
However, the process of procurement of survey equipment is not defined in the procurement or finance policy and procedure manual.

**Management responses**
Accepted & policy will be drafted & implemented.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>c)</td>
<td>Good received notes not used</td>
<td>Use of predesigned Goods received notes ensures that the goods received are in accordance with the purchase order</td>
<td>We recommend that the organization should devise a standard Good Received Note (GRN) for all its purchases as required by the procurement manual.</td>
</tr>
</tbody>
</table>

**Current State**

As per the current practice of the company, when the goods are received from the vendor, the purchasing officer matches the quantity and types of goods with the purchase order or bill and signs on the bill as evidence of receipt of goods.

**Gap**

The management is not using a standard goods received notes for evidencing the receipt of goods in accordance with the purchase order as specified in the procurement manual.

**Management responses**

System generated Good Receiving Notes will be used when all the modules of our new ERP system will be implemented.
4.7 Property Management Standards and System

4.7.1 Overview of Existing Property Management Standards and System

EA Consulting Property / Fixed Assets comprises of the following as of 30 June 2011:

- Office equipment
- Survey Machinery
- Computer
- Vehicle
- Furniture and fixture
- Software license

Net book value of the above assets as of 30 June 2011 is Rs. 68.8 million. There are no stores and spares or any other form of consumable inventory held by EA Consulting.

Fixed Assets Register

EA consulting does not maintain fixed assets register in accordance with the format specified by Technical Release (TR) 6 of ICAP in this regard.

Financial records and the fixed assets register for such items are maintained by the Manager Finance. The fixed asset register maintained by the management comprises of description/specification of assets, purchase date and units procured, vendor, location of use and cost of asset.

There are no formally written policies and procedures for fixed assets management. However following are responsible for asset management:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Management Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computers</td>
<td>IT Department</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>Admin Department</td>
</tr>
<tr>
<td>Vehicles</td>
<td>Admin Department</td>
</tr>
<tr>
<td>Software</td>
<td>IT department</td>
</tr>
<tr>
<td>Survey machinery</td>
<td>Survey Department</td>
</tr>
</tbody>
</table>
► Depreciation on fixed assets are recorded on annual basis as per the approved depreciation policy.

► EA consulting has policy in place for the insurance of fixed assets. All of the fixed assets have been insured in accordance with policy.

► Except for IT assets, fixed assets are not tagged. Further, there is no practice in place to carry out physical count of fixed assets such as furniture and fixtures, computer and office equipment.

► As per our discussion with the management, at the time of disposal fixed assets (vehicles and computers), they are sold at market price. However, employees are given 5% discount. All disposals are carried out with the approval of the Head of Operations. However there are no formally written policies and procedures for disposal of fixed assets.

► There have been no instances of asset disposal subsequent to the implementation of the Manual, and as a result no sample was available for our review to assess the design and operating effectiveness of the controls in place.

Please refer to section 4.7.2 of our report for details of key findings with respect to Property/ Fixed Assets and Inventory Management of EA consulting.
### 4.7.2 Key Findings

Following are some of the key findings noted during our pre assessment review based on the procedures discussed in section 1 of our report and management comments on the same:

<table>
<thead>
<tr>
<th>Section Rating</th>
<th>Brief Description of Findings</th>
<th>Issue Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>We have noted following key findings:</td>
<td></td>
</tr>
<tr>
<td>Accept</td>
<td>a) Fixed assets registered not maintained in accordance with ICAP TR 6</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>b) No physical count of fixed assets</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>c) Fixed assets are not tagged</td>
<td>Low</td>
</tr>
</tbody>
</table>


Ref | Finding | Impact | Recommendation
--- | --- | --- | ---
a) Fixed assets registered not maintained in accordance with ICAP TR 6. | FAR helps to keep track of details of each fixed asset thereby preventing misappropriations. | We recommend that updation should be made in the Fixed Assets Register to align it with the requirements of TR6 issued by ICAP.

**Issue Rating**

**Medium**

**Current State**
We observed that the fixed asset register maintained by the management comprises of description/specification of assets, purchase date and units procured, vendor, location of use and cost of asset.

**Gap**
The fixed assets register lacks key information such as assets codes, usage history and other pertinent information as per TR6 of recommended guidelines issued by Institute of Chartered Accountants of Pakistan (ICAP) for maintaining fixed assets register.

