



Pre-Award Assessment Report On
Izhar Construction (Private) Limited
September 2012

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**Ernst & Young Ford Rhodes Sidat Hyder
Pre Award Assessment Report on
Izhar Construction (Pvt.) Limited
September 2012**

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Table of Contents

S. No.	Particulars	Page No.
	Overall conclusion	3
1	Background	5
1.1	Introduction to Izhar Construction (Pvt) Limited	6
1.2	Participants of this assessment	9
1.3	Objective of this assessment	9
1.4	Scope and methodology	10
2	Executive Summary	12
2.1	Conclusion on capacity of ICPL	13
2.2	Overall assessment of areas under review	15
2.3	Critical areas needing improvement	18
3	Absorptive capacity of ICPL	20
3.1	Absorptive capacity analysis	21
3.2	Current capacity in terms of staff strength, capability, including IT capability	22
3.3	Defined policies and procedures	23
3.4	Overall absorptive capacity assessment	23
4	Assessment of each individual area	24
4.1	Internal Controls / Governance Structure	25
4.2	Controls Procedures /IT structure	38
4.3	Accounting System	49
4.4	Accounting Records, Overall Financial System of ICPL	63
4.5	Management Structure, Personnel Policies and Procedures	72
4.6	Travel Policy	91
4.7	Procurement and Purchasing Systems	96
4.8	Property/Inventory Management Standards and Systems	105

S. No.	Particulars	Page No.
5	Disclaimer	114
	Annexure	117
	Annexure 1 Scope and Methodology of this assessment	118
	Annexure 2 Key Financial Figures	119
	Annexure 3 Key Financial Ratios	120
	Annexure 4 Basis of assessment	121
	Annexure 5 Breakdown of G&A Cost	122
	Annexure 6 Breakdown of Social Cost	123
	Annexure 7 Breakdown of FDR Overheads	124
	Annexure 8 People who we had discussions with	126
	Annexure 9 Abbreviations used in this report	127

Overall conclusion



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Opinion on managerial, technical, administrative and financial capabilities of Izhar Construction (Pvt.) Ltd (ICPL) to carry out proposed USAID funded activities – Pre Award Assessment of ICPL to carry out proposed USAID funded activities

We have made a review and evaluation of the managerial capacity and internal control systems of the ICPL using those criteria established by ASP-RSPN in the task order received by us referenced RFQ No. 07A-2012 dated July 31, 2012. Our review included interviews, observations and tests of compliance with ICPL'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 ICPL.

The management of the ICPL 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 our consideration of the general control environment and the internal control systems of ICPL for the areas covered under our review and as overall assessed in section 2.2 of this report, we consider that pre award disbursement conditions as described in section 2.3 to this report must be met, which we believe to be material weaknesses. This would strengthen the internal controls environment of ICPL and reasonably align the internal controls to the risk assessment guidelines provided by USAID to us with the above mentioned task order. In addition to such weaknesses, other conditions that we believe would not be in conformity with the criteria referred to above have been described in section 4 of this report. The level of risk identified as a result of our assessment is considered to be 'Medium'.

Further, nothing came to our attention that would cause us to believe that the ICPL does not have the managerial, technical, administrative and financial capabilities to carry out the proposed USAID funded activities as far as such activities pertain to the nature of Company's current operations and skills set as of the date of our review.

Yours faithfully

Ernst & Young Ford Rhodes Sidat Hyder

Background

- 1.1. Introduction to ICPL
- 1.2. Participants of this assessment
- 1.3. Objective of this assessment
- 1.4. Scope and Methodology

1. Background

1.1. Introduction to Izhar Construction (Pvt) Limited

IZHAR Group is in the sixth decade of construction operations since its inception in 1959. The group has successfully completed numerous large industrial, commercial, educational and high-rise building projects along with infrastructure and development works.

Izhar Group consists of pre-cast factories, pre-cast and pre-stressed concrete elements, pre-engineered steel building system, Izhar Housing, Izhar Energy Services and Izhar Construction (incorporated since May 1960) exhibiting quality construction at its best remains the main flagship, spearheading the Group activities under one roof, on well-defined professional, ethical grounds.

Board of Directors of Izhar consists of seven members;

Mr. Ayub Sabir Izhar (Chairman)

He hold engineering diploma from Southgate Technical College, London in 1974. He has been part of Izhar since last 37 years.

Mr. Amir Farooq Izhar (Chief Executive Officer)

He is civil engineer from California State Poly Technic University U.S.A. He has been part of Izhar since 1989 and specializes in business development, project management and specialized structures.

Mr. Mehboob Nasir Izhar (Director HR, Admin and Mechanical)

He holds mechanical engineering degree from UET, Lahore. He also joined Izhar in 1989 and specializes in fabrication and erection of steel structure.

Mr. Azhar Ali Bhatti (Director Design)

He holds M.Sc. structural engineering degree from U.E.T Lahore. He has been part of Izhar since 31 years.

Mr. Yaqoob Tahir Izhar (Director pre-cast construction)

He is civil engineer from U.E.T, Lahore and has been associated with Izhar since 1979. He is independent board member and is director pre-cast construction business.

Mr. Marghoob Shakir Izhar (Director Finance)

He holds masters in business administration and has been associated with Izhar since 20 years.

Mr. Omer Ayub Izhar (Director Projects)

He holds civil engineering degree from U.E.T, Lahore and M.B.A. University of Technology Sydney, Australia. He has been associated with the Company since 2001.

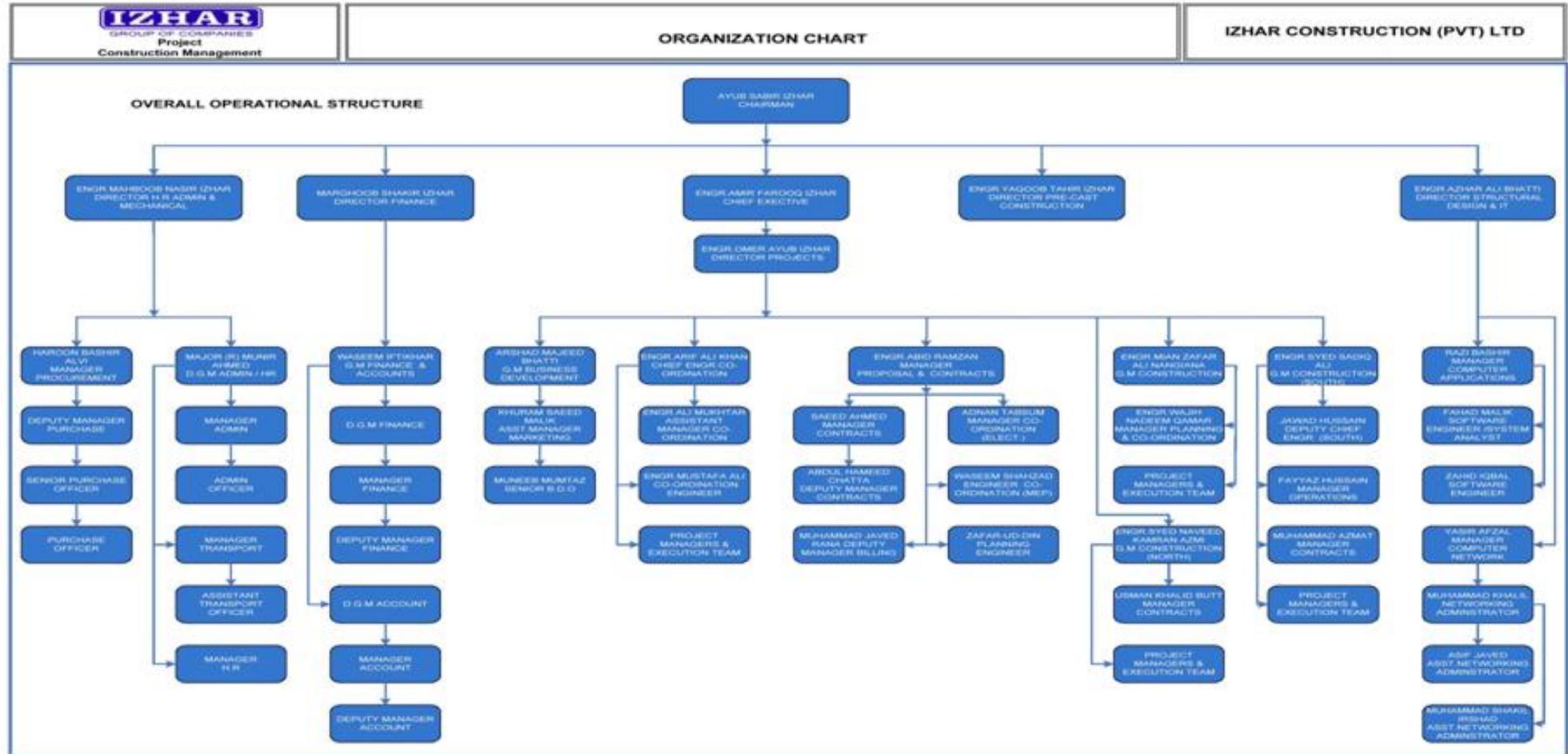
Izhar Construction primarily relies on self financing without negotiating with the banks or other financial institutions to meet capital expenditures and cash flows of larger undertakings. The Company has sizeable non funded credit limits at its disposal from reputed commercial banks on non profit sharing basis. The Company enjoys credible financial credit worthiness to fully discharge all its financial and other obligations.

Izhar construction mainly deals with following areas of construction:

- ▶ Commercial & institutional projects
- ▶ Industrial construction
- ▶ Housing and urban development
- ▶ Infrastructure and country development
- ▶ Defence construction

Management and Organizational structure

The organization structure of ICPL is given below. This Organizational Structure has evolved over the period.



1.2. Participants of this assessment

This assessment was conducted by Ernst & Young Ford Rhodes Sidat Hyder (EYFRSH) for and on behalf of the USAID's Assessment and Strengthening Program (ASP) to complete the Pre Award Assessment necessary for recipients receiving financial support under RFQ No. 07A-2012 dated July 31 2012. Our review of ICPL was based on desktop reviews of key information provided to us by ICPL, interviews and discussions with key ICPL personnel, walkthroughs of critical transactions and testing, where appropriate. Our review commenced on August 08, 2012 and concluded on August 30, 2012.

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

A comprehensive list of the key people we had meetings with, along with their contact information, forms part of Annexure 8 to this report.

1.3. Objectives of this assessment

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

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

This report has been structured to provide an overall assessment of ICPL as a whole (Section 2), an assessment for each of these areas in ensuing chapters (Section 4) and finally to highlight our key findings for each area (Section 4). Key findings have been discussed with management and responses have been obtained at a finding level.

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

- a) To evaluate whether ICPL has:
- ▶ An acceptable organizational and management structure.
 - ▶ Accounting and financial management systems.
 - ▶ Systems of internal control.

- ▶ Policies and procedures in place.
- b) Whether ICPL has the capacity to comply with USAID and local guidelines.
- c) Whether ICPL has the absorptive capacity for larger scale future funding by USAID.
- d) To consider whether ICPL's management and organizational strength (in numbers and qualities) have the capability to manage USAID funding.

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

1.4 Scope and methodology

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

Our approach has been to assess ICPL at two levels:

I. Assessment of Capacity of ICPL

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

Whether ICPL:

- ▶ Has adequate financial resources or the ability to obtain such resources, as required during the performance of any award.
- ▶ Has adequate accounting system.
- ▶ Has satisfactory system for property control.
- ▶ Have satisfactory procurement policies and procedures.
- ▶ Has a satisfactory method for developing Fixed Daily Rate.

