



**DIRECTORATE GENERAL AUDIT
(FEDERAL GOVERNMENT)
BENEVOLENT FUND BUILDING, ZERO POINT, ISLAMABAD
051-9252217, Fax: 051-9252256**

No. FAP/Audit/Intimation/2013-14/F-54/2067.

Dated: 05.08.2013

To,

The Executive Director,
Higher Education Commission,
Sector H-9,
Islamabad.

Subject: EXTERNAL AUDIT ACTIVITIES FOR 2013-2014

The provisions of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 read with Articles 169 to 171 of the Constitution of the Islamic Republic of Pakistan, provide the Auditor General of Pakistan with the mandate to audit the accounts of the Federal and of the Provincial Government and accounts of any authority or body established by, or under the control of the Federal or a Provincial Government.

2. The Directorate General Audit (Federal Government), Islamabad which is a Field Audit Office of the Department of the Auditor General of Pakistan (DAGP) will conduct the audit of the project titled "Tertiary Education Support" in accordance with DAGP's Auditing Standards, which are in conformity with International Auditing Standards. DAGP's primary function is Statutory Audit, the report which is laid before the Parliament.

3. As per AGP's mandate this office shall require financial statements of the project to evaluate that they are free of material misstatement. A financial audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of financial statements.

4. In addition to the report of the Auditor-General on the financial statements, we also expect to provide the project management with a separate report concerning any material weaknesses in accounting and internal control systems that come to our notice during the course of the audit.

5. As the Financial Year has ended on 30th June 2013 the responsibility for the preparation of the Financial Statements, including adequate disclosure, is that of the project management. This includes the maintenance of adequate accounting records and internal controls, application of accounting policies, and the safeguarding of the assets of the entity. We expect that the project management will provide us the Financial Statements of the project by 15.08.2013 so that the audit is conducted well in time. In case of delay in provision of financial statements by the given deadline, the audit shall be conducted the following year and no pressure in this regard shall be accepted.

6. We look forward to full cooperation from the concerned staff and trust that they will make available to the audit team any accounts, books, papers and other documents which deal with, or form the basis of, or are otherwise relevant to the audit, as required under Section 14(1) of the Auditor General's Ordinance, 2001.

7. In case there are any other Foreign Aided Project, the same may also be intimated.


(Dr. Asif ur Rehman)
Director General

i. The World Bank, International Bank for Reconstruction and Development, International Development Association, 20-A, Shahrah-e-Jamhuriat, Sector G-5/1, Islamabad to ensure that the project management provides Financial Statements to the Audit well in time.



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HIGHER EDUCATION COMMISSION

Sector H-9, Islamabad (Pakistan) Exchange: (051) 9040000

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BY BSM

No.526/HEC/Audit/TESP/2013/732

August 15, 2013

To: **Director General (Audit)**
Directorate General Audit
(Federal Government)
Benevolent Fund Building Zero Point,
Islamabad.

Subject: **EXTERNAL AUDIT ACTIVITIES FOR 2013-14.**

Dear Sir,

Please refer to your letter No.FAP/Audit/Intimation/2013-14/F-54/2059 dated 05.08.2013 on the subject cited above and find enclosed herewith Financial Statements pertaining to the "Tertiary Education Support Project (TESP) IDA credit No.4887-PK and 4886-PK" for the financial year 2012-13 for further necessary action at your end.

Encl :As above

Yours faithfully,

(Liaquat Ali)

Deputy Director (Audit)

Copy for information to:

- ES to Executive Director, HEC, Islamabad.
- Sr.PS to Advisor Finance, HEC, Islamabad.
- Director Accounts, HEC, Islamabad.
- BA&IS Coordinator, HEC, Islamabad.

January 15, 2014

Mr. Ghulam Mujtaba Kayani
Advisor Finance
Higher Education Commission
Islamabad

Dear Mr. Kayani:

***Re: Tertiary Education Support Project (Cr. 4886-PAK and 4887-PAK)
Audited Financial Statements for FY 2012-13***

We acknowledge receipt of the audited financial statements (AFS) of the above Project along with related Management Letter (ML) through Department of Auditor General of Pakistan letter No. PA/FAP/Federal/F-13/1078, dated December 30, 2013.

