



**AUDIT REPORT
ON
THE ACCOUNTS OF RECEIPTS OF
MINISTRY OF PETROLEUM &
NATURAL RESOURCES
AUDIT YEAR 2012-2013**

AUDITOR-GENERAL OF PAKISTAN

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SUMMARY TABLES

ABBREVIATIONS & ACRONYMS

DAC	:	Departmental Accounts Committee
DCO	:	District Coordination Officer
DGPC	:	Director General Petroleum Concessions
DG	:	Director General
ECC	:	Economic Coordination Committee
E&P	:	Exploration and Production
FPC	:	Foundation Power Company
FRR	:	Final Revenue Requirements
GDS	:	Gas Development Surcharge
GIDC	:	Gas Infrastructure Development Cess
GENCO	:	Generation Company
GHPL	:	Govt. Holding Private Limited
GOP	:	Government of Pakistan
HSD	:	High Speed Diesel
IPPs	:	Independent Power Producers
KESC	:	Karachi Electric Supply Company
LIBOR	:	London Inter Bank Offered Rate
LPG	:	Liquefied Petroleum Gas
MFDAC	:	Memorandum for Departmental Accounts Committee
MGCL	:	Mari Gas Company Limited
MMBTU	:	Ten Thousand British Thermal Unit
MMCF	:	Ten Thousand Cubic Feet
MPNR	:	Ministry of Petroleum and Natural Resources
NAM	:	New Accounting Model
OGDCL	:	Oil and Gas Development Company Limited
OMC	:	Oil Marketing Company
OGIL	:	Oil and Gas Investment Limited
OGRA	:	Oil & Gas Regulatory Authority
PAC	:	Public Accounts Committee
PAPCO	:	Pak-Arab Pipeline Company Limited
PARCO	:	Pak Arab Refinery Company
PCA	:	Petroleum Concession Agreement
PL	:	Petroleum Levy
PPL	:	Pakistan Petroleum Limited
RPC	:	Royalty Processing Charges
SNGPL	:	Sui Northern Gas Pipelines Limited
UFG	:	Un-accounted for Gas
WAPDA	:	Water and Power Development Authority

Preface

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with section 12 of the Auditor-General's Ordinance 2001, require the Auditor-General of Pakistan to conduct audit of receipts of Government of Pakistan.

The report is based on audit of receipts administered by the Ministry of Petroleum and Natural Resources, Government of Pakistan for the financial year 2011-12. The report includes one observation relating to previous year as well. The Directorate General of Audit Customs & Petroleum conducted audit during the period from July, 2012 to November, 2012 on test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of the Audit Report includes only systemic issues and audit findings carrying value of Rs 1 million or more. Relatively less significant issues are listed in the Annexure-I of the Audit Report. The Audit observations listed in the Annexure-I shall be pursued with the Principal Accounting Officer at the DAC level and in all cases where the PAO does not initiate appropriate action, the audit observation will be brought to the notice of the Public Accounts Committee through the next year's Audit Report.

Audit findings indicate the need for adherence to the regularity framework besides instituting and strengthening internal controls to avoid recurrence of similar violations and irregularities.

Audit observations included in this report have been finalized in the light of discussions in DAC meeting.

The Audit Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before both houses of Majlis-e-Shoora [Parliament].

Dated: 05 March 2013

(Muhammad Akhtar Buland Rana)
Auditor-General of Pakistan

EXECUTIVE SUMMARY

The Directorate General of Audit Customs & Petroleum has mandate to conduct financial attest and compliance with authority audit of receipts administered by the Ministry of Petroleum and Natural Resources (MPNR) in terms of Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan read with sections 7 and 12 of the Auditor-General's Ordinance, 2001. The Directorate General carried out audit on test check basis in accordance with Financial Audit Manual. It utilized 2330 man-days incurring an expenditure of Rs 9 million on audit of three Directorates General of the Ministry dealing with collection of revenue.

The MPNR is responsible for coordinating the development of natural resources of energy and minerals in Pakistan. It aims to ensure sustainable energy supply for economic development of Pakistan. It facilitates and promotes exploration and production of oil, gas and mineral resources in the country. Apart from the aforesaid functions, MPNR is also responsible for collection of a number of receipts of Government of Pakistan from oil, gas and mineral sectors.

a. **Scope of Audit**

MPNR collected revenue of Rs 186,377 million during FY 2011-12 on account of gas development surcharge (GDS), royalty on gas, petroleum levy, royalty on oil, discount retained on local crude oil price, windfall levy and miscellaneous receipts against original estimates of Rs 218,320 million and revised estimates of Rs 186,514 million. Thus there was a less collection of Rs 137 million or 0.07% over the revised estimates.

b. **Recoveries at the instance of Audit**

Audit pointed out recovery of Rs 33,287 million during audit year 2012-13. Recovery of Rs 14,378 million was affected by MPNR from 01.01.2012 to 31.12.2012. Out of total recoveries an amount of Rs 14,128 million was not in the notice of the executive before audit.

c. **Audit Methodology**

The audit activity started with development of audit plan, detailed audit planning, establishing resource requirements and timing. Thirteen percent samples were selected on random sampling basis from treasury challans showing the receipts of MPNR. The field audit was executed as per audit

programmes and results thereof were evaluated at appropriate level before issuance of reports to the auditee organizations.

d. Audit Impact

1. On the pointation of audit, Directorate General Petroleum Concessions agreed to design a data base to have the information of monthly receipts from E & P companies.
2. Record was not maintained at depots in respect of petroleum levy on direct sales to defence organizations and industry as well as on indirect sales to petrol pumps. Directorate General Oil after meeting with OMCs has issued instructions for maintenance of record.

e. Comment on Internal Control and Internal Audit department

Audit evaluated the control environment as well as effectiveness of the internal controls and identified certain weaknesses. Monitoring system of receipts was not in place to ensure timely realization of receipts of the Ministry. Internal audit was not found in place in the MPNR. Ministry is required to institutionalize internal audit for effective financial discipline.

f. Key audit findings of the report

This report includes the chapter on Public Financial Management issues and significant audit paras of Rs 33,470 million in respect of compliance with authority audit. Weak internal controls are leading to occurrence of irregularities involving non/short recovery of receipts by the Ministry year after year.

The key audit findings are as under:

- i. Non-realization of government dues for Rs 32,811.69 million in 17 cases.¹
- ii. Short realization of government dues for Rs 475.20 million in 7 cases.²
- iii. Weak Internal Controls.³

¹ Para 2.4.2, 2.4.3, 2.4.4, 2.4.5, 2.4.6, 2.4.7, 2.4.11, 2.4.12, 2.4.13, 2.4.14, 2.4.15, 2.4.17, 2.4.18, 2.4.22, 2.4.23, 2.4.24, 2.4.25

² Para, 2.4.8, 2.4.9, 2.4.10, 2.4.16, 2.4.19, 2.4.20, 2.4.21

³ Para 2.4.26

- iv. Non-utilization of training obligation.⁴
- v. Need for monitoring of spending of receipts of Social Welfare for Rs 183.33 million.⁵

Audit paras for the audit year 2012-13 involving procedural violations including internal control weaknesses and irregularities not considered worth reporting to the PAC have been included in Annexure –I.

g. Recommendations

MPNR is required to:-

- i. take measures to recover the amount pointed out
- ii. establish internal audit wing to address systemic issues to prevent recurring violations and irregularities
- iii. safeguard public interest while determining Final Revenue Requirements (FRRs) of the gas distribution companies
- iv. maintain company and field-wise assessment record of receipts to ensure timely realization of government revenue and timely reconciliation with the concerned treasury and AGPR
- v. compile data of collection and reconcile receipts with the AGPR on monthly basis
- vi. impose default surcharge to discourage late payment of receipts of MPNR (Royalty on oil and gas, petroleum levy) on the analogy of sales tax and federal excise duty

