



**AUDIT REPORT  
ON  
THE ACCOUNTS OF  
DEFENCE SERVICES  
AUDIT YEAR 2003-04**

**AUDITOR-GENERAL OF PAKISTAN**

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## ACRONYMS

AFNS	Armed Forces Nursing Staff
AHQ	Air Headquarters
AK	Azad Kashmir
AMC	Army Medical Corps
APS	Army Public School
AQ	Abstract of Quantities
BDA	Border Defence Area
BOQs	Bachelor Officers' Quarters
B/Q	Bill of Quantities
BRC	Balaoch Regimental Centre
BSD	Base Supply Depot
CA	Contract Agreement
CB	Cantonment Board
CDS	Central Div Stock
CEO	Cantonment Executive Officer
CFA	Competent Financial Authority
CLARs	Cantonment Land Administration Rules
CMA (PC)	Controller Military Accounts (Peshawar Command)
CMA (RC)	Controller Military Accounts (Rawalpindi Command)
CMH	Combined Military Hospital
CMP	Controller Military Pensions
CNE	Civilians Non-entitled
CNG	Compressed Natural Gas
COD	Central Ordnance Depot
CSD	Canteen Store Department
DA	Daily Allowance
DAC	Departmental Accounts Committee
DCAS	Deputy Chief of Air Staff
DCNS	Deputy Chief of Naval Staff
DHA	Defence Housing Authority
DP	Draft Paragraph
DW & CE	Director Works and Chief Engineer
EDO	Executive District Officer
EME	Electrical & Mechanical Engineering

FA	Financial Advisor
FCNA	Forces Command Northern Area
FGEIs	Federal Government Educational Institutions
FPO	Field Pay Office
GE	Garrison Engineer
GHQ	General Headquarters
GLR	General Land Register
GOQs	General Officers' Quarters
HRA	House Rent Allowance
IGT&E	Inspector General Training and Evaluation
JCO	Junior Commissioned Officer
JLA	Junior Leader Academy
MAG	Military Accountant General
MB	Measurement Book
MCE	Military College of Engineering
MEO	Military Estate Office
MES	Military Engineer Services
ML&C	Military Land & Cantonments
MOQs	Married Officers' Quarters
MOST	Ministry of Science and Technology
NACA	Northern Area Compensatory Allowance
NDC	National Defence College
NHQ	Naval Headquarters
NLC	National Logistics Cell
NSD	Naval Stores Depot
NUST	National University of Science & Technology
OPD	Outdoor Patients Department
ORs	Other Ranks
PAF	Pakistan Air Force
PMA	Pakistan Military Academy
PN	Pakistan Navy
PNS	Pakistan Naval Ship
POL	Petroleum, Oils and Lubricants
PP&A Dte.	Pay, Pension and Accounts Directorate
PRC	Punjab Regimental Centre
PSO	Pakistan State Oil
PWD	Public Works Department
RA	Ration Allowance

RAR	Running Account Receipt
RV & FC	Remount, Veterinary & Farms Corps
RV&F	Remount Veterinary & Farms
SAI	Shaheen Air International
SAPS	Shaheen Airport Services
SMA	Special Messing Allowance
STR	Standard Table of Rents
TA	Traveling Allowance
TE	Transfer Entry
UA	Unit Accountant
UAE	United Arab Emirat
UHT Plant	Ultra Heat Treatment Plant
WAPDA	Water & Power Development Authority
W&R Dte.	Welfare & Rehabilitation Directorate

## **PREFACE**

Article 169 of the Constitution of the Islamic Republic of Pakistan read with Section 8 and Section 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, requires the Auditor General of Pakistan to conduct audit of receipts and the expenditure from the Federal Consolidated Fund and Public Account.

This report is based on compliance with authority audit of the accounts of the Defence Services for the year 2002-2003. The audit was conducted, on a test check basis, by the Directorate General Audit Defence Services during 2003-2004, with a view to report significant findings to the stakeholders.

The findings indicate the need for adherence to regulatory framework, instituting and strengthening internal controls to avoid recurrence of similar types of observations year after year.

Audit observations in the report were discussed in the Departmental Accounts Committee meetings and have been finalized in the light of written responses and discussions.

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

**MUHAMMAD YUNIS KHAN**  
Auditor-General of Pakistan

Islamabad  
Dated:

## **Executive Summary**

### **ARDS 2003-04**

Director General Audit Defence Services carried out audit of the accounts of Defence Services and Military Land and Cantonments Department during 2003-04.

Significant audit findings related to budgeting management issues and internal controls. The following observations merit special attention:

- i. An important project with a total final capital cost Rs. 248.53 million had a time overrun of five years. In addition, Rs. 74.559 million were to be recovered from the defaulting contractor as risk and cost payment.
- ii. In a number of cases contract conditions were not followed resulted in overpayments / irregular payments to contractors.
- iii. Expenditure was incurred without proper budgetary provisions, on construction of various residential building. Approval of Government for use of Military buildings / land for the purpose other than specified was also not obtained.
- iv. Rent and allied charges were not being recovered by MES from various users.
- v. Inventory management was a weak area as evident from purchase of large quantity of unutilized stores and piecemeal purchases of stores.

- vi. Appropriate actions were not taken to recover the risk and cost amounts outstanding against defaulting contractors.
- vii. Significant overpayments were made in respect of pay, pension and allowances.
- viii. Receipts were not deposited into Government treasury were required.
- ix. Stores not authorized in warrant of Naval stores, were got issued on loan but the same were neither returned in the given time frame nor got included in warrant of stores.
- x. Taxes and other Cantonment dues were not being recovered promptly.
- xi. Residential properties were changed into commercial units by the lessees without payment of prescribed charges.
- xii. Recoveries on account of lease moneys were not being made promptly.

### **Recommendations**

A fairly elaborate financial management advice is available to the Defence Services in the form of Financial Advisor's Organization and Local Audit outfit. It is recommended that these set-ups may be geared to ensure better financial discipline in the financial operations of the Defence Services. More specifically, it is recommended that necessary steps may be initiated to ensure:

- Framing and updation of rules by those organizations which have not done so, as required under their respective enactments;
- Prompt recoveries of rent & allied charges, risk and expense costs and taxes etc. as pointed out in reports; and to ensure
- Economy in procurement of stores through inventory management specially to prevent avoidable carrying cost of inventory.

*The PAC while discussing this report on 06<sup>th</sup> January, 2016 issued directions out of which 03 were complied with and action taken. Besides an amount of Rs. 247.400 (M) was recovered. The PAC directives are attached as Annexure- 'B'.*

# Audit Report

## Military Engineer Services

### 1.1 Unjustified time overrun of five years and cost overrun of Rs.74.559 million in reconstruction of Naval Berths at PN Dockyard Karachi

Reconstruction of Naval Berths (1 to 4), PN Dockyard Karachi was sanctioned by the Government of Pakistan Ministry of Defence on 27<sup>th</sup> October, 1988 at an estimated cost of Rs.166.882 million. The contract (CA # 671/89) for the above work was concluded with M/S Pakistan Development Corporation (Private) Limited in June 1989 at a cost of Rs.219.840 million. As per clause-43 of the contract, the work was required to be completed within 18 months i.e. by December, 1990.

The contractor defaulted before completion of work in March, 1992. Consequently, the contract was cancelled in May, 1992 at his risk and cost. By that time he had been paid an amount of Rs.45.860 million. Performance bond worth Rs.21.984 million was also not redeemed.

A fresh contract was signed with M/S Lodigiani in June, 1993 who completed the leftover work on 28<sup>th</sup> January, 1996 at a cost of Rs.248.539 million.

The extra expenditure of Rs.74.559 million, as calculated below, was recoverable from the defaulting contractor.

Value of contract concluded with the previous contractor.	Rs.	219.840 million
Amount paid to the previous contractor.	Rs.	45.860 million
Value of leftover work.	Rs.	173.980 million
Value of new contract.	Rs.	248.539 million
Amount recoverable from the defaulting contractor.	Rs.	74.559 million

The Para was examined by the DAC in their meeting held on 26th September 2005. During the meeting, the formation replied that the defaulting contractor had filed a civil suit against the MES. Further action shall be taken after finalization of the court case. Their reply was not found satisfactory by the committee. DAC directed that the final bill of the defaulting contractor be prepared and got audited. DAC also desired to know as to why performance bond was not encashed when the contractor defaulted. No reply was furnished.

## **1.2 Overpayment to a contractor on various counts - Rs.16.743 million**

Contract No. CEN-127/93 was signed between M/s Lodigiani and the DW&CE (Navy) in June, 1993 for execution of left over / defective work of refurbishment of Naval berths (1 to 4) at PN Dock Yard, Karachi. GE Navy (Construction) Dock Yard, Karachi was the Engineer Incharge of the work. The work was required to be completed in 18 months i.e. upto December 1994 but actually completed in January 1996. Final bill was prepared in June, 2003. Audit of the final bill was conducted in December 2003. Following overpayments were observed during audit of the above contract.

**i.** As per schedule-A of the above mentioned contract, 20% discount was applicable on items of work included in bill # 1.

It was, however, noted from the abstract of quantities and prices that payment of Rs.16,440,211 against some items of bill # 1 was made without applying the 20% agreed discount. The omission resulted in an overpayment of Rs.3,288,042 (16,440,211 x 20%) to the contractor.

When pointed out by Audit in December, 2003, the formation contended that bill # 1 of schedule "A" consists of two portions i.e. bill # 1/1 and 1/2. The 20% discount was applicable only to bill # 1/2 and not to bill # 1/1. Reply of the formation was not satisfactory as the 20% discount was applicable on the entire amount of bill No.1.

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. The formation reiterated their earlier stance which was not found satisfactory by the Committee.

(Item # 4 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

**ii.** As per abstract of quantities and prices (items # 584 to 597), the payment against variation order # 2 was made without deducting the cost of paving work already paid separately. As a result of this omission, the contractor was overpaid a sum of Rs.1,157,563.

When pointed out by Audit, the formation replied that cost of paving work had been deducted from the approved amount of variation # 2.

The reply is not based on facts as the cost of paving work i.e. Rs.1,157,563 was not deducted as evident from the abstract of quantities and prices.

The Para was examined by the DAC in their meeting held on 26th September 2005. The formation reiterated their earlier stance, which was not found satisfactory by the Committee. The committee directed to recover the amount overpaid.

(Item # 9 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

**iii.** Para “g” of DW & CE (N) letter # 6900/637/021/E-6 dated 21<sup>st</sup> June, 93 forming part of the above said contract, provided that the material listed in schedule “C” will be issued to contractor free of cost from an MES store situated at Karachi. All costs and expenses incurred by him for any material over and above the schedule “C” will be paid to him.

Scrutiny of final bill, however, revealed that cost of the material provided by the contractor against schedule “C” of the CA was reimbursed to him by allowing 10% profit over and above of the expenditure incurred by him which was not covered under the provisions of afore said letter dated 21<sup>st</sup> June, 1993. The omission resulted in an overpayment of Rs.792,515.

When pointed out by Audit, the formation stated that the department was bound to pay all the overhead expenses for the material arranged by him over and above the schedule “C” and payment was covered under clause 31.015 of the contract agreement and DW & CE letter dated 21<sup>st</sup> June, 1993. Reply of the formation is not based on facts as both the contract

clause and the DW & CE letter dated 21<sup>st</sup> June, 1993, did not allow payment of profit over and above of the actual expenditure incurred by the contractor.

The Para was examined by the DAC in their meeting held on 26th September 2005. The formation reiterated their earlier stance, which was not found satisfactory by the Committee. DAC observed that payment of 10% profit was not covered under the contract conditions.

(Item # 11 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

iv. As per para 1(f) of DW & CE (Navy), Islamabad letter # 6900/637/A/021/E-6 dated 21<sup>st</sup> June, 1993 forming part of CA # CEN-127/93, it was agreed and confirmed that in the event it is proved necessary for the contractor to procure material listed and specified in schedule “B” from any source other than the MES store at Karachi, all costs and expenses incurred over and above those cost and expenses which would have been incurred had the material been procured from MES store at Karachi, will be reimbursed to him in full through the monthly interim invoices.

