



**OFFICE OF THE DIRECTOR GENERAL AUDIT
DEFENCE SERVICES (NORTH)
RAWALPINDI**

**SPECIAL AUDIT REPORT
ON
DEVELOPMENT, ENGINEERING SUPPORT AND
COMPONENT MANUFACTURING (DESCOM)
FACTORY TAXILA
2011-12 TO 2015-16**

AUDITOR-GENERAL OF PAKISTAN

PREFACE

The Auditor General conducts audit subject to Articles 169 and 170 of the Constitution of Islamic Republic of Pakistan, 1973, read with sections 8 & 12 of the Auditor General's (Functions, Powers and Terms and Conditions of Services) Ordinance, 2001. The special audit of Development, Engineering Support and Component Manufacturing (DESCOM) Factory Taxila was carried out accordingly.

The Directorate General Audit Defence Services conducted Special Audit of DESCOM during August, 2016 for the financial years 2011-12 to 2015-16. Audit examined the aspects of economy, efficiency and effectiveness of the project. In addition, audit also assessed, on test check basis, whether the management complied with applicable laws, rules and regulations.

The Special Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the project. This report highlights issues and recommendations which should be implemented to manage project activities on day to day basis and ensuring accountability in a timely manner.

45 Paras on account of Development, Engineering Support and Component Manufacturing (DESCOM) for the year 2011-12 to 2015-16 have been discussed in Ministry of Defence Production in a DAC meeting.

The Audit Report is submitted to the President in pursuance of the Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973.

Islamabad
Dated:

(JAVOID JAHANGIR)
Auditor-General of Pakistan

LIST OF ABBREVIATIONS

AFDP	:	Armed Forces Development Plan
APC	:	Armed Personnel Carrier
ARDIC	:	Advance Research Development Integration & Information
ASF	:	Airport Security Force
BG	:	Bank Guarantee
BMP Dte	:	Budget Marketing & Procurement Directorate
BPJ	:	Bullet Proof Jacket
CA	:	Contract Agreement
CMA	:	Controller of Military Accounts
CRV	:	Certified Receipt Voucher
DAC	:	Departmental Accounts Committee
DESCOM	:	Development, Engineering Support and Component Manufacturing
Dev GP	:	Development Group
DP	:	Defence Production
EM Br	:	Electrical Mechanical Branch
FAO	:	Field Audit Office
FDU	:	Fuel Dispersing Unit
Govt.	:	Government
GST	:	General Sales Tax
HIB	:	Heavy Industries Board
HIT	:	Heavy Industries Taxila
HITB	:	Heavy Industries Taxila Board
HMC	:	Heavy Mechanical Complex
HQ EDA	:	Headquarter, Ex Development Agency
HQ M&P	:	Headquarter, Marketing & Procurement
INTOSAI	:	International Organization of Supreme Audit Institutions

LD	:	Liquid Damages
MAG	:	Military Accountant General
MD	:	Managing Director
MoDP	:	Ministry of Defence Production
MOQ	:	Married Officer Quarters
PPRA	:	Public Procurement Regulatory Authority
Prod Br	:	Production Branch
PSPC	:	Petroleum Storage Platoon Company
QC Br	:	Quality Control Branch
R&D	:	Research & Development
RWP	:	Rawalpindi
SOP	:	Standard Operating Procedures
ToRs	:	Terms of References
Zos	:	Zonal Offices

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EXECUTIVE SUMMARY

The Directorate General Audit, Defence Services (North) is a Field Audit Office (FAO) of the Department of Auditor-General of Pakistan responsible for conducting the audit of budgetary Grants of Defence Services. The audit activities performed by this Directorate General is as under: -

- ✓ Compliance with Authority / Regularity Audit
- ✓ Performance Audit
- ✓ Certification Audit
- ✓ Special Study / Audit

A special audit of Development, Engineering Support and Component Manufacturing (DESCOM) HIT Taxila was conducted for 5 years i.e. financial year 2011-12 to 2015-16 under the direction of Auditor General of Pakistan.

The Special Audit Report highlights systemic issues like violation of PPRA rules, weak internal control, non-finalization of indigenous development contract within the prescribed time period, non-reconciliation of expenditure with budget allocations and non-finalization of contracts of the bullet proof jackets etc. with different organization and its non-realization of government share in time. Some serious financial irregularities having a financial effect of Rs.1943.437 million pointed out during audit have been embodied in this report. An amount of Rs.29.893 million has been recovered at the instance of audit during the finalization of this report.

In most of the irregularities pointed out, the auditee pursued the DAC recommendations and record produced to Audit. Regarding violation of PPRA Rules the executive agreed that in future PPRA Rules will be observed in letter and spirit.

CHAPTER 1 – INTRODUCTION

INTRODUCTION OF DEVELOPMENT, ENGINEERING SUPPORT AND COMPONENT MANUFACTURING (DESCOM) FACTORY, TAXILA

Heavy Industries Taxila (HIT) was envisaged in the early seventies and its first production unit i.e. Heavy Rebuild Factory (T-Series) went into production in 1980. In the early 1990s, a number of other factories were established and today HIT has grown into a military industrial complex which consists of six major production units, support facilities and administrative establishment.

