MATRACON PAKISTAN (PRIVATE) LIMITED

Pre-award Assessment Report

September 28, 2012

ASP-RSPN

SEPTEMBER 28, 2012

This publication was produced for review by the United States Agency for International Development. It was prepared by the ASP-RSPN program.

Naveed Zafar Ashfaq Jaffery & Co.

Pre Award Assessment Report on

Matracon Pakistan (Private) Limited

September 2012

Date of Report:	**28 September 2012**
Cooperative Agreement Number:	**391-A-00-11-01201-00**
Implementing Organization:	**ASP - RSPN**
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Accounts Executive	AE	Manager Accounts	MA
Assessment Strengthening Program	ASP	Managing Director	MD
Board of Director	BOD	Manager Procurement	MP
Chief Executive Director	CEO	Matracon Pakistan (Private) Limited	MPPL
Capital Development Authority	CDA	National Highway Authority	NHA
Executive Director	ED	Pakistani Rupee	PKR
Financial Management System	FMS	Presumption Tax Regime	PTR
Fixed Asset Register	FAR	Purchase Request Form	PRF
General Manager	GM	Rural Support Program Network	RSPN
Human Resource	HR	Security Exchange Commission of Pakistan	SECP
Indefinite Quantity Contract	IQC	Senior Manager Accounts	SMA
Information Technology	IT	Standard Operational Polices	SOPS
Infrastructure Management Services	IMS	Store Issue Request	SIR
International Accounting Standard	IAS	Store Register	ST
International Finance Reporting Standard	IFRS	United State Agency for International Development	USAID
Inventory	IR	United State Consulate	USC
Inventory Control Procedure	ICP	United State Governance	USG
Japan International Corporation System	JICS		

ASSESSMENT REPORT

Mr. Ejaz Rahim
Chief of Party
ASP-RSPN
House# 70, Street 25, F-10/1
Islamabad.

PRE-AWARD ASSESSMENT REPORT OF MATRACON PAKISTAN (PRIVATE) LIMITED

We have made a review and evaluation of the managerial capacity and internal control systems of the Matracon Pakistan (Private) Limited using those criteria established by ASP-RSPN per the USAID standards. Our review included tests of compliance with Matracon Pakistan (Private) Limited 's stated procedures to the extent that such testing was deemed necessary and feasible. Our review is not an audit of financial statements prepared by Matracon Pakistan (Private) Limited.

The management of the Matracon Pakistan (Private) Limited 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 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 preparation of financial statements in accordance with generally accepted accounting principles. We understand that the objective of those financial management and internal control procedures comprehended in USAID's criteria is to provide similar assurance.

Based on this knowledge and the review and evaluation conducted by our firm, we believe the Matracon Pakistan (Private) Limited current policies and procedures are sufficient for USAID/Pakistan's purposes, assuming satisfactory compliance, except for the conditions described in on page 5 which we believe would be material weaknesses. The level of risk identified as a result of our assessment is considered to be **high**. In addition to these weaknesses, other conditions that we believe would not be in conformity with the criteria referred to above be described in Appendix III.

Further, with the exception of the conditions referred to in the preceding paragraph, nothing came to our attention that would cause us to believe that the Matracon Pakistan (Private) Limited does not have the managerial, technical, administrative and financial capabilities to carry out the proposed USAID funded activities.

Place: Islamabad

Dated: September 28, 2012

Naveed Zafar Ashfaq Jaffery & Co.

Naveed Zafar Ashfaq Jaffery & Co.
Chartered Accountants

Engagement Partner
Shah Naveed Saeed

Executive Summary

a. Introduction to organization

M/s Matracon started its operations as a sole proprietorship firm in 1985 and after completing 19 years of successful business, it was converted into a private limited company as Matracon Pakistan (Pvt) Limited in August 2004. The Company has undertaken on its own as well as in partnership with renowned companies of Pakistan, civil engineering contracts of varying nature and magnitude as management contractors and as their sub-contractors. The Company is a family owned business and is providing all kind of construction related services and major projects undertaken by it which include construction of Underpass & Flyover at Intersection of Faisal Avenue and Jinnah Avenue, Islamabad, Under Passes on 7th Avenue near Kulsoom Plaza, Islamabad and Water Supply to Baba, Bhit & Saulehabad in Monora, Karachi. The Company has been involved in 20 projects to-date.

b. Introduction to assignment

The objective of this Pre-Award Assessment is to provide reasonable assurance to USAID/Pakistan that Matracon has an acceptable organizational and management structure, accounting, financial management systems, financial capability, property control system, procurement policies, including systems of internal controls, quality assurance capabilities as well as Company's suitability to provide comprehensive program management services, including design and specifications, construction contracting, and construction supervision for infrastructure projects throughout Pakistan.

c. Summary of risk assessment findings

Appex-II Page Ref.	Functional Area	Observations	Risk Level	Risk Mitigation Measures
1	Governance and management structure	Ineffective risk management	High	Formulation of Disaster Recovery and Whistleblower Policy
2	Governance and management structure	No conflict of interest policy	High	Development of conflict of interest policy.
3	Governance and management structure	No Policies and Procedures Manual	High	Development of a comprehensive Policies and Procedures Manual and its approval from BOD.
5	Governance and management structure	Back date entries are made to the software	High	Restrictions in the software
7	Governance and management structure	Lack of safety and health measures	High	Implementation of the health and safety measures
8	Financial management and accounting system	Reliable and accurate financial statements not prepared	High	Preparation of the financial statements in accordance with approved accounting framework as applicable in Pakistan.

Appex-II Page Ref.	Functional Area	Observations	Risk Level	Risk Mitigation Measures
10	Financial management and accounting system	Lack of Independent Internal Audit Function	High	Establishment of an internal audit department and hiring of qualified staff reporting directly to the BOD.
11	Financial management and accounting system	Preparation and Review of Budgets	High	Preparing budget at head office. Quarterly meeting by the higher management to see variations between actual and budgeted plan and to realigned its budgetary plans.
12	Financial management and accounting system	Application of the Labor costs, Social charges, and Overhead charges	High	Seeking clarification from USAID regarding billing under 'Fixed Daily Rates'.
12	Financial management and accounting system	Company is using unregistered software	High	Use of licensed software
16	Financial management and accounting system	Company bank accounts in the name of employees	High	All company bank accounts must be opened and operated by the Company.
18	Financial management and accounting system	Withholding tax not deducted from salaries payments made to suppliers.	High	Income Tax rules and regulations are strictly complied with.
19	Financial management and accounting system	Withholding tax incorrectly deducted from salaries	High	Income Tax rules and regulations are strictly complied with
25	Procurement system	Lack of segregation of duties	High	Segregation of duties must be observed between preparation, updation and keeping of fixed assets register.
38	Human resource function	Lack of segregation of duties	High	Segregation of duties must be observed between HR and Admin functions. Hiring of suitable personnel.
39	Human resource function	EOBI contribution not deducted from all employees	High	EOBI rules and regulations are strictly complied with
40	Sustainability	Lack of strategic and sustainable planning system	High	Formulation and implementation 'Sustainability Plan'
40	Sustainability	Lack of succession planning for key employees	High	Formulation and implementation 'Succession Plan'

d. **Summary of management response:** ***To be provided by the management***

Appex-II Page Ref.	Issues Identified	Management Comments
2	Ineffective risk management	*Disaster Recovery Plan has already been formulated to secure all the IT as well as technology system that support the business functions and being implemented*
3	No conflict of interest policy	*Any Sub-contractor and supplier or any third party is shortlisted / pre-qualified on the basis of their performance credentials and financial health and there are no reference based selection made to select any sub-contractor or supplier*
3	No Policies and Procedures Manual	*All developed practices which are not in the comprehensive Policies & Procedures Manual or are modified to suit our working environment would became the part of the Manual after their formal approval from BOD.*
6	Back date entries are made to the software	*Back dated entries are not possible in our accounting software and such practice as reported is never experienced in our practice.*
8	Lack of safety and health measures	*HSE system for employees would be properly implemented in near future.*
9&10	Reliable and accurate financial statements not prepared	*All contract receipts are subject to final taxation @ 6 therefore revenue received in the accounts has been shown in the financial statements to avoid confusion for the tax officer.*
11	Lack of Independent Internal Audit Function	*Internal audit department is not there however regular internal audits do take place at head office and project sites. Further as CEO who is the majority shareholder and keeps an eye on all activities therefore chances of any misstatement or embezzlement are minimized.*
11	Preparation and Review of Budgets	*Budgets will be prepared at HO effective next year.*
12	Application of the Labor costs, Social charges, and Overhead charges	*All charges (Social charges, Overheads & fees etc.) have been specifically asked in writing from the USAID and USAID also replied in writing as such there is no further guidance needed after comprehensive clarification given in writing by USAID.*
13	Company is using unregistered software	*Company is already using the licensed software "Quick Book" for its accounting. Similarly the security software is being used is also having licensed Key to avoid any loss.*
17	Company bank accounts in the name of employees	*These are being operated at project sites to meet the day to day requirements of the company.*

Appex-II Page Ref.	Issues Identified	Management Comments
18	Withholding tax not deducted from salaries payments made to suppliers.	*As their salaries are well below the taxable limits.*
20	Withholding tax incorrectly deducted from salaries	*To be provided by management*
26	Lack of segregation of duties	*Is being implemented. Further CEO is directly authorizing the transaction so changes of fraud etc are very much minimized.*
39	Lack of segregation of duties	*Is being implemented. Further CEO is directly authorizing the transaction so changes of fraud etc are very much minimized*
39	EOBI contribution not deducted from all employees	*To be provided by management*
40	Lack of strategic and sustainable planning system	*Sustainability Plan will be prepared for its implementation to eliminate the risks as indicated above.*
41	Lack of succession planning for key employees	*Succession Plan will also be prepared for its implementation as and when required.*

e. **Summary of mapping activity:** Matracon capacity to fully address all control weaknesses and other issues including improvements of FMS Manuals and accounting policies is limited and may requires donor interventions in mitigating the risks to a low level.

f. **Recommendations** – See Risk Mitigation Measures depicted in Risk Matrix given above.

Risk Assessment

a. Risk assessment matrix **- ATTACHED as Appendix I**

Risk analysis: Based on the assessment of the internal controls, gap identifications of the current accounting and reporting system of the Matracon Pakistan (Private) Limited we conclude that the risk rating of the Company is **High** which may be reduced to a low level subject to appropriate mitigating factors adopted by the management.

b. Risk mitigation framework. The overall pre-award assessment risk is rated **High** that may come down to **Low** after necessary mitigation measures have been taken by the management as depicted in the Risk Matrix given above.

