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Final Report

PRE AWARD ASSESSMENT OF ECHO WEST INTERNATIONAL (PVT) LIMITED (EWI)

SEPTEMBER 2012

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Pre Award Assessment Report of
Echo West International (Pvt) Limited (EWI)
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ASP-RSPN PROGRAM

Rural Support Programmes Network

www.asp.org.pk

List of Abbreviations and Acronyms

AIDAR	USAID Acquisition Regulations
AC	Audit Committee
A&C	Administration & Coordination
AOA	Articles of Association
Admin	Administration
ASP	Assessment and Strengthening Program
CPA	Certified Public Accountant
CFR	Code of Financial Regulations
ERP	Enterprise Resource Planning
EWI	Echo West International (PVT) Limited
FAR	Federal Acquisition Regulations
FY	Financial Year
GoP	Government of Pakistan
HOD	Head of Department
HO	Head Office
HR	Human Resource
ICAP	The Institute of Chartered Accountants of Pakistan
IFAC	International Federation of Accountants
IFRSs	International Financial Reporting Standards
MOA	Memorandum of Association
RSPN	Rural Support Programme Network
SECP	Securities and exchange Commission of Pakistan
SBP	State Bank of Pakistan
TORs	Terms of Reference
US	United States
USAID	United States Agency for International Development
USG	United States Government

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Pre award assessment of Echo West International (Pvt.) Ltd (EWI)

We have made a review and evaluation of the managerial capacity and internal control systems of Echo West International (Pvt.) Ltd (EWI) using those criteria established by ASP-RSPN as per USAID standards. Our review included tests of compliance with the EWI's 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 EWI.

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

Based on this knowledge and the review and evaluation conducted by our firm, we believe EWI's current policies procedures are sufficient for USAID/Pakistan's purposes, assuming satisfactory compliance, except for the conditions described in the Recommendation section, 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 as described in Section 2 of the report.

Further, subject to compliance with conditions precedent provided in the Recommendation Section, nothing came to our attention that would cause us to believe that EWI does not have the managerial, technical, administrative and financial capabilities to carry out the proposed USAID funded activities.



Anjum Asim Shahid Rahman
Chartered Accountants

Executive Summary

Echo West International (Pvt.) Limited (EWI) is a well-established organization involved in the business of construction and engineering Projects. The Company was established under the provisions of Companies Ordinance, 1984 on 09th April 1992. The authorized and paid up capital of the Company is Rs. 10,000,000. EWI is an ISO 9001 certified company from the following accreditation bodies including UKAS (UK) and Pakistan National Accreditation Council. It is well known in Pakistan as well as across the borders. Since its inception, EWI has steadily expanded its operations, whilst developing expertise across a range of engineering projects.

The objective of the Pre-Award assessment is to provide reasonable assurance to USAID/Pakistan through ASP - RSPN that EWI has an acceptable organizational and management structure, accounting, financial management systems, financial capability, property control system, procurement policies, and other attributes in order to assess the contractor's suitability to provide comprehensive program management services, including design and specifications, construction contracting, and construction supervision for infrastructure projects throughout Pakistan.

The executive summary intends to provide a quick overview of the findings observed in the assessment areas agreed as part of scope of work. This summary is not meant to be exhaustive and should; therefore, be read in conjunction with the detailed report and Annexure.

During the review of the governance and organization structure key observations have been highlighted which entail weaknesses associated with the composition of the audit committee, schedule for convening the audit committee meeting and functioning of project bidding committee in absence of a documented mandate. Considering the legal structure of EWI, organization is not required to maintain an audit committee by law, however if the organization is to receive USAID funding the compliance regarding the recommendations for the committee would be required as this committee has an important role in resolution of observations made by the auditors and their subsequent implementation of remedial measures to mitigate risks. Based on the review and gap analysis, the governance and management structure of the organization has been ranked as **Low Risk** area.

The purpose of the assessment of the budgeting, accounting & financial reporting and financial management function was to assess whether the organization has the capability to plan its finances against projected and general activities, account for and report the transactions as per applicable standards and the ability to manage the inflows and outflows of funds. The risk associated with over all function has been assessed as **Low Risk** area which has been based on the individual sub components provided in the three paragraphs given below.

Reference to the assessment of budgeting system it was observed that system is in place and operating effectively, the entire process of budgeting is well planned and in line with the specific requirements and needs of the organization. Based on our assessment of the function we have ranked it as **Low Risk** area.

Reference to the assessment of accounting and financial reporting function, it was observed that system is in place and operating to cater for the requirements of the company however as described above certain gaps with regards to the un-operational ERP modules and asset management were observed. As informed to us a new Oracle based ERP solution is being outsourced for implementation to Net Sol which will address the key components including: (a) accounts management, (b) business development and pre-qualification management system, (c) budget & cost control system, (d) document control system, (e) fixed asset management, (f) HR management, (g) administration management, (h) inventory management, (i) procurement management, (j) plant and equipment management, (k) proposal & bidding, (l) project

management, (m) sub contractor management system and (n) vehicle management. If this system is implemented the risk ranking may be reduced to low. Furthermore non-compliance with tax provisions has also been observed which can result in penalties from the tax authorities. Based on the observations highlighted we have ranked the accounting and financial reporting functions as a **Medium Risk** area. Furthermore during the review of financial statements it was observed that EWI is liable to pay Rs. 352,130,408 since 2009, contingences in terms of guarantees have not been disclosed as notes to the financial statements and amount of Rs. 97,963,606 is receivables from clients since 2009/2010. These findings have been included as reference and do not have an impact on the risk assessment of the organization.

Reference to the assessment of financial management function of EWI it was observed that system is in place and operating effective therefore, it has been ranked as **Low Risk** area.

During the course of our review of the procurement function it was observed that system is in place and operating effectively. Certain deviations from the current policies and procedures were observed however, these were not of material nature. Furthermore, as described above certain procedures are generally in practice at EWI although same are not documented in the policies and procedures manual indicating room for improvement in the said document. It was observed that the procurement system does not cater for procurement thresholds requiring competitive bidding as per best practices requirements which is also in line with PPRA thresholds and USAID regulations. With regards to the current legal status of EWI it does not fall under the umbrella of PPRA and USAD therefore was not required to follow the provisions therein. However if EWI is to receive USAID funding it will have to comply with such provisions of PPRA and USAID regulations for ensuring competitive procurement process. Based on the findings of the assessment of the procurement function of EWI, we have ranked it as **Medium Risk** area.

During the course of the review of HR function it was observed that system is in place however certain discrepancies have been highlighted against certain key HR areas which include performance appraisals and issuance of appointments letters. In addition, an observation from the internal auditor's report has been highlighted which identifies weak control over maintenance of employee record that would enable EWI head office to effectively track employees movement from one project to the other. Based on the gap analysis, we have ranked the Human Resource Functions as **Medium Risk** area.

During the course of our review of the internal audit function it was observed that a framework for carrying out internal audit exists and is being implemented through an outsourced arrangement with a firm of chartered accountants. An observation pertaining to the current approach against best practices has been identified. Subsequently, EWI through its management comments has agreed to amend its approach based upon our recommendations. Based on the findings of the assessment of the internal audit function of EWI, we have ranked it as **Low Risk** area.

The absorptive capacity of the organization was also carried out to the gauge the ability of the organization to absorb the funds in an effective and efficient manner. Our analysis reveals a fluctuating trend in the FUI across a period of four years. The first two years have shown a very healthy utilization trend i.e. more than 100% but in the last two years, it is revolving around eighty five percent, which seems reasonable. The reason could be the receipts in the form of mobilization advance which have not been expended in the project during the period of review. However, organization seems to have the ability to utilize its funds as certain repayments of the outstanding debts have also been made demonstrating a good internal generation capacity to finance its operations and capital investments. In addition, reference to Certificate ADV/008, dated March 28, 2011, Askari Bank has provided EWI secured funded and non funded credit limits to the extent of PKR.1,277,911,000 (approximately, USD. 13,520,278). The credit line

Pre Award Assessment of Echo West International (EWI)

provides EWI with the financial capacity to effectively cater for the operational requirements of the organization.

Conclusion:

Upon assessment of areas identified in the scope of work and the subsequent fund utilization analysis carried out, it can be concluded that the senior management of EWI is made up of qualified and experienced personnel, systems are in place and catering for operational and financial requirements of EWI. However, certain gaps have been identified and correspondingly improvements on account of best practices will need to be introduced into the system to enable it to handle the USAID funding appropriately. Based on the gaps identified in respective sections of the report and keeping in view the room for improvement we have ranked the EWI as **Medium Risk** entity.

For strengthening the systems recommendations have been provided in relevant sections of the report along with pre and post award conditions necessary for the USAID award.

Conditions Precedents

Conditions Precedents – Pre Award

1. Implementation of ERP system including key components: (a) accounts management, (b) business development and pre-qualification management system, (c) budget & cost control system, (d) document control system, (e) fixed asset management, (f) HR management, (g) administration management, (h) inventory management, (i) procurement management, (j) plant and equipment management, (k) project management, (l) sub contractor management system and (m) vehicle management
2. EWI shall open a separate bank account for USAID funding.
3. Organization shall develop procurement policies and procedures catering for the requirements of PPRA and USAID regulations. The said procurement document shall cater for but not be limited to: (a) procurement thresholds for competitive bidding, (b) defining policies and procedures for competitive procurement, (c) detailed policies and procedures for local and international bidding, and (d) defining roles and responsibilities of committees in the competitive bidding process.

Conditions Precedents – Post Award

1. The approach of internal audit function needs to be revisited based on risk oriented approach entailing audit planning and risk assessment prior to conduct of internal audit particularly keeping in view extensive reporting and monitoring commitments associated with USAID funding.
2. The audit department of EWI should develop and maintain risk register.

Section 1. Introduction and Background

1.1 Introduction

Echo West International (Pvt.) Limited is a well-established organization involved in the business of construction and engineering Projects. It is registered with the Securities and Exchange Commission of Pakistan (SECP) under the provisions of Companies Ordinance, 1984 as Private Limited Company.

The company offers a full range of skills in the design, construction and management of Civil, Electrical and Mechanical works. The company's head office is located at Lahore while the regional office is situated at Karachi and Islamabad.

1.2 Objectives of the Assignment

The objective of the Pre-Award assessment is to provide reasonable assurance to USAID/Pakistan through ASP – RSPN that Echo West International (Pvt.) Ltd has an acceptable organizational and management structure, accounting, financial management systems, financial capability, property control system, procurement policies, and other attributes in order to assess the contractor's suitability to provide comprehensive program management services for infrastructure projects throughout Pakistan. This also includes reviewing other systems of internal controls, quality assurance capabilities, as well as acceptable policies, procedures, and practices and assess whether EWI:

- Can meet project goals and objectives;
- Can adequately safeguard, monitor and efficiently utilize resources;
- Can obtain, maintain, and fairly disclose reliable data and information;
- Has the institutional framework for sustainability; and
- Can comply with applicable laws and regulations.

Check current and possibility of future compliance with the USG rules and regulations.

Evaluate Echo West International (Pvt.) Ltd's capacity for receiving future higher level of funding based on a comprehensive absorptive capacity analysis.

Ensure that management leadership, organizational strengths, quality of staff, and quality of processes and procedures have the potential to support the management of a USAID-funded award.

1.3 Standards

To ensure professional quality, this assessment was conducted in line with general attestation standards. Those standards require to plan and perform the review to obtain sufficient, competent evidential matter to provide a reasonable basis for the conclusions. Those standards also require maintaining independence in mental attitude and exercising due professional care in conducting and reporting the conclusions.

1.4 Execution Methodology:

The assignment was executed in following 5 steps:

- 1. Project Initiation/Entrance Conference:** The project commenced with a fast track implementation planning, followed by an entrance meeting with representatives from EWI, ASP-RSPN and USAID. An overall introduction/ understanding of EWI were gained including

process of management, funding, procurement and operations.

Based on the initial understanding of the scope and the objectives as well as the work done, a comprehensive action plan was devised defining the client and project personnel to interact with, work flow arrangements and work station facilities etc.

- 2. Review of Governing and Management Structure, Financial Management & Accounting Systems including Control Assessment, Procurement, Internal Audit and HR:** This included the understanding of focused areas of EWI followed by a detailed system review of the budgeting, accounting, financial management, procurement, human resource, and internal audit functions.

For gaining an understanding as a first step the organizational hierarchy, chart of accounts, process flows, policies and procedures of all the departments of EWI were obtained and studied in detail.

During assessment of the governance and management structure, a detailed study was conducted with respect to the AOA and MOA and any identified deviations from the applicable corporate laws and regulations were recorded. Mandate of the Board of Directors and other key committees developed at EWI were also studied and analyzed whether or not they are in practice or not.

During the internal control assessment, review teams checked the internal structures of EWI. The review of controls enabled us to evaluate sufficiency of the budgeting mechanism followed at EWI Head Office, branch and site level. This included evaluating the process in place for requesting funds and the book keeping system in place for accounting of expenditures against the available budget for each head of account. Understanding of payments processing, pre audit and compilation carried out by finance and accounts and department. This provided us with an understanding of controls specifically for payments authorized in the budget.

It also enabled us to evaluate effectiveness of designed controls whether any controls are missing to evaluate operating effectiveness and in the identification of control gaps, operating deficiencies and any material weaknesses. Also the system and control assessment has been invariably extended to address key issues such as the segregation of duties as well as identification of possibilities of errors, which could result in material misstatement or areas where the management can turn away from such controls.

The internal control systems were critically evaluated with the objective of assessing whether the internal controls regarding the procurement systems are suitably designed to cater for different types of procurements in an effective and efficient manner. To confirm the competence of the system including its accountability environment and its control, selected walkthrough tests were conducted using different transactions representing key aspects of the procurement system so as to determine with reasonableness the reliability of the system with respect to being able to protect ASP-RSPN interests.

The quality of the organization and of the human resource is a critical aspect of the system's capability. Accordingly to the extent of the accounting and the financial management system as well as the procurement and purchase cycle system, the staff and the organization were reviewed to assess its capability. For this the quality of the organization and its staff has been evaluated through interviews with key staff members, skill assessments which have been matched against the requirements necessary to effectively manage EWI and review of the HR policies and procedures including adequacy of personnel and payroll system has been considered.

- 3. Operating Capability and Absorptive Capacity Analysis:** Following the assessment of Governing and Management Structure, Financial Management & Accounting Systems including Control Assessment, Procurement, Internal Audit and HR, an analysis of EWI's absorptive capacity has been carried out in order to assess that it can effectively utilize different level of funding based upon the organization's cash flows. The specific analysis included an analysis of the outflows with inflows which affect the EWIs ability to utilize such funding.
- 4. Remedial Measures:** In the event where gaps have been identified due to lack of systems, controls, ineffectiveness of management, lack of operational depth effecting future sustainability, then based on these, we identified such corrective measures or additional requirements that would help improve EWI's systems. Thus provide necessary assurance to ASP-RSPN as required per USAID regulations for funding to potential recipients.
- 5. Completion Including Consolidation of Findings and Submission of Deliverables Completion of Draft Report:** After completion of our review exercise on all the identified areas of EWI, a detailed assessment report has been drafted consolidating all the findings and deliverables of above activities.

The report includes but not limited to the following areas;

- a) An opinion on the accountability environment of EWI;
- b) Detailed findings, their impacts and recommendations on governance & management structure, financial management and accounting systems, procurement, internal audit and overall management capabilities to cater for any potential awards.;
- c) Mapping of the system; and
- d) Recommendation on the process including steps which can be taken as special award conditions which can help improve on identified areas of weakness.

1.5 Scope of Work Pre-Award Assessment of EWI

The scope of work includes assessment of Governance and Management Structure, Financial Management and Accounting System, procurement, internal audit, human resource and accountability environment for judging the effectiveness of the systems and their capability to manage funds in accordance with United States Government (USG) and USAID standards. A detailed assessment of these areas was conducted as per the scope of work and findings thereto were documented. The key assessment areas included the assessment of the capacity and capability of EWI for utilizing the funds for the intended purpose.

The objective of this assessment was to provide ASP-RSPN with reasonable assurance that whether or not the budgeting, accounting, financial management, procurement and internal control systems of the recipient organization are adequate and effectively implemented. This assessment has been carried out at entity level to help assess the capability of EWI to manage funding.

Section 2. Risk Assessment

2.1 Risk Analysis

This chapter covers a detailed analysis of risks associated with the identified system weaknesses and findings of each critical area to reach the overall risk rating of the organization. To facilitate the process of risk analysis, a standardized risk methodology has been developed keeping in view the overall environment of EWI and its organizational setup. The section below describes in detail, the risk methodology used to assess EWI's overall risk grading.

2.2 Risk Methodology

The overall purpose of pre-award assessment was to evaluate the accountability environment in EWI. To achieve this objective, we have carried out a review of each of the critical areas including Governance, Finance and Accounts, budgeting, procurement, internal audit and human resource etc to identify any system weakness or control deviations at the transaction level. To carry out the assessment we have relied upon our overall system understanding, findings of transaction testing and walk through tests. Due to the limited scope and time of the exercise, we have also considered some internal reports to analyze the overall effectiveness of the internal control system.

After identification of system weaknesses, we have assigned a risk rating to each of the areas reviewed to reach the overall level of risk at the entity level. A risk methodology was designed as a benchmark to standardize the process of determining the risk levels associated to each deviation. Key factors which were scrutinized to reach a corroborative risk methodology include;

- 1) Risks inherent to the organization: include the probability of loss arising out of circumstances or risk factors present in the existing structure or environment of an organization.
- 2) Existence of the system: include the risks arising from the non-existence of a documented system in a certain functional area of the organization.
- 3) Any control deviations found: include the risks identified during the transaction and walk through testing. These may indicate a control weakness in the internal control system or a deviation from the system etc.

Furthermore, to determine the overall risk exposure relating to all activities, special consideration was given to the factors that were contrary to the interests of the USAID. These factors include the likelihood of abuse, misappropriation of funds, illegal activities, misuse of resources, and noncompliance with defined system framework. In this regard, following factors were considered before allocating risk rating to a specific area:

- Significance and sensitivity;
- Susceptibility of failure to attain program goals, noncompliance with laws and regulations, inaccurate reporting, or illegal or inappropriate use of assets or resources;
- Management actions to mitigate risk;
- Competence and adequacy of the number of personnel;
- Relevant internal controls; and
- What is already known about internal control effectiveness.

Each of the above factors has been given a rating based on the significance of the problems and its implications on the overall control environment. Furthermore, we have developed a risk matrix to determine the final rating of each section which is as follows:

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Level of Risk	Definition of Levels
High	High risk has been allocated to the areas where documented system and compensating controls do not exist and our review highlights certain material weaknesses. Or the documented system is in existence, however, material weaknesses were observed.
Medium	Medium Risk Rating was assigned to the areas where documented system does or does not exist and during the transaction testing levels certain significant but not material weaknesses were observed, however the existence of compensating controls reduce the likelihood of such risks.
Low	Low Risk Rating was assigned to the functions where documented system exists, controls are in place and only certain procedural weaknesses, if any, were observed.

To reach the final conclusions at entity level, we have consolidated the risk ratings of each critical area and used our professional judgment.

2.3 Risk Assessment

Based on the methodology discussed above and keeping in view the ratings of all the relevant sections/ functions, we have rated the entity as a **Medium Risk** organization.

The table below validates our overall conclusion at the entity level as well as at departmental/ functional levels.

No.	Core Function	Rating Description	Rating
	Overall Assessment of EWI	The overall assessment is ranked on the basis of internal functions carried out by EWI, including the existence of system and the effectiveness with which the system is operating. Our analysis of the performance of the critical departments reflects that these critical departments are performing their functions effectively, with systems in place and under an effective control environment. However, certain gaps have been identified and correspondingly improvements on account of best practices and funding prospects will need to be introduced into the system to enable it to handle the funding appropriately. Based on this, we have assessed the entity as a Medium Risk organization.	Medium Risk
1.	Governance and Management Structure	During the course of our review certain observations have been highlighted which entail weaknesses associated with the composition of the audit committee, schedule for convening the audit committee meeting and functioning of project bidding committee in absence of a documented mandate.	Low Risk
2.	Budgeting, Accounting & Financial Reporting and Financial Management	The risk rating of the overall function is based on the risk ratings assigned to the sub components given below	Low Risk

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No.	Core Function	Rating Description	Rating
	a. Budgeting System	Based on our review we have assessed that the budgeting system of the organization is well defined and entails all necessary components with regards to planning of finances, variance analysis and re appropriation of funds and effectively caters for the needs of the organization	Low Risk
	b. Accounting and Financial Reporting	Based on our review of accounting and reporting function it has been observed that system is in place and operating to cater for the requirements of the company however certain gaps have been highlighted in the relevant section entailing un-operational modules of the ERP system and gaps in the asset management system. Furthermore during the review of the financial statements unpaid liabilities, un-disclosed contingencies and long standing receivables have been identified however these have been included as reference and do not have an impact on our risk assessment.	Medium Risk
	c. Financial Management	Based on our review it was observed that systems are in place and operating effectively.	Low Risk
3	Procurement System	During the course of our review of the procurement function it was observed that system is in place and operating effectively. Certain deviations from the current policies and procedures were observed however these were not of material nature. Furthermore, as described above certain procedures are generally in practice at EWI although some are not documented in the policies and procedures manual indicating room for improvement in the said document	Medium Risk
4	Human Resource Function	During the course of the review of HR function it was observed that system is in place however certain discrepancies have been highlighted against certain key HR areas which include performance appraisals, issuance of appointments letters and ability of head office to track employee movement between project sites.	Medium Risk
5.	Internal Audit	Except for the weakness identified in the current internal audit approach against best practices, overall mechanism for internal audits exists at EWI and is being implemented through an outsourced arrangement.	Low Risk

2.4 Risk Rating Basis

The section covers the basis for assigning risk ratings to each of the individual critical area assessed. Given below are the details of each area along with its reference to the summary of key findings consolidated at the end of this section.

a) Governance and Management Structure

Sr. No.	Criteria	Yes/ No	Risk	Ref.
	Overall Risk of the Component		Low	
1	Is the system in place and documented accordingly?	Yes	Low	
2	Is the existing system in line with the best practices?	No	Medium	1, 2, 3 & 4
3	Are there any control deviations found in the area during transaction testing/ walk through	No	Low	
4	Is there anything significant found in the system through other sources of information?	No	Low	

b) Budgeting System

Sr. No.	Criteria	Yes/ No	Risk	Ref.
	Overall Risk of the Component		Low	
1	Is the system in place and documented accordingly?	Yes	Low	
2	Is the existing system in line with the best practices?	Yes	Low	
3	Are there any control deviations found in the area during transaction testing/ walk through	No	Low	
4	Is there anything significant found in the system through other sources of information?	No	Low	

c) Accounting and Financial Reporting System

Sr. No.	Criteria	Yes/ No	Risk	Ref.
	Overall Risk of the Component		Medium	
1	Is the system in place and documented accordingly?	Yes	Low	

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Sr. No.	Criteria	Yes/No	Risk	Ref.
2	Is the existing system in line with the best practices?	No	Medium	5
3	Are there any control deviations found in the area during transaction testing/ walk through	Yes	Medium	5 & 10
4	Is there anything significant found in the system through other sources of information?	Yes	Medium	11

d) Financial Management System

Sr. No.	Criteria	Yes/No	Risk	Ref.
	Overall Risk of the Component		Low	
1	Is the system in place and documented accordingly?	Yes	Low	
2	Is the existing system in line with the best practices?	Yes	Low	
3	Are there any control deviations found in the area during transaction testing/ walk through	No	Low	
4	Is there anything significant found in the system through other sources of information?	No	Low	

e) Procurement Management

Sr. No.	Criteria	Yes/No	Risk	Ref.
	Overall Risk of the Component		Medium	
1	Is the system in place and documented accordingly?	Yes	Low	
2	Is the existing system in line with the best practices?	No	Medium	13, 15 & 16
3	Are there any control deviations found in the area during transaction testing/ walk through	Yes	Medium	14
4	Is there anything significant found in the system through other sources of information?	No	Low	

f) Human Resource Management

Sr. No.	Criteria	Yes/ No	Risk	Ref.
	Overall Risk of the Component		Medium	
1	Is the system in place and documented accordingly?	Yes	Low	
2	Is the existing system in line with the best practices?	No	Medium	18 & 19
3	Are there any control deviations found in the area during transaction testing/ walk through	Yes	Medium	17
4	Is there anything significant found in the system through other sources of information?	Yes	Medium	20

g) Internal Audit

Sr. No.	Criteria	Yes/ No	Risk	Ref.
	Overall Risk of the Component		Low	
1	Is the system in place and documented accordingly?	Yes	Low	
2	Is the existing system in line with the best practices?	No	Medium	21
3	Are there any control deviations found in the area during transaction testing/ walk through	No	Low	
4	Is there anything significant found in the system through other sources of information?	No	Low	

2.5 Summary of Findings

SUMMARY OF FINDINGS

A. Governance and Risk Management

1. During the course of our review of the governance structure and committees established, we observed that an audit committee is in place representing the managements approach to implement the best practice and compliance to the code of corporate governance which incase of Private Limited Company is not required. However we noticed that in the absence of non-executive members the committee is made up of: (a) CEO, (b) Head of Business Development, (c) Manager Finance, and (d) Manager Accounts. It is to be noted that the same staff members are also responsible for the financial and operational activities of the company.
2. During the course of our review of the governance structure, particularly role of audit committee, we noted that audit committee meetings are convened on annual basis rather than a more frequent or rapid approach i.e on quarterly basis. Although the committee meeting is convened on an annual basis, in practice it does not review the annual financial statements prior to the handing over of the same to the external auditor for audit and expressing of opinion.
3. During the course of our review no documentary evidence in form of minutes of meetings which would validate any meetings held with the external auditors. This practice is not in-line with best practices as principally the audit committee has major role with regards to liaison with the external auditors and resolution of gaps identified by the external auditors.
4. Project Bidding Committee is performing its functions without a documented mandate in terms of detailed terms of reference. Furthermore during the course of our review it was observed that minutes of the meeting of these committees are also not being prepared.

B. Financial Management and Accounting System

Accounting and Financial Reporting

5. During our review of the ERP, we observed that out of thirteen existing modules, Accounts Management System (AMS) is the only module in operation and producing system generated reports. Subsequently, source documents for all the transactions of incomes, expenses, payables, receivables etc are manually prepared and later on fed into the AMS. (The details of the non-operational modules are provided in Annexure B.3). Furthermore it was observed that currently there is no documentation which could identify and provide for transfer of assets that have taken place between different project sites and fixed asset register maintained by EWI was not in line with ICAP's TR-6 (Revised 2012) for fixed assets.
As informed to us a new Oracle based ERP solution is being outsourced for implementation to Net Sol which will address the key components including: (a) accounts management, (b) business development and pre-qualification management system, (c) budget & cost control system, (d) document control system, (e) fixed asset management, (f) HR management, (g) administration management, (h) inventory management, (i) procurement management, (j) plant and equipment management, (k) proposal & bidding, (l) project management, (m) sub contractor management system and (n) vehicle management. If this system is implemented the risk ranking may be reduced to low.
6. While undertaking review of financial statements, we observed that EWI had an outstanding liability in shape of associated funds from the director. This amount is payable since 2009 and amounts to Rs. 352,130,408. The financial statements do not contain any note to account for the repayment of the amount outstanding. In response to the above query it has been informed that the said loan is interest free and is repayable only at the discretion of the management and dependent on the availability surplus cash flows within a period of 10 years. This section has been included only for reference and in our opinion will not effect the liquidity of the company for at least the next 5 – 7 years.
7. We have observed during our review that no contingencies have been disclosed in the financial statements. It is a common practice in the industry that contingencies exist in terms of guarantees or otherwise particularly keeping in the view the nature of industry in which

EWI is operating. This non-disclosure is not in conformity with the accounting practices of the sector and the reporting standards. We are of the opinion that once the new ERP solution is in place the exact aging of the contingencies can be worked out through the said system. On the litigations that might be classified as contingences we have been provided with a letter from the legal council identifying that no such issue is outstanding.

8. During the course of our review, we observed that receivables amounting to Rs.97,963,606 from clients are outstanding since last one year despite the fact that company completed its contractual obligation in case of these clients. No provisions have been made till to date in the books of accounts. As per the management representation provided to us most of these out standings are subject to maintenance period clause which has now been completed and the management is expecting the release of the funds in next 60 to 90 days.
9. There is mismatch between the tax refund amounts provided by the tax consultants and the audited financial statements. The tax refunds as per the tax consultant's amounts to Rs. 10,888,242 whereas the tax refund in the audited financial statements amounts to Rs. 4,891,206. (Details of tax refunds as per the tax consultant are provided in Annexure B.3). In our opinion the difference of Rs. 6 Mil approximately might not be applicable as the books of accounts represent Rs. 4.9 Mil as tax refunds. This will not have an impact on the current financial statements however if a re-fund in excess of 4.9 Mil is made it will have a positive impact on the profitability of the company.
10. We observed while verifying the tax withheld from the salaries of the employees that statements under section 149 (Salary) and 165 (expenses other than Salary) of the Ordinance were not filed in accordance to the provisions of the Ordinance. The statements were not filed for the tax year tax years 2009 & 2010.
We also observed that in the tax year 2011 the statements u/s 149 & 165 were filed but they were not complete. We checked in the statements that the tax was withheld in respect of 9 employees only whereas total permanent employees of the subject company are 137. Moreover the statements u/s 149 & 165 were not filed on timely basis as required by the tax law.
Statements u/s 149 is submitted late by 102 days for 1st quarter, 53 days for 2nd quarter, 18 days for 3rd quarter and 92 days for 4th quarter. Similarly statement u/s 165 is submitted late by 104 days for 1st quarter, 53 days for 2nd quarter, 18 days for 3rd quarter and 130 days for 4th quarter.
11. References to Internal audit report for the period July 2010 to June 2011, by Hameed Zahid & Co, certain systemic issues have been highlighted which are as follows:
 - a. **Late recording of Projects Costs:** Costs against advances in certain cases were not recorded during the month with which they related.
 - b. **Non Recording of Project Costs:** Advances have been paid to suppliers but costs were not recorder even after the lapse of considerable time from date of advance payments.
 - c. **Suppliers and Vendors – Reconciliation of accounts:** It is the policy of the company to reconcile current account balances with suppliers, at least on six monthly bases. It was observed that reconciliation with a few parties was not made within the time period given in the policies and it was delayed which caused late recording of costs in GL.

