



**AUDIT REPORT  
ON  
THE ACCOUNTS OF RECEIPTS OF  
MINISTRY OF PETROLEUM &  
NATURAL RESOURCES  
AUDIT YEAR 2015-2016**

**AUDITOR-GENERAL OF PAKISTAN**

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# **SUMMARY TABLES**

## ABBREVIATIONS & ACRONYMS

AGPR	: Accountant General Pakistan Revenues
AY	: Audit Year
DAC	: Departmental Accounts Committee
DG	: Director General
DGPC	: Director General Petroleum Concessions
DP	: Draft Para
E&P	: Exploration and Production
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
LPG	: Liquefied Petroleum Gas
LMKR	: Land Mark Resources
MFDAC	: Memorandum for Departmental Accounts Committee
MMBTU	: Million Metric British Thermal Unit
MPCL	: Mari Petroleum Company Limited
MPNR	: Ministry of Petroleum and Natural Resources
MR	: Management Report
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



## **PREFACE**

Articles 169 and 170 of the Constitution of Islamic Republic of Pakistan, 1973 read with Section 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) 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 collected by and/or on behalf of the Ministry of Petroleum and Natural Resources for the Financial Year 2014-15. The Directorate General of Audit, Customs & Petroleum, conducted audit during the period from July, 2015 to November, 2015 on test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of this Audit Report includes audit findings having value of Rs. 1 million or more. Relatively less significant issues are listed in the Annexure-I to this Audit Report. The audit observations listed in the Annexure-I shall be pursued with the Principal Accounting Officer at the DAC level. In those cases where the PAO does not initiate appropriate action, the audit observations will be brought to the notice of the Public Accounts Committee through 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 held on 09 to 10 February, 2016.

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

Dated: 10 May 2016

(Rana Assad Amin)  
**Auditor-General of Pakistan**



## EXECUTIVE SUMMARY

The Directorate General of Audit, Customs & Petroleum, has the mandate to conduct financial attest and compliance with authority audit of receipts collected by and/or on behalf of 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 1,512 man-days incurring an expenditure of Rs. 6.90 million (approximately) on audit of three 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 at ensuring sustainable energy supply for economic development of Pakistan. It is required to facilitate and promote 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. 310,077 million during FY 2014-15 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. 433,825 million and revised estimates of Rs. 398,197 million. Thus there was a less collection of Rs. 88,120 million or 22.13 per cent over the revised estimates.

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

Audit pointed out recovery of Rs. 120,526 million during audit year 2015-16 against which an amount of Rs. 16,277 million was recovered by the MPNR during the period from 01.02.2015 to 31.01.2016.

**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. 4,847.69 million on pointation by Audit.
- A reference was made to FBR and Law Division simultaneously for clarification of rates of Petroleum Levy (PL), date of Goods Declaration (GD) filing or actual removal, applicable on oil removed from bonded warehouses due to the issue raised by Audit. Law Division had clarified the law point as pointed out by Audit which saved millions of revenue.
- Amendments were made in the E & P Rules for imposition of Surcharge in case of delayed payment of Royalty on Oil and Gas.
- A reference was made to Law Division for clarification of indexation of rates of rent on license and lease due to the issue raised by Audit. Law Division had upheld the viewpoint of Audit which enhanced revenue by billions of rupees.

**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. 120,526 million in respect of compliance with authority audit. The key audit findings are:

- (i) Loss of Rs. 86,156.43 million due to short-realization of Gas Infrastructure Development Cess<sup>1</sup>
- (ii) Loss of Rs. 8,160.31 million due to non-realization of liquidated damages and other obligations from E & P companies<sup>2</sup>
- (iii) Loss of Rs. 3,568 million due to short-realization of Royalty from E & P companies<sup>3</sup>
- (iv) Loss of Rs. 1,488.49 million due to non/short-realization of Production Bonus from E & P companies<sup>4</sup>
- (v) Loss of Rs. 7,451.32 million due to irregular prescribed price notified by OGRA<sup>5</sup>
- (vi) Loss of Rs. 7,003.37 million due to short-realization of Gas Development Surcharge<sup>6</sup>
- (vii) Recurring loss of Rs. 88.21 million due to change in Rules against public interest<sup>7</sup>
- (viii) Loss of Signature Bonus due to irregular extension of Sui lease without the concurrence of province<sup>8</sup>
- (ix) Loss of Rs. 1,472.48 million due to non/short-realization of Petroleum Levy on sale of petroleum products<sup>9</sup>
- (x) Loss of Rs. 1,147.96 million due to non/short-realization of license and lease rent from E & P companies<sup>10</sup>
- (xi) Unauthorized refund of Petroleum Levy Rs. 865.18 million<sup>11</sup>

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<sup>1</sup>Para 2.4.1; <sup>2</sup>Para 2.4.2; <sup>3</sup>Para 2.4.3 and 2.4.6; <sup>4</sup> Para 2.4.4; <sup>5</sup>Para 2.4.5; <sup>6</sup> Para 2.4.7 and 2.4.15; <sup>7</sup>Para 2.4.14; <sup>8</sup>Para 2.4.20; <sup>9</sup> Para 2.4.8, 2.4.18, 2.4.19; <sup>10</sup>Para 2.4.9 and 2.4.13; <sup>11</sup>Para 2.4.23

Audit paras for the Audit Year 2015-16 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 revenue and reconciliation.
- (vi) review the amendments made in Natural Gas (Development) Rules, 1967 where by the deposit of GDS was conditional with the payment received from vendor.

## SUMMARY TABLES

**Table 1: Audit Work Statistics**

*(Rs. in million)*

S.No.	Description	No.	Revenue
1	Total entities (Ministries/PAOs) in audit jurisdiction	1	310,077*
2	Total formations in audit jurisdiction	15	310,077
3	Total entities (Ministries/PAOs) audited	1	310,077
4	Total formations audited	15	310,077
5	Audit & Inspection Reports	15	-

*\*Financial Statements for the FY 2014-15*

**Table 2: Audit Observations regarding Financial Management**

*(Rs. in million)*

S.No.	Description	Amount
1	Unsound asset management	-
2	Weak financial management	-
3	Weak internal controls relating to financial management	120,526
4	Others	-
<b>Total</b>		<b>120,526</b>

**Table 3: Outcome Statistics**

*(Rs. in million)*

S.No.	Description	AY 2015-16	AY 2014-15
1	Outlays audited (Revenue Receipts)	310,077	305,712
2	Monetary Value of Audit Observations	169,813	229,801
3	Recoveries pointed out by Audit	120,526	147,461
4	Recoveries accepted/established at the instance of Audit	105,577	146,992
5	Recoveries realized at the instance of Audit	16,277*	8,875

*\*Recoveries realized include amount recovered and verified from 01.02.2015 to 31.01.2016.*

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

<b>S.No.</b>	<b>Description</b>	<b>Amount Placed under Audit Observation</b>
1	Violation of Rules and regulations and violation of principles of propriety and probity in public operations.	699
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.	118,350
6	Non-production of record.	-
7	Others.	1,477

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

<b>S.No.</b>	<b>Description</b>	<b>AY 2015-16</b>	<b>AY 2014-15</b>	<b>AY 2013-14</b>
1	Outlays audited (Item 1 of Table 3)	310,077	305,712	280,188
2	Expenditure on Audit	6.9	6.81	6.44
3	Recoveries realized at the instance of Audit	16,277	8,875	33,396
4	<b>Cost-Benefit Ratio</b>	<b>1:2359</b>	<b>1:1303</b>	<b>1:5186</b>

## CHAPTER-1 PUBLIC FINANCIAL MANAGEMENT ISSUES

### 1.1 Audit Paras

Significant paras framed during audit of Ministry of Petroleum & Natural Resources (MPNR) for FY 2014-15 are as under:

#### 1.1.1 Variation between departmental and Accountant General Pakistan Revenue's figures (AGPR) –Rs. 3.49 million

**Risk Categorization: High**

##### **Criteria**

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

##### **Observation**

A comparison of the Director General Petroleum Concession (DG PC), Islamabad's figures of collection of Royalty on Oil and Gas deposited by Exploration and Production (E & P) companies in Islamabad region with figures reconciled with AGPR, Islamabad revealed a variation of Rs. 3.49 million during the Financial Year 2014-15. The figures booked by the AGPR were understated as detailed below:

*(Rs. in million)*

<b>Head of Account</b>	<b>Department's Figures</b>	<b>AGPR's Figures</b>	<b>Variation</b>
Royalty on Oil	31,988.69	31,987.55	(1.14)
Royalty on Gas	42,045.80	42,050.43	4.63
<b>Total</b>	<b>74,034.49</b>	<b>74,037.98</b>	<b>3.49</b>

### ***Implications***

The variation was indicative of weak monitoring by the DG (PC), lack of meaningful reconciliation with AGPR and excess reporting of collection of Royalty money to the Finance Division.