⁴ Para 2.4.28

⁵ Para 2.4.27

SUMMARY TABLES

Table 1: Audit Work Statistics

(Rs in million)

Sr. No.	Description	No.	Revenue
1	Total entities (Ministries/PAOs) in audit jurisdiction	1	*186,377
2	Total formations in audit jurisdiction	12	186,377
3	Total entities (Ministries/PAOs) audited	1	186,377
4	Total formations audited	12	186,377
5	Audit & Inspection Reports	12	-

*Financial Statement for the FY 2011-12

Table 2: Audit Observations regarding Financial Management

(Rs in million)

Sr. No.	Description	Amount
1	Unsound asset management	-
2	Weak financial management	-
3	Weak internal controls relating to financial management	33,470
4	Others	-
	Total	33,470

Table 3: Outcome Statistics

(Rs in million)

Sr. No.	Description	Current year's receipts	Last year's receipts
1	Outlays audited (Revenue Receipts)	186,377	209,248
2	Amount placed under audit observation	33,470	15,241
3	Recoveries pointed out by Audit	33,287	13,587
4	Recoveries accepted/established at the instance of Audit	33,239	13,492
5	Recoveries realized at the instance of Audit	*14,378	7,166

* The amount includes recovery of Rs 250 million expedited by Audit and Rs 6,793 million relates to previous audit reports verified during Jan to Dec, 2012.

Table 4: Table of irregularities pointed out*(Rs in million)*

Sr. No.	Description	Amount Placed under Audit Observation
1	Violation of Rules and regulations and violation of principles of propriety and probity in public operations.	-
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	-
3	Accounting Errors (accounting policy departure from NAM ¹ , misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	-
4	If possible quantify weaknesses of internal control systems.	-
5	Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public money.	33,239
6	Non-production of record.	-
7	Others, including cases of accidents, negligence etc.	231

Table 5: Cost-Benefit*(Rs in million)*

Sr. No.	Description	Amount
1	Outlays audited (Item 1 of Table 3)	186,377
2	Expenditure on Audit	9
3	Recoveries realized at the instance of Audit	14,378
4	Cost-Benefit Ratio	1 : 1597

¹The Accounting Policies and Procedures prescribed by the Auditor-General of Pakistan which are IPSAS (Cash) compliant.

Chapter 1 Public Financial Management Issues

1.1 Audit Paras

Significant paras pointed out during audit of Ministry of Petroleum & Natural Resources (MPNR) for financial year 2011-12 are as under:

1.1.1 Variation between departmental and AGPR's figures for Rs 2,295.88 million

Risk Categorization: High

Criteria

According to Para 5(d) of System of Financial Control and Budgeting, each Principal Accounting Officer is required to make sure that the accounts of receipts are maintained properly and reconciled on monthly basis.

Observation

Audit observed that accounts of receipts were not reconciled by the DG Oil and DG Gas with respective sub offices of AGPR. Variation of Rs 2,295.88 million in respect of petroleum levy, discount retained on local crude oil price, windfall levy and gas development surcharge was observed as detailed below:-

(Rs in millions)

Description	DG Oil			DG Gas	Total
	Petroleum Levy	Discount	Windfall levy	GDS	
Figures booked by AGPR	60,371.00	20,026.58	11,282.52	19,224.00	110,904.10
Departmental Figures	59,106.42	19,616.86	10,733.78	19,151.16	108,608.22
Variation	1,264.58	409.72	548.74	72.84	2,295.88

Implication

Non-reconciled figures would impair the authenticity of Financial Statements of Federal Government.

Management reply:

The department replied that supporting challans and statements were not available with the sub-offices of AGPR, therefore, the reconciliation could not be carried out.

DAC's Recommendations:

DAC directed the management to reconcile the receipts and get the record verified from audit.

Audit Comments:

Reconciliation of receipts with AGPR is emphasized, besides, rectification of accounting errors.

[MR-1, 3, 4, 5 & 7]

1.1.2 Late payment of royalty on Oil and Gas by E&P companies

Risk Categorization: High

Criteria

According to rule 36 of the Pakistan Petroleum (Exploration and Production) Rules 1986, royalty at the rate of 12.5 per cent of the wellhead value of the petroleum produced and saved is required to be paid on monthly basis within ten days from the expiry of the relevant calendar month.

Observation

Royalty of Rs 2,676.87 million on crude oil and Rs 3,389.67 million on natural gas aggregating to Rs 6,066.54 million was deposited with a delay ranging from 22 to 128 days as detailed below:

(Rs in millions)

S. No.	No. of Cases	Delay in Days	Royalty on Crude Oil	Royalty on Gas
1	4	128	72.24	-
2	1	113	-	34.59
3	1	105	0.22	-
4	7	81 to 100	0.33	84.21
5	40	61 to 80	67.26	165.32
6	61	41 to 60	158.18	130.32
7	350	22 to 40	2,378.64	2,975.23
Total	464		2,676.87	3,389.67

Implication:

- (i) Non-compliance of rules by E & P companies and weak monitoring by DG (PC).
- (ii) Late release of proportionate share of royalty to provinces.

Management Reply:

Compliance will be made. The companies operating under Rules 2001 made payments within stipulated time. Other companies are being advised to deliver invoices with detail of Royalty Processing Charges to non-operating companies timely, so that royalty could be deposited in time.

DAC's Recommendations:

DAC directed to get the position verified by Audit regarding improvement in timely deposit of royalty receipts. DAC also recommended that the possibility of amending rules to provide penalty on late payment should be examined.

Audit Comments:

Audit requires timely deposit of royalty by E & P companies and provision of penalty in the rules for delayed payment.

[MR-09]

Chapter 2 Ministry of Petroleum & Natural Resources

2.1 Introduction

Ministry of Petroleum and Natural Resources (MPNR) was created in April 1977. Prior to that, the subject of Petroleum and Natural Resources was a part of the Ministry of Fuel, Power and Natural Resources. MPNR is responsible for coordinating the development of natural resources of energy and minerals in Pakistan. It aims to ensure securing and making available sustainable energy supply for economic development of the country. It facilitates and promotes exploration and production of oil, gas and mineral resources in the country. The MPNR also collects a number of receipts of government of Pakistan through DGs PC, Oil and Gas. The Directorate General (Petroleum Concessions) deals with receipts of royalty on oil and gas, lease/licensed area rent, marine research fee, production bonus etc. The Directorate General Oil deals with petroleum levy, discount retained on local crude oil price and windfall levy on oil. The Directorate General Gas deals with gas development surcharge.

2.2 Comments on Budget and Accounts

2.2.1 Comparison of revised estimates and actual receipts

A comparison of revised estimates and actual receipts for the financial year 2011-12, in respect of receipts of the Ministry is tabulated below:

(Rs in millions)

Nomenclature of Receipt	Original Estimates of Receipts ¹	Revised Estimates of Receipts ¹	Actual Receipts ¹	Excess/ (Shortfall) (4-3)	Excess / (Shortfall) in percentage
1	2	3	4	5	6
Petroleum Levy	120,000	69,000	60,371	(8,629)	(12.51%)
Development Surcharge on Gas	24,925	24,001	19,224	(4,777)	(19.90%)
Royalty on Oil	15,183	22,773	23,275	502	2.20%
Royalty on Gas	32,796	35,191	39,530	4,339	12.33%
Discount Retained on Local Crude Oil Price and Windfall Levy	25,100	27,200	30,761	3,561	13.09%
Licence Rent*	316.33	349.76	531.22	181.46	51.88%
Gas Infrastructure Development Cess	0	8,000	12,685	4,685	58.56%
Total	218,320.33	186,514.76	186,377.22	(137.54)	(0.07%)

¹Explanatory Memorandum of Federal Receipts 2012-2013 and Financial Statement for the FY 2011-12

* Figures provided by Ministry of Petroleum & Natural Resources

The Ministry collected Rs 186,377.22 million against revised estimates of Rs 186,514.76 million for the FY 2011-12. It shows a less collection of Rs 137.54 million or 0.07% as compared with the revised estimates of the receipts.

