



**AUDIT REPORT
ON
THE ACCOUNTS OF RECEIPTS OF
MINISTRY OF PETROLEUM &
NATURAL RESOURCES
AUDIT YEAR 2014-2015**

AUDITOR-GENERAL OF PAKISTAN

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SUMMARY TABLES

ABBREVIATIONS & ACRONYMS

AGPR	: Accountant General Pakistan Revenues
AY	: Audit Year
DAC	: Departmental Accounts Committee
DGPC	: Director General Petroleum Concessions
DG	: Director General
DP	: Draft Para
E&P	: Exploration and Production
EWT	: Extended Well Testing
FBR	: Federal Board of Revenue
FED	: Federal Excise Duty
FY	: Financial Year
GD	: Goods Declaration
GDS	: Gas Development Surcharge
GIDC	: Gas Infrastructure Development Cess
INTOSAI	: International Organization of Supreme Audit Institutions
IPSAS	: International Public Sector Accounting Standards
LIBOR	: London Inter-bank Offered Rate
LNG	: Liquefied Natural Gas
LPG	: Liquefied Petroleum Gas
MFDAC	: Memorandum for Departmental Accounts Committee
MPCL	: Mari Petroleum Company Limited
MMBTU	: Million Metric British Thermal Unit
MPNR	: Ministry of Petroleum and Natural Resources
OGDCL	: Oil and Gas Development Company Limited
OGRA	: Oil & Gas Regulatory Authority
PAC	: Public Accounts Committee
PAO	: Principal Accounting Officer
PCA	: Petroleum Concession Agreement
PL	: Petroleum Levy
PPL	: Pakistan Petroleum Limited
SNGPL	: Sui Northern Gas Pipelines Limited
SSGCL	: Sui Southern Gas Company Limited

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 Islamic Republic of Pakistan read with Sections 7 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Directorate General carried out audit on test check basis in accordance with Financial Audit Manual. It utilized 1,439 man-days incurring an expenditure of Rs 7 million on audit of four Directorates General of the Ministry dealing with collection of receipts.

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 305,712 million during FY 2013-14 on account of Gas Development Surcharge, 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 309,585 million and revised estimates of Rs 345,056 million. Thus there was less collection of Rs 39,340 million or 11.40 per cent over the revised estimates.

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

Audit pointed out recovery of Rs 147,461 million during audit year 2014-15. Recovery of Rs 8,875 million was effected by MPNR from 16.01.2014 to 31.01.2015.

c. **Audit Methodology**

The audit activity started with development of audit plan, detailed audit planning, development of audit programmes, establishing resource requirements and timing. The planned activities were executed as per audit

programmes and results thereof were evaluated at appropriate level before issuance of reports to the auditee organizations. High-value and high-risk items were selected on professional judgement basis for substantive testing.

d. Audit Impact

- The Ministry recovered an amount of Rs 3,140.26 million on pointation by Audit.
- A reference was made to FBR and Law Division simultaneously for clarification of rate of PL (date of GD filing or actual removal) applicable on oil removed from bonded warehouses due to the issue raised by Audit.
- The DAC directed DGPC to frame a comprehensive reference, in consultation with DG Audit, Customs & Petroleum, to obtain a fresh opinion from Ministry of Law, Justice and Parliamentary Affairs on imposition of royalty on LPG keeping in view the prevailing rules and international practices.
- Amendments were made in the E & P rules for imposition of surcharge in case of delayed payment of royalty on oil and gas.

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. Adequate and effective monitoring system was not in place to ensure timely realization of receipts of the Ministry. Internal audit did not exist at the MPNR. The Ministry is required to institutionalize internal audit for ensuring financial discipline.

f. Key audit findings of the report

This report includes significant audit paras of Rs 147,461 million in respect of compliance with authority audit. The key audit findings are:

- i. Irrecoverable loss of revenue due to defective legislation-Rs 85,006 million¹.
- ii. Sale of crude oil and gas produced illegally under extended well testing facility - Rs 40,131 million².
- iii. Non-recovery of Gas Development Surcharge - Rs 9,439.86 million³.
- iv. Non-realization of liquidated damages from E & P companies-Rs 7,449.62 million⁴.
- v. Non-payment of royalty on crude oil and natural gas - Rs 276.99 million⁵.

- vi. Non-realization of Petroleum Levy on sale of petroleum products- Rs 1,653.88 million⁶.
- vii. Short-realization of royalty on LPG from E & P companies- Rs 1,198.80 million⁷.
- viii. Short-payment of royalty on natural gas due to difference of quantity between gas produced & saved and sold - Rs 1,025.53 million⁸.
- ix. Unauthorized refund of Petroleum Levy⁹.

Audit Paras for the audit year 2014-15 involving procedural violations, internal control weaknesses and irregularities not considered worth reporting to the PAC have been included as Annexure – I to this Report.

g. Recommendations

MPNR is required to:-

- i. take measures for legislation strictly in line with the Constitution.
- ii. take action for early recovery of amount pointed out.
- iii. establish internal audit wing and strengthen the legal cell to prevent recurring violations and irregularities.
- iv. proactively coordinate with OGRA to safeguard public interest while determining Final Revenue Requirements.
- v. maintain company and each field's record for timely realization of government revenue and reconciliation.
- vi. incorporate legal provisions for imposition of default surcharge on late payment of Petroleum Levy, discount retained on local crude oil price in line with Sales Tax Act 1990 and Federal Excise Act 2005.