Three Main Directorates:

- Budget Marketing And Procurement Directorate
- Administration Directorate
- Technical Directorate

Rebuild Facilities/Factories:

- Heavy Rebuild Factory (T-Series)
- Heavy Rebuild Factory (M-Series)
- Advance Systems Rebuild Factory (ASRF)

Manufacturing Facilities/Factories:

- APC Factory
- GUN Factory
- TANK Factory

Allied Facilities:

- Advanced Research, Development And Information Centre (ARDIC)
- Development, Engineering Support And Components Manufacturing (DESCOM)

Detail of year-wise position of regular Budget Allocation / Authorization and expenditure of DESCOM Factory, Taxila during the years 2011-12 to 2015-16 is as under: -

S #	Year	Budget allocation/authorization (Rs in million)	Expenditure (Rs in million)	Balance/Savings (Rs in million)
1	2011-12	459.890	435.420	24.470
2	2012-13	573.372	560.708	12.664
3	2013-14	543.089	565.688	(22.599)
4	2014-15	606.186	589.881	16.305
5	2015-16	594.253	564.825	29.428
Total		2,776.790	2,716.522	60.268

In addition to regular budget, DESCOM is also allocated AFDP Budget. The detail of year-wise position of AFDP Budget Allocation / Authorization and expenditure of DESCOM Factory, Taxila during the year 2011-12 to 2015-16 is as under: -

S #	Year	Budget allocation/authorization (Rs in million)	Expenditure (Rs in million)	Balance/Savings (Rs in million)
1	2011-12	0.000	0.000	0.000
2	2012-13	0.000	0.000	0.000
3	2013-14	0.000	0.000	0.000
4	2014-15	464.142	464.141	0.001
5	2015-16	459.374	459.348	0.026
	Total	923.516	923.489	0.027

DESCOM was also allocated budget out of Al-Mizan Fund. Detail of year-wise position of Al-Mizan Budget Allocation / Authorization and expenditure of DESCOM Factory, Taxila during the year 2011-12 to 2015-16 is as under: -

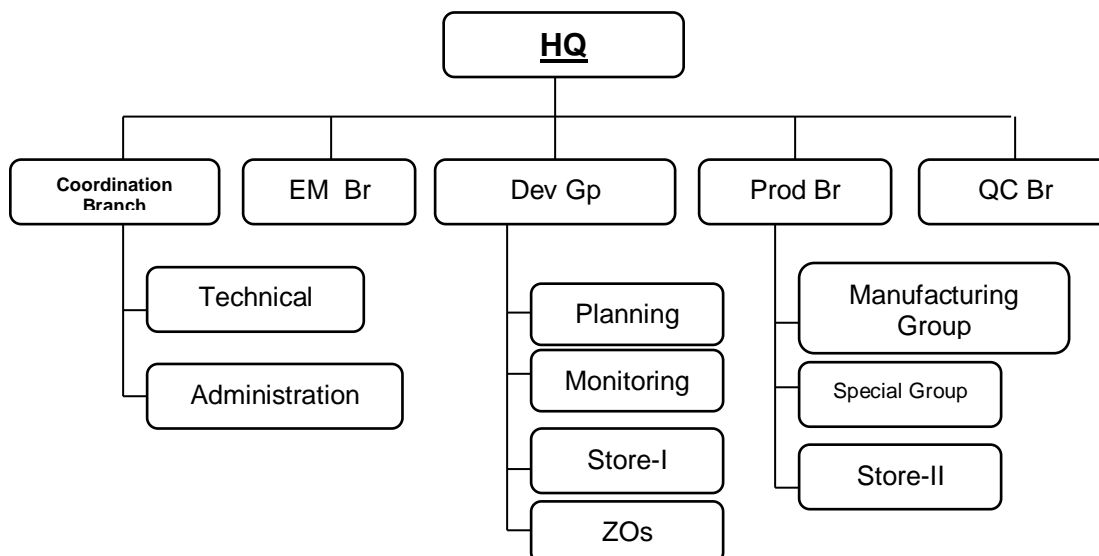
S #	Year	Budget allocation/authorization (Rs in million)	Expenditure (Rs in million)	Balance/Savings (Rs in million)
1	2011-12	0.000	0.000	0.000
2	2012-13	0.000	0.000	0.000
3	2013-14	0.000	0.000	0.000
4	2014-15	0.000	0.000	0.000
5	2015-16	1.200	1.200	0.000
	Total	1.200	1.200	0.000

An amount of Rs. 1.200 million was allocated to DESCOM during the financial years 2011-12 to 2015-16.

Out of the total expenditure Rs.3,641.211 million incurred during the years 2011-12 to 2015-16, a sum of Rs.2,912.968 million has been got audited which comes to 80% of the total expenditure.

Organization:

DESCOM (F) hierarchy and groups is given in following chart: -



CHAPTER 2 – BACKGROUND

Background

R&D (Research & Development) wing was established in 1973 at Chaklala Cantt to harness potential of local vendors for rebuild of T- Series tanks. In 1980, the scope of this R&D Wing was enhanced with a view to include the vendors located at Lahore and Karachi. Consequently, establishment of Zonal Offices (ZOs) at Lahore & Karachi were approved by MoDP. With creation of Tank Factory, APC factory & M Series rebuild, the workload of R&D Wing enhanced considerably. DESCOM was thus formed in September, 1992 at Taxila and R&D Wing was moved from Chaklala to Taxila. In the re-organization of HIT in 2008, DESCOM was given the status of factory with four Zonal Offices located at Lahore, Karachi, Rawalpindi and Gawadar.

Mission

- In-house development and manufacturing of components / assemblies to support, manufacture, upgrade and rebuild program of Tanks, APC, Guns, vehicles and miscellaneous products of HIT.
- Arrange, coordinate and supervise development and manufacture of parts to support, manufacture, upgrade and rebuild program of Tanks, APC, Guns, vehicles and miscellaneous products of HIT through vendors located in Pakistan.
- Provide engineering support to all factories / facilities of HIT in accordance with the currently held and acquired capabilities in future.
- Support R&D efforts at HIT factory level.
- Ensure that the parts developed through In-house efforts or vendors are in accordance with the laid down standards / specifications.

ToRs: -

- Planned versus actual cost of the project.
- Planned versus actual manufacturing of components / assemblies / parts.
- Planned versus actual time lines for the manufacturing with regard to the factor of urgency and requirements of the forces.