2.2.2 Comparison between actual receipts for the year 2010-11 & 2011-12

A comparison between actual receipts for the years 2010-11 and 2011-12 is tabulated below:

(Rs in million)

Nomenclature of receipt	2010-11	2011-12 *	Variation in absolute terms (3-2)	Variation in percentage %
1	2	3	4	5
Petroleum Levy	72,325	60,371	(11,954)	(16.53)
Development Surcharge on Gas	30,358	19,224	(11,134)	(36.68)
Royalty on Oil	23,355	23,275	(80)	(0.34)
Royalty on Gas	38,433	39,530	1,097	2.85
Discount Retained on Local Crude Oil Price and Windfall levy	44,432	30,761	(13671)	(30.77)
Licence Rent	345	531.22	186.22	53.98
Gas Infrastructure Development Cess	0	12,685	12,685	100
Total	209,248	186,377.22	(22,870.78)	(10.93)

• Financial Statement of the Federal Government for the FY 2011-12

The table shows a less collection of Rs 22,870.78 million or 10.93% in receipts of the Ministry during the fiscal year 2011-12 over those of fiscal year 2010-11.

2.3 *Brief Comments on the Status of Compliance with PAC Directives*

The position of compliance with PAC directives in respect of Audit Reports is as under:

Audit year	PAC Directives	Compliance received	Compliance not received	Percentage of compliance
1990-91	01	01	-	100%
1992-93	04	04	-	100%
1993-94	01	-	01	0%
1994-95	01	01	-	100%
1995-96	01	01	-	100%
1996-97	05	05	-	100%
1997-98	03	01	02	33%
1998-99	15	-	15	0%
1999-00	04	04	-	100%
2000-01	05	-	05	0%
2001-02	01	-	01	0%
2002-03	No PAC held	-	-	-
2004-05	04	-	04	0%
2005-06	02	02	-	100%
2007-08	No PAC held	-	-	-
2008-09	10	-	10	0%
2009-10	No PAC held	-	-	-
2010-11	No PAC held	-	-	-
2011-12	No PAC held	-	-	-
Total	57	19	38	33%

The table shows insufficient compliance of PAC's directives. The Ministry needs to enhance its monitoring to improve the present position.

2.4 Audit Paras

Non production of record

2.4.1 Non-production of record relating to revenue receipts for the year 2011-12

According to section 14 of the Auditor General's Ordinance 2001, read with para 17 of General Financial Rules and repeated directives of the Public Accounts Committee, it is the obligation of the departmental officers to produce the record to Audit.

M/s SNGPL and M/s SSGCL were requested to produce record to the visiting audit teams in respect of Gas Development Surcharge (GDS) and Gas Infrastructure Development Cess (GIDC). In response, M/s SNGPL requested to conduct the audit in the end of Oct, 2012 on the plea that the OGRA has not determined the final revenue requirement for working of GDS. It was further requested that in case of non-finalization of decision, the papers submitted to OGRA along with supporting record be produced to Audit. Both the companies under jurisdiction of DG Gas did not produce the record. Even the record of GIDS was not produced which was not linked with decision of OGRA. Further, due to non finalization of accounts of both gas utility companies, the gas development surcharge was also not paid by them. Besides, M/s PARCO under the jurisdiction of DG Oil also did not produce the record. Likewise DG Oil and Gas did not produce head wise and transaction wise soft data requisitioned by Audit for sampling.

The irregularity was pointed out to the department in Nov, 2012. The department replied that the audit was requested to defer the assignment till the finalization of revenue requirement by OGRA. DAC in its meeting held on 31st Dec, 2012 directed the department for immediate production of record to Audit as well as early decision of final revenue requirement. Further progress was not reported till finalization of the report.

Audit requires that production of record of companies be ensured for audit activity in future and system be developed for timely decision of final revenue requirement.

[DP No. 56&57-GDS, 12&26/ K]

Irregularity & Non-Compliance

2.4.2 Non realization of gas development surcharge on gas sold to WAPDA, GENCO and FPC for Rs 15,972.07 million

According to section 3 (1) of the Natural Gas (Development Surcharge) Ordinance 1967, every company shall pay to the Federal Government a development surcharge equal to the differential margin in respect of natural gas sold by it. The GDS is payable within two months of the close of that month. Moreover, an interest at the rate of fifteen percent per annum shall be payable in addition to the amount due under sub-section (1), if the amount is not paid within the time specified for such payment.

The DG Gas did not recover the gas development surcharge for Rs 7,958.38 million from M/s Mari Gas Company Ltd, Islamabad for the period Dec, 2011 to June, 2012 and Rs 8,013.69 million from M/s Pakistan Petroleum Ltd. Karachi for the period July, 2011 to June, 2012 for gas sold to WAPDA, FPC and GENCO. This resulted into non-realization of Gas Development Surcharge for Rs 15,972.07 million due to lack of monitoring.

The irregularity was pointed out to the department in Aug and Sep, 2012. The department replied that the issue of non/delayed payment of GDS will be settled with resolution/settlement of circular debt. DAC in its meeting held on 31st Dec, 2012 directed the DG Gas to follow up the recovery of dues vigorously. It also directed MPNR to take up the matter with higher authorities for early resolution of circular debt which was being used as an excuse for delayed payment of GDS. Further progress was not reported till finalization of the report.

Audit emphasizes to recover the amount and develop effective monitoring and reporting system.

[DP No. 50-GDS & 5/K]

2.4.3 Non realization of interest on delayed payment of gas development surcharge for Rs 1,336.17 million

According to section 3 of the Natural Gas (Development Surcharge) Ordinance 1967, read with rule 3 of the Natural Gas (Development Surcharge) Rules 1967, every company shall pay to the Federal Government a development surcharge equal to the differential margin in respect of natural gas sold by it. The GDS is payable within two months of the close of that month. Moreover, an interest at the rate of fifteen percent per annum shall be payable in addition to the amount due as above, if the amount is not paid within the time specified for such payment.

The DG Gas did not recover interest on delayed payment of gas development surcharge for Rs 344.58 million from M/s Mari Gas Company Ltd, Islamabad and Rs 991.59 million from M/s Pakistan Petroleum Ltd, Karachi, aggregating Rs 1,336.17 million.

The irregularity was pointed out to the department in Aug and Sep, 2012. The department replied that the issue of payment of interest on non/delayed payment of GDS will be settled with resolution/settlement of circular debt. DAC in its meeting held on 31st Dec, 2012 directed DG Gas to follow up the recovery of dues vigorously. It also directed MPNR to take up the matter with higher authorities for early resolution of circular debt which was being used as an excuse for delayed payment of GDS. Further progress was not reported till finalization of the report.

Audit requires recovery of the amount by the department expeditiously.

[DP No. 51 -GDS & 06/K]

2.4.4 Non-payment of gas infrastructure development cess for Rs 423 million

According to sub section (1) of section 3 of the Gas Infrastructure Development Cess Act, 2011 dated 15th Dec, 2011 M/s Pakistan Petroleum Limited, Karachi shall collect and pay cess at the rates specified by the Federal Government.

The DG Gas did not recover gas infrastructure development cess from M/s Pakistan Petroleum Limited, Karachi with effect from 15th Dec, 2011 to June 2012, causing a loss of revenue for Rs 423 million.

The irregularity was pointed out to the department in Aug, 2012. However, further progress was not reported till finalization of the report.