¹ Para 2.4.1

² Para 2.4.2

³ Para 2.4.3

⁴ Para 2.4.4

⁵ Para 2.4.5

⁶ Para 2.4.6

⁷ Para 2.4.7

⁸ Para 2.4.8

⁹ Para 2.4.14, 2.4.16

SUMMARY TABLES

Table 1: Audit Work Statistics

(Rs in million)

Sr. No.	Description	No.	Revenue
1	Total entities (Ministries/PAOs) in audit jurisdiction	1	305,712*
2	Total formations in audit jurisdiction	16	305,712
3	Total entities (Ministries/PAOs) audited	1	305,712
4	Total formations audited	16	305,712
5	Audit & Inspection Reports**	13	-

**Financial Statements for the FY 2013-14*

***The results of three formations were merged*

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	229,801
4	Others	-
Total		229,801

Table 3: Outcome Statistics

(Rs in million)

Sr. No.	Description	AY 2014-15	AY 2013-14
1	Outlays audited (Revenue Receipts)	305,712	280,188
2	Monetary Value of Audit Observations	229,801	60,623
3	Recoveries pointed out by Audit	147,461	60,421
4	Recoveries accepted/established at the instance of Audit	146,992	60,336
5	Recoveries realized at the instance of Audit	8,875*	33,396

**Recoveries realized include amount recovered and verified from 16.01.2014 to 31.01.2015.*

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.	82,121
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	-
3	Accounting Errors (accounting policy departure from IPSAS, 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.	146,992
6	Non-production of record.	-
7	Others.	219

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

Sr. No.	Description	AY 2014-15	AY 2013-14	AY 2012-13
1	Outlays audited (Item 1 of Table 3)	305,712	280,188	186,377
2	Expenditure on Audit	6.81	6.44	9.00
3	Recoveries realized at the instance of Audit	8,875	33,396	14,378
4	Cost-Benefit Ratio	1:1303	1:5186	1:1597

CHAPTER-1 PUBLIC FINANCIAL MANAGEMENT ISSUES

1.1 *Audit Paras*

Significant paras framed during audit of Ministry of Petroleum & Natural Resources (MPNR) for FY 2013-14 are as under:

1.1.1 Variation between departmental and AGPR's figures -Rs 155 million

Risk Categorization: High

Criteria

Para 5 (d) of System of Financial Control and Budgeting 2006, requires each Principal Accounting Officer to make sure that the accounts of receipts are maintained properly and reconciled on monthly basis.

Observation

A comparison of the DGPC, Islamabad's reported figures of collection of royalty on oil and gas deposited by E&P companies in the Islamabad region with figures reconciled with AGPR, Islamabad revealed a variation of Rs 155 million during financial year 2013-14. The figures booked by the AGPR were understated as detailed below:

(Rs in million)

Head of Account	Departmental's Figures	AGPR's Figures	Variation
Royalty on Oil	25,181	25,163	(18)
Royalty on Gas	27,490	27,353	(137)
Total	52,671	52,516	(155)

Implication

This showed weak monitoring by DGPC, lack of meaningful reconciliation with the AGPR and excess reporting of royalty money to the Finance Division.

Management Reply

The department did not furnish reply till finalization of the report.

DAC's Recommendations

The DAC in its meeting held on 01.01.2015 directed the DGPC to submit a comprehensive reply within 15 days.

Audit Comments

Audit emphasizes timely reconciliation of receipts with AGPR to reach correct accounting figures and avoid mis-reporting.

[MR-4]

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

The E&P companies under the jurisdiction of DGPC, Islamabad deposited Rs 30 million as Royalty on Crude Oil and Rs 135 million as Royalty on Natural Gas later than the prescribed time with delays ranging from 9 to 285 days during financial year 2013-14.

Implications

- (i) Non-compliance of Rules by E & P companies and weak monitoring by DGPC.
- (ii) Delayed release of proportionate share of royalty to the provinces.

Management Reply

The department did not furnish reply till finalization of the report.

DAC's Recommendations

The DAC in its meeting held on 01.01.2015 directed the DGPC to submit a comprehensive reply within 15 days.

Audit Comments

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

[MR-3]

1.1.3 Non-reconciliation of non-tax receipts figures with AGPR

Risk Categorization: High

Criteria

Para 5 (d) of System of Financial Control and Budgeting, 2006, requires each Principal Accounting Officer to make sure that the accounts of receipts are maintained properly and reconciled on monthly basis.

Observation

The Director General (Oil), Islamabad did not reconcile collection of Petroleum Levy, Discount Retained on Crude Oil and Windfall Levy with the respective sub-offices of AGPR for the FY 2013-14. In the absence of reconciled figures, Audit could not verify the accuracy and completeness of receipts reported to the Ministry of Finance.

Implication

Non-reconciled figures impair the authenticity of financial statements of the Federal Government.

Management Reply

The department did not furnish reply till finalization of the report.

DAC's Recommendations

The DAC in its meeting held on 01.01.2015 directed the DG (Oil) to submit a comprehensive reply within 15 days. No further progress was reported till finalization of the report.

Audit Comments

Reconciliation of receipts with AGPR is emphasized.

[MR-1]

1.1.4 Late payment of Gas Development Surcharge by E&P companies

Risk Categorization: High

Criteria

According to Section 3 (1) of 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 15 per cent 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.

Observation

The gas distribution companies under the jurisdiction of DG (Gas), Islamabad deposited Gas Development Surcharge of Rs 10,348 million beyond the specified time with delays ranging from 1 to 212 days during the financial year 2013-14.

Implications

- (i) Non-compliance of Rules by the companies and weak monitoring by DG (Gas).
- (ii) Late release of straight transfer of GDS to the provinces.

Management Reply

The department did not furnish reply till finalization of the report.

DAC's Recommendations

The DAC in its meeting held on 01.01.2015 directed the DG (Gas) to submit a comprehensive reply within 15 days. No reply was furnished till finalization of the report

Audit Comments

Audit recommends timely deposit of Gas Development Surcharge by gas distribution companies.

[MR-2]

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, secure and make 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 DG Petroleum Concession, DG (Oil) and DG (Gas). The Directorate General Petroleum Concession deals with receipts of royalty on Oil and Gas, rent of lease/licenced area, 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 and Gas Infrastructure Development Cess.

2.2 Comments on Budget and Accounts

This chapter deals with royalty on Oil and Gas, Gas Development Surcharge, Petroleum Levy, Windfall Levy and Discount Retained on Local Crude Oil price collected by Ministry of Petroleum and Natural Resources.

