



**AUDIT REPORT  
ON  
THE ACCOUNTS OF RECEIPTS OF  
MINISTRY OF PETROLEUM &  
NATURAL RESOURCES  
AUDIT YEAR 2013-2014**

**AUDITOR-GENERAL OF PAKISTAN**

## TABLE OF CONTENTS

		Page
ABBREVIATIONS & ACRONYMS		i
PREFACE		iii
EXECUTIVE SUMMARY		v
SUMMARY TABLES		
I	<i>Audit Work Statistics</i>	ix
II	<i>Audit Observations Classified by Categories</i>	ix
III	<i>Outcome Statistics</i>	ix
IV	<i>Irregularities Pointed Out</i>	x
V	<i>Cost – benefit</i>	x
<b>CHAPTER 1</b>	<b><i>Public Financial Management Issues</i></b>	1
1.1	<i>Audit Paras</i>	1
<b>CHAPTER 2</b>	<b>Ministry of Petroleum &amp; Natural Resources</b>	7
2.1	<i>Introduction</i>	7
2.2	<i>Comments on Budget and Accounts</i>	7
2.3	<i>Brief Comments on the Status of Compliance with PAC Directives</i>	9
2.4	AUDIT PARAS	10
	<i>Fraud / Misappropriation</i>	10
	<i>Non production of record</i>	12
	<i>Irregularity &amp; Non-Compliance</i>	13
	<i>Internal Control Weaknesses</i>	33
	<i>Other</i>	38
Annexure-1	MFDAC	39
Annexure-2	Audit Impact Summary	41

# **SUMMARY TABLES**

## ABBREVIATIONS & ACRONYMS

AGPR	:	Accountant General Pakistan Revenues
AY	:	Audit Year
DAC	:	Departmental Accounts Committee
DCO	:	District Coordination Officer
DGPC	:	Director General Petroleum Concession
DG	:	Director General
DP	:	Draft Para
E&P	:	Exploration and Production
ECC	:	Economic Coordination Committee
EWT	:	Extended Well Testing
FFC	:	Fauji Fertilizer Company
FRR	:	Final Revenue Requirements
FTO	:	Federal Treasury Office
FY	:	Financial Year
GD	:	Goods Declaration
GDS	:	Gas Development Surcharge
GIDC	:	Gas Infrastructure Development Cess
GHPL	:	Government Holding Private Limited
GPA	:	Gas Pricing Agreement
HSD	:	High Speed Diesel
IPPs	:	Independent Power Producers
KPK	:	Khyber Pakhtunkhwa
LIBOR	:	London Inter Bank Offer Rate
LPG	:	Liquefied Petroleum Gas
MFDAC	:	Memorandum for Departmental Accounts Committee
MPCL	:	Mari Petroleum Company Limited
MMBTU	:	Million Metric British Thermal Unit
MMCF	:	Million Metric Cubic Feet
MPNR	:	Ministry of Petroleum and Natural Resources
NAM	:	New Accounting Model
NBP	:	National Bank of Pakistan
OGDCL	:	Oil and Gas Development Company Limited
OGRA	:	Oil & Gas Regulatory Authority
PAC	:	Public Accounts Committee

PAPCO	:	Pak-Arab Pipeline Company Limited
PARCO	:	Pak Arab Refinery Company
PCA	:	Petroleum Concession Agreement
PL	:	Petroleum Levy
PPL	:	Pakistan Petroleum Limited
PSO	:	Pakistan State Oil
SBP	:	State Bank of Pakistan
SNGPL	:	Sui Northern Gas Pipelines Limited
SSGCL	:	Sui Southern Gas Company Limited
WAPDA	:	Water and Power Development Authority

## ***Preface***

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with section 12 of the Auditor-General's (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 administered by the Ministry of Petroleum and Natural Resources for the financial year 2012-13. The report includes observations relating to previous years as well. The Directorate General of Audit Customs & Petroleum conducted audit during the period from July, 2013 to November, 2013 on test check basis with a view to report significant findings to the relevant stakeholders. The main body of the Audit Report includes audit findings carrying value of Rs 1 million or more. Relatively less significant issues are listed in the Annexure-I of the Audit Report. The Audit observations listed in the Annexure-I shall be pursued with the Principal Accounting Officer at the DAC level and in all cases where the PAO does not initiate appropriate action, the audit observation will be brought to the notice of the Public Accounts Committee through the next year's Audit Report.

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

Audit observations included in this report have been finalized in the light of discussion in a meeting with the department.

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

Dated: 14 March 2014

(Muhammad Akhtar Buland Rana)  
**Auditor-General of Pakistan**



## **EXECUTIVE SUMMARY**

The Directorate General of Audit Customs & Petroleum has mandate to conduct financial attest and compliance with authority audit of receipts administered by the Ministry of Petroleum and Natural Resources (MPNR) in terms of Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan read with sections 7 and 12 of the Auditor-General's (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 1,311 man-days incurring an expenditure of Rs 6 million on audit of three Directorates General of the Ministry dealing with collection of revenue.

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

### **a. Scope of Audit**

MPNR collected revenue of Rs 280,188 million during FY 2012-13 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 268,223 million and revised estimates of Rs 276,700 million. Thus there was excess collection of Rs 3,434 million or 1.26 percent over the revised estimates.

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

Audit pointed out recovery of Rs 60,421 million during audit year 2013-14. Recovery of Rs 33,396 million was effected by MPNR from 01.01.2013 to 15.01.2014.

### **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**

- On the pointation of audit, Directorate General Petroleum Concession agreed to take action against the Exploration and Production companies which had not made any progress in concession areas during last three to seven years.
- DG PC agreed to take action against the E & P companies which have started production and sale from fields under license without obtaining the permission of Extended Well Testing/appraisal.
- DG Oil agreed to make a Cell for the early recovery, timely reporting to finance and reconciliation of record of Petroleum Levy with AGPR.

**e. Comment on Internal Control and Internal Audit Department**

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

**f. Key audit findings of the report**

This report includes significant audit paras of Rs 60,623 million in respect of compliance with authority audit. The key audit findings are:

- i. Unauthorized sale of crude oil and natural gas by E & P companies causing loss of billions of rupees to public exchequer in one case<sup>1</sup>.
- ii. Non-realization of government dues worth Rs 50,429.01 million in 12 cases<sup>2</sup>.
- iii. Short realization of government dues worth Rs 9,992.38 million in 11 cases<sup>3</sup>.

---

<sup>1</sup> Para 2.4.11

<sup>2</sup> Para 2.4.3, 2.4.4, 2.4.6, 2.4.7, 2.4.8, 2.4.14, 2.4.16, 2.4.18, 2.4.21, 2.4.23, 2.4.25, 2.4.27

<sup>3</sup> Para, 2.4.5, 2.4.9, 2.4.10, 2.4.13, 2.4.15, 2.4.17, 2.4.19, 2.4.20, 2.4.24, 2.4.26, 2.4.28

- iv. Non production of record and non realization of government revenue due to non-decision of final revenue requirement by OGRA<sup>4</sup>
- v. No progress of exploration in forty blocks by E & P companies after obtaining licenses<sup>5</sup>.
- vi. Non implementation concession management system<sup>6</sup>.
- vii. Weak Internal Controls in 5 cases<sup>7</sup>.
- viii. Need to monitor spending of receipts of Social Welfare - Rs 201.93 million<sup>8</sup>.

Audit paras for the audit year 2013-14 involving procedural violations including internal control weaknesses and irregularities not considered worth reporting to the PAC have been included in Annexure-I.