A quantity of 63,890 bags cement and 125.79 metric tonnes steel was arranged by the contractor for which a sum of Rs.7,161,491 was paid to him as shown below.

<b>S. No.</b>	<b>Description</b>	<b>Amount (Rs.)</b>
i.	Cost of steel including transportation	680,858
ii.	Cost of cement	5,409,530
iii.	Transportation charges for cement	303,800
iv.	Add contractors financial charges overhead plus profit @ 12%	767,303
<b>Total</b>		<b>7,161,491</b>

As the contractor was not entitled to claim any sum over and above the actual expenditure incurred by him under the aforesaid letter dated 21<sup>st</sup> June, 1993, the payment of profit amounting to Rs.767,303 was not in order.

When pointed out by Audit, the formation agreed to recover the amount of Rs.767,300.

The Para was examined by the DAC in their meeting held on 26th September 2005. DAC observed that payment of profit was not covered under the contract conditions.

(Item # 12 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

v. As per contract conditions, all items of works were payable on the rates available in the priced bills of quantities. Only those items of work which were not available in priced bills of quantities were to be paid at agreed rates under clause-31.015 of the contract.

A few items of work were paid on agreed rates whereas rates for these items were available in the bills of quantities. Application of incorrect rates resulted in an overpayment of Rs.653,745 to contractor.

When pointed out by Audit, the formation replied that the items of work pointed out by audit observation were paid under provisional lump sum. The discount cannot be applied on items of work executed under provisional lump sum. Moreover, agreed rates were applied for items of work having different specifications. Reply of executive was not satisfactory as the description of items of works was the same as was in bill of quantities. Further the executive contention that discount was not applicable on items of work executed under provisional lump sum was also not covered under the contract.

The Para was examined by the DAC in their meeting held on 26th September 2005. The formation reiterated their earlier stance which was not found satisfactory by the Committee.

(Item # 13 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

vi. As per schedule "A" of the contract, the contractor agreed to give  
10% discount on bill # 2 to 4 and 6 to 9.  
12% discount on bill # 5 and  
16% discount on bill # 10.

Scrutiny of abstract of quantities and prices revealed that certain items of works were priced without applying agreed discount which resulted in an overpayment of Rs.296,426 to the contractor.

During discussion formation agreed to recover the amount as pointed out by audit.

The Para was examined by the DAC in their meeting held on 26th September 2005. The DAC upheld Audit point of view.

(Item # 16 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

**vii.** The work of new paving (503,122 sqm) was priced @ Rs.2951.65 per sqm under items # 2/1-E and 5/1-A to G of bill of quantities vide abstract item # 484.

Item # 2/1-E paid @ Rs.407.27 per sqm as above was meant for “break out and dispose of the top existing cope beam leaving reinforcement in place”. Since no such work was involved in new paving work as such payment against this item of work was not justified being not actually carried out at site.

Moreover, 12% discount (applicable against bill # 5 of quantities) was not accounted for. The correct rate for new paving actually worked out to Rs.2,260.89 per sqm. The application of incorrect rate resulted in an overpayment of Rs.347,537 (Rs.2,951.65 - Rs.2,260.89 = Rs.690.76 x 503.122 sqm).

When pointed out by Audit, the formation replied that 12% discount cannot be applied for new paving because this item of work was paid under provisional lump sum.

Reply of executive was not satisfactory. Rates for paving were available in bill # 5 against which contractor had given 12% discount.

The Para was examined by the DAC in their meeting held on 26th September 2005. The formation replied that the work i.e. “break out and dispose of the top existing cope beam leaving reinforcement in place” was necessary to be carried out at site. DAC accepted their reply as far this

portion of the observation is concerned. As regards non deduction of 12% discount, the DAC directed to recover the amount.

(Item # 15 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

**viii.** It was observed from GE (Navy) Construction, Dockyard Karachi letter # 6208/2155/E-6 dated 9<sup>th</sup> September, 2003, that a large quantity of store was issued by the GE to M/s Lodigiani under schedule-c. In addition to above the contractor also arranged stores under schedule-c. After completion of work, the store surplus to requirement valuing Rs.6,912,721 was returned to Central Div Stock (Navy) Karachi.

M/s Lodigiani was not supposed to return the store purchased by him against schedule-c as GE was not responsible for import of material in excess of requirement. As such cost of these stores was required to be recovered from the final bill of the contractor.

Moreover the material arranged through defaulting contractor at Government expense was new and issued to new contractor under schedule "C" of the contract whereas the surplus material returned by M/s Lodigiani was in unserviceable / deteriorated condition. Cost of this store should have also been recovered from M/s Lodigiani.

When pointed out by Audit, the formation stated that the surplus store was lying in CDS Navy Karachi but no further disposal could be made due to filing of civil suit by the defaulting contractor. Reply of the formation was not to the point. The questions raised by Audit regarding unnecessary purchases remained un-replied.

The Para was examined by the DAC in their meeting held on 26th September 2005. The formation reiterated their earlier stance which was not found satisfactory by the Committee.

(Item # 2 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

**ix.** The CA # CEN-671/89 signed with M/s Pakistan Development Corporation was cancelled in May, 1992 due to default of the contractor and a board of officers was convened during 20<sup>th</sup> to 23<sup>rd</sup> June, 1992 to assess the quantity of stores available at site. The left over work was got

completed through CA # CEN-127/93. The quantity of store left at site by the defaulting contractor was provided to new contractor under schedule "C" of the contract.

Scrutiny of material statement attached with the final bill, however, revealed that certain imported material valuing Rs.1,685,377 was accounted for less than the quantities shown in board proceedings.

When pointed out by Audit, the formation contended that the defaulting contractor had filed a civil suit against MES which was under trial in the court of law, hence, no action could be taken till finalization of the case. Reply of the formation was irrelevant. In fact, the imported store left at site by the defaulting contractor, duly verified by the board of officers was accounted for less in the material statement of schedule "C".

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. The formation intimated that a Board of Officers had been appointed to investigate the matter. The DAC directed to finalize the board proceedings at an early date and upheld audit point of view.

(Item # 8 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

x. Scrutiny of material statement of CA # CEN-127/93 revealed that a number of stores issued to M/s Lodigiani under schedule "C" became surplus to requirement which were neither taken back from him nor its cost recovered from the final bill. The approximate cost of the material retained by the contractor worked out to Rs.502,807. As majority of the items were imported as Defence stores, without payment of duties and taxes, the cost of the stores needs to be worked out including duties and taxes payable.

When pointed out by Audit, the formation stated that clarification would be made after consultation with the concerned contractor.

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. The formation intimated that a Board of officers had been appointed to investigate the matter. The DAC directed to finalize the board proceedings at an early date and upheld audit point of view.

(Item # 14 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

(Item # 17 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

**xi.** All items of work under above contract were payable on the rates available in priced bill of quantities. Only those items, the rates of which were not available in priced bill of quantities were to be paid at agreed rates under clause 31.015 of the contract.

An item of work (i.e. supply and fixing of cable termination, 3 core, 95 mm<sup>2</sup>, 10 number) was priced at provisional rate of Rs.17,735 each vide abstract item # 502 whereas the rate for the item was available at item # 10/5-D of bill of quantities i.e. Rs.3860.13. Incorrect pricing resulted in an overpayment of Rs.138,748 (Rs.17,735 - Rs.3,860 for 10 Nos).

During discussion formation agreed to recover the amount of Rs.138,748. Further progress was awaited.

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. DAC directed that recovery be expedited.

(Item # 22 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

**xii.** An item of work (Plane vertical form work for re-building existing cope beam at bollard locations, widths exceeding 300mm class-B) with a quantity of 215.33 sqm was recorded at page-27 of MB # 110. Out of which, a quantity of 134.37Sqm (as recorded at page # 30 of MB # 111, variation order # 3) had already been paid vide AQ # 617, which was required to be deducted from the total quantity of 215.33 sqm, but only a quantity of 11.29 Sqm was deducted. Deduction of lesser quantity of 123.08 Sqm (134.37 - 11.29) resulted into excess payment of Rs.101,116 (123.08 @ Rs.821.55).

When pointed out by Audit, the formation agreed to recover the amount.

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. The DAC upheld Audit point of view.

(Item # 23 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

**xiii.** An item of work (i.e. supply and laying of cable 2 core 300mm<sup>2</sup> as recorded on page # 12 of MB) was once paid at AQ item # 500 and secondly at AQ item # 505. Resultantly, the contractor was overpaid an amount of Rs.97,819 (133 metres x Rs.735.48).

During discussion formation agreed to recover the amount.

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. The DAC directed to expedite the recovery.

(Item # 24 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

### **1.3 Infertuous expenditure on procurement of equipment and plants/ machinery- Rs.9.522 million**

A contract (CA # CEN-671/89) was concluded by DW&CE (Navy) with M/s Pakistan Development Corporation for refurbishment of Naval berths (1 to 4) in June 1989. Certain tools and plants/equipment required for the execution of work were imported by DW&CE for the contractor at a cost of £94,046.548 (Rs.9,522,213) for which the payment was made to M/s Salix Investment Limited through Controller of Naval Accounts.

The contractor defaulted during the currency of the contract and consequently the above contract was cancelled in May, 1992. The left over work was got executed at his risk and cost through M/s Lodigiani under CA # CEN-127/93. A board of officers was convened during June, 1992 to assess the value of work done by the defaulting contractor and also quantities of unused stores and machinery/equipment (belonging to previous contractor) available at site. The board in addition to assessment of value of work done, prepared two separate lists, one of the imported materials/stores and the other of the equipment and plants/machinery with the recommendations that imported material may be issued to the new contractor under Schedule "C" of the contract and machinery / plants be transferred to CDS (Navy) Karachi.

Scrutiny of record, however, revealed that the aforesaid equipment and plants / machinery were neither included in the list of imported material (issued under Schedule “C”) nor taken on ledger charge. As the said equipment and plants / machinery were neither issued to the new contractor nor utilized elsewhere despite passage of more than 15 years, the same became unserviceable lying in open. The expenditure of Rs.9,522,213 (£ 94046.548 x Rs.101.25) incurred on its import proved to be infructuous.

When pointed out by Audit, the formation stated that the defaulting contractor had filed a civil suit against the MES, hence, no action could be taken on the recommendations of the board, till finalization of the civil suit. The reply of the formation was irrelevant as a lot of imported material other than above, left unused by the defaulting contractor was provided to the new contractor under Schedule “C”.

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. It was intimated that a Board of Officers was convened who had recommended to take the said items on charge. Further action would be taken on approval of the Board by the DW&CE (Navy) Islamabad. The DAC directed to approach the competent authority for expediting the action.

(Item # 1 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN - 127/93)

#### **1.4 Irregular payments to a contractor- Rs.19.409 million**

- i. Execution of work without sanction of competent authority - Rs.6.605 million**

As per contract # CEN-671/89 work relating to rail track was as under:

Supply and installation new rail track	= 556m
Take up and relay existing rail track	= 856m
Supply new rail fixing for existing rail track.	= 856m

The above contract was cancelled due to default of the contractor and left over work was got executed at his risk and cost through CA # CEN-127/93 which contained same quantities of rail track.

Scrutiny of final bill, however, revealed that in addition to payment of approved work relating to rail track, a further sum of Rs.6,604,742 was paid to contractor for supply and installation of 864 meters new rail track vide abstract item # 73 and # 515 without approval of competent authority.

Moreover, as per handing / taking over board proceedings, a total quantity of 1568 metres rail track (berths-I to IV = 338m + 375m + 375m + 480m) was handed over to users as against repair / installation of 3132 metres paid to both the contractors. The matter therefore, needed to be investigated to reconcile the quantity of rail track installed with reference to payment made to contractor.

When pointed out by Audit, the formation contended that GE was empowered to order execution of new work as per clause 58(3) of the contract. Reply of the formation was not valid as GE had no powers to execute additional work without sanction of DW & CE (Navy).