- ▶ Has the ability to meet award conditions considering all existing and prospective recipient / contractor commitments, both governmental and non-governmental.
- ▶ Has a satisfactory record of performance.
- ▶ Has a satisfactory record of business integrity
- ▶ Is otherwise qualified to receive an award under applicable laws and regulation

II. Assessment of the eight areas identified in the Scope of Work

The second level has been to analyze whether ICPL has the capacity in the eight areas identified in the Scope of Work, to meet USAID guidelines, local regulation and better practices. The requirements in each of these areas have been brought together in the form of a comprehensive Pre Award Assessment Checklist.

Meetings and interviews were conducted with key personnel at ICPL to obtain an understanding of the current processes in place around these areas. Walkthroughs were carried out to ascertain the validity of our discussions and where relevant, testing was also conducted.

Executive Summary

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

2. Executive Summary

2.1. Conclusion on capacity of ICPL

Adequacy of financial recourses

ICPL had an accumulated profit as per the annual financial statements on 30 June 2011 of Rs. 179 million (Approx. \$ 2 million), general reserves of Rs. 1,480 million (Approx. \$ 16.4 million) and cash and bank balances of Rs. 554 million (Approx. \$ 6.1 million). The Company does not avail any financing line and their all projects are funded by their own sources. However, the company has obtained non-funded financing facilities mainly performance guarantees from banks amounting to Rs. 808 Million (Approx. \$ 9 million) as at June 30, 2011. As of 30 June 2011, their current ratio is approximately 2:1. ICPL is not leveraged at all and has sufficient financial strength to fund its own operations.

In years 2011 and 2012 the Company has executed construction operations of Rs. 8,886 million (Approx. \$ 99 million). Currently, ICPL is executing nine projects having cumulative value of Rs. 6,046 million (Approx. \$ 67 million). Considering the above information and the magnitude of funding and related expenditure expected from the proposed USAID project (Approx. USD 10-50 million), we believe that ICPL has adequate financial resources to execute the USAID projects.

However, as the governance structure, procurement system and human resource policies are not as robust as are required under USAID guidelines, it is proposed that pre-disbursement recommendations discussed in Section 2.3 are met by ICPL in due course.

Ability to meet award conditions

ICPL has booked revenue from construction projects amounting to Rs. 3,330 million (Approx. \$ 37 million) for the year ended 30 June 2011. ICPL is currently working on nine projects having cumulative total value of Rs. 6,030 million (Approx. \$ 67 million). Further ICPL has completed projects amounting to Rs. 8,910 million (Approx. \$ 99 million) in the year 2011 and 2012. The highest value project of ICPL was with Pakistan Air Force (Shahbaz Air Base) and its allied facilities having total value of approximately Rs. 4,400 million (Approx \$ 49 million) which was completed in 28 months. In the last two years, ICPL has been working on an average 21 number of projects at any given time valuing on an average Rs. 974 million (Approx. \$ 11 million). In accordance with information and explanations made available to us, we understand that there have been no litigations and claims regarding any of the projects undertaken by ICPL in recent past.

Further, being a private company, all applicable laws and regulations are complied by the Company including labor laws and taxation requirements. Nothing came to our attention to indicate that they were not currently compliant with any of the local laws.

Requirements of USAID guidelines with respect to accounting, reporting and financial management which are relevant to ICPL have been analyzed. The Company is mainly using / in the process of implementing Sidat Hyder Financials and its allied modules relating to procurement, HR and project management. Besides, there are certain standalone modules for project management and payroll, which ICPL is in the process of integrating with Sidat Hyder MIS. Policies and procedures around Procurement, Human Resource Management and Financial Management have been drafted and put in to place. We have assessed the effectiveness of these policies and procedures through inquiries, discussions and

walkthroughs of a small sample of transactions. However, we have not conducted comprehensive review of operational effectiveness of these policies and procedures. Based on our procedures, inquiries and discussions, nothing significant has come to our attention to suggest that the design of these policies and procedures, if implemented completely and on a timely basis, would not enable ICPL to meet USAID award conditions, except as discussed in Section 4 of this report.

Satisfactory record of performance

Based on the information and explanations made available to us, an indicator of satisfactory record of ICPL is completion of 11 project contracts in the last 2 years, aggregating Rs. 8,886 million (Approx. \$ 99 million). As per information made available to us, no penalties for late completion or other defaults in the last 2 years have been invoked by the clients. The largest of such contracts was with Pakistan Air Force (Shahbaz Air Base & its allied facilities) having contract value of Rs. 4,400 million (Approx. \$ 49 million). This project was undertaken with the public sector in the years 2009-11. As per our discussions, we understand that under strict timeline and resources this project was completed without incurring any penalties or claims in 28 months. Further, ICPL has been providing construction services to many local and international organizations. Major projects in their profile are as follows:

- ▶ Pakistan Telecommunication Tower Jinnah Avenue, Islamabad (30 storey building)
- ▶ Silver Oaks Residential Complex (13 storey Complex)
- ▶ MAF Hypermarket Pakistan Private Limited (Fortress Stadium Lahore)
- ▶ Metro Cash and Carry (Karachi, Faisalabad & Islamabad)
- ▶ National University of Management Sciences (NUST)
- ▶ Facilities for defence classified project
- ▶ D.G. Khan Cement
- ▶ Pakistan Electron Limited (PEL)

Currently ICPL has been awarded a project for construction of EOBI Hotel building at Lahore. It has 17 storeys comprising six basement structures. Total value of the project is expected to be Rs 3,500 million (\$ 39 million) and it is scheduled to be completed in 30 months time.

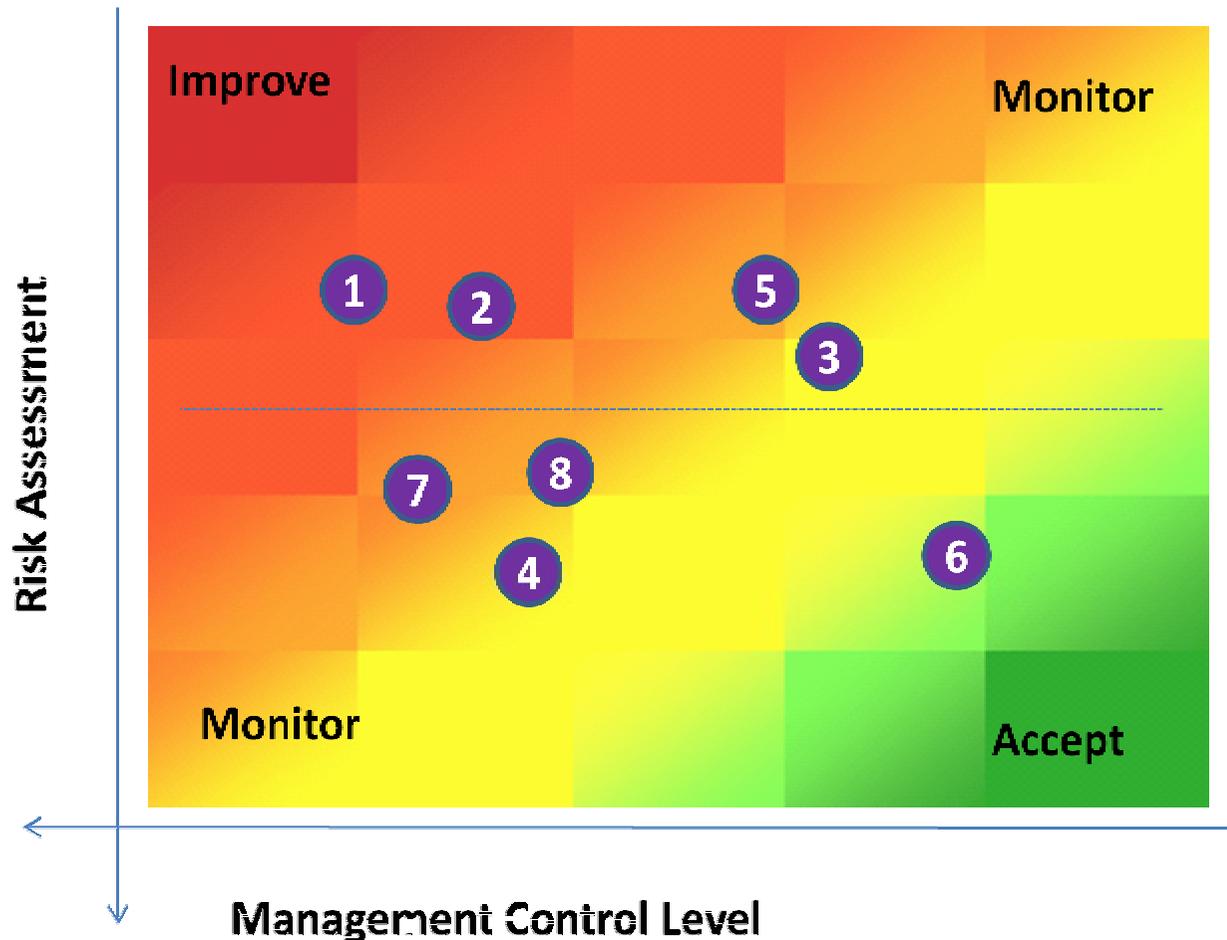
Satisfactory record of business integrity

We interviewed key stakeholders of ICPL and reviewed information available in the public domain about the Company as a whole and the Directors. Nothing has come to our attention to indicate any issues regarding their business integrity.

2.2. Overall assessment of areas under review

Areas under review	Basis of assessment	Rating
Governance structure	<p>The internal controls and governance structure of ICPL requires more formalization. For this purpose, policies and procedures should be documented for each function with appropriate level of delegation of authority and accountability levels/ mechanisms defined. A formal implementation plan defining the action plan, responsibilities and timelines be specified in this regard.</p> <p>The Board of Directors (BOD) should form a Board Audit Committee for better oversight of matters relating to internal controls, accounting and financial reporting. Further, following management committees need to be formed for giving due attention and focus to these critical aspects of the organization:</p> <ul style="list-style-type: none"> ▶ Procurement Committee, ▶ HR Committee, and ▶ IT Steering Committee <p>IT general controls and a Business Continuity Plan (BCP) also need to be documented.</p>	
Control procedures	<p>There are policies and procedures manuals developed which cover various areas of controls except outsourcing / subcontracting policy, IT general controls / security policies; however there is no testing mechanism in place to review and report on the efficiency and effectiveness of these controls. General Manager Admin & Human Resource also heads the Internal Audit Department which should be independent of the executing departments and should be reportable to the BOD/ Audit Committee.</p>	
Accounting system	<p>Project management and procurement modules are in the process of implementation. Besides, the financial accounting system needs integration with payroll module. Management is currently in the process of implementing/ integrating these modules and has started parallel tests.</p>	

Residual Risk Profile of areas under consideration



- 1. Internal Controls and Governance Structure
- 2. Controls Procedures
- 3. Accounting System
- 4. Accounting Records and overall Financial Management
- 5. Management structure, personnel policies and procedures
- 6. Travel policy
- 7. Procurement policies and procedures
- 8. Property management standards and system

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

Total count of the people working in ICPL exceeds 700. Currently there are more than 50 engineers and more than 20 project managers. Count of project managers changes with the level and number of projects. After the completion of projects, ICPL retains professional workforce hired and is utilized on other projects.

Most of the work performed by ICPL is through subcontractors. According to the management Approx. 75% of the work on projects is done by the subcontractors. ICPL mainly monitors the projects and provide expertise where and when required through their skilled and experienced staff.

Regarding IT capabilities, we have identified our observations in Section 4.2 of this Report.

3.3. Defined policies and procedures in place especially relating to budget management and funds utilization

Defined and documented policies / procedures and the controls framework enable the company's management to carry out its operations in a efficient and effective manner with minimal disruptions as each person understand its own roles and responsibilities and procedures to fulfill the same in timely manner.