- Recurring cost of the project.
- Manufacturing of Bullet Proof Jackets for Civil Armed and Para Military Forces on commercial basis and how much portion of profit was deposited into government treasury.
- Local purchase for development of components / assemblies / parts.
- Normal procurement for development of components / assemblies / parts.
- Development of components / assemblies / parts through local vendors.
- Rate paid for development components / assemblies / parts through local vendors.

MANDATE OF SPECIAL AUDIT:

The Special Audit was conducted in accordance with auditing standards of International Organization of Supreme Audit Institutions (INTOSAI) adopted by Auditor-General of Pakistan. The Special Audit Assignment was planned under the direction of the Auditor-General of Pakistan under Article 169 of the Constitution of Islamic Republic of Pakistan read with Sections 8 and 12, and other relevant provisions of the Auditor-General's Ordinance 2001 which require the Auditor-General to conduct the audit of receipts and expenditure from the Federal / Provincial Consolidated Fund and Public Account.

AUDIT METHODOLOGY

- I. The Special Audit of DESCOM was taken up under the directions of Director General Audit Defence Services (North). To obtain the requisite information / documents, the Audit team conducted meeting with management for execution of the special audit with request to make-ready the documents.
- II. Adopted requisition and making conversation with management and staff to obtain the required documents/information.
- III. The CMA concerned was also approached for Budget and its reconciliations.
- IV. Rules, regulations, Govt. orders, Act of HIT Board, SOPs, Manual etc have also been consulted for conclusion of the issues to be reported in the Special Audit Report.

CHAPTER 3 -AUDIT PARAS

3.1 IRREGULAR/UNAUTHORIZED EXPENDITURE

3.1.1 CONCLUSION OF MANUFACTURING CONTRACT AGREEMENT AMOUNTING TO Rs.714.072 MILLION WITHOUT JUSTIFICATION AND NON DEPOSIT OF GOVERNMENT SHARE Rs.12.284 MILLION

According to Rule-6(a) of Financial Regulations (Vol-I), 1986, every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Under Rule 2 of Financial Regulations Volume-II 1986, all transactions to which any officer of Government, in his official capacity is a party, shall, without any reservation, be brought to account and all moneys received by or tendered to Government officer which are due to, or are required to be deposited with the Government shall, without undue delay, be paid, in full, into a Government treasury.

During the audit of the accounts of DESCOM Taxila, it was revealed that the work regarding manufacturing of Bullet Proof Jackets (BPJs) was transferred to DESCOM from ARDIC since May 2013 by the Chairman HITB. Accordingly, DESCOM was engaged for marketing of BPJ to Government Organization, i.e. ASF, Sindh Rangers, PSPC, Pakistan Army, Navy, Air Force, Law enforcing Agencies, Punjab Police, Commercial & Promotion Activities. Audit raised the following observation on procurement of material and manufacturing of BPJs but not provided.

- i. 14 Contracts for manufacturing of 11,130 BPJs, 1652 BJP Covers and 1000 Under Vest costing Rs.714.072 million were concluded with different organizations i.e. Pak Navy, Sindh Police, Bahria University, Pak Rangers, etc. during the period 2014-16. These contracts alongwith procurement contracts were not produced to audit for verification.
- ii. Basis and detail of cost worked out for the products, i.e. BPJs, etc. was not produced to Audit.
- iii. Necessary adjustments against the budget allocation for the year of the material consumed / resources shared / overheads, etc. was not provided to Audit.
- iv. Detail of income earned since 2013 along with the deposit of proportionate Government share was not shared with Audit.
- v. Year-wise detail of material consumed and cost incurred for finished products was not provided to Audit.

The irregularity was pointed out by Audit in August 2016, the executive authority stated that:

- a. 2 x contracts for purchase of hard Armour plates and Polythene UD were concluded in 2014 with M/s Blitzkrieg, Rwp through open tender by following all PPRA rules. Copy of advertisement on PPRA, Technical scrutiny, commercial proposals are available. Contract No. 396 and 397 were concluded on proprietary basis reasoning that an urgent demand was received from HQ EDA for delivery within 60 days. As it was not possible to conclude the contractual formalities within the prescribed period therefore, under the

- provision of PPRA rule 42 D (3), direct contracting was concluded with the lowest bidder of last contract at 18% lower rate than the previous contract.
- b. There was no allocation of budget as the procurement was being made out of non-lapsable Revolving Fund.
 - c. The details of profit earned by HIT alongwith deposit in government treasury is available for reference.
 - d. Year wise detail of material purchased and consumed is enclosed as reference.
 - e. Detail of products manufactured by the special Project shop is enclosed as reference.
 - f. The gazette of Pakistan, 1997 authorizes HIT Board to utilize surplus capacity for manufacturing of commercial products to meet the requirement of civilian population and friendly countries. Accordingly, Government of Pakistan vide their letter dated 20th Aug, 2004 authorized HIT to carry out commercial activity and deposit the cost of manpower, utility, store used into Government treasury. The same was worked out after the finalization of contract and deposited into Govt. treasury.

Reply advanced was not agreed as:

- i. The procurement contracts alongwith bidding documents and sale contracts concluded for manufacturing of BJPs, Cover BJPs and Under Vest with different organizations and its receipts and utilization of stores were not produced to Audit for verification.
- ii. Basis and detail of cost worked out for the products, i.e. BJPs, etc.was not produced to Audit.
- iii. Detail of income earned since 2013 alongwith deposit of Government share was not produced to Audit.
- iv. Year-wise detail of material consumed and cost incurred for finished products was not provided to Audit.
- v. Year-wise products manufactured by the Special Project Shop & M/S BDS and distribution of cost / profit thereof not supplied to Audit for verification.

At the time of DAC held on 29th August, 2017 the management was of the view that proportionate share amounting to Rs.1,22,83,760/- will be deposited after receiving of payment and completion of delivery of store into Govt. treasury as committed by HQ M&P.DAC directed the management to finalize the outstanding contracts in next three months along with provision of bidding documents of procurement contracts and get it verified from Audit.