**Management responses**
We are in the process of developing fixed assets register & it will be implemented.
<table>
<thead>
<tr>
<th>Ref</th>
<th>Finding</th>
<th>Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>b)</td>
<td>Physical count of fixed assets</td>
<td>Lack of monitoring controls over fixed assets may enhance the risk of</td>
<td>It is recommended that EA Consulting shall conduct an annual physical fixed asset count and based on the count, the value of closing asset shall be recorded in the financial statements.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>misappropriation/ loss of assets.</td>
<td>The Internal Audit Department once established, should also carry out independent physical verification of the fixed assets and reconcile the same with Fixed Asset Register.</td>
</tr>
</tbody>
</table>

**Current State**

EA Consulting have the following fixed assets categories:

- Office equipment
- Survey Machinery
- Computer
- Vehicle
- Furniture and fixture

**Gap**

However the entity does not have a practice of carrying out annual physical count of the above mentioned fixed assets.

**Management responses**

As per recommendation annual physical count will be done at year end (Fiscal year).
### Fixed assets are not tagged

**Issue Rating**  
Low

**Current State**  
We observed that EA consulting does not have a policy to tag all its fixed assets with a unique asset number at the time of purchase. Currently, only IT assets are tagged with a unique asset number.

**Gap**  
All assets should be tagged with a unique asset number for identification and record purpose.

**Impact**  
Without appropriate tagging, it would be difficult for the organization to keep track of all its assets, thereby leading to misappropriation and theft of assets.

**Recommendation**  
We recommend that EA Consulting should establish a practice of tagging all of its fixed assets. Each asset should have a unique asset number that should be system generated and tagged to the respective fixed asset. The fixed asset number should be automatically assigned when an asset is booked into the system. The same should be reflected in the fixed asset register.

**Management responses**  
We will consider it & it will be done.
5. Disclaimer
5. Disclaimer

► We have carried out the pre award assessment and developed this report as per the scope of work mentioned under task order # ASP-CPO/A&C/ Pre Award-EA/11/2012 dated 07 August 2012 under Cooperative agreement # 391-A-00-11-01201-00. This report is solely for assisting the USAID in their decision to extend funding to EA CONSULTING and is for their own internal purposes.

► Our work in connection with this assignment is of a different nature to that of an audit. Because 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 the EA CONSULTING, 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 undertakes responsibility arising in any way whatsoever, to any person other than the management of USAID 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 have inherent limitations.

► The findings in our report are based on our field work from 09 August and up to 31 August 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 USAID 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 USAID or EA CONSULTING 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 USAID and EA CONSULTING 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.

USAID 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 USAID and EA CONSULTING 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 3 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.
Annexure 1: Scope and Methodology of this assessment

<table>
<thead>
<tr>
<th>Objective</th>
<th>Scope of Our Review</th>
<th>Project Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Assessment of Financial management/accounting system</td>
<td>Assessment of Organizational Background and Governance Structure including role of board / audit committees</td>
<td>Our report will include:</td>
</tr>
<tr>
<td>2. Assessment of Financial management capacity</td>
<td>Assessment of overall Control Environment and Entity Level Controls, such as management committees, monitoring by the head of departments, IT systems etc.</td>
<td>- Executive summary with key assessment findings,</td>
</tr>
<tr>
<td>3. Adequacy of internal controls</td>
<td>Assessment of Financial Statements and Financial Position.</td>
<td>- Pre and post disbursement conditions</td>
</tr>
<tr>
<td>5. Assessment of technical capabilities and quality assurance capabilities.</td>
<td>Assessment of Procurement System and policies &amp; procedures for identification of vendors, raising purchase requisition and orders, settlement of vendor invoices</td>
<td>- Detailed findings, recommendations and management comments</td>
</tr>
<tr>
<td>6. Internal controls structure to comply with applicable laws / donor requirements.</td>
<td>Assessment of adequacy of technical capabilities and quality assurance capabilities.</td>
<td>Review of prior period audit recommendations</td>
</tr>
</tbody>
</table>
Overview of Our Approach

Pre-execution planning

- Co-ordinate with management and concerned stakeholders
- Conduct entrance conference with the EA Consulting (Pvt.) Ltd, ASP-RSPN, USAID representatives
- Communicate detailed scope of work and information required
- Decide engagement protocols to streamline process and facilitate timely escalation
- Plan engagement resources
- Agree reporting formats and time lines / project plan
- Agree work program

Phase 1
Understand organizational & accountability control environment.

- Review & understand organizational structure accountability environment, review governance structure, practices and controls at an entity level from the perspective of efficiency and effectiveness by considering the following:
  A. Organizational Background - Determine the entity's purpose, legal and tax structure.
  B. Control Environment - Evaluate the recipient's control environment and internal control procedures, focusing on substance rather than form.