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. The formation reiterated their earlier stance. DAC directed that the quantity taken on charge and that paid be reconciled besides obtaining sanction of competent financial authority.

(Item # 3 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

**ii.** Payment to contractor without supporting details - Rs.5.249 million

A sum of Rs.5,248,998 was paid against five items of bill # 1/1, with the remarks that “details of sum claimed attached with the bill” but no details were found attached. In the absence of said details, the audit of above mentioned amount could not be carried out. It was requested that the relevant details may be produced for scrutiny.

When pointed out by Audit, the formation replied that the details of expenditure were being traced out. The same as and when traced out will be produced for audit.

A pre DAC meeting was arranged by the Ministry on 13<sup>th</sup> August, 2005 between Audit and PP & A Dte NHQ, Islamabad/GE Navy Construction

Dock Yard Karachi for detailed discussion on the para. The executive stated that the requisite details of expenditure shall be located and produced to Audit for necessary examination. The requisite details were awaited.

(Item # 5 of PAR 4, 2003-04 GE (Navy) Construction, Dock Yard, Karachi CA # CEN-127/93)

**iii. Pricing of abstract of quantities and prices on un-authentic rates - Rs.4.08 million**

As per clause 31.015 of CA # CEN-127/93 any item of work, not available in priced bill of quantities and which is essentially required to complete the job, shall be paid at the rate obtained through quotations, available in Pakistan or abroad and mutually agreed by both the parties.

Seven items of work valuing Rs.4.08 million were priced provisionally against the above mentioned contract clause. Approval of the competent authority duly supported with the requisite quotations forming basis for the rates accepted were however not provided to Audit for scrutiny.

When pointed out by Audit, the formation replied that provisional rates applied in RARs were lesser than the actual rates which were applied in final bill. Reply of executive was not satisfactory as no documentary evidence was provided for verification.

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. The executive accepted that the contract conditions were not followed and irregularity shall be got waived off under the orders of CFA. The committee desired to get the irregularity waived off under the orders of competent financial authority.

(Item # 6 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

**iv. Payment without approval of competent authority - Rs.3.282 million**

A sum of Rs.3.282 million was paid to contractor for installation of “koisk units” under abstract item # 549 to 583 on the authority of variation order # 1, but variation order # 1 duly approved by the competent authority was

not produced for scrutiny. In the absence of the same payment of Rs.3.282 million was not in order.

When pointed out by Audit, the formation replied that payment against variation order # 1 had been made after obtaining approval of competent authority. The reply was not satisfactory as variation order # 1 duly approved by the competent authority was not produced for scrutiny.

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. The formation agreed that the work was got executed without sanction of CFA and they will obtain ex-post facto sanction of the CFA. The DAC directed that ex-post facto sanction of the competent authority may be obtained.

(Item # 7 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

v. Irregular expenditure on maintenance work out of project contingencies - Rs.0.193 million

As per para 283(b) of Defence Services Regulations for the MES, the contingencies @ 5% are intended to cover additional expenditure which could not be foreseen at the time, the estimate was prepared. For example, if it is found that the piled foundations are necessary instead of the normal type of foundation allowed in the estimate, the contingencies items in the sanctioned estimate can be used towards covering the additional expenditure.

As per construction account for the year 1997-98, an amount of Rs.192,842 was booked during May and June, 1998 on account of maintenance charges which was not a proper charge to the contingencies of the project. Details of expenditure and relevant vouchers / TEs were not provided.

When pointed out by Audit, the formation stated that expenditure of Rs.192,842 on account of maintenance charges out of contingencies was approved by the competent authority. Relevant vouchers and TEs were being traced out and will be produced for audit verification.

The Para was examined by the DAC in their meeting held on 26<sup>th</sup> September, 2005. The formation reiterated their earlier stance which was

not found satisfactory by the Committee. The DAC directed to get the expenditure regularized.

(Item # 19 of PAR 4, 2003-04 GE (Navy) Dock Yard Karachi CA # CEN-127/93)

### **1.5 Utilization of military buildings for other than authorized purposes without re-appropriations**

Para 44 of Defence Services Regulations for Military Engineer Services (MES) 1998, defines re-appropriation as the use of group of buildings, a building or portion thereof for any purpose other than that for which it was constructed. Re-appropriations may be temporary or permanent and may be intended either for an authorized or for a special purpose. Re-appropriation for an authorized purpose may be sanctioned by local commander for a maximum period of five years. Any renewal beyond a period of five years requires the sanction of the QMG/DCNS(S)/DCAS(A). Re-appropriation beyond a period of ten years requires the sanction of the Government of Pakistan.

As Army Public Schools/Colleges buildings are not authorized works, in the light of definition of authorized works as laid down under Para 21(c)(1) of MES Regulations, Government sanction is required for re-appropriation of buildings for schools / colleges.

In contravention of above rules, in 5 cases as observed by Audit, the schools/ colleges were being run in Government buildings without obtaining/re-appropriation sanction. In some cases, re-appropriation sanctions were obtained from local commanders whereas Government sanctions were required. Rent and allied charges from the management of these schools/colleges need to be recovered and deposited into government treasury. Either rules should be amended or necessary steps should be taken to streamline the system of use of military lands for purposes other than those authorized.

The para was examined by the DAC on 16<sup>th</sup> July, 2005. DAC observed that pace of recovery of outstanding rent and allied charges was very slow. The representative of the Director Works and Chief Engineer (DW & CE) intimated that the users had not deposited the dues despite that the bills were regularly sent to them. DAC directed that DW & CE will intimate

the details of outstanding dues to PP & A Dte General Headquarters (GHQ) and they will approach concerned Army authorities at higher level for recovery of outstanding dues in all such cases.

DP-371,86,63,382,389,327,646

## **1.6 Expenditure on unauthorized works - Rs.8.091 million**

Under Rule-5 of Financial Regulations (Vol-II) 1986, Defence expenditure may be sanctioned for a bonafide Defence purpose only. It was, however, observed that expenditure out of Defence Budget was incurred on construction / repair works which cannot be termed as authorized works in the light of definition of authorized works as given in Para-21 (c) (I) of MES Regulations 1998. A few instances are quoted below.

**i.** GE (Army)-I, Rawalpindi, spent an amount of Rs.2,516,471 from Defence budget for improvement of swimming pool at Golf Mess Rawalpindi.

As Golf Mess is not a Defence building, therefore, expenditure of Rs.2,516,471 incurred on the aforesaid account was not a proper charge against the Defence Estimates.

When pointed out by Audit in October, 2003, the executive stated that the work was sanctioned by QMG GHQ Rawalpindi and the Golf Mess was being run under the supervision of Staff Duty Directorate General Headquarters (GHQ) Rawalpindi. Reply was not convincing as Golf Mess building is located inside the golf club building which is not a defence building. Further, no sanction for the establishment of Golf Mess was produced to audit.

The DP was examined by the DAC on 9<sup>th</sup> August, 2005. The DAC decided that the Ministry / PP&A Dte will transfer the case to Quartering Directorate for submission of reply. Further progress was awaited.

DP-40

**ii.** GE (Army)-I, Rawalpindi, spent an amount of Rs.1,029,092 on repair / maintenance of General Officers' Quarters (GOQs) at Golf Road

Rawalpindi. GOQs were neither held on charge of GE (Army)-I nor record of utilization of the said GOQs was held with the Unit Accountant (UA).

When pointed out by Audit in December, 2002, the formation replied that the above accommodation was held on the charge of Staff Duty Directorate Rawalpindi. No evidence in support of reply was provided for verification. Moreover, recovery of rent and allied charges was responsibility of the GE and not the Staff Duty Directorate.

The DP was examined by the DAC on 9<sup>th</sup> August, 2005. The DAC decided that Ministry / PP&A Dte will transfer the case to Quartering Directorate for submission of reply. Further progress was awaited.

DP-620

**iii.** According to Government of Pakistan, Ministry of Defence letter No 0358/148/St-6/A/3607/D-3 (B) dated 19<sup>th</sup> November, 1954, as confirmed by Quarter Master General's (QMG) branch, GHQ under letter No. 5651/61/QTG-IB dated 29<sup>th</sup> December, 1990, Shinkiari is located in Border Defence Area (BDA). Being BDA, a number of allowances like Northern Area Compensatory Allowance (NACA), Special Messing Allowance (SMA) etc. are authorized in Shinkiari.

Commander Military Engineer Services (CMES) (Army), Abbottabad, signed a contract during 2002 for construction of Bachelor Officers' Quarters (BOQs) at a cost of Rs.1,320,000. The drawing actually adopted for the purpose was that of Married Officers' Quarters (MOQs), which indicated that family accommodation was constructed in the BDA whereas family accommodation is not authorized in BDA being a non-family station. Moreover BOQs are treated as non-residential buildings in budget estimates. Allocations for construction of BOQs should not have been spent for married residential buildings.

When pointed out by Audit in December, 2003, the formation replied that the sanction was accorded by the competent authority. The reply was not satisfactory as sanction was accorded for construction of BOQs and not for MOQs. Moreover Shinkiari is a non-family station and, therefore, provision of married accommodation is not the responsibility of the Government.

The para was examined by the DAC on 16<sup>th</sup> July, 2005. The DAC was of the opinion that officers provided with married accommodation were not entitled to draw allowances admissible in BDA. The DAC directed the executive to confirm as to whether or not the officers were drawing allowances admissible in BDA. Further progress was awaited.

DP-618

iv. Similarly GE (A), Abbottabad, expended an amount of Rs.951,931 for construction of eight family quarters at Junior Leader Academy (JLA) Shinkiari.

When pointed out by Audit in January, 2004, the formation replied that Shinkiari was neither operational area nor BDA. The plea was not based on facts as Shinkiari was BDA as per QMG's Branch General Headquarters (GHQ) Rawalpindi letter No. 5651/61/QTG-1B dated 29<sup>th</sup> December, 1990.

The para was examined by the DAC on 16<sup>th</sup> July, 2005. The DAC was of the opinion that officers provided with married accommodation were not entitled to draw allowances admissible at non-family station. The DAC directed the executive to confirm as to whether or not the individuals were drawing allowances admissible in BDA. Further progress was awaited.

DP-338

## **1.7 Non-recovery of rent and allied charges - Rs.45.917 million**

Under Paras 442 & 445 of Defence Services Regulations for the Military Engineer Services, 1998, Garrison Engineer (GE) is responsible for making monthly demands and prompt realization of rent and allied charges from the users of military buildings and allied services. Para 455 provides that recovery of rent and allied charges from the private users of military buildings should be made in advance. Under Para 768 (S.# 14(a) of appendix-O) all paying consumers, without exception, supplied with electric energy through MES from supplying agency or from an MES generating station are required to pay cost of energy consumed. According to Rule 57 & 68 (b) of Quarter & Rents Regulations, 1985, rent of Government building is required to be recovered at local rates from private persons.

Despite clear provisions of rules and regulations, the recovery of rent and allied charges was not being made promptly. As a result an amount of Rs.45.917 million, as tabulated below, was outstanding against the occupants of military buildings and consumers of electricity, gas and water.

(Rs. Million)

<b>S. No.</b>	<b>Name of Formation</b>	<b>Amount</b>
1	GE(A)-I Rawalpindi	0.490
2	GE(A) Mangla	3.840
3	GE(Air) Shahbaz	1.258
4	GE(Services) Lahore	5.386
5	GE(A) Peshawar	2.497
6	GE(A)-II Rawalpindi	1.297
7	GE(Services) Kharian	0.747
8	GE(Air) Risalpur	0.327
9	GE(Services) Bahawalpur	0.262
10	GE(A) Peshawar	0.158
11	GE(Air) Mianwali	0.131
12	GE(A)-II Lahore	0.126
13	GE(A) Mangla	0.171
14	GE(A) Peshawar	3.009
15	GE(Services) Lahore	7.348
16	AGE(A) Risalpur	4.629
17	GE(A) Services Rawalpindi	2.432
18	GE(A) Karachi	2.154
19	GE(A) Services Rawalpindi	2.119
20	GE(Air) RAHQ Peshawar	1.648
21	GE(Services) Lahore	1.494
22	GE(Services) Sialkot	0.580
23	AGE(A) Risalpur	0.371
24	GE(A) Nowshera	0.309
25	GE(A) Abbotabad	0.134
26	GE(Services) Okara	0.099
27	GE(Air) RAHQ Peshawar	0.231
28	GE(Air) Risalpur	0.308
29	GE(Air) Sargodha	0.363
30	703 PWS Gilgit	1.610

31	GE(Services) Okara	0.258
32	GE(Services) Okara	0.131
<b>Total</b>		<b>45.917</b>

When pointed out by Audit in December, 2003, the formations stated that notices were issued to the users for payment of rent and allied charges.