After review, the AFS are considered acceptable to the Bank as submitted. In the accompanying ML, the auditors have made some recommendations for improvement in internal controls. Responses by management are included in the document. Kindly provide an update on any actions taken and any further communication with auditors for resolution of audit observations by February 15, 2014.

With regards,

Yours sincerely,


Halil Dunder
Task Team Leader

cc: Dr. Syed Asif Hussain, Joint Secretary (WB), EAD, Islamabad
Mr. Asif Ali, Deputy Auditor General (Provincial Audit), Islamabad
Dr. Asif-ur-Rehman, Director General Federal Audit, Islamabad



HIGHER EDUCATION COMMISSION

H-9, ISLAMABAD, PAKISTAN, Tel: 90401750-1, Fax:90401752

Website: www.hec.gov.pk email: kzhussain@hec.gov.pk

Khawaja Zahid Hussain
Financial Management Specialist TESP

F.5-01/HEC/Audit TESP/2012-13/

Dated: January 21, 2014

To: Mr. Halil Dunder
Task Team Leader
World Bank
20-A. Shahrah-e-Jamhoriyat
G-5/1. Islamabad.

Subject:- Pakistan: Tertiary Education Support Project – IDA Cr. 4887 PK and 4886 Audited Financial Statements (AFS) for FY 2012-13

Dear Sir,

Please refer to your letter dated January 15, 2014 addressed to the Advisor Finance, HEC, and find enclosed copies of our annotated replies of the ML/Audit Report sent vide letter No 526/HEC/Audit/TESP/2013/837 dated December 31, 2013. It is further stated that HEC has already initiated steps for obtaining approval of policy documents/SOPs from HEC Commission (BOD) for improvement in internal controls as recommended by the auditors.

Best Regards,


Khawaja Zahid Hussain
FM Specialist

Cc to

Ms. Saeeda Sabah Rashid
Sr. Financial Management Specialist
World Bank, 20-A. Shahrah-e-Jamhuriat,
G-5, Islamabad.

HIGHER EDUCATION COMMISSION OF PAKISTAN
IDA Credit No. 4887-PK and 4886-PK
TERTIARY EDUCATION SUPPORT PROJECT (TESP)
Annual Financial Statement for the FY 2012-13

Description	Note No	Amount Rs
Revenues		
* Recurring Funds Government Grants for Component I- Eligible Expenditures Program (EEP)	1	29,710,000,000
Development Funds Government Grants for Component I- Eligible Expenditures Program (EEP)	2	2,394,900,000
Government Grants for Component II - Technical Assistance	3	18,638,710
Total Funds		32,123,538,710
Expenditures/Releases		
Scholarships	4	2,334,681,566
Tenure Track Salary	5	1,620,000,859
Pakistan Education Research Network (PERN)	6	200,000,238
National Research Program for Universities	7	393,277,108
International Research Support Initiatives Program	8	396,718,668
Recurrent Grant to Universities and other Institutions	9	27,100,000,000
Sub Total Eligible Expenditure		32,044,678,439
Component II - Technical Assistance	10	18,638,710
Total Uses of Funds/Expenditures/Releases		32,063,317,150
Balance		60,221,561

* IDA Share released to GoP		
IDA credited Fedral Government SBP Account with US \$ 24,700,586.04 on June 24,2013 (NO direct funding to HEC by IDA)	98.2619	2,436,018,726
IDA also credited Fedral Government SBP Account with US \$ 3,500,000.00 on April 05 ,2013 (but not credited to HEC Account so far)	98.6219	343,916,650