### ***Management Reply***

The Department did not furnish reply till finalization of the Report.

### ***DAC Decision***

The DAC in its meeting held during 9 to 10 February, 2016 observed with concern that no working papers had been submitted for its examination. The DAC further directed the DG (PC) to ensure that concerns shown in the Management Report were duly considered and appropriate action was taken thereon. No further progress was intimated till finalization of the Report.

### ***Audit Recommendations***

Audit recommends timely reconciliation of the figures with AGPR with a view to obtain correct accounting figures and to avoid misreporting.

[MR-1]

### **1.1.2 Misclassification of collection of Royalty on Gas as Royalty on Oil – Rs. 1.08 million**

#### ***Risk Categorization: High***

#### ***Criteria***

Para 20 (3) of General Financial Rules provided that in order to minimize the differences between the Treasury figures and the Departmental figures it was essential that the challans through which money was remitted to the Treasury should bear full and correct classifications of accounts.

### ***Observation***

The DG (PC), Islamabad's reported figures of collection of Royalty on Gas classifiable under the Head of Account C03906 deposited by E & P companies and reconciled with Treasury were misclassified under incorrect Head of Account C03905- Royalty on Oil during the Financial Year 2014-15 as detailed below:

*(Rs. in million)*

S. No.	Name of Company / Field	Date of Deposit	Month	Head of Account		Amount
				Classifiable	Classified	
1	OMV/ LATIF	12.03.15	January, 15	C03906	C03905	0.11
2	OMV/ LATIF	14.04.15	February, 15	C03906	C03905	0.32
3	OMV/ LATIF	13.05.15	March, 15	C03906	C03905	0.32
4	OMV/ LATIF	12.06.15	April, 15	C03906	C03905	0.33
<b>Total</b>						<b>1.08</b>

### ***Implications***

The irregularity/lapse resulted in unfair presentation of Financial Statements of the Federal Government.

### ***Management Reply***

The Department did not furnish reply till finalization of the Report.

### ***DAC Decision***

The DAC in its meeting held during 9 to 10 February, 2016 observed with concern that no working papers had been submitted for its examination. The DAC further directed the DG (PC) to ensure that concerns shown in the Management Report were duly considered and appropriate action was taken thereon. No further progress was intimated till finalization of the Report.

### ***Audit Recommendations***

Audit recommends timely reconciliation and correction of Royalty figures under proper Heads of Accounts.

[MR-2]

### **1.1.3 Rent deposited under wrong Head of Account - Rs. 460.32 million**

***Risk Categorization: High***

***Criteria***

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

***Observation***

The DG (PC), Islamabad deposited Rs. 460.32 million into Treasury as rent received from E & P companies under the Head of Account C-03808-Other Receipts. Incidentally this Head of Account was being used for miscellaneous receipts deposited by various organizations. Due to this its reconciliation and authenticity became doubtful. It was pertinent to mention that a huge amount was expected to be recovered on this account in near future as the rate of rent had been indexed significantly upwards. The irregularity/lapse was thus likely to create more complications in reconciliation of revenue receipts.

***Implications***

A significant amount, deposited in wrong Head of Account (Miscellaneous Receipts) instead of proper Head of Account, impaired authenticity of the amount so deposited.

***Management Reply***

The Department did not furnish reply till finalization of the Report.

***DAC Decision***

The DAC in its meeting held during 9 to 10 February, 2016 observed with concern that no working papers had been submitted for its examination. The DAC further directed the DG (PC) to ensure that concerns shown in the Management Report were duly considered and appropriate action was taken thereon. No further progress was intimated till finalization of the Report.

### ***Audit Recommendations***

Audit recommends that the issue may be taken up with the Controller General of Accounts for opening of a separate Head of Account for classification of rent and for reconciliation of revenue receipts on this account.

[MR-4]

#### **1.1.4 Financial loss due to delayed recovery of Royalty on Oil and Gas from E & P companies**

***Risk Categorization: High***

#### ***Criteria***

According to Rule 36 of 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 was required to be paid on monthly basis within ten days from the date of expiry of the relevant calendar month.

#### ***Observation***

During the Financial Year 2014-15 six E & P companies under the jurisdiction of DG (PC), Islamabad deposited Rs. 805.60 million as Royalty on Crude Oil and Rs. 572.09 million as Royalty on Natural Gas aggregating Rs. 1,377.69 million. The aforesaid amount was deposited later than the prescribed time with delays ranging from 9 to 122 days.

#### ***Implications***

The irregularity/lapse resulted in delayed transfer of proportionate share of Royalty to the provinces.

#### ***Management Reply***

The Department did not furnish reply till finalization of the Report.

### ***DAC Decision***

The DAC in its meeting held during 9 to 10 February, 2016 observed with concern that no working papers had been submitted for its examination. The DAC further directed the DG (PC) to ensure that concerns shown in the Management Report were duly considered and appropriate action was taken thereon. No further progress was intimated till finalization of the Report.

### ***Audit Recommendations***

Audit recommends timely recovery of Royalty from E & P companies and imposition of suitable penalties in the event of delayed payment.

[MR-5]

### **1.1.5 Financial loss due to delayed recovery of Gas Development Surcharge**

#### ***Risk Categorization: High***

#### ***Criteria***

According to Section 3(1) of Natural Gas (Development Surcharge) Ordinance, 1967 every company was required to collect and pay to the Central Government a Development Surcharge equal to the Differential Margin in respect of natural gas sold by it. The GDS was payable within two months of the close of that month. Moreover interest at the rate of 15% percent per annum was also payable in addition to the amount due under sub-section (1) in the event the amount was not paid within the specified time.

#### ***Observation***

During the Financial Year 2014-15, the DG (Gas), Islamabad recovered Gas Development Surcharge of Rs. 2,125.85 million beyond the specified time with delays ranging from 26 days to 122 days.

***Implications***

The irregularity/lapse resulted in delayed transfer of proportionate share of GDS to the provinces.

***Management Reply***

The Department did not furnish reply till finalization of the Report.

***DAC Decision***

The DAC in its meeting held during 9 to 10 February, 2016 observed with concern that no working papers had been submitted for its examination. The DAC further directed DG (Gas) to ensure that concerns shown in the Management Report were duly considered and appropriate action was taken thereon. No further progress was intimated till finalization of the Report.

***Audit Recommendations***

Audit recommends timely recovery of Gas Development Surcharge from gas distribution companies.

[MR-6]



## **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 then 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 Concessions, DG (Oil) and DG (Gas). The Directorate General Petroleum Concessions deals with receipts of Royalty on Oil and Gas, Rent of lease/licensed 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, Gas Infrastructure Development Cess, 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 of Petroleum and Natural Resources (MNPR) for the Financial Year 2014-15 is tabulated as follows:

(Rs. in million)

Nature of Receipt	Original Target*	Revised Target*	Collection 2014-15	Difference from Revised Target	
				Absolute (4-3)	Percentage
1	2	3	4	5	6
Petroleum Levy	123,000	126,000	131,356	5,356	4
Development Surcharge on Gas	46,400	30,000	25,816	(4,184)	(14)
Royalty on Oil	32,261	19,728	31,988	12,260	62
Royalty on Gas	49,164	37,469	42,049	4,580	12
Discount Retained on Local Crude Oil Price	20,000	21,000	10,926	(10,074)	(48)
Windfall Levy	17,000	17,000	10,921	(6,079)	(29)
Gas Infrastructure Development Cess	145,000	145,000	57,021	(87,979)	(61)
Petroleum Levy on LPG	1,000	2,000	0	(2,000)	(100)
<b>Total</b>	<b>433,825</b>	<b>398,197</b>	<b>310,077</b>	<b>(88,120)</b>	<b>(22.13)</b>

*Explanatory Memorandum of Federal Receipts 2015-2016 and Financial Statements for the year 2014-15*

The Ministry collected Rs. 310,077 million against revised estimates of Rs. 398,197 million for the FY 2014-15. It showed less collection of Rs. 88,120 million (22.13%) compared with the revised estimates of the receipts.