Introduction to Organization

a. Legal entity

M/s Matracon started its operations as a sole proprietorship firm in 1985 and after completing 19 years of successful business, it was converted into a private limited company as Matracon Pakistan (Pvt) Limited in August 2004. The Company has undertaken on its own as well as in partnership with renowned companies of Pakistan, civil engineering contracts of varying nature and magnitude as management contractors and as their sub-contractors.

b. Brief profile

The Company is a family owned business and is providing all kind of construction related services and major projects undertaken by the Company which include construction of Underpass & Flyover at Intersection of Faisal Avenue and Jinnah Avenue, Islamabad, Under Passes on 7th Avenue near Kulsoom Plaza, Islamabad and Water Supply to Baba, Bhit & Saulehabad in Monora, Karachi.

c. Management and Organizational structure

The Company is basically a family owned business and all of the directors are blood relations. Currently the Company has the following directors on its board:-

1. Mr. Muhammad Abdul Qadir (Managing Director)
2. Mr. Muhammad Ayub (Director)

Matracon Pakistan (Private) Limited has its head office in Islamabad and several site offices (temporary) at project site locations. Further it also has two regional offices at Karachi and Quetta.

Organizational structure of the Company depicts it is closely held family business, but also engaged professional qualified and experienced staff to manage its operations. Organogram of the Company is attached as **Appendix-IV**.

d. Budget

i. Last three years budget

The Company is preparing its budgets at the project levels; predicting expenditures as line items under various head of accounts. Project budgets are prepared at the time of bidding based on the amounts bid for the services/activities to be performed. There is no practice for preparing annually consolidated budgets – an important tool for managing performance and strategic planning. Furthermore, there is no practice for preparing budgets for working capital and capital expenditures for the acquisition of fixed assets – an important exercise for forecasting fund flow requirements.

Year	2010/2011	2011/2012	2012/2013
Projects budget – Direct costs	*To be provided by the management*		

ii. Main expenditure

Expenditures of the Company can be classified as (a) project cost (b) operating expenses. Project costs comprise of all direct costs of the company including direct material, direct labor, site expenditure, fuel and power and other direct costs. All costs other than direct costs like head office salaries, director remuneration, utilities, legal and professional costs, audit and other admin costs are classified as operating expenses.

Analysis of the actual direct and indirect expenditures for the year ended June 30, 2011, based on the audited financial statements, shows that: total direct costs of Rs 1.860 billion incurred on the 7 running projects, comprises of – Material 78%; Labor costs 7%; and other related project costs 15%. Whereas, indirect costs totaling Rs 0.173 billion comprises of payroll costs 61%; vehicle running 5%; and other costs 34%.

Introduction to Assignment

a. Brief introduction

In response to the advertisement dated April 30, 2012 published in local newspapers, USAID/Pakistan received ‘expressions of interest’ from Pakistani construction companies for the proposed Infrastructure Management Services (IMS) Indefinite Quantity Contract (IQC), short listed companies, including Matracon were explained proposed IQC. It was determined by the USAID/Pakistan that selected Companies have the technical capacity and experience for delivering the required program management services specified for the proposed IMS IQC.

In this connection, Matracon Pakistan (Private) Limited Pre-Award Survey has been awarded through ASP-RSPN (CPO) to Naveed Zafar Ashfaq Jaffery & Co., Chartered Accountants through task order dated August 03, 2012.

b. Objectives of pre-award assessment

The objective of the Pre-Award Assessment is to provide reasonable assurance to USAID/Pakistan that M/s Matracon Pakistan (Private) Limited has an acceptable organizational and management structure, accounting, financial management systems, financial capability, property control system, procurement policies, and other attributes: (i) can meet project goals and objectives; (ii) can adequately safeguard, monitor and efficiently utilize resources; (iii) can obtain, maintain, and fairly disclose reliable data and information; (iv) has the institutional framework for sustainability and; and (v) can comply with applicable laws and regulations.

Furthermore:

1. To check current and possibility of future compliance with the USG rules and regulations.
2. To evaluate M/s. Matracon Pakistan (Private) Limited’s capacity for receiving future higher level of funding based on a comprehensive absorptive capacity analysis.
3. To ensure that management leadership, organizational strengths, quality of staff, and quality of processes and procedures have the potential to support the management of a USAID-funded award.
4. Perform walk through and test on sample basis of financial, management and procurement systems of the Company.

c. Methodology

The assignment has been conducted by a team of professionals having relevant experience and knowledge of USAID’s requirements of Pre-Award Assessment.

Following procedures were adopted in conducting this assignment:

- Participated in the entrance meeting, and made presentation about the assignment objectives, scope of work and information/documentation requirements.
- While conducting fieldwork we conducted interviews with the relevant officials to understand the Company’s legal status, management structure, systems and procedures including financial reporting, budgetary control and accountability systems –internal and external audits.

- Conducted review of Internal control systems, policies, procedures, related to financial management systems, procurement, and human resource including accounting policies for reporting financial statements, financial position and financial reports, comparison of actual outlays with budgeted amounts, including assets management system.
- Performed walk through tests of transactions.
- Conducted analysis for: absorptive capacity; technical and quality assurance capabilities, and sustainability
- Use of check lists to documents all areas given under scope of work including internal control assessment.
- Evaluated capability to determine indirect costing and adequate charge-out of indirect expenses as per USAID requirements.
- Conducted site visit of an ongoing project located in Lahore.

d. Scope of work

Scope of work of this pre-award assessment covers the areas and their risk analysis; Gaps identification and risk mitigation measures related to: (a) Governance and management structure; (b) Financial management and accounting system; (c) Procurement system; (d) Human resource function; (e) Absorptive capacity; (f) Quality assurance; and (g) Organization sustainability

Assessment Areas

A. Governance and Management Structure

Over all description and findings

1. Legal entity

M/s Matracon started its operations as a sole proprietorship firm in 1985 and after completing 19 years of successful business, it was converted into a private limited company as Matracon Pakistan (Pvt.) Limited in August 2004. The Company has undertaken on its own as well as in partnership with renowned companies of Pakistan, civil engineering contracts of varying nature and magnitude as management contractors and as their sub-contractors.

Company is a family owned business and is providing all kind of construction related services and major projects undertaken by the Company which include construction of Underpass & Flyover at Intersection of Faisal Avenue and Jinnah Avenue, Islamabad, Under Passes on 7th Avenue near Kulsoom Plaza, Islamabad and Water Supply to Baba, Bhit & Saulehabad in Monora, Karachi.

2. Decision making and regulatory framework

Matracon Pakistan (Private) Limited is a family owned business and all decision making is done by the Managing Director of the Company. Composition of Board of Directors of the company is as follows:

Sr.No.	Name of Director	Nationality	Designation
1.	Mr. Muhammad Abdul Qadir	Pakistani	Managing Director
2.	Mr. Muhammad Ayub	Pakistani	Director

Shareholders of the company and their shareholdings are as follows:

S.No.	Name of Member	Nationality	Shareholding %	No. of Shares
1.	Mr.Muhammad Abdul Qadir	Pakistani	99.9	2,497,500
2.	Mr. Muhammad Ayub	Pakistani	0.1	2,500
Total				**2,500,000**

3. Accountability

As the Company is a family owned business, all of the matters are being closely monitored by the Managing Director of the Company i.e. a transaction only takes place after the approval of the Managing Director. External audits are also being performed by a firm of Chartered Accountants and it has given an unqualified opinion on the financial statements of the Company for the last three years.

4. **Organization structure of Matracon**

Company is virtually governed by its Managing Director/ Chairman of the BOD. The Company's operational activities are structured under various departments namely: (i) Technical department is responsible for project contracting/ management; (ii) Accounts department is responsible for recording accounting transactions, payroll preparation, banking, budgeting and reporting financial information and compliance with statutory provisions of income tax and company laws; (iii) Procurement and stores department is responsible for the supply chain management, warehousing and organizing physical verification of stores and fixed assets; and (iv) Admin and HR department is mostly responsible for the office/project maintenance, security, logistic support, custodian of HR files, etc. The Company has employed suitably qualified and experience departmental heads to ensure effective management and controls.

Organogram is attached as **Appendix-IV**.

5. **Segregation of authorities and duties**

Company is a medium sized entity and all operations are being closely monitored by the Managing Director of the Company. Further the Company is divided into various departments for management control and operational purposes.

B. Financial Management and Accounting System

Over all description and findings

1. **Financial management system**

A financial management system and processes of the Company are generally based on the practices adopted over the time. We noted that the Company has developed its financial management system manual (in written format) for providing guidelines for internal controls policies and procedures, adopting of appropriate accounting policies in accordance with generally accepted accounting principles, execution and recoding of transactions after approval, appropriate classification of transactions in a chart of accounts, bank reconciliation, adequate safeguards over access to and use of assets, physical verification and maintenance of fixed assets register, insurance coverage, budget preparation and monitoring, performance reporting, and other related areas including appropriate segregation of duties and authorizations, management supervision and independent checks on performance and valuation of recorded amounts. A well developed chart of accounts based on numeric codification is used for classifying nature of transactions and in the appropriate head of account. Further, Standard Operating Polices (SOPs) for travel has been developed and implemented. The bank accounts are solely operated by the Managing Director without any limit.

Currently the Company is using off-the shelf accounting software for recording its day to day transactions and to produce various reports for decision making purposes. The accounting software is not licensed and is capable of maintaining records on accrual basis.

2. **Financial analysis**

Financial performance of the Company shows that its growth rate over the period is satisfactory and sustainable. Ratio analysis of the Company's audited financial statements for the two years ended June 30, 2011 and 2010 show that its: (i) Current Ratio: 2011- 3.169; 2010- 2.626; (ii) Quick Acid Ratio: 2011 - 3.045; 2010

2.539; (iii) Total Assets to Net Worth: 2011 – 2.45, 2010 – 2.54; (iv) Debt to Equity: No long term borrowing – under exposed; (v) Dividend paid-out ratio: No dividend paid during last three years; and (vi) Earnings per share: 2011 - Rs 23; 2010 - Rs 40.

3. Budgeting system and functions

The Company is preparing its budgets only at Project level. The budget at Head office level is not prepared while Project budget is prepared at the time of bidding for the Project. The Company is not following the practice to prepare master budgets including revenue, working capital requirements, capital expenditures, and budgets for its expenses. The Project budget is prepared at the time of bidding and the expenses are made in line with the budgets and the project budget is compared with the actual results on monthly basis and at the end of the Project. Profitability of the Project is only assessed at the end of the Project.