2.2.1 Revenue Collection vs Targets

A comparison of revised estimates and actual receipts of the Ministry for the financial year 2013-14 is tabulated below:

(Rs in million)

Nature of Receipt	Original Target*	Revised Target*	Collection 2013-14	Difference from Revised Target	
				Absolute (4-3)	Percentage
1	2	3	4	5	6
Petroleum Levy	120,000	108,000	103,534	(4,466)	(4)
Development Surcharge on Gas	35,339	39,000	38,530	(470)	(1)

Royalty on Oil	32,502	33,345	34,047	702	2
Royalty on Gas	39,744	42,711	42,497	(214)	(1)
Discount Retained on Local Crude Oil Price	18,000	18,000	37,288	19,288	107
Windfall Levy	25,000	15,000	17,999	2,999	20
Gas Infrastructure Development Cess	38,000	88,000	31,817	(56,183)	(64)
Petroleum Levy on LPG	1,000	1,000	-	(1,000)	(100)
Total	309,587	345,056	305,712	39,340	(11)

**Explanatory Memorandum of Federal Receipts 2014-2015 and Financial Statements for the FY 2013-14*

The Ministry collected Rs 305,712 million against revised estimates of Rs 345,056 million for the FY 2013-14. It showed less collection of Rs 39,344 million (11.40%) compared with the revised estimates of the receipts.

2.2.2 Comparison of actual receipts between the financial year 2012-13 and 2013-14

A comparison of actual receipts between the financial years 2012-13 and 2013-14, is tabulated below:

(Rs in million)

Nature of Receipt	Collection		Difference	
	FY: 2013-14	FY: 2012-13	Absolute	Percentage
1	2	3	4	5
Petroleum Levy	103,534	60,371	43,163	72
Development Surcharge on Gas	38,530	19,224	19,306	100
Royalty on Oil	34,047	23,275	10,772	46
Royalty on Gas	42,497	39,530	2,967	8
Discount Retained on Local Crude Oil Price	37,288	30,761	6,527	21
Windfall levy	17,999	23,752	(5,753)	(24)
Gas Infrastructure Development Cess	31,817	12,685	19,132	151
Petroleum Levy on LPG	0	0	-	-
Total	305,712	280,188	25,526	9

Source: Financial Statements of the Federal Government for the FYs 2012-13 and 2013-14

The table showed increase in collection of Rs 25,526 million (9.11%) in receipts of the Ministry during the fiscal year 2013-14 than those of fiscal year 2012-13.

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	8	7	53
1999-00	04	04	-	100
2000-01	05	-	05	0
2001-02	01	-	01	0
2002-03	1	-	1	0
2003-04	1	-	0	1
2004-05	04	-	04	0
2005-06	02	01	1	50
2007-08	No PAC held	-	-	-
2008-09	10	10	-	100
2009-10	No PAC held	-	-	-
2010-11	No PAC held	-	-	-
2011-12	No PAC held	-	-	-
2012-13	No PAC held	-	-	-
Total	59	36	23	61

The table showed poor compliance of PAC's directives. The Ministry needs to take the issue of compliance of PAC's directives seriously to improve present position.

2.4 Audit Paras

Irregularity & Non-Compliance

2.4.1 Irrecoverable loss of revenue due to defective legislation - Rs 164,821 million

According to Section 3 of Gas Infrastructure Development Cess Act 2011, every company specified in First Schedule to the Act shall collect and pay cess at the rates specified in the Second Schedule. The cess so collected shall be utilized for or in connection with infrastructure development of Iran-Pakistan Pipeline Project, Turkmenistan-Afghanistan-Pakistan-India Pipeline Project, LNG or other projects or for price equalization of other imported alternative fuels including LPG. Further, Article 73 (2) (a) of the Constitution of Islamic Republic of Pakistan 1973, states that a Bill shall be deemed to be a Money Bill if it contains provisions dealing with the imposition, abolition, remission, alternation or regulation of any tax.

Pursuant to the GIDC Act 2011, the Director General (Gas), Islamabad realized Gas Infrastructure Development Cess of Rs 79,815 million during the period from FY 2011-12 to FY 2013-2014, whereas an amount of Rs 85,006 million was invoiced by M/s SNGPL, M/s Mari Petroleum Company Ltd and M/s SSGCL during FY 2013-14. However, the invoiced amount was not realized on the basis of decision of the Peshawar High Court which declared imposition of GIDC against the law and the same was upheld by the Apex Court's decision dated 27.08.2014. According to the verdict of the Supreme Court, the cess was defined as a fee not tax and cannot be imposed under Article 73 (2) (a) of the Constitution. In the decision, the Federal Government was further directed that the GIDC already recovered from the customers be refunded to them.

The issue was pointed out to the department in December 2014. The department informed that the Federal Government had promulgated an Ordinance on 24.09.2014 to continue collection of GIDC at rates being notified in the GIDC Act 2011. The MPNR has also filed a review petition in the Supreme Court. The final hearing was fixed on 30.12.2014. Further, The Attorney General of Pakistan had also been requested to defend the case on forthcoming hearing. The DAC in its meeting held on 01.01.2015 directed the

department that the outcome of appeal filed against the decision of Apex Court may be communicated to Audit. Further progress was not reported till finalization of the report.

Audit recommends that the final decision of the Supreme Court be communicated to proceed further in the matter.

[DP Nos. 1877-DG(Gas), 95&106 /GIDC-K]

2.4.2 Sale of crude oil and gas produced illegally under extended well testing facility - Rs 40,131 million

According to Rules 20 and 22 (1) & (2) of E & P Rules 1986 and 2001 respectively, holder of a licence having made a discovery of petroleum shall perform such additional work as the government, after consultation with the holder, may specify, so as to enable the holder to make timely determination of a discovery as a commercial discovery. Subject to agreement on such additional work and the holder having complied with the work programme and his other obligations shall be entitled to renewal of the licence not exceeding one year as per E & P Rules 1986 and two years as per E & P Rules 2001 for the purpose of expeditious appraisal and evaluation of the discovery. The holder of the licence shall not be entitled to extract any petroleum from discoveries other than such test and early production as the government may allow upon a written request submitted by the holder of a licence provided however, that in no event, such test or early production shall cause loss of revenues to the government.