**g. Recommendations**

MPNR is required to:-

- i. take measures to recover the amount pointed out
- ii. establish internal audit wing to prevent recurring violations and irregularities
- iii. safeguard public interest while determining Final Revenue Requirement of the gas distribution companies
- iv. maintain company and field-wise assessment record of receipts to ensure timely realization of government revenue and timely reconciliation with the treasury concerned and AGPR
- v. compile data of collection and reconcile receipts with the AGPR on monthly basis
- vi. impose default surcharge to discourage late payment of receipts (Royalty on oil and gas, Petroleum levy, Discount retained on local crude oil price) on the analogy of sales tax and federal excise duty
- vii. investigate the matter of sale of crude oil and natural gas without permission of EWT and finalization of lease

---

<sup>4</sup> Para 2.4.2, 2.4.11

<sup>5</sup> Para 2.4.12

<sup>6</sup> Para 2.4.22

<sup>7</sup> Para 2.4.29, 2.4.30, 2.4.31, 2.4.32, 2.4.33

<sup>8</sup> Para 2.4.34

- viii. Probe the matter of non monitoring of E & P companies which did not perform their commitments in respect of exploration
- ix. Devise a mechanism of monitoring to ensure the utilization of social welfare obligation in respective areas.

## **SUMMARY TABLES**

**Table 1: Audit Work Statistics**

*(Rs in million)*

<b>Sr. No.</b>	<b>Description</b>	<b>No.</b>	<b>Revenue</b>
1	Total entities (Ministries/PAOs) in audit jurisdiction	1	280,188*
2	Total formations in audit jurisdiction	12	280,188
3	Total entities (Ministries/PAOs) audited	1	280,188
4	Total formations audited	12	280,188
5	Audit & Inspection Reports	12	-

*\*Financial Statements for the FY 2012-13*

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

*(Rs in million)*

<b>Sr. No.</b>	<b>Description</b>	<b>Amount</b>
1	Unsound asset management	-
2	Weak financial management	-
3	Weak internal controls relating to financial management	60,623
4	Others	-
<b>Total</b>		<b>60,623</b>

**Table 3: Outcome Statistics**

*(Rs in million)*

<b>Sr. No.</b>	<b>Description</b>	<b>AY 2013-14 receipts</b>	<b>AY 2012-13 receipts</b>
1	Outlays audited (Revenue Receipts)	280,188	186,377
2	Monetary Value of Audit Observations	60,623	33,470
3	Recoveries pointed out by Audit	60,421	33,287
4	Recoveries accepted/established at the instance of Audit	60,336	33,239
5	Recoveries realized at the instance of Audit	33,396*	14,378

*\*Recoveries realized include amount recovered and verified from 01.01.213 to 15.01.2014.*

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

<b>Sr. 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.	-
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.	60,336
6	Non-production of record.	-
7	Others.	287

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

<b>Sr. No.</b>	<b>Description</b>	<b>AY 2013-14</b>	<b>AY 2012-13</b>	<b>AY 2011-12</b>
1	Outlays audited (Item 1 of Table 3)	280,188	186,377	209,248
2	Expenditure on Audit	6.44	9	4.22
3	Recoveries realized at the instance of Audit	33,396	14,378	7,166
<b>4</b>	<b>Cost-Benefit Ratio</b>	<b>1:5186</b>	<b>1:1598</b>	<b>1:1698</b>

## **Chapter 1 Public Financial Management Issues**

### **1.1 Audit Paras**

Significant paras pointed out during audit of Ministry of Petroleum & Natural Resources (MPNR) for financial year 2012-13 are as under:

#### **1.1.1 Variation between departmental and AGPR's figures - Rs 4,459 million**

**Risk Categorization: High**

##### **Criteria**

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

##### **Observation**

Audit observed that there was a variation of Rs 4,459 million in receipts reported by DG Oil and DG Gas and those accounted for by AGPR in respect of petroleum levy, discount retained on local crude oil price, gas infrastructure development cess and gas development surcharge as detailed below:-

(Rs in million)

<b>Description</b>	<b>DG Oil</b>		<b>DG Gas</b>		<b>Total</b>
	<b>Petroleum Levy</b>	<b>Discount</b>	<b>GIDC</b>	<b>GDS</b>	
Reported by MPNR to Finance	114,607	15,446	34,856	30,422	195,331
Accounted for by AGPR (June final)	109,666	15,479	33,556	32,171	190,872
<b>Variation</b>	<b>4,941</b>	<b>(33)</b>	<b>1,300</b>	<b>(1,749)</b>	<b>4,459</b>

##### **Implication**

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

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

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

***DAC's Recommendations:***

In the meeting with DGs concerned, para could not be discussed as no reply was received from the department.

***Audit Comments:***

Audit emphasizes expeditious reconciliation of receipts with AGPR.

[MR-1 & 5]

**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 percent of the wellhead value of the petroleum produced and saved is required to be paid on monthly basis within ten days from the expiry of the relevant calendar month.

***Observation***

Royalty of Rs 3,035.25 million on crude oil and Rs 3,257.46 million on natural gas aggregating Rs 6,130.04 million was deposited with a delay ranging from 20 to 392 days as detailed below:

(Rs in million)

S. No.	No. of cases	Delay in days	Royalty on Crude Oil	Royalty on Gas
1	2	392	81.38	162.67
2	1	285	0	1.87
3	12	61 to 82	1.44	7.05
4	73	41 to 60	19.24	449.65
5	410	22 to 40	2,933.19	2,636.22
<b>Total</b>	<b>498</b>		<b>3,035.25</b>	<b>3,257.46</b>

***Implications:***

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

***Management Reply:***

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

***DAC's Recommendations:***

In the meeting with DGs concerned, para could not be discussed as no reply was received from the department.

***Audit Comments:***

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

[MR-6]

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

***Risk Categorization: High***

***Criteria***

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

***Observation***

Audit observed that receipts for the FY 2012-13 of petroleum levy, discount retained on local crude oil price and windfall levy were not reconciled by the DG Oil with AGPR.

***Implication:***

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

***Management Reply:***

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

***DAC's Recommendations:***

In the meeting with DGs concerned, para could not be discussed as no reply was received from the department.

***Audit Comments:***

Reconciliation of receipts with AGPR is emphasized.

[MR-2]

**1.1.4 Late payment of gas infrastructure development cess (GIDC) and gas development surcharge (GDS) 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 percent per annum shall be payable in addition to the amount due under sub-section (1), if the amount is not paid within the time specified for such payment.

Rule 3(a) of the Gas Infrastructure Development Cess Rules, 2011 provides that every company shall deposit in the government treasury the amount of gas infrastructure development cess payable by it in respect of sale during the calendar month within one month of the close of that month or within seven days of the actual collection from consumer whichever is earlier.

***Observation***

Gas Infrastructure Development Cess of Rs 275.49 million and Gas Development Surcharge of Rs 10,794.49 million aggregating Rs 11,069.98 million was late deposited by the companies. The delay period ranged from 1 to 18 months as under:

(Rs in million)

<b>S. No.</b>	<b>Nomenclature of receipt</b>	<b>Period of delay in months</b>	<b>Name of companies</b>	<b>Amount involved</b>
1.	Gas Infrastructure Development Cess	1 to 9	MPCL	275.49
2.	Gas Development Surcharge	1 to 18	MPCL	9,241.05
			PPL	409.44
			SNGPL	1,144.00
<b>Total</b>				<b>11,069.98</b>

***Implications:***

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

***Management Reply:***

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

***DAC's Recommendations:***

In the meeting with DGs concerned, para could not be discussed as no reply was received from the department.

***Audit Comments:***

Audit requires timely deposit of gas infrastructure development cess and gas development surcharge by gas distribution companies.