Financial Management

12. During our review of bank accounts we observed that the EWI was not maintaining project specific/assignment accounts for keeping separate contract receipts account. Receipts from all contracts are pooled into in the bank accounts maintained at head office and branch offices. We have been informed that previously separate bank accounts were maintained for different projects but the administrative issues were cumbersome therefore the company decided to operate joint revenue accounts.

C. Procurement

13. During the course of our review of the procurement evaluations, we observed that in practice one member of "**Vendor Selection Committee**" is involved in signing of comparative statements; the existing manual does not specify any guidance in this regard. Moreover, there are no TORs developed for this forum, which can be made part of the manual.

14. With reference to the Purchase Manual (P#11), a visit report is required after conducting physical verification of vendor premises/manufacturing plant and classifies it significant as part of a series of assessment checks in order to assess the market position, financial capability and production capacity of potential vendor. During the course of our review, we have observed that preparation of **“Visit Report”** is not in practice as part of vendor evaluation.
15. During the course of our review, we observed that sub-contracting procedures are in practice at EWI however the same has not been documented as part of the policies and procedures manual nor does the policies and procedures manual cater for the provisions regarding dispute resolution with sub contractors.
16. It was observed that the procurement system does not cater for procurement thresholds requiring competitive bidding as per requirements of PPRA thresholds and USAID regulations. With regards to the current legal status of EWI it does not fall under the umbrella of PPRA and USAD therefore was not required to follow the provisions therein. However if EWI is to get USAID financing it will have to comply with such provisions for ensuring a competitive procurement process. This would essentially include but not limited to: (a) procurement thresholds for competitive bidding, (b) defining policies and procedures for competitive procurement, (c) detailed policies and procedures for local and international bidding, and (d) defining roles and responsibilities of committees in the competitive bidding process.

D. Human Resource Function

17. HR Department has developed personnel files of each employee; however, we have observed that these files are not updated on regular basis.
18. During our review of performance appraisal process, we noticed that it did not have detailed procedures to be followed in terms of established evaluation criteria against which to appraise the employees.
19. EWI issues an appointment letter at the time of appointment/joining of an employee. It was found by the assessment team in certain cases, either appointment letters have not been issued or where found, the same were not signed.
20. References to Internal audit report for the period July 2010 to June 2011, by Hameed Zahid & Co, Employment record of the employees are not maintained in such a manner which provides total control to the head office over the movement of employees from one project to other.

E. Internal Audit

21. During course of our review it was observed that internal auditors are utilizing stratified sample basis for highlighting control weaknesses on a monthly basis or areas highlighted by the management for carrying out their internal audit activities. The current practice is not in line with industry’s best practices which require carrying out audit activities in-line with risk based approach which essentially entails audit planning and risk assessment & evaluation prior to conduct of internal audit activities.

Section 3. Entity Level Control Assessment

Controls at the entity-level have a pervasive effect on the overall internal control environment of any organization. In order to assess the effectiveness of controls at the entity level consideration was given to the following key components of internal control as per the Committee of Sponsoring Organizations (COSO) framework. These interrelated components are:

- Control Environment
- Risk Assessment
- Information and Communication
- Control Activities
- Monitoring

These components work to establish the foundation for sound internal controls within the company through directed leadership, shared values and a culture that emphasizes accountability for control. The various risks facing the company should be identified and assessed routinely at all levels and within all functions of the organization in the normal course of business. Control activities and other mechanisms needs to be proactively designed to address and mitigate the significant risks. Information critical to identifying risks and meeting business objectives should ideally be communicated through established channels up, down and across the company. The entire system of internal control needs to be monitored continuously and problems are addressed timely.

Keeping in view the above mentioned broader categories, major areas have been identified by using an internal control checklist, our assessment procedures (GT Audit Care); and our understanding based on the discussion with the management.

3.1 Control Environment

The control environment reflects the tone set by top management and the overall attitude, awareness and actions of the Board of Directors, management, and others concerning the importance of internal control and the emphasis placed on control in the company's policies, procedures, methods, and organizational structure.

Our assessment of the control environment of EWI shows that overall control environment is in place and is efficient. The Board of Directors exists in compliance with the Articles of Association (AOA) and meets regularly. In addition, different committees are established with only one committee does not have TORs resulting in inefficiencies in performance of its roles. Besides above, policies and procedures manuals of various functions exist to serve their existing needs.

Another issue identified in this area relates to the independence of an audit committee which is an integral part of Corporate Good Governance practices as it is charged with oversight of financial reporting and follow up mechanisms thus serving as a link between the board and the internal and external auditors. Audit committee should have independent non-executive directors so as to appraise the performance of the company independently.

Pre Award Assessment of Echo West International (EWI)

The above discussion is based upon the following:

A. Management	Applicability
Is a code of conduct developed and communicated?	Yes
Is the code of conduct periodically updated?	No
Does the senior management encourage issues to be raised with concerned people?	Yes
Is there documented line of management between managers and executive management?	Yes
Is there defined Organizational structure and functional boundaries?	Yes
Are there documented HR policies and JDs of the staff?	Partially
Is training and career development practiced?	Partially
B. Board	
Is the board composition as per the Articles of Association?	Yes
Are the meetings held frequently enough to allow oversight?	Yes
Are representations on board effective and justifiable?	Partially
Is there a dominating representation of a single organization on Board?	No
Does the board review and discuss financial performance?	Partially
Is the Board involved in budget making process and variance evaluation?	Yes
C. Audit Committee	
Is there any audit committee found with clearly defined charter?	Yes
Are audit committee's meetings regularly held?	No
Are financial statements reviewed by the committee prior to release?	No
Does the audit committee keep oversight of Internal and external Audit Function?	Partially
Does the committee oversee Internal Control Testing Activities?	Partially
D. Documented Policies and Manuals	
Internal Audit	Yes
Finance	Yes
Human Resource	Yes
Procurement	Yes

3.2 Risk Assessment

Risk assessment is the entity's identification and analysis of relevant risks (both internal and external) to the achievement of its objectives, forming a basis for determining how the risks should be managed. The risk assessment procedures of the entity are not being performed.

The above discussion is based upon the following:

Risk Assessment	Applicability
Are Entity-wide and activity level objectives established and widely communicated?	Partially

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Are Internal and External risks and their likelihood for each critical activity identified?	Partially
Is there commitment to improve the risk identification and assessment process?	Yes
Are risk management plans developed to address identified risks?	Partially

3.3 Information and Communication

Information and communication systems support the identification, capture, and exchange of information in a form and time frame that enable management and other appropriate personnel to carry out their responsibilities. EWI has information gathering and dissemination system in place at accounts and project level only; however, it has been observed that these systems are not interconnected with each other, which as a result lack back and forth movement of information. This is done through manual documentation. Although accounting software has been developed and used currently by EWI yet all the functions of the said software have not been tested, therefore, we were not in a position to assess its effectiveness. A careful assessment should be made by the management with regards to interlinking facility of the existing software, in case this objective could not be achieved, EWI should go for ERP system implementation to connect all standalone systems and to ensure centralization of all the information.

A disaster recovery plan exists in documented shape and is practically in implementation also.

The above discussion is based upon the following:

Information & Communication	Applicability
Do the Financial reporting systems capture, accurately process, and timely report pertinent information?	Yes
Does the Management receive reliable information to execute the monitoring controls?	Yes
Is relevant external and internal information communicated and delivered to financial reporting people on a timely basis?	Yes
Are Effective channels for communications throughout the organization established?	Yes
Does integration of various tools and accounting software within organization exist?	Partially
Is there any Business Continuity Plan?	Yes

3.4 Control Activities

Control activities are policies and procedures which help to ensure that management's directives are complied with. Procedures relating to various functions have been documented, these are in the form of documented manuals. Management has clear objectives in terms of Budgeting function as laid down in Accounts Manual. During our review, we found that there was a formal procedure to analyze the variances and plan organizational future moves accordingly. All the departments have been established with duly appointed Head of Departments (HODs), and there exists no issues relating to segregation of duties when overall controlling of these functions is brought under the supervision of a single position.

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The above discussion is based upon the following working: Control Activities	Applicability
Necessary policies and procedures exist with respect to each of the entity's activities, and controls called for by policy are being applied?	Yes
Does the entity review its policies and procedures periodically to determine if they continue to be appropriate for the company's activities?	No
Management has clear objectives in terms of budget, and other financial and operating goals which are actively monitored.	Yes
Planning and reporting systems are in place to identify variances from planned performance, investigates variances and takes appropriate and timely corrective actions.	Yes
Duties are logically divided or segregated among different people to reduce the risk of fraud or inappropriate actions.	Partially
Periodic comparisons are made of amounts recorded in the accounting system with physical assets. Adequate safeguards are in place to prevent unauthorized access to or destruction of documents, records, and assets.	Yes
Policies for controlling access to programs and data files have been established?	Yes
Financial Statements Preparation by entity, segment, project, separate ledgers, separate reporting?	Partially

3.5 Monitoring

Monitoring is a process which assesses the quality of internal control performance over the period of time. The responsibility for this area rests primarily with the internal audit function which has been outsourced. Internal auditor appointed by EWI, reports directly to the CEO. Secondly, due to lack of independence of audit committee, observations identified and recommendations given are not followed up resulting in existence of control weaknesses in the system.

Above discussion is based upon the following:

Monitoring	Applicability
Periodic evaluations of internal control are made and personnel, in carrying out their regular duties, obtain evidence as to whether the system of internal control continues to function?	Yes
There is an internal audit function that management uses to assist in their monitoring activities?	Yes
Is the Internal audit function independent?	Partially Yes
Is the Internal audit function staff competent and experienced?	Yes
Are Internal audit's scope, responsibilities and audit plans appropriate in relation to the organization's needs?	Yes
Are control deficiencies reported to appropriate management for resolution on a timely basis?	Yes

Section 4. Governance and Management Structure

4.1 Introduction and Overview

Since its inception, ECHO West International (Pvt.) Ltd (EWI) has steadily expanded its operations, whilst developing expertise across a range of engineering projects. The company guards its reputation by exercising tight project financial control and excellent site management in sometimes difficult situations. ECHO is a full service management group and offers full range of skills in design, construction and management of civil, electrical and mechanical works. The company's head office is located at Lahore while the regional offices are situated at Karachi and Islamabad.

The Company was established under the provisions of Companies Ordinance, 1984 on 09th April 1992. The authorized and paid up capital of the Company is Rs. 10,000,000. ECHO is an ISO 9001 certified company from the following accreditation bodies:

- UKAS (UK)
- Pakistan National Accreditation Council

The civil engineering and construction division of the company provides the active leadership and technical support to achieve high quality standards of construction and project management. The mechanical division of the company is providing services of erection, construction, commissioning and testing of various types of plants. The electrical and instrumentation facilities are vested in company's E&I unit which has design, installation, commissioning and maintenance services. Design work is carried out to international standards and specifications and integrates detailed engineering. Under this manifesto of EWI has satisfied customers globally.

EWI provides value-added engineering design services through a high-tech facility located in Lahore, Pakistan. This operation is capable of executing the front-end studies, basic design and detailed engineering for projects in the region.

EWI has maintained a burgeoning rate of growth from its modest beginnings to become one of the largest and rapidly growing Engineering/Construction companies in the country. EWI owns and operates one of the largest fleet of construction equipment, plant and machinery in Pakistan. The fleet can successfully handle the entire field of the multi-dimensional activities of the company.

4.2 Regulatory Framework

Being a company limited by shares and registered under the Companies Ordinance 1984, the constitution is governed through the Memorandums and Articles of Association duly approved under the said statute. In this regard, the entire operational, financial and management responsibilities are vested into the Board of Directors (BOD) in accordance with the provisions of the articles of association of the company. The Chief Executive Officer (CEO) is appointed to represent the BOD in carrying out day to day management functions of the company.

4.3 Role and Composition of Board of Directors and other Committees

Section 18 of the Articles of Association fixes maximum number of directors at 7 including the CEO. ECHO West International (Pvt.) Ltd. is managed by a Board of Directors including a Chairman of the board.

The composition of the board comprises board members with the following profiles:

a. Board of Directors

Sr. No.	Name	Designation
1.	Mr. Ehsanul Haq	Chairman
2.	Mr. Vaseem Anvar	CEO
3.	Mr. Irfan ul Haq	Director

b. Audit Committee

The Audit Committee assists the Board of Directors in the oversight of the integrity of the financial statements of the Company, the effectiveness of the internal control over financial reporting and the Company's compliance with legal and regulatory requirements and the performance of the Company's compliance function. Currently internal audit committee consists of the following members:

- Mr. Vaseem Anvar, Chief Executive
- Dr. Irfan ul Haq, Director
- Muhammad Jahangir, Manager Finance
- Tahir Pervaiz, Manager Accounts

c. Pre-Qualification Committee

The objective of pre-qualification committee is to analyze and decide on whether to go for bidding in a particular project. Currently, pre-qualification consists of the following three (3) persons, namely:

- Mr. Vaseem Anvar, Chief Executive
- Mr. Najam ul Hasnain, Manager Business Development
- Mr. Asad Anvar, Officer Business Development.

d. Bidding Committee

Bidding committee is responsible for compilation of bid and identifying its specifications. Bidding Committee also evaluates bids received and evaluates different projects to advise company as to which projects it should bid and for how much.

- Mr. Ehsan ul Haq, Chairman
- Mr. Vaseem Anvar, Chief Executive
- Mr. Faisal Mahmood, Manager Proposals
- Mr. Najam ul Hasnain, Manager Business Development

4.4 Management and Structure of Organization

Operations of the company are run through five main departments i.e. Operations, Finance, Accounts, Business Development, Contracts, Proposal, Cost Control, Administration, and HR, each of which is headed by its respective management staff as shown below:

- Manager Finance is responsible for all the areas relating to company including bank financing, leasing and overseas investments. He is also managing company's corporate and secretarial matters as company's secretary.
- Manager Business and Development is responsible for developing new and maintaining existing customer relationships. Generate project/business opportunities and RFP's through customer contact to meet company's business plans and growth strategies. Collaborate with company management to prepare and implement the Company's Marketing and

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Development Plan and strategy for meeting business goals. Track and report current status of potential projects, markets, customer news and developments. Lead the development and preparation of RFP's, Pre-Qualification, formal presentations.

- Manager Accounts is responsible for all areas relating to financial reporting yearly as well as monthly, developing and maintaining accounting principles, practices and procedures to ensure accurate and timely financial statements/management reports as per defined accounting manual. He is also responsible for internal and external audit according to company's policy and management requirements.
- Manager Contracts oversees projects from the start till its completion, ensuring that work is completed on time and within its allocated budget. He is also responsible for agreeing extra work to be done on contract, helping to resolve any disputes which come up, and identifying areas for improvement in the company's contracting processes. He is also negotiating sub-contract agreements and monitoring sub-contractors, planning critical dates or organizing labour.
- Manager Proposal is responsible to analyze the bids forwarded by the Manager Business development and prepare its costing. They then dispatch it and keep a check till the bid is awarded.
- Manager Cost Control is responsible for preparing the costing of a project after its award. They are further required to keep a check on costs being incurred.
- Manager HR is responsible for all the human resource matters like recruitment, termination grievance management etc.
- Manager Administration is responsible for carrying out all the administrative issues.
- Manager MIS deals all the IT relevant issues and is responsible for the proper working of MIS software.
- General Manager Operations controls the entire operations of a project. He also supervises, building, electrical, purchase, equipment & plant, planning, quality assurance, health security. Fabrication and stores departments. Under his supervision, a project team is developed and this team includes:
 - Manager Civil and Infrastructure;
 - Manager Building/Industry;
 - Manager Electrical;
 - Manager HVAC Plumbing;
 - Manager Equipment and Plant
 - Manager Purchase;
 - Manager Planning;
 - Manager Quality Assurance/Quality Control;
 - Manager Health, Safety and Environment (HSE);
 - Manager Fabrication; and
 - Manager Stores.

All the functions and programs are managed by a manager with the assistance of other staff.

4.5 Outsourced Functions

- Internal Audit Function is outsourced to Jamal Malik & Co, Chartered Accountants.
- Cornelius Lane & Mufti are the legal consultants of the company.
- Corporate compliance work is outsourced to Hamid Zahid & Co.

The diagram that depicts the overall hierarchy of the organization is in “**Annexure-A.1-8**”.

4.6 GAP Analysis:

i. Composition of the Audit Committee *(Risk Implication: Medium)*

Issue

During the course of our review of the governance structure and committees established, we observed that an audit committee is in place representing the managements approach to implement the best practice and compliance to the code of corporate governance which incase of Private Limited Company is not required. However we observed that in the absence of non-executive members the committee is made up of: (a) CEO, (b) Head of Business Development, (c) Manager Finance, and (d) Manager Accounts. It is to be noted that the same staff members are also responsible for the financial and operational activities of the company.

Impact

The independence of the internal audit function may be impaired and effectiveness of control environment may be compromised due to: (a) the current composition of the audit committee and (b) the susceptibility of its objective to self-interest threat and self-review threat.

Recommendation

An audit committee is an operating committee of the Board of Directors charged with independent oversight of the performance of the company. It is recommended that the management should include non-executive members in its audit committee so that the above mentioned risks to independence may be mitigated.

ii. Meetings of the Audit Committee *(Risk Implication: Low)*

Issue

During the course of our review of the governance structure, particularly role of audit committee, we noted that audit committee meetings are convened on annual basis rather than a more frequent or rapid approach i.e on quarterly basis. Although the committee meeting is convened on an annual basis, in practice it does not review the annual financial statements prior to the handing over of the same to the external auditor for audit and expressing of opinion.

Impact

In the absence of periodic meetings (quarterly) coupled with lack of review of financial statements on annual basis, the audit committee function lacks the adequacy of the corrective action to be taken by the management towards mitigation of risks.

Recommendation

Audit committee meetings should be convened on quarterly basis. This would result in effective oversight of operations along the identification and mitigations of related risks. In addition the

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annual financial statements should be reviewed by the audit committee for mitigation of risks identified by the internal auditors prior to handing over to the external auditors.

iii. Coordination of Audit Committee with External Auditors (Risk Implication: Low)

Issue

During the course of our review no documentary evidence in form of minutes of meetings which would validate any meetings held with the external auditors. This practice is not in-line with best practices as principally the audit committee has major role with regards to liaison with the external auditors and resolution of gaps identified by the external auditors.

Impact

The lack of coordination with the audit committee can impact the quality of external audit activity due to duplication of efforts for accomplishing audit work which may already have been done by the internal auditor and has been reported to audit committee.

Recommendation

There should be formal planned interactions between external auditor and the audit committee including internal auditor so as to become aware risk related to the control environment prevailing in the organization and also to use any work which has already by carried out by internal auditor.

iv. Mandate of Project Bidding Committee (Risk Implication: Medium)

Issue

Project Bidding Committee is performing its functions without a documented mandate in terms of detailed terms of reference. Furthermore during the course of our review it was observed that minutes of the meeting of these committees are also not being prepared.

Impact

Establishment of committees without a detailed mandate and TORs describing their respective roles and responsibilities may result in failure to achieve the very purpose of establishment. In the absence of availability of minutes of meetings, one can also not ascertain the proceedings of the meeting and accordingly plan his follow up action.

Recommendation

EWI must ensure that all the committees formed are run by a mandate in the form of detailed TORs/charters so that their respective performance could be evaluated in the light of said TORs. Also minutes of the meetings should be prepared on regular basis.

Conclusion

During the course of our review certain key observations have been highlighted which entail weaknesses associated with the composition of the audit committee, schedule to convene audit committee meetings and functioning of project bidding committee in absence of a documented mandate. These observations indicate control weakness in the aforementioned areas which can further impact the effectiveness of governance, management oversight and operations of the company. Considering the legal structure of EWI, organization is not required to maintain an internal audit committee by law, however if the organization is to receive USAID funding the

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compliance regarding the recommendations for the committee would be required as this committee has an important role in resolution of observations made by the auditors and their subsequent implementation of remedial measures to mitigate risks. Based on our review and gap analysis, the governance and management structure of the organization has been ranked as **Low Risk** area.

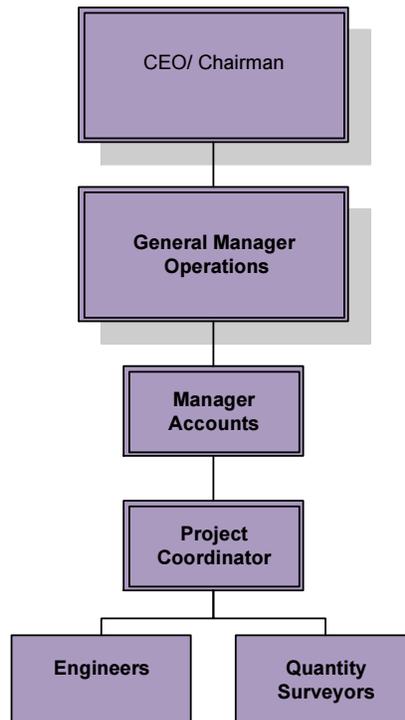
Section 5. Budgeting, Accounting & Financial Reporting and Financial Management

5.1 Budgetary System

5.1.1 Introduction and overview of the existing system

The Budgeting system plays an important role in the financial and project management mechanism of any organization in this line of work, as all the future projects or activities are recommended through such system. It is a detailed planning for the allocation of funds and resources in an organization. It portrays how the organization plans to spend its resources. The objective for carrying out an assessment of the budgeting system is to understand the organization's capacity and procedures to identify and budget for all future activities as well as its operational efficiency.

Owing to the nature of the business of EWI (construction and engineering), the company needs to have a very comprehensive, systematic, and efficient budgeting system, having smartly designed controls and strong implementation and up gradation practices. The Budgeting System in EWI comprises of two parts; the Project Budgeting performed by the Project Cost Control (PCC) department and Other Budgets (Overhead Budgets) prepared by Accounts department. The staff involved in the budgeting process is described in organogram below:



5.1.2 Types of Budgets

Currently two types of budgets are prepared at EWI:

a. Project Budgeting (Production Budget):

Project Coordinator in the Project Management Department/Project Cost Control (PCC) department is responsible for the preparation of project budgets in conjunction with his team of engineers and quantity surveyors. All budgets are prepared by the project coordinators, reviewed by the GM Operations and then it is finally approved by CEO/Chairman. Budgets are subject to periodic revisions based on monthly variance analysis between the budgets, daily performance reports and the actual performance summaries established by Interim Payment Certificate (IPC) after approval of CEO/Chairman BOD.

b. Administrative Budgeting (Non-Production Budget):

Manager Accounts is responsible for preparation of management and administrative budgets of the head office, regional offices and project sites. Forecast budgets comprise of two years' projection of all overhead costs, segregated month-wise.

Details of steps involved in budgeting process are given in Annexure – B.2.

5.1.3 Framework

EWI has a Project Management Manual which covers budget policies and procedures to be used as a guideline for the preparation of budget. There is a mechanism of monthly meeting, the purpose of which is the re-allocation of additional funds in the cash plan to accommodate new and or ongoing activities, contingencies, customer & staff needs and unforeseeable events to manage the project and management activities. This is done through approval of CEO in the cash plan at the end of each month. However inter head reallocation is not possible during the year.

5.1.4 Methodology for Assessment

In order to form an opinion on the budgeting function carried out at EWI, our methodology included the following:

- Review of the documented Project Management Manual/Budget manual/documentation of the budgeting process at EWI.
- Management interviews and discussions to obtain understanding of the budgeting process actually in practice.
- Walkthrough tests to check the processes at an abstract level.
- Control testing within the system through our planning memorandum and USAID's internal control checklist.
- Case study based compliance testing for budget preparation & approval, periodic monitoring & variance analysis, budgetary re-allocations and request for additional requirements.
- Review of other relevant documentation.

As per the scope of work, we have performed walk through tests on the budgeting process in order to assess the budgeting system of EWI. In order to map the budgeting process from initiation, we met the concerned personnel of budgeting & project monitoring. Accordingly, gap analysis has been conducted (covered in the following sections) clearly showing the deviation from the established manuals, best practices as adopted by the corporate entities in respect of budgeting.

For detailed processes and documentation mapping kindly refer to Annexure – B.3.

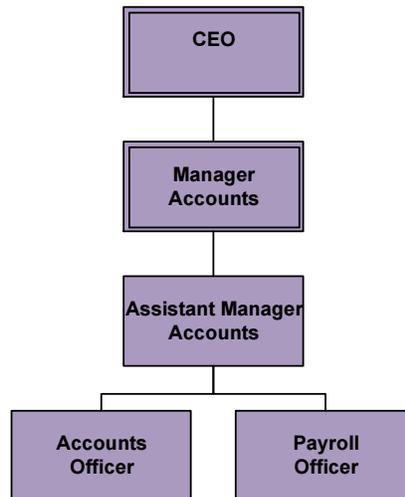
Conclusion

Budgeting system is in place and operating effectively, the entire process of budgeting is well planned and in line with the specific requirements and needs of the organization. Based on our assessment of the function we have ranked it as **Low Risk** area.

5.2 Accounting and Financial Reporting System

The purpose of an efficient and effective accounting and financial reporting system of any organization is to accurately record on timely basis financial information consistent with the business direction that serves accounting needs. The objective of assessment of this area is to provide reasonable assurance that EWI has acceptable accounting and financial reporting systems as well as acceptable policies, procedures and practices and can obtain, maintain and fairly disclose reliable data and information.

The accounting and financial reporting function at EWI is performed by the Accounting and Finance Department (A&F Dept.) which has been established primarily to record all the transactions which have a financial impact on the organization and need to be reflected in financial reporting and ensure smooth flow of funds in both short and long term business cycles. These transactions include payments, receipts, purchases, revenue, salary payments, construction costs, contractor bills, operating expenses, selling & business development expenses, staff expenses, bank charges, etc. Furthermore, A&F Dept. reconciles and verifies all the transactions taking place in other departments. The hierarchy and reporting line of the function is described in the organogram given below:



The department uses accounting software called Accounting Management System (AMS) which is integrated into the in-house developed ERP system. ERP is undergoing up-gradation and AMS is currently the only operational module. AMS is developed to record all cash & bank receipts and payments and all journal entries for head office, site offices and project sites but the report generation feature is limited to Trial Balance only, which becomes the basis of preparation of Monthly Management Accounts and Annual Financial Statements. Monthly management accounts are submitted to CEO for review.

Details on the accounting function along with the mechanism of calculating direct and indirect cost is given in Annexure – B.3.

5.2.1 G&A, Indirect Costs and Social Charges

a. Administration and General Expenses

S.No	Description	Value (PKR)	% of Total Cost
1	Salaries and Other Benefits	74,036,514	2.186%
2	Communication Expenses	6,639,237	0.196%
3	Utilities Expenses	6,987,431	0.206%
4	Rent, Rates and Taxes	5,868,324	0.173%
5	Repair and Maintenance	5,321,095	0.157%
6	Printing and Stationery	3,045,731	0.090%
7	Fee and Subscription	1,522,042	0.045%
8	Professional Services	1,465,228	0.043%
9	Entertainment	2,113,558	0.062%
10	Audit Fee	100,000	0.003%
11	Advertisement	652,944	0.019%
12	Traveling and Conveyance	6,420,082	0.190%
13	Vehicle Running Expenses	7,498,370	0.221%
14	Insurance	2,694,106	0.080%
15	Depreciation	8,732,834	0.258%
16	Office Running Expenses	5,820,105	0.172%
	Total	138,917,601	4.102%

The assessment team was able to verify the amounts and percentages pertaining to administration and general expenses against total cost through note-12 of the audited financial statements for the year ended June 30, 2011.

b. Indirect Cost

S.No	Description	Weightage of indirect cost of each expense with respect to total cost	Weightage of indirect cost of each expense element with respect to total direct cost
1	Salaries and other benefits	9.14%	10.64%
2	Boarding and catering	0.83%	0.97%
3	Lodging, Camp Consumables etc.	0.37%	0.43%
4	Traveling and Conveyance Expenses	0.42%	0.49%
5	Utilities Expenses (Electricity, Water, Gas, POL / R&M of Generator)	0.42%	0.49%
6	House, Camp and Land Rents	0.30%	0.34%
7	Rental Charges of Vehicles	0.31%	0.36%
8	Vehicle Running Expenses (R&M and POL)	0.54%	0.63%

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9	R&M of Office, Camp and General	0.13%	0.15%
10	Communication Expenses (Telephone, Fax, Mobile, Internet, Courier)	0.24%	0.28%
11	Canteen Expenses and Other Entertainment etc	0.22%	0.25%
12	Outside Services (Security and Insurance etc.)	0.69%	0.80%
13	Printing, Stationery, Duplicating, Computer Accessories	0.23%	0.27%
14	Advertisement	0.09%	0.11%
15	Consultancy charges	0.04%	0.05%
16	Sites running expenses	0.13%	0.15%
	Total	14.10%	16.41%

Limitation:

It is to be duly noted that the above percentages (%) pertaining to indirect costs have been provided by the management of EWI and same could not be verified by the assessment team due to inaccessibility of financial data for the aforementioned area therefore no assurance can be provided regarding the same.

c. Social Charges

S.No	Description	%
1	Medical	6.20%
2	Gratuity	6.00%
3	Group Insurance	2.00%
4	Local Social Welfare Contribution	0.07%
5	Old Age benefit	0.03%
6	Laundry washing allowance	1.50%
7	Casual leave encashment	3.50%
8	Sick leave encashment	2.80%
9	Annual earned leave	4.50%
10	Motivation incentive (HSE Dep't)	0.80%
11	Notice pay	4.40%
12	Site allowance	10.00%
13	In efficiency (Un-developed zone)	1.90%
14	Bonus & Performance Awards	1.30%
	Total Social Charges	45.00%

Limitation:

It is to be duly noted that the percentages (%) pertaining to social charges have been provided by the management of EWI and same could not be verified by the assessment team due to inaccessibility of financial data for the aforementioned area therefore no assurance can be provided regarding the same.

5.2.2 Framework

The basis of preparation of financial statements at EWI is the accounting and reporting framework for medium sized businesses, which is established by ICAP. The accounts have been prepared under historical cost convention and the construction revenues are recognized by applying percentage of completion method.

The revenues and expenses are pooled into project non-specific local and foreign currency accounts. Direct costs and corresponding revenues are later allocated to respective projects and administrative expenses are prorated to the projects in proportion of the revenues earned.