No record in support of the amount deposited into the Government treasury. The procurement contracts with bidding documents were also not produced to Audit till finalization of this Special Audit Report.

Recommendation:

Audit stress for an early finalization of remaining sales contracts in addition to deposit of proportionate Government share into Government treasury beside provision of bidding documents of the procurement contracts as pointed out at (S.No. ii to v) regarding procurement of stores and its utilization for verification.

(OL No.51)

3.1.2 IRREGULAR CONCLUSION OF CONTRACT IN VIOLATION OF PPRA RULES Rs.1,122.579 MILLION

Under Rule 12(2) of Public Procurement Rules 2004, all procurement opportunities over 2 million rupees should be advertised on Authority's Website as well as on other print media or newspapers having wide circulation. The advertisement in newspapers shall principally appear in at least two national dailies, one in English and other in Urdu. Further, according to Rule-40 of Public Procurement Rules, 2004, save as otherwise provided there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder.

During the audit of the accounts of DESCOM Taxila, it was revealed that contrary to above, the following development contracts valuing Rs.1,122.579 (million) were concluded for indigenous development and supply of Track Assembly (involving 8 x items) for manufacturing of 110 Al-Khalid-I Tanks (for Tank Manufacturing Factory) through DESCOM without adopting open tender system besides negotiations were made with a single / lowest bidder in violation of PPRA rules. The details are under:

S. No.	Contract No. & Date	Nomenclature of Stores Contracted	Nature of Contract	Name of Contractor	Value of Contract (Rs. In Million)
1.	CA 8600/202/Dev Gp/DescomTMF/01 dated: 21-01-2015	Development & Supply of Track Assembly for manufacturing of 110 Tank Al-Khalid-1 (for Tank Manufacturing Factory)	Indigenous development supply of Trash Assembler	M/S Chenab Engg: Faisalabad	707.664
2.	2011-12 to 2015-16	Procurement of different stores/ services	Indigenous supply	As per statement	370.436
3.	CA-8600/202/Dev GP/DESCOM-TMF/04 dated: 03-04-2015	Dev: of Part No. BW123 F6-11-00 Driving Wheel (Sprocket)	Indigenous development of Port No. BW 123 F6-11-00	M/S Chenab Engg: Faisalabad	44.479
Total					1,122.579

The irregularity was pointed out by Audit in August 2016, the executive authority in its reply stated that since 2008, all requirements were being advertised on PPRA website. However, these requirements were not published in newspaper being development and separate process. On advice of audit authority and in great national interest, all requirement will also be published in 02 newspapers in future. Negotiation was made after opening of commercial bids which was in interest of HIT/state.

Reply advanced was not agreed to as Rules quoted above were not kept in view while processing / execution of contract.

The para was discussed in DAC meeting held on 29th August, 2017. DAC directed that violation of PPRA in the matter be got regularized. The advertisement made on PPRA website was produced and verified by Audit. The regularization action due to non-advertisement in print media was still awaited.

Recommendations:

Audit stress for an early regularization of the amount placed under observation besides adopting remedial measure to avoid such recurrence in future.

(OL No. 16, 18, 42)

3.1.3 UNDUE FAVOUR EXTENDED TO THE CONTRACTOR-Rs.31.672 MILLION

According to Rule-6(a) of Financial Regulations (Vol-I), 1986, every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

Under Rule 12(2) of Public Procurement Rules 2004, all procurement opportunities over 2 million rupees should be advertised on Authority's Website as well as on other print media or newspapers having wide circulation. The advertisement in newspapers shall principally appear in at least two national dailies one in English and other in Urdu. Further, according to Rule-40 of Public Procurement Rules, 2004, save as otherwise provided there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder.

As per clause 13 of the contract "If a supplier fails to deliver the store after approval of advance sample or any part of consignment thereof within the period prescribed in terms and date of delivery or otherwise the purchaser shall be entitled at his option to take the following action:-

- a. To cancel the contract and to purchase also the store not delivered at the risk and expense of supplier and without any notice to him. The supplier shall be liable for any loss which purchaser may sustain on this account, but shall not be entitled to any gain on repurchases.
- b. Risk and expense clause will not be invoked when user factory dropped the requirement.

During the audit of the accounts of DESCOM Taxila, it was revealed that contract No. CA-8600/201/ Dev Gp / DESCOM – TMF /21 dated: 30-04-2015 valuing Rs.31,671,783 concluded with M/S Anwar Traders, Gujranwala for Indigenization of different items for tank Al-Khalid (including 17% GST).

Audit observed the following:

- Tender was not advertised in newspapers in violation of Rule 12(2) of PPRA Rules 2004.
- Contract was finalized on 30th April, 2015 with a bulk for 1st Batch within 6 months with a term of 30 % advance payment. Thereafter, contract was amended with 50 % advance payment paid in May, 2015.
- An amount of Rs.13.534 million was un-necessary blocked.
- Indents were raised in July, 2014, whereas store was not received.
- Neither store was purchased on Risk Purchase of the supplier nor the contract cancelled, thus giving undue benefit to the supplier by the management.

The irregularity was pointed out by Audit in August, 2016, the executive authority stated that:-

- a. In future, all requirements will be published in 02 newspapers.
- b. After finalization of development contract firm tendered advance sample/part in time. However same could not qualify the desired standard / specifications. The case was

- processed for cancellation; however, after firm meeting with Chairman HIB case for cancellation was pended up to 26th September, 2016.
- c. The item was critical/complex nature for which special steel material was required. Firm requested for 50% advance against BG instead of 30% which had been approved by HIB with financial concurrence of Member Finance Secretariat.
 - d. In case, firm failed to supply the stores by 26th Sep, 2016 the case will be processed for cancellation as per terms/clause of contract. Moreover, case for black listing of firm will also be initiated.

On verification of record by Audit an amount of Rs.14.483 million paid on account of 50% advance and 2% security forfeited / deposited has been verified and confirmed from the original record. However, the record of cancellation of contract was not produced to Audit for verification.