[MR-4]



## **Chapter 2 Ministry of Petroleum & Natural Resources**

### **2.1 Introduction**

Ministry of Petroleum and Natural Resources (MPNR) was created in April 1977. Prior to that, the subject of Petroleum and Natural Resources was a part of the Ministry of Fuel, Power and Natural Resources. MPNR is responsible for coordinating the development of natural resources of energy and minerals in Pakistan. It aims to ensure securing and making available sustainable energy supply for economic development of the country. It facilitates and promotes exploration and production of oil, gas and mineral resources in the country. The MPNR also collects number of receipts of government of Pakistan through DGs PC, Oil and Gas. The Directorate General Petroleum Concession deals with receipts of royalty on oil and gas, lease/licensed area rent, marine research fee, production bonus etc. The Directorate General Oil deals with petroleum levy, discount retained on local crude oil price and windfall levy on oil. The Directorate General Gas deals with gas development surcharge 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 2012-13 is tabulated below:

*(Rs in millions)*

<b>Nomenclature of Receipt</b>	<b>Original Target*</b>	<b>Revised Target*</b>	<b>Collection 2012-13</b>	<b>Difference from Revised Target</b>	
				<b>Absolute (4-3)</b>	<b>Percent</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
Petroleum Levy	120,000	115,000	109,666	(5,334)	(4.64)
Development Surcharge on Gas	30,882	16,200	30,422	14,222	87.79

Royalty on Oil	22,027	27,710	28,246	536	1.94
Royalty on Gas	36,163	41,439	36,895	(4,544)	(10.97)
Discount Retained on Local Crude Oil Price & Windfall Levy	22,500 5,300	16,000 24,000	15,479 23,752	(521) (248)	(3.26) (1.03%)
Gas Infrastructure Development Cess	30,000	35,000	35,313	313	0.89%
Petroleum Levy on LPG	1,000	1,000	10	(990)	(99.00%)
Licence Rent	350	351	405.43	54.43	15.50%
<b>Total</b>	<b>268,223</b>	<b>276,700</b>	<b>280,188</b>	<b>3,488</b>	<b>1.26%</b>

*\*Explanatory Memorandum of Federal Receipts 2013-2014 and Financial Statements for the FY 2012-13*

The Ministry collected Rs 280,188 million against revised estimates of Rs 276,700 million for the FY 2012-13. It shows an excess collection of Rs 3,488 million or 1.26 percent as compared with the revised estimates of the receipts.

### 2.2.2 Comparison of actual receipts between the year 2011-12 and 2012-13

A comparison of actual receipts between the years 2011-12 and 2012-13 is tabulated below:

*(Rs in millions)*

Nomenclature of receipt	Collection		Difference	
	FY: 2012-13	FY: 2011-12	Absolute	Percentage
1	2	3	4	5
Petroleum Levy	109,666	60,371	49,295	81.65
Development Surcharge on Gas	30,422	19,224	11,198	58.25
Royalty on Oil	28,246	23,275	4,971	21.36
Royalty on Gas	36,895	39,530	-2,635	(6.67)
Discount Retained on Local Crude Oil Price and Windfall levy	39,231	30,761	8,470	27.53%
Gas Infrastructure Development Cess	35,313	12,685	22,628	178.38%
Petroleum Levy on LPG	10	0	10	100.00%
Licence Rent	405	531	-126	(23.73%)
<b>Total</b>	<b>280,188</b>	<b>186,377</b>	<b>93,811</b>	<b>50.33%</b>

*Source: Financial Statements of the Federal Government for the FY 2011-12 and 2012-13*

The table shows an increase in collection of Rs 93,811 million or 50.33 percent in receipts of the Ministry during the fiscal year 2012-13 than those of fiscal year 2011-12.

### **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:

<b>Audit year</b>	<b>PAC directives</b>	<b>Compliance received</b>	<b>Compliance not received</b>	<b>Percentage of compliance</b>
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	10	05	67%
1999-00	04	04	-	100%
2000-01	05	-	05	0%
2001-02	01	-	01	0%
2002-03	No PAC held	-	-	-
2004-05	04	-	04	0%
2005-06	02	02	-	100%
2007-08	No PAC held	-	-	-
2008-09	10	-	10	0%
2009-10	No PAC held	-	-	-
2010-11	No PAC held	-	-	-
2011-12	No PAC held	-	-	-
2012-13	No PAC held	-	-	-
<b>Total</b>	<b>57</b>	<b>29</b>	<b>28</b>	<b>51%</b>

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

## **2.4 Audit Paras**

### **Fraud / Misappropriation**

#### **2.4.1 Unauthorized sale of crude oil and natural gas by E & P companies causing loss of billions of rupees to public exchequer**

According to rules 20 and 22 (1 & 2) of E & P Rules 1986 and 2001 holder of a license 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 Rules 1986 and two years as per 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 Director General Petroleum Concession, Islamabad neither announced commercial discovery nor granted lease to six E & P companies but these companies remain engaged in extraction and sale of oil & gas from eleven fields. Oil and gas was being sold by these companies on the plea of Extended Well Testing, which was granted to utilize the oil and gas for testing. Resultantly companies were utilizing the benefit of half rate of obligations i.e. social welfare, training, production bonus, rate of rent and low share of GHPL for the period from two to six years. Whereas, average life of oil field as per report of Pakistan Credit Rating Agency Limited is ten years due to limited crude oil potential. It is further added that in 25 fields crude oil and natural gas were being produced and sold without obtaining permission of EWT/appraisal. This caused loss of billions of rupees to national exchequer.

The lapse was pointed out in August, 2013. In the meeting held on 10<sup>th</sup> January 2014, the department informed that action had been initiated against the E&P companies which started production without getting permission of

EWT and agreed to take up the matter on priority basis for granting the lease to the fields under EWT for the period from 2 to 6 years. Further progress was not reported till finalization of the report.

Audit requires that the matter be investigated thoroughly and responsibility be fixed for non granting of lease besides, grant of lease to the fields under EWT be finalized as well as production bonus and other obligations be recovered.

[DP No. 941-DG PC]

### **Non production of record**

#### **2.4.2 Non-production of record**

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

Audit requisitioned record regarding training obligations from Director General Petroleum Concession, Gas Development Surcharge record of SSGCL from Director General Gas and petroleum levy record of Caltex Pakistan Limited, Enar Refining Facility Company (ERFC) and Shell Pakistan Limited from Director General Oil, which was not provided despite repeated reminders.

The lapse was pointed out in August to November 2013. In reply DG PC furnished partial record regarding training obligations. Audit requisitioned the remaining record of training along with some justifications. No reply/record was received from DG Oil and DG Gas. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to provide the requisite record and justifications. No progress was received till finalization of the report.

Audit requires provision of the complete requisite record beside, fixing responsibility against the responsible persons at fault.

[DP No. 942-Training, 58, 60, 62-PL& 53-GDS/ K]

### **Irregularity & Non-Compliance**

#### **2.4.3 Non-realization of gas development surcharge on gas sold Rs 10,766.39 million**

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

Director General Gas did not realize the gas development surcharge in respect of gas sold to WAPDA (PEPCO) and other companies. This caused non-realization of gas development surcharge Rs 10,766.39 million from MPCL, PPL and SNGPL which also attracts interest at the rate of 15 percent per annum. Irregularity was due to non-monitoring and follow up by the MPNR.

The lapse was pointed out in July to November, 2013. It was replied that an amount of GDS Rs 177 million has been paid by Mari Petroleum Company Limited which was to be verified by Audit. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to expedite the recovery of balance amount of Rs 10,589.39 million. Further progress was not reported till finalization of the report.