The para was examined by the DAC on 16<sup>th</sup> July, 2005. DAC observed that pace of recovery of outstanding rent and allied charges was very slow. The representative of the DW & CE intimated that the users had not deposited the dues despite the fact that bills were regularly sent to them. DAC directed that DW & CE will intimate the details of outstanding dues to PP & A Dte General Headquarters (GHQ) and they will approach concerned Army authorities at higher level for recovery of outstanding dues in all the above cases. DW & CE (Army) and PP & A Dte GHQ will sort out the matter and make necessary changes in the system to ensure prompt recovery of rent and allied charges in future.

(DPs-315,630,637,396,353,312,313,375,349,617,335,342,10,656,303,96,43,90,97, 99,301,309,94,98,92,26,627,367,32,35,41, 48)

### **1.8 Non-recovery of risk and cost amount - Rs.1.960 million**

Under Clause 55 (9)(a) (3) & (b) of PAFW 2249, the accepting officer may cancel the contract if the contractor fails to complete the work and clear the site on or before the date of completion and it may be completed at contractor's risk and cost.

i. As per record of Garrison Engineer (GE) Air, Risalpur, left-over work of a contract(CA#CEAF 23/97) was got completed at the risk and cost of the defaulting contractor. The risk and cost amount worked out to Rs.142,112 which was not recovered from the defaulting contractor.

When pointed out by Audit in June, 2004, the executive agreed to recover the amount involved.

The para was examined by the DAC on 27<sup>th</sup> July 2005. The DAC directed to recover the amount at an early date.

DP-366

**ii.** As per record of GE (Army) C-1, Rawalpindi, a contract (CA#CEA 159/94) was cancelled and leftover work was got completed through another contractor (CA#CEA 8/2000) at the risk and cost of the defaulting contractor. An amount of Rs.937,210 was spent for completion of remaining work, which was not recovered from the defaulting contractor.

When pointed out by Audit in March, 2004, no reply was furnished by the formation.

The para was examined by the DAC on 9<sup>th</sup> August, 2005. The executive intimated that the case was in the court of law. DAC directed to pursue the court case vigorously.

DP-629

**iii.** As per record of GE (Army), Khanewal, a contract (CA#CEA 199/95) for construction of a traffic shed along railway line at Central Ammunition Depot (CAD) Khanewal was concluded in May, 95 with M/s Muhammad Siddique & Co at 17.98 % above Military Engineer Services (MES) Schedule of Rates 1993. The contractor failed to carry out the work and the contract was cancelled in June 96. According to Board proceedings neither any work was carried out by the contractor nor any store was issued.

In November, 1998, a new contract (CA #CEA 67/99) was signed with M/s Tahir Shafique and Co. at 44.45 % above the MES Schedule of Rates 1993 and finalized in January, 2002. No efforts were, however, made to recover risk and cost money amounting to Rs.881,131 from the defaulting contractor.

When pointed out by Audit in June, 2003, executive authorities stated that the recoverable amount would be circulated for recovery.

The Para was examined by DAC on 10<sup>th</sup> August, 2005. The representative of the DW&CE intimated that the fresh contract should not have been concluded at the risk and cost of the defaulting contractor as the contract was cancelled before commencement of work. The DAC directed the DW&CE to review the case and come up with factual position. Further progress was awaited.

DP-614

## **1.9 Blockage of Government money due to inadequate inventory management- Rs.6.112 million**

**i.** In accordance with DGW & CE GHQ Rawalpindi letter No. 311/Gen/120/E-3 dated 12<sup>th</sup> March, 2001, Central/Div. Stocks were closed w.e.f 1<sup>st</sup> July, 2001.

As per record of Div. Stock Garrison Engineer (Army), Sargodha, surplus steel and other stores like tube rods etc. valuing Rs.2,612,975 were neither issued to the contractors for use in projects nor disposed off to avoid any loss due to deterioration etc. Local purchase of steel was, however, being made through the contractors for incorporation in the new works which was not justified in view of above situation.

When pointed out by Audit, the formation replied that the case for disposal of surplus store had been taken up with higher authorities.

The Para was examined by DAC on 20<sup>th</sup> July, 2005. DAC directed that the store lying unused be utilized as soon as possible.

DP-27

**ii.** Similarly as per record of Div Stock GE (Army), Hyderabad, steel, bitumen, cast iron pipes etc. valuing Rs.3,498,675 had been lying unutilized for more than ten years resulting into blockage of Government money.

When pointed out by Audit in March, 2004, the executive stated that all the Central / Div. Stocks were closed as per decision of the higher authority. Further, disposal of store was under process. On receipt of decision it will be communicated to audit.

Reply was not satisfactory as closing of Central / Div. Stocks without Government sanction was irregular which resulted into blockage of Government money.

The para was examined by DAC on 20<sup>th</sup> July, 2005. DAC directed that the store lying unused be utilized as soon as possible.

DP-361

## **1.10 Others- Rs.6.102 million**

- i.** Purchase of special type of furniture without Government sanction - Rs.0.603 million

According to Para 21(C)(2) of Military Engineer Services (MES) Regulations 1998, special work should not be approved if the effect would be to introduce a new practice or change of scale. Rule 35 of MES Regulations also restricts execution of special works without approval of Competent Financial Authority (CFA).

In contravention of above rules, GE (Navy), Lahore, purchased special furniture valuing Rs.602,930 for Pakistan Naval War College and Pakistan Naval Ship (PNS) Punjab, Lahore without obtaining Government sanction.

When pointed out by Audit, the formation replied that the sanction for purchase of special furniture was issued by the Naval Headquarters.

The contention of executive authorities was not agreed to as the special work was required to be carried out after obtaining Government sanction.

The para was examined by DAC on 7<sup>th</sup> July, 2005. DAC directed that the expenditure involved be got regularized from Competent Financial Authority.

DP-332

- ii.** Avoidable expenditure due to non-allotment of hired houses to the entitled officers- Rs.3.394 million

As per record of GE (Navy), Lahore, thirty private houses were requisitioned during July, 2000, but remained vacant for one year. This resulted in avoidable expenditure of Rs.3,393,972 on account of rent paid to owners of the said houses.

When pointed out by Audit in October, 2001, the formation stated that reply would follow. Further progress was awaited.

The para was examined by the DAC on 7<sup>th</sup> July, 2005. DAC directed that allotment plan of relevant period be provided by 8<sup>th</sup> July, 2005. The requisite details were awaited.

DP-53

**iii.** Extra expenditure due to non-allotment of hired houses to the entitled officers - Rs.0.870 million

As per record of Garrison Engineer (Services), Lahore, seventeen bungalows were hired due to shortage of accommodation but the same remained vacant for more than 6 months. This resulted in extra expenditure of Rs.870,197 during July, 2002 to June, 2003.

When pointed out by Audit in July, 2002, the formation stated that necessary action for allotment of houses was in hand. However, no progress was intimated.

The para was examined by the DAC on 9<sup>th</sup> August, 2005. The DAC directed that Ministry / Pay, Pension and Accounts (PP&A) Dte will transfer the case to Station Headquarters Lahore for submission of reply. Further progress was awaited.

DP-311

## **Pakistan Army**

### **2.1 Irregular retention of public receipts outside Government Account- Rs.7.899 million**

Under Rule 2 of Financial Regulations (Army and Air Force) -Vol-II, all the moneys received on behalf of Government are required to be deposited into Government treasury. In contravention of above Rule, certain public receipts were not deposited into Government treasury. A few instances are quoted below:-

i. In line with the above mentioned requirements of the rules, IGT & E Branch (MT Dte) issued instructions vide letter No. 6810/MT-3C dated 31<sup>st</sup> December, 90, whereby tuition fee recovered from paying cadets (wards of JCOs/ Other Ranks (ORs) of Army Medical College @ Rs 100 per month per cadet was required to be deposited into Government treasury. The rate was subsequently revised to Rs 2000 per month per cadet and Rs 500 per month per cadet for the wards of Army officers and JCOS/ORs respectively by the W&R Directorate.

However, disregarding the provisions of rules and the instructions issued by IGT&E branch, in March, 2000, the W&R Directorate changed the nomenclature of the tuition fee to scholarship fund and directed the Army Medical College not to deposit the tuition fee into Government treasury.

It was also noted that Army Medical College Rawalpindi, remitted an amount of Rs.7,173,336 collected as tuition fee from June, 2001 to January, 2003 to W&R Directorate. As all the expenditure on Army Medical College was being met out of public funds, the income generated there from was also required to be credited to the Government.

When pointed out by Audit in January, 2004, the formation stated that college recovered the amount and transferred the same to W&R Directorate and further disposal was made by them.

The para was examined by the DAC on 5<sup>th</sup> August, 2005. The formation intimated that an amount of Rs.20 per cadet per month was being deposited into Government treasury. The DAC was of the opinion that

deposit of Rs.20 only into Government treasury was not reasonable as the entire expenditure on paying cadets was being borne by the Government. W&R Directorate was directed to prepare a comprehensive reply for consideration by the DAC in their next meeting. The reply was awaited till printing of this Audit Report.

DP-542

ii. As per record of Central Ordnance Depot (COD), Rawalpindi, an amount of Rs.0.726 million was received from approved contractors on account of registration / renewal fee during 2000-01 to 2003-04 but the same was not deposited into Government treasury.

When pointed out by Audit in December, 2003, the formation stated that the amount was credited to private account according to departmental policy. Reply was not satisfactory as the money received on behalf of the Government was required to be deposited into Government Account.

DP-206

## **2.2 Blockage of public money due to inadequate inventory management- Rs.18.941 million**

Stores are sometimes purchased in excess of requirements, and remain unused for years together. This also leads to the conclusion that proper estimates of stores actually required are not prepared and the funds are used on unnecessary purchases just to avoid lapse of funds. In some cases feasibility is not checked before procurement of plants/ machinery/stores. As a result large amounts of public money are blocked without any useful return. A few cases of the nature are given as sample.

i. Unnecessary stocking of POL - Rs.6.568 million

As per Para 12 of Section 33 of A.S.C Manual 1999, Vol-I, "The oldest petroleum product must be issued first to avoid deterioration."

In contravention of the above Rule, in POL (Petroleum, Oils and Lubricants) Depot Lahore, large quantities of different grades of lubricants valuing Rs.6,567,800 were lying in the stock without any consumption / demand. The items of POL in question were mainly received in the Depot during 1989 to 1994.

When pointed out by Audit in June, 2004, the formation replied that the case of dead stock POL had been reported to GHQ.

Reply was not satisfactory as the lubricants were purchased in excess of the requirement without any justification and the same could not be used over a period of more than ten years.

The para was examined by the DAC on 21<sup>st</sup> July, 2005. The formation reiterated their earlier stance. Reply furnished by the formation was not found satisfactory. DAC directed that reasons for unnecessary blockage of POL may be intimated to DAC in the next meeting and appropriate steps may be taken for consumption of POL. Further progress was awaited.

DP-591

**ii. Wasteful expenditure on Ultra Heat Treatment (UHT) plant - Rs.10.060 million**

Military Dairy Factory, Okara, purchased a UHT plant in 1986 for production of UHT treated bottled milk. Cost of plant was Rs.10,059,906. The project failed to take off and the plant was since lying idle.

When pointed out by Audit in May, 2004, the formation stated that disposal of the plant will be carried out when decided by the higher authorities.

Reply was not satisfactory, as the fate of the plant could not be decided even after passage of more than eighteen years.