In case of ICPL there are defined policies and procedures manuals developed which to the most part cover all material areas of control procedures except those mentioned in section 4.2 below. Further there is no testing mechanism in place to report the efficiency and effectiveness of such controls. Also outsourcing / subcontracting policy need to be developed, which is critical for executing operations and enhancing ICPL capacity keeping in consideration nature of its business, which frequently requires engaging third party contractors.

3.4. Overall absorptive capacity assessment

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

Detailed assessment and key findings

- 4.1 Internal Controls / Governance Structure
- 4.2 Controls Procedures/ IT structure
- 4.3 Accounting System
- 4.4 Accounting Records, Overall Financial System of ICPL
- 4.5 Management Structure, Personnel Policies and Procedures
- 4.6 Travel Policies
- 4.7 Procurement and Purchasing Systems
- 4.8 Property/Inventory Management Standards and Systems

4 Detailed Assessment and key findings:

4.1 Internal Controls / Governance Structure

4.1.1 Overview of Existing Internal Controls/Governance Structure

- ▶ The Board of Directors (BOD) consists of seven members, with one of them being an independent director from another group company, who has no involvement in the operations of Izhar Construction (Private) Limited (ICPL). Meetings of the Board of Directors are held frequently, and are conducted both formally and informally.
- ▶ The organizational structure has been approved by the BOD. Management hierarchy in the structure is not very clearly defined as General Managers and Managers are presented as being in the same management tier. Similarly, designations are also used non-uniformly in different department.
- ▶ Currently there are four operations related departments with heads reporting directly to the Director Projects, who is reportable to the Chief Executive Officer (CEO). These departments are:
 - ❖ Business Development Department – This department is responsible for business development, customer relations and tapping new opportunities. It is headed by a General Manager.
 - ❖ Co-ordination Department – This department ensures effective coordination among project teams. It is headed by Chief Engineer Co-ordination.
 - ❖ Proposal and Contracts Department – This department is responsible for proposal development and contract execution. This department is headed by Deputy General Manager (DGM) Proposal & Contracts.
 - ❖ Construction Department – This department supervises construction work at sites. This department is geographically divided into Northern, Central and Southern regions. The Northern and Central region is headed by General Manager Construction, whereas the Southern region is headed by Chief Engineer South.
- ▶ There are two departments with heads reporting directly to the Director HR Admin and Mechanical:

- ▶ At project sites, manual record keeping is being done, with fortnightly reporting to the Head Office. There is an audit department which has the function of post auditing all the information received from the sites. However, it has been communicated to us that after the implementation of Project Management module, automated record keeping would be maintained at the sites as well.
- ▶ All financial records are being maintained centrally at ICPL Headquarters. All financial and program management activities including payments, procurements, payroll and financial reporting are centralized.
- ▶ ICPL has Standard Operating Procedure Manuals for Accounting & Finance and Human Resource. There are no specific manuals for the Business Development, Subcontracting arrangements, Budgeting, and other major departments of the Company.
- ▶ The manuals have not been approved by the BOD, however, they are approved by relevant directors. We have been told that the Board delegates its powers to its members, but there is no evidence supporting such delegation.
- ▶ There is no independent monitoring mechanism in the form of a Board Audit Committee comprising of non executive independent members. Currently most activities are being monitored by senior management.
- ▶ There is an internal audit department but the scope and objectives and also academic qualification of the personnel of the department is not as per required internal audit standards. Internal audit department is just performing attestation and rechecking of bills function. Scope of internal audit department does not cover the whole organization and no formal internal audit reports are being prepared. Also there is no formal channel of communication between internal audit department and directors. This department is headed by GM HR and Admin.
- ▶ There are no formal meetings of the directors. Mostly, the communication is through emails and record of those emails is also not maintained.
- ▶ Being a private company there are no specific regulatory guidelines applicable to ICPL. Further, we have not come across legal cases or penalties against ICPL for non compliance with any legal or statutory requirements.
- ▶ The financial year end of ICPL is 30th June. Inaam UI Haq & Co., Chartered Accountants are the external auditors of ICPL who provide their report to the Board of Directors.

Please refer to section 4.1.2 of our report for details of key findings with respect to internal controls and governance structure of ICPL.

Ref	Finding	Impact	Recommendation
c)	<p>No formal Board and management level committees formed</p> <p>Issue Rating High</p> <p>Current State:</p> <p>It was observed that no Board and senior management committees have been defined by ICPL, such as:</p> <ul style="list-style-type: none"> ▶ Audit Committee ▶ Procurement Committee ▶ Recruitment Committee for hiring senior management/critical positions ▶ IT Steering Committee <p>Gap:</p> <p>As per better practices, the above mentioned various committees are formed for some/ all of the following:</p> <ul style="list-style-type: none"> ▶ Financial management and reporting oversight; ▶ Handling internal / external audit matters; ▶ Assess adequacy of procedures and policies for internal controls and risk management; 	<p>The absence of Board level and management level committees as mentioned herein may be result in lack of specific focus on critical matters of the organization.</p>	<p>We recommend that ICPL should form board level and management level committees, and atleast one member of such committees should be an independent, non-executive Board member, who does not take part in day to day activities of ICPL.</p> <p>The Audit Committee should meet the internal auditors at a minimum on a quarterly basis and external auditors on an annual basis.</p> <p>Moreover, Terms of Reference of these committees should also be developed and approved by the Board.</p>

Ref	Finding	Impact	Recommendation
d)	<p>ICPL has no practice of preparing entity level budget</p> <p>Issue Rating </p> <p>Current State</p> <p>While reviewing the planning process of ICPL, it was observed that while there is a practice of preparing project wise budgets, annual budgets are not being prepared. Due to this reason, variance analysis is not being conducted at the organizational level.</p> <p>Gap</p> <p>Annual budgets are prepared at an organizational level by entities as part of their planning process. Further, such budgets should be monitored at the transaction level as well as on a periodic basis. Variance analysis reports are prepared, comparing actual figures with budgeted figures and areas of inefficiencies are highlighted, enabling timely corrective action.</p>	<p>In absence of an effective budgeting process, financial management procedures may be rendered ineffective.</p> <p>In absence of variance analysis reports, inefficiencies may go undetected, impairing ICPL's ability to take timely corrective measures.</p>	<p>The following key budgets should be prepared on periodic basis:</p> <ul style="list-style-type: none"> a) Annual revenue/ income targets b) Capital expenditure budgets c) Operational expenditure budgets d) Monthly cash flow budgets/ plan. <p>Moreover, such budgets should be reviewed at least on a quarterly basis or on the occurrence of an unforeseen event which significantly affect the assumptions on which the original budget was based.</p> <p>Timelines for the preparation and presentation of variance analysis reports to the senior management should also be devised.</p>

Management Response: Since the Company is engaged in the Construction business wherein acquisition of business is uncertain under the prevailing conditions of country. The Management is currently monitoring project performance through informal periodic evaluations and estimates project to project. However implementations of Contract Management module in the organization shall streamline the function of budgeting and its monitoring on a project to project basis ultimately enabling the company to monitor overall entity level budgets. The management has already started and is targeted to implement these modules fully in current financial year.

Ref	Finding	Impact	Recommendation
e)	<p>No minutes are prepared for Board meetings</p> <p>Issue Rating </p> <p>Current State</p> <p>While reviewing the functioning of the BOD and senior management, it came to our knowledge that there is no practice to take minutes of meetings.</p> <p>Gap</p> <p>Minutes should be taken to document the major decisions which are taken at meetings of the Board and senior management.</p>	<p>In absence of taking minutes of meetings, major decisions taken may not be appropriately documented and reference may not be made to them in future. Moreover, responsibility fixation for a specific action may not be documented and followed up.</p>	<p>An official of the Company should be designated with taking minutes of meetings. Subsequent to the meeting, the minutes should be circulated to all attendees and their signature should be taken thereon as acknowledgement of their confirmation of the proceedings thereof.</p>

Management Response: Board meetings are held formally which are attended by board of directors only and decisions effecting changes in policies and procedures are communicated to the Management through office orders or emails. Though BoD/concerned director is closely monitoring projects spending, HR day to day procedures and policies, internal audit department findings and its corrective and preventive actions, implementation of software, etc, however a proper terms of reference for BoD is being formalized considering frequency for all important matters to discuss accordingly.

Ref	Finding	Impact	Recommendation
g)	<p>IT staff lacks relevant education & experience to act as IT system administrator</p> <p>Issue Rating High</p> <p>Current State: The current IT staff, though appropriately skilled in IT resource management, is not adequately equipped with accounting and finance knowledge to ensure effective administration of financial controls in the MIS. For this reason, MIS is currently being supervised by GM Finance (refer point (c) above).</p> <p>Gap: IT staff at ICPL do not have Finance and Accounts knowledge to entrust them with maintaining MIS without supervision from GM Finance.</p>	<p>Appropriate segregation of duties at the departmental level may not be ensured if MIS is not made independent from supervision of GM Finance.</p>	<p>Trainings of IT staff should be arranged by ICPL to ensure that the requisite skill set is provided to the IT staff, so that the overall departmental structure can be strengthened through appropriate segregation of duties.</p>
<p>Management Response: Previously the Company did not have ERP System which required educated & experienced persons to act as IT Administrator. Now that we are in the process of implementing Sydat Hyder Financial Modules which has raised the need for proper IT Administration. The Company is fully aware of its requirement and has planned to appoint a person as IT Administrator that shall be finalized in couple of months.</p>			

4.2 Control Procedures/IT structure

4.2.1 Overview of Existing Controls Procedures

- ▶ Management of ICPL, over a period of time, has been able to develop controls design comprising of better industry practices. Controls have been documented in the manuals considering aspects such as:
 - ❖ Segregation of duties to minimize any conflict of interest (except as mentioned in section 4.1 of this report);
 - ❖ Review / approval and authorization of transactions; and
 - ❖ Physical custody and security of assets ensuring authorized use only.

However, such controls are in a constant state of evolution, in line with growth in business and with the induction of the third generation of Izhari family in the Company. We have been given to understand that policies related to the internal control function, segregation of duties, integration of different modules of MIS, formation of management and Board committees and budgeting are in the process of documentation. Moreover, all these policies shall be implemented after formalization of the same in the operational manuals. However, ICPL still need to develop an implementation plan identifying specific action plans, timelines and resource requirements for implementation of key controls as and when they are developed and formalized.

With respect to the past, we have been given to understand that key controls were being practiced but not documented to evidence the same. For example, technical input from concerned specialists has been obtained for the procurement of specialized items. However, there was no practice to document the same in a prescribed format and have it approved by the technical committee etc.

- ▶ Organizational Chart of the entity depicts the departmental division within the entity. It mentions all the designations of head of departments and the respective staff under them. Every department has specific policies and procedures implemented after approval from the relevant director. Job descriptions of all personnel formulating key management have been devised.
- ▶ ICPL has two offices which are used for its operations, one in Lahore and a regional office situated in Rawalpindi. The Regional Office has been formed for the purposes of tapping business opportunities more effectively in the Northern region. Moreover, it is also used for managing projects undertaken in that region. All key controls are, however, centralized and are being monitored by senior management on a day to day basis. Also, projects are being managed directly by the senior management which ensures close monitoring of project-related expenditure and available project budgets.