The DGPC, Islamabad irregularly allowed the facility of extended well testing (EWT) to M/s OMV and M/s MOL operating the licences at Saqib & Mamikhel and Maramzai fields respectively where the production of petroleum products had been commenced in calendar year 2009 under the Pakistan Petroleum (Exploration and Production) Rules 1986 which have no provision for grant of facility of EWT. The facility of EWT was introduced in Petroleum Policy, 2009 and being the licence holder under E & P Rules, 1986, these companies were not eligible for this facility. Further, despite lapse of around five years and sale of petroleum products worth billions of rupees annually, both companies neither applied for grant of lease nor the DGPC took appropriate action. Audit was of the view that these companies are extracting and producing

petroleum in the garb of conducting tests. Moreover, by utilizing the EWT facility, irregularly granted by DGPC, are disposing of extracted petroleum. Audit also held the view that EWT facility granted by DGPC paved the way for the companies to sell the crude oil to refineries as without EWT it would not have been possible for them to extract huge quantity of hydrocarbons. The E & P companies conducted unlawful business of Rs 40,131 million during the financial year 2013-14 under the cover of test productions.

The lapse was pointed out to the department in December 2014 but no reply was furnished by the department. The DAC in its meeting held on 01.01.2015 directed the department to submit a comprehensive reply within 15 days. No reply was furnished till finalization of the report.

Audit recommends deposit of entire amount of sale of petroleum products produced under EWT in the national exchequer, provision of data since 2009 to ascertain the quantum of production and sales, besides fixing of responsibility.

[DP No. 1865-DGPC]

2.4.3 Non-recovery of Gas Development Surcharge - Rs 9,439.86 million

According to Section 3 (1) of Natural Gas (Development Surcharge) Ordinance 1967, every company shall collect and pay to the Central Government a development surcharge equal to the differential margin in respect of natural gas sold by it. Further, Rules 3 (a) of Natural Gas (Development Surcharge) Rules 1967 provides that every company shall deposit at the Government treasury the amount of development surcharge payable by it in respect of the sales during the calendar month within two months of the close of that month.

The Director General (Gas), Islamabad did not take appropriate action for recovery of gas development surcharge on gas sold by M/s MPCL, M/s SNGPL, M/s PPL and M/s SSGCL during financial year 2013-14.. This resulted in non/short-recovery of Gas Development Surcharge of Rs 9,439.86 million.

The lapse was pointed out to the department in November and December 2014. The department informed that an amount of Rs 2,628.05 million had been

recovered from M/s MPCL and M/s PPL, Rs 450 million relating to MPCL was not due which was verified by Audit. The DAC in its meeting held on 01.01.2015 directed the department to expedite the recovery of balance amount of Rs 6,361.81 million. Further progress was not reported till finalization of the report.

Audit requires expeditious recovery of the amount involved along with accrued interest.

[DP Nos. 1879-DG(Gas), 96,104 &112/GDS-K/]

2.4.4 Non-realization of liquidated damages from E & P companies - Rs 7,449.62 million

According to Rules 26 (1) of Pakistan Petroleum (Exploration and Production) Rules 2001, where upon the surrender or the expiry of a licence, the obligations pursuant to Rules 20 or 22 were not fulfilled, the holder shall either:

- (a) pay to the Government such sum by way of liquidated damages which correspond to the minimum expenditure of un-discharged work obligations as set forth in the licence within a period of thirty days from the surrender or expiry of the licence; or
- (b) request the Government to allow transfer of un-discharged work obligation committed under Rules 20 to another area if it is demonstrated to the satisfaction of the Government that there is no drillable prospect in the licence area. Such transfer shall be subject to such terms and conditions as may be specified by the Government on case-to-case basis.

The DGPC, Islamabad neither initiated action for recovery of liquidated damages from 12 E&P companies who failed to discharge their work obligations in licenced areas nor provided proof of transfer of the un-discharged work obligations to other areas during financial year 2013-14. This resulted in non-realization of liquidated damages of Rs 7,449.62 million.

The lapse was pointed out to the department in December 2014 but reply was not furnished. The DAC in its meeting held on 01.01.2015 directed the

department to submit comprehensive reply within 15 days. No reply was furnished till finalization of the report.

Audit requires recovery of liquidated damages from concerned E&P companies or proof of transfer of un-discharged work obligations to other areas.

[DP No. 1866-DGPC]

2.4.5 Non-payment of Royalty on Crude Oil and Natural Gas - Rs 276.99 million

According to the Regulation of Mines & Oilfields and Mineral Development (Government Control) Act 1948 read with Rules 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 wellhead value of the petroleum produced and saved within 10 days of the expiry of the calendar month.

The DGPC, Islamabad did not realize royalty from six E&P companies on crude oil and natural gas produced and saved. This resulted in non-payment of royalty on crude oil and natural gas amounting to Rs 276.99 million during financial year 2013-14.

The lapse was pointed out to the department in December 2014. The department reported recovery of Rs 187.04 million. The DAC in its meeting held on 01.01.2015 directed the department to get verified recovery from Audit and to expedite efforts to recover the balance amount. Further progress was not reported till finalization of the report.

Audit requires expeditious recovery of government revenue.

[DP No. 1870-DGPC]

2.4.6 Non-realization of Petroleum Levy on sale of petroleum products - Rs 1,653.88 million

According to Section 3 of Petroleum Products (Petroleum Levy) Ordinance 1961 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*, Petroleum Levy is to be collected at rates notified by the DG (Oil) / OGRA in the same manner as excise duty is collected under the Federal Excise Act.

The Director General (Oil), Islamabad did not realize Petroleum Levy from M/s Byco Refinery Ltd, Karachi. This resulted in non-realization of PL of Rs 1,653.88 million during financial year 2013-14.