Audit requires expeditious recovery of the amount involved along with interest besides, developing effective monitoring and reporting systems.

[DP No. 970-GDS, 75-GDS/K]

#### **2.4.4 Non-realization of gas infrastructure development cess - Rs 15,031.71 million**

According to section 3(1) of the Gas Infrastructure Development Cess Act, 2011, Gas distribution companies shall collect and pay cess at the rates specified by the Federal Government vide notification No. DGO(AC)-8(49/12), dated 07.09.2012.

Director General Gas did not realize the gas infrastructure development cess in respect of gas sold to WAPDA (PEPCO) and other companies. This caused short realization of gas infrastructure development cess of Rs 15,031.71 million from MPCL, PPL and SNGPL. This was caused due to non-monitoring and follow up by the MPNR.

The lapse was pointed out in July to November, 2013. The department replied that the Honourable High Court, Islamabad vide orders dated 18.03.2013 granted stay in respect of Gas Infrastructure Development Cess collection from consumers. Audit held that the case may be pursued for early decision and recovered the amount involved. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to pursue the case in the court and to recover the amount. Further progress was not reported till finalization of the report.

Audit requires vigorous pursuance of the case for early finalization and recovery of government revenue.

[DP No. 971-GDS & 76-GDS/K]

#### **2.4.5 Mismatching of sales volume of SSGCL and OGRA resulting in excess determination of profit - Rs 3,894.47 million.**

According to section 8 of the Oil and Gas Regulatory Authority Ordinance, 2002 the Authority shall determine an estimate of total revenue requirements of each licensee engaged in transmission, distribution and sale of natural gas to a retail consumer, in accordance with the rules, and on that basis advise the government the prescribed price of natural gas for each category of retail consumers.

On the basis of petition of SSGCL for final determination of revenue requirements for the financial years 2010-11 and 2011-12, OGRA accepted higher sales volume of 155,105 MMBTU in respect of domestic category, whereas as per record of the company it was 154,614 MMBTU. The sale revenue of the both quantities was equal, it appeared that 490 MMBTU gas, escaped / unaccounted for, was sold to the unknown category. Resultantly, income of the company was reduced due to excluded quantity, which caused excess determination of Final Revenue Requirement of Rs 3,894.47 million. Had this amount been properly accounted for, the prescribed price would have been

reduced and margin of sales price increased to the extent of said amount. This resulted in loss of gas development surcharge of Rs 3,894.47 million.

The irregularity was pointed out in November, 2013. In reply the department stated that figure pointed out by Audit was of accrual sales. Audit viewed that closing balance of accruals was much more than opening balance. Further progress was not reported till finalization of the report.

Audit requires that MPNR may probe into the matter and ascertain factual position under intimation to Audit and recover the amount along with interest on GDS from the company.

[DP No. 34& 37-GDS/K]

#### **2.4.6 Unlawful adjustment of gas development surcharge recovered from the consumers - Rs 2,188.51 million.**

According to section 3 (1) of the Natural Gas (Development Surcharge) Ordinance, 1967 every company shall collect and pay to the Federal Government a development surcharge equal to the differential margin in respect of natural gas sold by it.

Sui Southern Gas Company Limited collected gas development surcharge of Rs 2,188.51 million during the years 2010-11 and 2011-12 and suo moto adjusted against the amount receivable from government on account of prescribed price. Audit is of the view that the differential margin should be deposited in the government treasury as Gas Development Surcharge and adjustments if any should be dealt with in prescribed price. The uncontrolled action of self adjustment of GDS resulted in loss of revenue of Rs 2,188.51 million.

The irregularity was pointed out in November, 2013. In reply the department stated that identical issue was pointed out at para 2.3 of Audit Report 2009-10 and OGRA's opinion was in favour of SSGCL. The contention is incorrect because:-

- i) The issue was not identical as in that para adjustment was done by OGRA and not by the company suo moto,

- ii) Although the matter was referred on the directives of the DAC, however the Ministry of Law and Justice did not attend it on the ground that, it involves neither the question of law nor the matter of interpretation, and
- iii) The case has not yet been finalized by the DAC or PAC.

Audit requires that the amount of GDS Rs 2,188.51 million be recovered along with interest on late payment of GDS.

[DP No. 35& 39-GDS/K]

#### **2.4.7 Non recovery of government dues on expiration of interim orders of the court - Rs 10,920 million**

According to article 199 (4A) of the Constitution of the Islamic Republic of Pakistan, 1973 and section 12 (4) of Oil and Gas Regulatory Authority Ordinance, 2002 an interim order made by a High Court shall cease to have effect on expiration of a period of six months.

The Honourable Sindh High Court granted interim relief to Sui Southern Gas Company Limited in respect of determination of final revenue requirement for the years 2010-11 and 2011-12 and same ceased to have effect on expiration of a period of six months. As a result an amount of Rs 10,920 million became due from the company. Irregularity occurred due to non-monitoring and follow up by the MPNR.

The irregularity was pointed out to the Ministry in November, 2013. In reply the department stated that the interim order still stands and audit should wait till the decision of the court. Audit was of the view that in the light of constitutional provision the interim order ceased to have effect on expiration of a period of six months.

Audit emphasizes that position may be justified and recovery be expedited from the company.

[DP No. 32,33,36 and 38-GDS/K]

#### **2.4.8 Non-realization of interest on late payment of gas development surcharge - Rs 2,861.17 million**

According to section 3(1) of Natural Gas (Development Surcharge) Ordinance, 1967 every company shall pay to the Federal Government 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 percent per annum shall be payable in addition to the amount due under sub section (1), if the amount is not paid within the time specified for such payment.

Director General Gas did not realize the amount of interest at the rate of 15 percent per annum on late payment of gas development surcharge paid by MPCL, SSGCL and PPL during the FY 2012-13. This caused non-realization of revenue of Rs 2,861.17 million.

The lapse was pointed out in July to November, 2013. In the meeting held on 10<sup>th</sup> January 2014, the department informed that GDS could not be recovered in time due to circular debt and amendments in rules through Finance Act 2012. Therefore, interest could not be collected. Audit held that interest on the late payment of gas development surcharge was not waived off through the amendment and amount of interest was recoverable. No further progress was reported till finalization of the report.

Audit requires expeditious recovery of the amount pointed out.

[DP No. 972-GDS, 41, 45 & 74-GDS/K]

#### **2.4.9 Excess determination of return due to irregular sanction of worker's profit participation fund - Rs 627 million**

According to section 3 (1) (b) of the Companies Profits (Workers' Participation) Act, 1968 every company to which the scheme applies shall subject to adjustments, if any, pay every year to the Fund not later than nine months after the close of that year, 5 percent of its profits during such year.

The determination of Final Revenue Requirement of Sui Southern Gas Company Limited by OGRA for the FYs 2010-11 and 2011-12 revealed that

allowance of Rs 627 million on account of worker's profit participation fund was allowed. The workers profit participation fund was an expense, which was to be met from five percent of the profit earned by the company in that year. Therefore, it should not be charged as an expense while determining the Final Revenue Requirement by OGRA. The sanction of claim of irregular expense incurred on account of workers' profit participation fund resulted in short realization of GDS of Rs 627 million.

The irregularity was pointed out to the Ministry in November, 2013. In reply it was stated that sanction of claim of expense incurred on account of workers' profit participation fund was allowed by OGRA. Audit is of the view that it should not be charged as an expense while determining the Final Revenue Requirement by OGRA. No further progress was reported till finalization of the report.

Audit emphasizes recovery of the amount involved.