4. Accounting and reporting system

Currently Finance & Accounts department consist of one Manager Finance and three Finance Assistants. Manager Finance is responsible for the proper functioning of the accounts department and is reportable to the Director Engineering.

The Company has purchased an off-the shelf accounting software for recording of day to day transactions and the accounting software can generate various reports including Trial balance, General Ledger, Profit and Loss Statement, Balance Sheet, Project Expenditure Reports and Voucher Reports.

4.1 Receipts Procedure

The company raised running bills to its clients as per construction contracts. Revenue is recognized and recorded in the accounting system when bills are actually received in company's bank accounts. Bills or in term payment certificates are made by site engineers according to the contract and using % completion method and then submit it to the head office for approvals and submitting it to the respective clients. When proceeds are received in bank accounts, receipt voucher are prepared and recorded and posted into the accounting system.

4.2 Disbursement Procedure

Disbursement whether for project expenses or general expenses starts by the requisition put forward by the relevant Head of Department requiring the disbursements. The requisition then approved by the Managing Director and Director and then checked by the internal audit personnel and finally came to the Finance Department for the issuance of checks, voucher preparation, recording and posting in the software.

Company has not established an Internal Audit Department. The Company's books of accounts and its annual financial statements are audited by a firm of Chartered Accountants. We noted that the auditors' have given an unqualified opinion on the last three years annual financial statements of the Company. Further, we were informed that the auditors have not submitted their management letters on the books of accounts audited by them as they have not noted any material weaknesses in the system.

5. Cash and Bank

Review of the Company's financial position entails that it has sufficient financial resources for managing its projects, as also evident from the fact that it has not acquired funds from banks for meeting its financial needs. As a matter of practice, separate bank account is normally maintained for each source of funding/each project. Online banking system is used for the transfer of funds from head office to the project site. Thus, there is a minimum time elapsing between the receipts of funds by Matracon and their subsequent disbursement.

Signing authority for cheques is Managing Director authorized by BOD with no limits.

C. Procurement System

Over all description and findings

1. Procurement policies and procedures

Procurements are made by a team of suitably qualified staff head by Manager Procurement having more than 30 years experience. Company has the policy to make its procurement from pre-qualified suppliers in case of selective bidding or through competitive bidding after obtaining quotations from different vendors and after performing technical and financial evaluation.

Whenever a need of procurement arises, the concerned personnel fills the requisition form and forwards it to inventory officer who verifies the same and forwards the same to the Project Manager for initial approval. After initial approval the Manager Procurement receives the form and forwards it to the Purchase Procurement Committee (PPC), which grants final approval. Once the final approval granted, the Manager Procurement prepares Tender Document in case of selective bidding or Advertisement format for placing in the newspaper (approved by MD/ Director Engineering) in case of competitive bidding.

The PPC awards the contract to the supplier who quote low bid, however, lowest quote criteria is not followed in case of rush purchase or when there only a single source available. The Manager Procurement forwards the Purchase order to the supplier who supplies the assets/inventory.

2. Contract management

Contract management is the management of contracts made with customers and vendors and includes negotiating the terms and conditions in contracts and ensuring compliance with the terms and conditions, as well as documenting and agreeing on any changes or amendments that may arise during its implementation or execution. The company enters into services contracts as well as purchase contract for goods and services.

In case of purchase contract, the company mostly asks pre-qualified vendors to submit their bids. The pre qualified vendor list is made in the beginning of the year. The Manager Procurement calls up Pre Qualified vendors (related to the task) and checks Form 001" Application for Pre Qualification" submitted by the vendors. Applications are evaluated by Competent Authority and Technical Committee.

In case of service contract, the company seeks tender from advertisement or website of the client and Contract Procurement Committee selects the tender. The Manager Contract requests the Finance department for bid security and prepares technical bid. The financial bid is prepared by the (Director Engineering, Manager Contract and Project Manager).

3. Asset management

The Company has developed written policies and procedures for fixed assets and inventory management. A Fixed Assets Register is maintained both at head office and site offices. IT Department is responsible to prepare and maintain fixed asset register while at site offices concerned Inventory Officer himself maintains and updates the fixed assets register.

Inventory management system

Inventory Keepers are responsible for receiving, storing, issuing the inventory and maintaining its the records. The Company has written policies and procedures dealing with inventory management. The inventory is received by the Inventory Keeper who verifies the quantity and acknowledges the receipt by signing the delivery challan. A copy of challan is forwarded to Head office which keeps it for record purposes. The Inventory Keeper prepares forwarding note in and he records in the stock inward register. The inventory is transferred to warehouse. The Company has established ware houses at its site locations. The inventory is issued on the request of the relevant site Engineer who fills material requisition form, get it approved from the respective Project Manager and forwards it to the Inventory Keeper who prepares forwarding note out and records the issued inventory in the stock outward register.

4. Property Management Standards and System

This assessment is limited to Matracon’s knowledge of property management, physical safeguards, Matracon’s own inventory control procedures - the current system is based on the practices adopted by Matracon over time and close monitoring from the head office. Inventory Keepers are responsible for receiving, storing, issuing the inventory and maintaining its records. Following documents are maintained by Inventory Keepers: Store Issue Request (SIR); Gate Pass (used as Goods Receipt Note); Purchase Request Form; Store Register; Temporary Issue of Inventory Register; and Fixed Assets Register. All movements of Company’s property are with the authorization from the Project Manager. Warehouses located at the projects are adequately manned by the security personal and physical counting of project inventory is conducted by warehouse personal and observed by the external auditors.

D. Human Resource Function

Over all description and findings

1. Human resource policies and procedures

Matracon has an HR policy that deals with Recruitment, Ethical Requirements of Employees, Confidentiality Requirements, Employee Benefits, Performance Evaluation, Pay and Allowances and other general HR policies like working hours, probation, notice period, leave policy etc. However, the Company does not have a policy for HR planning rather it hires the staff usually on need basis. HR policies apply to all whole time employees of Matracon other than employees on deputation or on contract. Further the policy states that the policy shall neither constitute nor be construed as a promise of employment or as a contract between the Company and any of its employees.

2. Recruitment

All new hiring are made only after the receipt of request from the concerned department head and after approval of the Managing Director, however, in case of urgent need the recruitment procedure is not mentioned. All recruitments are made on merit basis by publishing an advertisement in the newspapers and on the Company website. Recruitment is usually made by a team of three persons including Managing Director, Head of Department and Manager HR.

3. Trainings

Although the Company has developed written policies for training of its employees, however, we have not been provided with any documentation like training materials or agreement with any training organization.

4. Pay and incentives

Payments to employees are made as per terms of the contracts. Annual increments in the salary are made @ 5% of gross salary on automatic basis; further special increments are made on the basis of performance. Leave encashment is provided for thirty six days, bonus is given to employees on the basis availability of funds; however, the Company has never paid such bonus to its employees.

5. Job descriptions and Segregation of duties

In HR policies and procedures written job descriptions for different positions were not mentioned except for Manager Finance and Manager HR. Job descriptions are developed on broader terms and are not fixed and may be amended as per decision of management and the requirements of the Company. Proper segregations of duties are maintained between various functions of the Company with exceptions noted in Risk analysis section.

6. Travel Policy

Adequate travel policies and procedures exists both for local and international travel. Travel expenditure of employees is properly authorized, approved and accompanied by appropriate supporting documents. Travel advance is adjusted within reasonable period of time. There are adequate controls over the use of the Company vehicles including proper maintenance of log-books and control over unauthorized/ personal use of vehicles.

E. Absorptive capacity

Matracon Absorptive Capacity[1] is based on the empirical study using the experience gained during the ‘Pre-Award Assessment’ and learning of various factors which impacts the ‘Absorptive Capacity’ of an entity involving: knowledge management, organizational structures, human resources, external interactions, supplier integration, client/donor integration and intra-organizational fit. The study also takes into consideration: realized absorption capacity, based on historical costs analysis, and potential absorption capacity without structural changes in the present set up.

[1] By definition Absorptive Capacity is: “a set of organizational routines and processes by which firms acquire, assimilate, transforms and exploit knowledge to produce a dynamic organizational capability.

Following are the objectives of Absorptive Capacity:

- Review of the staffing of the entity to assess the adequacy to support the proposed award;
- Analysis of: procurement system; personnel; and financial and reporting system;
- Number of projects managed;
- Effective utilization of different level of funding;
- Historical spending pattern;
- Specific improvements required for enhancing Matracon capacity to manage more funds; and
- Information Technology

1. Review of the staffing of the entity to assess the adequacy to support the proposed award

It is essential that the staff of Finance & Accounts section of Matracon including procurement and HR personnel should be given extensive training so as to understand the reporting requirements and effectively manage USAID funds.

2. Analysis of procurement system; personnel; and financial reporting system

The procurement system requires review and perhaps engaging more technically qualified persons, in case, Matracon receives USAID funding. The present capacity of the procurement section which is currently managed by two persons and head of department has only charge of Procurement, Stores and fixed asset management with head of these units requires enhancement in capacity.

Finance and accounts section of Matracon is not competent enough to comply with International Accounting and Reporting Standards for its reporting requirement purposes and has some capacity issues in their current roles. Furthermore, Finance Manager and Manager Procurement are over-occupied in their current roles. Therefore, these key personnel will have to either relinquish a significant portion of their existing responsibilities to be able to work on additional project(s) or the Company would have to consider hiring more professional staff to work on proposed USAID funded projects.

3. Number of Projects Managed

Matracon has completed more than 13 projects with an approx cost of Rs. 3.826 billion since 2004 to 2012, whereas seven projects are currently in progress. The Company has no working experience with US Government in the past.

4. Effective utilization of different level of funding

Matracon does not have any previous experience of funding from US Government.

5. **Historical spending pattern**

Types of Expenditures	2010-2011	2009-2010	2008-2009
	Rupees		
Project expenses	1,859,718,114	2,113,145,248	1,564,765,908
Administrative & general expenses	172,869,746	159,162,025	80,332,641
	2,032,587,860	2,272,307,273	1,645,098,549
Source : Audited accounts of Matracon			

6. **Specific improvements required for enhancing Matracon capacity to manage funds**

Matracon's capacity to manage funds is directly linked with strengthening of its human capital, development of sound financial management and accounting systems.

7. **Information Technology**

- Appropriate physical security measures are not in place to protect valuable data of Matracon;
- Back-up of the financial and project information is not maintained and kept on regular basis; and
- Accounting software system does not fully meet the needs of accounting and other related disclosure requirement as per IAS and IFRS applicable to construction industry.

8. **Burn rate analysis**

During our review of the Matracon Pakistan (Private) Limited we have analyzed the burn rate of the Company on the basis of expenses of the Company available from the last three years audited financial statements; average burn rate of the Company is from PKR 5.05 billion to PKR 6.44 billion per month.