**2.2.2 Comparison of actual receipts between the Financial Years 2013-14 and 2014-15**

A comparison of actual receipts between the Financial Years 2013-14 and 2014-15, is tabulated as follows:

*(Rs. in million)*

Nature of Receipt	Collection		Difference	
	FY: 2014-15	FY: 2013-14	Absolute	Percentage
1	2	3	4	5
Petroleum Levy	131,356	103,534	27,822	21
Development Surcharge on Gas	25,816	38,530	(12,714)	(49)
Royalty on Oil	31,988	34,047	(2059)	(6)
Royalty on Gas	42,049	42,497	(448)	(1)
Discount Retained on Local Crude Oil Price	10,926	37,288	(26,362)	(241)
Windfall levy	10,921	17,999	(7,078)	(65)
Gas Infrastructure Development Cess	57,021	31,817	25,204	44
<b>Total</b>	<b>310,077</b>	<b>305,712</b>	<b>4,365</b>	<b>1.43</b>

*Source: Financial Statements of the Federal Government for the FYs 2014-15 and 2013-14.*

The table indicates increase in collection of Rs. 4,365 million (1.4%) in receipts of the Ministry during the Fiscal Year 2014-15 than those of Fiscal Year 2013-14.

### 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 follows:

<b>Audit Year</b>	<b>PAC directives</b>	<b>Compliance received</b>	<b>Compliance not received</b>	<b>Percentage of compliance</b>
1990-91	04	04	0	100
1991-92	01	0	01	0
1992-93	04	04	0	100
1993-94	01	0	01	0
1994-95	01	01	0	100
1995-96	01	01	0	100
1996-97	05	05	0	100
1997-98	03	01	02	33
1998-99	15	12	3	80
1999-00	04	04	0	100
2000-01	05	0	05	0
2001-02	01	0	01	0
2002-03	01	0	01	0
2003-04	01	01	0	100
2004-05	04	0	04	0
2005-06	02	01	01	50
2007-08	04	0	04	0
2008-09	15	10	05	66
2009-10	No PAC held	-	-	-
2010-11	29	20	09	69
2011-12	No PAC held	-	-	-
2012-13	No PAC held	-	-	-
2013-14	No PAC held	-	-	-
2014-15	No PAC held	-	-	-
<b>Total</b>	<b>101</b>	<b>64</b>	<b>37</b>	<b>63</b>

The table shows 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 Loss of Rs. 86,156.43 million due to non/short-realization of Gas Infrastructure Development Cess**

According to Section 3 of Gas Infrastructure Development Cess Act, 2015 read with Section 8 (1) *ibid*, the Cess was to be levied and charged by the Federal Government from gas consumers, other than the domestic sector consumers, or the company at the rates provided in the Second Schedule to the *ibid* Act. The gas company was to be responsible for billing Cess to gas consumers, its collection from them and its onward payment to the Federal Government. Notwithstanding any omission to the contrary, contained in Gas Infrastructure Development Cess Act, 2011 (XXI of 2011), the Gas Infrastructure Development Cess Ordinance, 2014 (VI of 2014), the Rules made there under, or anything to the contrary contained in any decree, judgment of any court, the Cess levied, charged, collected or realized by the company from gas consumed under the aforesaid Act or Ordinance was deemed to have been validly levied, charged, collected or realized under the provision of this Act.

During the Financial Year 2014-15, the DG (Gas), Islamabad either did not recover or short recovered the Gas Infrastructure Development Cess from M/s MPCL, SNGPL, PPL and SSGCL in respect of gas sold by them. The irregularity/lapse resulted in non/short-realization of Gas Infrastructure Development Cess of Rs. 86,156.43 million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out in November and December, 2015. The Department replied that Rs. 2,532.47 million had been recovered out of which Rs. 944.27 million were recovered prior to audit, hence were not due whereas, Rs. 466.85 million were admitted for recovery in the case of M/s MPCL and M/s PPL while in the case of M/s SSGCL and M/s SNGPL it was replied that recovery was pended as the matter was *sub judice* and the respective courts having jurisdiction over the matter had issued orders to maintain status quo. It was also informed that a committee had been constituted by the MPNR to decide the fate of GIDC withheld by the consumers with respect to previous laws. The decision of the committee was awaited.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (Gas) to pursue the court cases vigorously and expedite recovery. Further progress was not intimated till finalization of the Report.

Audit recommends immediate recovery of outstanding amount from the companies to accomplish the objectives of this Cess besides initiating efforts for vacation of stay orders issued by the courts as aforesaid.

[DP Nos. 2723, 2728/Lhr, 30, 31 & 35/K DG (Gas)]

#### **2.4.2 Loss of Rs. 8,160.31 million due to non-realization of liquidated damages from E & P companies**

According to Rule 26 (1) of Pakistan Petroleum (Exploration and Production) Rules, 2001 if upon surrender or the expiry of a license, the obligations pursuant to Rules 20 or 22 were not fulfilled, the holder of the license was to be required either to:

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

During the Financial Year 2014-15 the DG (PC), Islamabad did not initiate action for recovery of liquidated damages and other obligations such as training fund, social welfare and fine/penalty from E & P companies which had failed to discharge their work obligations in the licensed areas nor provided proof of the transfer of the un-discharged work obligations. It is further pointed out that in the case of Lugai Field, the Department did not recover the amount of Rs. 78.68 million which was lying in an account named Escrow Account till 30.06.2015. The irregularity/lapse resulted in non-realization of liquidated

damages and other obligations aggregating Rs. 8,160.31 million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in December, 2015 which replied that in 8 fields efforts were being made for realization of liquidated damages and other obligations whereas notices had been issued and served under Rule 69 of E & P Rules, 2001 for revocation of contracts. It was further replied that in six Fields wherein licenses had been revoked by the Department, the companies concerned challenged the decisions in the Islamabad High Court and the matter was *sub judice* there. The Department added that in four Fields the work commitment had not been fulfilled by the licensees due to law and order situation.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (PC) to recover the amount besides pursuing the court cases vigorously. Further progress was not intimated till finalization of the Report.

Audit recommends recovery of liquidated damages and other obligations from the concerned E & P companies or alternatively to provide proof of transfer of un-discharged work obligations to other areas. It is also recommended that the Department should pursue the court cases vigorously for timely decisions and recovery of Government dues.

[DP Nos. 2704 & 2707-DG (PC)]

#### **2.4.3 Loss of Rs. 1,954.88 million due to short-realization of Royalty on LPG from E & P Companies**

According to the Regulation of Mines and 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 was required to pay Royalty at the rate of 12.5 per cent of the Wellhead Value of the petroleum produced and saved. Rule 2(k) of E & P Rules, 1986 defined Wellhead price as the market value of the petroleum less gathering, processing, and treatment and transportation costs from the Wellhead to the place at which the market value was determined, and in case of natural gas value was also to include compression, dehydration and liquefaction costs. Rule 38 *ibid* further

clarified the market value as the value of petroleum actually realized in such sales.

During the Financial Year 2014-15, the DG (PC), Islamabad recovered Royalty on Liquefied Petroleum Gas (LPG) at Wellhead Value which was not based on actual sale value of LPG produced and saved. The irregularity/lapse resulted in short-realization of Royalty of Rs. 1,954.88 million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department replied that a clarification already received from the Ministry of Law, Justice and Human Rights required further clarification regarding the issuance of guidelines and their applicability with retrospective/prospective effect which had been sought and was awaited.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to share the earlier reply of the Law, Justice and Human Rights Division with Audit. Further progress was not intimated till finalization of the Report.

Audit recommends that the Ministry should pursue the matter vigorously with Law, Justice and Human Rights Division and recover the amount accordingly.

[DP No. 2691-DG (PC)]

#### **2.4.4 Loss of Rs. 1,488.49 million due to non/short-realization of Production Bonus from the E & P Companies**

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

During the Financial Year 2014-15, the DG (PC), Islamabad either did not realize or short realized Production Bonus from four E & P companies which were engaged in extracting oil and gas from the concession areas. The

irregularity/lapse resulted in non/short-realization of Production Bonus of Rs. 1,488.49 million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department replied that recovery of Rs. 154.50 million had been made, admitted recovery of Rs. 103 million and further stated that recovery from M/s OGDCL amounting Rs. 618 million was contested whereas recovery of Rs. 515 million with respect to Badin Block needed calculation for some errors apparent in determination of the recoverable amount. In respect of recovery of Rs. 51.50 million relating to Khaur field the Department contested that there was no such agreement signed between company and the Government. For another recovery of Rs. 46.49 million pointed out by Audit, it was replied that clarification had been sought from the Ministry of Law, Justice and Human Rights which was awaited.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to recover the amount admitted and provide documentary evidence in support of contested amount. Further progress was not intimated till finalization of the Report.