Phase 2
Understand the current state of internal controls

- Understand the policies and procedures of the entities under review have in place currently for the following processes such as:
  a. Financial management & accounting
  b. Procurement
  c. Monitoring and evaluation
  d. Personnel
  e. Payroll system
  f. Compliance with applicable laws & regulations
  g. Prior audit recommendation
Phase 3
Assess & evaluate current state and benchmark With better practices

- Evaluate and identify whether there are any risk and control gaps compliance gaps or areas for improvement and whether the entity have capacity/capability to manage USAID funding and activities in the following processes:
  A. Organizational Background And Governance Structure
  B. Control Environment
  C. Financial Management & Accounting
  D. Procurement
  E. Monitoring and Evaluation
  F. Personnel
  G. Payroll System
  H. Compliance With Applicable Laws & Regulations
  I. Prior Audit Recommendation And Reporting Procedures

Phase 4
Recommend remedial / corrective actions

- Recommend efficient and effective actions to mitigate to the potential and unaddressed risks towards the achievement of the Program after considering:
  A. Organizational background and governance structure
  B. Control Environment
  C. Financial Management & Accounting
  D. Procurement
  E. Monitoring and Evaluation
  F. Personnel
  G. Payroll System
  H. Compliance With Applicable Laws & Regulations
  I. Prior Audit Recommendation And Reporting Procedures

Phase 5
Report to USAID through ASP-RSPN

- Report on the adequacy of:
  - Accountability environment and other business processes.
  - The accounting, budgeting and financial management capability, systems and personnel.
  - The quality of accounting and financial management personnel.
  - The systems in place to allocate and expend funds.
  - Performance and risk monitoring.

- Identified risk and control gaps along with agreed remedial / corrective action plans and management's comments.

- Conduct quality assurance review of the report.
Annexure 2: Basis of Assessment

1. **Area Assessment**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve</td>
<td>An area where the quantum of findings represents a critical exposure to the company in one or more of the following risk criteria; financial, information transfer, personnel strength and quality and regulatory</td>
</tr>
<tr>
<td>Monitor</td>
<td>An area where the quantum of findings represents a moderate exposure to the company in one or more of the following risk criteria; financial, information transfer, personnel strength and quality and regulatory</td>
</tr>
<tr>
<td>Accept</td>
<td>An area where the quantum of findings represents a lower exposure to the company in one or more of the following risk criteria; financial, reputation, regulatory, product/service</td>
</tr>
</tbody>
</table>

2. **Assessment of Key Findings**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>A finding of significance requiring the immediate attention of the management</td>
</tr>
<tr>
<td>Medium</td>
<td>A finding of importance requiring the attention of the line management and an agreed action plan for prompt resolution</td>
</tr>
<tr>
<td>Low</td>
<td>A finding with less impact and likelihood and requiring an action plan for resolution</td>
</tr>
</tbody>
</table>
Annexure 3: People who we had discussions with

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Tanveer Ahmed Khan</td>
<td>Head of Operations / Director Projects</td>
<td>-</td>
</tr>
<tr>
<td>Mr. Jaleel Ahmed</td>
<td>Director</td>
<td>Highways</td>
</tr>
<tr>
<td>Mr. Monis Suri</td>
<td>Director</td>
<td>Structures</td>
</tr>
<tr>
<td>Ms. Sohail Abbas Abidi</td>
<td>Director</td>
<td>Operations and Business Development</td>
</tr>
<tr>
<td>Ms. Shazia Mastoor</td>
<td>HR Head</td>
<td>Human Resource</td>
</tr>
<tr>
<td>Mr. Faisal Habib</td>
<td>Chief Financial Officer (CFO)</td>
<td>Finance &amp; Accounts</td>
</tr>
<tr>
<td>Salman Ahmed</td>
<td>Head of IT</td>
<td>Information Technology</td>
</tr>
</tbody>
</table>
Annexure 4: Financial Ratios

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquidity Ratios:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1.49</td>
<td>1.33</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>1.20</td>
<td>1.02</td>
</tr>
<tr>
<td>Cash Ratio</td>
<td>0.32</td>
<td>0.39</td>
</tr>
<tr>
<td><strong>Debt Ratios:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Ratio</td>
<td>4.60%</td>
<td>4.38%</td>
</tr>
<tr>
<td>Debt Equity Ratio</td>
<td>27.56%</td>
<td>20.00%</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross profit Ratio</td>
<td>14.85%</td>
<td>9.55%</td>
</tr>
<tr>
<td>Net Margin</td>
<td>10.52%</td>
<td>4.17%</td>
</tr>
<tr>
<td><strong>Cash Flow Indicator Ratios:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operation Cash flow to sales</td>
<td>0.01</td>
<td>0.08</td>
</tr>
<tr>
<td>Free Cash flow to operating cash flow</td>
<td>(3.98)</td>
<td>0.65</td>
</tr>
</tbody>
</table>
# Annexure 5: Financial Figures