Signed
DIRECTOR ACCOUNTS
HIGHER EDUCATION COMMISSION
SECTOR H-9, ISLAMABAD

Signed
ADVISOR FINANCE
HIGHER EDUCATION COMMISSION
SECTOR H-9, ISLAMABAD

**HIGHER EDUCATION COMMISSION OF PAKISTAN
TERTIARY EDUCATION SUPPORT PROJECT (TESP)**

Notes to the Financial Statements

No.	Description	Amount in RS
<u>Receipts</u>		
1	Recurring Grant for Component I- Eligible Expenditures Program EEP)	
	Tenure Track Salary	1,620,000,000
	Pakistan Education Research Network	200,000,000
	National Research Program for Universities	400,000,000
	International Research Support Initiatives Program	390,000,000
	Recurrent Grant to Universities and other Institutions	27,100,000,000
	Sub-Total Recurring Grant	29,710,000,000
2	Development Grant for Component I- Eligible Expenditures Program EEP)	
	Scholarships	
	DF-1015-0004 (Post Doc Phase 2)	177,000,000
	DF-1015-0017 (Overseas scholarship - Phase 2)	1,087,600,000
	DF-1015-0029 (MS Program Korea)	
	DF-1015-0041 (Overseas Schlrship Phase 1)	70,000,000
	DF-1015-0052 (PhD Indigenou 5,000 Scholarships)	570,300,000
	DF-1015-0084 (HRDI UESTP Scholarships Phaase 1)	490,000,000
	Sub total Dev. Grant Scholarships	2,394,900,000
3	Component II - Technical Assistance	18,638,710

Expenditures/Releases

Component I- Eligible Expenditures Program EEP)

The World Bank/IDA provides budgetary support to the Government of Pakistan (EAD) for following expenditures which are a part of HEC's budget of eligible activities. These expenditures are clearly identifiable in the Financial Management Information Statements and are referred to as EEPs. The expenditure mechanism satisfies Bank policy and in particular the three pillars namely:

- (a) the fiscally expenditures are productive;
- (b) they contribute to solutions within a sustainable framework; and
- (c) acceptable oversight arrangements are in place.

The details of Eligible Expenditure follows:

4 Scholarships

Type: Development Budget Description: Costs associated with 6 post-graduate scholarship projects managed by HEC. Each project is clearly defined and has a separate approved PC-I in place Nature of expenditures includes:

(a) training related expenses such as tuition fees, language course fees, stipends, travel expenses and so forth

(b) project management related expenses such as staff salaries, operational expenses, etc.

Oversight: The projects are managed by HEC and its internal controls apply which have been reviewed and found adequate. During 2011-12 funds of Rs 9,762.554 Million were released against development grant which includes Rs 2,161.741 Million on eligible scholarship expenditure.

	Amount in RS
DF-1015-0004 (Post Doc Phase 2)	155,628,662
DF-1015-0017 (Overseas scholarship - Phase 2)	1,062,679,053
DF-1015-0029 (MS Program Korea)	333,097
DF-1015-0041 (Overseas Scholarship Phase 1)	123,859,783
DF-1015-0052 (PhD Indigenous 5,000 Scholarships)	493,297,624
DF-1015-0084 (HRDI UESTP Scholarships Phase 1)	498,883,347
Total Scholarships	2,334,681,566

5 Tenure Track Scheme (TTS) Salary

Type: Recurrent Budget Description. A separate funding stream is kept to provide additional funds to universities for financial impact of faculty appointed under TTS. Faculty on the tenure track system are appointed by universities on the basis of criteria/qualifications prescribed in the Tenure Track Statutes, which have already been adopted by universities through their governing bodies. The amount paid comprises two components: Salary and One Month's Gratuity paid for every completed year of service, as per salary package approved by the Finance Division, GOP and notified by HEC.

Additionally, the requirement of funds for the Interim Faculty Placement Program is also met from the funds under the Tenure Track Fund. In this program, the fresh returning PhD graduates (indigenous and overseas) are placed in universities for one year and their salary amount equivalent to the salary of Assistant Professor under TTS are provided to universities where they are placed.

Oversight : Appointment of faculty under tenure track is subject to clearance under the university's own procedures and endorsement from the Quality Assurance Division of HEC.