[DP No. 40& 42-GDS/K]

#### **2.4.10 Short payment of gas development surcharge - Rs 29.28 million**

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. According to the notifications dated 30<sup>th</sup> June, 2012 and 1<sup>st</sup> January 2013 sales prices have been determined for gas supplies to different sectors. Moreover, an interest at the rate of 15 percent per annum shall be payable in addition to the amount due under sub-section (1), if the amount is not paid within the time specified for such payment.

Under the gas purchase agreement, Director General Gas fixed the quota of gas to be supplied by Mari Petroleum Company Limited to fertilizer and power companies. Further as per Prime Minister's instructions issued vide letter No. NG (I)-7(158)/10-LS, dated 28.04.2010, a cut of 60 MMSCF per day was proportionately imposed in natural gas quota fixed for fertilizer sector, to divert natural gas for power generation to eradicate power outages.

Record of Director General Gas for the FY 2012-13, revealed that Mari Petroleum Company Ltd, Islamabad, supplied gas to FFC-III beyond entitlement and charged concessionary rates ignoring the Prime Minister's instructions for fixation of gas quota. This resulted in loss of revenue of Rs 29.28 million.

The lapse was pointed out in September 2013. The department informed that as per letter No. DGO(AC)-5(143)/08-PT, dated November 02, 2010 quota of FFC-III was fixed at 85.5 MMSCFD and 10 MMSCFD on concessionary rates. So, GDS calculated and recovered was as per law. Audit held that gas was supplied to FFC-III beyond entitlement and concessionary rates were charged in contravention of Prime Minister's directives. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to take up the matter with MPCL. Further progress was not reported till finalization of the report.

Audit emphasizes to recover the amount pointed out besides fixing of responsibility against the responsible persons.

[DP No. 973-GDS]

#### **2.4.11 Non realization of government revenue due to non-decision of final revenue requirement by OGRA**

According to clause 5.2 of the license granted to SNGPL, the OGRA shall determine an annual return of 17.5 percent of the average current net value of the licensee's fixed assets in operation. The GDS not paid or short paid shall 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 in performing its role to determine final revenue requirement for the year 2012-13 in respect of SNGPL. Resultantly, the GDS required to be deposited under law on monthly basis within two months of the close of that month remained unpaid resulting in non realization of government revenue.

The lapse was pointed out by Audit in November, 2013. The department accepted the Audit viewpoint that OGRA may issue their decision at the earliest. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to provide the

record after finalization of FRR. Further progress was not reported till finalization of the report.

Audit requires getting the decision finalized by OGRA, recovering the amount involved and producing of record.

[DP No. 975-GDS]

#### **2.4.12 No progress of exploration in forty blocks by E & P companies after obtaining licenses**

According to rule 20 (2) of Pakistan Petroleum (Exploration & Production) Rules, 1986 & 2001, the licence holder must perform the work programme stipulated in the license. The work programme will contain the number of wells to be drilled, the depth and time within which they must be drilled, and, where appropriate, the seismic work to be performed, as well as any other matter that may be relevant.

Seventeen E& P companies obtained licenses for exploration in forty blocks but did not act upon as per their commitments for exploration of oil and gas. Moreover, the monitoring authority i.e. DG PC neither investigated the matter nor cancelled their licenses. This resulted in non granting of licenses to some other willing E & P companies to overcome energy crisis.

The lapse was pointed out in August, 2013. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to take up the matter seriously and Secretary MPNR requested the Chief Secretaries of Baluchistan and KPK to direct the quarters concerned to provide security to the E & P companies and agreed to initiate the action against the E & P companies which did not start work in other areas. Further progress was not reported till finalization of the report.

Audit requires strict compliance of conditions/commitments of exploration licenses besides, initiating action against E & P companies for non-fulfilment of commitments.

[DP No. 954-DG PC]

#### **2.4.13 Short-realization of royalty on LPG from E & P Companies Rs 1,405.32 million**

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

The Director General Petroleum Concession did not realize royalty on LPG on its actual sale value. The E & P companies paid royalty on shrinkage value of gas produced and consumed in LPG instead of paying at actual sale value of LPG produced and saved. Similar issue had also been pointed out in Audit Reports for the years 2009-10 to 2012-13. The committee of experts constituted under the PAC directives had also given its findings that royalty on LPG was payable on its market/sale value. Therefore, royalty on LPG was required to be deposited on actual sale value. The under valuation caused short-realization of royalty on LPG of Rs 1,405.32 million.

The lapse was pointed out in August 2013. The department informed that recovery of amount involved was under process. Audit held that matter was being pointed out since 2009-10 and the committee clearly concluded to recover the royalty on sale value and there was no justification for delay. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to recover the amount involved by revoking the licenses. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious recovery of the amount involved.

[DP No. 946-Royalty]

#### **2.4.14 Non-realization of production bonus from E & P companies - Rs 1,170.12 million**

According to clauses 2.2.4, 2.2.5 & 5.1.2 of Petroleum Policy 1994, 1997, 2001, 2007 & 2009 respectively 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 Director General Petroleum Concession did not realize the production bonus from nine E & P companies extracting oil and gas from the concession areas for subsequent sale. This resulted in non-realization of production bonus of Rs 1,170.12 million during 2012-13.

The lapse was pointed out in August 2013. In the meeting held on 10<sup>th</sup> January 2014, the department reported recovery of Rs 558.42 million which was yet to be verified. In case of concession areas under extended well testing, it was informed that production bonus had become due on the declaration of commercial discovery. After discussions, however, the department agreed with the viewpoint of Audit for recovery of the amount pointed out. Further progress was not reported till finalization of the report.

Audit requires early recovery of the amount pointed out.

[DP No. 948, 949 & 955-PB]

#### **2.4.15 Short-realization of license and lease rent from onshore E & P companies - Rs 1,061.19 million**

Pakistan Petroleum (Exploration and Production) Rules, 1949, 1986 and 2001 read with DG PC's letter No.7 (3) (ODGCL-Gurgalot)/2000-Expl-Vol-II dated 23.02.2008 require payment of rent with 25 percent indexation. The licence / lease holder shall pay advance rent to the Government annually at specified rates.

The Director General Petroleum Concession short recovered advance license rent of Rs 822.59 million and lease rent of Rs 238.60 million aggregating Rs 1,061.19 million.

The lapse was pointed out in August, 2013. In the meeting held on 10<sup>th</sup> January 2014, the department reported that E& P companies did not agree to pay rent on indexed rate. After discussions, however, the department accepted the viewpoint of Audit and agreed to recover the amount. Further progress was not intimated till finalization of the report.

Audit requires recovery of the amount involved besides, fixing responsibility against the person for short-realization the licence/lease rent.

[DP No. 957-Rent]

**2.4.16 Non-realization of license and lease rent from onshore E&P companies**  
**Rs 1,007.16 million**

Pakistan Petroleum (Exploration and Production) Rules, 1949, 1986 and 2001 read with DG PC's letter No.7 (3) (ODGCL-Gurgalot)/2000-Expl-Vol-II dated 23.02.2008 require payment of rent with 25 percent indexation. The licence / lease holder shall pay advance rent to the Government annually at specified rates.

The Director General Petroleum Concession did not realize license rent of Rs 928.73 million and lease rent of Rs 78.43 million in advance from licensee and lessee E & P companies, which resulted in non-realization of license / lease rent of Rs 1,007.16 million.

The lapse was pointed out in August, 2013. In the meeting held on 10<sup>th</sup> January 2014, the department reported recovery of Rs 4.36 million and agreed to expedite recovery of the balance amount. Further progress was not intimated till finalization of the report.

Audit emphasizes to recover the amount involved besides, fixing responsibility for non-realization of licence/lease rent.