Audit recommends expeditious recovery of the amount pointed out besides considering insertion/inclusion of penal clauses in relevant Rules for delayed payments.

[DP Nos. 2687 & 2688-DG (PC)]

#### **2.4.5 Loss of Rs. 7,451.32 million due to irregular issuance of notification of prescribed price by OGRA**

It was provided in Rules 4 to 18 of the Oil & Gas Regulatory Authority Rules, 2002 that the process of determination of Total Revenue Requirement of a gas company was to start from the first day of December and was to end by 17<sup>th</sup> June in each year whereupon Oil and Gas Regulatory Authority (OGRA) was required to advise the Federal Government, the Prescribed Price, which was to be applied to the consumers of natural gas. The Federal Government was required to, as soon as, but not later than forty days, advise OGRA of the sale price of natural gas. It was further provided that in the event the Federal Government failed to advise within forty days, OGRA was to notify the

Prescribed Price as determined by it to be the sale price for the retail consumers for natural gas before generating of first bill for the respective Financial Year starting from July in each year

OGRA failed to determine the Total Revenue Requirements for M/s SSGCL for the Financial Years 2012-13 and 2013-14. Contrary to the above stated legal position, it issued a Notification on 29.05.2013 with retrospective effect without referring the matter to the Federal Government i.e. from 01.01.2013 thereby enhancing the Prescribed Price of gas supplied to the Power Sector equal to current Sale Price by taking GDS as zero. MPNR and the DG (Gas) also failed to stop OGRA from issuing this Notification which resulted in loss to the Government as detailed below:

(Rs. in million)		
<b>Sales in MMBTU During FY 2014-15</b>	<b>GDS = (Sales Price-Prescribed Price) Rs. 460-488.23</b>	<b>Loss of GDS</b>
263,950,343	28.23	7,451.32

The irregularity/lapse was pointed out to the Department in November, 2015 but no reply was received from the Ministry. However, M/S SSGCL replied that the company was obliged to discharge its liability according to the notification issued by OGRA.

The DAC in its meeting held during 9 to 10 February, 2016 pended the para with the direction to hear the views of OGRA during the next DAC meeting. Further progress was not intimated till finalization of the Report.

Audit recommends fixing in of responsibility, besides withdrawing the aforesaid notification ab-initio and effecting resultant recovery.

(DP No.33 -GDS/K)

#### **2.4.6 Loss of Rs. 1,613.04 million due to non-realization of Royalty on Crude Oil and Natural Gas**

According to the Regulation of Mines & Oilfields and Mineral Development (Government Control) Act, 1948 read with Rule 36 of Pakistan Petroleum (Exploration and Production) Rules, 1986 holder of a lease was

required to pay 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. Rule 35 (3) of Pakistan Petroleum (Exploration and Production) Rules, 2001 provided that Royalty was required to be paid on monthly basis within a period not exceeding forty five days of the end of the month of production in question which, if delayed beyond this stipulated period, was to attract fine at the rate of Libor plus two percent, as was to be determined by the Government.

During the Financial Year 2014-15 the DG (PC), Islamabad did not realize Royalty from 3 (three) E & P companies on hydrocarbons produced and saved. In addition, the fine on delayed payment of Royalty in certain cases was also not recovered during the same period. The irregularity/lapse resulted in non-payment of Royalty on crude oil and natural gas aggregating Rs. 1,613.04 million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department replied that Rs. 21.83 million had been recovered whereas Rs. 116.54 million had already been recovered prior to audit which had been verified by Audit. The Department further replied that Rs. 1,315.79 million had also been recovered but were still to be verified, besides, recovery of Rs.158.88 million was in process.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to recover the outstanding amount and get it verified from Audit. Further progress was not intimated till finalization of the Report.

Audit recommends expeditious recovery of the un-recovered revenue.

[DP Nos. 2683 & 2700-DG (PC)]

#### **2.4.7 Loss of Rs. 6,483.51 million due to short-realization of Gas Development Surcharge**

According to Section 3 (1) of Natural Gas (Development Surcharge) Ordinance, 1967 every company was obliged to collect and pay to the Central Government a development surcharge equal to the Differential Margin in respect of natural gas sold by it. Further, as per Rule 3 (a) of Natural Gas (Development Surcharge) Rules, 1967 every company was also obliged to 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.

During the Financial Year 2014-15, the DG (Gas), Islamabad did not take appropriate measures for the recovery of short paid amount of Gas Development Surcharge sold by M/s MPCL, PPL and M/s SSGCL along with interest accrued on late receipt of GDS. The irregularity/lapse resulted in non/short-recovery of Gas Development Surcharge of Rs. 6,483.41million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in November and December, 2015. The Department reported recovery of Rs. 3,051.54 million from M/s MPCL and M/s PPL leaving the balance of Rs. 919.17 million. However, in the case of M/s PPL, the Department intimated that Rs. 2,512.80 million had already been recovered.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to recover the outstanding amount and get it verified from Audit. Further progress was not intimated till finalization of the Report.

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

[DP Nos. 2724 & 36/K DG(Gas)]

#### **2.4.8 Los of Rs. 1,427.71 million due to non-realization of Petroleum Levy on sale of petroleum products**

According to Section 3 of Petroleum Products (Petroleum Levy) Ordinance, 1961 amended vide Petroleum Products Development Levy (Amendment) Ordinance, 2009 every licensee was required to 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 was to be collected at the rates notified by the DG (Oil) / OGRA in the same manner as Excise Duty was collected under the Federal Excise Act, 2005

During the Financial Year 2014-15, the DG (Oil), Islamabad did not realize Petroleum Levy from M/s Byco Refinery Ltd, Karachi. The irregularity/lapse resulted in non-realization of PL of Rs. 1,427.71 million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in November, 2015. The DG (Oil) replied that Rs. 208 million had been recovered and the balance amount Rs. 1,219.71 million was under recovery.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to recover the remaining amount and to get it verified from Audit. Further progress was not intimated till finalization of the Report.

Audit recommends immediate recovery of Petroleum Levy besides insertion of clause for late payment surcharge in the said Rules for delayed payments.

(DP No. 41-PL/K)

#### **2.4.9 Loss of Rs. 1,032.02 million due to non/short-realization of license and lease rent from on-shore E & P companies-**

According to Pakistan Petroleum (Exploration and Production) Rules, 1986, 2001 and 2009 the licensee/lessee was required to pay to the Government annually in advance, rent at rates prescribed therein. These rates were also indexed on yearly basis as per DG (PC)'s notification dated 03.09.2015.

During the Financial Year 2014-15 the DG (PC), Islamabad either did not recover or short recovered license/lease rent charges from E & P companies in respect of 112 lease areas and 116 licensed fields. The irregularity/lapse resulted in non/short-recovery of license/lease rent of Rs. 1,032.02 million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department replied that an amount of Rs. 37.08 million had been recovered, Rs. 69.80 million were already recovered and Rs. 925.13 million were being recovered.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to recover the outstanding amount and get it verified from Audit. Further progress was not intimated till finalization of the Report.

Audit recommends expeditious recovery of the outstanding amount, besides insertion of penal clauses in relevant Rules for the delayed payments.

[DP Nos. 2682 & 2686-DG (PC)]

**2.4.10 Non-utilization of 25% of training fund at local inhabitant and non-realization of Training Fund from E & P companies – Rs. 435.03 million**

According to the Annexure VII of the Petroleum Exploration and Production Policy, 2001 and subsequently issued Petroleum Exploration and Production Policies training was to be provided to Pakistani employees and GOP officials by foreign and local E & P companies besides, these companies were required to incur prescribed minimum expenditure at Pre-Commercial Production stage and Post Commercial Production stage which was subject to review from time to time. According to Rule 60 of the Pakistan Petroleum (Exploration and Production) Rules, 2001 the numbers of Pakistani personnel to be employed or trained were to be determined in consultation with the DG (PC) in accordance with the guidelines that were to be issued from time to time. The guidelines for utilization of training obligation required that outstanding amount on this account be deposited into a special account maintained for the purpose by the Directorate General of Petroleum Concessions and 25% of this amount was to be utilized by the DG (PC) on the internship/training of local inhabitants of the area of operations (district-wise).