<table>
<thead>
<tr>
<th>Description</th>
<th>30-Jun-11 PKR</th>
<th>30-Jun-11 USD</th>
<th>30-Jun-10 PKR</th>
<th>30-Jun-10 USD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key Balance Sheet Items</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner's equity (Owner’s equity (includes Due to Sponsors))</td>
<td>82</td>
<td>0.87</td>
<td>82</td>
<td>0.87</td>
</tr>
<tr>
<td>Net assets</td>
<td>92</td>
<td>0.97</td>
<td>22</td>
<td>0.24</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>273</td>
<td>2.88</td>
<td>224</td>
<td>2.36</td>
</tr>
<tr>
<td>Current assets</td>
<td>407</td>
<td>4.28</td>
<td>299</td>
<td>3.15</td>
</tr>
<tr>
<td>Stores, spares &amp; stock in trade</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>242</td>
<td>2.55</td>
<td>141</td>
<td>1.48</td>
</tr>
<tr>
<td>Cash and bank</td>
<td>58</td>
<td>0.61</td>
<td>60</td>
<td>0.63</td>
</tr>
<tr>
<td><strong>Key profit and loss items</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>674</td>
<td>7.09</td>
<td>513</td>
<td>5.40</td>
</tr>
<tr>
<td>Gross profit</td>
<td>100</td>
<td>1.05</td>
<td>49</td>
<td>0.52</td>
</tr>
<tr>
<td>Net profit</td>
<td>71</td>
<td>0.75</td>
<td>21</td>
<td>0.23</td>
</tr>
<tr>
<td><strong>Key cash flow items</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>5</td>
<td>0.06</td>
<td>39</td>
<td>0.41</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>27</td>
<td>0.29</td>
<td>14</td>
<td>0.15</td>
</tr>
</tbody>
</table>
## Annexure 6: Charged out rates in recent contracts

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Client/Project</th>
<th>Date of contract</th>
<th>Nature or services</th>
<th>Description</th>
<th>Designation</th>
<th>Rate charged Rs.</th>
<th>Rate as per quotation to ASP - RSPN Average Rs.</th>
<th>Amount of variance Rs.</th>
<th>% of variance</th>
<th>Explanations by the Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Panjab Industrial Estate-Bhalwal Industrial Estate</td>
<td>May-12</td>
<td>Design plus supervision</td>
<td>Design of master planning, infrastructure and land reclamation of Bhalwal</td>
<td>Roads Eng.</td>
<td>175,000</td>
<td>303,107</td>
<td>128,107</td>
<td>73%</td>
<td>This is Government backed project and as a business strategy, prices were quoted lower than usual case to get this contract at Bhalwal Estate.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Environmental Eng.</td>
<td>150,000</td>
<td>303,107</td>
<td>153,107</td>
<td>102%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Mechanical Eng.</td>
<td>150,000</td>
<td>303,107</td>
<td>153,107</td>
<td>102%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Irrigation Eng.</td>
<td>175,000</td>
<td>303,107</td>
<td>128,107</td>
<td>73%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Landscaping Eng.</td>
<td>175,000</td>
<td>225,165</td>
<td>50,165</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Contract Eng.</td>
<td>175,000</td>
<td>212,656</td>
<td>37,656</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Highways Eng.</td>
<td>150,000</td>
<td>451,051</td>
<td>301,051</td>
<td>201%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Public Health Eng.</td>
<td>150,000</td>
<td>451,051</td>
<td>301,051</td>
<td>201%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Geotechnical Eng.</td>
<td>150,000</td>
<td>227,089</td>
<td>77,089</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Electrical Eng.</td>
<td>150,000</td>
<td>303,107</td>
<td>153,107</td>
<td>102%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Govt of Sindh - Sindh Coal Authority</td>
<td>June-12</td>
<td>Design plus supervision</td>
<td>Design and construction supervision for 50 cusecs drainage of wastewater pipeline from mining to Thar coal field</td>
<td>Hydraulic Eng.</td>
<td>250,000</td>
<td>303,107</td>
<td>53,107</td>
<td>21%</td>
<td>Rates were quoted are almost near to the rates quoted to US-AID</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Structural Design Eng.</td>
<td>250,000</td>
<td>303,107</td>
<td>53,107</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Contract Eng.</td>
<td>250,000</td>
<td>212,656</td>
<td>(37,344)</td>
<td>-15%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Environmental Eng.</td>
<td>200,000</td>
<td>303,107</td>
<td>103,107</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Geotechnical Eng.</td>
<td>200,000</td>
<td>227,089</td>
<td>27,089</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Quantity Surveyor</td>
<td>150,000</td>
<td>173,204</td>
<td>23,204</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Surveyor</td>
<td>200,000</td>
<td>132,790</td>
<td>(67,210)</td>
<td>-34%</td>
<td></td>
</tr>
</tbody>
</table>
# Annexure 7: Breakdown of Social Charges