The DP was examined by the DAC on 23<sup>rd</sup> August 2005. The DAC expressed its displeasure on the issue as no concrete steps were taken for utilization or disposal of the plant. DAC also directed to finalize the matter without further loss of time.

DP-720

**iii. Unjustified purchase of stores - Rs.2.313 million**

Military Dairy Farm, Okara, purchased in September, 2001, a quantity of 34,000 Kg granules (HDPE) valuing Rs.2.313 million for manufacture of

bottles for packing UHT treated milk. All the stock was lying un-consumed since then.

When pointed out by Audit, the formation intimated that due to termination of orders by the General Headquarters (GHQ) regarding operation of UHT plant, store in question could not be consumed.

The reply of formation was not satisfactory, as the consumption of store was linked with operation of the UHT plant which was out of operation since 1986. There was no justification for purchase of stores in September, 2001.

The DP was examined by the DAC on 23<sup>rd</sup> August, 2005. The DAC expressed its displeasure on the issue as no concrete steps were taken for utilization or disposal of the plant and the stores. DAC also directed to finalize the matter without further loss of time.

DP-689

### **2.3 Procedural irregularities in local purchases - Rs.14.594 million**

Rule 19 of Financial Regulations (Vol-I) 1986, provides that no measure which requires the sanction of a superior authority, will be sanctioned by a subordinate authority in installments.

It was observed in many cases that subordinate authorities at different levels, sanctioned expenditure in installments just to avoid sanction of superior authorities. Although there are innumerable cases of such irregularities, yet few are reported below:

**i.** Different stores valuing Rs. 0.177 million were purchased by Military Farm Gujranwala Cantt, during June 2001. Sanction of DGRV&F was required for the purchase but the sanction was accorded in piecemeal by lower authority.

When pointed out by Audit, the formation stated that the sanction was accorded on behalf of the DG RV& F.

Reply was not satisfactory, as approval of the Competent Financial Authority was not shown to audit.

DP-280

**ii.** As per record of HQ Army Aviation, Multan, various items of stores valuing Rs.1.024 million were purchased by the Commandant in installments of Rs. 25,000 each just to avoid sanction from the higher authority.

When pointed out by Audit in August, 2002, it was stated that Competent Financial Authority was being approached to regularize the expenditure.

The Para was examined by the DAC on 4<sup>th</sup> August, 2005. DAC directed that the expenditure be got regularized.

DP-424

**iii.** As per Ministry of Defence letter No.1885/77/Farms/F-3/28/29/D-4 (Army-IV) dated 22<sup>nd</sup> January, 2000, Quarter Master General (QMG) was empowered to sanction contracts upto Rs.7,500,000 at one time.

As per record of Military Dairy Factory, Renala, an amount of Rs.10,800,000 was sanctioned by QMG on 26<sup>th</sup> June,2003 for the purchase of skimmed milk powder in two installments just to avoid the sanction of superior authority.

When pointed out by Audit, no reply was furnished by the formation.

DP-403

**iv.** As per record of Controller Military Accounts (Rawalpindi Command) (CMA (RC)), Rawalpindi, a sum of Rs.2,593,254 was paid to M/s Medicate International Rawalpindi for purchase of tablets (Fansimef) for the formation deputed with UN mission. Four sanctions were issued during 5<sup>th</sup> to 25<sup>th</sup> June, 2002, in order to keep the expenditure within the financial powers of Surgeon General i.e. Rs.750,000.

When pointed out by Audit in June, 2004, the Accounts Authorities stated that all the sanctions were issued by the Surgeon General on different dates.

The reply was not satisfactory as the sanctions were issued after lapse of five to nine days just to avoid sanction of higher authority.

DP-698

## **2.4 Irregular payment of pay, pension & allowances- Rs.6.272 million**

### **2.4.1 Irregular grant of disability pension - Rs.0.374 million**

Under Para 9 (a) Rule 17 of Pension regulation Vol-II 1999, disability / death resulting from purely personal acts would not, normally be treated as attributable to Military Service.

**i.** It was noticed from the record held with Pension Sub Office (PSO) Baloch Regiment Centre (BRC), Abbottabad, that Army No. 2562512 L/Nk Sajjad Hussain Javed got injured while cleaning personal weapon at his home, when his son Naveed Sajjad loaded 12 bore gun and fired. Keeping in view the above fact, the casualty was the result of negligence of individual and could not be attributed towards military service. Thus the grant of disability pension was not in order. The amount of Rs.0.224 million paid to the individual was irregular.

When pointed out by Audit in January, 2004, it was stated by the PSO Abbottabad that the case for grant of disability pension was admitted in the light of Controller Military Pensions (CMP) instructions who conceded his attributability on the Board's recommendation.

The reply was not convincing, as CMP and the Board were supposed to observe Government Rules.

The para was examined by the DAC on 26<sup>th</sup> July, 2005. The DAC directed the Military Accountant General (MAG) to refer the case to Finance Division (Military) through Ministry of Defence for issuance of clarification. Further progress was awaited.

DP-704

**ii.** As per record of Field Pay Office (FPO), ASC Nowshera, Sepoy was on causal leave from 24<sup>th</sup> February, 2001 to 28<sup>th</sup> February, 2001 and met an accident on 26<sup>th</sup> February, 2001. He was granted disability element of pension, which was against the above Rule. A sum of Rs.0.150 million paid to him was irregular.

When pointed out by Audit in February, 04, the accounts authority stated that according to Rule 17 (a) (4) of Pension Regulations Vol-I 1999, the individual was considered on duty during casual leave.

The reply was not correct as according to Rule 17 (a) 6 (a) of Pension Regulations Vol-I 1999, an individual will be deemed to be in the performance of Military duty when he is physically present in camp/barracks or station. The individual met accident when he was traveling between Jalal pur Jattan and Gujrat which was not his duty station.

The para was examined by the DAC on 26<sup>th</sup> July, 2005. The matter was discussed in detail. The DAC directed the Military Accountant General (MAG) to submit the case to Finance Division (Military) through Ministry of Defence for clarification. Further progress was awaited.

DP-578

#### **2.4.2 Irregular payment of ration allowance - Rs.1.258 million**

Under the provision of Rule 101 of National Guard Regulations (NGR) 1995, all ranks of Mujahid Force were entitled to free ration at Army Scale during training as well as activation including special / snow lines rations where applicable.

According to Military Accountant General (MAG) letter # AT/POR/4199/MJO/X/P-23 dated 4<sup>th</sup> July, 2003, Mujahid officers were not entitled to ration money in lieu of free ration.

Under Rule 37 (A) of Pay & Allowances Regulations Vol-II 1998, Commissioned Officers of the Armed Forces including AFNS officers were authorized to draw ration allowance, including leave period in lieu of free ration.

**i.** As per record of 647 Mujahid Battalion Kotli, ration allowance (RA) was paid to different Mujahid Officers in addition to free ration which was not covered under the above Rule. The payment of ration allowance amounting to Rs.114,304 made during May,2003 to April,2004 was, therefore, irregular.

When pointed out by Audit in April, 2004, it was stated that ration allowance was paid in the light of Rule 84 of NGR-1995 & MAG's clarification.

The reply was not accepted as in Rule 84, only rates of special messing allowance (SMA) and ration allowance were mentioned.

DP-484

**ii.** Similarly, 833 Mujahid Battalion, paid Rs.0.642 million on account of ration allowance to Mujahid Officers in addition to free ration from September, 1999 to March, 2004 in contravention of above Rule.

When pointed out by Audit in March 2004, the formation stated that the payment of ration allowance was made on the decision of Military Accountant General (MAG). The reply was not satisfactory as the MAG never allowed payment of ration allowance in addition to free ration.

DP-195

**iii.** As per record of Mujahid Force Centre, ration allowance was paid to Mujahid Officers in addition to free ration which was not justified. Payment of Rs.0.204 million made during July, 2003 to December,2003 therefore, stood irregular.

When pointed out by Audit in March, 2004, it was stated by the formation that the case for recovery would be taken up and intimated but no progress was intimated so far.

DP-183

**iv.** As per record of 658 Mujahid Bn, an amount of Rs.298,090 was paid in July 2003 to officers on account of ration allowance. The payment was not in order being not covered under the Rules quoted above.

When pointed out by Audit in June, 2004, the formation stated that the case for regularization would be initiated. Further progress was awaited.

The para was examined by DAC on 5<sup>th</sup> August, 2005. DAC decided that the unit will refer the case to Military Accountant General (MAG) who will submit the case to Finance Division through Ministry of Defence for clarification. Further progress was awaited.

DP-553

**2.4.3 Un-justified payment of ration allowance, conveyance allowance to officers attached with U.N missions abroad - Rs.0.105 million**

Under General Headquarters (GHQ) AG's Branch Pay, Pension and Accounts (PP&A) Dte letter No 4630/ 528/Liberia/PPA-2 dated 7<sup>th</sup> November, 2003 circulated vide HQ 1 AK Brigade (Bde) letter No 2018/A dated 20<sup>th</sup> January, 2004, Conveyance Allowance, Ration Allowance, Special Messing Allowance, Car Maintenance Allowance and Adhoc increases were not admissible to the officers/ personnel attached with U.N missions.

As per record of HQ 5 AK Bde, Muzaffarabad, certain officers posted to U.N Mission were paid a sum of Rs.105,030 from August, 2002 to June, 2004 on account of ration allowance and conveyance allowance.

When pointed out by Audit in June, 2004, the formation agreed to recover the amount. The recovery was, however, awaited.

DP-490

**2.4.4 Irregular payment of TA/ DA - Rs.0.186 million**

Under Rule -284 of Passage Regulations 1980, if the head of the family is posted to Border Defence Area (BDA) or other non-family stations, TA for family is not authorized.

In contravention of above Rule, in Mujahid Training Centre, Bhimber, (a non-family station) an amount of Rs.185,650 was paid to certain officers during 2001-03 on account of transfer grant, TA/ DA and luggage charges for the family at the full rate.

When pointed out by Audit in March, 2004, it was stated that the case for recovery was being initiated and the recovery when actually effected would be intimated. Further progress was not intimated.

The para was examined by the DAC on 5<sup>th</sup> August, 2005. DAC directed that the Ministry may transfer the case to Military Accountant General (MAG) who released payment in contravention of Rules. Further progress was awaited.

DP-494

#### **2.4.5 Undue payment of Special Messing Allowance (SMA) - Rs.2.172 million**

Under Rule 100 of Pay & Allowances Vol-II 1999, SMA is admissible to the officers, Junior Commissioned Officers (JCOs)/ Other Ranks (ORs) while they are deployed in operational areas.

In contravention of above Rules, an amount of Rs.2.172 million was paid to officers, Junior Commissioned Officers (JCOs)/ Other Ranks (ORs) in 5 Signal Bn Mangla deployed in Eminabad (Gujranwala) which was not declared as operational area by the Government of Pakistan.

When pointed out by Audit in January, 2004, it was replied by the formation that payment was made on the authority of Military Operations Directorate.

The reply was not satisfactory as said Military Operations Directorate letter related to payment of SMA to the units deployed in operational areas only and Eminabad was not declared as operational area.

DP-215

#### **2.5 Non-recovery of risk and cost money - Rs.50.756 million**

Under Rule 106 (a) of Financial Regulations (Army and Air Force) 1986 Vol-I, the contractor becomes liable to pay to Government the compensation for loss or inconvenience that may result from his default or from the rescission of his contract.

It has been generally observed that there is no effective system to recover the amount due from the defaulting contractors. As a result, in a large number of cases, the amount due from the contractors remains unrecoverable. A few instances are quoted below.

Clause 7 to 9 of PAFZ-2120 forming part of the contract provided that if the contractor fails to comply with demand of stores, the same shall be purchased at the risk and cost of the contractor.

i. HQrs, Lahore Log Area, signed a contract (P-1462 of 2002) for purchase of meat items for a period of one year i.e. from 1<sup>st</sup> January, 2002

to 31<sup>st</sup> December, 2002. The total value of the contract was Rs.29,813,480. The contractor failed to supply the items after 6<sup>th</sup> January, 2002. Consequently, the contracted items were arranged at the risk and cost of the defaulting contractor during 7<sup>th</sup> January, 2002 to 31<sup>st</sup> December, 2002 at a cost of Rs.49,852,967. The risk and cost amount recoverable from the defaulting contractor was worked out as Rs.20,039,487 by HQ Lahore Log Area vide their letter dated 4<sup>th</sup> September 2003 but the amount was not recovered from the contractor.

