



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

**Construction, Project
Management and Contract
Evaluation (Application)**

AGP | PRAD

May Exam-2026

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Q.1. Departmental Charges (12½%)

a Given

- Wages = Rs. 1,800,000
- Materials (cash purchases) = Rs. 3,400,000
- Stores issued from stock = Rs. 950,000
- Land cost = Rs. 600,000
- Stores sold directly (separate sale) = Rs. 300,000
- Departmental charges rate = $12\frac{1}{2}\% = 12.5\% = 0.125$

(i) Departmental Charges on total outlay of work

Total cost (outlay) of work
= Wages + Materials (cash) + Stores issued + Land
= 1,800,000 + 3,400,000 + 950,000 + 600,000
= Rs. 6,750,000
Departmental Charges @ 12½%
= 6,750,000 × 0.125
= Rs. 843,750
Total recoverable for deposit work
= 6,750,000 + 843,750
= Rs. 7,593,750

Q.2. i) Normal currency of sanction & extension

a

- The sanction to an estimate ordinarily remains current for five (05) years from the date it is accorded.
- It can be renewed/extended for a further term by acceptance of a revised estimate by the competent authority. (Para 956)

Q.2. ii) Application to the case

b

- Although the original sanction (15.07.2019) would normally remain current up to 14.07.2024 (5 years), Para 956 further provides that if no work has been commenced on a sanctioned scheme within two (02) years of the date of sanction, the sanction is treated as lapsed and fresh sanction should be obtained by submitting an up-to-date estimate, if necessary.
- Since the work was not started within two years of 15.07.2019, the sanction is held to have lapsed, therefore fresh sanction is required before commencement, even if a budget provision was later included. (Para 956)

Q.3.

a

Item	Proposed negotiation point	Permissible under Rule 40?	Reason / Correct course of action
1	Reduce unit rates by 8% to stay within budget.	Not Permissible	Changes contract cost. Do not price-negotiate after selection. Address affordability through proper planning (funds/re-scope/re-procure as per rules).



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2	Change execution methodology from day-block to night-block working to reduce train disruption.	Permissible	Methodology may be agreed if scope and cost remain unchanged. Record bidder's written confirmation of no extra cost/claims.
3	Replace the specified cable type with a cheaper 'equivalent' to reduce cost.	Not Permissible	Alters specifications/quality (scope) and likely impacts cost. Any spec change should be done through proper amendment before award or fresh procurement.
4	Agree a revised work plan (station-wise sequence) and deployment schedule.	Permissible	Work plan may be finalized without altering scope/cost. Freeze baseline milestones and reporting requirements in contract annexures.
5	Replace bidder's proposed Site Engineer and fix minimum staffing levels for key positions.	Permissible	Staffing can be negotiated. Ensure it does not create additional payable cost or later claims; document minimum qualification/experience and presence requirements.
6	Add special condition: higher liquidated damages for delay and stricter safety compliance reporting.	Permissible	Special conditions may be settled at finalization provided they do not add new scope/deliverables. Document clearly in SCC.
7	Add two additional stations to the same contract as a 'goodwill adjustment'.	Not Permissible	Expands scope beyond the competed requirement. Procure the additional stations through separate procurement/approved lawful mechanism, not through negotiation.

Q.3. Issue: This is discriminatory / unequal treatment because PPRA requires that if bid validity extension is needed, all bidders who submitted bids must be asked (not only the lowest). (Rule 26 of PPRA Rules 2004)

Correct action: Under exceptional circumstances, PR should record reasons in writing and request extension from all bidders; bidders who refuse may withdraw without forfeiture, and those who agree must extend bid security and cannot change the substance of their bids.

Q.4. Part (i) -Matters that must be placed before the Board

Rule 7 requires significant issues to be placed before the Board for information and consideration. From the case:

- Cash shortfall / liquidity stress: annual plans, cash-flow projections, budgets and variance analysis (Rule 7(2)(a)).
- FBR demand notice / tax exposure: material show cause/demand/prosecution notice (Rule 7(2)(g)).
- Likely default on bank/loan: default in payment of principal/interest etc. (Rule 7(2)(k)).



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- iv. Draft JV/Collaboration agreement: details of joint ventures/collaboration agreements (Rule 7(2)(d)).
- v. Internal audit report indicating fraud/irregularities: internal audit reports including fraud/major irregularities (Rule 7(2)(b)).
- vi. Receivables becoming irrecoverable / write-off: failure to recover material trade debts etc. (Rule 7(2)(l)); and write-off of bad/doubtful debts/receivables is a significant policy requiring Board decision/approval (Rule 5(7)(g)).