The para was discussed in the DAC meeting held on 29th August 2017. DAC directed the management that in future exit clause should be made part of each contract. DAC directed to produce the cancellation of contract to audit for verification. DAC pended the para subject to verification by Audit.

Requisite record as per DAC directives was not produced to Audit for verification till finalization of this report.

Recommendations:

Audit stress for an early finalization / cancellation of contract as per obligation of contract, besides adoption of remedial measures as per DAC directives to avoid recurrence of such lapses in future.

(OL No.48)

3.1.4 UN-JUSTIFIED 50% ADVANCE PAYMENT TO CONTRACTOR Rs.17.357 MILLION

Under Rule 105 of Financial Regulations Vol-I, 1986, “Unless specially authorised by the Government no cash advances should be made to contractors”.

During the audit of the accounts of DESCOM Taxila it was revealed that a sum of Rs.21.725 million, i.e. 50% of the contract amount was paid to the contractor M/s General Electric Appliances Co. for supply of contracted stores at the end of financial year during the month of May and June, 2015 to avoid lapse of fund as per detail given below:-

S #	Contingent Bill No, and date	Amount (Rs.)
1	8600/BS/MD(D)-TM(F)/16, dated 22-5-2015 (30%) Advance Payment	13,035,000
2	8600/BS/MD(D)-TM(F)/20, dated 5-6-2015 (20%) Advance Payment	8,690,000
	Total	21,725,000

Moreover, as per clause-5 (b) of CA, store was required to be supplied within 04 years, i.e. from June 2015 to June 2018. Therefore, 50% advance payment during 2nd and 3rd month of contract was not justified.

The irregularity was pointed out by Audit in August 2016, the executive authority stated that development contract with 50% Advance payment against BG had been approved by HIT Board with concurrence of Member Finance. The payment was made as per Govt. letter.

22 Sets have been accepted and 50% advance payment adjusted and 10 more Sets will be delivered by the firm by 30th May, 2017. Management stated that 50% advance will be adjusted from the firm against every ongoing Bills.

The matter was discussed in the DAC meeting held on 29th August, 2017. DAC directed the management that timeline of the contract be got verified from Audit. DAC pended the para subject to verification/ adjustment of the balance amount by audit.

On verification of record it was confirmed that out of total advance an amount of Rs.4.483 million was adjusted and the balance amount of Rs.17.375 million was outstanding against the contractor till finalization of this report.

Recommendations:

Audit stress for an early adjustment of the balance amount of Rs.17.375 million and its verification from audit.

(OL No.59)

3.1.5 NON-CONCLUSION OF CONTRACT AGREEMENT FOR HEAT TREATMENT CHARGES - Rs.9.900 MILLION

Under Rule 87 (a) of Financial Regulations Vol-I, 1986,“All contracts agreements, understandings, etc. entered into by an officer with commercial or non-Government concerns shall be recorded in writing and a copy thereof, signed by both contracting parties, will be carefully filed.

During the audit of the accounts of DESCOM Taxila, it was revealed that DESCOM Factory carried out heat treatment of 110 Track Block @ Rs.90,000 per Track Block for Rs.9,900,000 at Shop-8D of DESCOM factory without any conclusion of contract in violation of Rule quoted ibid.

The irregularity was pointed out by Audit in August 2016, the executive authority stated that 110 Track Block were rectified (only Heat Treatment) as per request of the firm through Development Group (D).It was clarified that vendor industries registered with HIT were authorized to avail the services for the contracted items on payment as per request of the firm in accordance with the clause 32 c of SOP – Dev of Parts / Components / Assy DESCOM (F) - 2008.

Two services contracts for Heat Treatment of 110 Track Blocks were carried out with the approval of MD(DESCOM). The total amount Rs.9,900,000 for 110 Track Block was deposited by M/s Chenab Engg Fsd as per detail given below :-

Govt. Money (80%)

a. Amount deposited in Govt. Treasury	=	Rs. 3,630,000
b. Amount deposited in Govt. Treasury	=	Rs. 3,000,000
c. Amount deposited in Govt. Treasury	=	<u>Rs. 1,950,000</u>
Total	=	Rs. 8,580,000

Welfare Money (20%)

d. Amount deposited in DESCOM	}	= <u>Rs 1,320,000</u>
Welfare Fund A/C		

It is pertinent to mention that Rs.8,580,000 has been deposited in Govt. treasury as per TE No. 001 dated: 03-2016, 001 dated: 05-2016 and 005 dated: 10-2016 and an amount of Rs.1,320,000 was paid to the Govt. Employees, who have been working beyond the normal duty hours. However, no overtime allowance for said task has been paid.

The matter was discussed in the DAC meeting held on 29th August, 2017. DAC directed the management to initiate the case of transaction of Rs.9.90 million for ex-post facto approval or other decision to be taken by Principal Accounting Officer. Para pending till decision of Secretary Defence Production.

On the verification of record, it was confirmed that out of the total amount of Rs.9.90 million Rs.8.580 million was deposited into Govt. treasury and the balance amount of Rs.1.320 million was paid to the employees without any Govt. orders. Moreover, the transaction was made without any contract agreement.

Regularization action in the matter was not produced till finalization of this Report.

Recommendations:

Audit stress for an early regularization of the whole transaction made without contract agreement and its verification from audit besides taking remedial measures to avoid such recurrences in future.

(OL No. 15)

3.1.6 IRREGULAR / DOUBTFUL EXECUTION OF CONTRACT – Rs.0.384 MILLION

Under Rule 47 (e) Financial Regulations Vol-I 1986, most careful supervision over expenditure is to be exercised and on no account money shall be spent simply because it is available.