[DP No. 950-Rent]

**2.4.17 Short payment of royalty due to difference in quantity of oil produced and sold - Rs 467.47 million**

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

Director General Petroleum Concession did not take notice of difference between petroleum products produced & saved and sold by OGDCL. Due to this difference of 373,977 barrels OGDCL was evading royalty. This deprived government of revenue worth Rs 467.47 million approximately. DG PC did not provide the record of other companies.

The lapse was pointed out in August, 2013. The department provided a statement which could not be reconciled. Audit held that a system may be devised to reconcile the production and sale data of the companies and relevant statement scrutinized by production department may be provided. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to provide the requisite statement of OGDCL. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious reconciliation of petroleum products produced/saved and sold besides devising system to ensure correct recording of sale of crude oil and natural gas produced.

[DP No. 951-Royalty]

#### **2.4.18 Non-realization of rent of exploration license of offshore fields from E & P companies - Rs 103.77 million**

According to rule 32 of Pakistan Offshore Petroleum (Exploration and Production) Rules 2003 read with para 9.6 of the concerned petroleum sharing agreements, the E & P companies/contractors are required to pay in advance annual acreage rental at the rate of \$50000 plus \$10 per square kilometre of area included in the Contract Area. The rates of rent in respect of offshore fields under ibid rules 2003 have been indexed at the rate of 25 percent every year by DGPC, Islamabad as notified vide letter No. 3(31)AR-2008-09 Vol- 3 Pt (Per Audit) dated 14-02-2012 since inception to the year 2010-11 directing all E&P companies to pay the differential amount.

The Director General Petroleum Concession did not realize rent of license from the exploration and production companies, in respect of their offshore fields. This caused short-realization of rent of Rs 103.77 million.

The lapse was pointed out in August, 2013. In the meeting held on 10<sup>th</sup> January 2014, the department accepted the viewpoint and agreed to recover the amount involved. Further progress was not reported till finalization of the report.

Audit requires recovery of amount involved besides, fixing responsibility for not realizing the licence rent.

[DP No. 944-DG PC]

#### **2.4.19 Short payment of royalty on gas due to non finalization of GPA Rs 88.35 million**

According to the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 read with rule 35 (3) of the Pakistan Petroleum (Exploration and Production) Rules, 2001, the royalty shall be paid at the rate of 12.5 percent of the wellhead value of the petroleum produced and saved. Royalty for a month is payable within 45 days of the month of production in question. If delayed beyond this stipulated period, it would attract fine at rate of LIBOR plus two percent.

The Director General Petroleum Concession short recovered royalty from three E & P companies in respect of SALSABIL field on the wellhead value of gas during 2012-13 due to non finalizing of price of gas and discount. Similar matter had already been pointed out by Audit in the Audit Reports for the years 2009-10 to 2012-13 but no action was initiated by the department. This resulted in short-realization of Rs 88.35 million.

The lapse was pointed out in August, 2013. In the meeting held on 10<sup>th</sup> January 2014, DG PC informed that such type of discount issues had already been decided in the GPAs of Hassan, Badar and Zamzama fields and agreed to resolve the issue by collecting the copy of GPA from DG Gas. Audit held that matter was being pointed out in its Audit Reports for the last four years but the department could not finalize the issue which showed negligence of the department. Further progress was not reported till finalization of the report.

Audit requires expeditious finalization of the dispute and recovery of government dues involved besides, fixing of responsibility against the persons for not resolving the gas price dispute since 2009.

[DP No. 945-Royalty]

#### **2.4.20 Short-realization of royalty on crude oil and natural gas from E & P companies - Rs 49.67 million**

According to the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 read with rule 36 (2) of Pakistan Petroleum (Exploration and Production) Rules, 1986, holder of a lease shall pay

a royalty at the rate of 12.5 percent of the wellhead value of the petroleum produced and saved within 10 days of the expiry of the calendar month in question.

The Director General Petroleum Concession did not realize royalty on crude oil Rs 20.77 million and royalty on natural gas Rs 28.90 million from five E& P companies. This resulted in short-realization of Rs 49.67 million.

The lapse was pointed out in August 2013. In the meeting held on 10<sup>th</sup> January 2014, the department reported recovery of Rs 26.47 million and an amount of Rs 0.08 million was not due. Further progress for the balance amount of Rs 23.12 million was not reported till finalization of the report.

Audit emphasizes expeditious recovery of the balance amount besides, fixing responsibility against the persons for short realization of royalty.

[DP No. 943-Royalty]

#### **2.4.21 Non-realization of marine research fee from E & P companies Rs 30.9 million**

According to the Petroleum Exploration & Production Policy 2007, a marine research fee is recoverable at rates specified therein.

The Director General Petroleum Concession did not realize the marine research fee of Rs 30.90 million from four E & P companies holding offshore fields.

The lapse was pointed out in August, 2013. In the meeting held on 10<sup>th</sup> January, 2014, the department reported recovery of Rs 10.30 million (yet to be verified) and agreed to recover the balance amount. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious recovery of the balance amount besides, fixing responsibility against the persons for non realization of marine research fee from E & P companies.

[DP No. 953-DG-PC]

#### **2.4.22 Non implementation of concession management system**

Concession Management System was devised by Director General Petroleum Concession with the help of its contractor Land Mark Resources (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 this system and training for the purpose was also imparted to companies for feeding of data.

In the office of Director General Petroleum Concession, Concession Management System remained dormant and was not helpful in systematic provision of data. Millions of rupees were spent for development of the software but the purpose was not being served i.e. to compile the record in systematic manner. Director General Petroleum Concession neither initiated action upon such failure nor were steps taken for its purposeful utilization.

The lapse was pointed out in August 2013. No response was received from the department. However, in the meeting held on 10<sup>th</sup> January 2014, department informed that efforts were being made to implement the concession management system and in this regard reply would be furnished shortly. Further progress was not reported till finalization of the report.

Audit requires early implementation of concession management system besides, fixing the responsibility against the persons liable for inordinate delay in implementation of the aforesaid system.

[DP No. 959-DG PC]

#### **2.4.23 Non-realization of petroleum levy on sale of petroleum products - Rs 4,195 million**

According to section 3 of the Petroleum Products (Petroleum Levy) Ordinance 1961 as amended vide Petroleum Products Development Levy (Amendment) Ordinance 2009, every licensee shall pay a petroleum levy at such rates and in such manner as the Federal Government may by rules prescribe, on the quantity of petroleum products produced by the refinery or purchased by company for sale. According to section 3-A of the Ordinance *ibid* and notification issued, petroleum levy is 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 did not realize the amount of Petroleum Levy from Byco Refinery Ltd Karachi. This caused non-realization of revenue of Rs 4,195 million.

The lapse was pointed out in September, 2013. The department informed that the company suffered losses in the past due to currency fluctuation and was in negotiations with the financial institutions for restructuring of its outstanding loans. Audit held that the company had recovered the amount of petroleum levy from the consumers on behalf of government and had no justification to withhold this amount. So the amount may be recovered and rules may be amended to provide for imposition of default surcharge for timely recovery of petroleum levy. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to recover the amount involved. Further progress was not intimated till finalization of the report.

Audit requires expeditious recovery of the amount pointed out and imposition of default surcharge on amount withheld by Byco Refinery Ltd besides fixing responsibility against the persons for non realization of petroleum levy.

[DP No. 960 -PL]

#### **2.4.24 Short-realization of petroleum levy - Rs 2,278 million**

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

Director General Oil short realized Rs 2,278 million on account of petroleum levy on POL products from the refineries during FY 2012-13.

The lapse was pointed out in September, 2013. The department replied that reconciliation in respect of petroleum levy was carried out with AGPR and variations were found in figures. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to scrutinize the matter and recover the amount. Further progress was not intimated till finalization of the report.