Audit requires recovery of the amount expeditiously, besides, fixing responsibility for the irregularity.

[DP No. 17-GDS/K]

2.4.5 Non-realization of petroleum levy on sale of petroleum products for Rs 4,439.06 million

According to section 3 of the Petroleum Products (Petroleum Levy) Ordinance 1961, as amended vide Petroleum Products Development Levy (Amendment) Ordinance 2009, every licensee shall pay a petroleum levy at such rates and in such manner as the Federal Government may by rules prescribe on the quantity of petroleum products produced by the refinery or purchased by company for sale. According to section 3-A of the Ordinance ibid and notification issued, petroleum levy is collected at rates notified by the DG Oil / OGRA in the same manner as duty of excise is collected under the Federal Excise Act.

The DG Oil did not recover petroleum levy of Rs 6,750.50 million from the following oil refineries on sale of petroleum products to oil marketing companies during the year 2011-12.

i)	M/s Byco Refinery Ltd. Karachi payable as on 17.11.2011 (From 18.11.2011 to 30.06.2012 also needs to be recovered)	Rs 4,437.42 million
ii)	M/s Pak Arab Refinery Ltd. Karachi	Rs 2,311.44 million
iii)	M/s National Refinery Ltd Karachi	Rs 1.64 million

The irregularity was pointed out to the department in Aug, 2012. The department replied that an amount of Rs 2,311.44 million has been recovered

from M/s Pak Arab Refinery as verified by Audit and also recovered an amount of Rs 75 million from M/s Byco Ltd Karachi in Nov, 2012 which was yet to be verified by Audit. DAC in its meeting held on 31st Dec, 2012 directed DG Oil to vigorously pursue the recovery. Further progress was not intimated till finalization of the report.

Audit requires recovery of the amount pointed out, besides, calculation and recovery of petroleum levy for the remaining period.

[DP No. 58 & 69 - PL, 22/K & 28/K]

2.4.6 Non realization of discount retained on local crude oil price for Rs 701.36 million

Discount retained on crude oil price is determined on the basis of prices of crude oil in the relevant Petroleum Concession Agreement (PCA) which is withheld by the refineries from the payments due to Exploration & Production companies for its subsequent payment to government within one to two months.

The DG Oil did not recover an amount of Rs 3,939.18 million on account of discount retained on local crude oil price from the following refineries during the year 2011-12:

i.	M/s Byco Refinery Ltd.	Rs	658.06 million
ii.	M/s Attock Refinery Ltd.	Rs	741.48 “
iii.	M/s Pakistan Refinery Ltd.	Rs	457.38 “
iv.	M/s PARCO Refinery Ltd.	Rs	2,082.25 “

The irregularity was pointed to the department in Aug to Nov, 2012. The department informed that an amount of Rs 3,237.82 million was recovered and verified by Audit. DAC in its meeting held on 31st Dec, 2012 directed the DG Oil to recover the balance amount of Rs 701.36 million. Further progress was not intimated till finalization of the report.

Audit emphasizes recovery of balance amount.

[DP No. 59, 61, 65 & 70- Discount]

2.4.7 Non-realization of windfall levy retained on local crude oil price for Rs 340.55 million

Windfall levy retained on crude oil price is determined on the basis of prices of crude oil payable under para 5.1 of the Petroleum Exploration and Production Policy 2007 which is withheld by the refineries from the payments due to E&P companies for its subsequent payment to government within one to two months.

The DG Oil did not recover windfall levy of Rs 2,356.17 million on local crude oil price from M/s Pakistan Refinery Ltd. and Attock Refinery Ltd. for the year 2011-12.

The irregularity was pointed out to the department in Aug, 2012. The department replied that an amount of Rs 2,015.62 million was recovered and verified by Audit. DAC in its meeting held on 31st Dec, 2012 directed the department to recover the balance amount of Rs 340.55 million. Further progress was not intimated till finalization of report.

Audit emphasizes to recover the balance amount.

[DP No. 60 & 66- Windfall]

2.4.8 Short realization of petroleum levy for Rs 37.18 million

According to section 3 of the Petroleum Products (Petroleum Levy) Ordinance 1961, as amended vide Petroleum Products Development levy (Amendment) Ordinance 2009, every licensee shall pay a petroleum levy at such rates and in such manner as the Federal Government may by rules prescribe on such quantity of petroleum products, produced by the refinery or purchased by a company for resale. According to section 3-A, of the Ordinance *ibid*, petroleum levy is collected in respect of imported products in the same manner as an import duty under the Customs Act 1969. The Ministry of Law, Justice and Parliamentary Affairs Islamabad, however, clarified vide their U.O. No. 279/2011-Las-1 dated 21.06.2011 that the date applicable for charging rate of petroleum levy would be the date of physical removal of the products and not the date of filing the ex-bond goods declaration, under the Custom Act, 1969.

The DG Oil recovered the petroleum levy at a rate prevailing on the date of filing of ex-bond GD instead of date of physical removal of the product from M/s PSO Multan, resulting in short realization of petroleum levy for Rs 37.18 million.

The irregularity was pointed out to the department in Oct, 2012. The department replied that the management of M/s PSO has requested the DG Oil for granting more time for compliance. DAC in its meeting held on 31st Dec, 2012 directed the department to make compliance within two months.

Audit requires expeditious recovery of the amount pointed out.

[DP No. 68 - PL]

2.4.9 Short realization of petroleum levy due to application of incorrect rate on direct supply in bulk for Rs 193.62 million

According to section 3 of the Petroleum Products (Petroleum Levy) Ordinance 1961, as amended vide Petroleum Products Development Levy (Amendment) Ordinance 2009, every licensee shall pay a petroleum levy at such rates and in such manner as the Federal Government may by rules prescribe on the quantity of petroleum products produced by the refinery or purchased by a company for re-sale. According to section 3-A of the Ordinance ibid and notification issued, petroleum levy is collected at rates notified by the DG Oil / OGRA. The prevailing amount (Rs per Litre) of dealer margin for retail sale shall be added in the corresponding petroleum levy rate for respective products to be charged on direct sales. Petroleum levy on imported product is collected in the same manner as an import duty under the Custom Act 1969. Such levy in respect of local products is collected in the same manner as duty of excise is collected under the Federal Excise Act.

DG Oil did not monitor the assessment of petroleum levy payable on direct sale of petroleum products in bulk by M/s Total PARCO, Lahore to the certain customers and the price was charged inclusive dealer's margin. The margin was retained by the company instead of depositing the same in government treasury, which caused short realization of petroleum levy of Rs 193.62 million.

The irregularity was pointed out to the department in Nov, 2012. The department replied that the amount will be recovered shortly. DAC in its meeting held on 31st Dec, 2012 directed the DG Oil to recover the amount from M/s Total PARCO. Further progress was not intimated till finalization of report.

Audit requires expeditious recovery of the amount pointed out.

[DP No. 76 - PL]

2.4.10 Short-realization of revenue due to application of lower rate of petroleum levy for Rs 91.17 million

According to notification issued under section 3 of the Petroleum Product Ordinance 1961, petroleum levy is collected in time and manner of Custom Duty at import stage and Federal Excise Duty in local supplies as the case may be. As per judgment of Hon'able High Court Sindh reported in PTCL 1990 CL 217, and reported in 2002 CLC 616 (Lahore), it has been categorically confirmed that in respect of bonded goods, the duty is to be charged at the rate prevailing on the day of actual removal of the goods from warehouse for consumption. According to Section 30, 30 A and 79 of The Customs Act, 1969 read with clarification of Ministry of Law, Justice and Parliamentary Affairs U.O. No. 279/2011-Law-I, dated 21.06.2011 controversial view points were submitted by Ministry of Petroleum and Natural Resources which were considered under section 30(b) and 104 of the Customs Act, 1969 and clarified "*The cumulative effect would be that the petroleum levy is recoverable at the time of physical removal of products in as much as the filing of Goods Declaration could be legally postponed as well. Under the provisions of the Sales of Goods Act, 1930, the property in goods passes at the time of actual delivery, therefore this Division is of the view that the date applicable for charging the petroleum levy would be the date of physical removal of product and not the date of filing the Ex-bond Goods Declaration*".