During the audit of the accounts of DESCOM Taxila, it revealed that contract for 10 FDU (New Design) and 10 DC Submersion Pumps were required through indigenous development contracts. The details are as under:

S #	Contract No & Date	Name of store	Part No	Name of firm	Total Amount of Contract Agreement (Rs)
1	No. CA-8600/202/ Dev Gp / DESCOM – TMF /03 dated: 09-06-2016	FDU (New Design)	BW123A-05-8-05	M/s Astro Tech	807,300
2	No. CA-8600/202/ Dev Gp / DESCOM – TMF /01 dated: 18-05-2016	DC Submersion Pump	WZ122-47-002	M/s High Tech Complex	384,980
			Total		1,192,290

Audit observed the following:

- Status of consumption of above store was not disclosed to Audit.
- Contract was concluded on 9th June 2016, whereas store had already been taken on charge on 8th June 2016 (CRV No. Dev /311/ Reg dated:08-06-2016), i.e. prior to execution of contract (Serial No.1)
- Documents leading to the award of above contracts were not produced to Audit.

The irregularity was pointed out by Audit in August 2016 but no reply was furnished. However, at the time of DAC meeting on 29th August 2017 management replied that the date of contract at Sr/No.1 was erroneously mentioned as 09th June 2016 instead of 03rd June 2016. The same was corrected. CMA (DP), Rwp has already been asked to deposit 2% security in Govt. treasury.

The contract at Sr/No. 02 dated: 18-05-2016 with M/s HiTech, Lahore is being processed for cancellation as after all out efforts firm could not meet the desired standard. The 5% (security) deposits will be forfeited in Govt. treasury.

The para was discussed in DAC meeting held on 29th August, 2017. After detailed discussion the DAC pended the para subject to verification of original documents.

Audit verified that, contract amount of Rs.807,500/- at Sr. No. 01 alongwith 2% security has been forfeited and deposited into Govt. Treasury. However, necessary record regarding contract at Sr. No.2 was not produced for verification till finalization of this report.

Recommendations:

Audit stress for an early finalization of the contract at Sr. No. 2 along with L.D charges and forfeiture of Bank Guarantee amount as the case may be and get it verified from Audit.

(OL No.19, 20)

3.2 FINANCIAL STATEMENTS

3.2.1 NON-RECONCILIATION OF ACCOUNTS WITH CMA (HIT)-Rs.4.134 MILLION

(i) Under Rule-31(a) of FR-I, 1986, if savings are anticipated the primary controlling authority will report the fact to the next higher authority, giving reasons for surrender and stating the amount surrendered. The surrender of excess allotments at the earliest possible will enable the excess to be diverted to meet shortages in the grants under other heads.

(ii) Further Rule-31 (c) 2 Financial Regulation Volume-I 1986 stipulates that the controlling authority shall keep a constant watch on the progress of expenditure as shown in the monthly statement received from the Accounts Office and shall: -

“Review the position of his allotments every month with the object of deciding whether any sums can be surrendered from his reserves, and notify all surrenders to central controlling authorities.”

During the audit of the accounts of DESCOM Taxila, it was revealed that accounts for Rs.560.329 million against the allocation of Rs.594.253 million were not reconciled with the Accounts Office till 30th June, 2016.

The irregularity was pointed out by Audit in August 2016, the executive authority stated that the over booking had been made by CMA, HIT during June, 2016 and due to late receipt of All Pakistan Compilation (APC) of 6/2016 this office could not get excess expenditure reconciled. However, a letter dated 12th Aug 2016 to this effect had been initiated for reconciliation of over booking. An additional allocation of Rs.4.200 million was made to DESCOM vide letter dated: 30th May, 2016. However, an amount of Rs.4.134 Million could not be utilized. Details showing reconciliation of each and every minor head is available for verification of the record provided by CMA, HIT.

DAC in its meeting held on 29th August, 2017, directed the management to reconcile the saving of Rs.4.134 million with CMA and provide reconciliation statement duly signed by CMA authorities to audit for verification. DAC pended the para subject to verification by audit.

Reconciliation for final figures of Rs.4.134 million as per DAC directions, was not produced for verification till finalization of this report.

Recommendations:

- i. Audit stress for an early verification of reconciliation to Audit, otherwise excess allocation beyond the amount booked in the CMA, HIT needed to be regularized from MoDP.
- ii. Adoption of remedial measures to avoid such recurrences in future.

(OL No.1)

3.2.2 LOSS DUE TO NON SURRENDER OF SAVINGS - Rs.8.426 MILLION

Under Rule-31(a) of FR-I, 1986, if savings are anticipated the primary controlling authority will report the fact to the next higher authority, giving reasons for surrender and stating the amount surrendered. The surrender of excess allotments at the earliest possible will enable the excess to be diverted to meet shortages in the grants under other heads.

During the audit of the accounts of DESCOM Taxila, it was revealed that savings of Rs.142.505 million was not surrendered during the financial years 2015-16, due to which the amount lapsed and could not be utilized elsewhere purposefully. Non-surrender of savings needs to be regularized.

The irregularity was pointed out by Audit in August 2016, the executive authority stated that:

- i. Additional budget in Minor Head B Tpt and Misc was allotted 15 days before closing of budget for the FY 2015-16, therefore full allotment of the minor head could not be utilized.
- ii. Exact payment of pay and allowances cannot be ascertained. Being mandatory payment pay and allowances cannot be withheld, irrespective of the fact that the funds are available in relevant head or otherwise, considering the same aspects in view, anticipatory saving of pay and allowances was not reported to BMP Dte.

After detailed verification of record, it was noticed that an amount of Rs.8.426 million was not surrendered to Government on 30th June, 2016 and lapsed.

DAC meeting held on 29th August, 2017. DAC pended the para till verification of dollar rate/original documents by audit. The extra amount due to fluctuations in dollar rate was required to be surrendered into Govt. treasury instead of retention.

Record in light of DAC directions was not produced to Audit for verification till finalization of this Report.