When pointed out by Audit, it was replied that the contractor had discontinued the supply due to unknown reasons and the contract had to be rescinded by the competent authority. Moreover, the recovery of the amount involved was stated to be in progress. However, the amount recovered by the HQ Lahore Log Area was not intimated.

The Para was examined by the DAC on 4<sup>th</sup> August, 2005. The formation intimated that the case is being filed against the contractors. The DAC directed to pursue the court case vigorously.

DP-557

**ii.** Base Supply Depot (BSD), Rawalpindi, awarded a contract (107 of 2003) to Mian Said Qamar for supply of meat items (i.e. mutton dressed, beef dressed, meat without bone etc. during the period from 1<sup>st</sup> January 2003 to 31<sup>st</sup> December 2003. The contractor failed to supply the items after 30<sup>th</sup> January, 2003. Same were purchased at his risk and cost from 31<sup>st</sup> January, 2003 to 31<sup>st</sup> December, 2003. The difference of risk purchase price and contract price i.e. Rs.18,089,619 (Rs.63,611,314 - Rs.44,633,295) was not recovered from the defaulting contractor.

When pointed out by Audit in May, 2004, the formation stated that efforts were in hand for recovery. Further progress was awaited.

DP-507

**iii.** As per record of Controller Military Accounts (Peshawar Command) (CMA-PC), an amount of Rs.8.24 million was outstanding against two contractors since 2003 on account of risk and cost money.

The para was examined by the DAC on 26<sup>th</sup> July, 2005. DAC directed that steps may be taken by CMA Peshawar Command for recovery of the risk money from the contractor at an early date.

DP-706

**iv.** Military Dairy Factory, Renala, concluded a contract for the sale of fresh cream on daily basis for the period from 10<sup>th</sup> October, 2001 to 30<sup>th</sup> June 2002 @ Rs.49.10 per kg. As per clause 2 & 3 of the contract, the contractor was required to collect cream on daily basis. In case of failure, the contractor was liable to pay 10% surcharge in addition to cost of cream.

The contractor purchased cream from 10<sup>th</sup> October, 2001 to 3<sup>rd</sup> January, 2002 and then failed to fulfill the contractual obligations. Due to failure of the contractor, a quantity of 382,746 kg cream produced during 4<sup>th</sup> January 2002 to 10<sup>th</sup> June 2002 was converted into butter oil by the factory. The surcharge on this quantity of cream worked out to Rs.1,879,282 @ 10%. Another contract was concluded @ Rs.45.00 per kg for the period from 11<sup>th</sup> June, 2002 to 30<sup>th</sup> June, 2002. A quantity of 57,177 kg cream was sold out through this contract. The difference in cost for this quantity worked out to Rs.234,425.

When pointed out by Audit in March, 2004, no reply was furnished by the formation.

The para was examined by the DAC on 5<sup>th</sup> August, 2005. The formation intimated that the case was being filed against the contractor in the Court of law. DAC directed to pursue the case vigorously.

DP-300

**v.** Military Farm Bolan, Okara, entered into contract (for the period from 9<sup>th</sup> May 2002 to 15<sup>th</sup> September 2002) for purchase of 3,450,000 kg loose white bhoosa @ Rs.98.47 per 100 kg. The contractor supplied 922,600 kg and failed to supply the balance quantity, which was arranged through another contract @ Rs.160 per 100 kg. The difference in cost i.e. Rs.1,555,109 was, however, not recovered from the defaulting contractor.

When pointed out by Audit in February, 2004, it was replied that the case was under trial in the court of law. Final action would be taken on receipt of reply therefrom. Final outcome was awaited.

DP-254

**vi.** Military Farm Khybar, Okara, entered into a contract for purchase of 4,280,000 kg loose white bhoosa @ Rs.98.47 per 100 kg for the period from 9<sup>th</sup> May 2002 to 30<sup>th</sup> September, 2002. The contractor supplied

924450 kg and failed to supply the balance quantity of 3,355,550 kg. A quantity of 1,847,910 kg was arranged through local purchase at a cost of Rs.2,661,028 and a quantity of 700,000 kg was arranged through another contract at a cost of Rs.1,120,000. The additional expenditure worked out to Rs.1,272,101 (3781028-2508927), which needed recovery from the defaulting contractor.

When pointed out by Audit in February, 2004, it was replied that purchase had been made at risk and cost of the contractor and security deposit of the defaulter was held with them. Further progress was awaited.

The para was examined by the DAC on 5<sup>th</sup> August, 2005. The DAC was intimated that the contractor had filed a civil suit in the court of Civil Judge Okara. The DAC directed to pursue the case vigorously.

DP-696

**vii.** As per record of 61 Supply Point, Muzaffarabad, a sum of Rs.0.752 million was recoverable from a contractor named Muhammad Ashraf Kiyani on account of risk and cost money against two contracts concluded during 1996-97 and 1997-98 for purchase of fire wood and vegetables / fruit / bread. But despite lapse of a considerable time, the same was not recovered from him.

When pointed out by Audit in June, 2004, it was stated by the formation that the case for recovery had already been taken up with CMA (RC) Rawalpindi under intimation to HQ 12 Div. Recovery as and when effected would be intimated. Further progress was awaited.

The para was examined by the DAC on 21<sup>st</sup> July, 2005. During DAC meeting the formation intimated that the contractor Muhammad Ashraf Kiyani has died. The DAC directed that the amount recoverable from him may be got written off, if it is not possible to recover the same.

DP-512

**viii.** Military Farm, Jhelum, awarded a contract for purchase of 350 ton cotton seed cakes to M/s Mian Maqsood Shah in October, 2002. The contractor supplied only 48 tonnes and remaining 302 tonnes were purchased from another supplier @ Rs.1450 per tonne which resulted in an extra expenditure of Rs.437,900.

When pointed out by Audit in July, 2003, the executive stated that recovery action is under process. Further progress of the case was awaited.

DP-545

**ix.** Base Supply Depot, Rawalpindi, entered into a contract (47 of 2002-03) for purchase of vegetable fresh for the period from 1<sup>st</sup> July, 2002 to 30<sup>th</sup> June 2003.

The contractor supplied the items upto 7<sup>th</sup> April, 2003 and then defaulted. A quantity of 236,772 kg vegetable fresh was purchased at his risk and cost during the period from 8<sup>th</sup> April, 2003 to 30<sup>th</sup> June, 2003, which involved an additional expenditure of Rs.135,708, needing recovery from the defaulting contractor.

When pointed out by Audit in May, 2004, the formation stated that efforts were in hand for recovery. Final outcome of efforts was awaited.

The Para was examined by the DAC on 4<sup>th</sup> August, 2005. The formation intimated that a case is being filed in a Court of Law against the contractor. The DAC directed to pursue the court case vigorously.

DP-459

## **2.6 Others-Rs 5.067 million**

**i.** Non-recovery of rent from mess authorities-Rs.0.257 million

Under Rule 51(b)(2) of Quarters Rents Regulations 1985, in case of mess building electrified at state expense, 1/3<sup>rd</sup> mess maintenance allowance (claimed from government) is required to be credited to Government account.

As per record of Military College of Engineering, Risalpur, Rs.55 per cadet per day were claimed on account of mess maintenance allowance, which included Rs.47 on account of messing and Rs.8 for mess maintenance. As such a sum of Rs.0.769 million @ Rs.8 per cadet per day was claimed on account of mess maintenance but 1/3<sup>rd</sup> of the same amounting to Rs.256,546 was not credited to Government.

When pointed out by Audit in April, 2004, no reply was furnished by the formation.

The para was examined by the DAC on 23<sup>rd</sup> July, 2005. The DAC directed that cogent reasons, if any, be submitted for examination during next DAC meeting. Further progress was awaited

DP-225

**ii. Irregular expenditure out of Defence Fund - Rs.0.750 million**

According to Rule-51 of FR-II 1986, no money shall be drawn unless it is required for immediate disbursement. It is not permissible to draw any money to prevent the lapse of amounts provided in estimates”.

As per record of HQ Arty I Corps, Mangla, an amount of Rs.750,000 was allotted out of Defence Operational Works Funds for the year 2002-03 for Command’s Caravan etc. The amount was drawn but there existed no evidence of its utilization till March, 2004. Moreover, command caravan was also not an approved work to be done with Defence Operational Works Funds.

When pointed out by Audit in March, 2004, it was replied that the expenditure would be regularized during current financial year. The reply was not acceptable because the expenditure should have been incurred during financial year 2002-03, failing which the amount was required to be surrendered.

DP-217

**iii. Non-deposit of x-ray film charges into Government Treasury- Rs. 0.210 million**

As per record of Combined Military Hospital (CMH), Kohat, x-ray films were being used for Civilians Non Entitled (CNE) patients from Government store but their cost was not being deposited into Government treasury. Resultantly, Government suffered a loss of Rs.209,666 during January, 2003 to December, 2003.

When pointed out by Audit in May, 2004, it was stated by the formation that Government share of 20% had already been deposited into

Government treasury. The executive's contention was not correct. The distribution of share was required to be distributed after depositing the cost of X-Ray films into Government treasury.

The para was examined by the DAC on 5<sup>th</sup> August, 2005. DAC was of the opinion that cost of x-ray films must be deposited into government treasury. The amount recovered in addition to cost of x-ray films on account of x-ray charges may be divided among government, hospitals amenity fund, specialist and staff. DAC decided to hold an exclusive meeting on Paras pertaining to Medical Directorate.

DP-593

**iv. Loss to state due to theft of public money - Rs.1.273 million**

Under Rule 38(b) (ii) and 40 (a) of FR Vol-I 1986, if the loss of public money is due to theft, fraud or neglect, Competent Financial Authority (CFA) in consultation with FA may allow to recover the loss in whole or in part. If in part, he may write off the balance.

As per record of Training Battalion No. 2, Risalpur, a sum of Rs.1.273 million was stolen on 1<sup>st</sup> June, 2001 on account of un-disbursed pay and allowances of Junior Commissioned Officers (JCOs) / Other Ranks (ORs). Consequently, PS Dte AG's Branch GHQ Rawalpindi vide their letter # 4853/656/PS-2 dated 11<sup>th</sup> February, 2004 decided that 50% of the total loss i.e. Rs.636,531 be borne by the state while the remaining 50% loss be recovered from the officers / officials involved in the case. The recovery was, however, not made despite the lapse of a considerable period.

When pointed out by Audit in March, 2004, the formation stated that case was taken up with higher authority for decision. The reply was not satisfactory as decision had already been received from GHQ but was pending for want of implementation.

DP-234

**v. Irregular transfer of military land to Ministry of Science and Technology for construction of University's building.**

Under Rule 17 of Cantonment Land Administration Rules 1937, free grants of land are prohibited altogether.

Military land measuring 350 kanals under the occupation of Pakistan Military Academy (PMA), Kakul, was handed over alongwith structure to Ministry of Science and Technology of construction of IT (Information Technology) University under the orders of GHQ without obtaining Government Sanction through Military Land & Cantonments (ML&C) Department.

When pointed out by Audit in March, 2004, it was stated by the formation that the land was handed over on the orders of GHQ. Since the land was given on 30 years lease to Ministry of Science and Technology, there was no requirement of re-categorization of land.

Either the Rules should be amended or Government sanction wherever required be obtained for leasing out the land to Ministry of Science and Technology (MOST).

DP-201

**vi. Unjustified issuance / utilization of steel - Rs.1.672 million**

As per record of SO-I Engineers Branch of HQ Forces Command Northern Area (FCNA), Gilgit , steel worth Rs.1.672 million was purchased in May, 1999 and shown issued to under command units without indicating purpose of its utilization. Moreover, no other materials i.e. cement and sand etc. necessary for construction was issued to the units.