- ▶ Apart from the two offices mentioned above, ICPL has project offices set up at all construction sites under execution. Key controls as operational in the Head Office and Regional Office are also operational there. Adherence to the prescribed controls is ensured by the site staff. There is a Project Monitoring and Coordination department which makes progress reports for comparing the physical progress of the project with the planned progress. There are daily, weekly and monthly project reports prepared along with 'S' curves. Further, Material and Equipment Reports are also prepared. Regular meetings between the Project Managers and Monitoring Staff at Head Office are also held. All these controls are aimed at controlling the progress of every project.
- ▶ Internal audit department exists and is involved in performing site audits and audit of statement of accounts received from various sites. Audit schedule is prepared for audit of statement of accounts quarterly which is approved by DGM HR & Admin. Site audits are performed in a way that every site is audited in three months and site audits are usually on a surprise basis. Audit checklist is filled and test of controls are performed. Audit report is produced detailing the findings, if any, and then instructions are issued to relevant departments and individuals for resolving the issues highlighted. Regular meetings take place with GM Finance, DGM HR & Admin and Director Technical & Admin if any issues are highlighted. Minutes of the meeting are maintained detailing the decision taken in respect of audit findings, however, recording minutes at such meetings is not a consistent practice.
- ▶ ICPL appoints various external vendors/ consultants to provide subcontracting services at various projects which are being executed. However, no outsourcing / sub contracting policy has been devised in this respect to ensure that the desired level of services is obtained at the most feasible commercial terms and that the contract risk is duly managed to acceptable levels. ICPL does have a practice of tendering and making comparative statement in case of sub contracting the work ensuring its efficiency, but it is not always consistently followed.
- ▶ Assets are purchased by ICPL in their own name and retained by them after completion of projects. An inventory of assets is being maintained in software which takes into account the physical location of assets and their quantity. However, since this software does not record costs of respective assets, it also does not have the capability to post accounting entry for depreciation which is posted manually at year end. When assets are not in use, they are transferred to a Yard, where there is a Yard Manager appointed to ensure safe custody and control over various assets. IT Department has its own specific asset handling and safety policies.
- ▶ There is no formal policy dealing with the segregation of duties. Also, a comprehensive authority matrix defining the preparation and approval authorities for various administrative and financial activities is also not formulated. However, a 'Payment Procedure' manual does exist which specifies payments by nature, and the competent authorities to approve the same.

- ▶ MIS system is operational, and has been acquired from Sidat Hyder. This software has an Inventory Module, Payroll Module, and General Ledger Module. The management is in the process of integrating these. Moreover, the Company is in the phase of implementing Project Management Module which will be updated and implemented with detailed planning and actual results relevant to each project. For bills and receivables, there is separate software being used which is not yet integrated with software acquired from Sidat Hyder, but after successful implementation of Project Management Module, bills and receivables shall also be integrated.

IT Structure

- ▶ IT department is responsible for ensuring the operational efficiency and effective discharge of all matters relevant to information technology.
- ▶ Major responsibilities of the IT Department are as follows:
 - ❖ Back up policy
 - ❖ List of servers
 - ❖ IT asset handling
 - ❖ List of IT assets users and IPs
 - ❖ List of In-house developed applications
 - ❖ Report regarding the protocols
- ▶ IT Department has a back up policy for all the implemented software.
- ▶ Backups are taken for all the databases including the construction software database, payroll database, concrete database which includes GL, store, and inventory module. All backups are generated automatically. The database server generates back up on hourly basis with a separate file for each database. Further, backup is also taken on a weekly basis with a separate file maintained. Finally, monthly backups are also taken. Backup files are burnt on to DVD drives and magnetic tapes. However, the backup is stored within the premises of the Head Office situated in Lahore.
- ▶ List of servers consist of Primary domain controller, backup domain controller, Data Backup domain controller and ISA Server (Proxy and Firewall Server).

4.2.2 Key Findings

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

Section Rating	Brief Description of Findings	Issue Rating
	We have noted following key findings:	
	a) There is no defined internal controls polices document	
	b) Absence of outsourcing / sub contracting policy	
	c) Lack of information technology general controls	
	d) IT audit never conducted	
	e) No offsite storage of backups	
	f) No business continuity plan and/or disaster recovery plan	

Ref

a) **There is no defined internal controls polices document**

Internal controls activities designed may not be implemented effectively.

We recommend that an internal controls policy comprising of the following key components should be devised and approved by the BOD for effective implementation of internal controls at the activity level:

Issue Rating



Current State

We observed that there is no documented and approved internal controls policy, which provides an overall framework for implementation of internal controls throughout the organization.

Gap

There is no defined framework available for the implementation of an internal controls structure and controls procedures as designed in the policies and procedures manuals of the organization.

- a) Definition of internal controls;
- b) Roles and responsibilities for implementation of internal controls;
- c) Internal controls evaluation and enforcement process;
- d) Reporting on Internal Controls; and
- e) Change management for internal controls.

Management Response: The Company is operating under certain rules and guidelines for internal controls, procedures have been defined for payments showing authorizations/approval authorities. The management issues any further guidelines time to time where any modifications are required in procedures of the company. The management believes that their assets and resources are adequately safeguarded and monitored. However the management still feels these policies and procedures might not be equivalent to a company, not being a construction company, whose operations are only confined in a closed boundary whereas this phenomenon is missing in construction business.

Moreover the management is focused on this critical area and wants to improve the areas need further improvement. Recommendations of Ernst & Young have been forwarded to BoD and a committee has been formed to review the observations and improvements.

Ref	Finding	Impact	Recommendation
b)	<p>Absence of Outsourcing / sub contract Policy</p> <p>Issue Rating High</p> <p>Current State ICPL outsources its various activities during the execution of projects. Such outsourcing is carried out based on senior management experience gained over the years. However, comparative statements are prepared, but not consistently.</p> <p>Gap As per better practices, there should be a documented outsourcing or sub contracting policy to manage key outsourced activities in a better manner. Further, we noted that currently there are no separate contract performance / compliance audits carried out within ICPL. Such audits may be included in the scope of internal audit activities.</p>	<p>Key activities outsourced without detailed assessment and defined policies may expose ICPL to financial and operational risks.</p>	<p>ICPL should consider developing a detailed outsourcing policy comprising of the following key components:</p> <ul style="list-style-type: none"> a) Detailed framework for managing outsourcing arrangements b) Roles and responsibilities of the Board and management c) Risk mitigation measures and systems for review and monitoring of these activities d) Confidentiality of information in outsourced functions e) Redressal of grievances about outsourced services f) Contingency plan in case that service provider cannot continue provision of such services g) Contract audits and monitoring mechanism. <p>Such policy should be reviewed and approved by the BOD.</p>

Management Response: Outsourcing of any activity in the company is directly supervised and approved by Director operations/CEO on the recommendations of GM Construction. The management monitors the progress of sub-contractor and if its performance is not up to the mark, the project is controlled by the ICPL team for further execution. The management is vigilant in this regard and feels that these contracts are awarded after due diligence considering past experience, reputation in the market, financial & technical strength etc. In the past we have had no such experience where the company had faced financial losses on account of deficiencies in outsourcing policy and procedures.

Ref	Finding	Impact	Recommendation
e)	<p>No offsite storage of backup</p> <p>Issue Rating pri</p> <p>Current State While reviewing the procedures relating to backup creation and storage, we observed that the management does not have any arrangements for storage of backup generated and saved at an offsite location.</p> <p>Gap Failure to store backup at offsite facilities renders the control over backups ineffective.</p>	<p>In the event of a natural or man-made calamity, loss of important data may be caused, impairing the ability of ICPL to restore operations within minimum time.</p>	<p>The management should make arrangements for storage of backup files and media to an offsite location.</p>

Management Response: Refer comments for point (f)

- ❖ As per the approved policy, in case an amendment is required in the accounting records in terms of addition/ deletion/ editing, the GM Finance & MIS will approve the request raised by GM Finance, which will include the reasons for the amendment. However, we noted that administrator rights to the system and access for making the change is with the GM Finance & MIS.
- ❖ ICPL financial statements are being audited on an annual basis. As per audited financial statements for the year ended 30 June 2011 such financial statements are prepared on an accrual basis and comply with requirements of the International Financial Reporting Standards. However, we observed that the revenue recognition policy and disclosures in the notes to the accounts do not fully comply with the requirements of International Accounting Standard 11, 'Construction Contracts'. Moreover, there is no practice of preparing a monthly financial reporting package for internal reviews and approval by the Board.
- ❖ We observed that the trial balance is closed on an annual basis. There is no practice of closing periods on a monthly or quarterly basis. The reason provided for this is that as the sites are offline, considerable lapse of time occurs for collection of sites' financial records and statements impairing the period closing process. However, we have been given an understanding that after the implementation of Project Management Module which will lead to making the sites online, practice of hard closing of periods shall be initiated.
- ❖ The accounting system accepts backdated accounting entries due to absence of any period end closing. The accounting system has the ability to identify such entries through posting date and transaction date.
- ❖ Inventory software is maintained to account for the fixed assets present on various sites and those present in the yard. This software produces a site wise asset location which mentions asset code, description and quantity. However the depreciation and impairment entries are not entered automatically rather they are manually being entered. It is not integrated with Sidat Hyder Information Solutions (SHIS) but is in the process of being integrated.
- ❖ Project management module, which is currently under implementation, will take in to account every projects' planning in respect to BOQ. Budgets and the comparison with actual expenses which will ultimately lead to variance reports.
- ❖ Purchase system handles the details relating to the procurement of materials. It consists of a Dispatch Voucher, Demand Note, Supplier Voucher, Dispatch clearing Form, New IPT No (in case of transfer of material from one site to another).
 - Demand Note takes in to account the Company ID , Generated by , Item ID , BOQ, Qty, Rate , Description , date on which the material is required
 - Dispatch Voucher takes in to account company ID , Date , Voucher No , Dispatch Type , Demand No, Item ID , Supplier code etc

- Supplier Voucher takes in to account Company ID, Voucher Number, account code, Demand No, Group code, Item ID, and Status of the order.
- Dispatch Clearing Form takes in to account the ID and Name of Suppliers along with code and Descriptions of the items, Voucher Number, Dispatch Number date and amount.
- For Inter Transfer of material IPT No. is filled taking in to account the Company ID, item ID, Site name Qty and Rate for the site from which the transfer is made, and to the site to which material has been transferred.
- ❖ Purchase system is yet not integrated with Sidat Hyder MIS, however it is running in parallel taking in account all the information as per purchase module of Sidat Hyder.
- ❖ Bills and receivable system is used for the following:
 - Project wise statement of Bills and Receivable
 - Receipt History Report
 - Billing History Report
- ❖ Bills and receivable system also provides the facility of Client Receipt Entry Form which contains the following :
 - Entry Year, Date. Serial Number
 - Site code , Site Name Project
 - Amount received on account in form of Bill approved, Mobilization, Retention , others, tax deducted
 - Gross Bill amount less Mobilization, retention, material supplied by client, which equals net bill amount.

Overheads

- ▶ ICPL is a construction company and normally accepts contracts which involve the execution of works. Design, supervisory and project management contracts are not handled in isolation, they sometimes form part of the overall contract and work to be executed. Therefore, invoices and bills raised by ICPL are based on BoQs and work done.
- ▶ We have been informed by the management that the FDR overhead rates are dependent upon the nature, location and scope of the project, and hence the rate of 47.29% (refer table below) is worked out as an annual average. This figure can vary from project to project.

Pre-Qualification for the Projects

- ▶ It is prepared by the Business Development department. This department has the major function of enlisting the entity in various departments for project hunting, identifying the upcoming projects in the market, searching for appropriate partners and joint venture opportunities, projecting positive image of the company in the market through socializing with others via seminars and exhibitions.
- ▶ Pre qualification usually requires the Company's registered address, certificate of incorporation and articles of association, organization structure, evidence of registration with Pakistan Engineering Council (PEC) & category of registration, experience as prime contractor for similar jobs, ongoing projects, list of permanent key staff, list of equipment and machinery, list of bankers and credit lines available.