The DG (PC), Islamabad did not ensure utilization of 25% training fund at internship/training of local inhabitants of the area of operations (district-wise). The Training Fund was also not realized from some of the E & P companies which failed to spend specified amount on training. The irregularity/lapse resulted in non/short realization and/or less utilization of Training Fund of Rs. 435.03 million.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department replied that in respect of Rs. 398.61 million the issue was

being examined and details would be provided to Audit shortly. For Rs. 36.42 million it was replied that there was no provision in the E & P Rules, 2001 to deposit the unspent training obligation into the aforesaid account. The Department agreed that after strengthening of the Department / office of the DG (PC), working would be started to implement the relevant provisions of Petroleum Policy/Rules and Guidelines for utilization of Training Funds.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (PC) to share the outcome regarding the applicability of Training Fund with the Audit and submit revised working papers along with documentary evidence to Audit for verification. The DAC further directed to expedite and ensure utilization of 25% training fund on internship / training. Further progress was not intimated till finalization of the Report.

Audit recommends designing adequate system for monitoring and implementation of the provisions of Training Fund besides recovery of unspent amount of Fund and its proper utilization.

[DP Nos. 2692, 2695 & 2717-DG (PC)]

#### **2.4.11 Non realization of revenue due to non-decision of Final Revenue Requirement by OGRA**

According to clause 5.2 of the license granted to SNGPL, the OGRA was required to determine an annual return of 17.5 per cent of the average current net value of the licensee's fixed assets in operation. The GDS not paid or short paid was to be recovered under Section 3 of the Natural Gas (Development Surcharge) Ordinance, 1967 read with Rule 3 of the Natural Gas (Development Surcharge) Rules, 1967.

Oil and Gas Regulatory Authority failed to perform its role to determine Final Revenue Requirement (FRR) for the year 2014-15 in respect of M/s SNGPL and M/s SSGCL. Resultantly, the GDS which was required to be deposited on monthly basis remained unpaid which further resulted resulting in non-realization of revenue.

The irregularity/lapse was pointed out to the Department in November and December, 2015. The Department replied that FRR had been finalized by

OGRA in respect of M/s SNGPL against which the shareholders of the company filed a writ petition in the Islamabad High Court. Due to this, accounts of the company were not considered by the audit committee. However, now after the decision of Writ Petition in Islamabad High Court, Islamabad the accounts of the company for the year 2014-15 would be made available and published in March 2016. With respect to M/s SSGCL the Department suggested that matter should be discussed with the OGRA.

The DAC in its meeting held during 9 to 10 February, 2016 directed M/s SNGPL to share the FRR and all relevant record with Audit for examination. With respect to M/s SSGCL the DAC directed to hear OGRA in the next DAC meeting. Further progress was not intimated till finalization of the Report.

Audit recommends that the mechanism as laid down in Rules should strictly be observed for timely finalization of accounts and FRR and to ensure timely recovery of Government dues.

[DP Nos. 2727&34/K–DG(Gas)]

#### **2.4.12 Non/Short-realization of Social Welfare Fund-Rs. 408.19 million**

According to the Annexure VII of the Pakistan Petroleum (Exploration and Production) Policy, 1994 and other policies time to time introduced read with clause 6 of Revised Social Welfare Guidelines, 2014, E & P companies were obliged to open a joint bank account with DCOs/DCs concerned and were further required to deposit the collections on account of Social Welfare Contribution Fund within one month of the signing of PCA and subsequently by 31<sup>st</sup> January each year. The amount of Social Welfare Fund pledged by the companies (Local and Foreign) in their respective agreements and deposited in the joint account opened for the purpose was to be utilized to give lasting benefit to the local communities.

The DG (PC), Islamabad did not recover or short recovered Social Welfare Fund. Moreover, evidence of adequate monitoring to ensure proper utilization of allocations for social welfare schemes was not found in the records of the Department. The same was evident from half yearly reports and the data available in respect of all leases/licenses. The irregularity/lapse resulted in improper

monitoring and non-realization / non-utilization of Social Welfare Fund of Rs. 408.19 million.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department contested the matter by arguing that amount of Rs. 245.73 million of Social Welfare Fund had been imposed on blocks and not on leases and some of the licenses pointed out had been relinquished. Department further replied that

Rs. 162.45 million had been deposited by the companies. Audit noticed and pointed out that updated record of Social Welfare Fund was not available with the Department to determine factual position.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to recover the admitted amount and to provide relevant documents to Audit in support of the contested amount. Further progress was not intimated till finalization of the Report.

Audit recommends that documentary evidence in support of departmental reply may be provided and recovery of outstanding amount be affected besides designing an adequate system for monitoring and implementing the provisions of the Training Fund.

[DP No. 2696-DG (PC)]

#### **2.4.13 Loss of Rs. 115.94 million due to non/short-realization of rent of exploration license of off-shore fields from E & P companies**

According to Rule 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 were required to pay in advance annual acreage rent at the rate of US\$ 50,000 plus US\$ 10 per square kilometre of areas included in the respective contract area. These rates were also indexed on yearly basis vide DG (PC)'s notification dated 03.09.2014.

During the Financial Year 2014-15, the DG (PC), Islamabad did not recover or short recovered rent of off-shore exploration licenses from six E & P companies. The irregularity/lapse resulted in non/short-recovery of rent of Rs. 115.94 million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department replied that Rs. 7.81 million had been recovered now, besides Rs. 11.06 million had already been recovered and for payment of balance amount the E & P companies had been directed to pay the same as per decision of the Ministry of Law, Justice and Human Rights.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to recover the balance amount and get it verified from Audit. Further progress was not intimated till finalization of the Report.

Audit recommends expeditious recovery of the amount pointed out, besides inserting penal clauses in relevant Rules to enable them to impose penalties in the event of delayed payments.

[DP No. 2684-DG (PC)]

#### **2.4.14 Recurring loss of Rs. 88.21 million due to change in Rules against public interest**

According to Section 3(1) and (3) of Natural Gas (Development Surcharge) Ordinance, 1967 every company was required to collect and pay to the Central Government a development surcharge equal to the Differential Margin in respect of natural gas sold by it. An amount at the rate of fifteen per cent per annum was also to be paid if the amount of Development Surcharge was not paid by company within the prescribed time. Further, Rule 3 (a) of Natural Gas (Development Surcharge) Rules, 1967 amended in December, 2014 provided that every company shall deposit at the Government Treasury the amount of Development Surcharge collected by it in respect of the collection during a calendar month within one month of the close of that month. Before amending Natural Gas (Development Surcharge) Rules, 1967 every company was required to 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 DG (Gas), Islamabad did not take steps to streamline the amendments made on 24<sup>th</sup> December, 2014 in Natural Gas (Development Surcharge) Rules, 1967 in respect of interest on late payment of Gas

Development Surcharge the implications of which were detrimental against public interest.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department endorsed the view point of M/s MPCL. Audit, however, held that while framing the Rules, Ministry had to safeguard the national interest instead of protecting the interest of the companies.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (Gas), Islamabad to submit the case to MPNR for review of amendments in Rules relating to GDS within two months. Further progress was not intimated till finalization of the Report.

Audit recommends that Rules may be reviewed again in public interest for timely collection of GDS as in the present form these may have the following implications against the public interest:

- (i) As per the amended Rules, GDS was payable within one month of the receipts from the buyer companies but no time limit was prescribed for the gas buying companies to pay the GDS to gas distribution companies. This implied that amendment in the Rules as aforesaid gave the companies relaxation from time-bound payment of GDS.
- (ii) Late or non-deposit of GDS occurred due to late payment or non-payment from the gas buying companies which were engaged in production of electricity. The electricity distribution companies were very strict in collection of their dues, and late payment surcharge from their customers but there was no deterrence imposed on them, in the event they delayed or did not pay the price of gas.
- (iii) Relaxing of time limit by MPNR for the payment of GDS and as a direct consequence late payment of GDS by the companies might result into loss of huge amount of interest that would have accrued to the National Exchequer. The Audit on sample basis examined the case of Foundation Power Ltd (vendor of Mari Petroleum Company Limited) and observed that due to delay or non-payment of GDS the Government had suffered recurring loss of Rs. 88.21 million.