When pointed out by Audit in February, 2003, it was stated by the formation that steel was issued for construction of a project and other material was to be arranged by the units concerned. No documentary evidence was produced in support of this.

DP 123

**vii. Non-production of auditable documents**

During the audit of 229 Supply Company, Jaglot, certain documents such as contracts for ration supply were demanded but not provided to audit.

When pointed out by Audit in December, 2003, no reply was furnished by the formation.

Similarly during the audit of Station Headquarters Rawalpindi, certain documents like contracts, hiring cases, conservancy allotment etc. were demanded but not produced by the formation.

When pointed out by Audit in November, 2003, it was stated by executive that the concerned staff that showed slackness in this regard would be taken to task. The reply of formation was not satisfactory as neither any action was taken against any individual nor documents were produced to audit subsequently.

DP 145(b)

## **Pakistan Air Force**

### **3.1 Use of public resources free of charge by subsidiary organizations - Rs.13.860 million**

Pakistan Air Force (PAF), has established Shaheen Foundation and other similar entities which are being run on commercial basis. These commercial organizations are some times allowed use of public resources free of charge or at reduced rates as detailed below:-

- i. Non-recovery of rent from Shaheen Airport Services (SAPS) - Rs.5.746 million**

As per record of PAF Base, Peshawar, certain office accommodation measuring (2000 Sft approx) and paved parking measuring (25000 Sft approx) was continuously in use of SAPS. Contract agreement for provision of Military land / building to commercial entity (SAPS) was demanded by audit but the same was not provided to audit. Further, no recovery on account of rent from SAPS for the subject land / building was being made by the base authorities. SAPS being a commercial entity were required to pay rent at the specified rates which worked out to Rs.5,746,320 for the period from 1<sup>st</sup> July 2001 to 30<sup>th</sup> June 2003.

When pointed out by Audit in January, 2004, no reply was given by the base authorities.

The para was examined by the DAC on 27<sup>th</sup> July, 2005. The DAC directed that rent for accommodation provided to SAPS may be recovered at the prescribed rates and the recovered amount may be deposited into Government treasury.

DP-135

- ii. Recurring loss due to recovery of parking charges from Shaheen Air International (SAI) at reduced rates - Rs.8.114 million**

The aircrafts of Shaheen Air International after landing at Peshawar Airport were being parked in the premises of PAF Base Peshawar. Being a commercial airline, parking charges should have been recovered at the

specified rate of US \$ 392 for each stay exceeding six hours but no parking charges were recovered by the base authorities. The recoverable amount worked out to Rs.8,114,400 (\$392x15 daysx23 months x Rs 60 per dollar) for the period from July 2000 to May, 2002.

When pointed out by Audit in May, 2002, the formation stated that the airline was not in a position to pay the parking charges.

DAC directed to raise the bills against SAI. Recovery was made for the period from 7<sup>th</sup> February, 2000 to May 2002 but recovery was made at reduced rates instead of applicable rates as verified by Audit on 6<sup>th</sup> July, 2005, and only an amount of Rs 1,125,238 was recovered.

( Para 1.1 of SAR 2001-02 PAF Bases)

### **3.2 Non-deposit of room rent charges into Government treasury - Rs.2.849 million and US \$.54,900**

Under Rule 2 of FR Vol-II, all moneys received on behalf of the Government are required to be deposited into Government treasury. As per Quarters and Rents Regulations the messes are required to pay rent of buildings at the prescribed rates.

Messes are being run by PAF almost at all stations. Foreign trainees are also accommodated in these messes. Despite the fact that mess buildings have been constructed at government expense and being maintained at government expense, the room rent recovered from the visitors is not deposited into government treasury. A few instances are quoted below:-

i. Twelve Chinese Experts visited Pakistan and availed accommodation facility in officers' mess PAF Academy Risalpur. Accommodation charges amounting to Rs.266,700 received from them were credited to private fund of the mess instead of Government treasury.

When pointed out by Audit in June, 2004, the formation stated that although building of the mess was Government property but its maintenance was being carried out from mess fund.

Maintenance of mess was the responsibility of MES authority and there exists no such provision under rule allowing any other agency to resort maintenance work on their behalf.

DP-709

**ii.** Similarly, twenty six foreign trainees from Saudi Arabia and Jordan availed the accommodation facility in the cadet mess PAF Academy Risalpur.

The accommodation charges received from the trainees amounting to Rs.2,581,760 were not credited to public fund.

When pointed out by Audit in June, 2004, the formation stated that maintenance of cadet mess was being carried out from the cadet mess fund. Therefore, the accommodation charges were being paid to cadet mess.

Maintenance of cadet mess was the responsibility of MES authorities and further mess maintenance allowance as admissible to cadets was also claimed from Government. Therefore, charges recovered from cadets should have been deposited into Government treasury.

DP-526

**iii.** As per record of PAF Base, Kohat, certain UAE officer cadets were provided single accommodation during their training but an amount of US \$ 48,280 recovered on account of accommodation charges was not deposited into government treasury.

When pointed out by Audit in February, 2004, it was stated by the formation that as per Air Headquarters (AHQ) letter No AHQ/10660/31/Accts dated 25<sup>th</sup> April, 2003, the said course had not been prescribed in the JSI 6/93. They added that Air Headquarters (AHQ) made a contract with UAE Government and the rates were specified in Air Headquarters (AHQ) letter No. AHQ/3008/11/TO dated 24<sup>th</sup> December, 1997 and recovery of accommodation, messing and allied charges were to be paid by the cadets themselves. As the officers used government accommodation as such rent of accommodation should have been deposited into government treasury.

DP-172

**iv.** As per record of PAF Base, Peshawar, certain UAE single trainee officers were allotted Government accommodation. The charges of US \$ 6,620 recovered were not credited into Government treasury.

When pointed out by Audit in January, 2004, the formation stated that the officers had personally paid messing / accommodation and allied charges to officers mess PAF Base Peshawar. As such above charges were not included in the training charges bill submitted to Air Headquarters (AHQ) for recovery. The reply of the formation was not satisfactory, as the accommodation charges should have been credited into Government treasury.

The para was examined by the DAC on 27<sup>th</sup> July, 2005. The DAC directed that the rent of mess buildings be deposited into Government treasury.

DP-227

### **3.3 Diversion of public receipts towards non-public account - Rs.2.022 million**

Under Rule 2 of FR Vol-II, all moneys received on behalf of the Government are required to be deposited into Government treasury. In contravention of above rule, certain public receipts were diverted towards non public account. A few instances are quoted below:-

As per Government of Pakistan, Ministry of Defence letter No. 46/1/L/D-5/52/677 dated 12<sup>th</sup> December, 1954, any revenue realized from sale / disposal of the trees standing in the compound of a building maintained / owned by unit / formation is required to be credited into Government treasury.

Under Rule 14 of Cantonment Land Administration Rules (CLARs) 1937, Government retain the proprietary rights of the trees standing in the compounds of buildings maintained and owned by units, irrespective of the fact that these trees are planted by the occupants themselves or were originally granted to the occupants.

**i.** Notwithstanding the above Rules, green trees worth Rs.500,000 were sold out by the PAF authorities at their own without public auction and permission of competent authority. The foregoing action was also

objected by the Ministry of Defence vide letter No. 1/36/LE & H ML & C/2002 dated 25<sup>th</sup> September, 2003 with the direction to deposit the amount so derived into Government treasury. But PAF authorities had neither deposited the amount into Government treasury nor got the irregularity regularized.

When pointed out by Audit in February, 2004, it was replied that matter was highlighted by Military Estate Office (MEO) and outcome would be intimated. No outcome had been intimated till date.

The para was examined by the DAC on 27<sup>th</sup> July, 2005. The DAC directed to deposit the sale proceeds into Government treasury.

DP-684

ii. Similarly, in PAF Base, Minhas, trees were sold out through contracts and the amount of Rs.1,522,500 realized was not credited to public fund.

When pointed out by Audit in April, 2004, the formation stated that trees were grown to provide camouflaging requirement of operational areas, and sensitive buildings, and the trees were not sold.

The reply was not satisfactory, as Military Estate Office (MEO) Hazara Circle Abbottabad Cantt vide his letter No. CP-20/1/Trees/Kamra/115 dated 7<sup>th</sup> January, 2004, addressed to the Base Commander, had clearly pointed out that the Base authority had cut/removed a lot of green eucalyptus and sheesham trees. The record held also showed that all the trees were sold to different contractors. The amount of Rs.1,522,500 received from sale of trees was not credited to public fund.

The para was examined by the DAC on 27<sup>th</sup> July, 2005. The DAC directed to deposit the sale proceeds into Government treasury.

DP-518

### **3.4 Non recovery of training charges from foreign trainees - Rs.58.996 million**

i. Non recovery of training charges from UAE cadets - Rs.58.539 million (US \$ 1,013,898)

Under JSI 6/93, training and allied charges will be recovered from the foreign trainees / cadets when they are provided such facilities.

As per record of PAF Base, Chaklala, an amount of US \$ 1,013,898 (equal to Pak Rs.58,538,719) was lying outstanding against UAE cadets on account of training charges.

When pointed out by Audit in October, 2003, the formation stated that case had been referred to JS HQrs for recovery action.

The para was examined by the DAC on 27<sup>th</sup> July, 2005. As further action for recovery of training charges was to be taken by JS HQrs, the DAC directed the Ministry of Defence to transfer the Para to JS HQrs for submission of reply. Further progress was awaited.

DP-101

**ii. Non-recovery of rent from school / colleges - Rs.0.457 million**

According to Rule 57 and 65 of Quarters & Rents Regulations 1985, when surplus army accommodation is hired out to a private person, assessed rent or the market rent, whichever, is more shall be charged.

An amount of Rs.0.457 million (for the period from October, 1997 to August, 2000) was billed for by UA AGE, PAF Base, Kalabagh (vide letter dated 26<sup>th</sup> September, 2001) to the Principal PAF Inter College Kalabagh on account of rent and allied charges against the buildings in use of PAF Inter College Kalabagh. The rent and allied charges were, however, not paid by the college management despite the fact that PAF Base Kalabagh also instructed the Principal PAF Inter College to deposit rent and allied charges vide their letter dated 22<sup>nd</sup> October, 2001.

When pointed out by Audit in August, 2002, the formation stated that efforts were being made to effect recovery.

The para was examined by the DAC on 27<sup>th</sup> July, 2005. DAC directed that efforts may be made to recover the outstanding amount at an early date.

DP-134

## **Pakistan Navy**

### **4.1 Non-finalization of purchase deal of land despite lapse of more than 4 years- Rs.19.309 million**

A piece of land measuring 193 acres (1544 kanals and 14 marlas) was purchased from Evacuee Trust Property Board (ETPB) Lahore by Pakistan Navy at a cost Rs.19,308,750 for Pakistan Naval War College. The payment was made on 29<sup>th</sup> December, 2001 to ETPB but the land was not handed over to Pakistan Navy. After some time the ETPB unilaterally reviewed their decision and reduced the land as 100 acres despite receiving the price of 193 acres. The Naval authorities, however, did not accept the proposal. The matter, therefore, remained un-finalized which resulted in blockage of Government money amounting to Rs.19,308,750 since 29<sup>th</sup> December, 2001.

The para was examined by the DAC on 26<sup>th</sup> July, 2005. The DAC directed to pursue the case for its finalization at an early date so that the Government money does not remain blocked unnecessarily.

DP-579

### **4.2 Irregular retention of stores issued to Naval units on loan-Rs.2.127 million**

Under Para-4 of Fleet Order-11/87, the Commanding Officer Naval Stores Depot (NSD) and administrative authorities are empowered to approve loan issues for a period of six months and one year respectively. These periods are quite liberal and allow ample time for the ship / establishment to process amendments to the warrant of stores in case the requirements are of permanent nature. There should be no need, therefore, for any extension in the loan period.