9. **History of receiving and spending grants**

The Company has undertaken several donor funded projects in the past. The most notable of such projects include Supply of Pipe & Construction of Tomar – Rawalpindi & Lai Nullah Improvement Works funded by ADB and construction of District Head Quarter Hospital at Distt. Bagh & construction of Clinical Block, Muzaffarabad-AIMS funded by KFW. However, the Company has no working experience with US Government.

F. Quality Assurance

1. Planning, development and monitoring structures, procedures

Matracon has established a Technical Department to monitor the progress of all of its projects, Technical Department is headed by the Director Engineering assisted by the independent consultants. The operational area is divided into two zones North and South which are headed by Project Coordinator. Further each of the projects is supervised by an independent consultant, one project manager and a proper team of their assistants is formed to ensure the quality, planning and monitoring. The Company has adopted a quality assurance procedure to test the construction materials (concrete, cement, pipes etc) from independent consultants. All Project Managers are well qualified and experienced. Furthermore, construction work of Matracon is also technically supervised by the clients' engineers, normally engineering consulting firm, who oversees progress and quality of work done in compliance with contractual requirements. Nothing came to our knowledge that Matracon bills have been stopped by the engineers on account of quality assurance.

2. Projects completion period delays with justification

Matracon has a good reputation in timely completion of the projects; it has also received Certificates of Appreciation from Capital Development Authority (CDA) and Japan International Cooperation System (JICS), Japan. Certain delays were noted in completion of the projects in the past, and the reasons of such delays were mainly due to the circumstances beyond the Company's control.

G. Sustainability

There are many ways to interpret the term sustainability, but whether it means environmental performance, corporate citizenship, long term business prospective or all three, it is a growing priority for businesses of all sizes. Successful sustainability performance translates to successful business performance. Furthermore, BOD and management of any entity is responsible for setting sustainable business plan comprising of: (a) strategic planning; (b) execution and alignment; and (c) performance and reporting.

Further, the finance department plays a critical role in formulating and implementing a sustainability strategy and data gathering processes that enable an organization to show how well it is improving its performance around specific goals. It often defines the metrics and monitors progress. It always creates the vital link between investment in the strategy and the commercial benefit that accrues. As such it is often the guardian of the sustainability strategy, but it can also be the originator of it.

<u>We noted that no formal efforts are in place to confirm strategic planning processes have been evolved by the Company in line with the above broader lines. However, during our review we noted that Matracon Pakistan (Private) Limited completed 13 projects mainly related to buildings and road construction since its inception at a cost of more than Rs. 3 billion. At present, there are only seven projects are ongoing costing Rs. 6.754 billion located in Peshawar, AJK and Islamabad.</u>

The analysis of Company's audited financial statements for the two years ended June 30, 2011 and 2010 indicates that its: (i) Current Ratio: 2011- 3.169; 2010- 2.626; (ii) Quick Acid Ratio: 2011 - 3.045; 2010 2.539; (iii) Total Assets to Net Worth: 2011 – 2.45, 2010 – 2.54; (iv) Debt to Equity: No long term borrowing – under exposed; (v) Dividend paid-out ratio: No dividend paid during last three years; and (vi) Earnings per share: 2011 - Rs 23; 2010 - Rs 40.

The Economic Survey of Pakistan for 2011/2012, published by the Ministry of Finance, Government of Pakistan, indicates that the Construction Sector has shown a growth of 6.5 percent as compared to negative growth of 7.1 percent in 2010/2011; shows potential for construction companies growth.

H. Compliance with USAID Related Requirements

1. Organization's current, and possibly future, compliance with USG rules and regulations

Matrocon's current staff has no knowledge of USG rules and regulations and will not be able to comply with the rules unless adequate trained. Management will be required to hire qualified and experienced staff for handling of USAID funded projects.

2. Management and leadership skills to manage USAID Funded Awards

The Company is successful in its operations in Pakistan due to strong management and leadership skills of the top management that shows their dedication and commitment to its growth. Company has successfully completed 13 projects generating revenue of more than Rs. 3 billion since its inception.

3. Organizational Capacity to Manage USAID Advance Funding Mechanism

USAID Funding Mechanism requires certain procedures to be applied by the awardees like accounting and reporting in USD and comparisons of actual and budgeted outlays. Matracon staff will require necessary training for USAID reporting.

Management Response

a. Itemized comments

To be provided by the Management

b. Agreements

Time - line action plan to be provided by the Management.

Mapping Exercise

i. Organization's capacity to take steps to mitigate risks

Matracon capacity to fully address all control weaknesses and other issues including improvement of FMS Manuals and accounting policies is limited and may requires donor interventions in mitigating the risks to a low level.

ii. Existing Donor interventions to mitigate risks: ***Not Applicable***

a. Current interventions
b. Planned interventions
c. USAID capacity building measures

Overall Risk Ranking

S. No.	Overall Risk Ranking	Risk Ranking		
		Low	Medium	High
	Overall Objectives			
1.	Organizational and Management Structure			✓
2.	Accounting and financial management system			✓
3.	System of internal controls			✓
4.	Quality assurance capabilities	✓		
5.	Existing policies, procedures and practices			✓
6.	Organization’s current, and possibly future, compliance with USG rules and regulations		✓	
7.	Management and leadership skills to manage USAID Funded Award		✓	
8.	Organizational capacity to manage USAID Advance Funding Mechanism		✓	
	Financial Management			
9.	Evaluation of Financial Statements & Financial Position			✓
10.	Financial Management – Operations		✓	
11.	Grants	***NOT APPLICABLE***		
	Management Capacity			
12.	Internal Control Structure			✓
13.	Branch Operations	✓		
14.	Evaluation of Information Systems (IS/IT) Environment & Review of Financial Information Systems			✓
15.	Cash and Bank		✓	
16.	Payroll Processing			✓
17.	Personnel Policies and Procedures			✓
18.	Travel Policy	✓		
19.	Procurement		✓	
20.	Property Management Standards and Systems		✓	

Risks Identified During Assessment

A. Governance and Management Structure

1. Ineffective risk management

Risk: High

Condition

The Company does not have a Disaster Recovery Plan in place. Moreover, the Company does not have any Whistleblower Policy for its employees. Disaster Recovery Plan is the process, policies and procedures related to preparing for recovery or continuation of technology infrastructure critical to an organization after a natural or human-induced disaster. While Business Continuity involves planning for keeping all aspects of a business functioning in the midst of disruptive events, disaster recovery focuses on the IT or technology systems that support business functions.

Whistle blowing encourages and enables employees to raise serious concerns within the Company rather than overlooking a problem or 'blowing the whistle' outside. Employees are often the first to realise that there is something seriously wrong, however, they may not express their concerns as they feel threaten by their colleagues and superiors.

The Company has no policy regarding the frequency of taking backup of its accounting software data, we were informed that usually backup data is taken on monthly or bi-monthly basis, but no documentation has been generated showing back up data has been obtained and secured. We further noted that the backups maintained by the Accounts Department in the safe at head office.

Criteria

Generally accepted policies related to information system security and effective risk management requires that an entity must have appropriate policies and procedures for dealing with disasters and thus minimizing disruption of business activities.

Cause

Lack of knowledge and human resource constraints.

Effect

The operations of the Company may be severally disrupted in case of a disaster and the Company may not be able to recover from such disasters in shortest possible span of time. The Company is exposed to loss of information and other resources in case of fire and other accidents. In the absence of a formal Whistleblower Policy, suspicious activities within the organization may remain unreported.

Recommendation

The management should formulate and implement Disaster Recovery Plan and Whistleblower Policy. These policies should be shared with employees for compliance.

Management's Comments

Disaster Recovery Plan has already been formulated to secure all the IT as well as technology system that support the business functions and being implemented. Information system security is preserved in order to cause minimum disruption of business in case of any Natural or human-intended disaster. Whistleblower policy is also under formulation and will shortly be implemented after sharing it with the employees for strict compliance.

2. No conflict of interest policy

Risk: High

Condition

We noted that the Company has not developed conflict of interest policy which requires annual disclosure by all senior and middle management employees that they have no direct or indirect interest or benefit in the contracts/agreements entered into by the Company with any third party.

Criteria

Existence of conflict of interest policy ensures transparency in executing contracts with a third party, and disclosing appropriately related party transactions in accordance with established accounting practices.

Cause

Lack of knowledge about such policies and procedures.

Effect

In the absence of no conflict of interest policy there is a risk that the Company may enter into a transaction that may not be beneficial or may be prejudicial to interests of the Company as the official having an interest in the transaction may impact on the decision making process.

Recommendation

Company should develop a conflict of interest policy containing detailed procedures and to ensure that the person having any direct or indirect interest in any transaction should not be involved in the decision making process for that particular transaction.

Management's Comments

Any Sub-contractor and supplier or any third party is shortlisted / pre-qualified on the basis of their performance credentials and financial health and there are no reference based selection made to select any sub-contractor or supplier. However, in order to make these selections further transparent, we would be introducing conflict of interest policy for its implementation so that Company may enter into a transaction that may not be beneficial or may be prejudicial to interests of the Company as the official having an interest in the transaction may have impact on the decision making process.

3. Policies and Procedures Manual

Risk Level: High

Condition

We noted that although the Company has developed various practices over the period of time but it does not have a comprehensive Policies and Procedures Manual documenting all approved policies in the shape of a manual. We have further noted that the existing Manuals are also not formally approved by the BOD.

Criteria

Standard policies and procedures are important aspects in providing clarity/guidance in day to day activities in effective monitoring and financial reporting processes. Further whole of the budgeting and pricing process depends on the quality of financial reporting process of an organization if these are properly documented reviewed and updated on periodic basis.

Cause

Lack of guidance to develop organization's specific Financial Management, Procurement and HR Manuals.

Effect

In the absence of policies and procedures Manuals, operational and reporting processes cannot be streamlined.

Recommendation

We recommend that the Company must develop comprehensive policies and procedures manuals and implemented them accordingly. These manuals should be reviewed and updated at least annually.

Management's Comments

All developed practices which are not in the comprehensive Policies & Procedures Manual or are modified to suit our working environment would became the part of the Manual after their formal approval from BOD.

4. Insurance of cash in hand

Risk: Medium

Condition

We have noted that cash in hand and in-transit both at head office and site offices are not covered under any comprehensive insurance policy.

Criteria

The effective risk management policies provides for the necessity of obtaining a comprehensive insurance policy for cash in hand and in transit.

Cause

Lack of adequate guidelines and trainings.