Technical Proposal (Method of performing the works)

- ▶ It consists of the details regarding how ICPL intends to handle the entire project. It refers to areas like civil works, setting out works, earth work including the site preparation, excavation, back filling, tools and equipment and all other relevant planning that the Company has to execute in respect of a project. Further, it also mentions the steel works, mechanical works, technical works in relation to the Project. The proposal also highlights the designations of the key staff involved in the project overall as follows:
 - QA/QC Manager
 - HSE Manager
 - Construction Manager
 - Number of Site Engineers
 - Number of Site Supervisors
 - Skilled/ Semi Skilled and support staff
 - Non- technical support staff

Presentation

- ▶ This stage constitutes of presenting the overall proposal with all its major aspects in front of the prospective clients. Through this presentation ICPL aims to project the following:
 - ❖ An overview of the proposals and coordination
 - ❖ An understanding of the employed procedures and practices

- ❖ Highlighting the role of technical proposal team
 - ❖ Role of contracts team
 - ❖ Proposals and co-ordinations organizational chart
 - ❖ Responsibility matrix
 - ❖ Process for proposal preparation
 - ❖ The subcontracting process & and other details' relevant to clients interest and areas of concern.
- ▶ Contract/ Formal written agreement is entered with the Client detailing all the relevant terms and conditions agreed between both the parties.

Detailed Technical Proposal

- ▶ Detailed Technical Proposal is prepared after entering the contract. It consists of Proposed Schedule of Work and Monthly Cash Flow Chart, Environmental Safety and Security Program.
- ▶ Resumes of all the key personnel relevant to project management are also handed over.
- ▶ Site Organization Chart is also handed over in Technical Proposal which highlights all the key positions in organizational matrix who are going to be addressing the site issues and responsibilities.
- ▶ List of equipment which is going to be utilized in project execution.
- ▶ Quality Assurance and Quality Control Program is a part of the Technical Proposal. Quality Assurance plan consist of the contract and project management, design, purchase, construction and maintenance relevant quality control procedures.

Project Execution

- ▶ This stage starts after all the Technical Proposal issues have been agreed by client and the next step after them is to initiate execution. This stage consist of two possibilities :
- ❖ Sub contracting the work
 - ❖ Self execution
- ▶ In case where entity sub contracts the work, it receives the tender proposals from various interested parties on the basis of which comparative statements are prepared. Thereafter, it is decision as to whom the contract is to be awarded is made. This stage consists of the following:
- ❖ Tender Working

- ❖ Comparative Statement
- ❖ Work Order
- ❖ Complete Bill
- ❖ Sub Contractor Claim
- ❖ Contractors Claim

Project Monitoring and Evaluation

- ▶ This function is being performed by the Planning and Coordination Department. This consists of assessing on regular basis the material, labor and other technical requirements of a project and ensuring that the completion deadlines are met without any delays on part of ICPL. This phase is based on the following Steps:
 - ❖ Structural Diagram, which is made for representing the expected progress of the Project.
 - ❖ Schedule is prepared using Microsoft Project and Primavera. The schedule consists of the following:
 - Baseline Schedule (For Level 3 Project i.e Major projects)
 - ▶ Define activity Sequence
 - ▶ Define activity Duration
 - ▶ Define Constraints
 - ▶ Resource Loading
 - ▶ Product S curves (comparing the actual stage of completion with the one planned)
 - Reports: These are made to reflect the progress in the project in terms of completion and Utilization of resources. There are two types of reports made, one for overall progress and one related to material/ equipment.
 - Progress Reports:
 - ▶ Daily work plan
 - ▶ Daily work done
 - ▶ Weekly work look a head
 - ▶ Weekly work done
 - ▶ Monthly progress reports
 - ▶ Delay log
 - ▶ Fortnightly overhead report
 - ▶ Progress review performa
 - ▶ Milestone completion report
 - Material / Equipment
 - ▶ Daily material report

- ▶ Monthly material demand
 - ▶ Various store reports
 - ▶ Daily equipment reports
 - ▶ Monthly equipment performance report
- ▶ Meetings are conducted on regular basis as follows :
- ❖ Daily Site Meeting
 - ❖ Weekly Coordination Meeting
 - ❖ Monthly progress review meeting in Head office

4.3.2 Key Findings

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

Section Rating	Brief Description of Findings	Issue Rating
	<p>We have noted following key findings:</p> <ul style="list-style-type: none"> a) Financial statements close process checklist not in place b) Bank reconciliation not reviewed by GM Finance. c) MIS system not integrated with other Modules 	  

Ref	Finding	Impact	Recommendation
c)	<p>MIS system not integrated with other Modules</p> <p>Issue Rating High</p> <p>Current State MIS system has been acquired from Sidat Hyder. The modules currently operational are GL, Inventory, HR and Payables while Project Management and Procurement modules are in the implementation phase. However, we have been informed that various modules are not integrated as yet and the process of integration is underway.</p> <p>Gap As per the better industry practices, MIS system should be integrated with each other to ensure that the data is uniform across the different modules.</p>	<p>In the absence of integration of various modules, updated information may not be available to relevant departments leading to duplication of work and effort.</p>	<p>ICPL should take measures for system integration to be completed and implemented at the earliest.</p>

Management Response: Different modules of Sidat Hyder Financial Systems are under implementation and the Management is positive that in process modules would be fully integrated with GL within a year.

- ▶ Currently ICPL has no practice to prepare a consolidated annual budget for the entire organization. Accordingly there is no monitoring of capital and operational expenditure against approved budgets at an entity level (refer section 4.1.2).

Advance to Employees and Vendors for Project Expenses

- ▶ ICPL provides advances to the employees and vendors for incurring expenses for various projects. An advance approval form is filled and approved by the GM Finance. Once approved, the advance payment is processed by the Finance department.
- ▶ Advances to employees are paid in cash and recorded as advance in the accounting records of the ICPL.
- ▶ On repayment of the same, the advance is adjusted. A journal voucher to that effect is prepared by the Manager Finance after reviewing all the supporting documents submitted.

Ref	Finding	Impact	Recommendation
a)	<p>Lack of budgetary control mechanism</p> <p>Issue Rating </p> <p>Current State</p> <p>We observed that ICPL prepares work plans and financial budgets for specific projects. Such budgets are discussed by the management on a time to time basis.</p> <p>However, we noted that overall organizational budget is not prepared and maintained by the Finance Department as an overall yardstick of continued progress towards achieving the long term objectives of the Company.</p> <p>Gap</p> <p>As per better industry practices, an annual budget is prepared at an entity level in line with the strategic / long term objectives of the Company. The Finance Department steers the budgeting process and uses it to monitor overall performance of the Company.</p>	<p>Although individual projects may be monitored by the existing process, however, entity level control of achieving the target direction is missing.</p>	<p>Based on the aforementioned better practices, it is recommended that the following key budgets should be prepared on periodic basis and approved by the BOD:</p> <ul style="list-style-type: none"> g) Annual revenue/ income targets h) Capital expenditure budgets i) Operational expenditure budgets j) Monthly cash flow budgets/ plan. <p>Such plans should be then monitored on a periodic basis (preferably monthly) by comparing actual and budgeted items and preparing detailed variance analyses including reasons for over/under achievement. Variance analyses should be then presented to senior management and the BOD</p>

Management Response: Please see comments as per 4.1 (d)

Ref	Finding	Impact	Recommendation
b)	<p>No periodic financial reporting package prepared and reviewed by the senior management</p> <p>Issue Rating High</p> <p>Current State</p> <p>ICPL financial statements are prepared and audited on an annual basis.</p> <p>We have been informed that various financial reports for specific projects are being reviewed as and when required.</p> <p>Gap</p> <p>There is no periodic /monthly financial reporting mechanism in place at ICPL for monitoring its financial and operating results.</p>	<p>A monthly/ periodic financial reporting package facilitates management in taking informed decisions.</p> <p>Further, financial records remain updated at all times which enable better financial management.</p>	<p>As per better industry practices it is recommended that ICPL shall:</p> <ul style="list-style-type: none"> ▶ Define a deadline for closing of accounting books; ▶ Prepare a monthly trial balance, balance sheet, income and expenditure statements, cash management reports and variance analysis; and ▶ Such reporting package should be reviewed and approved by the Head of Finance.

Management Response: The Management periodically reviews the project performance, its spending and receipts on project to project basis. The variances are reviewed and discussed by the relevant director. Director technical reviews the progress of plant and equipment is efficiency and any shut down and its major reasons with corrective and preventive measures. For project monitoring data is collected and reviewed, 'S' Curves and established and reviewed. Bank positions are receivables are monitored on a regular basis. Management account are prepared and presented to BoD on periodic basis. However to alien all these functions and for better and timely reporting, the management is also in the process of implementing Sidat Hyder Financials with different modules which will enable the company for better reporting and management.

Ref	Finding	Impact	Recommendation
d)	<p>No checklist/tool to ensure completeness of annual financial reporting</p> <p>Issue Rating </p> <p>Current State</p> <p>ICPL financial reports/statements are prepared on an annual basis and are prepared as per applicable financial reporting standards.</p> <p>Gap</p> <p>No tool in the form of a checklist is utilized for preparation, review and approval of financial statements.</p>	<p>Key financial reporting requirements may be overlooked in the preparation of the financial statements.</p>	<p>As per better industry practices it is recommended that ICPL shall develop a detailed checklist to ensure completeness of financial reporting as per applicable standards.</p>

Management Response: The Accounts / Finance Department prepare annual accounts before audit and these accounts are audited by external auditor. All the efforts are put to complete the accounts and all areas are reviewed to ensure that no material item is left recording. Moreover external auditor ensures the completeness and performs checks accordingly. The management believes that a formal checklist was not prepared but all these activities are done in due course. However, for the sake of clarity and as an improvement this checklist is being prepared and shall be completed in current financial year.

Ref	Finding	Impact	Recommendation
e)	<p>There are instance of cash payments for procurement of certain items and payment of salaries at sites</p> <p>Issue Rating</p>  <p>Current State</p> <p>We have been informed that most of day to day operational payments (such as salaries, procurement of materials) are made through banking channels, whereby a cheque is issued by ICPL in the name of the specific vendor. Also all efforts are made to ensure that payments are made through proper banking channels.</p> <p>However, during discussion and observation of accounting records we were informed that certain vendors and workers and employees at sites, especially remote sites, are paid in cash. Considering the nature of ICPL operations such vendors/workers/employees have inherent limitation and there is no option for ICPL but to make the payments in cash as required.</p> <p>Gap</p> <p>The above set-up for day-to-day transactions is not compliant with better industry practices.</p>	<p>Cash payments enhance the risk of funds misappropriations. Also in certain cases payment may not be supported with adequate documentation and support.</p>	<p>ICPL management should consider minimizing such cash payment transactions. Also it should ensure that all transactions are well supported. Acknowledgement of receipt should be obtained as a consistent practice to support such payments.</p>

Management Response: Construction business has no geographical boundaries and at times construction contract are executed in very remote areas where the company left with no choice but to pay in cash to certain employees and vendors. However, the Management is fully determined to adopt the policy of payments to staff & vendors through cross checks or bank transfers. In this regard, the Management continues to take certain measures with respect to opening of bank accounts for staff payments and vendors.