5.2.3 Tax Function

Echo West International (Private) Limited (Company) is engaged in construction and allied business. The company has outsourced their tax services to Maqbool Haroon Shahid Safdar & Co. Receipts from execution of contracts are subject to withholding @ 6% under section 153 of the Income Tax Ordinance, 2001, which constitutes as full and final discharge of tax liability of the company under Presumptive Tax Regime (PTR/FTR).

We have examined the tax status, according to the confirmation received from the tax consultant, the returns were filed by the company for tax year 2009, 2010 & 2011 and the same is treated as assessment order under the provision of section 120 of the Ordinance. Further there is no litigation pending against the company according to the tax consultant and management of the company. This can be evidenced from the subject status.

All orders under section 161/205 (Withholding Tax Compliance) of the Ordinance are framed till 2009 and notice under section 161 of the Ordinance for tax year 2010 has been issued by the taxation authority which was timely replied by the consultant of the company but the same is pending for adjudication on the part of the tax department. No tax demand can be estimated for Tax Year 2010 at this stage.

The detailed mapping of the systems is provided in **Annexure B.3**

5.2.4 Gap Analysis

i. Operation of ERP System Modules

(Risk Implication: Medium)

Issue

During our review of the ERP, we observed that out of thirteen existing modules, Accounts Management System (AMS) is the only module in operation and producing system generated reports. Subsequently, source documents for all the transactions of incomes, expenses, payables, receivables etc are manually prepared and later on fed into the AMS. (The details of the non-operational modules are provided in Annexure B.3). Furthermore it was observed that currently there is no documentation which could identify and provide for transfer of assets that have taken place between different project sites and fixed asset register maintained by EWI was not in line with ICAP's TR-6 (Revised 2012) for fixed assets.

Impact

- The non-functioning of other modules can result in duplication of efforts and lack of real time processing environment which links all the modules and data punched into the system.
- The absence of asset transfer documentation indicates weak controls over transfer of fixed assets to and from active sites and storage locations. This may lead to misappropriation of assets, resulting in financial losses of material amounts.
- In the absence of properly maintained fixed asset register the safeguarding of asset is at risk. Since there is no evidence of identification like tagging placed on the assets, the assets are prone to the risk of theft, embezzlement of assets. If properly maintained fixed register is not maintained then it becomes difficult to ensure ownership of the assets.

Recommendation

As informed to us a new Oracle based ERP solution is being outsourced for implementation to Net Sol which will address the key components including: (a) accounts management, (b) business development and pre-qualification management system, (c) budget & cost control system, (d) document control system, (e) fixed asset management, (f) HR management, (g) administration management, (h) inventory management, (i) procurement management, (j) plant and equipment management, (k) proposal & bidding, (l) project management, (m) sub contractor management system and (n) vehicle management.

EWI's Comment

Refer to Section 12 (12.1, S# 1)

GT's Comment

If this system is implemented the risk ranking may be reduced to low.

ii. Outstanding Liabilities

(For Reference)

While undertaking review of financial statements, we observed that EWI had an outstanding liability in shape of associated funds from the director. This amount is payable since 2009 and amounts to Rs. 352,130,408. The financial statements do not contain any note to account for the repayment of the amount outstanding. In response to the above query it has been informed that the said loan is interest free and is repayable only at the discretion of the management and dependent on the availability surplus cash flows within a period of 10 years. This section has been included only for reference and in our opinion will not effect the liquidity of the company for at least the next 5 – 7 years.

iii. Disclosures of Contingencies

(For Reference)

We have observed during our review that no contingencies have been disclosed in the financial statements. It is a common practice in the industry that contingencies exist in terms of guarantees or otherwise particularly keeping in the view the nature of industry in which EWI is operating. This non-disclosure is not in conformity with the accounting practices of the sector and the reporting standards. We are of the opinion that once the new ERP solution is in place the exact aging of the contingencies can be worked out through the said system. On the litigations that might be classified as contingences we have been provided with a letter from the legal-council identifying that no such issue is outstanding.

iv. Receivables from Clients

(For Reference)

During the course of our review, we observed that receivables amounting to Rs.97,963,606 from clients are outstanding since last one year despite the fact that company completed its contractual obligation in case of these clients. No provisions have been made till to date in the books of accounts. As per the management representation provided to us most of these out standings are subject to maintenance period clause which has now been completed and the management is expecting the release of the funds in next 60 to 90 days.

v. Tax Refund Status

(For Reference)

There is mismatch between the tax refund amounts provided by the tax consultants and the audited financial statements. The tax refunds as per the tax consultant's amounts to Rs. 10,888,242 whereas the tax refund in the audited financial statements amounts to Rs. 4,891,206. (Details of tax refunds as per the tax consultant are provided in Annexure B.3). In our opinion the difference of Rs. 6 Mil approximately might not be applicable as the books of accounts represent Rs. 4.9 Mil as tax refunds. This will not have an impact on the current financial statements however if a re-fund in excess of 4.9 Mil is made it will have a positive impact on the profitability of the company.

vi. Non-compliance of Tax Provisions

(Risk Implication: Medium)

Issue

We observed while verifying the tax withheld from the salaries of the employees that statements under section 149 (Salary) and 165 (expenses other than Salary) of the Ordinance were not filed in accordance to the provisions of the Ordinance. The statements were not filed for the tax year tax years 2009 & 2010.

We also observed that in the tax year 2011 the statements u/s 149 & 165 were filed but they were not complete. We checked in the statements that the tax was withheld in respect of 9 employees only whereas total permanent employees of the subject company are 137.

Moreover the statements u/s 149 & 165 were not filed on timely basis as required by the tax law.

Statements u/s 149 is submitted late by 102 days for 1st quarter, 53 days for 2nd quarter, 18 days for 3rd quarter and 92 days for 4th quarter. Similarly statement u/s 165 is submitted late by 104 days for 1st quarter, 53 days for 2nd quarter, 18 days for 3rd quarter and 130 days for 4th quarter.

Impact

The above mentioned observation will result in attracting penalty proceedings. The company may have to pay a penalty equal to 0.1% of the tax payable for each day of default subject to a minimum penalty of five thousand rupees and maximum penalty of 25% of the tax payable in respect of all tax years.

Recommendations

In case of the above mentioned observation we would suggest that the EWI should timely file its withholding tax statement u/s 149 (salary) & u/s 165 (Expenses other than salary). Further, we would like to recommend the company that it should include details of all employees in statement u/s 149 whether they are taxable or they fall in below taxable limit in order to avoid penalty proceedings.

vii. Internal Auditor's Findings

(Risk Implication: Medium)

References to Internal audit report for the period July 2010 to June 2011, by Hameed Zahid & Co, certain systemic issues have been highlighted which are as follows:

- a. Late recording of Projects Costs:** Costs against advances in certain cases were not recorded during the month with which they related.

- b. Non Recording of Project Costs:** Advances have been paid to suppliers but costs were not recorder even after the lapse of considerable time from date of advance payments.
- c. Suppliers and Vendors – Reconciliation of accounts:** It is the policy of the company to reconcile current account balances with suppliers, at least on six monthly bases. It was observed that reconciliation with a few parties was not made within the time period given in the policies and it was delayed which caused late recording of costs in GL.

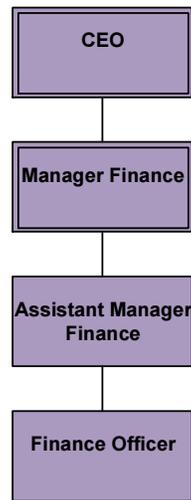
Conclusion

During the review of the accounting and financial reporting function, it was observed that system is in place and operating to cater for the requirements of the company however as described above certain gaps with regards to the un-operational ERP modules and asset management were observed. Non-compliance with tax provisions has also been observed which can result in penalties from the tax authorities. Based on the observations highlighted we have ranked the accounting and financial reporting function as **Medium Risk** area.

Furthermore during the review of financial statements it was observed that EWI is liable to pay Rs. 352,130,408 since 2009, contingences in terms of guarantees have not been disclosed as notes to the financial statements and amount of Rs. 97,963,606 is receivables from clients since 2009/2010. These findings have been included as reference and do not have an impact on the risk assessment.

5.3 Financial Management System

Management of finances is critical for any entity because it ensures that adequate cash flow is available for entity's short term and long term business needs. In order to able to do cash management, Financial Management System needs to produce records that are supported by documentation, having the capability to identify, segregate, accumulate and record all costs incurred in relation to the overall business expenses and to specific cost centers and funding sources. The staff involved in the financial management function is as follows:



5.3.1 Overview of Functions

a. Payable Management

All the procurement transactions are routed through accounts dept. where all the purchases and payables are recorded. Furthermore, accounts dept. has in place budgets which can be compared with the actual spending to make sure that only budgeted activity is being pursued.

b. Receivable Management

All the revenue transactions are routed through accounts dept. where all the revenues are recorded. Furthermore, accounts dept. performs variance analysis to identify areas where deviations are resulting between budgeted and actual figures.

c. Reconciliation

There are multiple transactions, which are being carried in different departments of EWI. All the transactions, which have financial impact, are required to be recorded by the Accounts dept. and then subsequently reconciled with different benchmark documents. It is done to ensure the completeness of the records thereby pointing out any mistake or flaw during execution of the transaction or during book-keeping.

d. Bank operating procedure and bank reconciliations section

Manager Finance is responsible for the management of day-to-day cash needs, banking facilities including bank accounts opening, payments and receipt, reconciliations and day to day dealings with banks. Assistant Manager is preparing monthly bank reconciliation statements which are approved by the Manager Finance.

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Two (2) '**Foreign currency accounts**' nominated in US\$ are opened with Askari Bank and NIB.

Eighteen, (18) '**local currency accounts**' are opened in Askari Bank, HBL, BOP, Citi Bank, Sindh Bank, and NIB.

Bank accounts are further segregated into regular current accounts and current accounts with overdraft facility.

e. Bank Account opening procedure

This procedure is initiated by the Project Manager of the new site that will request a letter to the Accounts and Finance department. Manager Finance shall authorize and recommend the request to the BoD for the approval of new account.

f. Petty Cash Management Section

Petty cash heads are pre-defined for head office, regional offices and site locations. Manager Finance is responsible for petty cash expenses at the head office whereas administrative manager and project manager is responsible for the petty cash at site location.

The detailed mapping of the system is documented in Annexure B.1

5.3.2 Gap Analysis

i. Separate Bank Accounts

(Risk Implication: Low)

Issue

During our review of bank accounts we observed that the EWI was not maintaining project specific/assignment accounts for keeping separate contract receipts account. Receipts from all contracts are pooled into in the bank accounts maintained at head office and branch offices.

Impact

This leads to non identification of receipts of specific project, which can result in utilization of specific funds for other projects and cost centers which may not be allowable under the grant arrangements to be made.

Another problem caused by this deficiency is the lack of transparency, traceability and accountability of specific funds, required for internal project progress reports and post grant audits by donors.

Recommendation

It is recommended that a policy for opening and maintaining project specific bank accounts should be implemented in order to ensure proper utilization of specific funds and facilitate the surveillance, accountability and corrective functions by both internal management and external stakeholders.

Conclusion

Financial management function of EWI includes the mechanism and system for receipt of funds, their application and working capital management. The overall assessment of this function is satisfactory and is in line with the developed policies and procedures. Therefore, it has been ranked as **Low Risk**.

Overall Conclusion of budgeting, accounting & financial reporting and financial management function:

The purpose of the assessment of the budgeting, accounting & financial reporting and financial management function was to assess whether the organization has the capability to plan its finances against projected and general activities, account for and report the transactions as per applicable standards and the ability to manage the inflows and outflows of funds. Based on our review we have assessed that the budgeting system of the organization is well defined and entails all necessary components with regards to planning of finances, variance analysis and re appropriation of funds and effectively caters for the needs of the organization. Reference to the accounting and reporting function it has been observed that system is in place and operating to cater for the requirements of the company however certain gaps have been highlighted in the relevant section entailing un-operational modules of the ERP system and gaps in the asset management system. Furthermore during the review of the financial statements un-paid liabilities, un-disclosed contingencies and long standing receivables have been identified however these have been included as reference and do not have impact on the risk rating. Reference to financial management function of the organization, systems is in place and operating effectively. However it observed that the organization does not maintain independent accounts for its projects which can impact the project wise surveillance of funds. Based on the assessment of individual functions within this head, we have ranked the overall function as **Low Risk area**.

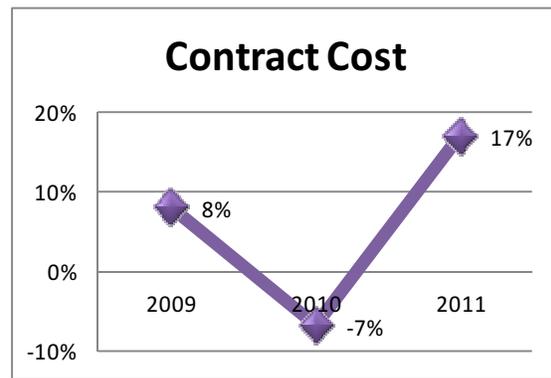
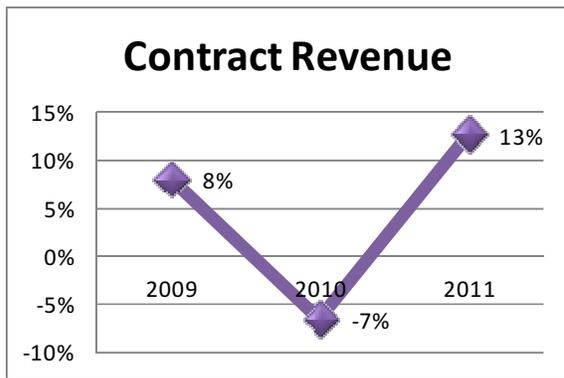
5.4 Financial Analysis

The financial analysis comprises of figures and ratios selected to demonstrate the financial performance as well as financial position of EWI over the last four (4) years.

For trend analysis a year by year % increase/ decrease has been calculated for profit & loss and balance sheet line items i.e. for each target year, prior year has been utilized as base year for calculating the % increase/decrease.

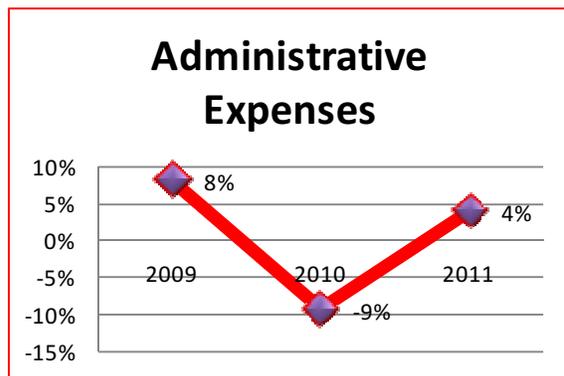
5.4.1 Analysis of Financial Statements

a. Profit and Loss (Statement of Comprehensive Income)



Contract revenue shows a variable trend over the period of three years with upward trend for the year 2011 due to incremental contract activity as compared to the FY 2010.

The contract cost shows similar variations corresponding with revenue trends. The percentage increase in contract cost in FY 2011 was more than the increase in revenue mainly due to inflation, competition, and exchange rate fluctuations.

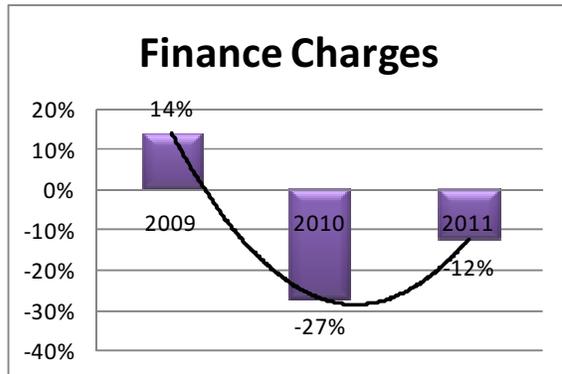


Administration Charges have shown a declining trend for FY 2009-10 while showing a slight upward trend for the FY-2011. The increase in admin expense in FY 2011 was due increase in staff salaries, wages rates also

The decreased operating profits have resulted due to dis proportionate increase/decrease in the contract and administrative costs against the contracted revenues as evident from the

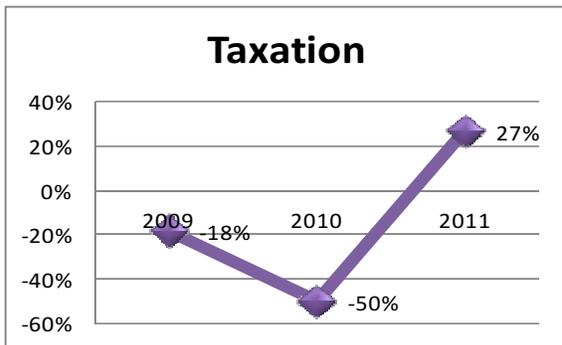
increased sharply due to inflation. The enhanced project activity required more staffing.

trends.



As per management representation the financial charges have decreased over FY 2009-11 due to pay back of debts.

As evident from the trends the finance charges have shown a decreasing trend due to payment of debts however due to decreased operating profits over the years the profit before tax over the years shows a down ward trend.



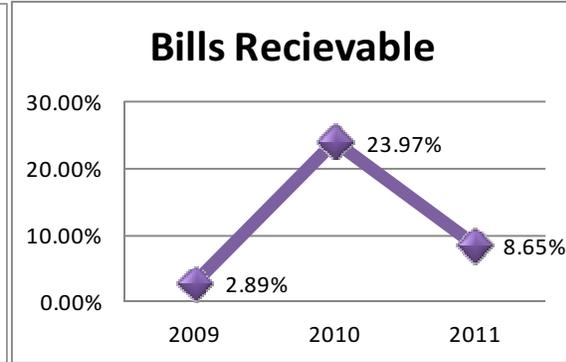
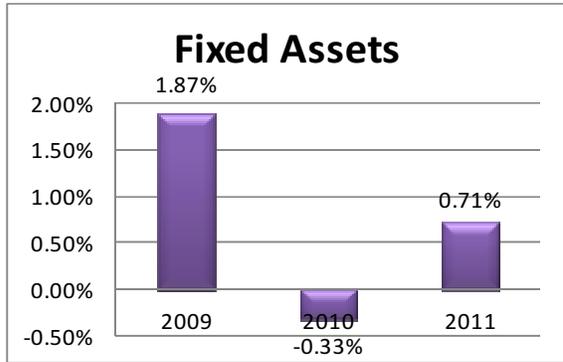
Taxation increased in 2011 because tax is deducted at source from the revenue, which increased in 2011, as full and final discharge of tax liability. This percentage increase in tax amount is higher than the corresponding increase in revenue as tax is deducted from receipts from customers which include mobilization advances. However, mobilization advances are not recorded as revenue until work is actually performed reflecting respective stage of completion of contract activity. This has resulted in further decrease in profit after tax by 33%.

The profit after tax shows a variable trend for FY 2009-11. This is primarily due to the decrease in operating profits in 2010 & 2011 and the variation in tax payments during the years under consideration.

Detailed analysis of P/L is provided in Annexure B.4

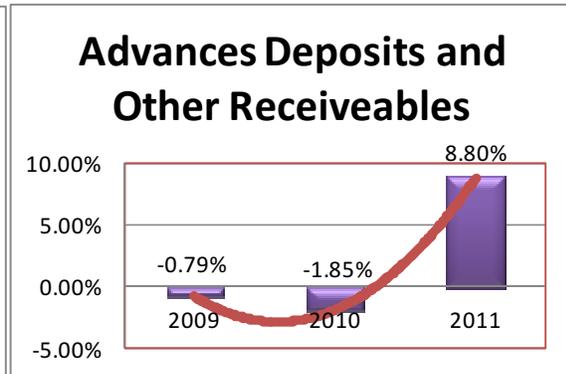
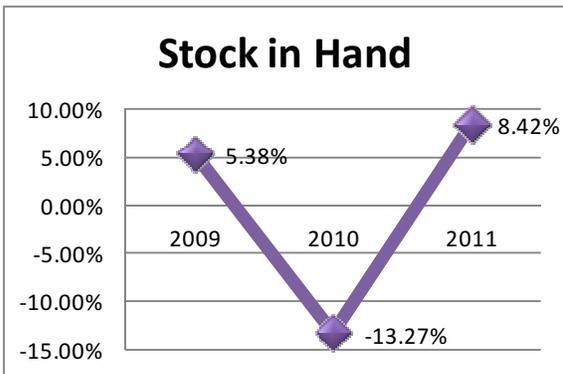
b. Balance Sheet (Statement of financial position)

Assets:



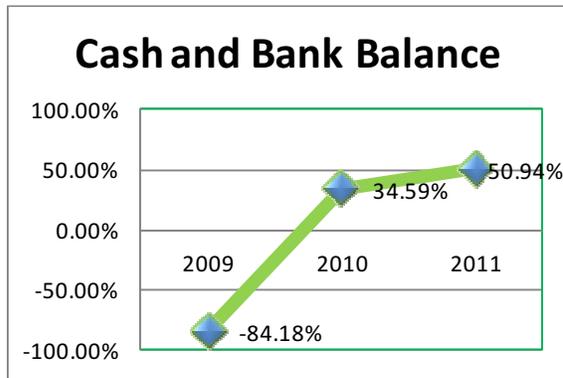
Fixed Assets of the company increased in 2011 as more contracts were won during the said year, requiring increased investment in fixed assets.

Bills receivable has increased over FY 2009-11, however the % increase has been variable over the said years. The primary reason for such increase is due to non recovery receivables from clients.



Stocks in trade were higher in 2011 due to greater number of active projects requiring more stocks.

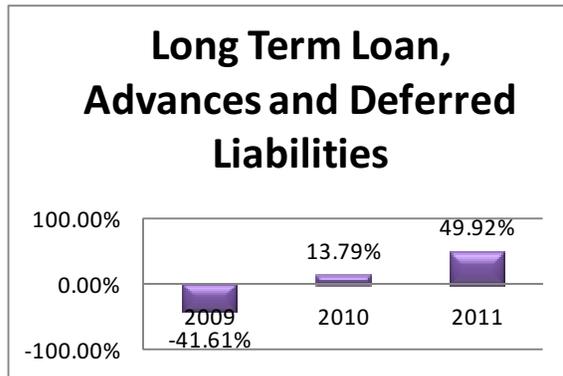
Advances, deposits and other receivables are higher due to considerably higher increase in retention moneys deducted by the clients and greater mobilization advances given to suppliers and subcontractors.



Cash and Bank Balance is much higher due to increase in mobilization advances received and much lower outflows on account of debt servicing.

Liabilities

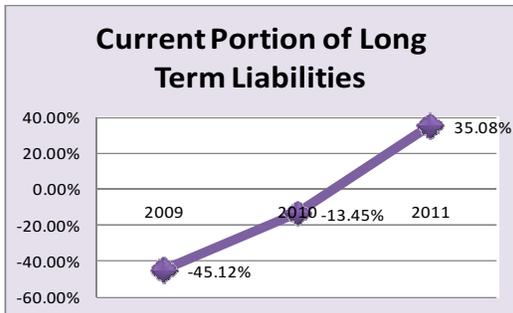
Non-Current Liabilities



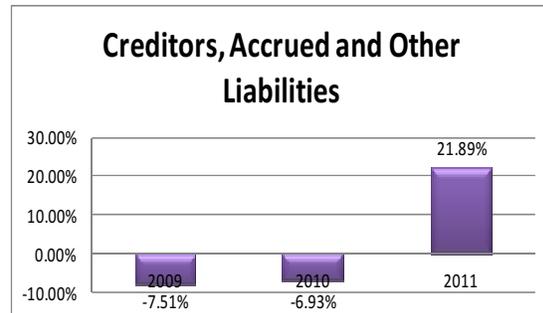
Long term advances and deferred liabilities show an increase due to large inflows of mobilization advances on new contracts. This increase is of much higher percentage than the percentage increase in revenues as mobilization advances usually amount to 10% of total contract price, contracts completion times can go up-to 5 years, and these advances cannot be recognized as revenues until proportional work done cannot be certified.

Liabilities against assets subject to finance lease have reduced due to the shifting of last rental to the current portion of long term liabilities during 2011.

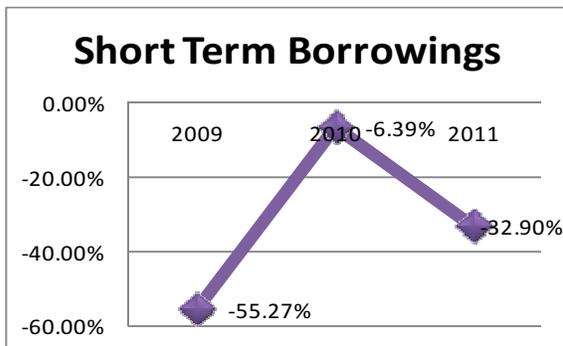
Current Liabilities



Current portion of long term liabilities represents a substantial increase over the base year due to shifting of the final payment of lease rentals to this head. Furthermore, there was payment of short term loan which is the reason of such a huge decline in FY 2010.



Creditors, accrued and other liabilities have shown an upward trend in FY 2011 mainly due to construction material, equipment and subcontractors' services obtained on credit for use at new projects.

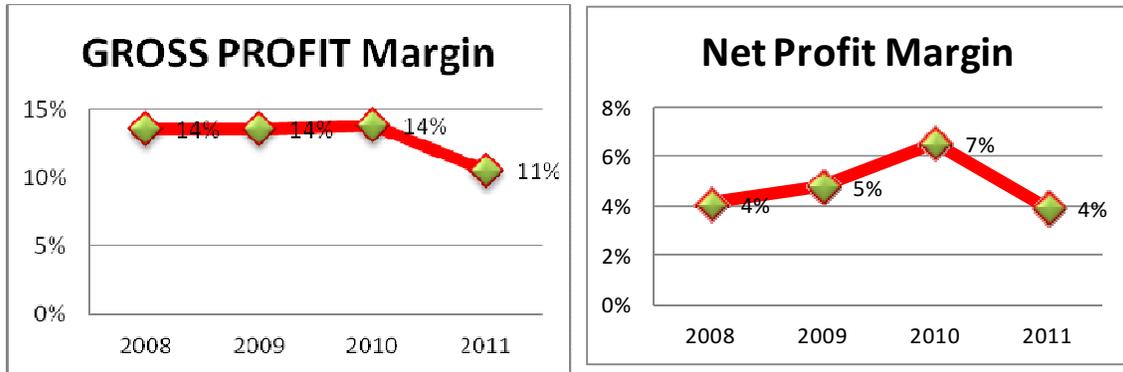


The short term borrows have shown a variable trend over FY 2009-11. This is mainly due to reduced short terms borrowings and payment of short term debts.

Detailed analysis of B/S is provided in Annexure B.4

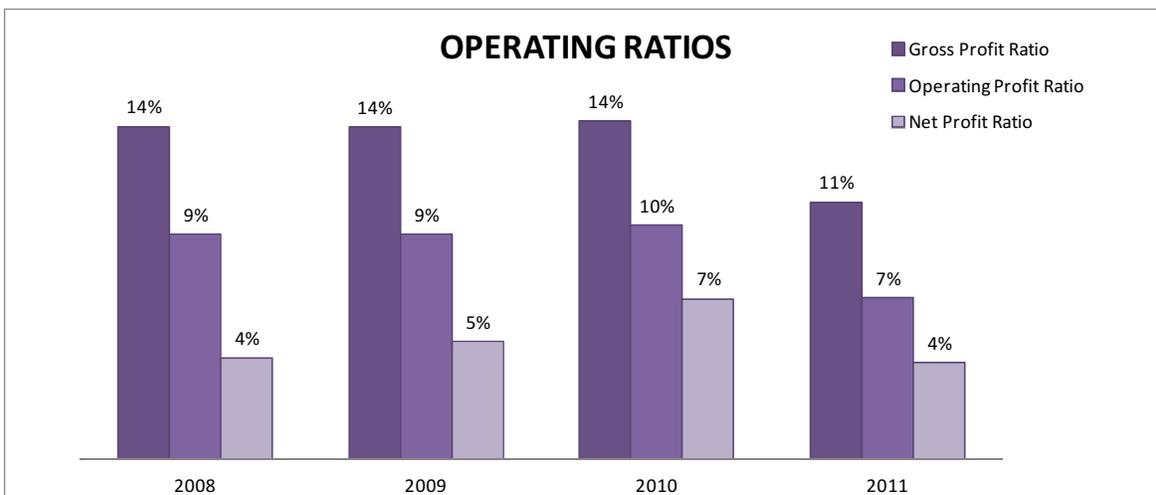
5.4.2 Ratio Analysis

a. Profitability Ratios



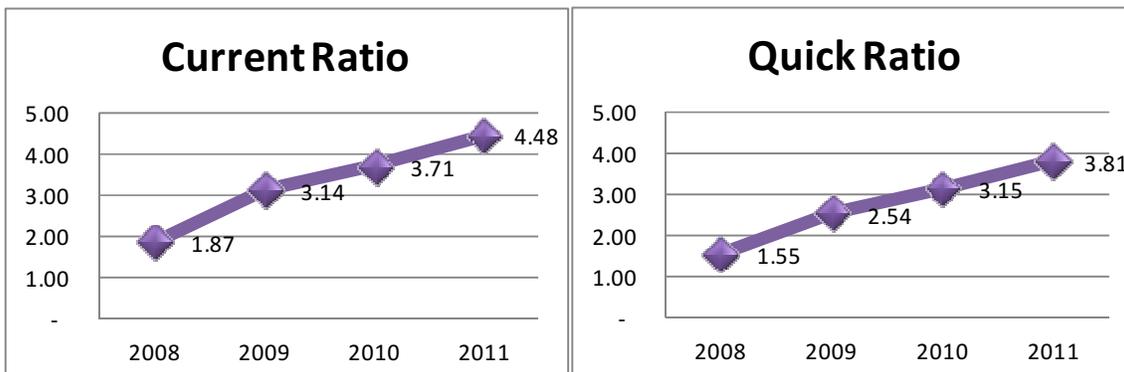
GP margins show a steady trend for FY 2008-10. However GP has shown a downward trend in FY 2011 due to greater increase in contract cost as compared to contract revenue due to high inflation and greater competition in the construction industry leading to tighter bidding and lower quotes for the projects.