MCC Faisalabad did not apply the rate of petroleum levy applicable on the date of physical removal of HSD from public bond of M/s PARCO Ltd., Faisalabad, after receiving Appendix "C" issued by M/s PARCO. It was observed that in twelve GDs lower rate of petroleum levy was applied instead of actual rate applicable on the date of drawl of HSD which caused a loss of revenue for Rs 91.17 million.

The irregularity was pointed out to the department in Nov, 2012. Para was not discussed in DAC meeting held on 31.12.2012. Further progress was not reported till finalization of the report.

Audit requires recovery of the amount pointed out, besides, fixing responsibility.

[DP No.100-Cus]

2.4.11 Non realization of rent of exploration license of off-shore fields from E & P companies for Rs 138.78 million

According to rule 32 of the Pakistan Offshore Petroleum (Exploration and Production) Rules 2003, read with para 9.6 of the concerned petroleum sharing agreements, the E & P companies/contractors are required to pay in advance annual acreage rental at the rate of \$50000 plus \$10 per square kilo meter of area included in the contract. The rates of rent in respect of offshore fields under the above said rules, have been indexed by DG PC Islamabad, as notified vide letter No. 3(31)AR-2008-09 Vol- 3 Pt (Per Audit) dated 14.02.2012 since inception to the year 2010-11 and all E&P companies have been directed to pay the differential amount.

The DG PC did not recover license rent of Rs 147.72 million at indexed rates for the FY 2011-12 from four E & P Companies in respect of off-shore fields held by them.

The irregularity was pointed out to the department in Aug, 2012. The department informed that Rs 8.94 million were recovered and verified by Audit. It was further informed that as soon as renewal of license for off-shore blocks was granted to M/s OGDCL, the amount of rent would be recovered. But M/s Niko Resources and M/s ENI did not agree to pay rent on indexed rates. The department, however, advised the companies to pay offshore rent at indexed rate. DAC in its meeting held on 31st Dec, 2012 directed DG PC to issue notices to the E&P Companies who did not pay the rent and in case of non compliance to take appropriate action under rules. Further progress was not reported till finalization of the report.

Audit requires expeditious recovery and timely renewal of offshore licenses.

[DP No.37]

2.4.12 Non realization of lease and license rent from E & P Companies for Rs 94.88 million

A license holder shall pay to Government annually in advance rent at the rate prescribed in the Pakistan petroleum (Production) Rules 1949, (rules 27 & 36), Pakistan (Production) Rules 1986, (rules 27 & 39) and Pakistan Petroleum (Production) Rules 2001, (rules 27 & 38). The DG PC vide their letter No. 3(31)AR-2008-09 Vol- 3 Pt (Per Audit) dated 14.02.2012 has indexed the rent rates as enclosed therewith and advised all E&P companies to pay the differential amount of rent since inception.

The DG PC did not recover lease and license rent for Rs 105.21 million from thirteen E & P companies in respect of license held by them for their fields which were required to be recovered at indexed rates.

The irregularity was pointed out to the department in Aug, 2012. The department apprised that an amount of Rs 10.33 million was recovered and verified by Audit whereas cases of extension worth Rs 26.03 million in the period of licenses were pending. However, notices were issued to E & P companies for recovery of the balance amount. DAC in its meeting held on 31st Dec, 2012, directed to expedite recovery of outstanding amount from the E&P companies. Further progress was not reported till finalization of the report.

Audit requires expeditious recovery and timely renewal of licenses.

[DP No.39]

2.4.13 Non realization of production bonus from E&P companies for Rs 95 million

According to clause 2.2.4 of Petroleum Policy 1997, and rule 24 (1) of E & P Rules 2001, read with section 23.1 of PCAs of Nashpa Block No 3370-10 and Latif Block Latif field, production bonuses for all Zones will be payable to the President, on a concession area basis, as under:

<u>AMOUNT. \$ (in million)</u>	<u>CUMULATIVE PRODUCTION (MMBOE)</u>
0.5	On Commencement of Commercial Production
1.0	30
1.5	60
3.0	80
5.0	100

Local E&P companies will pay their share of production bonuses in Pak rupees. When E & P companies submit a notice for declaration of commercial discovery to the Government and Working Interest Owners, other than the GHPL and OGDCL (if applicable), shall pay the President on an area basis \$0.5 million upon commencement of commercial production.

The DG PC did not recover production bonus on commencement of commercial production from M/s PPL and M/s OMV Pakistan Exploration Ltd, during 2011-12 which caused a loss of \$1 million i.e. Rs 95 million.

The irregularity was pointed out to the department in Aug, 2012. The department informed that M/s OMV deposited the production bonus. Whereas M/s PPL would deposit the amount in the accounts of respective DCOs, shortly. DAC in its meeting held on 31st Dec, 2012 directed to recover the outstanding dues from M/s PPL, to be verified by Audit. Further progress was not reported till finalization of the report.

Audit requires recovery of the balance amount.

[DP No. 40 & 42]

2.4.14 Non/ Short-realization of marine research fee from E & P companies for Rs 48.27 million

According to clause 6.9 of the Petroleum Exploration & Production Policy 2007, read with the Petroleum Exploration & Production Policy 2001, and provisions of relevant Petroleum Concessions Agreements (PCAs), marine research fee \$ 50,000 per year till first discovery is required to be paid by E & P companies which are allotted off-shore areas to explore oil and gas.

The DG PC did not recover marine research fee for Rs 48.27 million from five E & P companies holding off-shore fields to explore oil and gas for the years 2010-11 to 2012-13.

The irregularity was pointed out to the department in Aug, 2012. The department replied that extension in licenses for off-shore blocks in respect of OGDCL, NIKO and UEPL was under process. The department further stated that proposal of PEL for expenditure on marine research fee was still under consideration before Petroleum Marine Development Committee. Regarding short payment by UEPL, it was replied that extension in licenses of offshore blocks was less than one year. So the amount due was \$97,984 instead of \$100,000. DAC in its meeting held on 31st Dec, 2012 noted that in case of OGDCL, UEPL and NIKO, fee was not actually accrued, since necessary extension in the licences period was yet to be granted. In the case of PEL the necessary realization was underway. In case of short payment by UEPL, the DAC settled the amount of Rs 0.77 million subject to verification. DAC further directed DG PC to use the new system of information being developed by LMKR to closely monitor all such cases for expeditious recovery of government dues. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious recovery of the balance amount, besides, verification of the amount recovered.

[DP No. 41 & 47]

2.4.15 Non-realization of royalty on natural gas from E & P companies for Rs 3.78 million

According to the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act 1948, read with rule 36 of Pakistan Petroleum (Exploration and Production) Rules 1986, holder of a lease shall pay a royalty at the rate of 12.5 per cent of the well head value of the petroleum produced and saved within 10 days of the expiry of the calendar month in question.

The DG PC Islamabad did not recover the royalty on the natural gas for the month of June, 2012 from three Exploration and Production companies,

which resulted in non realization of royalty for Rs 4.51 million during 2011-12.

The irregularity was pointed out to the department in Sep, 2012. The department informed that an amount of Rs 0.73 million was recovered and verified by audit while recovery of balance amount was in process. DAC in its meeting held on 31st Dec, 2012 directed to issue notices to the E&P companies who did not pay the royalty and take appropriate action under rules in case of non compliance. Further progress was not intimated till finalization of the report.