Ref	Finding	Impact	Recommendation
f)	<p>Non-Compliance with IFRS (IAS 11 – Construction Contracts)</p> <p>Issue Rating </p> <p>Current State:</p> <p>Entity is not complying with International Financial Reporting Standard - IAS 11 'Construction contracts' presentation and disclosure requirements. Further, the revenue recognition policy is also not in compliance with the requirements of IAS 11.</p> <p>IAS 11 describes the accounting treatment and disclosures guidelines for entity dealing in construction contracts. However, IAS 11 is not being complied in its entirety by the entity in preparation and presentation of Financial Statements.</p> <p>Gap</p> <p>Disclosure requirements of IAS 11 - Construction Contracts, are not being complied by the Company.</p>	<p>Financial Statements may not provide true and fair view in accordance with the prescribed accounting standards.</p>	<p>As per better industry practices it is recommended that entity should comply with all the IFRS requirements in term of accounting treatments as well as disclosure requirements.</p>
<p>Management Response: The Accounts Department has been asked to work out plan in coordination with Contract & Billing Department to ensure that revenue is recognized under the compliance of IFRS 11.</p>			

4.5 Personnel Policies and Procedures

4.5.1 Overview of Existing Personnel Policies and Procedures

- ▶ HR Function is being performed through a separate department which has been established since 2008. The HR Department is headed by Director HR, Admin and Mechanical. The day to day functions of HR Department are carried out by Deputy General Manager (DGM) HR & Admin. Currently, three departments are reportable to DGM HR & Admin:
 - ❖ Admin Department: DGM HR & Admin is supported by Manager Admin who is assisted by Admin Officer.
 - ❖ Transport Department: DGM HR & Admin is supported by Manager Transport who is assisted by Assistant Transport Officer.
 - ❖ HR Department: DGM HR & Admin is supported by Manager HR who is assisted by HR Officers.
- ▶ Manager HR has the responsibility of maintaining records for HR activities, including:
 - ❖ Preparation of employee personal files
 - ❖ Leave balance record.
 - ❖ Appraisal Records
 - ❖ Training Need Assessment Forms
 - ❖ Advertisement Record
 - ❖ Attendance Sheet
 - ❖ Correspondence with the Training Providers
- ▶ Maintenance of salary sheets and payroll records is being done by a separate Payroll Department, which is reportable to the Finance Department.
- ▶ The qualification and experience of key management personnel responsible for HR have been included in section 4.1.1 to this report.
- ▶ The current staff strength of ICPL is 700 employees including program and support department staff.

- ▶ Currently most of the records related to HR are being maintained on MS Excel. Salary sheet is maintained in HR module developed by Sidat Hyder. This module is used for automatic salary processing. The HR module is not integrated with SHIS, but we have been given an understanding that it is in the process of being integrated.
- ▶ A policies and procedures manual related to Human Resource has been developed and implemented. The Manual has not been approved by the BoD. The policies and procedures in the Manual are being followed since the implementation date.
- ▶ The human resource process has been divided into the following four major processes:
 - ❖ Recruitment Process
 - ❖ Employee Services
 - ❖ Performance Evaluation
 - ❖ Trainings

HR Budgeting and Recruitment Process

- ▶ Currently no head count budget is being prepared by ICPL. Moreover, we observed a lack of HR Planning at ICPL as no periodic HR plan is developed for the sake of planning recruitment throughout the year. However, planning for additional human resource in organizing and executing various projects regarding the working labour on sites is done as a part of planning process for any individual project.
- ▶ Since there is no proper HR plan linked to annual operational/work plan, currently the end user department prepares a personnel requisition form and forwards the same to HR on which Manager HR gives his recommendation regarding the requisition and then forwarding it to Director HR & Admin for final approval.
- ▶ The relevant posts will be advertised in the local news paper or on internet on various job sites for external recruitments. Vacant posts may be filled internally if any employee has the requisite skill set to meet the requirements of the job.
- ▶ There is no written and BoD approved interview panel for conducting the interview of the candidates, the panel will vary depending on the nature of post being selected. As a normal practice DGM HR and Admin and Manager HR will conduct the interviews. However, if the recruitment is of a technical nature than Director Technical and Admin will also be the part of the interview panel.
- ▶ Prior to interview all the interested candidates are expected to fill a Candidate's Bio Data Form containing all the personal information of the candidate.
- ▶ After the Interview is conducted , a document containing the evaluation of the candidates will be prepared and approved by the BOD subsequently, containing the following :

- ❖ The grading of each employee determines the promotions in designation and/or salary and the appraisal will also form the basis for training needs of the individual.

Trainings

- ▶ ICPL has currently no training policy in place. As a result, there is no systematic procedure followed in this regard. Trainings are being conducted on ad hoc basis.
- ▶ The training procedure currently applicable within the entity consist of in-house training (given by experts from within the Organization or external trainers providing relevant training in the premises of the entity) and external training (this entirely constitute of external training providers and training outside premises).
- ▶ Training Need Analysis (TNA) is not carried out on formal basis for all the departments annually, however where the training needs become evident either through the observation of the supervisors or relevant HODs, TNA form is filled and the relevant training is executed. This practice is also initiated if some employee himself contacts HR or HOD mentioning the area in which he is interested to seek training.

Ref	Finding	Impact	Recommendation
a)	<p>HR Manual is not approved by BOD</p> <p>Issue Rating </p> <p>Current State HR Manual has been approved by Director HR & Admin, however we observed that it has not been approved by the Board. Moreover, no evidence was available to show that the Board had delegated approval of the said Manual to the Director HR & Admin on their behalf.</p> <p>Gap As per standard industry practices all policies and procedures implemented within the Organization must be approved by the Board so policies are validated prior to their implementation.</p>	<p>Assurance as to the validity of the policies and procedures may not be obtained.</p>	<p>HR Manual marks the baseline of the procedures adhered to by the HR department, proper authorization and validation of these policies and procedures is necessary prior to their practical implementation .The best Industry practices trigger off the need for the approval of HR policies by the BOD . Thus HR manual should be approved by BOD and the minutes of the meeting in which HR Manual is approved should be appropriately maintained.</p>

Management Response: The present HR manual is approved by the concerned director only. We are in the process of adding more policies. We will shortly finalize it and will be presented to BOD for their approval.

HR Manual as per best Industry practice is expected to address all the man power related issues and possible problems that the employees may come across.

Management Response: The new policies as suggested above are in process of formulation and will be incorporated in our HR manual shortly.

Ref	Finding	Impact	Recommendation
c)	<p>Employee master files not being maintained</p> <p>Issue Rating </p> <p>Current State: Employee master file mentions the names and grades of all employees working in the organization at any point of time, which can act as a base tool while preparing monthly payroll. During our discussion, we observed that it is not maintained by the Company.</p> <p>Gap: Maintaining the employee master files is one of the standard industry practice with which the entity is non compliant.</p>	<p>In the absence of a master file, the base record which cannot be altered without following a detailed process would not be available. Therefore, while performing salary computations, any unauthorized employees added to the salary sheets/ attendance records would be difficult to identify.</p>	<p>We recommend that the entity should start the practice of maintaining an up-to-date and complete employee master file mentioning the details of all employees hired along with their designations, names, departments, date of joining, salary as per employee contract and other relevant particulars.</p>
<p>Management Response: It has been implemented.</p>			

Ref	Finding	Impact	Recommendation
d)	<p>Shortcomings in appraisal process</p> <p>Issue Rating 3b im</p> <p>Current State: While reviewing the performance appraisal process we noted:</p> <ul style="list-style-type: none"> ▶ No KPIs have been identified for departments and individuals to aid in performance evaluation ▶ Employee signature and acknowledgement not obtained on appraisal forms ▶ Appraisal form not appropriate <p>Gap: For effective performance evaluation, KPIs are developed as per best practices. Moreover, employees are communicated their appraisals and their acknowledgement is evidenced by taking signatures on appraisal forms. The appraisal forms for performance evaluation should be detailed, providing a basis for the rating awarded in the evaluation.</p>	<p>In absence of a proper appraisal system, effectiveness of the procedures cannot be ensured. Further, this may lead to loss of motivation among employees.</p>	<p>In line with better industry practices: Formal KPIs should be established, based on the overall organization and departmental objectives Employee acknowledgement should be obtained on the appraisal forms Proper, detailed appraisal forms should be used to award performance rating to employees.</p>

Management Response: Being construction Company, we have tried to keep our Annual Appraisal form as simple as possible keeping in view the caliber of the lot available. Employee signature & acknowledgement may not be possible as disclosure of this information jeopardize the smooth functioning of our projects. However, we will start practicing this with our Head office paid staff.

Ref	Finding	Impact	Recommendation
e)	<p>Personal files not complete.</p> <p>Issue Rating </p> <p>Current State Personal files of employees at ICPL contain all the relevant information of an employee from the date of hi/her joining to the date of their departure. However, certain documents were found missing in the sample selected by us for review:</p> <ul style="list-style-type: none"> • Probation Evaluation form • Probation Confirmation letter • Performance appraisal Performa <p>Gap As per best industry practice the given documents are a important constituent of the employee personal records.</p>	<p>Lack of complete employee records can place the entity with the risk of no supporting documents as evidence in event of litigation with the employees over any disagreements. Moreover, the Company shall not have available the complete track record of the employee.</p>	<p>We recommend that personal files of the employees should be up to date with all the relevant documents. The personal file checklist printed inside the personal file cover should be used as guidance to ensure compliance.</p>

Management Response: Due to scattered projects all over the country, the company has been facing certain problems in this regard. We have sent a reminder to all those, who have yet not deposited their complete documents with HR Department. However at HO level is being maintained.

Ref	Finding	Impact	Recommendation
f)	<p>Communications policy does not exist</p> <p>Issue Rating </p> <p>Current State</p> <p>In line with better organizational practices, a communications policy is developed and circulated to all employees within the organization.</p> <p>The purpose of this policy may include:</p> <ul style="list-style-type: none"> ▶ Effectiveness of public communications and development; ▶ Strategies for external relations; ▶ Guidelines for disclosure of corporate information; ▶ Roles and responsibilities; and ▶ Procedure for accessing information. <p>Gap</p> <p>We were informed that no communications policy has been developed by the organization.</p>	<p>In the absence of the above, employees may not have clear guidelines on the modes and considerations regarding corporate communication</p>	<p>We recommend that a clear and robust policy for communications should be developed by the organization.</p> <p>The said policy should be approved by the BOD and circulated to all employees within the organization.</p> <p>Compliance with the above policy should be checked by the Internal Audit Department (IAD).</p>
<p>Management Response: This has been drafted & will be circulated to our staff for their information & comments. After its approval by the BOD, it will be incorporated in our HR Manual.</p>			

Ref	Finding	Impact	Recommendation
g)	<p>Annual Training Need Analysis (TNA) is not performed with in the entity</p> <p>Issue Rating High</p> <p>Current State:</p> <p>We observed that annual TNA of every department is not carried out consistently, and only those individuals whose training need becomes apparent to HOD, or the employee himself approaches the HoD or DGM HR & Admin, will be given the opportunity for training, and his/ her TNA Form shall be filled accordingly.</p> <p>Gap</p> <p>Best industry practices involve Formal Annual Training Need analysis carried out for all the organizational departments.</p>	<p>In absence of a training plan and analysis, the requisite skill set may not be identified on a timely basis.</p>	<p>It is recommended that Annual TNA should be carried on formal basis within the Organization for every department so that training needs of the entire organization are identified on timely basis and discharged accordingly.</p>

Management Response: The company is in process of preparing a comprehensive training program.