Recommendations:

- 1) Audit stress for regularization of the amount Rs.8.426 million not surrendered and lapsed.
- 2) Remedial measures need to be initiated to avoid such recurrence in future.

(OL No.43)

3.3 RECOVERABLE

3.3.1 NON-RECOVERY OF HOUSE RENT ALLOWANCE Rs.0.198 MILLION

According to Policy issued by the Ministry of Housing and works Islamabad vide letter No. F.11/(33)/2012-Policy, dated 17-5-2013, allottees belonging to Armed Forces residing in Government accommodation below their entitlement may not be paid 45% House Rent

Allowance and 5% rent of their running basic pay should be charged to bring them at par with civilian setup.

During the audit of the accounts of DESCOM Taxila, it was revealed that PA-32494 Maj Muhammad Younas was allotted Government accommodation, i.e. MOQ No.A/7-8 w.e.f. 18-04-2012, but House Rent Allowance amounting to Rs.198,246 pertaining to the period from 18-4-2012 to 08-05-2014 was not deducted from his salary.

The irregularity was pointed out by Audit in August 2016, the executive authority stated that objection of the same nature has already been taken during audit of UA, MIL, HIT. Being same nature objection, audit authority is requested to please drop the same accordingly. In the light of MAG orders dated: 15th February & 13th June 2003, married officers residing in MOQ's (being not proper family accommodation/residing below than its authorization) are authorized to draw House Rent Allowance (HRA).

Para was discussed in DAC meeting held on 29th August, 2017. DAC pended the para as the uniform policy is being framed by the MoD which will be followed.

Uniform policy in the matter was not produced till finalization of this Report.

Recommendations:

Audit stress for an early finalization of uniform policy in the matter beside recovery action and its verification from Audit.

(OL No.26)

3.4 LOSS OF REVENUE

3.4.1 LOSS TO STATE DUE TO NON-SUPPLY OF ROAD WHEEL RIM ASSEMBLY IN TIME BY THE FIRM Rs.19.231 MILLION AND NON RECOVERY OF LIQUIDATED DAMAGES OF Rs.3.2 MILLION

According to Rule 6 (a) of FR Vol-I 1986, "every officer should exercise the same vigilance in respect of expenditure incurred from Govt. revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money".

During the audit of the accounts of DESCOM Taxila, it was revealed that a contract bearing No. 8600/202/Dev Gp/DESCOM/HRF-T/124, dated 30-6-2010 was concluded for the supply of 1200 Road wheel Rim Assembly (WZ122-12-30) at cost of Rs.53.352million with M/s Heavy Mechanical Complex (HMC) (Pvt) Ltd. Taxila. The rims were to be delivered by 30-09-2011 by HMC. Another contract bearing No.8600/202/DevGp/DESCOM/HRF-T85IIAP/9, dated 01-11-2011 was concluded for the rubberization of these 1200 Rims @ Rs.18,300 per rim at a total cost of Rs.25.912 million with M/s Services Industries Ltd. Lahore.

Metallic rims for rubberization were to be supplied by HMC Taxila. Since HMC could not supply the rim till June, 2013. Therefore, contract bearing No.8600/202/Dev Gp/DESCOM/HRF-T85IIAP/9, dated 1-11-2011 concluded for the rubberization of above 1200 Rim was cancelled vide DESCOM HIT Taxila letter No.8600/201/Dev-Gp/DESCOM/HRF-T/T85IIAP/09, dated 10thMarch, 2014. However, another contract bearing No.8600/202/Dev Gp/DESCOM/IT/T85IIAP/9, dated 8-5-2015 was concluded for the rubberization of 1700 Rims @ Rs.32,154 per rim at a total cost of Rs.63.954 million with M/s Elite Engg Lahore. Due to non-supply of rim in time by HMC, state had to bear a loss of Rs.19,231,416 as per detail given below:-

Description	Rate (Rs.)	Qty (Rs.)	Total (Rs.)	17% GST (Rs.)	1 % SED (Rs.)	Total (Rs.)
Rate given by M/s Services Industries Ltd. of Lahore for rubberization	18,300	1200	21,960,000	3,733,200	219,600	25,912,800
Rate given by M/s Elite Engg Lahore for rubberization	32,154	1200	38,584,800	6,559,416		45,144,216
Difference						19,231,416

The development contract of M/S SIL was cancelled without any compensation to firm as metal part for rubberization was not provided by HIT/HMC.

The irregularity was pointed out by Audit in August 2016, the executive authority stated that point has already been settled. Reply was not accepted as the executive stance has not been confirmed from office record.

However, at the time of DAC meeting, management of HIT stated that till date Rims 770 out of 1200 rims have been delivered and accepted. LD charges from 2% to 10% as per contract clause, i.e. Rs.1.54 Million has been recovered from M/s HMC.

DAC meeting held on 29th August, 2017. DAC pended the para subject to verification of remaining amounts i.e. 3.2 million by Audit.

Audit verified, a quantity of 700 Rims and recovery of LD amount Rs.1.54 million. The remaining quantity of 500 Rims with maximum 10% LD Rs.3.2 million imposed was still outstanding.

Recommendations:

- (i) Audit stresses for an early finalization of the remaining contracted quantities with recovery of L.D amount besides regularization of loss Rs.19.231 Million caused to state due to non-supply of metallic rims by HIT/HMC.
- (ii) Adoption of remedial measures to avoid recurrence of such lapses in future.