Effect

In the absence of an adequate insurance coverage the Company may suffer financial damages in the event of theft, embezzlement etc.

Recommendation

It is recommended that management should insure its cash in hand and cash in transit both in head office and sites.

Management Comments

Cash in hand and cash in transit both in head office and site is limited to Rs. 25,000/- as per prevailing cash handling policy. Due to this little amount is insurance cover was withdrawn which was previously taken for Rs. 300,000/- limit of cash in transit & cash in hand.

5. Insurance of fixed assets

Risk: Medium

Condition

During our assessment we observed that the following categories of fixed assets were not covered under a comprehensive insurance policy;

- Building;
- Furniture & fixtures; and
- Office and computer equipments.

Criteria

The effective risk management policies provides for the necessity of obtaining a comprehensive insurance policy for assets to cover allied risks.

Cause

Lack of adequate guidelines and training

Effect

In the absence of an adequate insurance coverage the Company may suffer financial damages in the event of theft, lost or natural disaster.

Recommendation

The management should take steps to ensure that all the valuable assets of the Company are adequately covered under any insurance policy.

6. Back date entries are made to the software

Risk: High

Condition

We noted that the accounting software currently used by accounting department allows the accounting personal to record transactions in a back-dated period of upto 90 days.

Criteria

Effective accounting system and policies does not allow back-dated adjustment in accounting records as it impairs the reliability of accounting records.

Cause

Accounting staff has no sufficient knowledge of IASs and IFRSs requirements.

Effect

The reliability of financial record may be impaired.

Recommendation

We recommend that the Company should use accrual accounting method and should not record the transactions at the back dates.

Management's Comments

Back dated entries are not possible in our accounting software and such practice as reported is never experienced in our practice.

7. Project management

The team visited one of the on-going project namely, 'Construction of AJKC Lodges Building at Sector F-5/2, Islamabad'. The objective of this visit was to assess: project management and processes' effectiveness including physical progress data gathering and quality assurance; warehousing system –controls over receipts and issues of materials; time-keeping and labor control; payroll preparation and wages distribution; project accounting; fund flow mechanism; and reporting system. The team took one work day at the project site.

The project having a contract value of Rs 411 million, its commencement date was February 2010 and expected date of completion is February 2013. The contractor's client is Azad Jammu & Kashmir Council (AJKC). The internal control weaknesses noted during our visit with possible recommendations for improvements are depicted below:

Risk: Medium

Condition

During our field visit at project site we identified following control weaknesses in the management of site operations;

- Certain material issuance forms were neither signed by the store keeper nor by the recipient.
- Certain instances were noted where Purchase orders sent to the warehouse do contain values.

Criteria

The implementation of sound internal control system regarding Inventory Management system.

Cause

Lack of effective control over site operations.

Effect

The accuracy & completeness of material issuance forms during a specific period of time may not be ensured.

Recommendation

The management should take appropriate measures to ensure effective and efficient controls over site activities.

Management's Comments

The accuracy & completeness of material issuance documents will be ensured and verified in the periodic internal audit of the sites thus ensuring the effective control over site activities.

8. Lack of safety and health measures and manual

Risk: High

Condition

We observed that the Company has not taken adequate measure in respect of employees' safety and health. Following discrepancies were observed;

- There is no written policy manual regarding employees' safety and health
- No accident prevention program
- First aid kits not available at sites
- Safety Bulletin Boards not affixed at sites
- Compulsory vaccinations for workers not done
- Portable Fire Extinguishers not available at sites
- Fire/Security Alarm Systems not in place
- Fencing of machinery used for concrete mixing not made at sites

Criteria

The relevant provisions of labor laws requires for the safe and healthy working environment.

Cause

Lack of adequate guidelines and training

Effect

Non-compliance with the relevant provisions of labor laws regarding health and safety of employees. Weakness of the internal control system regarding health and safety of employees.

Recommendation

The management must ensure that all health and safety requirements of employees are properly complied with.

Management's Comments

HSE system for employees would be properly implemented in near future.

B. Financial Management and Accounting System

1. Reliable and Accurate Financial Statements not prepared

Risk: High

Condition

We were provided with the audited financial statements of the Company for the year ended 30 June 2011. We noticed following errors in the audited financial statements provided to us:

i) Depreciation on fixed assets was not computed in accordance with the accounting policy of the Company

ii) Vehicles were not separately classified in Fixed Assets schedule, instead vehicles were grouped with Plant & Machinery

iii) Revenue was not recognized in accordance with International Accounting Standard – 11, 'Construction Contracts'.

iv) Disclosure of investment property was not given in accordance with International Accounting Standard – 40, 'Investment Property'.

v) Following expenditure line items were wrongly classified under Project cost instead of being charged to Administrative expenses;

- General expenses
- Utilities
- Bank charges & commission

vi) Separate policy notes were not given for;

- Land for plotting
- Investment property
- Deferred taxation

The Company is recording the revenue on the basis of progress billing; this is a non-compliance of the requirements of International Financial Reporting Standards. Para 22 of the “IAS-11 Construction Contracts”.

Accounting and reporting of revenues from construction activities, as a matter of practice adopted by the Pakistani Construction Companies, differs and often conflicting approach in determining income from those prescribed under IAS 11. The accounting approach adopted is based on withholding of tax from payments by the clients against billing by the contractors. This tax withholding is termed as ‘Presumptive Tax Regime’ (PTR) and is final tax liability, although contractors are required to file annual income tax return including audited annual financial statements and other related information. This system of measuring income for income tax purposes have led contractors to adopted tax based accounting system.

Both US GAAP and IASs guidelines requires that long-term construction contractors are required to use the percentage-of-completion method for computing long-term contract revenue for accounting purposes, rather than the measuring revenues on the basis of billing. The use of the percentage-of-completion method may result in an income materially different from the tax accounting method under PTR.

The financial accounting and reporting does not take into account all known factors regarding contract performance. Thus, financial reports do not serve: (i) as the basis for management planning and control, and (ii) with information on the current contract and financial status. Therefore, the reported income as reflected in its annual audited financial statements by Matracon is in conflict with accounting income which may have been reflected had the Company adopted Construction Accounting methods in accordance with generally accepted accounting principles.

Criteria

The Finance and Administration Department of the Company should be able to prepare accurate, reliable and timely accounts in accordance with an approved accounting framework as applicable in Pakistan.

Cause

Lack of technical assistance and capacity to prepare timely, reliable and accurate accounts.

Effect

The financial statements of the Company do not depict a true and fair view of the financial position and results of the Company.

Recommendation

The management must ensure that the financial statements are prepared in accordance with approved accounting framework as applicable in Pakistan.

Management’s Comments

Depreciation on fixed assets is computed in accordance with the accounting policy of the Company and is also given in the audited financial statements

Only specialized construction machines which can be treated as vehicles are classified and grouped in Fixed Assets schedule with Plant & Machinery Revenue was not recognized in accordance with International Accounting Standard – 11, 'Construction Contracts' for the reason that all contract receipts are subject to final taxation @ 6% and since submission of accounts with tax return is a must under the tax law therefore revenue received in the accounts has been shown in the financial statements to avoid confusion for the tax officer. In case contracts revenue in the accounts is different from the revenue in tax return, a notice for the discrepancy and total tax audit would be just one step away. All other revenues have been recognized using accrual based policy as given in IAS-11

Following expenditure line items were wrongly classified under Project cost instead of being charged to Administrative expenses;

- *General expenses*
- *Utilities*
- *Bank charges & commission*

All the above expenses were incurred at sites and therefore related directly to projects and therefore was shown as such
Separate policy notes were not given for:

- *Land for plotting*
- *Investment property*
- *Deferred taxation*

2. Lack of an Internal Audit Function

Risk: High

Condition

There is no independent internal audit department of the Company.

Criteria

Suitable control environment mandates monitoring of internal control, which is done through periodic internal audits. Internal audit department ensures that control procedures are properly being followed, there is proper segregation of duties, each employee works under its area of jurisdiction etc.

Cause

Lack of human resources and management knowledge about internal controls.

Effect

This represents weakness of the Internal Control system of the Company.

Recommendation

As a matter of good corporate practices, we recommend that the Company should establish an internal audit department and engage suitably qualified internal auditors to ensure effective monitoring of internal control system including cost controls at the projects.

Management's Comments

Internal audit department is not there however regular internal audits do take place at head office and project sites. Further as CEO who is the majority shareholder and keeps an eye on all activities therefore chances of any misstatement or embezzlement are minimized.

3. Preparation and Review of Budgets

Risk: High

Condition

We noted that Head Office budgets are not prepared and reviewed at annual basis, however project budgets are prepared and reviewed at the time of completion of the project.

Criteria

Comparison of actual outlays with budget should be reviewed.

Cause

Human constrains and lack of knowledge about the importance of budgetary controls reviews.

Effect

In the absence of a budgets and mechanism of timely review there is a risk that the management will not be able to timely recognize a possible loss and will not be able to revisit its strategy for a particular project.

Recommendation

It is strongly recommended that the management should meet at least once in each quarter for in depth review of its budgets against the actual outlays to identify any gaps and realigned its budgetary plans accordingly.

Management's Comments

Budgets are being prepared at HO effective next year.

4. Review of Labor costs, Social charges, and Overhead charges applied by Matracon

Risk: High

Condition

Under the IMS IQC, program management services provided directly by Matracon shall be paid for on a Time and Materials basis using the Fixed Daily Rates proposed in the IQC. We have reviewed: (i) Social charges applied at 35% of the Labor Costs; (ii) Overheads are computed at 40% of the sum of labor costs and Social charges; (iii) Fee at 15% of the sum of labor costs, social charges and overheads; and (iv) Hard area allowance at 20% of the total computed costs. We were unable to ascertain the amount of labor cost submitted to USAID/Pakistan, the management is unable to share the base salary and inclusions of benefits including retirement benefits – actual incurred or based on future costs.

Criteria

Under Fixed Daily Rates contracting, actual costs incurred by the contractor plus contractors profit margin are billed. Depending upon the terms and conditions of the contract agreement, normally, these costs are also subject to independent audits by the donor auditors.

Cause

Matracon management may not have been properly guided about the 'Fixed Daily Rates' methodology.

Effect

Amount billed in excess of actual costs may be recovered by the donor.

Recommendation

Matracon management must seek clarification from the donor regarding billing under 'Fixed Daily Rates'.

Management Comments

All charges (Social charges, Overheads & fees etc.) have been specifically asked in writing from the USAID and USAID also replied in writing as such there is no further guidance needed after comprehensive clarification given in writing by USAID. We have already worked out all fixed daily rates keeping in view the clarification as well as the market rates.