Part (ii) -Two relevant responsibilities/powers of the Board

Establish and implement a system of sound internal control (Rule 5(5)).

Identify/monitor principal risks and ensure systems exist to manage such risks (Rule 5(7)(c)).

Q.4.
b

Compliance assessment and corrective action Appointment process:

Board appoints CFO and Company Secretary; remuneration/terms require Board approval (Rule 13(1)–(2)).

Removal requires Board approval (Rule 13(3)).

Qualifications:

CFO (assets $\geq$ Rs. 5 billion): member of recognized professional accountants with ≥ 5 years relevant experience (Rule 14(2)(a)); proposed CFO is non-compliant.

Company Secretary: member of recognized accountants/corporate secretaries, or MBA/Commerce/Law graduate with ≥ 5 years relevant experience (Rule 14(4)); proposed Company Secretary is non-compliant.

Fit & proper applies to both positions (Rule 14(5)).

Corrective action:

Place the matter before the Board; withdraw/regularize the office order; and appoint qualified persons meeting Rule 13 and Rule 14 requirements (document any interim arrangement).

Q.4. Ref: Corporate Governance Rules, 2013 — Rule 21 (Audit Committee).

c

1. Non-compliant composition / independence (CEO is Chairman of Audit Committee)
 - Issue: Audit Committee must have financially literate members and majority (including chairman) must be Independent Non-Executive Directors; further, Chairman of the Board and Chief Executive shall not be members of the Audit Committee. (Rule 21(1) & 21(2))
2. No meeting with external auditors without management (closed-door session missing)
 - Issue: Audit Committee must meet the external auditors at least once a year without CFO, Chief Internal Auditor and other executives to ensure independent communication. (Rule 21(3) proviso)
3. No written Terms of Reference (TOR) / Audit Committee Charter
 - Issue: The Board shall determine TOR of the Audit Committee; TOR must be in writing, specifying mandate, and the committee must have authority/resources/access to information. (Rule 21(4))



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4. Ineffective functioning (met only once; key responsibilities not discharged)

- Issue: Audit Committee is required to review quarterly/half-yearly/annual financial statements focusing on significant audit adjustments and going-concern assumption, and to review management letter; it must also consider major findings of internal investigations (e.g., procurement fraud). (Rule 21(6)(c)(ii)(iii), 21(6)(e), 21(6)(h))

Q.5. Section 118 of Companies Act 2017

a

Q.5. i. Section 86 of Companies Act 2017

b

- ii. Section 87 of Companies Act 2017
- iii. Section 19 of Companies Act 2017
- iv. Rule 19 of Public Sector Companies (Corporate Governance) Rules, 2013
- v. Rule 22 of Public Sector Companies (Corporate Governance) Rules, 2013

Q.6. Reference Para 932, 935 and 1049 of Engineering Code

a

Calculation Details	Details	Rs million
1	Estimates excluding Departmental Charges	1,500.00
2=1x12.5%	Departmental Charges @12.5%	187.50
3=2+1	Total Estimated Cost which was recoverable in advance from KPK Govt	1,687.50
4	Completed cost of the project	1,485.00
5=2	Add: Departmental Charges	187.50
6=4+5	Total	1,672.50
7	Amount deposited by KPK Govt	1,050.00
8=6-7	Amount recoverable from KPK Govt	622.50

Q.6. Para 911 of the Engineering Code

b

The Construction Estimate of a project should be prepared in form E. 553 prescribed for the purpose. It should be divided into convenient sections in accordance with the following principles: —

- (a) when, as is usually the case, certain works within the limits of a junction station are incidental to the project, these works should form a distinct section;
- (b) when a project comprises a “main line” and a “branch”, the “branch” should form at least one distinct section;
- (c) where the country traversed by a line is such that it may readily be divided into tracts of distinctive topographical character, the length through each class of country may comprise a section, or a project may be divided into “engine runs” or into lengths suitable for “construction divisions”;
- (d) where there is a likelihood of different sections of project being opened to traffic at different intervals, the estimate for each such section should be kept distinct;
- (e) when an estimate for any alternative alignment of importance is included, the estimate for the alternative alignment and for the length which it would supersede, if adopted, should each be comprised in a distinct section.



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Q.6.
c

Reference Para 1003 of Engineering Code

Under Para 1003 of the Engineering Code Following two kinds of works can be started without estimates

- i. Works which are considered necessary to safeguard life or property or to repair the damage to the line caused by flood, accident or unforeseen Contingency
- ii. Works considered urgent by the General Manager, Railways, to meet the immediate need of the traffic