The net profit margin shows variable trend over for FY 2008-11. This is primarily due to reduced operating profits and disproportionate increase and decrease in expenditures as highlighted in the trends given above.



The operating ratios are depicting a stable performance of EWI from FY 2008 to FY 2010 but later in FY 2011, there is a minor decrease in the key performance indicators which is due to increase in direct cost as against the increase in revenue. This was also due to reduced gross margins due to lower bidding of projects and facing more competition from the market

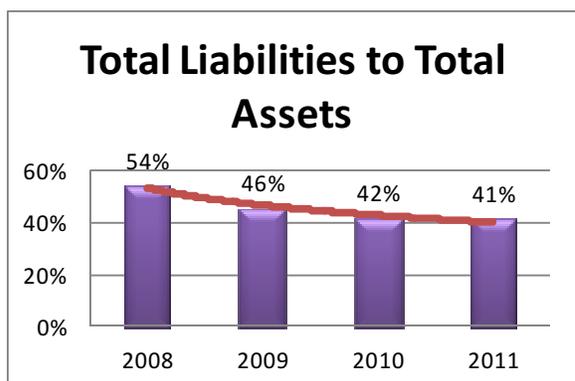
b. Liquidity Ratios



Current Ratio is the ratio that is mainly used to determine how well the company is managing working capital flow is, i.e. by the end of current year, how easily it can pay off their current liabilities (debt and payables) from their current assets (cash, inventory, receivables). The graph shows an increasing trend. This is mainly due to large investment in stock and higher cash and bank balances due to increase in mobilization advances received and much lower outflows on account of debt servicing

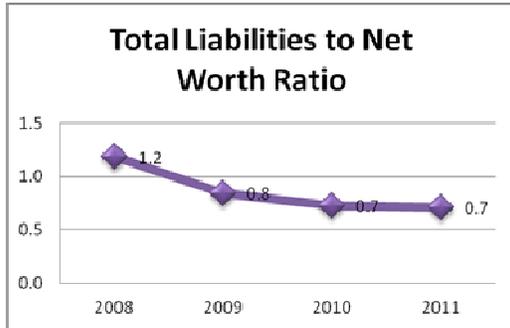
Whereas Quick Asset Ratio (sometimes referred to as *Acid Test Ratio*) is a ratio that determines the ability of the company to pay off its current liabilities from their *liquid* assets, the inventory portion is excluded from the calculation of this ratio. As the graph depicts, the company has a healthy quick ratio which has increased from 1.55 times in 2008 to 3.81 in 2011, creating more cushion for liquid assets to repay the liabilities.

c. Total Liabilities to Total Assets



Total liabilities to total assets ratio shows the entity's ability to pay back its liabilities from its assets. It was recorded at 54% in FY 2008, decreased to 46% in FY 2009, this ratio continued its downward trend in both FY 2010 and FY 2011. This is a healthy sign because now company has to utilize only 41% of its assets to repay its liabilities unlike in year 2008 where the company was not able to pay its liabilities even after utilizing all of its assets.

d. Total liabilities to net worth ratio



When we compare the total liabilities with the net worth of the EWI then we can infer that although the liabilities have decreased but on the other hand the assets has also increased substantially. Due to this reason this ratio is following a downward trend.

Section 6. Procurement System

6.1 Introduction to the Function

The purpose of our review is to confirm, amongst other things, that the procurement system of EWI is competent, well documented and effective so as to handle the transactions efficiently and in a transparent manner.

The procurement function of the EWI has been entrusted with the purchase department of the company. The main roles of the purchase department are as follows:

- Selection and Evaluation of Vendors;
- Negotiating;
- Procurement;
- Maintenance of Purchasing Record;
- Coordination;
- Research & Development; and
- Material Management.

In addition to the purchase department, two committees' namely (a) pre-qualification committee and (b) bidding committee are also involved in the procurement process.

- Pre-qualification committee tasked with analyzing and deciding on whether to go for bidding in a particular project.
- Bidding committee is responsible for compilation of bid and identifying its specifications. Bidding Committee also evaluates bids received and evaluates different projects to advise company as to which projects it should bid and for how much.

The procurement practices followed by EWI currently do not fall under the umbrella of PPRA or any donor agency regulations requiring competitive bidding.

6.2 Types of Procurement

Procurement function in EWI can be classified into following two categories:

a. Administrative Procurement:

Administrative Procurement includes the procurement of following:

- Information Technology (IT) Procurement; and
- Other Procurement (Stationary, Furniture/office equipment).

Purchase Dept. Coordinates every procurement under this category with Administration and MIS Dept. to perform it efficiently and transparently. In case of IT Procurement, MIS Dept. raises quotation from the vendors in response to requisition from relevant departments and recommends the suitable suppliers. Procurement Dept. purchases the items with requisite specification from the recommended vendor.

As far as purchase/procurement of Stationary and Furniture/office equipment are concerned, overall responsibility is also vested in Purchase Dept. Assistant Purchase Manager/ Purchase Officer in liaison with Admin Officer procures the requisite items.

b. Project Procurement

Project procurement is further classified into following two categories:

- Major Material (Sand, Crush, Bricks, Steel, Cement, Fitting and Fixtures (wood works, locks, marbles))
- Minor Material (Hardware items (Samad Bond, Nails, Shovel etc), other minor items and consumables)

The detailed system mapping of procurement processes has been provided in **Annexure C.2** of the report.

6.3 Methodology of Assessment

In order to form an opinion on the procurement functions carried out at EWI, our methodology included:

- Review of the documented procurement manual/documentation of the procurement process (in case where no procurement manual is available).
- Control testing within the system through our own and USAID's internal control checklists.
- Transaction based compliance testing.
- Review of other relevant documentation.

6.4 Gap Analysis

Following issues were identified while performing the system and transaction reviews:

i. Vendor Selection Committee Approvals

(Risk Implication: Low)

Issue

During the course of our review of the procurement evaluations, we observed that in practice one member of “**Vendor Selection Committee**” is involved in signing of comparative statements; the existing manual does not specify any guidance in this regard. Moreover, there are no TORs developed for this forum, which can be made part of the manual.

Impact

In absence of defined policies and procedures, the roles & responsibilities of the committee and procedures cannot be streamlined. This can invariably result in threat to objectivity and independence of the committee's function.

Recommendation

A detailed policies and procedures should be specifically written and approved by Board of Directors for “Vendor Selection Committee”.

ii. Visit Reports

(Risk Implication: Low)

Issue

With reference to the Purchase Manual (P#11), a visit report is required after conducting physical verification of vendor premises/manufacturing plant and classifies it significant as part of a series of assessment checks in order to assess the market position, financial capability and

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production capacity of potential vendor. During the course of our review, we have observed that preparation of “**Visit Report**” is not in practice as part of vendor evaluation.

Impact

Lack of visits to the vendor office and manufacturing plants, etc. creates a risk of approval of unsuitable vendor, which may lead to numerous risks following selection of the inappropriate vendor like:

- Reputational risk;
- Late delivery of required material in the quantities ordered;
- Lack of continuity of supplied material according to required specification; and
- Deviation of physical quality of material with specification.

Recommendation

We recommend that written policy of visiting the supplier’s site and generation of Visit Report should be practiced in accordance with the guidance of the manual. This will ensure that supplier is appraised physically from various aspects like capacity and capability, financials, quality assurance, organizational structure, processes and performance.

iii. Contracting Procedures

(Risk Implication: Medium)

Issue

During the course of our review, we observed that sub-contracting procedures are in practice at EWI however the same has not been documented as part of the policies and procedures manual nor does the policies and procedures manual cater for the provisions regarding dispute resolution with sub contractors.

Impact

In absence of documented framework in form of detailed policies and procedural manual the management is prone to the risk of inconsistencies with regards to sub contract handling and management of disputes. This can adversely impact the operations of the company in case of litigations.

Recommendation

The management should develop policies and procedures with regards sub contracting procedures and disputes handling.

EWI’s Comment

Refer to Section 12 (12.2, S#1)

iv. Competitive Procurement Process

(Risk Implication: Low)

Issue

It was observed that the procurement policies and procedures manual does not cater for requirement of competitive procurement as per PPRA regulations and USAID regulations.

Impact

In absence of such policies and procedures transparency and competitiveness in the procurement process cannot be ensured.

Recommendation

Considering the legal status and activities of the organization PPRA rules and USAID regulations regarding competitive are currently not applicable. However in the event that EWI is to receive USAID funding, it is recommended that the organization develops policies and procedures which should include but not be limited to: (a) procurement thresholds for competitive bidding, (b) defining policies and procedures for competitive procurement, (c) detailed policies and procedures for local and international bidding, and (d) defining roles and responsibilities of committees in the competitive bidding process.

EWI's Comment

Refer to Section 12 (12.2, S#2)

Conclusion

During the course of our review of the procurement function it was observed that system is in place and operating effectively. Certain deviations from the current policies and procedures were observed however these were not of material nature. Furthermore, as described above certain procedures are generally in practice at EWI although same are not documented in the policies and procedures manual indicating room for improvement in the said document. The procurement practices followed by EWI currently do not fall under the umbrella of PPRA or any donor agency regulations requiring competitive bidding. However if it is to receive USAID funding it is highly recommended that it develops policies and procedures to cater for the requirements of such regulations.

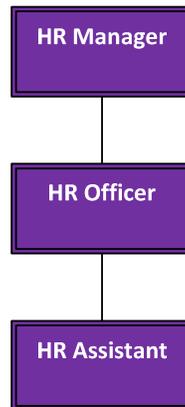
Based on the findings of the assessment of the procurement function of EWI, we have ranked it as **Medium Risk** area.

Section 7. Human Resource Function

Human Resource department in Echo West International (Pvt.) Ltd. (EWI) is assigned the task of maintaining the manpower, capabilities and skills in all personnel. Our review was targeted to gain understanding of this department and to assess whether the human resource system is in place and working effectively. Furthermore the review also entails the capability assessment of staff at different level of management in handling the proposed USAID project. Review of human resource has been carried out in accordance with the review programs and Internal Control Checklist of USAID to gauge the effectiveness of the Human Resource function at EWI. Brief on the existing system is narrated below; however, detailed system documentation is explained in Annexure.

7.1 Introduction to the function

Operations of the company are spread over USA, UAE, Iraq, Afghanistan and Pakistan (Lahore, Islamabad and Karachi). EWI has over 1024 employees including professionals, regional engineers, advisors, and team managers, specialists, administrators, accountants, non-skilled and skilled workers for planning, building, managing and operating various projects. HR department comprises currently of HR Manager, HR Officer and HR Assistant. Following is the graphical representation of the hierarchy followed in HR department.



HR department manages appointment, recruitment, selection, training of new employees, employee performance evaluation, employee's attendance, travelling and grievance policy as well as retaining workers of appropriate capabilities and transferring them to the location where they can serve their best. Career planning and promotions of EWI employees are done through appraisals and other performance measurement tools including personal recommendations by officers and Performance Evaluation form.

7.2 Organizational Strength of EWI

Total Staff Strength	
Category	Total
Management	68
Non Management	956
Total	1024

Head Office																						
Category	Departments																			Total		
	Executive / Management	Project Management	Contracts Management	Cost Control	Electrical Section	Mechanical Section	Plant & Machinery Section	Planning & Monitoring	QA/QC Section	HSE Section	Procurement / Store	Accounts	Finance	Audit	Business Development	Human Resource	Proposal	MIS	Logistic & Support		Administration	
Management	4	7	1	1	1	1	1	1	1	1	2	1	1	1	1	1	1	1	1	1	31	
Non Management	0	3	4	0	1	3	4	3	3	0	2	4	1	1	1	2	1	1	1	28	21	84
Total	4	10	5	1	2	4	5	4	4	1	4	5	2	2	2	3	2	2	29	22	115	

Karachi Office																						
Category	Departments																			Total		
	Executive / Management	Project Management	Contracts Management	Cost Control	Electrical Section	Mechanical Section	Plant & Machinery Section	Planning & Monitoring	QA/QC Section	HSE Section	Procurement / Store	Accounts	Finance	Audit	Business Development	Human Resource	Proposal	MIS	Logistic & Support		Administration	
Management	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	
Non Management	0	1	0	0	1	1	1	0	0	0	1	1	0	0	0	0	0	0	0	4	3	13
Total	0	3	0	0	1	1	1	0	0	0	1	1	0	0	0	0	0	0	4	3	15	

Islamabad Office																						
Category	Departments																			Total		
	Executive / Management	Project Management	Contracts Management	Cost Control	Electrical Section	Mechanical Section	Plant & Machinery Section	Planning & Monitoring	QA/QC Section	HSE Section	Procurement / Store	Accounts	Finance	Audit	Business Development	Human Resource	Proposal	MIS	Logistic & Support		Administration	
Management	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Non Management	0	1	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	3	3	9
Total	0	1	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	3	3	9	

Project Sites			
Category	Departments		
	Staff	Labor	Total
Management	35	0	35
Non Management	0	850	850
Total	35	850	885

Approx

7.3 Framework

EWI has developed its HR manual. Implementation orders of the board of directors are in the shape of directives, which are compiled in the manual. The manual was formally developed and approved by the Board in year 2011.

7.4 Gap Analysis

i. Personnel Files of Employees

(Risk Implication: Low)

Issue

HR Department has developed personnel files of each employee; however, we have observed that these files are not updated on regular basis.

Impact

This shows a deviation of existing HR manual, which requires maintaining personnel files in a comprehensive manner.

Recommendation

Personnel file should contain all documents relating to employees i.e. JD's, application form, performance appraisals, medical certificates, salary reviews, training sessions attended and Grievance and disciplinary actions taken against employee, if any etc. Following this, these should be updated to reflect updated status of employees.

ii. Procedures for Performance Appraisal

(Risk Implication: Medium)

Issue

During our review of performance appraisal process, we observed that it did not have detailed procedures to be followed in terms of established evaluation criteria against which to appraise the employees.

Impact

The purpose of performance appraisal may not be achieved in the absence of concrete evaluation criteria.

Recommendation

Detailed performance appraisal criteria should be developed describing performance appraisal process along with related documentation and forms to be used during evaluation exercise.

EWI's Comment

Refer to Section 12 (12.3, S#2)

iii. *Appoint Letters*

(Risk Implication: Medium)

Issue

EWI issues an appointment letter at the time of appointment/joining of an employee. It was found by the assessment team in certain cases, either appointment letters have not been issued or where found, the same were not signed.

Impact

The appointment letter is a formal document to communicate the employee in regards to his duties and responsibilities for the effectiveness and efficiency of operations. Absence of which could lead to non – awareness among employees as to their roles and can even lead to disputes at the time of exit.

Recommendation

At the time of appointment of an employee, an appointment letter signed by the HR Manager and employee should be issued as and acceptance of his duties and responsibilities.

EWI's Comment

Refer to Section 12 (12.3, S#3)

iv. *Internal Auditor's Findings*

(Risk Implication: Medium)

References to Internal audit report for the period July 2010 to June 2011, by Hameed Zahid & Co, Employment record of the employees is not maintained in such a manner which provides total control to the head office over the movement of employees from one project to other.

v. *Grievance handing mechanism*

(For Reference)

Issue

During the course of the review of HR Function, it was observed that the grievance handling is based on general practices of management rather than having a specific policies and procedures to address the same.

Impact

In absence of detailed policies and procedures for grievance handling, there cannot be a stream lined approach for handling such cases and may result conflict amongst the staff.

Recommendation

The approved policy and procedures of the organization should be followed by all the employees of the organization.

EWI's Comment:

Refer to Section 12 (12.3, S#1)

GT's Comment:

Subsequent to the exit conference, EWI management has provided us with the board resolution dated 19th September 2012 approving the grievance handling policy. Therefore the observation stands resolved.

Conclusion

During the course of the review of HR function it was observed that system is in place however certain discrepancies have been highlighted against certain key HR areas which include performance appraisals and issuance of appointments letters. In addition, an observation from the internal auditor's report has been highlighted which identifies weak control over maintenance of employee record that would enable EWI head office to effectively track employees movement from one project to the other. Based on the gap analysis, we have ranked the Human Resource Functions as **Medium Risk** area.

Section 8. Internal Audit

8.1 Introduction and Overview of the Existing System

The key role of the Internal Audit function in any organization is to provide an independent, objective assurance to its management and consulting activity designed to add value and improve an organization's operations. Moreover it helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls, and governance processes.

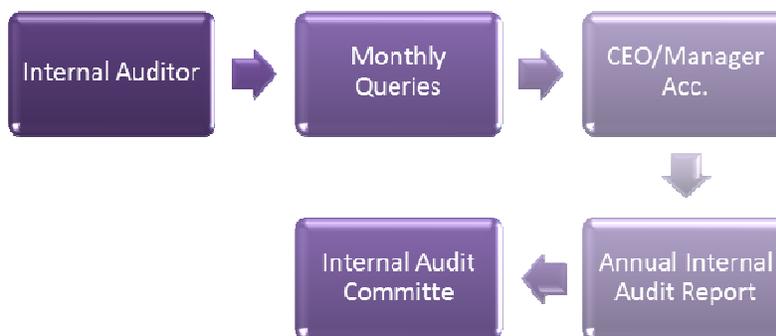
Internal auditing is an important tool for the management of any organization for maintaining integrity, efficiency and effectiveness of existing internal control system. Although the internal audit function works in close coordination with the management, but certain level of independence and objectivity is of essence to perform the audit activity effectively.

EWI has outsourced its internal audit function in May 2009 to Hameed Zahid & Company, Chartered Accountants. The authority to appoint internal auditors has been vested in the CEO and the Chairman Board of Directors. Since then Hameed Zahid & Company, Chartered Accountants are carrying out internal audit activity on a daily basis and report their findings of the said activity in the form of a monthly query sheet to the CEO and Manager.

Main functions generally performed by Hameed Zahid & Company, Chartered Accountants are given below:

- Hameed Zahid & Company Chartered Accountants conducts internal audit on daily transaction basis as per agreed scope of work.
- Reports directly to the CEO and Manager Finance on Monthly basis and to the internal audit committee on Annual basis, which include findings, observations and recommendations to improve overall control environment.

The following diagram reflects the reporting channel of internal audit function.



8.2 Reporting Mechanism

For reporting purposes, Hameed Zahid & Company, Chartered Accountants conducts internal audit on monthly basis. Accordingly they prepare the monthly query sheet which is a collection of all of the observations identified during the daily transaction testing throughout a particular month which includes all of their findings and observations pertaining to each area along with their respective recommendations. Manager Accounts discusses the observations with the internal audit engagement partner and takes remedial actions on the observations raised. The actions thus taken are communicated to the CEO. The observations left un-adjusted in monthly

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reports are accumulated to form the annual report which is presented to the internal audit committee before the commencement of statutory audit.

8.3 Framework

EWI has an internal framework to govern internal audit function in accordance with the scope letter signed with the internal auditors. Currently, agreement signed with the internal auditor provides the overall framework of internal audit.

8.4 Methodology of Assessment

We have conducted an assessment to determine the adequacy of internal audit function with the specific emphasis on its ability to assess certain types of transactions. Reports of internal auditor were selected for review of reporting mechanism that the function follows along with reviewing the sufficiency of tools and techniques.

8.5 Gap Analysis

i. Audit Approach

(Risk Implication: Low)

Issue

During course of our review it was observed that internal auditors are utilizing stratified sample basis for highlighting control weaknesses on a monthly basis or areas highlighted by the management for carrying out their internal audit activities. The current practice is not in line with industry's best practices which require carrying out audit activities in-line with risk based approach which essentially entails audit planning and risk assessment & evaluation prior to conduct of internal audit activities.

Impact

By following the current approach, a synchronized risk based approach for appraisal of systems and internal controls appraisal cannot be achieved, hence this can impair the effectiveness of the internal audit function.

Recommendation

- The approach of internal audit function needs to be revisited based on risk oriented approach entailing audit planning and risk assessment prior to conduct of internal audit particularly keeping in view extensive reporting and monitoring commitments associated with USAID funding. Consideration should also be given to the fact that such function is still to be outsourced or developed internally.
- The audit department of EWI should develop and maintain proper risk register. It will facilitate the organization in identifying and managing the relevant risks. Further it will assist the organization in ranking the identified risks, so that the happening of any risky issue could easily be tackled.
- The management of EWI should form a risk management committee in line with the guidance provided in the manuals.

EWI's Comment:

Refer to section 12 (12.5)

Conclusion

During the course of our review of the internal audit function it was observed that a framework for carrying out internal audit exists and is being implemented through an outsourced arrangement with a firm of chartered accountants. As highlighted above an observation pertaining to the current approach against best practices has been identified. Subsequently, EWI through its management comments has agreed to amend its approach based upon our recommendations. Based on the findings of the assessment of the internal audit function of EWI, we have ranked it as **Low Risk** area.

Section 9. Absorptive Capacity Analysis

Absorptive capacity relates to the ability of an organization to maximize the use of available financial resources and its ability to manage larger volumes of funds in result of scaling up of operations. There are many factors that affect the manner and extent to which available resources can be channelized in order to achieve the desired results.

For EWI, we have used a combination of quantitative and qualitative factors to measure and assess the absorptive capacity of the organization and key resources that are available for future expansion.

Fund Utilization Index

The table given below shows figures in respect of net cash inflows and net cash outflows, which are used to calculate Funds Utilization Index. The net cash outflows are taken as funds being utilized in operations and investments and similarly the cash inflow are taken as funds received by the organization through financing arrangements or through operations. In this table, the cash outflows are matched with the cash inflows to calculate the funds utilization percentage. This elaborates how effective the absorptive capacity of EWI is in terms of over or under utilization of funds. For the purpose of our analysis, we have used figures given in the cash flow statement to be classified as either receipts or payments.

Fund Utilization Index Table		Jun-08	Jun-09	Jun-10	Jun-11
Net Cash Inflows	PKR	78,495,029	153,042,570	95,352,317	133,594,419
	USD*	1,242,018	2,001,847	1,144,085	1,570,269
Net Cash Outflows	PKR	79,558,775	339,778,983	83,210,360	109,528,305
	USD*	1,258,849	4,444,420	998,399	1,287,396
Fund Utilization %		101.36%	222.02%	87.27%	81.99%

*The conversion rates utilized from PKR to USD are based on average rates for the subject years (PKR 63.19/USD for 2008, PKR 76.45/USD for 2009, PKR 83.34/USD for 2010 and PKR 85.07/USD for 2011).

It is noteworthy to mention here that throughout the four years period from 2008 to 2011, fund utilization trend has been fluctuating. There was a massive increase in the utilization in the year 2009, primarily due to heavy outflows in the operating activities coupled with certain repayments of short term borrowings. The balance for covering the shortfall was financed through the cash surpluses held by the company. Since then, the utilization is decreasing, eventually falling to around 82% in the year 2011, showing underutilization perhaps to non availability of investment avenues.

Despite presence of fluctuations from year to year, overall utilization of the funds shows a healthy trend. This essentially entails the capability to manage their funds and utilize them in an effective manner. This is evident from the fact that during the first two years, there was over utilization, but after that, under-utilization is witnessed. In-depth analysis show that EWI is spending consistently on investing activities throughout the last four years.

Reference to Certificate ADV/008, dated March 28, 2011, Askari Bank has provided EWI secured funded and non funded credit limits to the extent of PKR.1,277,911,000 (approximately, USD. 13,520,278). The credit line provides EWI with the financial capacity to effectively cater for the

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operational requirements of the organization. Scenario regarding financing from credit line is provided in Annexure-G.

Another key element of absorptive capacity is the procurement function within an organization, i.e., how quick and controlled are the procurements carried out once funds are available and the project activity has commenced. EWI has sufficient capacity to handle current volume of procurements effectively. The experienced staff and established procurement practices and systems provide evidence that in the near future, EWI can meet the emerging needs of procurements.

The current Financial Management system currently in place has the required capacity to record and report expenditures effectively at current volumes but lacks effective Management Information System (MIS)/Enterprise Resource Planning (ERP) solutions software, although they are fairly well equipped with skilled staff. Therefore it would be fair to say that EWI would only be able to manage with ease the increased volume of work expected if they upgrade the modules of ERP software to cope with their emerging needs in an effective and efficient manner.

Budgeting at EWI is done proficiently as the budgetary system is well defined and is capable of handling increased volume of work expected in near future. EWI project budget control mechanism gives it the ability to control all sorts of national and overseas construction and engineering projects. This function has required capacity to handle additional funds for undertaking new projects.

In addition to above-mentioned strengths of EWI, it is pertinent to mention here that EWI has competent staff who can handle complex construction projects. EWI has a pool of experienced officers working under various capacities.

Limitation

It is to be duly noted that we have based our absorptive capacity analysis on the financials appearing in the cash flow statements due to the non availability of project wise receipt and payments data.

Conclusion

Subject to the assessment of areas identified in the scope of work and fund utilization analysis carried out, it can be concluded that EWI has competent leadership and effective management systems. The senior management is made up of qualified and experienced personnel and its management policies and procedures have a fair potential to support the ASP-RSPN funded award.

Based on our understanding of the systems operating at EWI, the overall mechanism and systems are in place to manage ASP-RSPN funding except for the conditions described in the "Recommendations".

Section 10. Limitation and Caveats

We have carried out the pre-award assessment of EWI in accordance with the mandate as described in the scope of work. The procedures performed by us for the assessment and findings emanating from them have been provided in relevant sections of the report. Our report should be read and understood in conjunction with the facts and issues mentioned below;

1. Our procedures were limited to the scope of the assignment provided in USAID's order for supply of services. The information and data pertaining to EWI as contained in the report has been extracted from information, representations and explanations provided to us by the management of EWI.
2. Our procedures and enquiries did not constitute an audit in accordance with International Standards on Auditing or any other applicable Standards, nor did they constitute a review in accordance with International Standard on Review Engagement issued by the International Federation of Accountants (IFAC).
3. Although, due care and attention has been taken in performance of our procedures, no liability can be inferred for any inaccuracies or omissions reported or from the results thereof.
4. The management of EWI is responsible for establishing and maintaining systems of internal control, financial management and procurement. 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 in order for EWI to prepare the appropriations accounts. We understand that the objective of those financial management and internal control procedures comprehended in USAID's criteria is to provide similar assurance.
5. 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.

Section 11. Recommendations

Conditions Precedents – Pre Award

1. Implementation of ERP system including key components: (a) accounts management, (b) business development and pre-qualification management system, (c) budget & cost control system, (d) document control system, (e) fixed asset management, (f) HR management, (g) administration management, (h) inventory management, (i) procurement management, (j) plant and equipment management, (k) proposal & bidding, (l) project management, (m) sub contractor management system and (n) vehicle management
2. EWI shall open a separate bank account for USAID funding.
3. Organization shall develop procurement policies and procedures catering for the requirements of PPRA and USAID regulations. The said procurement document shall cater for but not be limited to: (a) procurement thresholds for competitive bidding, (b) defining policies and procedures for competitive procurement, (c) detailed policies and procedures for local and international bidding, and (d) defining roles and responsibilities of committees in the competitive bidding process.

Conditions Precedents – Post Award

1. The approach of internal audit function needs to be revisited based on risk oriented approach entailing audit planning and risk assessment prior to conduct of internal audit particularly keeping in view extensive reporting and monitoring commitments associated with USAID funding.
2. The audit department of EWI should develop and maintain risk register.

The management responses on the condition precedents have been provided in Section 12 (12.5)

Section 12. Management Comments

12.1 Budgeting, Accounting & Financial Reporting and Financial Management

Sr. No	Grand Thornton's Review and Evaluation	EWI's Management Comments
1.	<p>During our review of the ERP, we observed that out of thirteen existing modules, Accounts Management System (AMS) is the only module in operation and producing system generated reports. Subsequently, source documents for all the transactions of incomes, expenses, payables, receivables etc are manually prepared and later on fed into the AMS. (The details of the non-operational modules are provided in Annexure B.3). Furthermore it was observed that currently there is no documentation which could identify and provide for transfer of assets that have taken place between different project sites and fixed asset register maintained by EWI was not in line with ICAP's TR-6 (Revised 2012) for fixed assets.</p>	<p>It is kindly submitted that we already have in-house developed ERP System which has been functional and operational for the last 12 years. But from the last couple of months the Company has partially stopped using the said ERP system due to some functional issues. At the moment only Accounts Management System Module is working. To replace the said old ERP system, the Company has already signed a contract with Netsol Technologies Pakistan (a renowned IT Company) for development of new / up-gradation of previous ERP System. (Copy of Agreement is attached for your perusal).</p> <p>We would like to apprise you that the said (under development) ERP System has 14 different modules well integrated with each other namely:</p> <ul style="list-style-type: none"> • Accounts Management System, • Business Development / Prequalification Management System, • Budget & Cost Control System, • Document Control System, • Fixed Assets Management System, • Human Resource Management System, • Administration Management System, • Inventory Management System, • Procurement Management System, • Plant & Equipment Management System, • Proposal & Bidding Management System, • Project Monitoring System, • Sub-Contractor Management System; and • Vehicle Management System. <p>The said new ERP system is actually an enhanced version of the existing ERP system.</p>

We assure you that this new ERP System shall be developed and shall be operational within next 5 to 6 months and we believe that this new software shall serve the company's needs and shall also be good enough to meet the reporting requirements of our clients for next 10 years or so.

As far as Management of Fixed assets is concerned, we mentioned herein above that the ERP System has a separate module for Asset Management and we believe that once this new ERP System is operational it shall be able to maintain asset register according to the standards of ICAP.