Audit emphasizes to recover the amount pointed out.

[DP No.963-PL]

#### **2.4.25 Non-realization of discount retained on local crude oil price - Rs 2,149.18 million**

Discount retained on local crude oil price, withheld by refineries from the payments due to E & P companies for its subsequent payment to government within one to two months, is determined on the basis of prices of crude oil in the relevant Petroleum Concession Agreement.

The Director General Oil did not realize the amount of discount retained on local crude oil price which was recoverable from Byco Refinery Ltd, Pakistan Refinery Limited and National Refinery Limited, Karachi. This resulted in non-realization of discount retained on local crude oil price of Rs 2,149.18 million.

The lapse was pointed out in July to September, 2013. The department informed that Byco Refinery Ltd suffered losses in the past due to currency fluctuations and was in negotiations with the financial institutions for restructuring of its outstanding loans. Audit held that the refineries withheld the amount of discount retained on local crude oil price on behalf of government and had no justification to utilize this amount for its own. So the amount may be recovered and rules may be amended to provide for imposition of default surcharge for timely recovery of discount retained on local crude oil price. No reply was furnished by other companies. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to expedite the recovery of amount involved. Further progress was not intimated till finalization of the report.

Audit emphasizes recovery of the amount pointed out and imposition of default surcharge on amount withheld by the refineries besides fixing

responsibility against the persons for non realization of discount retained on local crude oil price from the refinery.

[DP No.961-PL, 64, 66, 68,69-PL/K]

#### **2.4.26 Short-realization of petroleum levy - Rs 88.39 million**

According to section 3-A of Petroleum Products (Petroleum Levy) Ordinance 1961, petroleum levy is collected in respect of imported products in the same manner as an import duty under the Customs Act 1969. Ex-bonding is not allowed without payment of duty / tax and other levies including PL, in terms of section 104 of the Customs Act. The Ministry of Law, Justice and Parliamentary Affairs Islamabad, however, clarified vide their UO No. 279/2011-Las-1 dated 21.06.2011 that the date applicable for charging the PL would be the date of physical removal of the products and not the date of filing the ex-bond goods declaration, under the Custom Act, 1969.

The Director General Oil short realized petroleum levy on HSD removed from Public Bonded Warehouse (PARCO) Mahmood Kot, due to charging the rate of petroleum levy on the date of filing of ex-bond GD instead of date of physical removal of the product. The omission resulted in short-realization of petroleum levy of Rs 88.39 million.

The lapse was pointed out in November, 2013. In the meeting held on 10<sup>th</sup> January 2014, the department accepted viewpoint of Audit and agreed to take up the matter with PSO, to recover the amount. Further progress was not intimated till the finalization of report.

Audit requires early recovery of the amount pointed out.

[DP No. 965, 966-PL]

#### **2.4.27 Non-realization of petroleum levy due to removal of HSD without filing GDs - Rs 5.10 million**

According to section 3 of the Petroleum Products (Petroleum Levy) Ordinance, 1961 as amended vide Petroleum Products Development Levy (Amendment) Ordinance, 2009, Petroleum Levy is to be collected in time and manner of Custom dues at import stage and every licensee shall pay a petroleum

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

PARCO Public bonded warehouse under the jurisdiction of DG Oil, released a quantity of 333,257,727 litres of HSD whereas Goods Declarations were filed for 332,619,751 litres of HSD, meaning thereby that an excess quantity of 637,976 litres was removed without filling Goods Declarations. This resulted in non-realization of petroleum levy of Rs 5.104 million (637,976\*8 /Litre).

The lapse was pointed out in November, 2013. The department informed that the amount had already been deposited by PSO vide GD No. 475 dated 04.07.2012. Audit held that there was a difference between the quantity removed from warehouse and GDs filed by PSO. So, a complete reconciliation regarding quantity removed and GDs filed against this quantity, may be provided to Audit. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to take up the matter with PSO to recover the amount. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious reconciliation of quality of oil removed from the Public Bond and clearance from customs authorities besides, expediting the recovery of amount pointed out.

[DP No.969-PL]

#### **2.4.28 Non/Short-realization of petroleum levy on direct sales of petroleum products from PSO - Rs 3.70 million**

According to the law Petroleum Levy on direct sale is required to be paid at the rate as notified by OGRA vide its notifications from time to time.

PSO Karachi did not pay petroleum levy on direct sale of HSD and Premium Motor Gasoline (PMG) or paid at lower rates for the period 2009-10 to 2012-13. This resulted in non/short realization of Rs 3.70 million.

The matter was reported in June to December, 2013. The department replied that the difference of calculation was due to conversion factor from barrel to litre. Audit held that as the PL is levied per litre therefore, amount should be calculated accordingly. Further progress was not reported till finalization of the report.

Audit requires recovery of government revenue.

[DP No.29, 31 & 70-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.

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

Internal control environment of MPNR and its field formations was evaluated while conducting regularity audit for the year 2012-13. Weaknesses of internal controls observed are given in succeeding paragraphs:

#### **2.4.29 Non-declaration of petroleum levy in monthly returns.**

According to section 3A of the Petroleum Products (Development Surcharge) Ordinance, 1961 petroleum levy shall be collected on locally manufactured petroleum products in the same manner as central excise duty payable under the Federal Excise Act, 2005 is collected. The provisions of the Federal Excise Act, 2005 shall apply to the levy, collection and refund of the development surcharge.

Byco Refinery Limited did not declare petroleum levy in the sales tax, federal excise duty and petroleum levy monthly returns during the period 2009-10 to 2012-13. This resulted in non determination of amount of PL on monthly basis.

The matter was pointed out in June, 2013 and August, 2013. The department replied that there was a procedural mistake on the part of Byco Refinery Limited which shall not occur in future. The reply was not tenable because the same mistake was noticed in 2012-2013 as well. Further progress was not reported by the department till finalization of the report.

Audit requires that non declaration of PL in monthly returns may be justified and all the data of previous years be reconciled with reference to determination and payment of PL.

[DP No. 57& 72-PL/K]

#### **2.4.30 Non imposition of production bonus on certain E & P companies resulting in considerable loss to national exchequer**

According to Petroleum Policies 1994, 1997, 2001, 2007, 2009 and 2012, production bonus is levied at the rates specified therein.

Certain petroleum concession areas which were being governed under the rules of 1949 & 1986, and renewal / extension of leases that of were granted by Director General Petroleum Concession to E & P companies after 1994 but no clause relating to production bonus was incorporated in orders of renewal of lease despite production bonus was in vogue since Petroleum Policy, 1994. It is pertinent to mention that in some of the other renewal / extension cases clause for production bonus was incorporated. Such omission debarred government from its due share of obligation to be utilized for the development of area concerned.

The lapse was pointed out in August 2013. No reply was received from the department. However, in the meeting held on 10<sup>th</sup> January 2014, the department accepted view point of Audit and agreed to furnish reply after scrutiny of record in the light of discussions and list provided by Audit. Further progress was not reported till finalization of the report.

Audit emphasizes that inclusion of clause regarding production bonus during renewal of concession lease with E & P companies be ensured.

[DP No. 947-DG PC]

#### **2.4.31 Non-utilization of marine research fee for the purpose of marine research**

According to the Petroleum Exploration & Production Policy of 2007, a marine research fee is applicable and recoverable at rates and as per the following schedule:

US\$ 50,000 per year till first discovery  
US\$ 100,000 per year thereafter till first commercial discovery  
US\$ 250,000 per year during development phase  
US\$ 500,000 per year during production phase

Out of the above fee 75 percent would be utilized for coastal area development and 25 percent for marine research.