Audit emphasizes expeditious recovery.

[DP No 43]

2.4.16 Short realization of royalty on oil and gas for Rs 94.90 million

According to rule 35 of the Pakistan Petroleum (Exploration and Production) Rules 2001, framed under the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act 1948, the royalty is payable @12.5% of the wellhead value of the petroleum produced and saved. Royalty for a month is payable within 45 days of the month of production in question. The payment of royalty, if delayed beyond the stipulated period, would attract fine at rate of LIBOR plus two percent.

The DG PC short realized royalty worth Rs 94.90 million from M/s Dewan Petroleum Ltd. (operator), M/s Rally Energy and M/s Oil and Gas Investment Company Ltd. (working interest owners of the SALSABIL field) according to notified wellhead value of the oil and gas during 2011-12.

The irregularity was pointed out to the department in Aug, 2012. The department replied that the reply of M/s DPL and M/s OGIL was awaited. M/s Rally Energy replied that they were paying their share on condensate @ 12.5% whereas in case of gas, SNGPL was not paying full invoiced amount. DAC in its meeting held on 31st Dec, 2012 directed that the issue of discount on account of quality of gas should be settled by DG PC in consultation with DG Gas, SNGPL and DPL. Further progress was not reported till finalization of the report.

Audit requires the department to resolve the issue within the stipulated time and necessary steps be taken without further delay to recover the outstanding government dues.

[DP No.44]

2.4.17 Non-realization of default surcharge on delayed payments of petroleum levy for Rs 134.51 million

According to section 3 of Petroleum Products (Petroleum Levy) Ordinance 1961, read with rules (8) of Petroleum Levy Rules 1967, and rule (8) of the Federal Excise Rules 2005, every licensee shall pay a Petroleum Levy which shall be deposited by the registered person in the designated branch of the bank at the time of filing of his return by 15th day of the month following the end of the month. Further according to section 8 of the Federal Excise Act 2005, if a person does not pay the duty due or any part thereof within the prescribed time, he shall, in addition to the duty due, pay default surcharge at the rate of “KIBOR plus three per cent” of the duty due.

The DG Oil did not recover default surcharge for Rs 127.86 million from M/s Pakistan Refinery Limited Karachi, and Rs 6.65 million from M/s National Refinery Limited Karachi, aggregating to Rs 134.51 million during the financial year 2011-12.

The irregularity was pointed out to the department in Nov, 2012. Reply was not furnished by the department. DAC in its meeting held on 31st Dec, 2012 directed the DG Oil, to recover the amount. Further progress was not reported till finalization of the report.

Audit requires the department to make changes in rules to impose default surcharge or penalty for timely recovery of petroleum levy and recover the amount pointed out, expeditiously.

[DP-19 & 20 / K]

2.4.18 Non-recovery of mark up on late payment of GIDC for Rs 19.19 million

According to rule 3 (a) of the Infrastructure Development Cess Rules 2011, every company shall deposit at the government treasury the amount of gas infrastructure development cess payable by it in respect of the sales during the

calendar month within one month of the close of that month or within seven days of the actual collection from consumers whichever is earlier. Further according to section 3(2) of the Gas Infrastructure Cess Act 2011, a mark up at the rate of four per cent above the three months KIBOR prescribed by the Federal Government shall be payable on any amount due under sub section (1) of section 3 of the Gas Infrastructure Development Cess Act 2011, if the said amount is not paid within the prescribed time.

The DG Gas did not recover mark up from M/s Pakistan Petroleum Limited Karachi, from Dec, 2011 to June 2012. The non-payment of Gas Infrastructure Development Cess for Rs 324 million requires recovery of mark up for Rs 19.19 million.

The irregularity was pointed out to the department in Aug, 2012. Para was not discussed in DAC meeting held on 31.12.2012. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious recovery.

[DP No. 8-GDS/K]

2.4.19 Short realization of petroleum levy due to application of incorrect rates for Rs 26.19 million

According to Section 3-A of the Petroleum Products (Petroleum Levy) Ordinance 1961, as amended vide Petroleum Products Development Levy (Amendment) Ordinance 2009, Petroleum levy on imported product is collected in the same manner as an import duty under the Custom Act 1969. Section 30 of Custom Act 1969, lays down that if the payment is made after the expiry of 7 days from date of filing of ex-bond GD, the effective rate of duty would be the rate on which the duty is paid.

The DG Oil did not monitor the application of correct rate on clearance of petroleum products by PSO. After seven days of filing of GDs, the rate was applicable of the date on which government dues were deposited instead of rate of date of physical removal of petroleum products. This resulted into short-realization of Petroleum Levy for Rs 26.19 million.

The irregularity was pointed out to the department in Nov, 2012. Reply was not furnished by the department. DAC in its meeting held on 31st Dec, 2012 directed the representative of the PSO to submit the replies immediately. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious recovery, besides, fixing responsibility for non application of correct rates of petroleum levy.

[DP No.75 - PL]

2.4.20 Less realization of gas development surcharge for Rs 24.92 million

According to SRO (1)/2011 dated 07.08.2011 issued by Oil and Gas Regulatory Authority, the gas development surcharge, in respect of Fauji Fertilizer Company Limited, Mirpur Mathelo, for gas used as feed stock is Rs. 43.71 per MMBTU, for 10 MMCF additional gas used as feed stock @ Rs 1.29 per MMBTU and for gas used as fuel @ Rs 375.88 per MMBTU.

The DG Gas did not monitor the bifurcation of additional gas used in excess of 85 MMSCFD as (i) gas used as feed stock (ii) gas used as fuel. Contrarily, GDS was charged at lower rate of Rs 1.29 leviable for total additional gas used as feed stock. Moreover, out of the total gas used, feed stock gas was below 85.5 MMSCFD, the GDS was recoverable @ Rs 43.71 per MMBTU instead of Rs 1.29 per MMBTU. The GDS was rightly paid but later on adjusted incorrectly for Rs 10.85 million during the months of July to Dec, 2011, whereas, GDS for Rs 14.07 million was not deposited in the next six months aggregating to Rs 24.92 million. Besides, the additional allocation of gas was not approved by the ECC, as such the sale of gas at discounted rate was not lawful.

The irregularity was pointed out to the department in Sep, 2012. The reply furnished by the department was irrelevant. DAC in its meeting held on 31st Dec, 2012 directed for early recovery of dues. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious recovery, besides, fixing responsibility for non observance of rules.

[DP No. 52 -GDS]

2.4.21 Less-realization of petroleum levy on petroleum products for Rs 7.23 million

According to section 3 of the Petroleum Products (Petroleum Levy) Ordinance 1961, as amended vide Petroleum Products Development Levy (Amendment) Ordinance 2009, every licensee shall pay a petroleum levy at such rates and in such manner as the Federal Government may by rules prescribe on the quantity of petroleum products produced by the refinery or purchased by a company for re-sale. According to section 3-A of the Ordinance *ibid* and notifications issued by the DG Oil / OGRA, petroleum levy is collected at the rates notified therein.

The DG Oil recovered Petroleum Levy of Rs 517.80 million instead Rs 525.03 million from M/s Pakistan Refinery Limited, Karachi for the month of Feb 2012. This resulted in short recovery for Rs 7.23 million.

The irregularity was pointed out to the department in Aug, 2012. The department informed that the short recovered amount of petroleum levy was adjusted against the amount paid on LPG which was suspended by the court. DAC in its meeting held on 31st Dec, 2012 directed the DG Oil to recover the petroleum levy as the same was not adjustable, because the burden of tax was passed on to consumers. DAC also directed to provide the copy of court order. Further progress was not intimated till finalization of the report.