12.2 Procurement

Sr. No	Grand Thornton's Review and Evaluation	EWI's Management Comments
1.	<p>During the course of our review, we observed that sub-contracting procedures are in practice at EWI however the same has not been documented as part of the policies and procedures manual nor does the policies and procedures manual cater for the provisions regarding dispute resolution with sub contractors.</p>	<p>It is kindly submitted that Supplier and Vendors Solicitation (for General Procurement) at Echo West is carried out through a Vendor Selection and Evaluation Mechanism which is covered under section Policies and SOPs of Vendor Selection and Evaluation of Procurement Manual. Furthermore, Selection and Management of Subcontractors for Construction Projects is separately carried out through Selection and Management of Subcontractors Policy of Project Management System Manual.</p> <p>During the pre-assessment phase we have provided these two manuals to GT's Team. These segments lay down sufficient details regarding Solicitation of Vendors and Subcontractors.</p> <p>We at Echo West, have maintained / have documented the whole process of solicitation i.e selection, evaluation, solicitation, procurement, payment and other related matter under separate files for each Supplier, Vendor and Subcontractor. For proof we have already presented some files of our vendors and subcontractors to GT's team during pre-assessment phase containing detailed documents according to the procedures laid down in our policy manuals.</p> <p>As far as GT's observation regarding dispute resolution with subcontractors is concerned, we would like to state that after soliciting the subcontractor or supplier, we enter into a detailed agreement according to the company's procedure. In the said Agreement dispute resolution mechanism is clearly stated. For your ready reference the clauses for dispute resolution are reproduced as under:</p> <p><i>"21. Where notice of intention to commence arbitration as to a dispute has arisen, the parties shall attempt to</i></p>

		<p><i>settle such dispute amicably before the commencement of arbitration.”</i></p> <p><i>“22. All disputes, differences or questions between the parties hereto with respect to any matter or thing arising out of or relating to this Sub-Contract shall, after written notice by one party to the other, be referred for resolution/decision in the first place to one of the Company’s Director whose decision shall be final and binding on the both parties, unless it is disputed by either party and a notice in this respect is within fifty six (56) days of the receipt of his decision”.</i></p> <p><i>“23. Provided that, unless the parties otherwise agree, arbitration may be commenced on or after the fifty-sixth day after the day on which the decision under Amicable Settlement has been rendered. Such dispute shall be finally settled under the provisions of the Arbitration Act, 1940 as amended or any statutory modification or re-enactment thereof for the time being in force.”</i></p>
<p>2.</p>	<p>It was observed that the procurement policies and procedures manual does not cater for requirement of competitive procurement as per PPRA regulations and USAID regulations.</p>	<p>As far as GT’s observation that Echo West’s Procurement Policies and Procedures manuals do not cater for requirement of competitive procurement as per PPRA regulation and USAID regulations, we would like to state that these policies are meant for Public Organizations and not for Private Owned Companies / Organization. PPRA’s Public Procurement Rule 2004 which is enforceable in Pakistan clearly demonstrate that:</p> <p>Reproduced from PPRA Rules 2004</p> <p><i>“3. Scope and applicability</i> <i>Save as otherwise provided, these rules shall apply to all procurements made by all procuring agencies of the Federal Government whether within or outside Pakistan.”</i></p> <p>This clearly clarifies our point of view that we are not obligated to follow these rules as a Private Owned entity. Even though our present Procurement</p>

Pre Award Assessment of Echo West International (EWI)

		<p>and Subcontracting Manual / Procedure is up to the mark and very much similar to the PPRA rules and Regulations, we assure you that we shall adhere and implement all Procurement Policies and Procedure upto the standards of PPRA and USAID regulations for USAID related project as soon as we are awarded the Task Order from the USAID.</p>
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12.3 Human Resource

Sr. No	Grand Thornton's Review and Evaluation	EWI's Management Comments
1.	<p>Pre-Award Report Page No: 61 Issue No: i. Grievance Handling Mechanism</p> <p>During the course of the review of HR Function, it was observed that the grievance handling is based on general practices of management rather than having a specific policies and procedures to address the same.</p>	<p>It is kindly submitted that Employee Grievance Handling at Echo West is carried out through a specific Grievance Handling Mechanism which is covered under section Grievance Handling Policy of Human Resource Policy Manual.</p> <p>During the pre-assessment phase we have provided the company's Grievance Handling Policy under Human Resource Policy Manual. This contains Purpose, Scope, Policy, Procedures and Council Members for Grievance Handling Mechanism under said policy</p> <p>The said segment of policy lays down in sufficient detail the Grievance Handling Mechanism in a step by step procedure from Section 4.1 through section 4.7.</p> <p>Further to above, GT's review report on page no. 52 clearly mentions about EWI's HR Procedures which also includes Grievance Handling Mechanism. For your ready reference a paragraph from the review report is reproduced as under:</p> <p><i>"HR department manages appointment, recruitment, selection, training of new employees, employee performance evaluation, employee's attendance, travelling and grievance policy as well as retaining workers of appropriate capabilities and transferring them to the location where they can serve their best. Career planning and promotions of EWI employees are done through appraisals and other performance measurement tools including personal recommendations by officers and Performance Evaluation form."</i></p>
2	<p>During our review of performance appraisal process, we noticed that it did not have detailed procedures to be followed in terms of established evaluation criteria against which to appraise the employees.</p>	<p>Please be apprised that at Echo West we do indepth Employee Performance Evaluation as a part of our Human Resource Policy Manual. The said Employee Performance Evaluation Policy does have detailed procedures to be followed in terms of established evaluation criteria against which to appraise the employees.</p> <p>The said Policy Manual further covers Purpose of Employee Performance Evaluation, Performance Evaluation Process, Performance</p>

Pre Award Assessment of Echo West International (EWI)

		Evaluation Method, Performance Evaluator etc.
3	EWI issues an appointment letter at the time of appointment/joining of an employee. It was found by the assessment team in certain cases, either appointment letters have not been issued or where found, the same were not signed.	<p>At Echo West, we maintain personal files of all employees of the Company. Initially each file is opened / initiated at the time of issuing an Offer Letter to newly interviewed candidate who has extended his / her consent to join the Company.</p> <p>Subsequently upon joining date the said candidate is being issued a joining report. Upon joining each newly inducted employee is required to furnish certain documentation required by the Company. In parallel while the above documents are being sought a Draft Appointment letter (for internal use) is approved / signed by the senior management of the Company.</p> <p>Subsequently, upon furnishing of required documentation by the employee an official Appointment Letter is issued to the employee. In turn the employee signs the acceptance of the said Letter within few days of its receipt depending upon location of the project / office.</p> <p>As far as your specific observation is concerned, our response is as under:</p> <ul style="list-style-type: none">i. No formal request was made by GT team for review of personnel files.ii. During department visit the appointed GT representative perused some current working files lying on table which was primarily of newly inducted / to be inducted employees instead of company's already enrolled employees.

12.4 Internal Audit

Sr. No	Grand Thornton's Review and Evaluation	EWI's Management Comments
1.	<p>During the course of our review, it was observed that the internal auditors are required to carry out half yearly site visits as per agreed scope of work with EWI. However no evidence pertaining to the same was made available to the team which would validate compliance with the provision of site visits.</p>	<p>It is kindly submitted that report has inadvertently over sighted relevant documents available in record to the pre-assessment team. Two documents containing discrepancies observed during the visits to "BAGH" project in May 2012 were handed over to the team which seem to have been inadvertently overlooked.</p>
2.	<p>The internal audit function was outsourced to Hameed Zahid & Co Chartered Accountants in 2009. The engagement partner responsible for internal audit function and monthly & annual internal audit reports is also advising the company on taxation and accounting & finance matters.</p>	<p>It is kindly submitted that we conveyed engagement team that Zahid Hameed rendered accounting & financial services to the company till January, 2009.</p> <p>Further, the engagement team shall confirm that during the review, Mr Zahid Hameed was not involved in any of the following:</p> <ul style="list-style-type: none"> a. Financial statements preparation /presentation to engagement team; b. Preparation of financial information for the engagement team; c. Representing EWI before the engagement team for accounting & finance matters. <p>However, he was part of one meeting held between accounts/finance heads and representative of assessment team towards the end of the engagement assignment. With internal audit, scope perspective as integrated with all concerned departments.</p> <p>Same is the case with taxation services. These are being rendered by Maqbool Haroon & Company. Further, during the review Mr Zahid Hameed was not involved in any of the following:</p> <ul style="list-style-type: none"> a. Preparation of taxation information

		<p>for the engagement team</p> <p>b. Representing EWI before the engagement team for taxation matters.</p> <p>However, he was part of one meeting held between Mr Haroon Malik (partner Maqbool Haroon & Co) and representative of engagement team again as integrated with all concerned departments.</p>
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12.5 Conditions Precedents

Sr. No	Grand Thornton's Review and Evaluation	EWI's Management Comments
1.	Implementation of REP system including key components: (a) accounts management, (b) business development and pre-qualification management system, (c) budget & cost control system, (d) document control system, (e) fixed asset management, (f) HR management, (g) administration management, (h) inventory management, (i) procurement management, (j) plant and equipment management, (k) project management, (l) subcontractor management system and (m) vehicle management.	Already commented under account and financial reporting section.
2.	EWI shall open a separate bank account for USAID funding.	EWI's management assures that a separate bank account for UASID funded projects shall be opened after getting the award of Task Order from the USAID.
3.	Organization shall develop procurement policies and procedures catering for the requirements of PPRA and USAID regulations. The said procurement document shall cater for but not be limited to: (a) procurement thresholds for competitive bidding, (b) defining policies and procedures for competitive procurement, (c) detailed policies and procedures for local and international bidding, and (d) defining roles and responsibilities of committees in the competitive bidding process.	Already commented under procurement section.
4.	The approach of internal audit function needs to be revised based on risk oriented approach entailing audit planning and risk assessment prior to conduct of internal audit particularly keeping in view extensive reporting and monitoring commitments associated with USAID funding.	EWI's management assures that the approach of Internal Audit function shall be revised based on risk oriented approach entailing audit planning and risk assessment prior to conduct of internal audit particularly keeping in view extensive reporting and monitoring commitments associated with USAID funding.
5.	The audit department of EWI should develop and maintain risk register.	EWI's management assures that the Audit Department of EWI shall develop and maintain risk register as per the recommendation of GT's Pre-Assessment Team.

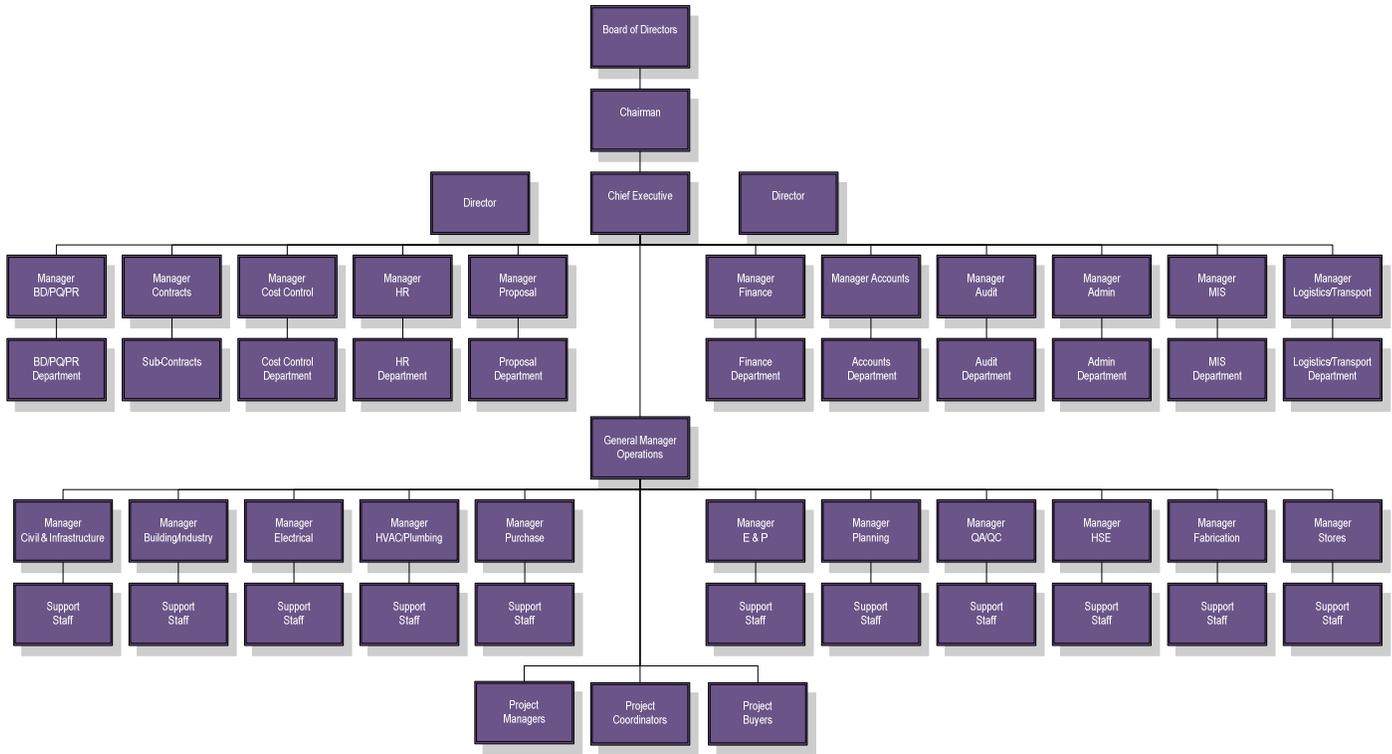
Section 13. Mapping

The detailed mapping of the assessment areas is given in the upcoming pages:

ANNEXURE - A

ANNEXURE – A.1

ORGANOGRAM OF THE ORGANIZATION



ANNEXURE – A.2

ECHO WEST INTERNATIONAL (PRIVATE) LIMITED MEMORANDUM & ARTICLES OF ASSOCIATION

Echo West International (Private) Limited is a company limited by shares formed under Companies Ordinance, 1984. The Memorandum and The Articles of Association of the company are obtained from the client and attached herewith.

ANNEXURE – A.3

LIST OF BOARD OF DIRECTORS

Board of Directors oversees the policies, progress and direction of Echo West International (Private) Limited. Currently Echo West International (Private) Limited has three directors. “Form-29” as the documentary evidence was obtained from the client. Following is the list of members of Board of Directors.

Sr. No.	Name	Designation
1.	Mr. Ehsanul Haq	Chairman
2.	Mr. Vaseem Anvar	Chief Executive
3.	Mr. Irfan ul Haq	Director

ANNEXURE – A.4

LIST OF INTERNAL COMMITTEES AT ECHO WEST INTERNATIONAL (PRIVATE) LIMITED

There are three committees at present at Echo West International (Private) Limited, details of which are demonstrated on the document named “List of Internal Committees”.

Sr. No.	Detail of Committees
1	Internal Audit Committee
2	Project Pre-Qualification Committee
3	Bidding Committee

ANNEXURE – A.5

COMPOSITION OF INTERNAL AUDIT COMMITTEE

Internal Audit Committee at Echo West International (Private) Limited consists of four members as mentioned below:

1. Mr. Vaseem Anvar

Chief Executive

144-Tufail Road
Lahore Cantt.
Tele. 0300-8441645

2. Dr. Irfan ul Haq

Director

88-H, Model Town
Lahore
Tele. 0300-8441647

3. Mr. Tahir Pervaiz

Manager Accounts

60-C, Gulshan-e-Lahore
Raiwind Road
Lahore
Tele: 0333-8464739

4. Mr. Muhammad Jahangir

Manager Finance

House No. 50, UC 60
Chandian, Lahore Cantt.
Tele: 0300-8464739

ANNEXURE – A.6

COMPOSITION OF PROJECT PRE-QUALIFICATION COMMITTEE

Project Pre-Qualification Committee at Echo West International (Private) Limited consists of three members which are as follows:

1. Mr. Vaseem Anvar

Chief Executive

144-Tufail Road
Lahore Cantt.
Tele. 0300-8441645

2. Mr. Najam ul Hasnain

Manager Business Development

305-G Block
Gulshan-e-Ravi
Lahore
Tele. 0324-4218171

3. Mr. Asad Anvar

Officer Business Development

176-L, Street No. 2
DHA Phase V
Lahore
Tele: 0321-4513376

ANNEXURE – A.7

COMPOSITION OF THE BIDDING COMMITTEE

Bidding Committee at Echo West International (Private) Limited consists of three members which are:

1. Mr. Ehsan ul Haq

Chairman

160-D, Model Town
Lahore
Tele. 0333-2148758

2. Mr. Vaseem Anvar

Chief Executive

144-Tufail Road,
Lahore Cantt.
Tele. 0300-8441645

3. Mr. Faisal Mahmood

Manager Proposals

116/8 Tufail Road
Lahore
Tele: 042-35761200

4. Mr. Najam ul Hasnain

Manager Business Development

305-G Block
Gulshan-e-Ravi
Lahore
Tele. 0324-4218171

ANNEXURE – A.8

Registrations

PAKISTAN ENGINEERING COUNCIL

Echo West International (Private) Limited has obtained certificate of “Licence of Pakistani Constructor/Operator” from Pakistan Engineering Council.

Details of which are listed below:

Licence Number:	92
Category:	C-A
Last date of Issue:	14-06-2012
Renewal Policy:	Annually

ISO 9001 CERTIFICATION

Echo West International (Private) Limited has obtained certification from UKAS(UK) under quality assurance standard: **BS EN 9001 :2000**, this certification has also been obtained from Pakistani body “Pakistan National Accreditation Council”.

Details of the license are listed below:

Certificate Number:	9910764
Last Date of Issue:	27-12-2012
Renewal Policy:	Every Three Years

THE LAHORE CHAMBER OF COMMERCE & INDUSTRY

Echo West International (Private) Limited is also registered with The Lahore Chamber of Commerce & Industry.

Details of the registration are as follows:

Membership No:	26010-C
Last date of issue:	07-02-2012
Renewal Policy:	Annually

ANNEXURE - B

ANNEXURE – B.1

FINANCIAL MANAGEMENT SYSTEM

Management of finances is critical for any entity because it needs to ensure adequate cash-flow systems, cash and bank balances management and control, and that enough cash is available for entity's short term and long term business needs. To cater such requirements, following functions have been developed by EWI.

Payable Management

Accounts dept. records all the payables of the company. All the procurement transactions are routed to accounts dept. where all the purchases are recorded. Furthermore, accounts dept. has the knowledge of cash flow projections, can plan or stop the payments as per company policy.

Accounts dept. makes sure;

- To abide by company policy about payment
- To abide by payment procedure to vendors and employees
- To prepare aging reports of all the payables
- To reconcile payments with vendors
- To prepare cheques
- To keep the record of payables and payment

Receivable Management

Accounts dept. records all the receivables of the company. All the revenue transactions are routed to accounts dept. where all the revenues are recorded. Furthermore, accounts dept. has the knowledge of cash flow projections and financial targets, and can follow up the receivables as per company policy.

Accounts dept. makes sure;

- To abide by company policy about receivables
- To abide by procedures of receivable management
- To prepare aging reports of all the receivables
- To reconcile receivables
- To follow up with customers
- To keep the record of receivable and receipts

Reconciliation

There are multiple transactions being held in the organization in different departments. All the transactions, which have financial impact, are required to be recorded by the Accounts dept. This is role of accounts department to ensure the completeness of the records to point out any mistake or flaw during execution of the transaction or during book-keeping.

For this purpose, accounts dept. reconciles all such areas, which include;

Pre Award Assessment of Echo West International (EWI)

- Reconciling site “imprest accounts” with cash register
- Reconciling bank ledgers with bank statements
- Reconciling payables with vendor records
- Reconciling revenue with the record of Project Cost Control Department (PCC).
- Reconciling material consumption
- Reconciling inventory by conducting stock taking

Bank operating procedure and bank reconciliations section

Manager Finance is responsible for the management of day-to-day cash needs, banking facilities including bank accounts opening, payments and receipt, reconciliations and day to day dealings with banks. Assistant Manager is responsible for preparing monthly bank reconciliation statements which are approved by the Manager finance.

Two (2) '**Foreign currency accounts**' nominated in US\$ are opened with Askari Bank and NIB.

Eighteen, (18) '**local currency accounts**' are opened Askari Bank, HBL, BOP, Citi Bank, Sindh Bank, and NIB.

Bank accounts are further segregated into regular current accounts and current accounts with overdraft facility.

Bank Account opening procedure

This procedure is initiated by the Project Manager of the new site that will request a letter to the accounts and finance department. Manager Finance is responsible to authorize and recommend the request to the BOD for the approval of opening new account.

Petty Cash Management Section

Petty cash heads are pre defined for head office, regional offices and site locations. Manager Finance is responsible for petty cash expenses at the head office whereas manager administration and project manager are responsible for the petty cash at site location.

Fixed assets section:

Management makes use of comprehensive Asset Management Policy for acquisition, disposal and monitoring of fixed assets.

Fixed assets register did not exist after 2009. It is now made available but still the requirement of TR-6 of ICAP is not complied with.

Physical verification exercise is being done on annual basis and at the time of transfer of assets from one site to another. Exercise for reconciliation of items as per fixed assets register with the physical items is being carried out at present. Currently Manager Accounts is responsible for all activities performed by this section and is reportable directly to the Board of Director.

Transfer of Assets at Site:

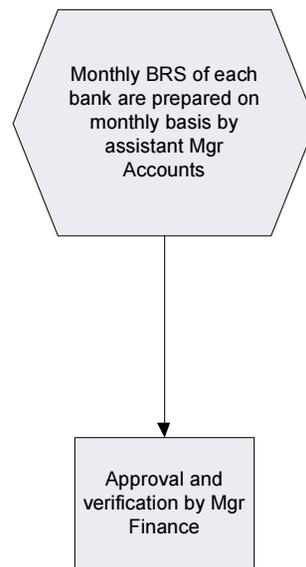
Transfer of assets from one site to another is initiated by respective on site project manager and is sent to the GM operations who analyses the present inventory list on all available sites. Project Manager on the site is the custodian of assets present at site.

Assignment Account

Specific assignment accounts are not necessarily maintained by ECO west. The revenues and expenses of all the assignments are pooled in the existing accounts ledgers maintained for the purpose.

Bank Reconciliations

- Step 1 Bank reconciliation statements of each bank account are prepared on monthly basis.
- Step 2 The reconciliation statements are prepared by assistant manager accounts.
- Step 3 Manager Finance verifies and approves the reconciliation statements.



Petty Cash

Two types of petty cash balances are maintained in the regular course of operations:

On Site Petty Cash:

- Step 1 Project Accountant on each site maintains a cash float up to Rs. 100,000/ in a locked safe box on imprest system;
- Step 2 Pre-defined heads are identified by the BOD for allocation of petty cash expenses on site;
- Step 3 Petty cash payments are made for day to day petty expenses;
- Step 4 All petty cash payments/reimbursements are made against an acknowledgement receipt;
- Step 5 Reconciliation is checked by the assistant manager accounts on random basis;
- Step 6 Recipient of petty cash signs a daily petty cash book and provides supporting documentation while claiming expense;
- Step 7 Supporting documents are properly signed and approved by the project manager;

Step 8 GM operation periodically reviews the petty cash vouchers at head office.

Head Office Petty Cash:

Step1 Pre-defined heads are identified by the BOD for petty cash expenses at HO;

Step 2 Petty cash payments are made for day to day petty expenses;

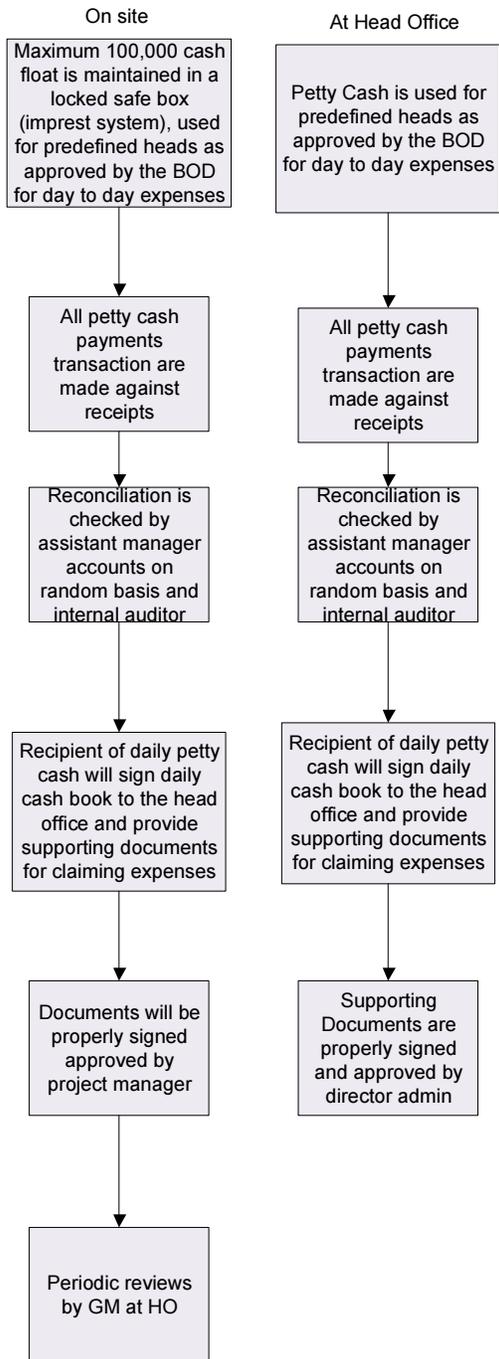
Step 3 All petty cash payments/reimbursements are made against a receipt;

Step 4 Reconciliation is checked by the assistant manager accounts on random basis;

Step 5 Recipient of petty cash puts his signature on a daily petty cash book and provides supporting document while claiming expense;

Step 6 Supporting documents are properly signed and approved by the director administration;

Pre Award Assessment of Echo West International (EWI)



ANNEXURE – B.2

BUDGETING SYSTEM AND FUNCTION

Owing to the nature of the business of EWI, the company needs to have a very comprehensive, systematic, and efficient budgeting system, having smartly designed controls and strong implementation and up gradation practices.

The Budgeting System in EWI comprises of two parts; the Project Budgeting performed by the Project Cost Control (PCC) department and Other Budgets (Overhead Budgets) prepared by Accounts department. Given below is the graphic/tabular presentation of overall hierarchy of budgeting function.

Basis for Budgeting

In EWI historical management and financial information from previous budgets is used to create current flexible budgets, designed to allow the budget preparers to set goals, performance requirements and desired outputs and to timely intimate general and project managers about significant variances in the production process, giving the strategic management reasonable time to change or correct their operations for cost overrun problems, adjusting for changes in business operations or the economic marketplace dynamics.

Details of qualifications for each individual discussed in above paragraph are depicted in the following table:

Sr. #	Designation	Qualifications
1.	General Manager Operations	Msc (Civil Engineering), PMP
2.	Manager Accounts	ACMA, MA Economics
3.	Project Coordinator	Bsc (Civil Engineering)
4.	Engineer (Head)	Bsc (Civil/mechanical/electrical Engineering)
5.	Quantity Surveyor (Head)	Diploma in Associate Engineering

Budgeting Process Flow

Project Budgeting (Production Budget) - PCC Department

Project Coordinator in the Project Management Department/Project Cost Control (PCC) department is responsible for the preparation of project budgets in conjunction with his team of engineers and quantity surveyors. All budgets prepared by the project coordinators are approved by the GM Operations and once finalized; CEO/Chairman of BOD approves the budgets. Budgets are subject to periodic revisions based on monthly variance analysis between the budgets, daily performance reports and the actual performance summaries established by Interim Payment Certificate (IPC) after approval of CEO/Chairman BOD.

The procedure currently being adopted for Project budgeting in EWI is outlined as follows:

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- Step 1 The proposal department (Business Development Department), upon consultation with and appropriate approval from CEO and Chairman BOD, puts together a complete comprehensive cost estimate on current market rates for submitting the proposal to relevant authorities.
- Step 2 Once the bid is won and the contract awarded, the contract is handed over to a project coordinator with complete project details (Bill of Quantities, Book of Specifications, Drawings and the basis of rates) and explained to the coordinator by the head of proposals department.
- Step 3 A notice to proceed (NTP) is then issued by the client/employer that marks the time of inception of the project.
- Step 4 PCC department upon inception of the project prepares a project specific organizational chart and forwards it to the HR department for managing the required human resources. During the same time PCC department also establishes a construction schedule and gets it approved by the G M Operations.
- Step 5 Based on the construction schedule, the PCC department prepares a project cash-flow, which upon approval by the GM Operations is finalized by the CEO.
- Step 6 Taking the organizational chart, construction schedule and cash-flow as the basis of calculation, a comprehensive project budget is made for the whole life of the project, segregated into monthly budgets.
- Step 7 PCC department within an average time of 3 weeks prepares and presents a draft project budget to the Chairman BOD.
- Step 8 In a total average time of 7 weeks the PCC department revises the budget as per Chairman's review and mobilizes the project.
- Step 9 From the time of ground breaking till project completion, 7 performance reports (Progress Report, Bank and Cash Report, Plant and Equipment Report, POL Report, Skilled Manpower Report, Unskilled Manpower Report, Management Report and Stock Report) are originated daily on pre-designed formats which contain budgeted amounts and actual spending at the project site that are daily reviewed against the budgeted performance parameters by the PCC department.
- Step 10 The month-wise summary of daily variance analysis of the above mentioned 7 daily reports is scrutinized against the Interim Payment Certificate (IPC) every month and the variance if any, is used to perform checks on project performance and revision of the monthly budgets.