5. Use of Unregistered software

Risk: High

Condition

While reviewing the IT environment of the Company, we noticed that Company is using accounting and security softwares but these softwares are unlicensed.

Criteria

The software vendors require every user to buy their licensed product.

Cause

The availability of software at cheap prices induces management to use unlicensed software.

Effect

The Company is exposed to penalties by the software companies. Also unlicensed software is prone to errors and viruses which may corrupt important data.

Recommendation

We recommend that the Company should use licensed software.

Management's Comments

Company is already using the licensed software "Quick Book" for its accounting. Similarly the security software is being used is also having licensed Key to avoid any loss.

6. Payroll Journal

Risk: Medium

Condition

Payroll Journal is maintained and prepared manually in Microsoft Excel rather than in computerized software (QuickBooks).

Criteria

Accounting Manual procedures in title 'Recording Transactions in the General Ledger' requires maintaining and recording transactions relating to 'Payroll Journal' using the computerized posting features (accounting software).

Cause

Lack of adequate guidelines and training

Effect

Non-compliance with the procedures mentioned in Accounting Manual. The above said practice enhances the risk of wrong computation and incorrect payments.

Recommendation

It is recommended that the Company should educate and train its staff about accounting policies and procedures

Management comments

Microsoft Excel is meeting the requirements of the company and can be changed quickly in case a need arises therefore.

7. Vouchers to be stamped as "POSTED"

Risk: Low

Condition

'Posted stamp' not affixed on vouchers when posted in accounting system.

Criteria

Accounting Manual states in section "policies and procedures for posting and book keeping" that vouchers when posted in the accounting system shall be stamped as POSTED.

Cause

Non compliance with accounting policies and procedures

Effect

Authentication of vouchers is reduced if there is no stamp on it.

Recommendation

Accounting policies and procedures must be complied with

Management Comments

Will be used.

8. Payment of staff salaries

Risk: Medium

Condition

We noticed that at site offices, although receipt acknowledgments were obtained on payroll sheets, salaries of staff and labor wages were paid through cash.

Criteria

As per the section "policies and procedures for posting and book keeping" of Accounting Manual, the remuneration of staff at Project sites shall be paid through bank draft.

Cause

Lack of adequate guidelines and trainings.

Effect

Non-compliance with accounting policies and procedures. A control weaknesses which may cause misappropriation of cash.

Recommendation

It is recommended that the salaries must be transferred directly to the bank accounts of employees or paid through crossed cheque.

Management Comments

For the reason that workers at sites do not maintain bank accounts which honestly impossible for them and not practicable.

9. Signatory of checks

Risk: Medium

Condition

During our assessment we have noted that all cheques are signed by Muhammad Abdul Qadir, Managing Director of the Company and he is the sole authority for signing payments.

Criteria

Accounting Manual suggests that all the payment instruments are signed by joint signatories to establish a sound system of internal control over bank payments.

Cause

The Company's operations are managed and controlled by the Managing Director.

Effect

Weakness of the internal control system over bank payments. Further, in his absence unnecessary delay may occur to process the payments.

Recommendation

It is recommended that the company should constitute the system of joint signatories.

Management Comments

He is so authorized by the BoD and he has proven for that.

10. Company bank accounts in the name of employees

Risk: High

Condition

We noted that the following bank accounts are opened in the name of employees. Details of these bank accounts are as follows:

Account title	Bank	Employee designation	Signatory	Account Number
Muhammad Shafiq	HBL-Tarnol	Site Accountant	Muhammad Shafiq	1216-7900557403
Farukh Hasan Naveed	HBL-Karachi	Project Coordinator	Farukh Hasan Naveed	Not provided

Criteria

Since company is a separate legal entity, all of its assets including bank accounts should be in the name of the Company.

Cause

Lack of adequate guidelines and trainings

Effect

This represents a serious control weakness which may provide an opportunity to misappropriate the Company's funds.

Recommendation

It is recommended that the company should open all bank accounts in the name of the company in which all transactions should reflect the business of the company.

Management Comments

These are being operated at project sites to meet the day to day requirements of the company.

11. Tax deduction at source

Risk: High

Condition

During our assessment we noticed certain instances where tax was not been withheld from payments made to the suppliers;

JV Number	Project/Purpose	Bill Numbers	Supplier	Amount (Rs)	Tax to be with held @ 3.5 %
29	FFBL (Water Line Fauji Fertilizer Bin Qasim Project)	222	Humayun Khan Bugary Supplier	3,400,000	119,000
36	-do-	401	Ultra Construction Chemicals	51,200	1,792
57	-do-	63/75/76	Gomal Cement	541,000	18,935
Vr. 1	Paid for vehicle rental.	-	Muhammad Tahir	650,000	22,750
Vr. 52	Purchase of sand.	-	Mr. Akbar	78,500	2,748

Criteria

As per Section 153 of the Income Tax Ordinance 2001, tax should be with held against the payment made for purchase of goods and services.

Cause

Lack of adequate knowledge of the prevailing tax rules and regulations.
Effect

Non-compliance with provisions of Income Tax Ordinance, 2001, which may attract penal consequences against the Company.

Recommendation

It is recommended that the company should educate and train its staff about applicable tax laws.

Management Comments

In a company of over billion rupee payments, these are very small amounts and in one case, exemption certificate is available.

12. Withholding tax not deducted

Risk: High

Condition

We noted that withholding tax was not deducted from the salaries of staff members at project sites.

Criteria

Under section 149 (1) of Income Tax Ordinance 2001, every employer shall withhold/deduct tax from monthly salaries of every employee at the rates specified in 1 Schedule.

Cause

Lack of adequate knowledge of the prevailing tax rules and regulations.

Effect

Non-compliance with provisions of Income Tax Ordinance, 2001 which may attract penal consequences against the Company.

Recommendation

It is recommended that the company should educate and train its staff about applicable tax laws.

Management Comments

As their salaries are well below the taxable limits.

13. Incorrect Tax deducted from salaries

Risk: High

Condition

We noted that the Company is not deducting proper income tax from salaries of its employees. Some of the instances are given below:

Income Tax Compliance Sheet (For The Month of June, 2012)

S.No	Name	Gross Monthly Salary	Gross Annual Salary	Income Tax Slab	Tax Rate	Tax As Per Our Calculation	Tax As Per Matracon	Underdeducted / (Overdeducted)
		………			Rs.			………
1	Syed Sajjad Zaheer	227,273	2,727,276	2,250,001-2,850,000	16.00%	36,364	20,000	16,364
2	Faisal Jamal	181,818	2,181,816	1,950,001-2,250,000	15.00%	27,273	12,000	15,273
3	Khalid Murtaza	86,364	1,036,368	900,001-1,050,000	9.00%	7,773	4,091	3,682

Income Tax Compliance Sheet (For The Month of July, 2012)

S.No	Name	Gross Monthly Salary	Gross Annual Salary	Income Tax Slab	Tax As Per Our Calculation					Tax As Per Matracon	Underdeducted / (Overdeducted)
					Fixed Annual Tax	Annual Amount exceeded	Rate	Annual Tax On Exceeding Amount	Monthly Tax		
		………						Rs.			………
1	Syed Sajjad Zaheer	227,273	2,727,276	More Than 2,500,000	420,000	227,276	20.00%	45,455	38,788	20,000	18,788
2	Faisal Jamal	181,818	2,181,816	2,000,001-2,500,000	175,000	181,816	17.50%	31,818	17,235	12,000	5,235

Criteria

Under Section 149 (1) of Income tax Ordinance, 2001 every employer shall withhold tax from the salaries of employees in accordance with the rates in 1st Schedule.

Cause

Lack of adequate knowledge of the prevailing tax rules and regulations.

Effect

Non-compliance with provisions of Income Tax Ordinance, 2001, which may attract penal consequences against the Company.

Recommendations

It is recommended that the company should educate and train its staff about applicable tax laws.

Management Comments

To be provided by management

14. Recording site expenditure

Risk: Medium

Condition

No computerized accounting software is being used to record transactions incurred at project sites, instead the transactions are manually recorded in the registers and are reported fortnightly the Head Office for consolidation.

Criteria

Accounting Manual procedures in title 'Recording Transactions in the General Ledger' requires maintaining and recording of general ledger transactions using the computerized posting features (accounting software).

Cause

Lack adequate IT infrastructure including accounting software, networking support etc. at project sites.

Effect

The manual bookkeeping system is error prone which may lead to misreporting of financial information

Recommendation

Based on volume of work and capacity of employees the work load should be managed through proper software in order to avoid wrong computation in books of accounts.

Management Comments

At some projects, computer based recording is done and in the remaining ones, it is being implemented.

15. Flaws in accounting software

Risk: Medium

Condition

We observed following flaws in accounting software (QuickBooks) being used by the Company;

- There is no user manual of the accounting software.
- Software has no option of auto log-off.
- Back date entries can be made upto 90 days.
- There is no module for payroll, fixed assets and inventory in the software.
- There is no module for consolidation of project-wise financial reports.

Criteria

As per accurate and reliable reporting requirements, the Company shall maintain its accounting software in an effective and efficient manner.

Cause

Lack of knowledge and understanding about the importance of IT systems.

Effect

Accounting information processing may be affected by these flaws in accounting software and may lead to misreporting of financial information. Moreover, the manual consolidation is error prone and enhances the risk of wrong reporting. The optimum benefits of accounting software are not availed.

Recommendation

The management should invest in the information system which is flaw less and most beneficial to the Company.

Management Comments

User manual is available online as the quick books software was purchased directly from quick books in USA and was downloaded directly from their website and any help whether from quick books or online community is available to the company. All other check and balances are inbuilt and being used by the company.

16. Depreciation rates not applied as per Accounting policies

Risk: Medium

Condition

Accounting manual suggests using depreciation rates for different categories of assets but in actual practice different deprecation rates were applied;

Class of fixed assets	Depreciation rates as per Accounting Manual	Depreciation rates actually applied
Office Equipment	33.33%	25%
Furniture and fixtures	14.28%	25%
Plant and machinery	14.28%	20%
Buildings	3.33%	10%

Criteria

Application of depreciation rates as mentioned in accounting manual

Cause
Non-compliance with accounting policies and procedures.

Effect

Application of different rates effect the true and fair view of financial statements

Recommendation

Accounting policies and procedures must be complied with

17. Paid stamp not affixed

Risk: Medium

We noted certain instances where 'paid stamp' was not affixed on original invoices.

Criteria

The effective and efficient internal controls over payments require for the paid stamp to be affixed on invoices after making payments.

Cause

Lack of adequate guidelines and trainings.