Audit emphasizes expeditious recovery, besides, fixing responsibility for wrong adjustment of petroleum levy.

[DP No. 64 - PL]

2.4.22 Non-recovery of government revenue due to excess payment of refund for Rs 165.21 million

According to section 3 of Petroleum Products (Petroleum Levy) Ordinance 1961, read with rule 8 of Petroleum Levy Rules 1967, every licensee shall pay a Petroleum Levy at such rates as and in such manner as the Federal Government, may by rules prescribed on such quantity of petroleum products, produced by refinery or purchased by a company for re-sale in the time and manner as any duty or excise or duty of customs is paid and deposited.

The DG Oil did not recover a sum of Rs 165.21 million adjusted as inadmissible refund on account of Import Parity Formula from M/s National Refinery Limited Karachi, during the year 2000-2001. Audit further observed that the company neither paid the aforesaid amount nor the ministry withdrew the demand notice issued to the refinery since 2001 which resulted into non-recovery of revenue for Rs 165.21 million.

The irregularity was pointed out to department in Nov, 2012. The department replied that the para, being related to previous year, did not come under the purview of Audit. In the DAC meeting held on 31st Dec, 2012 the DG Oil requested that the contents of the para may be checked with the contents of the para 4.1 and 4.2 of AR 2008-2009. Audit holds that the para did not relate to 4.1 and 4.2 of Audit Report 2008-2009.

Audit requires expeditious recovery besides fixing responsibility.

[DP No. 21/ K]

2.4.23 Non realization of royalty on LPG from E & P companies for Rs 1,267.45 million

According to the Regulation of the Mines, Oilfields and Mineral Development (Government Control) Act, 1948 read with rule 36 of the Pakistan Petroleum (Exploration and Production) Rules, 1986, holder of a lease shall pay royalty @ 12.5 per cent of the wellhead value of the petroleum produced and saved.

The DG Petroleum Concessions did not recover royalty for Rs 1,267.45 million on LPG from E & P companies on its market sale value during 2011-12.

The irregularity was pointed out to the department in Aug, 2012. The department informed that Expert committee was constituted under the PAC directive who discussed the issue and framed views that royalty on LPG was payable at sale value. Companies were reluctant to pay royalty on LPG on its sales value; therefore advice from law division was sought. The Law Division opined "In view of the Article 161 of the constitution, the view point of the companies appeared to be correct in as much as the royalty should be taken on the value of the gas (Natural Form) and not on the basis of sale value after the petroleum has been refined".

The DAC on 31 Dec, 2012 directed that this para will be settled in the light of decision of PAC regarding para 1.1 (a), 1.1 (b) and 5.3 of Audit Report 2008-09. Further progress was not reported till finalization of the report.

PAC in its meeting held on 08.01.2013 directed in respect of above mentioned paras to hold a DAC meeting for examining the all technical issues to resolve the matter.

Audit requires adherence to the PAC directives in identical paras and recover the amount accordingly.

[DP No. 38]

2.4.24 Non-realization of surcharge on late payment of dues for Rs 30.61 million

According to section 3 of Petroleum Products (Petroleum Levy) Ordinance 1961, read with rule 8 of Petroleum Levy Rules 1967, every licensee shall pay a Petroleum Levy at such rates and in such manner as the Federal Government, may by rules prescribe on such quantity of petroleum products, produced by refinery or purchased by a company for re-sale in the time and manner as any duty or excise or duty of customs is paid and deposited.

The DG Oil did not recover surcharge for Rs 30.61 million from PSO on late payment of dues of ex-bonded oil products. The amount was recoverable under section 202 of Custom Act 1969, @ 1.5% per month.

The irregularity was pointed out to the department in Oct, 2012. The department replied that the petroleum levy in all cases was deposited within seven days of withdrawal of petroleum products and as such surcharge was not leviable. DAC in its meeting held on 31st Dec, 2012 directed to refer the matter to Customs Department for clarification. Further progress was not reported till finalization of the report.

Audit requires expeditious recovery of surcharge.

[DP No. 71 - PL]

2.4.25 Non-realization of petroleum levy on petroleum products for Rs 16.88 million.

According to section 3 of the Petroleum Products (Petroleum Levy) Ordinance 1961, as amended vide Petroleum Products Development Levy (Amendment) Ordinance 2009, every licensee shall pay a petroleum levy at such rates and in such manner as the Federal Government may by rules prescribe on the quantity of petroleum products produced by the refinery or purchased by a company for re-sale. According to section 3-A of the Ordinance ibid and notification issued, petroleum levy is collected at rates notified by the DG Oil / OGRA in the same manner as duty of excise is collected under the Federal Excise Act.

The DG Oil neither monitored the assessment nor recovered petroleum levy for Rs 16.88 million payable on petroleum products sold by the refineries to oil marketing companies.

The irregularity was pointed to the department in Aug, 2012. The department replied that as the petroleum products were exported, the petroleum levy was not payable. DAC in its meeting held on 31st Dec, 2012 directed the DG Oil to produce the export documents for verification by audit. Further progress was not intimated till finalization of the report.

Audit requires production of record for verification of export of goods to justify departmental reply otherwise recovery be made accordingly.

[DP No. 63&78 - PL]

Internal Control Weaknesses

2.4.26 Weak internal control

INTOSAI defines internal control as the plans of an organization, including management's attitude, methods, procedures and other measures that provide reasonable assurance to achieve general objectives in an economical, efficient and effective manner. Internal controls safeguard the resources against loss due to waste, abuse, mismanagement, errors and other irregularities. Management can assure adherence to laws, regulations and its directives through internal controls. Audit assesses the effectiveness of the design and operation of internal controls.

Audit identified and evaluated both the control environment and the effectiveness of internal controls that were in place and observed the following weaknesses:

- a) System of assessment of royalty was not found adequate. Companies were paying royalty on self-assessment basis and making adjustments on account of royalty processing charges at their own, without any scrutiny by the Ministry. The Ministry is in process of streamlining the system and devising a database in office of DGPC. In other offices like DG Gas and DG Oil Islamabad, there is a need to do so as well¹.
- b) Monitoring system was not in place to ensure timely realization of receipts of the Ministry².
- c) There was no internal control mechanism to watch compliance of provisions of Petroleum Concessions Agreements / gas price notification / ECC / OGRA decision³.
- d) Adequate data base was not available to exercise effective monitoring regarding assessment and collection of various receipts. Consequently, non-recovery/short-recovery of receipts was occurring repeatedly due to lack of internal controls in the Ministry⁴.

¹ Para 2.4.1, 2.4.15, 2.4.16, 2.4.23

² Para 1.1.2, 2.4.2, 2.4.3, 2.4.4, 2.4.5, 2.4.6, 2.4.7, 2.4.8, 2.4.9, 2.4.10, 2.4.11, 2.4.12, 2.4.13, 2.4.14, 2.4.17, 2.4.18, 2.4.19, 2.4.24, 2.4.25

³ Para 2.4.20, 2.4.28

⁴ Para 2.4.21, 2.4.22, 2.4.27

- e) Non reconciliation of Petroleum Levy in office of the DG Oil Islamabad⁵.
- f) Presently internal audit is not being conducted in all the field offices of MPNR.

The Ministry promised that it would streamline its processes as advised by the Audit, adding that it was developing a database in the office of DG PC. Audit reiterated that there is a need to develop database in other Directorates General as well as in the Ministry itself.