The irregularity was pointed out to the department in August 2014. The department reported recovery of Rs 494.20 million which was verified by Audit. In the DAC meeting held on 01.01.2015, the department was directed to expedite the recovery of the balance amount of Rs 1,159.68 million. Further progress was not reported till finalization of the report.

Audit requires expeditious recovery of revenue and imposition of default surcharge on amount withheld by M/s Byco, besides fixing responsibility for non-realization of Petroleum Levy.

[DP Nos. 77&78/PL-K]

2.4.7 Short-realization of royalty on LPG from E & P Companies - Rs 1,198.80 million

According to the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act 1948 read with Rules 36 of the 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 wellhead value of the petroleum produced and saved. Rules 2(k) of E & P Rules 1986 define wellhead price as the market value of the petroleum less gathering, processing, treatment and transportation costs from the wellhead to the place at which the market value is determined, and in the case of natural gas shall also include compression, dehydration and liquefaction costs. Rules 38 (a) further clarifies the market value as the value of petroleum actually realized in such sales.

The DGPC, Islamabad recovered royalty on liquefied petroleum gas (LPG) at value less than the actual sale value of LPG produced and saved by ten

E&P companies during financial year 2013-14. This resulted in short-payment of royalty amounting to Rs 1,198.80 million.

The lapse was pointed out to the department in December 2014 but no reply was furnished by the department. The para was discussed at length in the DAC meeting held on 01.01.2015 which directed the DGPC to frame a comprehensive reference, in consultation with DG Audit Customs & Petroleum Lahore to obtain fresh opinion from Ministry of Law, Justice & Parliamentary Affairs for levy and collection of royalty on LPG in the light of prevailing Rules and international practices. However, no request for consultation was received from DG PC till finalization of the report.

Audit requires expeditious recovery of the amount involved.

[DP No. 1867-DGPC]

2.4.8 Short-payment of royalty on natural gas due to difference of quantity between gas produced & saved and sold - Rs 1,025.53 million

According to the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act 1948 read with Rules 36 of the 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 wellhead value of the petroleum produced and saved.

The DGPC, Islamabad did not take into account the difference between the quantity of natural gas produced & saved, and quantity of gas sold by M/s OGDCL during financial year 2013-14. The quantity of natural gas produced & saved was on higher side as compared to quantity of gas sold. The production and sale of gas from only 6 fields of the operator was reviewed for this purpose. This resulted in short-payment of royalty on natural gas Rs 1,025.53 million.

The lapse was pointed out to the department in December 2014. The department did not furnish any reply. The DAC in its meeting held on 01.01.2015 directed the DGPC to submit a comprehensive reply within 15 days. No reply was furnished till finalization of the report.

Audit recommends a comprehensive reconciliation of production and sale of gas by M/s OGDCL not only for these fields but for all the fields operated by E & P companies, besides recovery from M/s OGDCL.

[DP No. 1868-DGPC]

2.4.9 Short-realization of licence and lease rent from on-shore E & P companies - Rs 551.06 million

According to Pakistan Petroleum (Exploration and Production) Rules 1986, 2001 and 2009, the licensee/lessee shall pay to the Government annually in advance, rent at rates prescribed therein. However, these rates are indexed on yearly basis vide DGPC's letter No. Accounts-3(31)AR-2008-09Vol-3 Pt (Per Audit) dated 18.11.2011.

The DGPC, Islamabad did not demand and recover licence/lease rent charges from 22 E & P Companies in respect of 24 lease areas and 105 licenced fields during financial year 2013-14. This resulted in non-recovery of licence/lease rent amounting to Rs 551.06 million.

The lapse was pointed out to the department in December 2014. The department reported recovery of Rs 18.01 million and provided evidence of already recovered amount of Rs 18.57 million leaving a balance of Rs 514.43 million which was verified by Audit. The DAC in its meeting held on 01.01.2015 directed to expedite efforts to recover the balance amount. Further progress was not reported till finalization of the report.

Audit recommends expeditious recovery of the balance amount of Rs 514.43 million, besides consideration of penalty clauses in relevant Rules for delayed payments.

[DP No. 1869-DGPC]

2.4.10 Non-realization of interest on late payment of Gas Development Surcharge - Rs 515.56 million

Section 3 (a) of Natural Gas (Development Surcharge) Rules 1967 read with Sections 3 (1) and 3 (3) of Natural Gas (Development Surcharge) Ordinance 1967 provides that an interest at the rate of 15 per cent shall be

payable on any amount due and not paid within the calendar month within two months of the close of that month.

The Director General (Gas), Islamabad did not recover interest on late payment of Development Surcharge on gas sold by M/s Mari Petroleum Company, M/s SSGCL and M/s PPL during financial year 2013-14. This resulted in non-realization of interest of Rs 515.56 million.

The lapse was pointed out to the department during August 2014 to December 2014. The DAC in its meeting held on 01.01.2015 directed the MPNR and DG (Gas) to convene a meeting on the issue comprising representatives of Ministry of Finance, Water and Power Development Authority and respective companies within 3 months. Further progress was not reported till finalization of the report.

Audit recommends expeditious recovery of the amount pointed out.

[DP Nos. 1878-DG(Gas), 99&111/GDS-K]

2.4.11 Short/non-realization of production bonus from E & P companies - Rs 111.67 million

According to clauses 2.2.4, 2.2.5 & 5.1.2 of Petroleum Policy 1994, 1997, 2001, 2007 & 2009 read with clause 23 of Petroleum Concession Agreement of concerned E & P companies, production bonus for all concession areas will be payable to the President, at the rates specified therein.

The DGPC, Islamabad either did not realize or short realize production bonus from two E & P companies extracting oil and gas from the concession areas during financial year 2013-14. This resulted in non-realization of production bonus of Rs 111.67 million.

The lapse was pointed out to the department in December 2014. The department did not furnish any reply. The DAC in its meeting held on 01.01.2015 directed the department to submit comprehensive reply within 15 days. No reply was furnished till finalization of the report.

Audit recommends expeditious recovery of the amount pointed out besides consideration of penalty clauses in relevant Rules for delayed payments.