Administrative Budgeting (Non-Production Budget) – Accounting & Finance Department

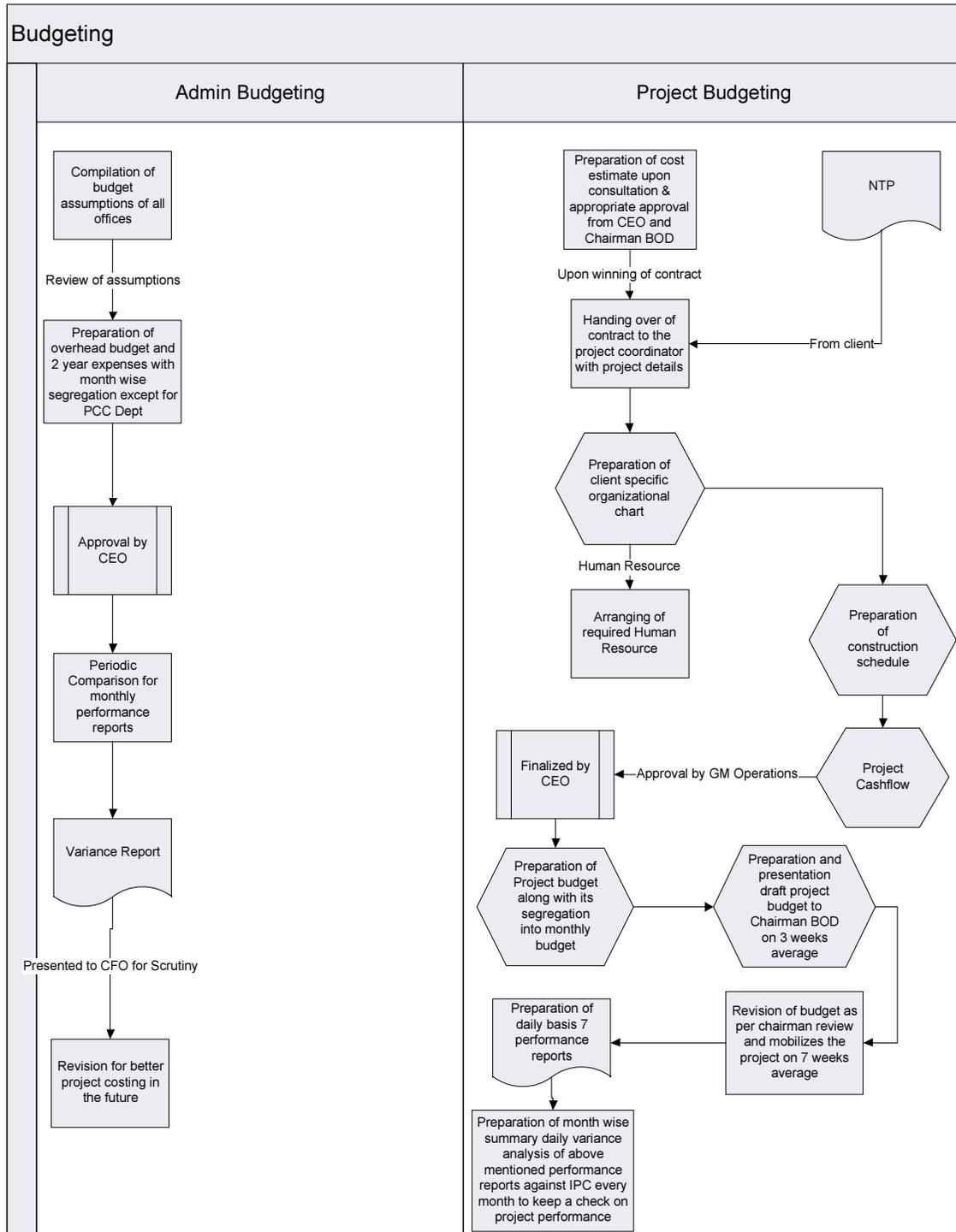
The Manager (Accounts) is responsible for preparation of management and administrative budgets of the head office, regional offices and project sites. Forecast budgets comprise of two years' projection of all overhead costs, segregated month-wise.

The procedure adopted is outlined as follows:

- Step 1 Manager compiles budget assumptions based on past years/months actual performance data of head office, regional offices and site offices.
- Step 2 After review of the budget assumptions and inputs, Manager prepares the overhead budgets, performs forecasting of the expenses for two years, segregated month-wise for all offices and all cost centers except for the PCC department.
- Step 3 These budgets are then presented for approval by the CEO.

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- Step 4 These budgets are periodically (month-wise) matched against monthly performance reports for each cost centre prepared by the ERP software and the variances presented to the CEO.
- Step5 Once the variances are scrutinized by the CEO, the budgets are revised to better project future costs.



Procedure for Re-Allocation or Additional Funds

There is a monthly meeting for Re-Allocation of Additional Funds in the cash plan to accommodate new and or ongoing activities, contingencies, customer & staff needs and unforeseeable events to manage the project and management activities through approval of CEO in the cash plan at the end of each month however inter head reallocation is not possible during the year.

ANNEXURE – B.3

ACCOUNTING AND REPORTING SYSTEM

Books of Accounts, Monthly and Annual Financial statements

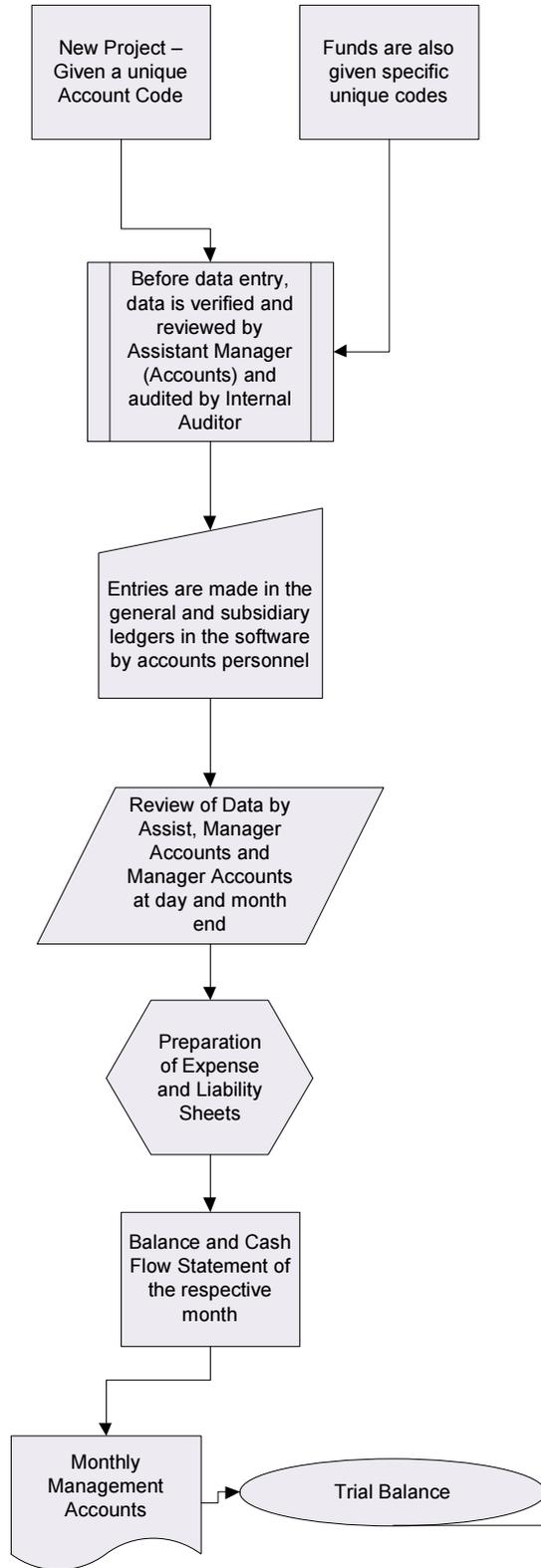
EWI has a documented Finance and Accounting Policies and Procedures Manual covering all major areas of activities. The department is supplemented by a partially-integrated semi-automated Oracle and C bases accounting software by the name of AMS. EWI has an in-house developed ERP system that incorporated the AMS as one of its thirteen modules which are;

- Accounts Management System;
- Vehicle Management System;
- Sub-Contractor Monitoring System;
- Site Progress Monitoring System;
- Proposal and Bidding Management System;
- Plant and Equipment Management System;
- Material Procurement Management System;
- Inventory Management System;
- HR-Admin-Pay Management System;
- Document Control Management System;
- Budget and Costing Management System;
- BD/PQ Management System; and
- Attendance Management System.

ERP system is almost 12 years old and has been facing data base management problems in lieu of which it is currently under the process of up gradation through a software house (Net Sol). All modules except the AMS are currently un-operational. EWI uses accrual accounting for preparing its accounts. Each project is given a specific account code in the software (Prima Vera) not integrated with ERP, funds received, income generated, expenses incurred and liabilities are booked against the specific projects or funds codes in order to segregate different activities. The general ledger and subsidiary ledgers are updated from manual records into the software by the accounting entries made by the personnel of the accounts department at head office which is later subjected to scrutiny of internal department. The data entry made by the accounting personnel remain un-posted until reviewed and verified by the Assistant Manager (Accounts). All entries pertaining to each month get reviewed and analyzed by the Manager (Accounts) and all the abnormalities catered for till the 5th day of proceeding month, as a result of which management reports such as summarized monthly Liability sheet and Expense sheet are prepared that become the basis of Income Statement with respect to EWI, Balance Sheet and Cash Flow Statement of the respective month and are termed as Monthly management Accounts in the MS Excel format since the existing ERP system is limited till generation of Trial Balance

Year's end financial statements are drafted using the same mode as used in drafting monthly financial statements.

Pre Award Assessment of Echo West International (EWI)



Instruments for book keeping:

The different instruments used for recording booking and adjusting entries include, cash payment vouchers cash receipt vouchers, bank payment vouchers, bank receipt vouchers, payable general vouchers, journal vouchers, memos, invoice, expense claim vouchers, advances vouchers and petty cash voucher. Voucher are entered and JVs raised by accounts officer; however they are checked and reviewed by the internal auditor before entry by accounts officer. Once entered, Assistant Manager Accounts reviews the entries before posting. Manager accounts verifies all the posted head office vouchers and verifies site vouchers on sample basis.

Monthly Attendance and Pay Roll Process

Daily time sheet at the site is maintained by the administrative department that is sent to the project manager of the site for the authorization and thereafter sent to the HR department to the head office for approval at each month end.

Daily time sheet at head office is maintained by HR department and is prepared automatically with card punching machine and manually.

Labor employed on contract basis and permanent basis are paid fortnightly and monthly respectively.

However, wages to the labor are paid in cash to the mate of group and salary is disbursed through banks to their respective account.

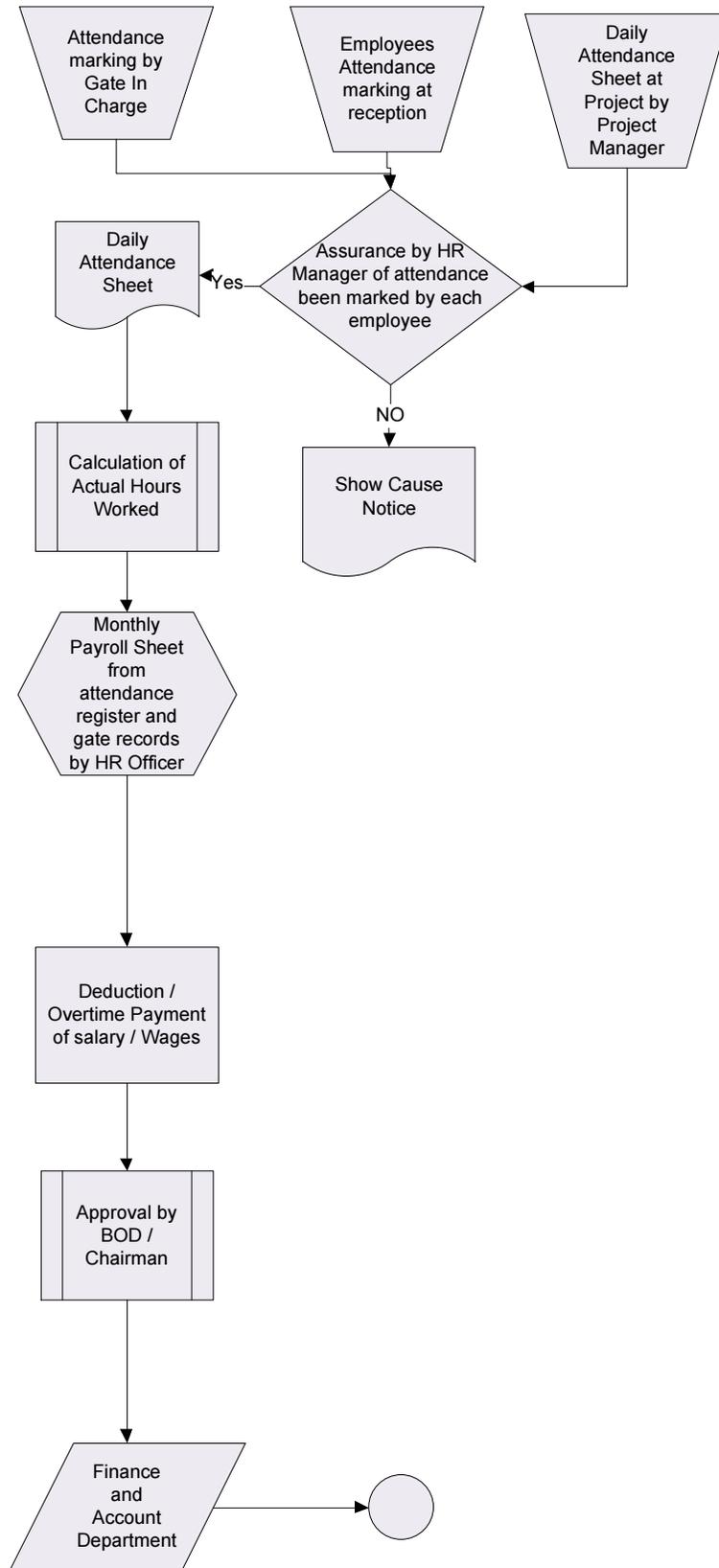
The Attendance Policy of Echo West International is as follows:

- Gate in charge/officer marks attendance independently of each employee upon admission to the premises and submits daily attendance sheet to HR department and director administration,
- A manual register is placed at reception where all the employees mark their attendance on daily basis;
- Every employee of EWI is required to mark their attendance;
- HR Officer makes sure that the attendance is being marked by all employees on daily basis;
- If an employee does not mark attendance at reception, the HR Manager has the authority to issue a show cause notice if he deem necessary;
- The normal working hours are 48 with six (6) working days a week;
- At the end of the month, HR Officer prepares a payroll sheet of all employees based on the attendance register and gate record including:
 - Hours / Days worked;
 - Leaves availed;
 - Balance leaves;
 - Absentees;
 - Overtime; and
 - Any other detail which HR Officer deems necessary to incorporate.
- Overtime payment is only allowed to Non-Management staff of EWI;
- Daily attendance sheets are maintained at project sites by Project Managers and are forward to HR Manager at Head Officer for approval on daily basis;
- The leaves availed by an employee during the whole month is deducted from his allowed available leaves;

Pre Award Assessment of Echo West International (EWI)

- If the balanced leaves have already been consumed or the leaves are not available to an employee, the deduction from his/her salary is made after the approval of CEO/Chairman BOD;
- The HR Manager after the approval of CEO/Chairman BOD , forwards the monthly attendance sheet to Finance and Accounts Department for the preparation of salary;

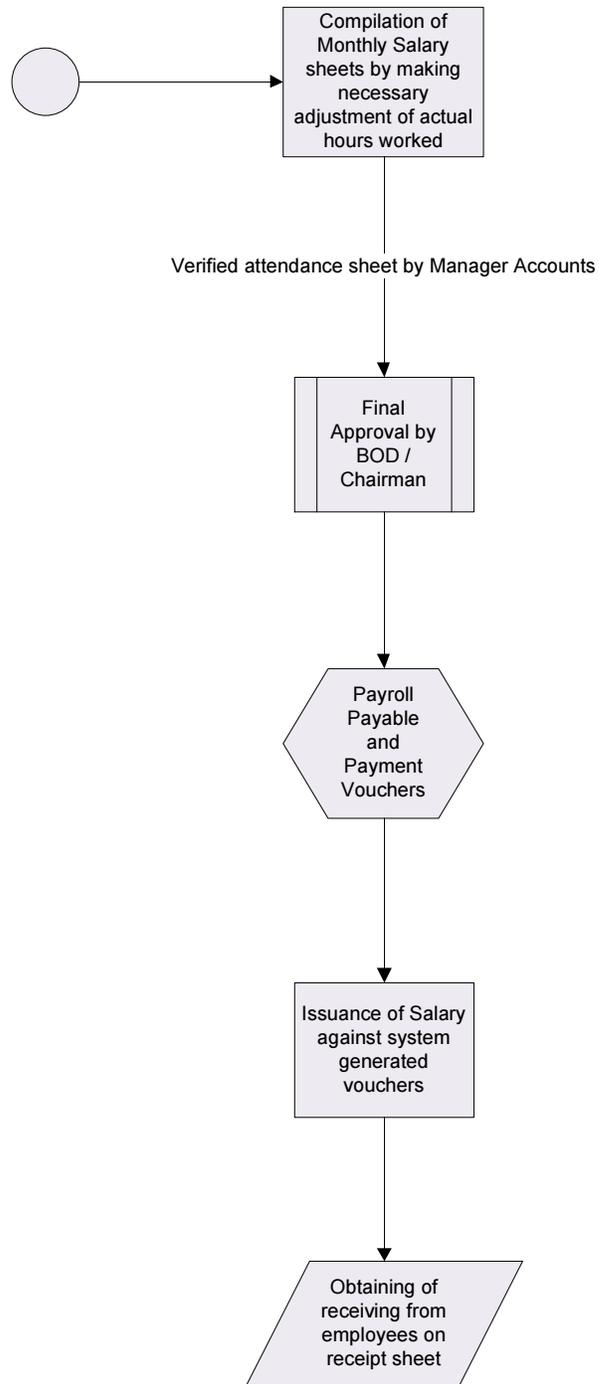
Pre Award Assessment of Echo West International (EWI)



Payment/Disbursement Process

- Step 1 The Finance Officer receives monthly attendance sheet from HR department duly approved by the Manager Hr and Chairman BOD, compiles the monthly salary sheet by making the necessary adjustments for absentees, late arrivals and leaves;
- Step 2 The monthly attendance sheet is verified by Manager Accounts and presented to the CEO/Chairman BOD for final approval (it is management policy not to deduct salary for approved leaves);
- Step 3 Once approved, the monthly payroll payable and cash/bank payment vouchers are prepared through AMS; and
- Step 4 Finance Officer issues the salary against the system generated vouchers and obtains receiving from the employees.

Pre Award Assessment of Echo West International (EWI)



Tax Refund

Tax Years	Amount (Rs.)
2011	388,520
2010	478,017
2009	1,343,264
2008	0
2007	4,907,512

Pre Award Assessment of Echo West International (EWI)

2006	0
2004	3,770,929
Total	10,888,242

Calculation for Direct and Indirect Labour Cost

Project Coordinator in the Project Management Department/Project Cost Control (PCC) department is responsible for the preparation of labour costing sheets in conjunction with his team of engineers and quantity surveyors. These costings are based on current prevailing market rates for labour. These rates are not fixed but depend mainly on area of operations, availability of labour, nature of work, tenure of the contract etc. the direct and indirect labour comprised of the company engaged labour and labour of sub-contractors. Labour is paid on daily with any provision of perquisites or any other additional allowances. The salaries and wages are calculated based upon either hourly wage rate or piece wage rate depending on the nature and stage of activity. Direct labour includes skilled, semi-skilled and unskilled labour directly involved in the construction activity including both on-site and off-site labour. Indirect labour includes all other labour that are involved indirectly in the project e.g. supervisors, guard, drivers etc.

All labour cost calculated by the project coordinators are approved by the GM Operations and once approved, CEO/Chairman of BOD authorizes the costs to be allocated to the project. Daily performance sheets provide the actual no. of hours worked. The wages are paid on the basis of daily wage rate calculated and no. of hours worked/work performed. Below is a list of classes of labour against their daily approximate wage rate at a certain day:

S.No	Description	Price per hour
1	Brick layer	182.81
2	Carpenter	213.28
3	Carpenter Helper	121.88
4	Electrician	198.05
5	Fabricator	198.05
6	Fitter	198.05
7	Ganger	182.81
8	General Labour	121.88
9	Helper	121.88
10	Joint carpenter	213.28
11	Labour for concrete	152.34
12	Mason	182.81
13	Mason brick works	198.05
14	Mason Concrete	182.81
15	Mason Flooring	213.28
16	Mason Plaster	213.28
17	Mason Helper	137.11
18	Painter	182.81
19	Plumber	213.28
20	Riggers	198.05
21	Scaffolder	167.58
22	Shuttering Man	198.05
23	Steel Fixer	167.58
24	Steel Fixer Helper	137.11

Pre Award Assessment of Echo West International (EWI)

25	Sweeper	106.64
26	Welder (Ordinary)	198.05
27	Welder (X ray)	274.22
28	Welder Structural	213.28

Overhead Cost Allocation to Projects

The Costing System in EWI comprises of two parts, Project Costs and Other Costs. These costs are calculated in 'Summary of Project Cost' document:

Project Costs

The project costs comprise of the project direct and indirect costs charged to project on actual basis upon occurrence at the project site.

Direct Costs

Direct costs include all the direct costs incurred at project site, which are as follows:

- Material
- Material transportation expenses
- Direct consumable
- Labor wages
- Sub contracts
- Rental of construction equipment & PLM
- POL of construction equipment and PLM
- R & M equipment
- Tools

Project Overhead Costs

All indirect costs incurred at project site are listed below;

- Staff salaries and other payroll relate costs (leave, gratuity)
- Boarding / Catering
- Lodging, Camp consumables etc
- Traveling/Conveyance expenses
- Electricity, Water, Gas
- House, Camp office rent
- Vehicle rent, staff pick and drop
- POL of vehicles
- R & M of vehicles
- R & M office, camp and general
- Stationery and office expenses
- Telephone, Mobile and Internet
- Canteen expenses
- Client / Consultant facilities
- Outside services (Security, Insurance etc)

Other Costs

Other costs include the management and administrative costs of the head office and regional offices allocated to the specific projects on pro-rata basis. These costs are prorated on the basis of revenue contribution of each project to the total revenue from all projects.

Pre Award Assessment of Echo West International (EWI)

The office overheads allocated to projects are listed as follows;

- Staff salaries and other payroll relate costs (leave, gratuity)
- Traveling/Conveyance expenses
- Electricity, water, gas
- House, camp office rent
- Vehicle rent, staff pick and drop
- POL of vehicles
- R & M of vehicles
- Depreciation of vehicles
- Depreciation of office equipment
- Depreciation of office building
- Depreciation of furniture and fixtures
- ERP maintenance fees
- R & M office, camp and general
- Stationery and office expenses
- Telephone, Mobile and Internet
- Canteen expenses
- Financial charges
- Outside services (Security, Insurance etc)

ANNEXURE – B.4

Analysis of Financial Statement

PROFIT AND LOSS ACCOUNT	Jun-08	Jun-09	Jun-10	Jun-11
Contract Revenue	3,096,260,149	3,346,192,256	3,127,803,648	3,524,106,529
% increase/ decrease		8%	-7%	13%
Contract Cost	2,675,959,645	2,892,520,691	2,695,642,241	3,153,886,261
% increase/ decrease		8%	-7%	17%
GROSS PROFIT	420,300,504	453,671,565	432,161,407	370,220,268
% increase/ decrease		8%	-5%	-14%
Administrative Expenses	136,111,685	147,304,592	133,618,656	138,917,601
% increase/ decrease		8%	-9%	4%
Marketing Cost	-	-	-	-
% increase/ decrease				
OPERATING PROFIT	284,188,819	306,366,973	298,542,751	231,302,667
% increase/ decrease		8%	-3%	-23%
Other Expenses	8,548,794	-	-	-
% increase/ decrease		-100%		
Finance Charges	77,335,997	88,308,342	64,490,966	56,515,383
% increase/ decrease		14%	-27%	-12%
PROFIT BEFORE TAX	198,304,028	218,058,631	234,051,785	174,787,284
% increase/ decrease		10%	7%	-25%
Taxation	71,263,380	58,424,515	29,196,379	37,064,347
% increase/ decrease		-18%	-50%	27%
PROFIT AFTER TAX	127,040,648	159,634,116	204,855,406	137,722,937
% increase/ decrease		26%	28%	-33%
Profits brought forward	1,109,010,398	1,235,051,046	1,393,685,162	1,597,540,568
% increase/ decrease		11%	13%	15%
Dividend	1,000,000	1,000,000	1,000,000	1,000,000
% increase/ decrease		0%	0%	0%
Retained Earnings	1,235,051,046	1,393,685,162	1,597,540,568	1,734,263,505
% increase/ decrease		13%	15%	9%

Pre Award Assessment of Echo West International (EWI)

BALANCE SHEET	Jun-08	Jun-09	Jun-10	Jun-11
ASSETS				
Non Current Assets				
Fixed Assets	682,262,299	695,001,323	692,722,608	697,624,829
% increase/ decrease		1.87%	-0.33%	0.71%
Long Term Advances	3,248,736			
% increase/ decrease		-100.00%		
Sub Total	685,511,035	695,001,323	692,722,608	697,624,829
% increase/ decrease		1.38%	-0.33%	0.71%
Current Assets				
Bills Receivable	955,150,127	982,748,945	1,218,315,310	1,323,678,943
% increase/ decrease		2.89%	23.97%	8.65%
Stock in Hand	347,338,965	366,017,307	317,442,287	344,184,894
% increase/ decrease		5.38%	-13.27%	8.42%
Advances Deposits and Other Received	529,730,576	525,533,400	515,803,904	561,201,200
% increase/ decrease		-0.79%	-1.85%	8.80%
Cash and Bank Balance	221,839,501	35,103,088	47,245,045	71,311,159
% increase/ decrease		-84.18%	34.59%	50.94%
Sub Total	2,054,059,169	1,909,402,740	2,098,806,546	2,300,376,196
% increase/ decrease		-7.04%	9.92%	9.60%
Total Assets	2,739,570,204	2,604,404,063	2,791,529,154	2,998,001,025
% increase/ decrease		-4.93%	7.18%	7.40%
LIABILITIES				
Non Current Liabilities				
Associates' Funds Unsecured and Markup Fee	-	352,130,408	352,130,408	352,130,408
% increase/ decrease			0.00%	0.00%
Long Term Loan, Advances and Deferred Liabilities	379,637,986	221,680,074	252,247,582	378,161,764
% increase/ decrease		-41.61%	13.79%	49.92%
Liabilities Against Assets Subject to Finance Lease	7,084,337	8,473,072	4,364,076	-
% increase/ decrease		19.60%	-48.49%	-100.00%
Sub Total	386,722,323	582,283,554	608,742,066	730,292,172
% increase/ decrease		50.57%	4.54%	19.97%
Current Liabilities				
Short Term Borrowings-Secured	787,508,976	352,261,786	329,745,785	221,263,517
% increase/ decrease		-55.27%	-6.39%	-32.90%
Current Portion of Long Term Liabilities	81,935,559	44,965,218	38,918,933	52,572,715

Pre Award Assessment of Echo West International (EWI)

% increase/ decrease		-45.12%	-13.45%	35.08%
Creditors, Accrued and Other Liabilities	228,352,300	211,208,343	196,581,802	239,609,116
% increase/ decrease		-7.51%	-6.93%	21.89%
Sub Total	1,097,796,835	608,435,346	565,246,520	513,445,348
% increase/ decrease		-44.58%	-7.10%	-9.16%
Total Liabilities	1,484,519,158	1,190,718,900	1,173,988,586	1,243,737,521
% increase/ decrease		-19.79%	-1.41%	5.94%
NET ASSETS	1,255,051,046	1,413,685,163	1,617,540,568	1,754,263,504
		12.64%	14.42%	8.45%
Equity	10,000,000	10,000,000	10,000,000	10,000,000
Reserve for Issue of Bonus	10,000,000			
General Reserve		10,000,000	10,000,000	10,000,000
Retained Earnings	1,235,051,046	1,393,685,162	1,597,540,568	1,734,263,505
Sub Total	1,255,051,046	1,413,685,162	1,617,540,568	1,754,263,505

Pre Award Assessment of Echo West International (EWI)

CASH FLOW STATEMENT	Jun-08	Jun-09	Jun-10	Jun-11
Cash Flow From Operations				
Operating Profit	269,658,805	301,652,820	292,333,814	221,786,374
Add: Depreciation	91,947,979	87,506,733	84,871,761	82,179,540
Loss	54,873		617,314	934,127
Gratuity	551,333	101,515	413,333	(530,940)
	362,212,990	389,261,068	378,236,222	304,369,101
Cash Flow From Working Capital Changes				
(Increase)/ Decrease in Current Assets				
Bills Receivable	16,040,048	(27,598,818)	(235,566,365)	(105,363,633)
Stock in Hand	4,825,673	(18,678,342)	48,575,020	(26,742,607)
Advances Deposits and Other Received	(43,954,469)	5,371,923	10,775,186	(44,550,329)
Increase/(Decrease) in Current Liabilities				
Short Term Borrowings-Secured Creditors, Accrued and Other Liabilities	(107,290,263)	(435,247,190)	(22,516,001)	(108,482,268)
	(79,520,102)	(30,086,284)	13,305,020	40,762,854
Net Cash Generated from/(Used) in WCC	(209,899,113)	(506,238,711)	(185,427,140)	(244,375,983)
Cash Utilized in Operating Activities				
Finance Charges Paid	(68,910,078)	(66,205,057)	(83,676,071)	(43,594,221)
Taxes Paid	(64,825,252)	(59,599,262)	(30,242,069)	(37,911,314)
	(133,735,330)	(125,804,319)	(113,918,140)	(81,505,535)
Net Cash flow from Operations	18,578,547	(242,781,962)	78,890,942	(21,512,417)
Cash Flow from Investing Activities				
Fixed Capital Expenditure	(82,401,006)	(113,980,733)	(90,539,232)	(94,266,410)
Sale Proceeds from FA	875,493	13,734,976	7,328,872	6,250,522
Long Term Advances	1,966,738	3,248,736		
Net Cash Used in Investing Activities	(79,558,775)	(96,997,021)	(83,210,360)	(88,015,888)
Cash Flow from Financing Activities				
Long Term Loans and Advances	-	352,130,408	-	
Long Term Advances and Deferred Liabilities	59,400,501	(182,330,031)	24,610,151	139,843,823
Liabilities against subject to finance lease	1,515,981	(15,757,807)	(7,148,776)	(5,249,404)
Dividend Paid	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
	59,916,482	153,042,570	16,461,375	133,594,419
NET SURPLUS/(DEFICIT)	(1,063,746)	(186,736,413)	12,141,957	24,066,114
Balance Brought Forward	222,903,247	221,839,501	35,103,088	47,245,045
Balance Carried Forward	221,839,501	35,103,088	47,245,045	71,311,159

ANNEXURE - C

ANNEXURE – C.1

OPERATIONAL COMPLIANCE

Case Study -1

Case Study Description	Procurement for OP Cement, (Major Material)
Indent No Reference:	203
Date of Indent	9 August 2012
Approval for Indent	PM and GM (Operation)
Floating of Quotation	Fecto, Best Way, Deewan
Vendor Evaluation Form	Yes
Visit Report	No
CS Analysis and Pre-Audit	Yes
Comparative Statement Approval	Director (Chairman), as the GM (Op) is on out duty
Payment Approval	Director (CEO)
Number of Purchase Order (PO)	Cement/08/01
Approval of Purchase Order (PO)	Purchase Manager
Value of PO	PKR 175,200
Payment to Supplier as per T&C	Yes, BPV-12-08-0076 on 13 th August 2012
GRIR No.	008, Truck no.P6981, billy no 5568
Date of Delivery	15 August 2012
Invoice Date, No	24-8-12, FCL/MKT/1989
Basis of Selection	Availability and best price
Awarded to	Fecto
Post-Audit	In Process

Case Study -2

Case Study Description	Procurement for Nut Bolt (Minor Purchases)
Indent No Reference:	4627
Date of Indent	15 May 2012
Approval of Indent	PM
Floating of Quotation	Mirza Hardware Store, Bolt House, Sindh Universal Hardware Mart
Vendor Evaluation Form	N/A, As minor purchase
Visit Report	N/A, As minor purchase
CS Analysis and Pre-Audit	Yes
Comparative Statement Approval	Director (CEO) , as the GM (Op) is on out duty
Payment Approval	Director (CEO)
Number of Purchase Order (PO)	PO is not made for minor purchases
Approval of Purchase Order (PO)	N/A, as PO is not made
Value of PO	PKR 21600
Payment to Supplier as per T&C	Yes, Cash purchase dated 23 May 2012
GRIR No.	2293, Builty no. 7167 (Raftar goods), DN No 1170
Date of Delivery	25 May 2012
Invoice Date, No	2083
Basis of Selection	best price and previous performance
Awarded to	Mirza Hardware Store
Post-Audit	Yes

Case Study -3

Case Study Description	Procurement for 47 Steels (Major Material)
Indent No Reference:	2453, 03935
Date of Indent	17 March 12 ,7 March 2012
Approval for Indent	PM and GM(Operation)
Floating of Quotation	Zia steel, Karachi Steel, Ittihad Steel
Vendor Evaluation Form	Yes
Visit Report	No
CS Analysis and Pre-Audit	Yes, but not Audited
Comparative Statement Approval	Director (CEO), as the GM (Op) is on out duty
Payment Approval	Director (CEO)
Number of Purchase Order (PO)	1216 dated 17 March 12
Approval of Purchase Order (PO)	Director (CEO) and Assistant Manager Purchase signed the PO, as the Manager Purchase is on out duty.
Value of PO	PKR 3568400
Payment to Supplier as per T&C	Yes, BPV-12-04-0041 on 9 th April 2012, 15 days PDC (Post dated cheques)
GRIR No.	2400, 22 march 2012, Truck #TLL 620, Builty # 14264
Date of Delivery	22 march 2012
Invoice Date, No	17-3-12, ZSR2012/17/3/12
Basis of Selection	Availability and best price
Awarded to	Zia steel
Post-Audit	(Test Report)Test of Steel Samples from UET, Taxlila

ANNEXURE – C.2

PROCUREMENT SYSTEM

There are two types of procurement:

Project Procurement

- Major Material (Sand, Crush, Bricks, Steel, Cement, Fitting and Fixtures (wood works, locks, marbles etc.))
- Minor Material (Hardware items (Samad Bond, Nails, Shawal etc), other minor items and consumables etc.)