Ref	Finding	Impact	Recommendation
i)	<p>No Exit Interview Conducted</p> <p>Issue Rating High</p> <p>Current State: There is no practice of conducting an exit interview of the employee who resigns from the entity.</p> <p>Gap Exit interviews are conducted by organizations generally to obtain an insight into the reasons forcing the employee to leave.</p>	<p>Reasons of employee resignation will never be highlighted and this may lead to a high employee turnover in future as the Company may not address the reasons on a timely basis.</p>	<p>We recommend that exit interview should be conducted and an Exit Interview Form should be filled at the time of employee resignation. The respective HoD and Manager HR should conduct such interview.</p>
<p>Management Response: Exit interview form has been evolved. This has been attached with Termination policy. Company will start practicing it after it is approved by the BOD.</p>			

4.6 Travel Policy

4.6.1 Overview of Existing Travel Policy:

- ▶ ICPL has formalized its travel policy in the HR Manual. Responsibility for implementation, compliance and monitoring of the travel policy has been fixated on the HR and Admin Department.
- ▶ The travel policy drafted encompasses domestic as well as international travel for all levels of employees, including specification of rates of travel and travel allowances. The rates specified have been reproduced below in this section.
- ▶ Company cars / Motorcycle have limits specified for personal and official usage. For official use, there is no limit. With regards to personal use of cars, GMs are entitled to 400 kms per month whereas Managers are entitled to 200 kms per month. In case of personal use of motorcycles, all staff is entitled to 150kms per month.
- ▶ If personal car is used by an employee for discharge of business duties, such employee is entitled to Rs.15 per km, and in case of motorcycles, entitlement shall be limited to Rs 8 per km (for a maximum of 20kms).
- ▶ If number of people travelling to another city is more than two, a company car shall be provided to them. If the number is two or less, they shall be entitled to travel by bus as under:
 - ❖ Category C (group 3 & 4) Daewoo Bus or equivalent
 - ❖ Category D (Group 1 & 2) Non A.C Bus
- ▶ Employees travelling by train shall be entitled to facilities in accordance with their grade, as tabulated hereunder:

Employee Grade	Type of Train
Category A	AC compartment
Category B	AC Parlor
Category C	Lower AC
Category D	Non-A.C

Ref	Finding	Impact	Recommendation
a)	<p>Weakness in Travel Policy</p> <p>Issue Rating </p> <p>Current State: Travel policy does not mention the rates and allowances for international travel in detail. It only mentions that class of air ticket shall be subject to approval from relevant Director.</p> <p>Moreover, it was observed that where business travel is involved, there is no practice of filling the travel form. Verbal communication is Admin Department by the HOD.</p> <p>Gap: Travel allowance and per diem rates are not defined in the travel policy.</p>	<p>In the absence of specification of rate for international travel, misunderstandings may arise as to the entitlement of different employees. Moreover, standardization of policies may not be achieved.</p>	<p>We recommend that travel policy should detail the international travel rates and allowances. Moreover, instead of verbal communication, proper travel form should be prepared mentioning:</p> <ul style="list-style-type: none"> ▶ Name, Designation, Department ▶ Location of travel ▶ Number of days/ nights ▶ Purpose of travel ▶ Suggested mode of transport <p>The form should be reviewed by HOD , DGM HR and Admin and forwarded to respective Director for approval.</p>

Management Response: The travel form as suggested has been evolved and will be in practice shortly.

- ❖ Quantity of the product required
 - ❖ Compatibility with existing facilities
 - ❖ Previous relationships and mutual understanding between the suppliers and Directors
 - ❖ Degree of reliability, product safety, and
 - ❖ Delivery time.
- ▶ Prior to selecting a supplier for procurement, Procurement Manager assesses whether similar material is present at another site and can be transferred from one project to another through a Transfer Note prepared at Head Office.
 - ▶ While submitting the product specification to the suppliers, the Purchase Manager and the user department reviews them in detail ensuring that all the specific needs required to be satisfied by the product are clearly mentioned and well communicated to the suppliers.
 - ▶ As per the standard procurement policies of the entity, cost estimates and specification received from various suppliers are compared and the supplier offering the most suitable agreement is selected. However discussion with the Procurement Manager revealed that this practice is not followed consistently. Where such policy is not adopted, supplier selection is made on the basis of prior business relationships with the suppliers and mutual understanding with the Directors. Often, Purchase Officers or Managers visit the market to access the comparative rates of procuring the item.
 - ▶ After the supplier has been selected and identified by the purchase officers, it will be reviewed and approved by Procurement Manager and forwarded to Director HR & Admin for final review and approval.
 - ▶ As per the standard policies, agreement will be entered with the supplier selected, defining the primary terms and conditions of purchase. However in practice, such contracts are not entered into formally. There is no policy of preparing and issuing a Purchase Order.
 - ▶ No authority matrix exists for various types of procurement.
 - ▶ Currently only project site procurements are budgeted.
 - ▶ All items procured are directly delivered at the relevant site. When goods are received at site, a Dispatch Note is issued from Head Office to the site and the goods are inspected to assess their suitability. Dispatch Note is compared with the MDN by the store officials and on that basis the security guards (admin department) stamps the Dispatch Note if goods are acceptable and meet the requirements. The details are entered in a register and a number is assigned to goods on the Dispatch Note. After the entire process is complete at site, the Dispatch Note along with the Suppliers Invoice and supporting documents are sent to Internal Audit Department at the Head Office.

Ref	Finding	Impact	Recommendation
a)	<p>Discrepancies in procurement policies</p> <p>Issue Rating High</p> <p>Current State</p> <p>A procurement policy document has been developed covering major areas of the function. However, all policies are not covered therein.</p> <p>Gap</p> <p>The following items are currently not documented in the procurement policy:</p> <ul style="list-style-type: none"> ❖ Pre-approval of vendors; ❖ Authority matrix for procurement ❖ Thresholds and item types for which purchase orders, quotations and comparative statements are required ❖ Declaration of any conflict of interest by bidder; ❖ Registration of vendor; ❖ Use of advertisement for large value procurement; ❖ Additional policies for high value purchases; ❖ Monitoring of vendors contract for provision of goods and services; ❖ Settlement of disputes; ❖ Disqualification of vendors; 	<p>Absence of key items as listed herein may render procurement policy ineffective.</p>	<p>As per better industry practices, ICPL should consider updating its procurement policies for the listed key items at the earliest.</p>

Ref	Finding	Impact	Recommendation
b)	<p>Binding agreements not executed with suppliers</p> <p>Issue Rating b1</p> <p>Current State</p> <p>It was observed that only verbal terms and conditions are generally agreed with suppliers.</p> <p>Gap</p> <p>As per better industry practices, legally binding agreements are not executed with vendors.</p>	<p>Non-standard contracts may expose the organization to unnecessary legal risk which may also cause financial loss to the ICPL.</p>	<p>ICPL in consultation with its legal advisor should identify minimum contract terms and conditions. Such terms and conditions should include items, such as:</p> <ul style="list-style-type: none"> ▶ Allowance for administrative, contractual, or legal remedies in instances in which a contractor violates or breaches the contract terms, and provide for such remedial actions as may be appropriate. ▶ Termination of contract by the ICPL, including the manner by which termination shall be effected and the basis for settlement. ▶ Access to any books, documents, papers and records of the contractor which are directly pertinent to a specific program for the purpose of making audits, examinations, excerpts and transcriptions. ▶ Force majeure clause.

Management Response: The company enjoys very good reputation in the market and pays its obligations well in time according to the payment terms agreed with the vendor/suppliers. Due to this good reputation the company had been able to get materials in extreme difficult situation where almost all construction projects or other construction companies were suspended for some time but ICPL had been able to complete the project in time.

However, the recommendation of Ernst & Young for binding agreements with suppliers has been taken very positively. The legal department has been instructed to advise the Procurement Department & the Management on this matter.

Ref	Finding	Impact	Recommendation
c)	<p>Manual Demand list raised by user departments</p> <p>Issue Rating High</p> <p>Current State</p> <p>While understanding the process of raising demand for procurements, we noted that ICPL has manual system for raising demands from all its project sites and from Head Office. Manual numbers are allotted to all these demand notes.</p> <p>Gap</p> <p>Due to critical nature of this department automated system should be in place to monitor and control the demands raised by user departments</p>	<p>Manual system is more risky, erroneous, and difficult to manage than the automated one.</p>	<p>ICPL should automate its Demand raising function which should be integrated with the Sidat Hyder Information Solutions.</p>
<p>Management Response: Being Construction Company with no geographical boundaries it was difficult to have ERP running at every site that could enable the project sites with computerized demands. This deficiency was overcome in entering these demands in the software in Head Office so that functions of procurement department can run smoothly. Moreover all the functions of procurement department are run on the software that keeps record of all the demands, its purchase trail, dispatch advices to project sites and receipts at project sites.</p> <p>With the implantation of ERP (Supply Chain Management System) the matter would be fully addressed and resolved wherever internet connectivity shall be available easily.</p>			

Ref	Finding	Impact	Recommendation
d)	<p>List of suppliers not approved by CEO</p> <p>Issue Rating sb im</p> <p>Current State</p> <p>We noted that ICPL has maintained a list of suppliers. However, the list is not approved by the CEO or any other executive management official.</p> <p>Moreover, no list is being maintained of suppliers who are Original Equipment Manufacturers (OEM) or single source suppliers.</p> <p>Gap</p> <p>It is best industry practice to have the list of all suppliers generally, specifying single source and OEM suppliers.</p>	<p>Not having a prequalified list of suppliers duly approved by the CEO may lead to ineffectiveness of the procurement process.</p>	<p>The list being maintained by Manager Purchase should be approved by the CEO. Moreover, single source and OEM suppliers should be mentioned separately as well.</p>
<p>Management Response: Most of the suppliers are working with Izhar Group for many years and hence they are apparently on the panel of approved list. However, any new supplier is duly approved by the Director Technical and CEO is not involved in procurement procedure.</p>			

- ▶ Currently all inventory is routed through the stores maintained at each site, which are under the supervision of the Store Incharge. The Store Incharge has the responsibility of ensuring that records related to store items are prepared and maintained on a real time basis. Based on our limited sample based testing we assessed that appropriate listings are being maintained by ICPL.
- ▶ We have also been informed that the Internal Audit function at ICPL conducts physical verification of inventory on sample basis whenever they visit any site and we have been provided evidence of the same. Moreover, inventory count is also conducted after works on any site are completed. Any discrepancies with records or instances of damaged stock are communicated to the DGM HR & Admin. However, it came to our attention that separate count sheets are not being maintained, and the inventory listings are substituted as count sheets during physical counts. It is our recommendation that documentation of physical count of inventory should be on a standard format containing the following information at a minimum:
 - ❖ Inventory description;
 - ❖ Inventory quantity as per books/records;
 - ❖ Inventory quantity as per count;
 - ❖ Difference in quantity; and
 - ❖ Reason for such difference.
- ▶ Such count sheet and any related adjustment should be then approved by the GM Finance.

Fixed Assets Register

- ▶ Fixed Assets record is maintained in software developed for this purpose. The software gives details of the machinery, and the location it is situated at. However, costs and depreciation details are not provided therein, only physical quantities are shown. A FAR in line with the TR-6 issued by ICAP is not being maintained.
- ▶ ICPL does not have any policy in place for the insurance of fixed assets. This exposes the entity to the risk of financial loss.
- ▶ The physical count referred to in the previous section is applicable in a limited context in the case of fixed assets. Physical count is carried out at the time of initiation of a project and when it is completed.
- ▶ In our discussions with the management, we were told that vehicle running logs are maintained for pool vehicles of ICPL. These are being maintained by the Transport Department.
- ▶ There have been no instances of asset disposal subsequent to the implementation of the Manual, and as a result no sample was available for our review to assess the design and operating effectiveness of the controls in place.

Fixed asset purchase

- ▶ Fixed asset purchase is triggered with a Demand Note generated by the Yard Manager, which after proper approval of Directors will become the base for proceedings for the procurement of fixed assets.
- ▶ In case of purchase of second hand machinery purchase will be made from Karachi and in case of purchasing new machinery it will be imported.
- ▶ Quotations are sought, comparative statements are made and then after approval from directors the supplier will be chosen taking in to account all the factors.
- ▶ On receipt of fixed assets, they will be delivered directly to the relevant site and a receiving report will be prepared after it has been inspected .This report will be sent to Accounts Department to proceed with the payment to suppliers as per contract / agreement with them.