[DP No. 1872-DGPC]

2.4.12 Short-realization of rent of exploration licence of off-shore fields from E & P companies - Rs 99.41 million

According to Rules 32 of Pakistan Off-shore 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 US\$ 50,000 plus US\$ 10 per square kilometre of area included in the contract area. However, these rates are indexed on yearly basis vide DGPC's letter No. Accounts-3(31) AR-2008-09 Vol-3 Pt (Per Audit) dated 18.11.2011.

The DGPC, Islamabad did not recover rent of 5 off-shore exploration licences from 3 E & P companies who paid licence rent at lesser rates during financial year 2013-14. This resulted in short-recovery of rent of Rs 99.41 million.

The lapse was pointed out to the department in December 2014. The department informed that companies were not paying indexed rent according to the decision of the Ministry of Law, Justice & Parliamentary Affairs. The DAC in its meeting held on 01.01.2015 directed the department that Law Division had already clarified the issue and rent should be collected accordingly from companies concerned. Further progress was not reported till finalization of the report.

Audit recommends expeditious recovery of the amount pointed out, besides provision of penalty clauses in relevant Rules for delayed payments.

[DP No. 1873-DGPC]

2.4.13 Non-realization of fine on late payment of royalty on natural gas - Rs 1.37 million

According to the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act 1948 read with Rules 35 (3) of Pakistan Petroleum (Exploration and Production) Rules 2001, fine at rate of LIBOR plus two per cent shall be charged where the royalty is not paid within forty-five days of the end of the month of production.

The DGPC, Islamabad did not recover fine from M/s Polish Oil & Gas Company on late payment of royalty on natural gas ranging from 3 to 193 days during financial year 2013-14. This resulted in non-realization of fine of Rs 1.37 million on late payment of royalty.

The lapse was pointed out to the department in December 2014. The department informed that the matter had been taken up with the concerned company. The DAC in its meeting held on 01.01.2015 directed the department to expedite recovery. Further progress was not reported till finalization of the report.

Audit recommends expeditious recovery of the amount pointed out.

[DP No. 1875-DGPC]

2.4.14 Unauthorized refund of Petroleum Levy

According to Rules 3 of the Petroleum Products (Development Surcharge) Rules 1967, in relation to oil companies other than refineries the prescribed price of a petroleum product specified in the Schedule shall be determined after taking into account the following, as may be applicable:

- a) cost and freight of the products on the basis of authorized imports;
- b) marine Insurance
- c) ocean losses
- d) statutory charges
- e) distribution margin
- f) expenses incurred by a company on the inland transportation of petroleum products
- g) dealer's commission

Further, according to Rules 7, the prescribed price of the petroleum products refined by refineries in Pakistan shall be determined by the Directorate having regard to the common elements included in the prescribed price of the imported petroleum products.

The Director General (Oil), Islamabad sanctioned refund of Petroleum Levy of Rs 8,178.63 million to M/s Chevron Pakistan Limited, M/s Shell Pakistan Limited and M/s Pakistan State Oil Company Limited on the basis of price differential of high speed diesel and petrol, ignoring the fact that the prescribed price of the petroleum product was determined on the basis of the import parity price during financial year 2013-14. The amount of refund appeared in notes to financial statements of respective companies. The refund so sanctioned was found irregular as the notified prescribed price was inclusive of all expenses of imported petroleum products, and there exists no law for claim of price differential. In addition to the above, a refund receivable of Rs 12,012.62 million from government was still appearing in financial statements of these companies.

The irregularity was pointed out to the department in October 2014 but no reply was furnished by the department. The DAC in its meeting held on 01.01.2015 directed the department to submit a comprehensive reply within 15 days. No reply was furnished till finalization of the report.

Audit emphasizes that the amount refunded be recovered from concerned companies and processing of remaining claims be stopped immediately, besides fixing responsibility for this serious irregularity.

[Annexure-3]

2.4.15 Duality of practice for payment of Petroleum Levy at import stage

According to Section 30 (b) of the Customs Act 1969, the rate of duty applicable to any imported goods shall be the rate of duty in force on the date on which a goods declaration for clearance of such goods is manifested under Section 104 provided the duty is not paid within seven days of the goods declaration being manifested, the rate of duty applicable shall be the rate of duty on the date on which the duty is actually paid, provided further that the Federal Government may, by notification in the official Gazette, for any goods or class of goods, specify any other date for the determination of rate of duty.

The Director General (Oil), Islamabad did not take appropriate action for removal of duality in application of rate of petroleum levy at import stage.

Following two practices were being followed by customs authorities to apply the rate of PL at import stage:

- (i) The date of filing of goods declaration as envisaged in Section 104 of the Customs Act 1969.
- (ii) The date of actual removal of oil from the warehouse as per clarification issued by the Ministry of Law, Justice and Parliamentary Affairs vide U.O. No. 279/2011-Law-I dated 21.06.2011.

The practices which benefited the most to respective bonders were being followed by customs authorities when the rate of PL changed. An analysis of impact of both practices on the bonder and federal government is given below:

Particulars	Rate of PL goes up		Rate of PL goes down	
	Date of GD filing	Date of removal	Date of GD filing	Date of removal
Beneficiary	Bonder	Fed Govt	Fed Govt	Bonder

Further, the Customs Act 1969 provides for application of rate of duty and taxes prevailing on the date of filing of goods declaration and Audit endorsed the provisions of Section 104. In the FY 2013-14, the rates of PL were reduced eight times. To avoid negative financial impact of this reduction in rates, the bonded warehouse at Faisalabad did not remove the imported oil and met the customers need by removing oil purchased locally.

The lapse was pointed out to the department in December 2014. In DAC meeting held on 01.01.2015, the para was discussed at length. The DAC directed the DG (Oil) to forward interpretation made by the Law Division to FBR for confirmation or otherwise within 15 days. In case of non-receipt of reply, interpretation made by the Law Division will be deemed to have been accepted by the FBR. The department informed that the matter had been referred to FBR. Further progress was not reported till finalization of the report.

Audit recommends early resolution of the issue for uniform application of rate of PL.