[DP No. 2726-DG(Gas)]

#### **2.4.15 Loss of Rs. 519.86 million due to non-realization of interest on late-payment of Gas Development Surcharge**

According to Section 3(1) of the Natural Gas (Development Surcharge) Ordinance, 1967 every company was obliged to collect and to pay to the Central Government a Development Surcharge equal to the Differential Margining respect of natural gas sold by it. Further, Section 3(3) of said Ordinance provided that interest at the rate of fifteen per cent per annum shall be payable on any amount due under sub-section (1), if the amount was not paid within the time specified for such payment. Further, Rule 3 (a) of Natural Gas (Development Surcharge) Rules, 1967 provided that every company was obliged to deposit at the Government Treasury the amount of Development Surcharge collected by it in respect of the collection during a calendar month within one month of the close of that month.

The DG (Gas), Islamabad did not take necessary steps for recovery of interest on late payment of GDS against M/s Mari Petroleum Company Ltd. and M/s PPL. The irregularity/lapse resulted in non-payment of interest on GDS of Rs. 519.86 million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department during November to December, 2015. The Department contested the para in respect of M/s MPCL stating that segregation of the payment received on the basis of different components of invoice was not possible. In the case of M/s PPL the Department intimated that the company did not receive the interest from the purchaser of gas hence the company was not in a position to pay the same. Audit held that as far as the case of M/s MPCL and M/s PPL, was concerned, Rules had to be implemented in letter and spirit as these were explicitly clear with the result that the companies were required to segregate the component of invoices besides payment of interest on late payment.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to reconcile the figures and recover the amount accordingly. Further progress was not intimated till finalization of the Report.

Audit recommends expeditious recovery of the amount pointed out.

[DP Nos. 2725/Lhr & 37/K DG(Gas)]

#### **2.4.16 Loss of Rs. 49.32 million due to non-recovery of interest on late payment of GIDC**

According to Rule 3(a) of the Infrastructure Development Cess Rules, 2011 every company was obliged to 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 the month or within seven days of the actual collection from consumers whichever was later. Further according to Section 3(3) of the Gas Infrastructure Cess Act, 2015 a mark-up at the rate of four percent above the average rate of KIBOR for three months as prescribed by the Federal Government was also leviable on any amount due under sub-section (1) of Section 3 of the Gas Infrastructure Development Cess Act, 2015 if the amount was not paid within the prescribed time.

The DG (Gas), Islamabad did not recover mark-up of Rs. 49.32 million on late payment of Gas Infrastructure Development Cess from M/s PPL from October, 2014 to June, 2015

The irregularity/lapse was pointed out to the Department in November, 2015. The Department replied that since the amount of interest had not been received from GENCO-II, therefore, the company could not pay the aforesaid amount. Audit was of the view that the company was responsible to collect and pay GIDC in time and in case of late payment was also responsible to pay the interest.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (Gas), Islamabad to recover the amount and get it verified from Audit. Further progress was not intimated till finalization of the Report.

Audit recommends expeditious recovery of Government dues.

(DP No.38-GDS/K)

#### **2.4.17 Loss of Rs. 55.37 million due to non-realization of Default Surcharge on delayed payment of Petroleum Levy**

According to Section 3 of Petroleum Products (Petroleum Levy) Ordinance, 1961 read with Rule (8) of Petroleum Levy Rules, 1967, and Sections 2(8a) and 8 of the Federal Excise Act, 2005 every licensee was obliged to pay a Petroleum Levy which was to be deposited by the registered persons in the designated branches of the Bank at the time of filing of returns by 15<sup>th</sup> day of the following month. Moreover, if a person did not pay the Duty due or any part thereof within the prescribed time, he was obliged to pay, in addition to the Duty due, a Default Surcharge at the rate of KIBOR plus 3 percent of the Duty due.

During the Financial Year 2014-15, the DG (Oil), Islamabad did not recover Default Surcharge of Rs. 55.37 million from M/s Pakistan Refinery Ltd, Karachi resulting in corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in November, 2015. The management replied that there was no provision of default surcharge on late payment of Petroleum Levy.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (Oil) to submit a case for insertion of surcharge in applicable Rules on delayed payment of Petroleum Levy.

Audit recommends that the Department should make necessary amendments in the Rules for inclusion of provision for surcharge on late payment of Petroleum Levy.

(DP No. 42-PL/K)

#### **2.4.18 Loss of Rs. 39.31 million due to non-realization of Petroleum Levy on direct sale of petroleum products**

According to Section 3 of the Petroleum Products (Petroleum Levy) Ordinance, 1961 as amended vide Petroleum Products (Development Levy) (Amendment) Ordinance, 2011 every licensee was obliged to pay a Petroleum Levy at such rates and in such manner as the Federal Government might 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 in pursuance thereof, Petroleum Levy was to be collected at rates notified by the DG (Oil) / OGRA in the same manner as Excise Duty was to be collected under the Federal Excise Act, 2005.

During the Financial Year 2014-15, the DG (Oil), Islamabad did not realize the amount of Petroleum Levy from M/s Chevron Pakistan Limited, M/s Pakistan State Oil and M/s Shell Pakistan Limited, Karachi aggregating to Rs. 39.31 million resulting into corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in November, 2015 but no reply had been received from the Ministry.

The DAC in its meeting held during 9 to 10 February, 2016 directed DG Oil to recover the additional Petroleum Levy from OMCs on the supplies made to Export Processing Zone and to collect the relevant documents from Audit and submit revised working papers for remaining cases. Further progress was not intimated till finalization of the Report.

Audit recommends expeditious recovery, besides fixing of responsibility against the persons at fault.

(Annexure-3)

#### **2.4.19 Loss of Rs. 5.46 million due to short-realization of Petroleum Levy resulting from application of incorrect rates**

According to Sections 3 and 3-A of the Petroleum Products (Petroleum Levy) Ordinance, 1961 as amended vide Petroleum Products (Petroleum Levy) (Amendment) Act, 2011 every company, refinery and licensee was obliged to pay a Petroleum Levy to the Federal Government at such rates and in such manner as might be notified by the Federal Government in the official gazette from time to time. As per law Petroleum Levy was to be collected in respect of imported products in the same manner as Import Duty was collected under the Customs Act, 1969. The Ministry of Law, Justice and Human Rights Islamabad, clarified vide letter dated 16.06.2015 that for bonded products, the date applicable for charging the Petroleum Levy would be the date of actual removal of the products.

The DG (Oil), Islamabad did not take appropriate steps to recover the short paid Petroleum Levy from M/s Pakistan State Oil Company consequently, HSD oil was removed in the month of July, 2014 whereas goods declarations were manifested in August, 2014 and Petroleum Levy was realized at the rate as notified for the month of August instead of July. The irregularity/lapse resulted in short realization of Petroleum Levy Rs. 5.46 million and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department intimated that company would deposit the amount shortly.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to recover the amount on account of Petroleum Levy as stated in the preceding paragraph and get it verified from Audit. Further progress was not intimated till finalization of the Report.

Audit recommends expeditious recovery of the amount pointed out.

[DP No. 2729-DG (Oil)]

### ***Internal Control Weaknesses***

INTOSAI defined 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. It is also a matter of common knowledge that strong internal controls safeguard the resources against loss due to waste, abuse, mismanagement, errors and other irregularities and with effective internal controls management can assure adherence to laws, regulations and its directives.

While conducting regularity audit for the year 2014-15, internal control environment of MPNR and its field formations was evaluated and the weaknesses observed therein are given in the succeeding paragraphs.

#### **2.4.20 Irregular extension of Sui lease without the concurrence of Province and loss of signature bonus**

According to Article 172(3) of the Constitution of Islamic Republic of Pakistan, 1973 mineral oil and natural gas within the province or the territorial water adjacent thereto was to vest jointly and equally in that province and the Federal Government. Rule 34 of the Exploration and Production Rules, 1949 stated that the initial term of an oil mining lease was to be 30 years, which was renewable for a further period not exceeding 30 years at the discretion of Government. Moreover, according to clause 4.1.10 of Petroleum Policy, 2012 the DG (PC) had the powers to renew the lease term for another five years after the expiry of lease period in case the existing lease holder agreed to pay an amount equivalent to 15% of the Wellhead Value to the Government. Otherwise, DG (PC) was to invite bids one year before the end of the lease period from pre-qualified companies who sought petroleum rights over the lease area, in relation to any producing field for an additional ten years and the bids were to be evaluated on the basis of Signature Bonus.