5 Para 1.1.1

Other

2.4.27 Non-spending of Social Welfare Contribution in concession areas by E & P companies for Rs 183.33 million

For giving benefit to the communities and to create a favourable impact on the local population, especially in the remote areas, Petroleum Concession Agreements provide that working interest owners shall be required, in consultation with local administration/Provincial Governments and the Ministry, to undertake schemes of social welfare such as fight against narcotics, promotion of sports, rehabilitation of the mentally retarded and handicapped children, improvement of educational and health facilities, making arrangements for provision of drinking water, construction of roads, training and employment of local people, etc. For the purpose, working interest owners of respective field/block under provisions of the PCA shall spend a minimum sum of US\$ 10,000/20,000 before commercial discovery and US\$ 40,000 thereafter per year. The DG PC, MPNR has issued revised guidelines for social welfare schemes under petroleum concession agreements on 20.04.2009 for monitoring the spending of social welfare obligations.

The DG PC did not improve monitoring of spending of Social Welfare Obligation by the E & P companies. Out of an obligation of \$2,486,713 for the year 2011, an amount of \$1,929,752 equal to Rs 183.33 million for the calendar year 2011 was lying unspent.

The irregularity was pointed out to the department in Aug, 2012. The department replied that the DG PC was emphasizing on E&P companies for timely deposit and discharge their social welfare obligations. DAC in its meeting held on 31st Dec, 2012 directed the DG PC to ensure compliance of the observation of the Audit regarding discharge of social welfare obligation pertaining to various E&P companies. Further progress was not intimated till finalization of the report.

Audit requires vigorous monitoring by DG PC to ensure timely spending of social welfare contribution by E&P companies.

[DP No. 49]

2.4.28 Non / improper utilization of training obligation funds

According to clauses 2.2.6, 2.3.7, and 5.1.4 of the Petroleum Exploration and Production Policies of 1997, 2001, 2007 respectively, E&P companies through annual obligations are required to finance training of Pakistani employees and GOP officials. This is provided for capacity building and to meet expenditure connected with infrastructure development as per guidelines issued by DG PC from time to time. The E&P companies shall incur funds as provided in the respective Petroleum Policies and PCAs. The DG PC has issued guidelines in this regard. According to clause 3 of the guidelines for utilization of training obligation 50% of the amount is to be utilized by E & P Companies and 50% by the MPNR/DGPC. The unspent balance is required to be deposited by the E&P companies in the bank account maintained by the DG PC as per prescribed rates of training funds in the relevant policies and PCA.

The DG PC did not utilize an amount of Rs 677.38 million received on account of training obligation from E&P companies. Further, record pertaining to amount accrued and paid was not maintained. This showed poor monitoring and weak internal controls. The purpose of obligation of training funds was to train the people relating to oil and gas sector. The ministry sent a private secretary to the Secretary MPNR for training on a course of secretaries and personal assistants which was of a general nature and not relevant to oil and gas sector. Further TA/DA was given at higher rates fixed by the M/s OGDCL instead of government rates. In addition to this, payments were also made to hired staff, consultant and advocates for legal services from this account.

The irregularity was pointed out to the department in Aug, 2012. The department replied that training funds are not the government revenue. It needs clarification from the Finance Division so that it can be determined that these are subject to audit. In the DAC meeting held on 31st Dec, 2012, PAO stated that funds are not a part of consolidated fund. The DAC directed to revisit the para.

Audit requires provision of action plan, justification of the unusual expenses and utilization of training obligations as per policies/training obligation utilization guidelines.

[DP No. 45]

MFDAC

Statement of observations / paras included in MFDAC

S. #	Name of formation	AIR Para No.	DP/AO No.	Subject	Amount (Rs million)	Nature of observation
1	Pakistan Petroleum Limited, Karachi	6	DP-09	Sale of natural gas without fixation of well head price of value of Rs 1,809,848	1.81	Procedural
2	Pakistan Petroleum Limited, Karachi	7	DP-10	Non-furnishing of record relating to revenue receipts	-	Procedural
3	National Refinery Limited, Karachi	1	DP-24	Non-furnishing of record relating to revenue receipts	-	Procedural
4	National Refinery Limited, Karachi	3	DP-23	Non payment of petroleum Levy (LPG-withheld)	9.25	Recovery
5	Pakistan Refinery Limited, Karachi	1	DP-16	Non-Payment of windfall levy on purchase of crude oil	2,076.56	Recovery
6	Pakistan Refinery Limited, Karachi	2	DP-15	Non-payment of discount on purchase of crude oil	602.90	Procedural
7	Pakistan Refinery Limited, Karachi	4	DP-18	Non-furnishing of record relating to revenue receipts	-	Procedural
8	Pakistan Refinery Limited, Karachi	1	DP-17	Doubtful payment of petroleum levy	489.14	Procedural
9	Byco Petroleum Pakistan Limited	2	AO -03	Non-realization of default surcharge on delayed payment of PL	20.32	Recovery
10	PARCO LTD	1	DP-25	Non-payment of petroleum levy for the month of June, 2012	6,300.44	Recovery
11	PARCO LTD	2	AO-1	Non-Payment of windfall levy on purchase of crude oil	567.23	Recovery
12	PARCO LTD	3	AO-1	Non-realization of discount retained on purchase of crude oil	282.04	Recovery
13	DG Oil (Financial Attest)	2	AO-2	Non-reporting of Receipts of discount, windfall and PL to Ministry of Finance	-	Procedural
14	DG Oil (Financial Attest)	7	AO-7	Variation of Rs 57.139 Million between Departmental and Sales tax Treasury figures under Petroleum Levy head	57.14	Procedural
15	DG Oil	18	DP-74	Illegal removal of Petroleum Products without filling of ex-bond GD	-	Procedural

16	DG Oil	11	DP-67	Short realization of Petroleum Levy due to non-application of section 30 for determination of rate of Levy.	2.76	Recovery
17	PARCO LTD		DP-27/K	Non-payment of Windfall Levy for the month of July and Sep, 2011	1,335.28	Procedural
18	DG Gas		DP-14/K	Non-reporting of loss of public exchequer to Audit	-	Procedural
19	DG Gas	6	DP-55/GDS	Non-payment of gas development surcharge during the year 2011-12	-	Recovery
20	DG PC	10&12	46 & 48	Unjustified deductions of RPC from the gross sale value causing non / short/ delayed payment of royalty actually due by the E&P companies	-	Procedural
21	DG PC		11/K	Non-revocation of license due to wilful and prolonged contravention	-	Procedural
22	DG Oil	17	73/PL	Non-maintenance of record of petroleum levy on direct sales at each depot	-	Procedural
23	DG Oil	16	72/PL	Non-reconciliation of quantity of petroleum products in-bonded and ex-bonded from warehouses	-	Procedural
24	DG Gas	4	53/GDS	Loss for Rs. 12 billion of development surcharge in respect of SNGPL	-	Procedural
25	DG Gas	5	54/GDS	Gas sale prices notified other than sent to ECC / Cabinet Division for generation for Rs 44,000 million surplus revenue as gas development surcharge	-	Procedural
26	DG Gas		MR-2	Non-deposit of windfall levy receipts under proper head of account	-	Procedural
27	DG PC	3	MR-10	Late reporting of royalty on Oil and Gas to Ministry of Finance	-	Procedural
				Total	11,744.87	

Audit Impact Summary

S. No	Change in Rules/System/Procedure	Audit Impact
1	At the instance of Audit, database is being designed by DGPC to collect monthly information from E & P companies.	Monthly information about production and amount receivable would be available with DGPC.
2	A committee was constituted by the PAC for valuation of LPG for the purposes of royalty. The committee unanimously decided that royalty would be paid on the sale value of LPG as pointed out by Audit.	The government revenue would be increased by Rs 1,267 million (approximately) for one FY year 2011-12 as royalty would henceforth be paid on the sale value of LPG instead of on the value of shrinkage gas used in LPG.
3	Both levies windfall levy and discount retained on crude oil price, were not being monitored and recovered timely.	On pointation by Audit, millions of rupees would be recovered on account of these levies.