[DP No.1881-DG(Oil)]

**2.4.16 Un-authorized claim for refund on export of petroleum products -
Rs 2,306.04 million**

According to Section 3 of the Petroleum Levy Ordinance 1961, every refinery and every company shall pay to the Federal Government a Development Surcharge equal to the differential margin in respect of petroleum products produced or, as the case may be, purchased by it for resale except for export.

The note 14.1 to financial statements of M/s Shell Pakistan Limited, Karachi for the year 2013-14 showed that a claim of Rs 2,306.04 million for refund of Petroleum Development Surcharge, on account of export sales in the year was pending with Federal Board of Revenue. The refund claim was irregular on the following grounds;

- a) PL is not leviable on the petroleum products meant for export.
- b) No law exists for refund of PL on the goods exported from Pakistan.

The irregularity was pointed out to the department in October 2014 but no reply was furnished by the department. The DAC in its meeting held on 01.01.2015 directed the department to submit a comprehensive reply within 15 days. No reply was furnished till finalization of the report.

Audit recommends that legal justification be provided for claim of refund.

[DP No. 92/PL-K]

Internal Control Weaknesses

INTOSAI defines internal controls 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.

Internal control environment of MPNR and its field formations was evaluated while conducting regularity audit for the year 2013-14. Weaknesses of internal controls observed are given in succeeding paragraphs:

2.4.17 Variation between training obligations received and disbursed

According to provisions of Petroleum Concession Agreements (PCAs), operators of leases are required to establish programme to train personnels of the DGPC and the Government, locally and abroad, to develop the capability of personnels to effectively perform their duties concerning supervision of the petroleum industry. Such training programme shall cover both the technical and management disciplines (e.g. geology, geophysics, engineering, project management, accounting and legal) and shall include on-job training and participation in in-house seminars. Working interest owners are required to spend a minimum US\$ 10,000 per year prior to the date of commercial discovery for training. Commencing with the date of commercial discovery, the minimum expenditure on training is required to be increased to US\$ 25,000 per annum. The unspent training amount during a year is required to be deposited into a special account maintained for the purpose by the DGPC. According to Section 3 of guidelines for utilization of training obligation, it will be managed as under:

- 50% of the fund shall be earmarked by the operator for imparting training to their Pakistani national employees. As per Rules/PCAs, every operator will be required to submit an annual employment and training programme in the month of January each year to DGPC for approval.

- 25% of the total training fund obligation under the PCAs will be utilized by the Ministry of Petroleum & Natural Resources through DGPC as per policy.
- 25% of the total training fund obligation under the PCAs will be utilized by the DGPC on the internship/training of local inhabitants of the area of operations (district-wise).

The training fund shall be maintained by the DGPC. The unspent amount of training obligation shall be deposited in DGPC's training account as provided in the PCAs.

A comparison of cash book and bank account maintained by the DGPC revealed a variation of Rs 2,043 million between the closing balance of cash book and bank account during financial year 2013-14, as tabulated below;

(Rs in million)

Particulars	Amount
Opening balance of cash book as on 01.07.2013	838
Deposits during the year	2,252
Total available for use	3,089
Disbursements during the year	635
Closing balance of cash book as on 30.06.2014-A	2,456
Closing balance as per bank account as on 30.06.2014-B	412
Variation (A-B)	2,043

The above table shows that either the payment side of cash book was understated or the disbursements of Rs 2,043 million (2,456 - 412) were made out of banking channel. Further, continuous payments were made in connection with a case before International Court of Arbitration, but the actual file of the case was not provided to Audit.

The lapse was pointed out to the department in December 2014. The department did not furnish any reply. The DAC in its meeting held on 01.01.2015 directed the department to submit comprehensive reply within 15 days. No reply was furnished till finalization of the report.

Audit recommends that record of entire account of disbursements from training obligations be provided and arrangements be made for utilization of unspent balance.

[DP No. 1876-DGPC]

2.4.18 Delay in determination of final revenue requirements

According to Section 8 (1) of Oil & Gas Regulatory Authority Ordinance 2002, the authority shall determine an estimate of the total revenue requirement of each licensee for natural gas engaged in transmission, distribution and the sale of natural gas to a retail consumer for natural gas, in accordance with the Rules, and on that basis advise the Federal Government the prescribed price of natural gas for retail consumers.

Further, according to timeframe laid down in Rules 4 to 18 of the Oil & Gas Regulatory Authority Rules 2002, the process of determination of total revenue requirement of a gas company shall start from first day of December and finish by 17th June and OGRA shall advise the Federal Government the prescribed price which should apply to consumers for natural gas. The Federal Government shall as soon as may be but not later than forty days advise OGRA the sale price of natural gas. If the Federal Government did not advise within forty days, OGRA shall notify the prescribed price, as determined by it, to be the sale price for retail consumers for natural gas before the generating of first bill for July of the respective financial year.

The MPNR and the DG (Gas) did not pursue vigorously the OGRA who failed in determination of total revenue requirements in respect of M/s SNGPL and M/s SSGCL for the financial years 2012-13 and 2013-14 which should have been finalized on 17.06.2012 and 17.06.2013 respectively. This resulted in non-determination of prescribed price by OGRA and sale price of gas by government depriving the government of GDS of billions of rupees.

The irregularity was pointed out to the department in August 2014, the department replied that the determination of revenue requirement fell within the scope of OGRA, hence, the same might be referred to OGRA. The DAC in its meeting held on 01.01.2015 directed the department to take up the issue with OGRA. Further progress was not reported till finalization of the report.

Audit recommends timely determination of total revenue requirements.

[DP No. 97/GDS-K]

2.4.19 Non-submission of monthly returns by M/s SSGCL

Under Rules 2 and 3 of the Natural Gas (Development Surcharge) Rules 1967, every company shall, in respect of each calendar month, submit to the Federal Government, before the close of the month next following, a statement showing quantity of the natural gas sold and the rates at which the Development Surcharge has been calculated. After 15 days of deposit of the Development Surcharge, within two months of the close of that month, the company shall submit a statement showing the amount of development surcharge and treasury challan numbers with date and other particular as prescribed. Further, under Rules 2 of the Gas Infrastructure Development Cess Rules 2011, every company shall, in respect of each calendar month, submit to the Federal Government, before the close of the month next following, a statement showing quantity of the natural gas sold to various categories of consumers and the Gas Infrastructure Development Cess accrued on the sales.