	Amount in RS
Tenure Track Pay	932,460,654
Tenure Track Gratuity	185,721,400
Interim Placement of fresh PhDs Pay	501,818,805
Total Tenure track Salary	1,620,000,859

6 Pakistan Education Research Network (PERN)

Type Recurrent Budget - Description: The network provides services such ultra-high speed internet, audio/video conferencing, access to digital library resources such as journals, electronic books and research thesis access facilities to stake holders of the academic and research sector of the country. Expenditures under this program include costs associated with the operation and maintenance of this network such as bandwidth charges, fiber leasing, etc. Oversight. This network is operated and maintained by HEC and its internal controls apply which have been reviewed and found adequate.

No.	Description	Amount in RS
	Pakistan Education Reseach Network(PERN)	
	Basic Pay Officer - PERN	5,893,978
	Basic Pay Staff - PERN	2,842,295
	Training Domestic -PERN	617,400
	Travelling Allowance -PERN	2,323,488
	Advertising & Publicity - PERN	389,030
	Contigencies & Unforseen Expenditure- PERN	154,826
	Electricity Charges- PERN	4,285,447
	Fuelling Charges for Generators- PERN	5,129,180
	Fuelling for Vehicals- PERN	218,458
	repair & Maintenance Transports- PERN	51,251
	Point of Presence Sites- PERN	7,668,933
	Warranty of Routers- PERN	4,280,289
	Warranty of Power Equipments- PERN	4,698,162
	Warranty of Cooling System Equipments- PERN	835,000
	Managed Services for Active Equipments- PERN	25,326,449
	Premium Internet Bandwidth- PERN	41,258,120
	International Private Lease Circuit (IPLC)- PERN	13,469,500
	Metro Fibre(Lease Cost)- PERN	40,366,550
	Membership Renewal Fee[Dante,APAN,APNIC etc]- PERN	837,737
	Application / Licenses for PERN Users	17,013,090
	Purchase of Hardware [Firewalls,IPS]- PERN	4,894,492
	Purchase of I.T Equipment [Server] -PERN	10,467,824
	Hardware {Routers for Aggregation PoP Sites]-PERN	39,000
	Software& services-CMS	6,691,739
	Pern own Income	248,000
	Total Expenditure PERN	200,000,238

7 National Research Program for Universities

Type: Recurrent Budget Description. The research grant program awards research grants to creative researchers in a wide range of disciplines for a period of one to three years, but only after research proposals have undergone a rigorous peer review. Nature of expenditures depends on the requirements of each project, including, for example, equipment, chemicals, remuneration to research staff, audit, etc. These grants are implemented by the recipient institutions. Oversight. While the grant funds are managed on a day to day basis by the recipient of the grant, HEC exercises oversight through rigorous review of the technical and financial proposal and release of installments against pre-defined milestones related to technical outputs subject to independent review.

	Amount in RS
National Research Program for Universities	393,277,108

8 International Research Support Initiatives Program

Recurrent Budget Description. A 6 month research fellowship abroad scheme is available to full time PhD students enrolled in Pakistan to enhance their research capabilities. The scheme is also assisting ongoing Indigenous PhD programs by providing a mechanism for PhD scholars to travel abroad and conduct research in advanced industrialized countries for a period up to 6 months. Expenditures include travel cost, stipend and Bench fee/Registration fee.

Oversight: The program is managed by HEC and its internal controls apply which have been reviewed and found adequate. Selected candidates enter into a bond with HEC to return and complete their PhD studies at their parent universities.