(OL No.27)

RECOMMENDATIONS & CONCLUSION

RECOMMENDATIONS: -

- Finalization of remaining sale contract in addition to deposit of proportionate Government share into Government treasury besides provision of bidding documents of the procurement contracts regarding procurement of stores and its utilization for verification.
- Regularization of the amount placed under observation beside remedial measurement to avoid such recurrence in future.
- Finalization / cancellation of contract as per obligation of contract, besides adoption of remedial measures as per DAC directives to avoid recurrence of such lapses in future.
- Adjustment of the balance amount of Rs.17.375 million and its verification from audit.
- regularization of the whole transaction made without contract agreement and its verification from audit besides remedial measures to avoid such recurrences in future.
- Finalization of the contract along with L.D charges and forfeiture of Bank Guarantee as the case may be and get it verified from Audit.
- Verification of reconciliation to Audit, otherwise excess allocation beyond the amount booked in the CMA, HIT needed to be regularized from MoDP.
- Regularization of the amount Rs.8.426 million not surrendered and lapsed. Remedial measures need to be initiated to avoid such recurrence in future.
- Finalization of uniform policy of House Rent Allowance (HRA) beside recovery action and its verification from Audit.
- Finalization of the remaining contracted quantities with recovery of L.D amount and get it verified from Audit. Adoption of remedial measures to avoid recurrence of such lapses in future.

CONCLUSION: -

DESCOM was established in 1992 for in-house development manufacturing of components upgrade and rebuilt program of Tanks, APC Guns etc., to provide engineering support to all facilities and to ensure that the parts develop through in-house efforts or vendors in the accordance with the lay down standards/specifications. Contrary to above following audit finding and significant issues are detected: -

- i. PPRA rules were not followed during Procurement of stores.
- ii. Indigenous purchases were made through various contracts which were not finalized within the contracted period.
- iii. Misprocurement of store
- iv. Non re-conciliation of Accounts with CMA concerned.
- v. Non surrender of Budget grant.
- vi. Infertuous / wasteful expenditure other than Research work.
- vii. Irregular holding of Government Receipts.
- viii. Loss to State due to non-supply of stores by the firm.

The Management is required to take such measures not only to streamline the whole transactions and ensure transparency by adopting PPRA Rules but also to decide proper conclusion of indigenous development contracts based on such clauses under which timely delivery of stores could be ensured. The Management may require to focus on their tasks regarding manufacturing of Bullet Proof Jackets (BPJs) and its further sale to sister organizations with timely realization of Govt. shares into Govt. treasury. The Management of DESCOM may also require to maintain discipline by making regular watch on expenditure versus allocation and ensure prompt reconciliation with CMA (HIT) to avoid any expenditure in excess allocation to the fiscal year.

**LIST OF CONTRACT CONCLUDED DURING THE YEAR 2011-12 TO 2015-16 WITHOUT
ADVERTISEMENT IN PRINT MEDIA**

Para 3.1.2

S.No	Firm Name	Cont No & Date	Part No	Nomen	Qty Load	Unit Price	Total Amount with GST	
6TD4,6TD-II Engine & 730HP Engine								
1	Haniaf Auto Rwp	7	10/12/2015	GRY-36CW	Insulation Coatfor exhaust pipe and tubeCharge	150	40000	7020000
TankT&511AP								
2	Universal Engg Lhr	1	22-07-15	BW122D-29-11-001	Buffer Bracket	30	2440	2623140
				BW122C-29-27-01-1	Hand wheel Assy	20	8440	
				BW122D-72-004	Lt Support of Torsion Rod	20	14000	
				BW122-12-15	Arm Bush assyh	50	34400	
3	Universal Engg Lhr	2	22-07-15	BW122D-35-22	Guide Way	200	4400	2063412
				BW122C-D-80-02	ControlHandleAssyh	94	9400	
4	High Technologyh Lhr	4	18-08-15	WZ122-08-083	IntermediateShaft	50	54274	3175000
5	Karim Engg Lhr	13	16-03-16	WZ122-08-010	Gear (Blank)	50	5200	15780270
	Karim Engg Lhr			BW122C-09-002	Pressure Plate (Blank)	50	2800	
	Karim Engg Lhr			BW122C-09-003				
	Karim Engg Lhr			BW122C-09-001				
	Karim Engg Lhr			WZ122-09-004	Rt Brg Seat(Blank)	50	4900	
	Karim Engg Lhr			BW121A-09-013	Small Brake Hub (Blank(50	14500	
	Karim Engg Lhr			BW122-16-002	Driven Gear(Bkabk)	50	98000	
	Karim Engg Lhr			WZ122-16-001	Driven Shaft (Blank)	50	30000	
	Karim Engg Lhr			WZ122-40-002	Driven Gear (Blank)	50	20000	
	Karim Engg Lhr			WZ122-40-005	Driven Gear (Blank)	50	16900	
	Karim Engg Lhr			WZ122-08-043-F2	Driven Shaft (Blank)	50	17900	
	Karim Engg Lhr			WZ122-08-033	Eccentric Wheel (Blank)	50	620	
	Karim Engg Lhr			122-08-044F2	Driving Gear 4th Gear(Blank)	50	12700	
Karim Engg Lhr			122-08-045F2	Driving Gear 5th Gear(Blank)	50	15200		
Tank AK-1								
6	Wah Ind Wah Cantt	2	9/6/2016	BW123A-32-002	12 7MM Rim/Less	66	738170	48719220
7	Elito Engg Lahore	9	8/5/2015	WZ122-12-09	Rubbered Rim(Less) Road Wheel Rim Assy	1700	32154	63954306
8	General Electric Appliances	1	30-08-13	Different PartNo	DifferentItems ofstore	-		6455475
9	Shah Muhammad & Sons(Pvt) Multan	5	22-9-14	Different PartNo	DifferentItems ofstore	-		52475600
10	Services Industries Laahore	9	1/11/2011	WZ122-12-09	Rubbered Rim(Less Rad WheelRim assy	1200	18300	25912800
11	Intersoft lanternational Islamabad	4	22-9-14	459M-15Sb-01	Cylinder	300	310000	108810000
12	Latif Industries Lahore	12	9/10/2012	Different PartNo	Different items of store	-		27378383
13	Engg Works Collab orfation Islamabad	10	9/10/2012	120-12-086-1,122-14-14	SpringShock Ab soberbody	240070	28465000	6068656
G. Total								370436262