The Director General Petroleum Concession did not monitor the utilization of 25 percent marine research fee. Out of Rs 325 million, the share of marine research of Rs 81.25 million was not utilized for the purpose.

The lapse was pointed out in August, 2012. The department replied that National Institute of Oceanography had submitted a research proposal titled “Study of the impact of climate change and associated natural hazards” in Thatta and adjoining areas of Sindh. However, the Petroleum Marine Development Committee has so far not approved the proposal. In the meeting held on 10<sup>th</sup> January 2014, the department agreed to pursue the matter vigorously. Further progress was not reported till finalization of the report.

Audit emphasizes to ensure the utilization of due share of marine research fee for specific purpose.

[DP No. 952-MR Fee]

#### **2.4.32 Non-recovery of extra margin due to deregulation**

Economic Coordination Committee was pleased to deregulate ex-refinery price of High Speed Diesel (HSD) vide S. No. (iii) of the MPNR letter No. PL-3(434)/2012-Pt. dated 14-09-2012 subject to the condition that Oil Marketing Companies shall surrender the extra margin due to deregulation.

Caltex Pakistan Limited, Shell Pakistan Limited and PARCO, Karachi for the year 2012-13 neither surrendered the extra margin due to deregulation nor was the same demanded by DG Oil.

The matter was pointed out in November, 2013, however, no reply was received till finalization of the report.

Audit requires that the amount of extra margin may be assessed and recovered.

[DP No. 59, 61& 63-PL/K]

#### **2.4.33 Non submission of monthly returns by Sui Southern Gas Company Limited**

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 No. and date and other particulars as prescribed.

According to the conditions 9.1 and 9.2 of the license issued to Sui Southern Gas Company Limited, time shall be of essence in respect of any obligation, which is required to be performed by the licensee within a specified time period. Where the licensee is required to perform an obligation within a specified time limit and fails to do so, the licensee shall be in breach of its license even if such obligation is subsequently complied with.

Sui Southern Gas Company Limited failed to comply with the legal requirements of the Natural Gas Development Surcharge Rules, 1967 during the years 2010-11 and 2011-12 (24 months) in respect of submission of the two monthly statements (48 statements). This depicts weak controls and monitoring by the Director General Gas.

The irregularity was pointed out in November, 2013. In reply the department stated that the prescribed prices and sale prices are determined after the determination of Revenue Requirement by OGRA and all information is sent to the ministry as and when called for. Audit held that the reply was not covered by the law.

Audit emphasizes that responsibility for non compliance of the legal provisions may be fixed along with imposition of penalty on the company under section 30 of the Ordinance and under rule 20 of the Rules 2002.

[DP No. 52-GDS/K]

The following overall weaknesses were observed 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. The Ministry is in process of streamlining the system and devising a database in office of DGPC. In other offices like DG Gas and DG Oil Islamabad, there is a need to do so as well.
- b) Monitoring system was not in place to ensure timely realization of receipts of the Ministry and utilization of obligations.
- c) There was no internal control mechanism to watch compliance of provisions of Petroleum Concessions Agreements / gas price notification / ECC / OGRA decision.
- d) Adequate data base was not available to exercise effective monitoring regarding assessment and collection of various receipts. Consequently, non-recovery/short-recovery of receipts was occurring repeatedly due to lack of internal controls in the Ministry.
- e) Non reconciliation of petroleum levy in office of the DG Oil Islamabad.
- f) Presently internal audit is not being conducted in all the field offices of MPNR.

**Other**

**2.4.34 Non-spending of social welfare contribution in concession areas by E & P companies - Rs 201.93 million**

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

The Director General Petroleum Concession Islamabad did not improve monitoring of spending Social welfare Obligation by the E & P companies and short spent an amount of Rs 201.927 million (\$1,960,453).

The lapse was pointed out in August 2013. The department informed that an amount of Rs 362 million had been deposited in the joint account of DCOs and in the meeting held on 10<sup>th</sup> January 2014, the department agreed to provide the credit verification duly attested by DCOs concerned. The department further agreed to ensure the utilization of social welfare contribution by strengthening DG PC. Further progress was not intimated till finalization of the report.

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

[DP No. 958-DG PC]

**Annexure-I****MFDAC****Statement of observations / paras included in MFDAC**

(Rs in millions)

<b>S. #</b>	<b>Name of formation</b>	<b>AIR Para No.</b>	<b>DP/ AO No.</b>	<b>Subject</b>	<b>Amount</b>	<b>Nature of observation</b>
1	Director General (Petroleum Concession)	3	Nil	Unjustified deposit of Marine Research Fee in DCO's account in spite of Federal Consolidated Fund	0	Procedural
2	Director General (Gas)	6	976	Unjust revision of Well Head Price in respect of Qadirpur Gas Field resulting a significant blow to economy	0	Procedural
3	Director General (Oil)		964	Short-realization of petroleum levy due to non-issuance of debit note	4.65	Recovery
4	Director General (Oil)		967	Non-realization of interest on late payment of petroleum levy	221.92	Recovery
5	Director General (Gas)		974	Non monitoring of gas distribution quota being utilized by gas distribution companies	0	Procedural
6	Director General (Oil)		968	Late payment of windfall levy & discount retained on local crude oil price by Pak Arab Refinery Ltd	0	Procedural
7	Director General (Petroleum Concession)		956	Unjustified deduction of royalty processing charges from the gross sale value causing short payment of royalty,	0	Procedural

				actually due by the E&P companies		
8	Director General (Gas)		49& 51-GDS/K	Non-inclusion of minimum charges in final determination of revenue requirement	0.49	Recovery
9	Director General (Oil)		55& 73-PL/K	Negative entries in the sales registers of direct sales of PSO	66.26	Recovery
10	Director General (Gas)		43, 48& 50-GDS/K	Excess determination of profit due to application of incorrect rates of prescribed prices	213.47	Recovery
11	Director General (Gas)		46& 47-GDS/K	Incorrect adjustment of input sales tax on exempt supplies in cost of gas resulting in excess determination of final revenue requirement.	105.8	Recovery
12	Director General (Gas)		44-GDS/K	Excess determination in final revenue requirements resulting into loss of gas development surcharge	103	Recovery
13	Director General (Oil)		56-PL/K	Irregular credit of petroleum levy and sales tax	4.15	Recovery
14	Director General (Oil)	Para 2		Irregular credit of petroleum levy	2.45	Recovery
15	Director General (Oil)	Para 3		Irregular credit of sales tax	0.57	Recovery
16	Director General (Oil)		54-PL-K	Excess payment of dealer's commission	195.47	Recovery
17	Director General (Oil)		65,67-PL-K	Non-payment of petroleum levy	1,830.22	Recovery
<b>Total</b>					<b>2,748.45</b>	

**Audit Impact Summary**

<b>S. No</b>	<b>Change in Rules/System/Procedure</b>	<b>Audit Impact</b>
1	On the pointation of audit, Directorate General Petroleum Concessions agreed to take action against the E&P companies who had not made any progress in concession areas during last three to seven years.	Millions of dollars will be utilized in Pakistan and in case of exploration energy crises will be overcome.
2	DG Oil agreed to make a Cell for the early recovery, timely reporting to Ministry of Finance and reconciliation of record of Petroleum Levy with AGPR.	Actual assessment, collection and reconciliation of the amount of petroleum levy will possible.
3	DG PC agreed to take action against E & P companies which have started production and sale from fields under license without obtaining the permission of EWT/appraisal.	Obligations will be collected at the rate of lease which are almost double to license. Production and sale without permission for appraisal will be regularized.