Fixed Assets Physical Maintenance

- ▶ A separate yard is maintained where there is a work shop for dealing with the repair and maintenance of the machines.
- ▶ When fixed asset is released from a site it will be sent to the yard where after proper repairs, oiling and greasing, it will be ready for transfer to the next site whenever the Project Manager initiates the demand.

Ref	Finding	Impact	Recommendation
b)	<p>Fixed assets are not completely tagged</p> <p>Issue Rating High</p> <p>Current State We observed that ICPL does not tag all fixed assets with a unique asset number at the time of purchase except for certain items.</p> <p>Gap As per better industry practices, all assets should be tagged with a unique asset number.</p>	Lack of fixed assets management control may expose assets to risk of misappropriation / loss.	ICPL should get all its fixed assets tagged and cross refer them with the details appearing in the software used for maintenance of the same.

Management Response: As the tagging of assets is in process, the Inventory Officer has been directed to prepare a comprehensive plan for this assignment and to complete it by the end of this current fiscal year.

Ref	Finding	Impact	Recommendation
c)	<p>Fixed assets register (FAR) is not in accordance with TR-6</p> <p>Issue Rating High</p> <p>Current State</p> <p>ICPL does not maintain detailed FAR as required by Technical Release (TR)-6 issued by ICAP.</p> <p>Gap</p> <p>TR-6 of ICAP defines the required areas that a FAR is to address. However at ICPL formal FAR mentioning all those requirements is not maintained.</p>	<p>Noncompliance with the ICAP guide lines which are reflective of the requirements of Companies Ordinance 1984. Further, in the absence of an updated FAR, due control over existence of fixed assets would not be duly exercised.</p>	<p>ICPL should maintain the FAR as per the requirements of TR.</p>

Management Response:

Ref	Finding	Impact	Recommendation
d)	<p>Discrepancies in fixed asset policy</p> <p>Issue Rating </p> <p>Current State Following weakness are observed in finance manual on account of fixed assets policy:</p> <ul style="list-style-type: none"> a) No threshold in amount is defined for capitalization of assets b) No item wise depreciation rates are mentioned c) No specific policy for disposal of assets. <p>Gap As per better industry practices and to ensure effective controls over fixed assets records, the aforementioned policies should become part of Fixed Assets policies.</p>	Standardization of the process may not be ensured in the absence of defined procedures.	ICPL should amend its fixed assets policy in order to overcome the specified shortcomings.
Management Response:			

Ref	Finding	Impact	Recommendation
e)	<p>No physical count of fixed assets / inventory / consumables from independent party</p> <p>Issue Rating </p> <p>Current State</p> <p>Internal Audit (IA) is responsible for counting inventory and consumables, but it currently reports to DGM HR & Admin.</p> <p>However, we have been given an understanding that the management aims to institute the IA as an independent function.</p> <p>Gap</p> <p>As per better practices, physical count / verification of assets, inventory and consumables needs to be performed independently from the department / officials responsible for custody and handling of assets.</p>	<p>Assurance over accuracy of records cannot be obtained if independent check is not instituted over properties, assets and inventories.</p>	<p>Based on the aforementioned better industry practices, it is recommended that ICPL should conduct an annual physical inventory count and based on the count the value of closing inventory be recorded in the financial statements.</p> <p>Further fixed assets count should be performed once in 3 years by the officials independent of those having custody of the respective assets.</p>

Management Response: The management is fully aware of the importance of keeping control over fixed assets of the company. Physical count of major plant and equipment is regularly done at project sites. Reports on the working efficiency are also prepared on monthly basis. When a construction project is finished a detailed reconciliation is prepared for plant and machinery and any shortfall is addressed properly and reported to director technical. To keep track of fixed assets, a comprehensive software is in placed to address these issues on regular basis. As a growing company we tend to add assets according to the need of every new project and dispose off any assets which is not required in the business and buy or sell decisions are solely taken by director technical with the consultation of BoD.

Disclaimer

Disclaimer

- ▶ We have carried out the pre award assessment and developed this report as per the scope of work mentioned under task RFQ No. 07A-2012. This report is solely for assisting the USAID in their decision to extend funding to ICPL and is for their own internal purposes.
- ▶ Our work in connection with this assignment is of a different nature to that of an audit. Because the above work steps do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance thereon. Had we performed additional work steps or had we performed an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.
- ▶ Our comments are based on the work carried out on the basis of information provided by the ICPL, the stakeholders and other publicly available information. In performing our work, we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us, whether original or copies.
- ▶ In accordance with our policy, neither EYFRSH nor any Partners or employees undertakes responsibility arising in any way whatsoever, to any person other than the management of USAID in respect of the matters dealt with in this report, including any errors or omissions therein, arising through negligence.
- ▶ All analysis in this report, conclusions or assessments has inherent limitations.
- ▶ The findings in our report are based on our field work from 09 and up to 30 August 2012. We have not undertaken to update our report for events or circumstances arising after that date.
- ▶ Any changes to the key internal controls, policies and procedures subsequent to our discussion with management, which have not been informed to us, have not been evaluated by us and accordingly we do not report on any shortcomings in the same.
- ▶ The information, advice or recommendations relating thereto contained in this report, in draft or final form, provided to the USAID by us during this engagement are given in confidence.
- ▶ No other EY Entity other than EYFRSH shall have any legal duty of care to the client in connection with the performance of any of the Services by its personnel, and the client shall be entitled to rely only on EYFRSH for the performance of the Services or with respect to any Report. The client [and its affiliates or other persons or entities for or in respect of which any of the Services are provided] shall have no recourse, and shall bring no claim whether based on breach of contract, tort, strict liability, breach of warranty, failure of essential purpose

or otherwise against any EY Entity (other than EYFRS), or against any subcontractors, members, shareholders, directors, officers, managers, partners, principals or employees of EYFRSH or any other EY Entity (“EY Persons”), or any of the assets of any thereof, in connection with the performance of the Services or otherwise under this Agreement.

- ▶ Neither EYFRSH nor any of its subcontractors will be liable to the USAID or ICPL for any consequential, incidental, indirect, punitive or special damages (including loss of profits, data, business or goodwill, collectively, “Excluded Damages”) in connection with the performance of the Services or otherwise under this Agreement, regardless of whether such liability is based on breach of contract, tort, strict liability, breach of warranty, failure of essential purpose or otherwise, and even if the Company is advised of, or the parties had contemplated, the likelihood of such Excluded Damages.
- ▶ The aggregate liability of EYFRSH and its subcontractors to USAID and ICPL in connection with the performance of the Services or otherwise under this Agreement shall be limited to the fees actually received by EYFRSH in respect of the Services directly relating to and forming the basis of client’s claim, regardless of whether liability is based on breach of contract, tort, strict liability, breach of warranty, failure of essential purpose or otherwise. The preceding limitation shall not apply to liability that has been finally determined to have resulted from the fraud or other willful misconduct by or on behalf of EYFRSH.
- ▶ USAID shall not bring any claim relating to the Services or otherwise under this Agreement after 12 months of the act or omission alleged to have caused this claim.
- ▶ Any liability shall be governed by, and construed in accordance with, the laws of Pakistan as if it were made and fully to be performed in such jurisdiction by residents thereof.
- ▶ The Services and the information, records, data, advice or recommendations relating thereto contained in any reports, materials, presentations or other communications, written or otherwise, in draft or final form, provided by EYFRSH (collectively, “Reports”) are intended solely for USAID and ICPL information and internal use (consistent with the purpose of the engagement). The client may not rely on any draft Report. EYFRSH shall have no obligation to update any final Report for events occurring after its delivery.
- ▶ Our report to you is based on the information provided, discussion with management personnel, interviews as provided in Annexure 7 and work steps as provided in Annexure 1. We have not, except to such extent as you requested and we agreed to undertake, sought to verify the accuracy of the data or the information and explanations provided by management. There is an inherent risk involved in deriving factually incorrect information from these sources; accordingly the correctness of information contained therein cannot be assured.
- ▶ EYFRSH assumes no responsibility whatsoever in respect of or arising out of or in connection with the contents of this report to any third parties. If others choose to rely on the contents of this report, they do so entirely at their own risk.

Annexures

Annexure 2: Key Financial Figures

We have performed the under-mentioned analysis of financial strength based on the audited financial statements for the 3 years ended 30 June 2011.

Description	30-Jun-11		30-Jun-10		30-Jun-09	
	PKR	USD	PKR	USD	PKR	USD
	in million		in million		in million	
Key Balance Sheet Items						
Owner's equity	1,660	18.44	1,320	14.67	1,079	11.99
Net assets	1,660	18.44	1,320	14.67	1,079	11.99
Current liabilities	960	10.67	1,534	17.04	597	6.63
Current assets	1,881	20.90	2,232	24.80	1,108	12.31
Stores, spares & stock in trade	164	1.82	151	1.68	149	1.66
Accounts receivable	1,162	12.91	935	10.39	61	0.68
Cash and bank	554	6.16	1,146	12.73	357	3.97
Key profit and loss items						
Revenue	3,327	36.97	4,507	50.08	2,518	27.98
Gross profit	632	7.02	870	9.67	469	5.21
Net profit	320	3.56	420	4.67	229	2.54
Key cash flow items						
Cash generated from operations	(419)	(4.66)	890	9.89	(92)	(1.02)
Capital expenditure	173	1.92	104	1.16	39	0.43

* Figures converted using rate of USD 1= PKR 90

Annexure 7: Breakdown of FDR Overheads

Item Description	As % of Salaries & Benefits
Salaries of supporting staff	2.93%
Mobilization (refer page 125 for details)	5.07%
Instruments and Gadgets	2.37%
Consumable Store	4.74%
Electricity & Water	5.07%
Telephone, Mobile & Internet	0.81%
Printing & Stationery	1.17%
Bank Charges	0.24%
Carriage and Freight	6.34%
Postage	0.08%
Canteen	0.32%
Travelling & Conveyance	1.34%
Fuel & Lubricants	10.29%
Insurance	1.35%
Staff Accommodation	0.79%
Vehicles Running & Maintenance	2.63%
Demobilization (refer page 125 for details)	0.83%
Maintenance of building	0.92%
Total	47.29%

NOTE: Items of duplication in G&A Overheads and FDR Overheads are due to cost allocations amongst different cost centers defined by management of ICPL.

With respect to Mobilization and Demobilization cost elements in FDR Overheads, we have been informed by the management that these costs consist of the following elements. The percentage share of components of cost is management's best estimate. Further, actual percentage varies with the nature and size of the projects undertaken by ICPL. The management is of the opinion that the variation may be by 5%:

Item Description	% of cost
Planning & deployment of staff at project sites	13%
Procurement of office equipment and furniture for the project	41%
Dispatch & delivery of office equipment to site	7%
Set up of site office	15%
Installation of plant and machinery	10%
Demobilization of plant, machinery, furniture, equipment and staff.	14%
Total	100%

Annexure 8: People who we had discussions with

Name	Designation	Department
Mr. Waseem Iftikhar	G.M. Finance & Accounts	Finance and Accounts
Mr. Major (R) Munir Ahmad	D.G.M. Admin/HR	Admin & H.R.
Mr. Razi Bashir	Manager Compute Application	I.T.
Mr. Arshad Mujeed Bhatti	G.M. Business Development	Business Development
Mr. Arif Ali Khan	Chief Engineer Co-ordination	Co-ordination
Mr. Mian Zafar Nangiana	G.M. Construction (Punjab & North)	Construction
Mr. Saeed Ahmad	Manager Contracts	Contracts
Mr. Wajih Nadeem Qamar	Manager Planning & Coordination	Planning & Coordination
Mr. Muhammad Abid Ramzan	Deputy General Manager	Proposal & Coordination
Mr. Yasir Afzal	Deputy Manager IT Operation	IT Operations
Mr. Haroon Alvi	Manager Purchase	Procurement