Administrative Procurement

- Information Technology (IT) Procurement
- Other Procurement (i.e Stationary, Furniture/office equipments)

The steps involved in the procurement process are more clearly elaborated as under:

Project Procurement

Planning

- Proposal Dept. coordinates time to time with the Procurement Dept. regarding market trends of construction material when and if needed.
- When the project is awarded, the Project Coordinator in coordination with Planning Engineer (if available) has to prepare a **Document** named “**Work Schedule**” and gets its approval from GM (Operation).
- Project Coordinator (HO)/ Planning Engineer (Site) prepares the **Document** named “**Monthly Work Plan**” for each project indicating the proposed quantity of material and manpower required for the next month and gets its approval from GM (Operation).
- Procurement Dept. receives copy of approved Monthly Work Plan for next month from Project Cost Control (PCC) Dept. in 3rd week of current month.

Output

- Monthly Work Plan/ Monthly Material Requirement

Note: The minor material assessment is affiliated with the monthly work plan and assessed by the Site concern engineer (Electrical, Civil, Plumbing, Mechanical /HVAC) with Stores manger/ Store officer’s coordination to finalize the required quantity of minor material.

Issuance of Indent

- Concerned Site Engineer (Electrical, Civil, Plumbing, Mechanical /HVAC) issues requisition regarding major and minor materials to Manager Store/Store In-Charge.
- Manager Store/Store Officer at site prepares Document named “Indent” and gets approval from Project Manager (PM).
- After approval from PM, Manager Store/Store Officer issues indent to PCC Dept.

Pre Award Assessment of Echo West International (EWI)

- Concerned Project Coordinator in PCC Dept. evaluates indent in accordance with scheduling, budget and inventory check.
- In case any discrepancies are found in indent according to abovementioned parameters the matter is referred to GM (Operation).
- Concerned Project Coordinator in PCC Dept. witnesses indent and forwards it to Manager Purchase (Incase indent is as per plan).

Note: A Document named “Indent Tracking System” is maintained manually by Assistant Manager Purchases in coordination of PCC Dept.

Output

- Issuance of Indent
- Approval of Indent

Vendor Evaluation and Market Research

- Assistant Manager Purchase carries out the market research (production units visits, collection and analyzing of relevant data) tentatively on monthly basis and evaluate the vendor according to following indicators :

- **Qualification**

- Previous Performance (Incase business is conducted with supplier in past);
- Market position/ Financial capability; and
- Quality.

- **Relationing**

- Availability/Production Capacity;
- Price offered; and
- Terms and conditions.

- Assistant Manager Purchase reports (written or oral) to Manager Purchase regarding market research.
- PCC may also refer a vendor to be considered for evaluation.
- Vendor Selection Committee will be formed. The committee comprises Manager Purchase, Manager Accounts, Principal Quantity Surveyor and relevant Technical Personnel (subject to the requirement) recommends the supplier based on the evaluation of aforementioned parameters.

Note: Any member of Vendor Selection Committee has authority to introduce any supplier for consideration while the evaluation is in process. Any of two committee members along with the designated personnel of Procurement Dept. will visit the vendor office, manufacturing plant, etc. A “**Visit Report**” will be compiled.

- Any two committee members may recommend the potential vendor by completing the vendor evaluation documentation i.e “Sub-Contract Checklist”.
- Vendor evaluation documentation will be submitted to GM (Operation) for potential vendor recommended by the Vendor Selection Committee.
- GM (Operation) will be the approving authority for selection of a vendor.
- Manager Purchase issues indent to Assistant Manager Purchase on requirement.
- Assistant Manager Purchase will analyze the vendor database (brochures and other available data) and also update the relevant information regarding vendor.

Pre Award Assessment of Echo West International (EWI)

- **“Request for Quotation (RFQ)”** are sent to all qualified suppliers by Assistant Manager Purchase.
- On the basis of quotation received by the Procurement Dept., the Assistant Manager Purchase negotiates rates with the suppliers and prepares “Comparative Statement” of at least three suppliers based on the best price, availability and terms agreed.
- Manager Purchase reviews the comparative statement and negotiates rates/terms and conditions with any suppliers (If necessary).
- One of the members of Vendor Selection Committee has to sign the comparative statement.
- Comparative statement along with the recommendation of Vendor Selection Committee is sent to Audit Dept. for Pre-Audit.
- Audit Dept. may also refer a vendor to be considered for evaluation.
- In case of any observation identified by the Audit Dept., Procurement Dept. will be responsible to remove all such observation.
- Procurement Dept. will re-submit the rectified comparative statement to Audit Dept. after removing the observation.
- After the comparative statement is verified by Audit Dept., it will be sent to GM (Operation) for final approval.
- After approval, comparative statement is reverted back to Procurement Dept. for Purchase Order (PO) placement.

Note: The Manager Purchase advertises the requirement if he has not sufficient requisite knowledge regarding designated market for the indent items. Some other reports like **“Comparative Statement Summary”, “Vendor Evaluation” and “Escalation (increased/decrease in price) Report”** in a period are also submitted by the Procurement Dept. on needy basis as only when required by the GM (Operation) or other authority.

Output

- Application to Echo West International (EWI) for new business
- Information gathering and market research
- Qualification of Suppliers
- Request for Quotation (RFQ)
- Selection of Suppliers for Comparative Statement
- Approval of best supplier

Raising of Purchase Order

“Purchase Order (PO)” is prepared and approved by Manager Purchase which is accompanied by a comparative statement and send to Account/Finance Dept.

Note: The Manager Purchase has the authority to approve cash purchases up to PKR10,000 and but not exceed PKR200,000 in one month. However, in case of additional fund requirement GM (Operation) can approve up to any limit.

Output

- Purchase Order (PO)

Production and Delivery

Dispatch Note Definition: A document supporting the evidence while the shipment is dispatched containing the details regarding materials including source, specification, quantity and transport is called a Dispatch Note.

- In case the material is directly dispatched to the site by the supplier, the Dispatch Note (DN) will be issued by the supplier (x-site deal).
- In case the material is purchased and dispatched to the site by the HO, the “Dispatch Note (DN)” will be issued by the Assistant Manager Purchase/Purchase Officer (x-Mill deal). A copy of DN is forwarded to Store Manager/Store Officer.
- Store Manager/Store Officer at site ensures the delivery of material is safe and according to DN.
- Store Manager/Store Officer along with the relevant technical engineer inspects the quality, size, colour and other required specification of the materials. In case of any discrepancies regarding the shipment, Store Manager/Store Officer will inform the Project Coordinator (Site) to communicate with PCC Dept. at Head Office (HO). Manager Purchase resolves the issue on the intimation of Project Coordinator in PCC Dept.

Output

- Dispatch Note and inspection of material at site

Receipt of Goods

- Store Manager/Store Officer prepares “Good Received and Inspection Report (GRIR)” also signed by the relevant Technical Engineer (Site). Copy of GRIR is distributed as follow:
 - Site Store;
 - Account/Finance Dept.;
 - Procurement Dept.; and
 - PCC Dept.

Note: A separate document (receipt) known as “**Material Inspection report (MIR)**” is also issued by the Store Manager/Store Officer before GRIR against the receipt of material such as sand, soil, crush and other material in case of measurement is required in Cft (cubic feet). Copy of MIR is distributed as follow:

- Site Store;
- Supplier; and
- MIR Book.

Output

- Material Inspection report (MIR)
- Good Received and Inspection Report (GRIR)

Payment to Suppliers

Assistant Manager Purchase collects post delivery information (GRIR, invoice from supplier and other supportable/required documents) and submits to Audit Dept. for post audit and approval for GM (Operation) for onward process of payment.

Note: In case of emergency procurement, CEO/Project Manager has authority to give approval as the case may be. The documentation will be done immediately after completion of procurement.

Pre Award Assessment of Echo West International (EWI)

Emergency: Shortage of material due to accident, wastage due to climate, rain, flood or any incident OR any unforeseen, missing indents and any other reason which is unknown at the time of planning.

Project IT Procurement

- Proposal Dept. at the time of bidding seeks quotation from MIS Dept. regarding IT Equipment related Bill of Quantities (BOQs).
- When the contract is awarded, Manager Proposal/GM (Operation) sends Bill of Quantities (BOQs)/ Specification (without rates) regarding IT Equipments to Manager MIS.
- Planning Engineer through relevant Project Coordinator sends intimation within the appropriate time to Manager MIS regarding project IT procurement.
- MIS Officer checks the availability of required items in store through Manager Store.
- Manager Store confirms the availability of items from Store Officer.
- If the items are not available in the store, MIS officer seeks quotation from the solicited/approved suppliers, unless client specifies the list of vendors.
- MIS Officer prepares comparative statement based on the quotation received from the vendors.
- Manager MIS reviews the comparative statement and forwards it to the Procurement Dept. accompanied by his recommendation.
- The other normal procedure of Project Procurement will be adopted as discussed above, however Procurement Dept. is bound to procure as recommended by Manager MIS.

Note: Audit Committee, MIS Personnel, Procurement Personnel had evaluated and approved the Vendors based on warranty, after sale service, cost and quality.

Administrative Procurement

IT Procurement

- The Concerned Departmental Head recommends/approves the requisition as referred in the “Note of This Sub-Section” raised by the designated personnel of Dept. and forwards to Manager MIS regarding software and hardware requirement.
- MIS Officer checks the availability of required items in store through Manager Store.
- Manager Store confirms the availability of items from Store Officer.
- If the items are not available in the store, MIS officer seeks quotation from the solicited/approved suppliers.
- MIS Officer prepares comparative statement based on the quotation received from the vendors.
- Manager MIS reviews the comparative statement and forwards it to the Procurement Dept. accompanied by his recommendation.
- The other normal procedure of Administrative Procurement will be adopted as discussed in the Section named “Other Procurement (Stationary, Furniture/office equipments)”, however Procurement Dept. is bound to procure as recommended by Manager MIS.

Note: No planning is done for IT related procurement except for project related procurement as discussed above. The following requisitions are raised regarding IT procurement at administrative level:

- User Requirement Summary Form;
- Personal Computer (PC) Summary Sheet;
- Computer Equipment UP-Gradation Form; and
- IT Equipment Service/Repair Form.

Other Procurement (Stationary, Furniture/office equipments)

Planning

- Each Departmental Head assess the monthly requirement for next month and submits “**Stationary Requisition**” to Admin Manager in last week of the month.
- Admin Manager prepares “**Consolidated Stationary Procurement Plan**” for next month and gets approval from Director (any).
- Approved Consolidated Admin Procurement Plan is submitted to Procurement Dept. before the start of next month.

Note: As far as procurement of Furniture/office equipments is concerned, Admin Dept. visits and assesses the requirement and report to Director (Admin)/CEO.

Output

- Consolidated Stationary Procurement Plan got approved and forwarded for procurement.

Procurement

- Assistant Manager Purchase conducts market research and collects quotation from the vendors.
- On the basis of quotation received by the Procurement Dept., the Assistant Manager Purchase/Admin Officer negotiates rates with the suppliers and prepares comparative statement of at least three suppliers based on the best price and payment terms agreed.
- Note: In case of emergency, the goods are purchased and documents/ approval are taken after the items procured but with the approval of CEO.
- Manager Purchase reviews (comparison with the last purchase) the comparative statement (If needed).
- Comparative statement along with the recommendation of Manager Purchase is forwarded to Director (any) for financial approval.
- Approved comparative statement is forwarded to Finance/Account Dept. for payment.
- At the time of receipt of the items, the “Inward Material Gate Pass” is made by designated personnel of Admin Dept.
- After delivery the bill amount is adjusted (in case of advance payment) or paid (in case of credit purchases) after approval by Concerned Director and Audit.

Note:

- Vendor Selection Committee is not assigned for Administrative Procurement.
- No Pre-Audit.

Output

- Procured, Audit and Paid

Note: Admin Dept. Maintains an Imprest of rupees 7,000 for the minor purchases/daily reimbursement base expenses (Grocery, Kitchen items etc).

If Furniture/Office Equipment required to be newly purchased at the time of renovation/replacement of old furniture with new (as a whole), Vendor Selection Committee will be established comprising the persons authorized by the higher management/Directors. Other same procedures will be applied also as for the major material.

Purchase Return

In case of additional quantity supplied or the quality of supplies is poor or not up to the standard/specification or the scope of the work where the supplies were planned to be used is deleted/reduced by the client/consultant. The quantity of goods will be returned to the vendor. The Procurement Dept. will accordingly coordinate with the vendor and company Store Dept. for the replacement or return of the supplies. The Store Officer issues “**Outward Material Gate Pass**” which is approved by the concerned Project Manager/Director (as the case may be).

Sub Contract Agreement for Long Term Supplies

Material like Sand/Crush/Bricks/Stone etc is normally booked with supplier through a written contract agreement covering the risks related to supplies (quality and quantity), rates, payment terms and schedule of supply. The sub-contract agreement for the supplies of these materials is treated as a pre-purchase order agreement and special terms and conditions regarding the supplies are set down as per requirement. A supply schedule is attached treated as Purchase Order.

ANNEXURE - D

ANNEXURE – D.1

HUMAN RESOURCE FUNCTION

Human Resource Department of Echo West International (Pvt.) Ltd. comprises of three personnel.

- a) HR Manager;
- b) HR Officer; and
- c) HR Assistant.

Echo West International (Pvt.) Ltd. (EWI) has HR policy manual which was developed in March 2011. As per this manual the following functions are the responsibility of HRD.

- Employee Grades, categories and Entitlement / Benefits;
- Manpower Planning and Development;
- Recruitment & Selection;
- Employee Orientation and Training;
- Employee Performance Evaluation;
- Maintenance of Personnel Record and Organogram;
- Employee transfer policy;
- Resignation and Termination;

Human Resource Department performs the following responsibilities in addition to above mentioned functions as;

- Attendance;
- Grievance Management; and
- Travelling Entitlements.

ORGANIZATION STRENGTH

ECHO WEST INTERNATIONAL (PVT.) LTD.

DESIGNATION & GRADES

MANAGEMENT STAFF

GRADE	DESIGNATION	TITLE					
		CONSTRUCTION	ENGINEERING SERVICE	BUSINESS DEVELOPMENT	HUMAN RESOURCE / ADMINISTRATION	ACCOUNTS/ FINANCE	MATERIAL
01	General Manager	GM Construction/ Head Operation		GM/Head B.D			
02	Dy. General Manager	DGM/P.M	DGM	DGM		DGM/Head of Finance	
03	Senior Manager	Sr. Manager/, Sr. P.M	Sr. Manager	SR. Manager		Sr. Manager	
04	Manager	Manager/P.M/C.M	Manager	Manager	Manager	Manager	Manager
05	D. Manager	D. Manager	D. Manager	D. Manager	D. Manager	D. Manager Chief Accountant	D. Manager
06	Senior Officer Senior Engineer	Sr. Store Officer, Sr. QS Sr. Engineer, Area I/C	Sr. Analyst, Sr. QS Sr. Engineer	Sr. Engineer	Sr. Officer	Sr. Officer	Sr. Officer
07	Engineer Officer	Engineer QS	Engineer, QS Analyst	Engineer	Officer	Officer	Officer
08	Asst. Engineer Asst. Officer	Superintendent, Engineer, Sr. Foreman Sr. Inspector, Overseer, Sr. Surveyor, Sub-Engineer, Sr.	Asst. Engineer Jr. Engineer Programmer	Asst. Engineer	Ass. Officer, Programmer Exec. Secretary	Asst. Officer	Asst. Officer

Pre Award Assessment of Echo West International (EWI)

		Supervisor, Asst. Stores Officer					
09	Foreman Supervisor	Foreman, Supervisor, Surveyor, Inspector Store Supervisor, Steno	Sr. Draftsman Jr. Programmer, Steno	Steno Supervisor	Steno typist, Admin Supervisor	Accountant	Supervisor, Store Super Purchase Supervisor, Sr. Store Keeper
10	Asst. Foreman Asst. Supervisor	Asst. Foreman, Steno typist Asst. Supervisor, Asst. Surveyor	Draftsman Steno typist		Steno typist Admin Asst, Secretary	Asst. Account Cashier	Asst. Supervisor, Store Keeper, MAT Purchaser

ECHO WEST INTERNATIONAL (PVT.) LTD.

DESIGNATION & GRADES

NON-MANAGEMENT STAFF

GRADE	DESIGNATION	TITLE					
		CONSTRUCTION	ENGINEERING SERVICE	BUSINESS DEVELOPMENT	HUMAN RESOURCE / ADMINISTRATION	ACCOUNTS / FINANCE	MATERIAL
11	Skilled	Senior Technician, Senior Operator, Mechanic	Senior Asst	Computer Operator	Office Assistant Receptionist, K.P. Operator		Asst. Purchaser Asst. Store Keeper
12	Un skilled	Technician, Operator, Junior Technician Jr. Operators	Tracer, Clerk		Head Guard, Sweeper Time Keeper, Watchman Operator P/Copy, Clerk Junior Time keep, Driver Guard, Attendant, Helper	Helper, Record Keeper	Jr. Store Keeper Helper

- Ten (10) days of Casual Leave are available to all employees of EWI during each calendar year. The Casual Leaves are not being allowed for more than two (02) days in one month and more than 05 days in first six (06) months. Any leave in excess of this limit is treated as leave without pay.

Medical Leaves

- In case of sickness, the employees are eligible to sick leave not exceeding eight (8) days in one calendar year. Sick leave for more than two (2) days is not allowed until and unless a medical certificate by a registered Medical Practitioner is produced by the employee.

Medical Assistance

- All (only) permanent employees of EWI are entitled to medical assistance in shape of reimbursement of actual expenses subject to limitations and terms & conditions imposed.

Compensatory Leaves

- Compensatory leaves (CPL) are admissible to the employees only on the Project Sites. The CPLs are available to the employees equal to the number of Sundays and Gazetted holidays if they do not avail these holidays on the actual day of occurrence for a maximum of ten (10) at a time.

Gratuity

- The Company give the benefit of gratuity to all of its permanent full time employees who have a minimum of one year service with Company. Any break in service or short fall even for a single day disqualifies an employee for gratuity. The gratuity is payable on the basis of One month's Basic salary for each completed year.

MANPOWER PLANNING & DEVELOPMENT

Human resource management is engaged in an effort to determine what HR requirements exist for current & future supplies and demand of workers.

RECRUITMENT AND SELECTION

Recruitment Sources

For any opening up position, first source is the internal search within the organization. Second source of recruitment is employee referrals / recommendations. Next comes External Sources which comprises on advertisement in the News Paper, unsolicited applications submitted by walk-in applicants / candidates in normal routine at the offices of EWI or sent through mails. The next is Human Resource from Universities and Colleges.

Process of Selection

Whenever there is a vacant position, candidates are short listed according to the requirement by the concern Head of the Department / HRM and he/she is called for the interview. All candidates fill the Standard Form in some cases tests may also be conducted.

The candidate interviewed by the Head of the concerned department/Project Manager at the first stage. Next interview is by the COO at the second stage. After that Final interview is conducted with the Chairman/CEO/DO/DA of EWI who makes the final decision related to his/her selection.

A selected candidate offered one of the following types of employment which is decided by the Management with the consent of the selected candidate;

- Permanent Employment;
- Contract of Services; and
- Internship/Training.

A background investigation of the employee is also done during the course of selection based on the documentation provided by the candidate HR Manager may also verify the references given with coordination of Administration department. Employment of permanent nature is subject to medical/Physical fitness of candidate.

EMPLOYEE ORIENTATION AND TRAINING

At EWI, all employees after their selection are provided with the orientation about the company, its overall objectives, mission, vision, Long-term & Short-term objectives etc.

There are two kinds of training which EWI provides its employees;

- On job Training; and
- Off job Training.

All employees are provided with the necessary on the job training while they are on their job.

The process of Training is summarized in the following manner:

Conducting Needs Assessment

This is done through analyzing the Organizational, Person & Task aspects as.

It helps to establish the training objectives & desired outcomes.

Ensuring Employees' Readiness for Training

It is ensured through the attitudes & motivation of employees that employees are ready for getting necessary training with the coordination of HRD and the concerned departmental head.

Creating a Learning Environment

In order to ensure the effectiveness of training, an environment of learning is created so that at the end of training desired results could be achieved.

Ensuring Transfer of Training

It is made sure through different strategies, for example self-management strategies & Peer and manager support that training is really being transferred to the employee. This is necessary during the training so that at the end negative results could not be faced by the trainers.

Selection of Training Method

It totally depends on the nature of the job of the employee. An appropriate method is selected for training of the employees. This selection is done by management & Head of concern Department. Mostly on-the-Job Training (OJT) is provided to the employees.

Evaluating Training Program

At the end of Training program, the training is evaluated. At this stage training outcomes are identified & these are compared with the initial established objectives & desired outcomes.

Other than the entry level on-the-job training for new coming employees, training sessions are arranged for existing old employees often. These training sessions include Audio-visual sessions, Presentations, lectures etc. HRM department with the opinion of concern Head of the department initiates any training program which approves by the CEO.

EMPLOYEE PERFORMANCE EVALUATION

At EWI, Performance Evaluation function is conducted to give a feedback to the employees, to tell them what rise in pay/compensation, to development through changes in designation & improving their pays and to have documentation about the performance of the employees.

Performance Evaluation Process

- Permanent employee's performance is evaluated yearly based against the already set general Performance goals/standards. These are rated on the Adjective Rating scale.
- Performance of a contract employee is evaluated at the expiry of his/her contract based on set general Performance goals/standards. These are also rated on the Adjective Rating scale.
- Performance of probationers/internees is also evaluated at the end of probation / internship period.
- At first level of performance evaluation, department head/immediate supervisor recommends promotion in designation & increment in salary or training for more improvement.
- At second level, recommendation is reviewed by the COO who may agree or disagree with the recommendation.
- At third level, final decision is made by the competent decision making authority about promotion/demotion of the employee.

HUMAN RESOURCE MANAGEMENT RECORDS AND ORGANOGRAM

- HRM maintains Personal Files of employees of EWI. Personal File of employee contain information related to employee's resume, detail of his Educational & Experience history, Permanent & Temporary Addresses, Contact number & other Personal information of employee.
- HR Department maintains a data bank for any position expected to be vacant in any office or Project Site of EWI.
- The head of department of sites and offices of EWI is maintaining the Organogram on the standardized pattern.

Employee Transfer Policy

- All the management & non-management staff at any office/project may transferred by issuing a standard transfer order of Chairman/CEO/DA/DO.
- The employee, who is being transferred, gets necessary clearance on the standard clearance form.
- At EWI, there is no specified duration / period for the transfer. It depends on the assignment & need for the stay of the employee.
- Any employee who is transferred from one project / office to another project / office, he is entitled to project allowance per month which includes:
 - Hardship Allowance ;
 - Travel Allowance;

- Accommodation Allowance; and
- Food Allowance.

Entitlements for Transfers

GRADE	DESIGNATION (MANAGEMENT STAFF)	PROJECT ALLOWANCE
01	General Manager	-
02	Dy. General Manager	-
03	Senior Manager	3500/- P.M- 4000/- P.M
04	Manager	3000/- P.M- 3500/- P.M
05	D. Manager	2500/- P.M- 3000/- P.M
06	Senior Officer/Senior Engineer	2000/- P.M- 2500/- P.M
07	Engineer Officer	1500/- P.M- 2000/- P.M
08	Asst. Engineer / Asst. Officer	1000/- P.M- 1500/- P.M
09	Foreman / Supervisor	750/- P.M- 1000/- P.M
10	Asst. Foreman / Asst. Supervisor	500/- P.M- 750/- P.M
GRADE	DESIGNATION (NON-MANAGEMENT STAFF)	PROJECT ALLOWANCE
11	Skilled	300/- P.M – 500/- P.M
12	Un skilled	200/- P.M – 300/- P.M

RESIGNATION AND TERMINATION

Resignation

- Any permanent or contract employee can resign from his services by submitting one month notice or pay in lieu thereof which may be accepted by the Chairman/CEO/DA/DO of EWI.
- Probationers, internees and temporary employees may resign from services at any time without any notice.
- Employee need to get a clearance from the Office/Project Site before leaving the organization on the standard Clearance form.
- HR department prepares a final Settlement of dues which approves by Chairman/CEO/DA/DO.

Termination

- The services of any Permanent or contract employee may terminate by appointing authority (Chairman/CEO/DA/DO of EWI) by giving one month notice or pay in lieu thereof.
- Any Probationer, internees and temporary employee can be terminated at any time by the appointing authority without any notice, without assigning any reason or without paying any compensation in lieu thereof.
- HR department receives the clearance certificate of the terminated employee signed from the concerned departments.
- Final settlement request is prepared by HR department which is approved by Chairman/CEO/DA/DO.

JOB DESCRIPTION

- All Positions are covered by job a description which clearly states the responsibilities, duties and reporting structure for the position.

ATTENDANCE AND PAYROLL

The Attendance Policy of Echo West International (Pvt.) Ltd. Is summarized as:

- A manual register is placed at reception where all the employees have to mark their attendance on daily basis in head office and branch offices;
- Time record of every employee is maintained at gate(s) by the gate keeper(s);
- HR Officer is responsible to ensure that the attendance is being marked by all employees properly on daily basis;
- If an employee leaves office premises during his official hours either for private or official purposes, he is required to fill, get it approve from head of department and submit it to the gate keeper;
- If an employee do not mark attendance, the HR Manager issues a show cause notice if he deem necessary to do so;
- The normal working hours are 45 with six (6) working days a week;
- At the end of the month, HR Officer prepares a attendance sheet of all employees based on the attendance register including:
 - Hours / Days worked;
 - Leaves availed;
 - Absentees;
 - Overtime; and
 - Any other detail which HR Officer deem necessary to incorporate.
- Overtime payment is only allowed to Non-Management staff of EWI;
- The attendance register maintained at project site by Project Manager is forwarded to HR Manager at Head Officer for his approval;
- The leaves availed by an employee during the whole month is adjusted against his allowed available leaves;
- If the balanced leaves have already been consumed or the leaves are not available to an employee, the deduction from his/her salary is made after the approval of CEO;
- The HR Manager after the approval of CEO forwards it to Finance and Accounts Department for the preparation of salary;

GRIEVANCE POLICY

The policy is not mentioned in the HR Manual rather presented by the HR Department in a separate document which is as following:

Policy

- Grievance is the violation of any right guaranteed by law, HR policies and Shared Values of the Company.
- An aggrieved employee has right to bring his grievance in notice of Management of the Company for redress.
- Management shall take necessary action to redress the grievance.

Procedure

- Employee shall bring his grievance in writing showing his identity to the notice of HR Head directly or through HOD/PM.

- HR shall involve the relevant individuals including the Complainant and find out the facts with the help of HOD/PM concerned.
- Enquiry Report with findings shall be prepared for final decision of the management.
- In case the grievance stand proved and Complaint is proved justified, the Management will take remedial action and Complainant shall be informed accordingly.
- In case the Complaint is based on mere feelings or misunderstanding, counseling may be held with the Complainant or the person against whom the Complaint is made.
- The remedial action shall be communicated to the complainant in writing.
- HR shall ensure implementation on remedial decision and file the record after completion of the process.

TRAVELLING POLICY

It is the policy of EWI that all reasonable expenses for official travel are reimbursed in accordance with guidelines mentioned in the EWI travel policy. All travel requires prior approval, in case of international travel, recommendation by HOD and approval of Chief Executive Officer is required on travel requisition form, for domestic travel, approval of HOD and CEO is required on the travel requisition form. Employees may travel according to their entitlements by road, train or air.