Amount in RS

International Research Support Initiatives Program

396,718,668

9 Recurring Grant to Universities and Institutions

Type. Recurrent Budget- Description: This constitutes more than 50 percent of the expenditures under EEPs. The Government of Pakistan provides annual recurrent grants to public universities to subsidize their cost of operation. Public universities are autonomous organizations established through Provincial/Federal Acts, and are governed by respective Syndicate/Board of Governors. They have administrative and financial autonomy and prepare their own annual operational budgets, which are approved by their governing bodies on the recommendations of the Finance Planning Committee. Grants are provided to public universities, degree awarding institutions and other HEIs. Annually, the detailed requirement of funds from each university is invited and examined in detail. The amount of funding allocated to each institution is based on a comprehensive funding formula that is subject to further refinement. Proposals are formulated and submitted to the Budget and Finance Committee of the Commission, and on its recommendations, the Commission approves allocation of the recurring grant. The finalized allocation is submitted to the Govt. for incorporation in the Annual Budget Book of the Federal Government. The annual recurring grant partially covers annual operational expenditures under salaries, non- salary, and research expenditures.

Oversight: HEC exercises extensive oversight of the proper utilization of these funds. HEC is represented on the governing bodies of universities and is often (but not always) represented on the Finance and Planning Committees where all matters pertaining to the financial management of universities are discussed in detail. The allocated grant is released by HEC on a periodic basis after receiving funds from the Govt. Subsequent release of installments of the allocated recurring grant is only made once the detailed Utilization Report (object head-wise) is submitted to HEC duly countersigned by the respective head internal audit/resident auditor of the recipient institution. Universities are also required to provide a declaration that 'all codal formalities for incurring expenditures were exercised'.

University	Releases (Rs)
University of Karachi, Karachi	1,159,126,000
University of Sindh Jamshoro	1,222,896,000
Shah Abdul Latif University Khairpur	327,127,000
Federal Urdu University of Arts Science	538,089,000
University of the Punjab Lahore	1,661,396,000
Bahauddin Zakariya University Multan	707,388,000
Islamia University Bahawalpur	825,745,000
Fatima Jinnah Women University Rawalpindi	188,010,000
Government College University Lahore	361,763,000
Lahore College for Women University Laho	304,880,000
Government College University Faisalabad	409,541,000
University of Sargodha Sargodha	480,555,000
University of Education Lahore	287,932,000
University of Peshawar Peshawar	879,649,000
Gomal University D.I. Khan	485,559,000

University	Releases (Rs)
Kohat Univ. of Science & Tech. Kohat	223,477,000
University of Malakand Chakdara	200,902,000
Hazara University Mansehra	272,770,000
University of Balochistan Quetta	488,127,000
Balochistan University of I.T. & Managem	297,150,000
Quaid-i-Azam University Islamabad	620,325,000
International Islamic University Islamab	925,358,000
National University of Modern Languages	504,636,000
AJK University Muzaffarabad	354,729,000
Karakurum International University Gilgi	186,373,000
Sardar Bahadur Khan Women University Que	122,224,000
University of Science & Tech. Bannu	143,842,000
Frontier Women University Peshawar	110,321,000
Air University Islamabad	140,677,000
Virtual University of Pakistan Lahore	85,000,000
Allama Iqbal Open University Islamabad	240,000,000
Institute of Business Administration Karachi	85,963,000
COMSATS Institute of IT Islamabad	766,904,000
Institute of Management Sciences Peshawa	112,358,000
Institute of Space Technology Islamabad	74,734,000
Sukkur Institute of Business Administration	140,677,000
Pakistan Institute of Development Economics	61,129,000
Kinniard College for Women Lahore	96,045,000
Sindh Agriculture University Tandojam	638,978,000
University of Agriculture Faisalabad	1,008,366,000
University of Arid Agriculture Rawalpind	379,076,000
NWFP University of Agriculture Peshawar	510,333,000
University of Veterinary & Animal Scienc	318,704,000
Lasbela University of Agriculture Water	129,106,000
NED University of Engg & Tech. Karachi	734,762,000
Mehran University of Engg. & Tech. Jamsh	694,089,000
Quaid-i-Awam University of Engg. Science	275,912,000
University of Engg. & Tech. Lahore	1,019,496,000
University of Engg. & Tech. Taxila	454,109,000
NWFP University of Engg. & Tech. Peshawa	506,290,000
Balochistan University of Engg. & Tech.	131,770,000
Liaquat University of Medical & Health S	517,815,000
Dow University of Health Sciences Karach	307,558,000
University of Health Sciences Lahore	64,974,000
Khyber Medical University Peshawar	77,509,000
King Edward Medical University Lahore	140,677,000
University of Gujrat	183,491,000
National Defence University, Islamabad	54,337,000
Islamia College University, Peshawar	232,798,000
National Textile University Faisalabad	122,327,000
Mirpur University Science & Technology	195,725,000
Abdul Wali Khan University, Mardan	161,207,000
Shaheed Benazir Bhutto University, Sheri	81,214,000
University of Swat, Swat	60,000,000
PeopleKhyber Medical University Peshawar	30,000,000
ShaheeKhyber Medical University Peshawar	30,000,000
Applied Economics Research Centre Univer	73,276,000
HEJ Research Institute of Chemistry Univ	279,562,000
Third World Centre for Science &Tech. Un	154,524,000