<table>
<thead>
<tr>
<th>Item Description</th>
<th>As % of Total Basic Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentive Pay</td>
<td>8.30%</td>
</tr>
<tr>
<td>Bonus</td>
<td>2.95%</td>
</tr>
<tr>
<td>Vacation Leave</td>
<td>8.25%</td>
</tr>
<tr>
<td>Social Security Contribution</td>
<td>0.42%</td>
</tr>
<tr>
<td>Old Age Contribution</td>
<td>0.24%</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>4.83%</td>
</tr>
<tr>
<td><strong>Total,</strong></td>
<td><strong>25.00%</strong></td>
</tr>
</tbody>
</table>
## Annexure 8: Breakdown of Overhead cost

<table>
<thead>
<tr>
<th>Item Description</th>
<th>As % of Total Basic Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary Administrative Staff</td>
<td>6.38%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>4.86%</td>
</tr>
<tr>
<td>Rent, Rates &amp; Taxes</td>
<td>5.71%</td>
</tr>
<tr>
<td>Professional Fee</td>
<td>52.71%</td>
</tr>
<tr>
<td>Light Power &amp; Water</td>
<td>2.56%</td>
</tr>
<tr>
<td>Telephone, Communication Facilities</td>
<td>2.90%</td>
</tr>
<tr>
<td>Travel &amp; Transportation</td>
<td>17.72%</td>
</tr>
<tr>
<td>Advertising Expenses</td>
<td>0.56%</td>
</tr>
<tr>
<td>Bank Charges / Interest</td>
<td>1.23%</td>
</tr>
<tr>
<td>Repair &amp; Maintenance</td>
<td>7.14%</td>
</tr>
<tr>
<td>Fee &amp; Subscriptions</td>
<td>1.97%</td>
</tr>
<tr>
<td>Book Magazines and Newspapers</td>
<td>0.07%</td>
</tr>
<tr>
<td>Entertainment Expenses</td>
<td>1.34%</td>
</tr>
<tr>
<td>Tracing and Drafting</td>
<td>0.16%</td>
</tr>
<tr>
<td>Printing and Stationery</td>
<td>3.44%</td>
</tr>
<tr>
<td>Legal</td>
<td>0.28%</td>
</tr>
<tr>
<td>Security</td>
<td>0.59%</td>
</tr>
<tr>
<td>Uniform and Dress</td>
<td>0.02%</td>
</tr>
<tr>
<td>General Expenses</td>
<td>0.36%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>110.00%</strong></td>
</tr>
</tbody>
</table>
Annexure 9: Abbreviations used in this report

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAC</td>
<td>Board Audit Committee</td>
</tr>
<tr>
<td>BCP</td>
<td>Business Continuity Plan</td>
</tr>
<tr>
<td>BOD</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>COA</td>
<td>Chart of Accounts</td>
</tr>
<tr>
<td>DRP</td>
<td>Disaster Recovery Plan</td>
</tr>
<tr>
<td>EYFRSH</td>
<td>Ernst &amp; Young Ford Rhodes Sidat Hyder</td>
</tr>
<tr>
<td>FAR</td>
<td>Fixed Assets Register</td>
</tr>
<tr>
<td>GL</td>
<td>General Ledger</td>
</tr>
<tr>
<td>HOD</td>
<td>Head of Department</td>
</tr>
<tr>
<td>HR</td>
<td>Human Resources</td>
</tr>
<tr>
<td>IAD</td>
<td>Internal Audit Department</td>
</tr>
<tr>
<td>ICAP</td>
<td>Institute of Chartered Accountants of Pakistan</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>MIS</td>
<td>Management Information System</td>
</tr>
<tr>
<td>US AID</td>
<td>United States Agency International Development</td>
</tr>
</tbody>
</table>