The DG (PC), Islamabad extended Sui Mining lease holding by Pakistan Petroleum Limited (PPL) for further a period of one year w.e.f. 1<sup>st</sup> June, 2015. Audit observed the DG PC's action was contrary to the public interest in so far as it was done to give undue benefit to PPL Moreover, after the promulgation of

18<sup>th</sup> amendment to the Constitution it was obligatory to engage the Provincial Government before taking any decision in this matter. Audit further observed that had DG (PC) not renewed the lease term for another five years to give undue benefit to existing lessee The amount of Signature Bonus equal to 15% of the Wellhead Value would have been received as in that case the Rules contained in Petroleum Policy, 2012 would have become applicable.

The unjustified action resulting into huge loss to public exchequer was pointed out to the Department in December, 2015. The Department replied that as per Article 97 of the Constitution of Islamic Republic of Pakistan, 1973 the Federal Government had the powers to exercise its executive authority. However, the Department accepted the view point of Audit to the effect that the Provincial Governments were also joint and equal owners of the mineral, oil and natural gas within the respective Provinces. The Department further replied that process of consultation with the Provinces had been started and if it was decided to re-grant a D&P Lease under 2013 Rules, all conditions will be followed.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (PC) to share with Audit the relevant documents in support of its stance. Further progress was not intimated till finalization of the Report.

Audit recommends expediting the consultation process with the Provincial Government and completing the process of grant/extension of lease without giving undue benefit to anybody.

[DP No. 2715-DG (PC)]

#### **2.4.21 Variation between different E & P companies for imposing financial obligations at the time of renewal / extension of lease**

According to Article 25 (1) of the Constitution of Islamic Republic of Pakistan, 1973 all citizens were equal before the Law.

The DG (PC), Islamabad renewed eight leases of M/s OGDCL without imposing financial obligations leviable under Pakistan Petroleum (Production) Rules, 2001 whereas in twelve extensions of leases, financial obligations had been imposed. The irregularity/lapse resulted in a disparity between different leases extended / renewed and resulted in revenue loss of Rs. 449.08 million. It is

pertinent to mention here that aforesaid amount was to be utilized for welfare of the concerned areas.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department replied that the issue of applicability of financial obligations was being examined and relevant details would be shared with Audit shortly.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (PC) to share the outcome with Audit along with documentary evidence. Further progress was not intimated till finalization of the Report.

Audit requires the justification from the Department.

[DP No. 2693-DG (PC)]

#### **2.4.22 Improper monitoring of exploration and production of petroleum products and collection and deposit of share of Government**

Clause 48 (1) and (2) and clauses 49 to 54 of Exploration and Production Rules, 2001 read with job description and responsibilities of staff of DG (PC), the DG (PC) or, a person designated by him was empowered to enter any place where any activities or business was being carried out by a petroleum-right-holder under the Rules for the purpose of auditing or inspection or examination of *inter alia* wells, record, plants, appliances, buildings, or any other works. Moreover, the DG (PC) was responsible to devise mechanism to monitor the exploration, drilling and production of petroleum products and to obtain and evaluate the complete record of production and sale of the products and share of Government in the shape of Royalty, rent, discount and other obligations.

The aforesaid obligations could not have been fulfilled without provision/availability of required human and other resources. The DG (PC), Islamabad did not have adequate system for this purpose. The resultant improper/weak monitoring system enhanced the chances of loss of revenue.

The irregularity/lapse was pointed out to the Department in December, 2015. No reply had been received from the Department.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (PC) to ensure proper system of monitoring of exploration and production. He was further directed to share compliance with Audit. No progress was intimated till finalization of the Report.

Audit recommends that Department should strengthen the Internal Controls for proper monitoring of exploration and production activities and also for collection of revenue.

[DP No. 2719-DG (PC)]

#### **2.4.23 Inadmissible refund of Petroleum Levy – Rs. 865.18 million**

According to Section 3 of Petroleum Levy Ordinance, 1961 every refinery and every company was obliged to 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.

During the Financial Year 2014-15, the DG (Oil), Islamabad failed to take notice of the fact that FBR had illegally and unlawfully allowed refund of Petroleum Levy to the E&P companies. The irregularity/lapse resulted in inadmissible refund of Rs. 865.18 million of Petroleum Levy and corresponding loss to the Public Exchequer.

The irregularity/lapse was pointed out to the Department in December, 2015. The Department replied that the matter had been taken up with the FBR which only responded that the refund related to across the Country and promised to provide requisite details/notifications whereby they had been authorized to refund such payments to foreign embassies. Audit was of the view that the Department being the administrator of receipts must have all information in the matter such as accruals, its receipts, refund etc. The FBR acted only as a collecting agent and was bound to provide all necessary information to the Department. Besides, the magnitude of the refund made the matter more doubtful.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (Oil) to get the details of the amount refunded from FBR and share the record with Audit.

Audit recommends to provide the details received from FBR and also to devise a system to strengthen the Departmental control over receipts.

[DP No. 2731-DG (Oil)]

#### **2.4.24 Inadmissible/unjustified transfer of Training Fund to foreign accounts**

According to the provision of Annexure VII of the Pakistan Petroleum (Exploration and Production) Rules, 2001 training was to be provided to Pakistani employees and GOP officials by the foreign and local E & P companies. A minimum expenditure of US Dollars 10,000 per License Year during exploration stage till commercial production (Pre-Commercial Production stage) and US Dollars 25,000 per Lease Year during the Post Commercial Production stage was to be incurred which was subject to review from time to time. The unspent training amount during a year, unless agreed otherwise, was to be deposited into a special account maintained for the purpose by the Directorate General of Petroleum Concessions.

The DG (PC), Islamabad directed M/s UEPL to deposit outstanding amount of Training Fund directly to a foreign bank account and to pay cash directly to a legal advisor and a local lawyer on account of TA/DA but such payments were not being reflected in the cash book of Training Funds. The irregularity/lapse resulted in illegal/unjustified transfers and payments from Training Funds.

The irregularity/lapse was pointed out to Department in December, 2015. It was replied by the Department that all the payments had been made after proper approvals from competent authority to the Legal Adviser and the Lawyers appointed to deal with Pro Gas Arbitration case. Audit was of the view that the matter was doubtful and needed justification as no record of these transactions was available in the cash book of Training Fund. Moreover, as per Rules/policies, unspent obligations of Training Funds should have been deposited into a special account maintained for the purpose.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (PC) to account for un-accounted for amount in the books of account, get it reconciled with company within three months and also to get it verified from Audit. Further progress was not intimated till finalization of the Report.

Audit requires that Department may provide the full justification in the matter and devise a mechanism to ensure utilization of training obligations in letter and spirit.

[DP No. 2706-DG (PC)]

#### **2.4.25 Improper utilization of Training Fund - Rs. 699.14 million**

According to Section V of Petroleum Policy, 2012 read with the provisions contained in Annexure VII of the Pakistan Petroleum (Exploration and Production) Rules, 2001 and clause 5 of Guidelines for utilization of training obligation, the training was to be provided both in technical and management fields, especially in geology, geophysics, engineering, project management accounting, commercial, legal sectors and on-the-job training disciplines related to petroleum and natural resources sector.

The DG (PC), Islamabad incurred Rs. 699.14 million out of Training Fund on account of courier service charges, court fees and TA / DA etc. although guidelines for utilization of training obligations did not contain any provision to charge such expenditure to Training Fund. The irregularity/lapse resulted in irregular payment of Training Fund of Rs. 699.14 million.

The irregularity/lapse was pointed out to Department in December, 2015. The Department replied that payment out of Training Fund on account of arbitration fee and court fee was made with the approval of competent authority and that the matter had been taken up with the Ministry of Finance. It was also replied that the payment of TA/DA had been permitted in training guidelines out of Training Funds and courier service charges had been paid out of Training Fund as per directions of Principal Accounting Officer. The contention of the Department was not correct as no such provisions existed in policies, Rules or guidelines.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to recover TA/DA amount of Rs. 1.60 million from M/s MPCL, to refer the matter of payment of arbitration fee (Rs. 697 million) to the Law, Justice and Human Rights Division and frame financial rules and guidelines for the utilization of Training Fund as required in the Petroleum Policy. Further progress was not intimated till finalization of the Report.