University	Releases (Rs)
Dr. Panjwani Centre for Molecular Medici	52,104,000
Dr. A. Q. Khan Institute of Bio-Technolo	50,014,000
Institute of Biochemistry & Biotechnolog	6,400,000
Institute of Clincial Psychology Univers	19,338,000
Centre for Clincial Psychology Universit	26,160,000
Z.A. Bhutto Agriculture College Dokri (S	61,084,000
University College of Agriculture B.Z. U	41,197,000
University College of Engg. & Tech. B.Z.	52,677,000
School of Biological Sciences University	78,214,000
Water Management Research Centre Univers	16,518,000
Scientific Instrumentation Centre UET Pe	9,100,000
Shaikh Zayed Islamic Centre University o	21,384,000
Shaikh Zayed Islamic Centre University o	22,387,000
Shaikh Zayed Islamic Centre University o	21,771,000
Quaid-i-Azam Chair Quaid-i-Azam Universi	1,362,000
Shah Abdul Latif Bhitai Chair University	5,989,000
Seerat Chair University of Karachi Karac	2,033,000
Seerat Chair Islamia University Bahawalp	1,859,000
Salam Chair in Physics Govt. College Uni	6,233,000
Dawah Academy International Islamic Univ	91,772,000
School of Mathematical Sciences Govt. Co	43,558,000
Al-Khawarzmi Institute of Computer Scien	41,119,000
Geology University of Peshawar Peshawar	55,931,000
Physical Chemistry University of Peshawa	49,125,000
Solid State Physics University of Punjab	48,385,000
Water Resources Engg. UET Lahore	34,612,000
Molecular Biology University of Punjab L	142,847,000
Marine Biology University of Karachi Kar	36,510,000
Analytical Chemistry University of Sindh	51,404,000
Mineralogy University of Balochistan Que	23,006,000
Psychology Quaid-i-Azam University Islam	28,254,000
History & Cultural Research Quaid-i-Azam	33,647,000
Arts & Design Mehran University of Engg.	31,066,000
Gender Studies Quaid-i-Azam University I	14,672,000
South Asian Studies University of Punjab	17,050,000
Europe University of Karachi Karachi	17,068,000
Far East & South East Asia University of	18,397,000
Russia China & Central Asia University o	21,718,000
Middle East & Arab Countries University	10,027,000
Africa North & South America Quaid-i-Aza	14,787,000
Pakistan Study Centre, Uni Punjab Lahore	10,988,000
Pak Study Centre University of Karachi,	11,956,000
Pak Study Centre Uni of Sindh, Jamshoro	12,859,000
Pakistan Study Centre Uni of Peshawar	17,018,000
Pakistan Study Centre, Uni Baloch,Quetta	13,535,000
National Institute of Pakistan Studies Q	26,561,000
Iqbal Inst of Rech & Dialogue, IIU ISD	24,942,000
Total	27,100,000,000

9 Component II - Technical Assistance

Goods	940,078
Training	6,082,373
Consultant's Services	7,423,441
Incremental Operating Costs	4,192,818
	18,638,710