The policy is presented by the HR Department which is as:

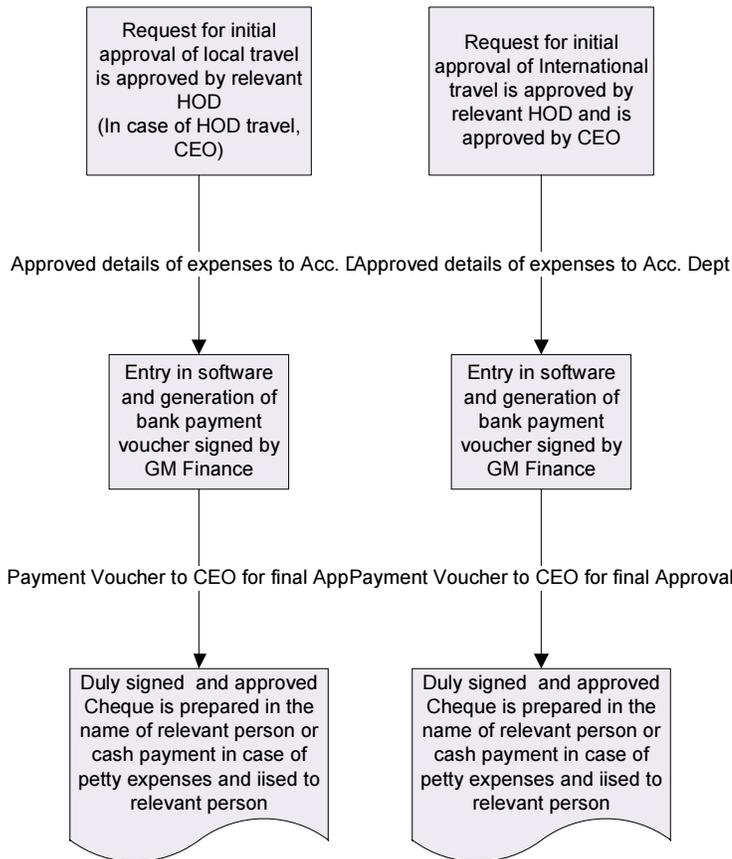
Process:

Local Travel

- Request for initial approval of local travel expense along with details is sent to relevant Head of Department (GM).
- In case of GM's request is directly sent to CEO for approval.
- Request is approved by GM/CEO.
- Approved detail of expense is sent to accounts department for entry in the software.
- Bank payment voucher of travel expense is generated by accounts department.
- Vouchers are signed by GM finance.
- After signing of GM finance, payment voucher along with supporting is sent to CEO/CEO/DO/DA.
- CEO/CEO/DO/DA finally authorized the payment voucher.
- Cheque is prepared on the name of relevant person.
- Cheque duly signed by GM finance and CEO/CEO/DO/DA.
- Finally cheque issued to relevant person.

International Travel

- Request for initial approval of international travel expense along with details is sent to relevant Head of Department (GM).
- In case of GM's request is directly sent to CEO for approval.
- Request is approved by GM/CEO.
- Approved detail of expense is sent to accounts department for entry in the software.
- Bank payment voucher of travel expense generated by accounts department.
- Vouchers signed by GM finance.
- After signing of GM finance, payment voucher along with supporting is sent to CEO.
- CEO finally authorized the payment voucher.
- Cheque is prepared on the name of relevant person.
- Cheque duly signed by GM finance and CEO.
- Finally cheque issued to relevant person.



Boarding and Lodging – Local Travel

Particulars	Hotel Class	Room Rent	If Own Arrangement	DA when return on same day	DA / Incidental Allowance	Travelling Class
CM/CEO	5 star (Exec.)	Actual and reasonable				Business/E
GM	5 star (standard room)	Actual and reasonable				Economy
Regional Manager	4 star (standard room)	Actual and reasonable				Economy
Manager	3 star (standard room)	Actual and reasonable	800	200	600	Economy
Asst. Managers/ Tech Officers/FP	3 star (standard room)	Actual and reasonable up to 2000	800	200	600	Economy
Admin Officers	2 star (Standard Room)	Actual and reasonable up to 1000	800	200	600	Economy
Driver	2 star standard	Actual and reasonable up to 800	800	200	400	FC Train /AC
Office Staff	2 star (Standard Room)	Actual and reasonable up to 800	800	200	400	FC Train /AC

Foreign Travelling

	B/L(accommodation meals etc)	Local Conveyance	Air ticket
	\$	\$	
CM/CEO	250	20 or actual whichever is more	Business
GM	200	20 or actual whichever is more	Economy
Manager	150	20 or actual whichever is more	Economy
Professio	150	20 or actual whichever is more	Economy

ANNEXURE - E

ANNEXURE – E.1

INTERNAL AUDIT

Audit department of EWI is formed to assure that departments are performing as per their defined roles and company rules and regulations in order to control all company activities having financial impact, to ensure that all risks inside company regarding business operations are reasonably covered and to measure the overall performance of the departments.

The internal Audit environment of EWI comprises of the Audit Committee (**formed under ‘charter for formation of internal audit committee’**) and the Internal Audit Department. The internal audit function has been outsourced to Hameed Zahid & Company Chartered Accountants. Hameed Zahid & Company conducts internal audit on ongoing basis throughout the year and reports to the manager finance and CEO of EWI on monthly and to Internal Audit Committee on annual basis. One representative of Hameed Zahid & Company is permanently placed at the head office for performing the daily internal audit function.

Framework

EWI has an **‘internal audit manual’** comprising of internal audit framework to be used as a benchmark for the performance of internal audit. Since the internal audit function of EWI was outsourced to Hameed Zahid & Company in 2009, the **‘agreed scope work’** of for internal audit function is based on this audit manual.

The internal auditors are required to perform the internal audit function in accordance with the said Audit Manual, which outlines the role of audit department as follows:

Roles of Audit Department

Following are the main roles of Audit department;

1. Assurance

Audit dept. is expected to assure the following areas:

- Adherence of company rules & regulations and policies;
- Adherence of working procedures;
- Well-defined assurance program in place;
- Involvement in preparation and review of company policies;
- Accuracy of financial data and financial reporting;
- Adequacy of working procedures;
- Fair use of powers and authority; and
- Appropriate data security arrangements.

2. Internal Control

Following factors are important in an effective internal control system:

- Control on all financial transactions;
- Control on all company resources and their utilization;
- Material requirement planning and execution;
- Reconciliations;

- Good governance and corporate culture;
- Reporting violations to the company management;
- Identifying intentional and un-intentional errors and frauds; and
- Reviewing and upgrading the internal control system on continuous basis.

3. Risk Management

An appropriate risk management system covers the following:

- Identification of internal risks;
- Impact and frequency of risks;
- Controls of all the risks;
- Who are the control owners of the risks; and
- Regular monitoring and reporting of all the risks factors.

Identification of external risks and their control measures will be established by the company management. Rest of the working will remain on the part of audit department.

4. Performance Monitoring

Continuous measurement of critical success factors is necessary for performance monitoring. There must be someone responsible to perform this role. The responsible department must have:

- Knowledge of CSFs of the organization;
- Knowledge of performance indicators for all such factors;
- To monitor CSFs and their indicators regularly; and
- To report the results to management continuously.

The composition of audit committee is as follows:

Sr. #	Designation	Qualifications
1.	Chief Executive officer	MBA.(Management & Finance), Bs (Construction Management)
2.	Director	MBBS
3.	Company Secretary (Manager Finance)	MBA (Finance)
4.	Manager Accounts	ACMA, Masters (Economics)

The composition of internal audit department is as follows

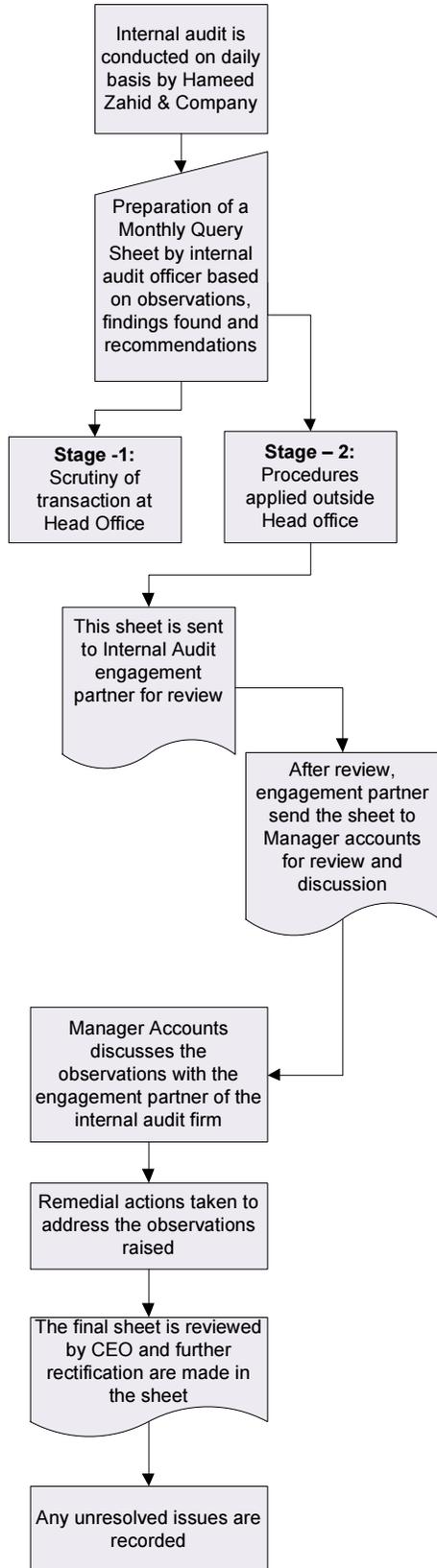
Sr. #	Designation	Qualifications
1.	Engagement Partner	FCA
2.	Internal Audit Executive	B.Com

The current position of the internal audit function is described through mapping of the actual audit procedures being adopted by the internal auditors, as outlined below:

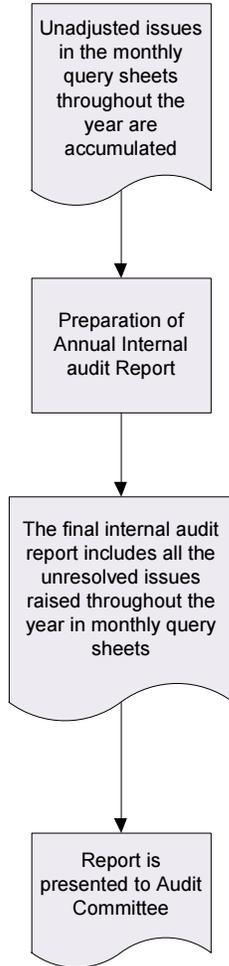
Pre Award Assessment of Echo West International (EWI)

- Step 1 Internal audit officer is permanently placed in the head office.
- Step 2 Internal audit officer makes a '**monthly query sheet**' which is the result of audit procedures applied in two stages:
- A) Scrutiny of transactions at head office, based upon (review of internal control system, daily verification of transactions, checking compliance of locks in the accounting software, verification of bank reconciliation and annual review of transactions), and
 - B) Procedures applied outside head office including substantive procedures implemented at active site offices and regional offices.
- Step 3 The query sheet prepared by the audit officer is presented to the audit engagement partner at each month end for review.
- Step 4 Finalized query sheet is presented to the Manager Accounts and the CEO for review and follow up actions recommended by the internal audit department.
- Step 4 After management's review of the monthly query sheet, the follow up rectification procedures are agreed upon in the monthly meeting among the internal audit engagement partner and CEO and Manager Accounts.
- Step 5 At year end an '**annual report on internal audit**' is prepared which is a compilation of unresolved audit observations of all monthly query sheets, identified throughout the year and is presented to the Audit Committee before commencement of statutory audit.

Monthly Query Sheets



Annual Internal Audit Report



ANNEXURE - F

INTERNAL CONTROL QUESTIONNAIRE

RECIPIENT: _____

MAARD #: _____

Date of Visit: _____

(Basic Ref: AICPA, AU Section 319 - Consideration of the Internal Control Structure in a Financial Statement Audit)

DOES IT EXIST?			OPERAT- ING?			COMMENTS/ REFERENCE
Y	NO	NA	Y	NO	NA	

I. CONTROL ENVIRONMENT:

A.	Is there an Organization Chart?	Yes	Yes	
B.	Description of major functions for each department of the organization?	Yes	Yes	
C.	Does the recipient prepare an annual financial plan (line item budget)?	Yes	Yes	
D.	Does the recipient have written policies for:			
	1. <u>Financial Management:</u>			
	a. Accounting, such as:			
	i. Chart of accounts?	Yes	Yes	
	ii. Cost principles?	Yes	Yes	
	iii. Revenues?	Yes	Yes	

Pre Award Assessment of Echo West International (EWI)

	iv.	Expenditures?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/>
	v.	Advances issued to others?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/>
	vi.	Assets, property?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/>
	vii.	Assets, cash?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/>
b.		Reporting through financial statements?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/>
c.		Policies on external audit of recipient?	<u>Yes</u>	<u>Yes</u>	<hr/> Annual external audit by Ahmed Usman Shahbbir Chartered Accountants <hr/> <hr/>
d.		Periodic external audit for sub recipients?	<u>NA</u>	<u>NA</u>	<hr/> No sub recipients <hr/> <hr/>
e.		Policies for audit resolution?	<u>Yes</u>	<u>Yes</u>	<hr/> Policies for internal and external audits exist and are in practice. <hr/> <hr/>
f.		Policies for determining reasonableness, allocability, allowability?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/>
g.		Policies requiring accounting records be supported by source documents?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/>
h.		For obtaining prior approval from USAID for advance determinations?	<u>NA</u>	<u>NA</u>	<hr/> <hr/> <hr/>
2.		<u>Personnel policies:</u>			<hr/> <hr/> <hr/>
a.		Position Descriptions?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/>

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		b.	Recruitment?	<u>Yes</u>	<u>Yes</u>	
		c.	Compensation?	<u>No</u>	<u>No</u>	No Policy exists
		d.	Benefits?	<u>No</u>	<u>No</u>	No Policy exists
		e.	Performance evaluation?	<u>Yes</u>	<u>Yes</u>	
		f.	Training?	<u>Yes</u>	<u>Yes</u>	
		g.	Termination from employment?	<u>Yes</u>	<u>No</u>	Policy exists but is not implemented
		h.	Code of conduct?	<u>No</u>	<u>No</u>	Does not exist in HR department
		3.	<u>Purchasing policies and procedures:</u>			
		a.	For capital assets?	<u>Yes</u>	<u>Yes</u>	
		b.	For technical services?	<u>No</u>	<u>No</u>	
		c.	For non expendable property?	<u>N/A</u>	<u>N/A</u>	
		d.	Offshore procurement?	<u>N/A</u>	<u>N/A</u>	
		e.	Local procurement?	<u>Yes</u>	<u>Yes</u>	
YES	NO	4.	Does the recipient have any written Travel Policies?	<u>Yes</u>	<u>Yes</u>	

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5.	Does the recipient have communication policies for employees to follow, such as Internal Procedures minutes from staff meetings, board meetings, others?	<u>Yes</u>	<u>Yes</u>
a.	Is there a formal system?	<u>No</u>	<u>No</u>
b.	Any delegations of authority?	<u>Yes</u>	<u>Yes</u>
6	Post Award briefing on Financial and Procurement management.	<u>N/A</u>	<u>N/A</u>

Communication is an ongoing process occuring thoroughout the year usuall severat times a day, minutes for staff and board meeting is imparacticable to maintain on a particular schdule basis.

BOD chairman/CEO/Director Business Development are all authorised to act as final decision makers/signatories for operating financial and business development activities.

II. ACCOUNTING PROCESS & FINANCIAL REPORTING:
--

A.	If this entity uses a computerized accounting system which modules are maintained on the computer:
----	--

1.	General ledger	<u>Yes</u>	<u>Yes</u>
2.	Accounts receivable	<u>Yes</u>	<u>Yes</u>
3.	Accounts payable	<u>Yes</u>	<u>Yes</u>
4.	Payroll	<u>Yes</u>	<u>Yes</u>

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		5. Fixed assets	<u>Yes</u>	<u>No</u>	Not maintained in accordance with TR-6 revised by ICAP.
<hr/>					
B. Accounting Process					
<hr/>					
YES	NO	1. Separate accounts for USAID funds	<u>NA</u>	<u>NA</u>	
		2. Separate bank account for USAID funds	<u>NA</u>	<u>NA</u>	
		3. Accounting records utilized			
		a. Bank book	<u>Yes</u>	<u>Yes</u>	
		b. Expenditure analysis ledger (American ledger)	<u>N/A</u>	<u>N/A</u>	
		c. Fixed assets register	<u>Yes</u>	<u>No</u>	Not maintained in accordance with TR-6 revised by ICAP.
		d. Inventory ledger for non-expendable property	<u>Yes</u>	<u>Yes</u>	
		e. Petty cash record	<u>Yes</u>	<u>Yes</u>	
		4. Records posted in ink	<u>No</u>	<u>No</u>	Records initially maintained in ink but posting in relevant accounts done through automated system.
		5. Are postings up to date	<u>No</u>	<u>No</u>	Some postings were made late. A 30 to 60 days delay was caused in some instances as also identified by internal

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6.	After a physical inventory is taken is it reconciled to both the non expendable property ledger and the general ledger?	<u>No</u>	<u>No</u>	auditor.
7.	Does the recipient bill for advances before they are true expenditures?	<u>Yes</u>	<u>Yes</u>	Fixed assets schedule maintained annually for financial statements, but evidence of physical inventory count could not be obtained.
8.	Advances:			
a.	Is the authority to approve restricted to the chief of party or designee?	<u>Yes</u>	<u>Yes</u>	
b.	Are advances liquidated timely, such as within 90 days?	<u>Yes</u>	<u>Yes</u>	
c.	Are advances made prior to liquidating all earlier advances?	<u>No</u>	<u>No</u>	Further advances can be made prior to liquidated earlier advances if and when needed, but subject to proper approvals.
d.	Are individual records established for each advance?	<u>Yes</u>	<u>Yes</u>	
e.	Is there a follow up system to monitor, reconcile and liquidate advances?	<u>Yes</u>	<u>Yes</u>	Head office advances for purchases are followed up and recorded on daily basis Advances for salaries are reconciled monthly/period end basis before final remuneration for the period. Site office advances are reconciled as per terms and

C. Reports prepared

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				nature of transaction.
<input type="text"/>				
	1. Trial balance?	<u>Yes</u>	<u>Yes</u>	
- Fund accountability statement	2. Fund accountability statement?	<u>NA</u>	<u>NA</u>	
	3. Certified Fiscal Report (CFR)?	<u>Yes</u>	<u>Yes</u>	CFR is American equivalent of audited financial statements
	4. Are the amounts in the CFR generated from the General Ledger or the American Journal, as appropriate?	<u>Yes</u>	<u>Yes</u>	General ledger that leads to trial balance which is the basis of CFR
<input type="text"/> D.	Storage of records	<u>Yes</u>	<u>Yes</u>	
	1. Is a systematic method followed?	<u>Yes</u>	<u>Yes</u>	
	2. Are supporting documents easily retrievable?	<u>Yes</u>	<u>Yes</u>	
<input type="text"/> E.	Forms used			
	1. Journal voucher	<u>Yes</u>	<u>Yes</u>	
	2. Petty cash voucher	<u>Yes</u>	<u>Yes</u>	
	3. Disbursement voucher	<u>Yes</u>	<u>Yes</u>	

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F. Accounting Documentation

- | | | | |
|----|---|------------|------------|
| 1. | Is the receipt of funds recorded with a document, such as a journal voucher | <u>Yes</u> | <u>Yes</u> |
| 2. | Are non cash transactions recorded with a document such as a journal voucher | <u>Yes</u> | <u>Yes</u> |
| 3. | Does the journal voucher describe sufficient information to properly classify the transactions for financial reporting? | <u>Yes</u> | <u>Yes</u> |
| 4. | Are all payments supported by documentation? | <u>Yes</u> | <u>Yes</u> |
| 5. | Are payment documents and all journal vouchers approved by supervisor prior to posting? | <u>Yes</u> | <u>Yes</u> |
| 6. | Is access to accounting records is limited to authorized persons? | <u>Yes</u> | <u>Yes</u> |
| 7. | Are supporting documents in active files easily retrievable? | <u>Yes</u> | <u>Yes</u> |

Receipts through cheques or cash are recorded through journal entries on vouchers such as bank receipts and cash receipts

III. CONTROL PROCEDURES

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		recorded in accounts payable?	NA	NA	Unclaimed wages do not arise
YES	NO	6. Does the recipient record all payroll deductions in separate control accounts, for examples Soc. Ins. & Taxes?	Yes	No	Incomplete recording of deductions. The statements u/s 149 & 165 were not filed on timely basis as required by the tax law
		7. Does the recipient verify amounts of payroll deductions made to third parties to the related payroll deduction totals shown in the payroll records, before these payments are remitted to the applicable payees, such as the GOP Tax Auth., Dept of Soc. Ins.)	Yes	No	Incomplete recording of deductions. The statements u/s 149 & 165 were not filed on timely basis as required by the tax law
		8. Does the personnel office maintain updated personnel records for each employee as follows:			
		a. signed contracts for new hires	No	No	Refer to HR observations
		b. changes in rates of pay	No	No	Refer to HR observations
		c. annual and sick leave balances.	Yes	Yes	
		9. Is access to employees' data records, including personnel files and compensation rates limited to authorized persons?	Yes	Yes	

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6. Are receipts attached to reimbursement vouchers?	<u>Yes</u>	<u>Yes</u>	
7. Are vouchers submitted for reimbursement approved prior to payment by someone other than the custodian?	<u>Yes</u>	<u>Yes</u>	
8. Are surprise physical counts conducted periodically by someone other than the custodian?	<u>Yes</u>	<u>Yes</u>	
9. Are all supporting documents stamped "PAID" with the date of payment indicated thereon to prevent duplicate payment?	<u>Yes</u>	<u>Yes</u>	

C. PROCUREMENT PROCESS:

1. Are purchase requisition forms approved by supervisors prior to procurement?	<u>Yes</u>	<u>Yes</u>	
2. Are purchases made on the basis of competitive procurement for major items?	<u>Yes</u>	<u>Yes</u>	Advertisement is not made, however RFQ are raised from at least three approved vendors.
3. Are written price quotations requested for purchases over a threshold amount?	<u>Yes</u>	<u>Yes</u>	
4. Are purchase commitments documented in writing, such as on purchase orders?	<u>Yes</u>	<u>Yes</u>	
i. Are P.O.s pre numbered?	<u>Yes</u>	<u>Yes</u>	
ii. Stored in secure place?	<u>Yes</u>	<u>Yes</u>	

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	iii. Periodically accounted for?	<u>Yes</u>	<u>Yes</u>	
5.	Do completed purchase orders include adequate descriptions, terms, and instructions?	<u>Yes</u>	<u>Yes</u>	
6.	Are purchase orders approved by authorized personnel before issuance?	<u>Yes</u>	<u>Yes</u>	
7.	Is the purchasing function independent of receiving, shipping, invoice processing, accounting and paying functions?	<u>Yes</u>	<u>Yes</u>	
8.	Are old items in the open purchase order file periodically investigated?	<u>NA</u>	<u>NA</u>	
9.	Are items received documented on receiving & inspection report (R.I.R.) forms?	<u>Yes</u>	<u>Yes</u>	
	i. Are R.I.R.s pre numbered?	<u>Yes</u>	<u>Yes</u>	
	ii. Stored in secure place?	<u>Yes</u>	<u>Yes</u>	
	iii. Periodically accounted for?	<u>Yes</u>	<u>Yes</u>	
10.	Is the recipient using the following processes for major procurement:			
	i. Advertising?	<u>No</u>	<u>No</u>	
	ii. Prequalification?	<u>Yes</u>	<u>Yes</u>	
	iii. Preparation of invitation for bids	<u>Yes</u>	<u>Yes</u>	<u>Request for Quotation</u>

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	(IFB)?			are raised from approved vendors
iv.	Review of technical and /or cost proposals?	NA	NA	Request for Quotation are raised from approved vendors
v.	Review of bids, analysis & award?	Yes	Yes	
vi.	Drafting and negotiating final contracts?	Yes	Yes	For subcontracting, the contract is drafting and negotiating
vii.	Determining the method of payment?	Yes	Yes	
11.	Are files maintained for each major procurement transaction?	Yes	Yes	
i.	Are they easily accessible for audit or review?	Yes	Yes	
12.	Is an inventory taken annually of non expendable property?	Yes	No	No evidence of taking inventory counts annually exist but existance of a fixed assets register suggests some check on the said property do exist, however inediquate
13.	Are daily written records maintained for vehicle trips?	Yes	Yes	
D.	CASH/CHECK DISBURSEMENT AND RECEIPT OF FUNDS PROCESS:			
1.	Do check signers review the supporting			

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		documents prior to signing?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/> <hr/>
		2. Are the invoices received from suppliers:			<hr/> <hr/> <hr/> <hr/>
		a. Compared with evidence of receipt?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/> <hr/>
		b. Checked for mathematical accuracy?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/> <hr/>
		c. Approved prior to payment by management?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/> <hr/>
		d. Stamped "paid" or cancelled after processing?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/> <hr/>
		3. Is the person who prepares checks authorized to sign checks?	<u>No</u>	<u>No</u>	<hr/> <hr/> <hr/> <hr/>
		4. Is the check signer also the bookkeeper?	<u>No</u>	<u>No</u>	<hr/> <hr/> <hr/> <hr/>
		5. Are all blank checks:			<hr/> <hr/> <hr/> <hr/>
YES	NO	a. Kept in a safe place (under lock and key)?	<u>NA</u>	<u>NA</u>	<hr/> <hr/> <hr/> <hr/>
		b. Pre numbered?	<u>NA</u>	<u>NA</u>	<hr/> <hr/> <hr/> <hr/>
		c. Periodically accounted for?	<u>NA</u>	<u>NA</u>	<hr/> <hr/> <hr/> <hr/>
		6. Is cash on hand (including unpaid payrolls) kept in a safe place under lock and key?	<u>Yes</u>	<u>Yes</u>	<hr/> <hr/> <hr/> <hr/>
		7. Are reconciliations of bank statements to cash/check books and to general ledger:			<hr/> <hr/> <hr/> <hr/>

There are more than 2 signatories for every bank account, any 2 required to sign checks. Therefore, blanks cheques not required.

Cash in hand does not include unpaid salaries.

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a. Prepared on a timely basis?	<u>Yes</u>	<u>Yes</u>	
b. Reviewed and approved by an authorized person?	<u>Yes</u>	<u>Yes</u>	
8. Are 2 signatures required on all checks?	<u>Yes</u>	<u>Yes</u>	
9. Are "Funds Available" obtained from the accounting department prior to payment?	<u>Yes</u>	<u>Yes</u>	Not a regular process. Varies from case to case. Proper protocols followed.
10. Are cash receipts promptly deposited in the bank (1 day)?	<u>Yes</u>	<u>Yes</u>	Cash receipts are not from customers. Some cash receipts arise when unused advances for purchases are returned.
11. Are checks received promptly deposited in the bank (1 day)?	<u>Yes</u>	<u>Yes</u>	
12. Is the cash receipt book:			
a. Kept in a safe place (under lock and key)?	<u>Yes</u>	<u>Yes</u>	Cash is kept at head office, branch offices and sites for salaries, petty cash and other office use.
b. Pre numbered?	<u>Yes</u>	<u>Yes</u>	
c. Periodically accounted for?	<u>Yes</u>	<u>Yes</u>	
13. Does the recipient charge USAID for the following expenses:			Since this is pre-award activity, no transactions have occurred relating to USAID.
			However, the business under discussion has the capability to accurately and transparently affect the below mentioned expenses and charge/not charge these expenses

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a.	Advertising with the exception of advertising for personnel, procurement, workshops and other necessary advertising to meet project needs?	NA	NA	to USAID as per terms of agreement and or specific instructions.
b.	Bad debts	NA	NA	
c.	Commissions and contingency fees	NA	NA	
d.	Contributions and donations	NA	NA	
e.	Customs duties	NA	NA	
f.	Depreciation	NA	NA	
g.	Entertainment costs	NA	NA	
h.	Fines and penalties	NA	NA	
i.	Gifts	NA	NA	
j.	Interest	NA	NA	
k.	Personal expenses, such as tea & sugar	NA	NA	
l.	Employer's share of social insurance	NA	NA	
m.	Taxes, e.g. sales taxes and any others	NA	NA	
n.	Tips	NA	NA	

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o. Salary Supplements

NA

NA

ANNEXURE - G

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Scenario-1	
Funding Facilities available to EWI in Pak Rupees. (Askari Bank) -Credit Line	1,277,911,000
US \$ Rate (20-9-12)	94.5
	US \$
Funding of Proposed Project US \$ (Millions)	50,000,000
Assuming all the funds are used evenly during the 24 Months	2,083,333
a. Credit Line available to EWI from its own loan	13,520,278
b. Currently utilized amount from the credit line	1,586,998
Funding Facility not utilized (a-b)	11,933,281
Weightage of Funding Facility with respect to Funding of proposed project	24%
EWI can Funds the proposed project for the nearly 6 Months from its own financing facility.	5.73

Assumptions

In absence of original proposal submitted to ASP, we are assuming the following for this working:

- 1-The value of the project is 50 Million US \$.
- 2-The life of the project is 2 year.
- 3-The proposed funding will be used evenly throughout the 24 month period.

Scenario-2	
Funding Facilites available to EWI in Pak Rupees. (Askari Bank) -Credit Line	1,277,911,000
US \$ Rate (20-9-12)	94.52
	US \$
Funding of Proposed Project US \$ (Millions)	40,000,000
Assuming all the funds are used evenly during the 18 Months	2,222,222
Credit Line available to EWI from its own loan	13,520,278
Currently utilized amount from the credit line	1,586,998
Funding Facility not utilized (a-b)	11,933,281
Weightage of Funding Facility with respect to Funding of proposed project	30%
EWI can easily Funds the proposed project for 5 Months from its own financing facility.	5.37

Assumptions

In absence of original proposal submitted to ASP, we are assuming the following for this working:

- 1-The value of the project is 40 Million US \$.
- 2-The life of the project is 1.5 year.
- 3-The proposed funding will be used evenly throughout the 18 month period.