Effect

This enhances the risk of duplicate payments.

Recommendation

It is recommended that the company should affix Paid Stamp dully prepared in the name of the Company on each original invoice.

18. Travel register

Risk: Low

Condition

We noted that no travel register is maintained by the Company.

Criteria

As required by the Travel policy manual a travel register shall be prepared and maintained for staff traveling.

Cause

Lack of adequate guidelines and trainings

Effect

Non-compliance with traveling policies and procedures.

Recommendation

It is recommended that the Company should prepare and maintain a travel register.

Management Comments

Is being implemented.

C. Procurement System

1. Declaration for no conflict of interest

Risk: Low

Condition

During our assessment we have noticed that declaration for 'no conflict of interest' has not been made by the Procurement Staff.

Criteria

The best practices of procurement policies and procedures provides for the declaration for 'no conflict of interest'

Cause

Lack of adequate guidelines and training.

Effect

The independence and integrity of Procurement Staff may be questioned.

Recommendation

Declaration for 'no conflict of interest' should be obtained from all the Procurement Staff.

Management Comments

As discussed above, is being implemented. Further CEO is directly authorizing the transaction so changes of fraud etc are very much minimized.

2. Tagging of Fixed Assets

Risk: Medium

Condition

We noticed that the fixed assets items of the Company both at Head office and at sites were not tagged.

Criteria

Fixed assets items are required to be tagged in order to ensure the completeness and existence of fixed assets.

Cause

Lack of adequate guidelines and training

Effect

Weakness of the internal control system which may cause misappropriation of fixed asset items.

Recommendation

All the fixed assets items at Head office and at sites should be properly tagged.

Management Comments

Not so material in the FS, however will do the same.

3. Lack of segregation of duties

Risk: High

Condition

During our assessment we observed that Fixed Asset register was maintained, updated and kept by the same department.

Criteria

The effective and efficient internal control system provides for the need of segregation of duties among different functions of an entity.

Cause

Lack of adequate guidelines and training

Effect

This represents a control weakness of the asset management system which may provide opportunities to misappropriate fixed assets. The whole internal control system over asset management system could be compromised by a single person or by a department through collusion of its staff.

Recommendation

The management should take appropriate measures to ensure proper segregation of duties among different functions of the Company.

Management Comments

Is being implemented. Further CEO is directly authorizing the transaction so changes of fraud etc are very much minimized.

4. Fixed Asset Register not properly maintained

Risk: Medium

Condition

We reviewed the fixed assets register (FAR) maintained by the Company and observed following discrepancies

i) The fixed assets register only contains fields in respect of description, quantity and place where assets are kept whereas following essential fields were missing;

- Date of purchase
- Asset category
- Specifications
- Serial number
- Value/cost of purchase
- Custodian

ii) The record in respect of assets at Head office is maintained and kept by the IT Department while the record of assets at sites is maintained and kept by the relevant Inventory Officer. A consolidated fixed asset register is not prepared.

Criteria

A proper FAR is required to be kept in order to be in compliance with ATR-14 issued by the Institute of Chartered Accountants of Pakistan. It allows a company to keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets.

Cause

Lack of adequate guidelines and training

Effect

This represents control weakness of the fixed assets management system.

Recommendation

A proper consolidated fixed assets register must be prepared and kept at Head office of the Company.

Management Comments

Is being maintained as is evident from the following.

5. Maintenance of Fixed Asset Register

Risk: Medium

Condition

During our assessment we observed that assets record is maintained and prepared manually in Microsoft excel sheets instead of using computerized software.

Criteria

The Accounting software provides for the application of fixed assets register which is less error prone and is more secure.

Cause

Inefficient use of the Accounting software.

Effect

Unauthorized person may edit, update, amend and delete the entries in fixed asset register.

Recommendation

Fixed assets register should be prepared using Accounting software

Management Comments

Microsoft Excel is serving the purpose of the company.

6. Absence of numerical sequence of Purchase Orders

Risk: Low

Condition

During our assessment we noticed that automated serial numbers were not allotted to purchase orders.

Criteria

An effective and efficient internal control over procurement system requires for the generation of serially numbered purchase orders

Cause

Lack of adequate guidelines and training

Effect

The completeness of purchase orders issued to suppliers during a specific period of time may not be ensured; moreover missing POs may remain un-identified.

Recommendation

Serially numbered purchase orders must be issued to the suppliers.

Management Comments

As discussed, is being implemented. Further CEO is directly authorizing the transaction so changes of fraud etc are very much minimized.

7. Physical verification of fixed assets

Risk: Medium

Condition

During our assessment we observed that the management of the Company does not follow the practice to conduct periodic physical verification of fixed assets items.

Criteria

The sound internal control system over asset management provides for the regular conduct of physical verification of fixed assets.

Cause

Lack of adequate guidelines and training

Effect

Lack of control over fixed assets management system.

Recommendation

The management should conduct physical verification of fixed assets on regular basis.

Management Comments

To be provided by management

8. Procurement record keeping

Risk: Medium

Condition

Although the Company operates a centralized procurement system, the procurement record in respect of certain project specific procurements is kept at regional offices. For instance the procurement record of Waterline Fauji Fertiilizer Bin Qasim Project is kept at regional office Karachi.

Criteria

The centralized procurement system requires that all procurement related record must be kept at one place for better control purposes.

Cause

Lack of adequate guidelines and training

Effect

Lack of control over procurement record keeping system.

Recommendation

All the procurement related documents and record must be kept at Head office of the Company.

Management Comments

All except FFC is maintained at HO and the exception for FFC is that it being a very huge project, has been controlled directly at Karachi for day to day matters.

9. Non-compliance with Procurement SOPs:

Risk: Medium

Condition

During our assessment we noticed following non-compliances with the SOPs of Procurement System.

i) The list of pre-qualified vendors is not prepared in the beginning of every year. However, the list of vendors is made by the Project Manager as and when required and then communicated to Head office.

ii) The periodic evaluation of short listed vendors is not done on periodic basis.

iii) In case of purchase of Generator Perken 500 KVA following discrepancies were noted;

- PPC Minutes of meeting not prepared.
- Inspection report not prepared
- No bank guarantee or retention has been obtained against advance payment.

iv) In case of purchase of Toyota Township car for Islamabad Airport project, following discrepancies were noted;

- The requisition is not made on standard form and is not verified by inventory officer
- PPC Minutes of meeting not prepared.

- Purchase order not issued
- Inspection report not prepared.

Criteria

The Procurement policies and procedures of the Company require for the execution of all the procurement procedures and completeness of procurement record.

Cause

Lack of adequate guidelines and training

Effect

Non-compliance with the procurement policies and procedures.

Recommendation

Procurement policies and procedures must be strictly complied with.

Management Comments

One thing being mentioned again and again, as discussed above, is being implemented. Further CEO is directly authorizing the transaction so changes of fraud etc are very much minimized.

D. Human Resource Function

1. Personal files maintenance

Risk: Medium

Condition

We selected few personal files of the employees and noted that following essential documents as required by the HR policies and procedures were missing in the files:

- Service Record
- Medical Fitness Certificate
- Orientation Form

- Test Score / Interview Score Card
- Performance Evaluation Report (Quarterly)
- Performance Evaluation Report (Annually)

Criteria

HR Policies of the Company provides for the completion of personal files with reference to all required documentations.

Cause

Lack of adequate understanding about HR policies.

Effect

Non-compliance with HR policies and procedures.

Recommendations

The management should take appropriate steps to ensure completeness of the personal files.

Management Comments

Retired army colonel is the HR incharge who has vast experience in private jobs as well and proper files etc are being maintained.

2. Pay and incentives

Risk: Medium

Condition

We noted that annual increments were not given to the employees since inception.

Criteria

The HR policies and procedures require the Company to give annual increment @ 5% of gross salary.

Cause

Lack of understanding of HR policies and procedures

Effect

Non-compliance with HR policies and procedures and employment conditions as given in the employment contract.

Recommendation

HR policies and procedures are properly complied with.

Management Comments

For the reason that their salaries are well above the market rates and they are happy.

3. Dearness Allowance

Risk: Medium

Condition

We noted that no dearness allowance was given to employees despite the fact that there is general rise in the prices in Pakistan.

Criteria

The Company with reference to general rise in prices in the country may grant dearness allowance to its employees for such period as the Company may consider reasonable

Cause

Lack of adequate understanding of HR policies and procedures

Effect

Non-compliance with HR policies and procedures

Recommendation

HR policies and procedures are properly complied with.

Management Comments

As discussed above, their salaries are well above the market rates and they are happy.

4. Bonus

Risk: Medium

Condition

The Company is a profitable entity as evident from the financial results for the last three years, however, no bonus was given to employees:

Description	2008	2009	2010
	……………………………..*Rs*…………………………..		
Profit for the year	197,350,895	461,328,423	101,501,971
Retained earnings	345,493,177	671,134,029	700,631,755

Criteria

As per HR policies and procedures the Company may announce for the payment of bonus to the employees subject to availability of funds, which shall be once in a year amounting to one extra gross salary or its percentage.

Cause

Lack of adequate understanding of HR policies and procedures

Effect

Non-compliance with HR policies and procedures. Moreover, in the absence of above said incentives the moral and motivational level of the employees may diminish over the period of time.

Recommendation

HR policies and procedures are properly complied with.

Management Comments

For the reason that their salaries are well above the market rates and bonus is inbuilt.

5. Retirement Benefit Schemes

Risk: Medium

Condition

We noted that the Company has not provided retirement benefits (Gratuity and Provident Fund schemes) for its employees.

Criteria

As per HR policies and procedures following Retirement benefit schemes shall be provided to the employees.

- Gratuity Fund
- Contributory Provident Fund

Cause

Lack of adequate understanding of HR policies and procedures

Effect

Non-compliance with HR policies and procedures. Moreover, the above said schemes add to the moral and motivational level of the employees.

Recommendation

HR policies and procedures are properly complied with.

Management Comments

Is being implemented shortly.

6. Analysis of Organogram and Reporting structure

Reporting structure

Risk: Medium

Condition

We noted that the head of departments report directly to Director Engineering insdead of Managing Director.

Criteria

As per Organogram, the head of department reports to Managing Director.

Cause

Lack of structural knowledge about the Company.