The DG (Gas), Islamabad and OGRA did not take notice of non-compliance of legal requirements of the Natural Gas (Development Surcharge) Rules 1967 as M/s SSGCL did not submit monthly statements during the financial years 2012-13 and 2013-14.

The lapse was pointed out to the department in November 2014. The department replied that all the information of GDS was submitted to the Ministry by M/s SSGCL as and when required. In its meeting held on 01.01.2015, the DAC directed the department to justify the reasons of non-fulfilment of legal provision and ensure compliance of Rules in the future. Further progress was not reported till finalization of the report.

Audit emphasizes strict compliance of Rules for transparency of financial matters.

[DP Nos. 93&94/GDS-K]

The following additional weaknesses were also noted after identification and evaluation of both the control environment and the effectiveness of internal controls:

- 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.
- b) Adequate and effective monitoring system was not found in place to ensure progress of exploration after obtaining licences, transfer of work commitment to other blocks, timely grant of lease where commercial production commenced and realization of receipts accordingly.
- c) Mechanism to watch compliance of provisions of various Rules and regulations was not found by Audit.
- d) Weak enforcement of laws and Rules; for instant DGPC failed to get the compliance of indexation made at Ministry level from concerned E & P companies.
- e) Non-reconciliation of Petroleum Levy by the DG (Oil), Islamabad.
- f) Internal audit wing did not exist at MPNR.
- g) Non-existence of recovery cell to ensure timely realization of amounts due to government.
- h) Poor liaison between sub-offices of Ministry with the office of Chief Finance & Accounts Officer, resulting weak control environment causing repeatedly occurrence of irregularities and non-compliance.

Recommendations

Audit recommends that above mentioned weaknesses in internal controls need to be addressed on top priority basis. Moreover, adequate and effective internal controls need to be put in place to guard against recurring violations of Rules to ensure that losses of revenue are minimised.

Other

2.4.20 Non-spending of social welfare contribution in concession areas by E & P companies - Rs 219.55 million

Under provisions of the respective PCA, every working interest owner shall contribute and the operator shall spend a minimum sum of US\$ 10,000/20,000 before commercial discovery and US\$ 40,000 thereafter per year on 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 in consultation with local administration/provincial governments and the Ministry of Petroleum & Natural Resources.

The DGPC, Islamabad did not make schemes for social welfare to utilize the social welfare contributions which were either lying in respective District Coordination Officer's account or with E&P companies during financial year 2013-14. This resulted in non-spending of social welfare contribution of Rs 219.55 million.

The lapse was pointed out to the department in December 2014 but no reply was furnished. The DAC in its meeting held on 01.01.2015 directed the DGPC to submit a comprehensive reply within 15 days. No reply was furnished till finalization of the report.

Audit recommends that justification be provided for delay in spending of social welfare contributions for welfare of local people concerned.

[DP No. 1871-DGPC]

MFDAC

Statement of observations / paras included in MFDAC

(Rs in million)

S. No.	Name of formation	DP No.	Subject	Amount	Nature of observation
1	DGPC	1874	Short payment of royalty on gas due to non-application of wellhead value	75.47	Recovery
2	DGPC	103 &105/ Royalty-K	Short payment of royalty on gas	6,099.86	Recovery
3	DGPC	107/Royalty -K	Non payment of royalty on gas	762.05	Recovery
4	DGPC	101&102/ WLO-K	Non-payment of Windfall Levy	6,138.66	Recovery
6	DG PC	113&114/ Royalty-K	Short-payment of royalty due to irregular adjustment of rent.	2.28	Recovery
7	DG (Gas)	98 &100/ GDS-K	Loss of revenue due to irregular issuance of notification of prescribed price by OGRA	2,072.69	Recovery
8	DG (Gas)	99/GDS-K	Short payment of Gas Development Surcharge and interest thereon	250.89	Recovery
Total				15,401.90	

Annexure-2

Audit Impact Summary

- The Ministry recovered an amount of Rs 3,140.26 million on pointation by Audit during Audit Year 2014-15.
- A reference was made to FBR and Law Division simultaneously for clarification of rate of PL (date of GD filing or actual removal) applicable on oil removed from bonded warehouses due to the issue raised by Audit.
- Amendments were made in the E & P Rules for imposition of surcharge in case of delayed payment of royalty on oil and gas.
- The DAC directed DGPC to frame a comprehensive reference, in consultation with DG Audit, Customs & Petroleum to obtain a fresh opinion from Ministry of Law, Justice and Parliamentary Affairs on imposition of royalty on LPG keeping in view the prevailing Rules and international practices. However, request for consultation had not been received till finalization of the report.

Annexure-3
Para No. 2.4.14

Unauthorized refund of Petroleum Levy

(Rs in million)

Sr. No.	DP No.	Formation	Amount
1	79 PL-K	DG (Oil), Islamabad	116.9
2	80 PL-K	DG (Oil), Islamabad	66.45
3	81 PL-K	DG (Oil), Islamabad	555.11
4	82 PL-K	DG (Oil), Islamabad	5,000.00
5	83 PL-K	DG (Oil), Islamabad	1,350.96
6	84 PL-K	DG (Oil), Islamabad	514.6
7	85 PL-K	DG (Oil), Islamabad	602.6
8	86 PL-K	DG (Oil), Islamabad	1,800.00
9	87 PL-K	DG (Oil), Islamabad	3,908.58
10	88 PL-K	DG (Oil), Islamabad	3,407.36
11	89 PL-K	DG (Oil), Islamabad	454
12	90 PL-K	DG (Oil), Islamabad	2,071.11
13	91 PL-K	DG (Oil), Islamabad	343.58
Total			20,191.25