Audit reiterates that question of such approval does not arise as the issue was to the effect that the Training Fund was not used for the purpose it was meant for and its utilization guidelines did not have the provisions for such expenses.

[DP Nos.2694, 2701, & 2713-DG (PC)]

#### **2.4.26 Non Implementation of Concession Management System**

According to the contract of Management & Operations of Pakistan Petroleum Exploration and Production Data Repository between the DG (PC) and LMKR (contractor), an information system named Concession Management System had been devised by Director General (Petroleum Concession) with the help of its contractor LMKR. This system was devised to keep information and record updated regarding each E & P Company relating to its activities and other obligations. Each E & P Company was allotted user name for updating record on monthly basis in the system and training for the purpose was also imparted to companies for feeding their data in the system.

DG (PC), Islamabad did not implement Concession Management System effectively resulting into failure to provide data in systematic manners. Besides, E & P companies were not updating their record at the system. Although millions of rupees had been spent for development of the software but the purpose for which it was devised had not been achieved. The lapse resulted in ineffective monitoring and non-provision of updated record.

The lapse was pointed out to Department in December, 2015. No reply had been given by the Department.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (PC) to ensure the implementation of Concession Management System upto 30<sup>th</sup> June 2016.

Audit recommends implementation of Concession Management System for effective monitoring.

[DP No. 2718-DG (PC)]

***Other***

**2.4.27 Non-utilization of Rs. 1,477.10 million lying in the account of Social Welfare Fund**

According to the Annexure VII of the Pakistan Petroleum (Exploration and Production) Policy, 1994 and other policies issued from time to time read with clause 6 of Revised Social Welfare Guidelines, 2014 E&P companies were obliged to open a joint account with DCOs/DCs concerned and were to deposit the Social Welfare Contribution Fund within one month of the signing of PCA and subsequently by 31<sup>st</sup> January each year into the aforesaid account. The amount of Social Welfare Fund pledged by the E&P companies (Local and Foreign) in their respective agreements and deposited into the aforesaid joint account opened for the purpose was to be utilized to give benefits to the communities of the licensed/leased areas.

The DG (PC), Islamabad did not take steps for the proper utilization of amount collected on this account in the concession areas of respective districts. The irregularity/lapse resulted in non-utilization of Social Welfare Fund of Rs. 1,477.096 million.

The irregularity/lapse was pointed out to the Department in December, 2015. No reply had been given by the Department till the finalization of the Report.

The DAC in its meeting held during 9 to 10 February, 2016 directed the DG (PC) to provide details of unutilized funds to Audit and ensure its utilization.

Audit recommends development and implementation of adequate system for collection and utilization of funds in the social welfare schemes of the respective areas.

[DP No. 2720-DG (PC)]

**2.4.28 Irregular appointment of Legal Adviser and Financial Consultant**

According to clause 11.2 of Section V of Petroleum Policy, 2012 read with Establishment Division's letter dated 21.06.2005 and other Petroleum

Policies issued from time to time, unspent amount of Training Funds were to be utilized to meet the deadlines for the utilization of policies. A separate cell headed by the DG (PC) was provided in Petroleum (Exploration & Production) Policy, 2001 to be maintained which could comprise the following professionals on contract basis: (i) Legal Advisor; (ii) Financial Consultant; (iii) Petroleum Economist; (iv) Petroleum Explorationist; and other professional on need basis. As per standing orders of the Federal Government, approval of the Prime Minister was required in each case for appointment after superannuation of Federal Government employees.

The DG (PC), Islamabad appointed two Ex-Government officers as consultants on contract basis who were remunerated from Training Fund but prior approval of the Prime Minister, as required for re-employment of Government servants, was not obtained. Moreover, Ministry of Petroleum and Natural Resources vide its letter dated 23 April, 2011 directed DG (PC) to relieve all ex-Government Servants who had been re-employed on contract basis, but the DG (PC) did not take any action on it. The irregularity/lapse resulted in illegal re-appointment of employees and resultants irregular payment of Rs. 12.61 million was made on their pay and allowances.

The irregularity/lapse was pointed out to Department in December, 2015. The Department replied that the approval of Prime Minister was not required for hiring the services of Ex-Government employees as consultants.

The DAC in its meeting held during 9 to 10 February, 2016 directed the Department to conduct inquiry in respect of the appointment of Financial Consultant and to refer the matter to competent authority in respect of the appointment of Legal Adviser. Further progress was not intimated till finalization of the Report.

Audit recommends implementation of the DAC directives.

[DP Nos. 2709 & 2710-DG (PC)]

**Annexure-I**

**MFDAC**

**Statement of observations/paras included in MFDAC**

*(Rs. in million)*

<b>S. No.</b>	<b>Name of Office</b>	<b>D.P. No.</b>	<b>Subject</b>	<b>Amount</b>	<b>Nature of observation</b>
1	DG (PC)	2689	No authenticity / validity of amount deposit on account of production bonus	0	Procedural
2	DG (PC)	2690	No authenticity / validity of amount deposited on account of Marine Research Fee	0	Procedural
3	DG (PC)	2697	Non-Realization of Social Welfare Fund from E & P Companies	0	Recovery
4	DG (PC)	2698	Non deposit of Income Tax deducted at source into Government Treasury	0.36	Recovery
5	DG (PC)	2699	Less deduction of Income Tax at source on account of services rendered	0.04	Recovery
6	DG (PC)	2702	Non deduction of Income Tax at source on account of Professional Fee	0.53	Recovery
7	DG (PC)	2703	Irregular payment of TA/DA from training fund amounting	2.34	Recovery

8	DG (PC)	2711	Non opening of bank account and deposit of amount received from LMKR	9.43	Recovery
9	DG (PC)	2712	Less deduction of Income Tax on payment of salary.	0.31	Recovery
10	DG (PC)	2721	Illegal refund of Training Fund	0.94	Recovery

## Annexure-2

### **Audit Impact Summary**

- The Ministry recovered an amount of Rs. 4,847.69 million on pointation by Audit during Audit Year 2015-16.
- After Audit took up the matter, the Law, Justice and Human Rights Division categorically clarified that in case of home consumption, the applicable rate for PL would be the date of manifesting the G.D, and in case of Ex-bonding the rate would be applicable on date on which actual removal of product occurred. This clarification cleared ambiguity in practice.
- Amendments were made in the E & P Rules for imposition of Surcharge in case of delayed payment of Royalty on Oil and Gas.
- A reference was made to Law Division for clarification of indexation of rates of rent on license and lease. Law Division had clarified the Law point as pointed out by Audit.

**Annexure-3**

Para 2.4.18

**Loss of Rs. 39.31 million due to non-realization of Petroleum  
Levy on direct sale of petroleum products**

(Rs. in million)

<b>S. No.</b>	<b>D.P. No.</b>	<b>Name of Office</b>	<b>Amount</b>
1.	1 PL-K	DG (Oil), Islamabad	0.92
2.	2 PL-K	DG (Oil), Islamabad	0.77
3.	3 PL-K	DG (Oil), Islamabad	0.72
4.	4 PL-K	DG (Oil), Islamabad	0.66
5.	5 PL-K	DG (Oil), Islamabad	0.45
6.	6 PL-K	DG (Oil), Islamabad	0.43
7.	7 PL-K	DG (Oil), Islamabad	0.42
8.	8 PL-K	DG (Oil), Islamabad	0.41
9.	9 PL-K	DG (Oil), Islamabad	0.35
10.	10 PL-K	DG (Oil), Islamabad	0.33
11.	11 PL-K	DG (Oil), Islamabad	0.30

12.	12 PL-K	DG (Oil), Islamabad	0.28
13.	13 PL-K	DG (Oil), Islamabad	0.26
14.	14 PL-K	DG (Oil), Islamabad	0.22
15.	15 PL-K	DG (Oil), Islamabad	0.21
16.	16 PL-K	DG (Oil), Islamabad	0.08
17.	17 PL-K	DG (Oil), Islamabad	0.05
18.	20 PL-K	DG (Oil), Islamabad	1.98
19.	21 PL-K	DG (Oil), Islamabad	1.62
20.	22 PL-K	DG (Oil), Islamabad	5.94
21.	23 PL-K	DG (Oil), Islamabad	0.10
22.	29 PL-K	DG (Oil), Islamabad	22.81
<b>Total</b>			<b>39.31</b>