Effect

Non compliance with practical implementation of Organogram

Recommendation

7. **Inconsistency between HR Policies and Organogram**

Risk: Low

Condition

i) We noted that job description and responsibilities of following positions are mentioned in HR Policies but these positions were not shown in the Organogram:

- Manager Computer Operations
- Manager Software Development
- Deputy Manger Finance
- Software Developer
- Network Engineer
- System Analyst
- System Administrator
- Database Administrator
- System Designer / Architect
- Hardware Engineer

ii) Following positions are mentioned in List of employees but not in Organogram;

- Manager Legal and Estate
- General Manager AJK and KPK

Criteria

Organogram is designed in line with the organization’s structure as mentioned in HR policies

Cause

Have not noticed positions mentioned in HR policies and Organogram.

Effect

Create confusion and ambiguities about the organizations management structure and design.

Recommendation

Positions mentioned in HR policies should be consistent with Organogram and List of employees.

8. **Vacant Positions**

Risk: Medium

Condition

We noted that following positions as mentioned in Organogram are vacant:

Department	Position mentioned in Organogram	Status	Vacant Since
Finance	Senior Finance Officer	Vacant	4 Months
	Senior Accountant	Vacant	1 Year
Marketing	Promotion Officer	Vacant	6 Years
Admin & HR	Admin Manager	Vacant	6 Years
	Petty Cash Controller	Vacant	3 Years
	HR Officers	Vacant	6 Years
	Admin Assistants	Vacant	6 Years
IT	Network Administrator	Vacant	1.5 Years
	MIS Officers	Vacant	8 Months
	Software Engineers	Vacant	6 Years
Engineering	Assistant Planning Engineer	Vacant	3 Years
	Quantity Surveyors	Vacant	1.5 Years
	Deputy Manager Contracts	Vacant	3 Years
	Bidding And Tendering Officer	Vacant	6 Years
	Pre-Qualification Officer	Vacant	6 Years
Procurement	Deputy Manager Logistics	Vacant	6 Years
	Procurement Officer	Vacant	6 Years

Criteria

Organogram of the Company provides for the necessity of the mentioned positions.

Cause

Lack of budgets/funds to fill the positions.

Effect

Non compliance with practical implementation of Organogram

Recommendation

We recommend that all the vacant positions should be filled, or Organogram is updated by deleting these positions if these are not required by the Company

Management Comments

To be provided by management

9. Lack of Proper Segregation of Duties

Risk: High

Condition

We noted following instances where proper segregation of duties was not observed:

a. Logistics and Procurement Departments are being headed by the same person.

b. HR and Administration departments are being headed by the same person. Further, the security supervision is also included in the responsibilities of the Manager Administration.

Criteria

An effective and efficient control environment provides for the proper segregation of duties for to conduct business and reduces the chances of overriding of controls.

Cause

Lack of adequate guidelines and trainings.

Effect

This represents a control weakness in the management structure of the Company which may provide opportunities for overriding of internal controls. The whole internal control system could be compromised by a single person or by a department through collusion of its staff.

Recommendation

Segregation of duties must be strictly observed between various functions of the Company.

Management Comments

Same point again discussed on page No. 26.

10. EOBI not deducted from all employees

Risk: High

We noted that the Company is deducting an amount of Rs. 70 against EOBI from only 20 employees rather than whole of its employees.

Criteria

Under Section 9 of Employees Old-Age Benefits Act, 1976 the employer shall deduct an amount @ 1 % against EOBI from the salaries of employee who are under insurable employment with the company. A person becomes an insured employee when he is under employment or apprenticeship whether expressed or implied, oral or written.

Cause

Lack of knowledge about applicable laws and regulations.

Effect

Non-compliance EOB Act, 1976 which may attract penal consequences against the Company.

Recommendation

EOBI's rules and regulations must be strictly complied with.

Management Comments

To be provided by management.

E. **Absorptive Capacity**

Nothing to Report

F. **Quality Assurance**

Nothing to Report

G. **Sustainability**

1. **No strategic and sustainable planning system**

Risk Level: High

Condition

There is no formal strategic and sustainable planning system.

Criteria

Good corporate governance requires that formal strategic and sustainable policies must be followed.

Effect

The Company's future growth and sustainability is inconsistence.

Recommendation

The Company must formulate and implement 'Sustainability Plan' as indicated above.

Management Response

Sustainability Plan will be prepared for its implementation to eliminate the risks as indicated above.

2. **No succession planning**

Risk: Medium

Condition

We noted that the Company does not have a succession plan for its key employees.

Criteria

Succession planning by those charged with governance is a part of sound internal control structure of an organization.

Cause

The Policies and Procedures of the Company do not shed light on this requirement.

Effect

The Company may be at losses if any of its key employees left the Company without his replacement being ready.

Recommendation

The management of the Company should immediately get a succession plan prepared and ensure its implementation.

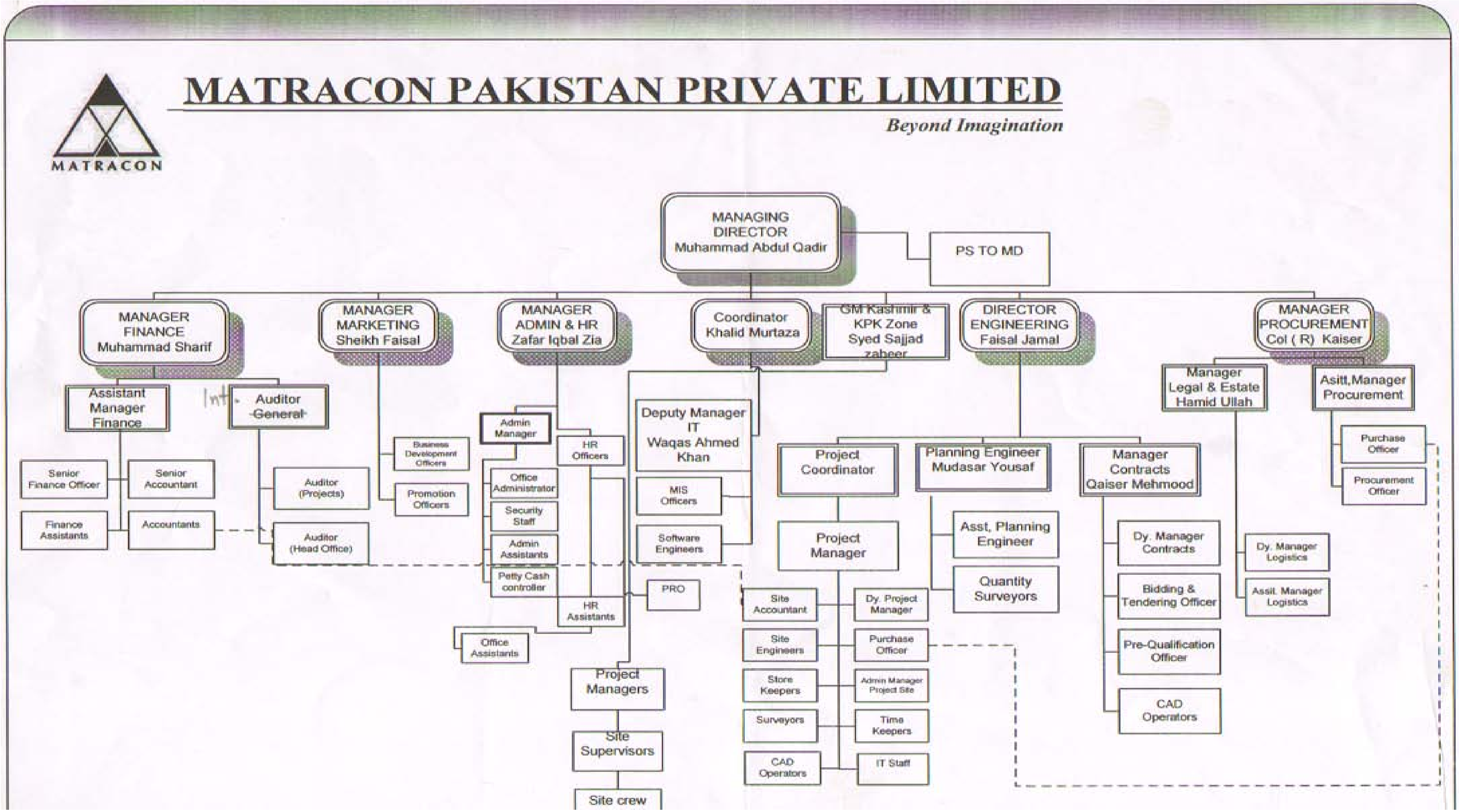
Management Response

Succession Plan will also be prepared for its implementation as and when required.

Other Risk Conditions

Sr. Nr.	Functional Area	Observations	Risk Level	Risk Mitigation Measures
1.	Governance and management structure	Company has not obtained insurance policies for its fixed assets, cash in hand and fidelity insurance.	Medium	Obtaining insurance coverage for fixed assets of the Company, Cash-in-hand and fidelity insurance.
2.	Procurement system	Matracon does not use any store management software.	Medium	Use of inventory management software
3.	Human resource function	Proper HR files are not maintained	Medium	Relevant records should be a part of the personal files.
4.	Human resource function	No training of employees	Medium	Formulation of a policy for training

Organogram


MATRACON PAKISTAN PRIVATE LIMITED
Beyond Imagination
MATRACON
MANAGING DIRECTOR Muhammad Abdul Qadir
PS TO MD
MANAGER FINANCE Muhammad Sharif
MANAGER MARKETING Sheikh Faisal
MANAGER ADMIN & HR Zafar Iqbal Zia
Coordinator Khalid Murtaza
GM Kashmir & KPK Zone Syed Sajjad zaheer
DIRECTOR ENGINEERING Faisal Jamal
MANAGER PROCUREMENT Col (R) Kaiser
Assistant Manager Finance
Int. Auditor ~~General~~
Senior Finance Officer
Senior Accountant
Finance Assistants
Accountants
Auditor (Projects)
Auditor (Head Office)
Business Development Officers
Promotion Officers
Admin Manager
HR Officers
Office Administrator
Security Staff
Admin Assistants
Petty Cash controller
HR Assistants
Office Assistants
Deputy Manager IT Waqas Ahmed Khan
MIS Officers
Software Engineers
PRO
Project Managers
Site Supervisors
Site crew
Project Coordinator
Project Manager
Site Accountant
Site Engineers
Store Keepers
Surveyors
CAD Operators
Dy. Project Manager
Purchase Officer
Admin Manager Project Site
Time Keepers
IT Staff
Planning Engineer Mudasar Yousaf
Asst, Planning Engineer
Quantity Surveyors
Manager Contracts Qaiser Mehmood
Dy. Manager Contracts
Bidding & Tendering Officer
Pre-Qualification Officer
CAD Operators
Manager Legal & Estate Hamid Ullah
Dy. Manager Logistics
Assit. Manager Logistics
Asitt,Manager Procurement
Purchase Officer
Procurement Officer