As per record of Pakistan Naval Ship (PNS), Rehbar, 123 items of stores valuing Rs.2,127,200 were received by them on loan during March, 1993 to March, 2003, but despite lapse of considerable time neither the same were returned to NSD nor included in the warrant of stores.

When pointed out by Audit in April, 2004, the formation stated that most of the items had already been returned to the NSD but NSD had not excluded the same. Efforts were being made to delete the returned items from the NSD record and remaining items were being returned.

The reply of formation was not acceptable as list of items returned was not shown to audit for verification.

The para was examined by the DAC on 7<sup>th</sup> July, 2005. DAC directed that efforts be made to return the stores as soon as possible.

DP-540

#### **4.3 Purchase of stores without authorization - Rs.32.595 million**

Under FR (N) 229, FR (N) 25 and Para-6 of FOE-11/87, new stores can be purchased / demanded as per authorization or in lieu of unserviceable articles surveyed to the Naval Stores Depot (NSD). Replacement of permanent items / equipment before survey is, however, against the basic principles of store keeping.

**i.** Field Maintenance Group Commander Pakistan Navy (COMPAK) Fleet demanded and received 155 new items of stores / equipments / tools & plants / machinery valuing Rs.30,590,411 during 1997 and 1999 without authorization thus placing the held stock in excess of authorization.

When pointed out by Audit, the formation stated that 91 items have been surveyed for return to the NSD and efforts are being made to return the balance items.

DP-559

**ii.** Similarly, in Pakistan Naval Ship (PNS), Rehbar, stores valuing Rs.2,004,746 were demanded and received by PNS Rehbar during March, 1993 to November, 2003 on the basis of “promise survey demand”. But despite lapse of considerable time, the promised survey reports /surveyed stores were not provided to NSD.

When pointed out by Audit in April, 2004, the formation stated that efforts are being made to return all items after getting survey report.

The paras at (i) and (ii) above were examined by the DAC on 7<sup>th</sup> July, 2005. DAC directed that the action be completed at an early date.

DP-548

## **Military Lands & Cantonments**

### **5.1 Utilization of military land for other than authorized purposes**

Rules 7, 9(1), 11, 14(3)(5)(v),16,17,40&41(v) of Cantonment Land Administration Rules (CLARs), 1937, provide that:

- all receipts from land entrusted to the management of the Military Estate Officer shall be credited in full to the Federal Government;
- except in case of soldiers gardens and military recreation grounds which have been entrusted to the management of the military authorities, any thing in the nature of regimental funds to which the proceeds of grass or trees or other usufruct may be credited is strictly prohibited except under the special sanction of the Government;
- all expenditure on or income from land entrusted to the management of the military authorities is to be debited or credited, as the case may be, to the central revenues;
- no land can be disposed of for less than its full market value without the specific orders of the Federal Government.
- petrol pump can only be constructed after execution of lease on class B land and under schedule-viii.

Over the years, the land meant for active military use was being utilized for commercial purposes by construction of shops, markets, cinemas, poultry farms, petrol pumps etc. without Government sanction. A-1 military lands were also being leased out for agricultural purposes. Neither the premium / rent of land was being paid to Government nor was the income earned being deposited into government treasury. As this is a recurring systemic issue, the Government should either amend the rules or issue a policy directive to streamline the system.

During the year 2002-03, in support of Audit's contention, a number of such cases were brought to the notice of the Ministry of Defence for taking appropriate measures to streamline the issue.

The DAC examined these cases and observed that a policy was under consideration of Ministry of Defence regarding use of military land.

Therefore, discussion on all cases pertaining to the use of military land be pended till finalization of subject policy. The DAC directed to finalize the policy at an early date. Further progress was awaited.

## **5.2 Non-recovery of premium (lease money), Rs.183.739million**

Guidelines for, leases of lands held on old grants terms as per General Orders of 1836 and 1856; Cantonment Code leases granted under Cantonment Codes of 1889 and 1912; and grant of leases under CLARs 1925 and 1937 were issued by Ministry of Defence vide their dated 24<sup>th</sup> March, 1980 which were revised vide Ministry of Defence letters dated 1<sup>st</sup> August, 1989, 17<sup>th</sup> July, 1996, 30<sup>th</sup> October, 2003 and 13<sup>th</sup> December, 2003.

The above guidelines provide that:

- ◆ Fresh leases will be granted on payment of full market rate approved by the Government as premium.
- ◆ For conversion of properties held on old grant / cantonment code leases into leases under CLARs 1937, premium at 20% of the market value shall be charged for residential sites while in case of commercial sites the premium shall be charged at 50% of the market value.
- ◆ The ground rent for sites leased out for residential and commercial purposes shall be Rs.2 per square yard and Rs.4 per square yard respectively.
- ◆ The development charges for commercial plots and residential plots shall be Rs.1,000 and Rs.500 per square yard.

**i.** As per record of Cantonment Board, Multan, 23 properties held on residential lease were being used for commercial purpose. Neither sanction from the competent authority was obtained nor payment of premium was made by the users. An amount of Rs.122.94 million was recoverable on account of premium only on the basis of rates approved by the Cantonment Board.

When pointed out by Audit, the formation stated that Government sanctions for some of the properties had been issued and the remaining cases were being pursued.

The para was examined by DAC on 22<sup>nd</sup> September, 2005. The DAC directed to finalize the cases at an early date.

DP-87

ii. As per record of Cantonment Board, Nowshera, lessees of 85 properties changed their residential buildings into commercial units. Neither fresh commercial leases were obtained nor payment of premium, development charges and annual ground rent was made. An estimated amount of Rs.60,799,364 was recoverable on account of premium (@ 3,000 per square yard), development charges (@ 1,000 per square yard) and ground rent (@ 4 per square yard).

When pointed out by Audit in March, 2004, the formation stated that notices were issued to the lessees to stop commercialization.

The Para was examined by DAC on 28<sup>th</sup> July, 2005. The DAC directed to finalize the case at an early date.

DP-469

### **5.3 Non-recovery of cantonment taxes – Rs.502.470 million**

Under Rules, all the buildings are required to be assessed for property tax from the date of completion or occupation whichever is earlier. If the amount of tax is not paid to the Cantonment Board within thirty days from the service of notice of demand or the tax payer does not show sufficient cause of non-payment, the amount is required to be recovered either by suit of law or through the Magistrate.

i. As per record of Cantonment Board Walton, Lahore, an amount of Rs. 502.784 million was outstanding on account of property tax as on 30<sup>th</sup> June, 2003.

When pointed out by Audit, the formation stated that efforts were being made to recover the outstanding dues.

The Para was examined by the DAC on 27<sup>th</sup> August, 2005. The formation intimated that an amount of Rs.30.676 million had been recovered while

efforts were being made to recover the balance amount. The DAC directed that the balance amount be recovered at an early date.

DP-653

**ii.** As per record of Cantonment Board, Gujranwala, a sum of Rs.3,564,188 was outstanding on account of arrears of property tax as on 30<sup>th</sup> June 2003.

When pointed out by Audit in March, 2004, the formation stated that a sum of Rs.1,178,172 had been recovered and efforts were being made for recovery of balance amount.

The para was examined by the DAC on 9<sup>th</sup> July, 2005. DAC directed that efforts be made to recover the outstanding dues as early as possible.

DP-282

**iii.** Non-recovery of rent of building / shops - Rs.0.492 million

As per record of Cantonment Board, Kharian, a sum of Rs.491,863 on account of rent was outstanding against four properties.

When pointed out by Audit in March, 2004, the formation replied that efforts were being made to recover the amount.

DP-265

**iv.** Non-recovery of lease rent of agriculture land - Rs.0.459 million

As per record of Cantonment Board, Kharian, two pieces of land measuring 106 acres were leased out to private parties for agriculture purposes for a period of 4 years w.e.f 1<sup>st</sup> January, 1999 and 24<sup>th</sup> July, 2001, respectively. As per contract agreement the total lease rent of Rs.932,400 was to be received but only Rs.473,000 were received from the contractors. The recovery of the balance amount of Rs.459,400 was awaited for the last two years.

When pointed out by Audit in March, 2004, the formation replied that notices had been issued and efforts were being made to recover the amount. Further progress of the case was awaited.

The para was examined by the DAC on 9<sup>th</sup> July, 2005. DAC directed to recover the balance amount from the lessees.

**v. Non-recovery of property tax-Rs.22.901 million**

As per record of Cantonment Board, Murree, Chinar Public School was constructed by Army authorities on a piece of land measuring 9.253 acre (survey no 27) belonging to Cantonment Board Murree. Neither property tax was levied by the Cantonment Board nor recovery of property tax was made for the period from 1/1992 to 6/2003. An amount of Rs.22.901 million (@ 2.082 million per annum) was recoverable from the school management.

When pointed out by Audit in December, 2003, the formation stated that the case would be taken up with the school management and results would be intimated to audit.

The para was examined by DAC on 22<sup>nd</sup> September, 2005. The formation intimated that the para pertains to Station Headquarters Murree. The DAC decided that the para shall be transferred to Station Headquarters Murree for submission of reply. Further progress was awaited.

DP-129

**vi. Non-recovery of premium, rent, water charges and professional tax - Rs.0.679 million**

As per record of Cantonment Board, Murree, two rain shelters were converted in a bakery (Alpine Bakery complex), put to auction on 16-5-91. Highest bid of Rs.65,000 was rejected by the Board as the matter was to be reconsidered for fresh open public auction. However, the bakery was taken over by Army and still being run on commercial basis without paying any rent to Cantonment Board. The rent worked out to Rs.678,674 for the period from 1991 to 2002.

When pointed out by Audit in December, 2003, the Cantonment Board authorities stated that case would be taken up with Army for recovery and audit would be informed accordingly.

The para was examined by the DAC on 22<sup>nd</sup> September, 2005. The DAC directed that premium, rent etc. be recovered in the light of Rules.

DP-143

**vii.** Non-recovery of property tax - Rs.0.660 million

As per record of Cantonment Board, Murree, a big shopping centre viz “Chinar Plaza” was constructed by Army Public School / College management for commercial use on a piece of land measuring 4077 Sft belonging to Cantonment Board. No property tax was, however, imposed by the Cantonment Board resulting in non recovery of Rs.660,068 as detailed below:-

Cost of land @ Rs.1101.93 per Sft	Rs.4,492,569
Cost of super structure @ Rs.500 per Sft	Rs.3,508,245
	(for covered area=016.49 Sft)
Annual rental value	Rs.400,041
Annual property tax	Rs. 60,006
Total property tax from 1992-93 to 2002-03	Rs.660,068

When pointed out by Audit in December, 2003, the formation stated that the case for recovery of property tax of Rs.660,068 would be taken up with the Army Public School management.

The para was examined by the DAC on 22<sup>nd</sup> September, 2005. The formation intimated that the para pertains to Station Headquarters. The DAC decided that the para shall be transferred to Station Headquarters by the Ministry.

DP 128

**viii.** As per record of Cantonment Board, Taxila, an amount of Rs.652,859 on account of property tax was outstanding against 57 properties pertaining to the years 2001-02 and 2002-2003.

When pointed out by Audit in November, 2003, it was stated by the formation that efforts were being made to recover the dues.

The Para was examined by the DAC on 27<sup>th</sup> August, 2005. The formation intimated that a sum of Rs.264,544 had been recovered while the efforts

were being made to recover the remaining amount. The DAC directed to recover the remaining amount at an early date.

DP-125

**ix** As per record of Cantonment Board, Nowshera, a petrol pump was constructed by M/S Pakistan State Oil (PSO) with the collaboration of Police Department in 1996. However, the same was not assessed by the Cantonment Board Nowshera for property tax. An amount of Rs.2,395,627 (for the period 1997 to 2004) was recoverable from the management of the petrol pump.

When pointed out by Audit in March, 2004, the formation stated that the assessment of the petrol pump would be carried out as pointed out by the Audit and recovery action would be intimated to Audit. Necessary action was yet to be finalized.

The para was examined by the DAC on 9<sup>th</sup> July, 2005. DAC directed to recover the dues at an early date.

DP-416

#### **5.4 Non-assessment of properties/ commercial units – Rs.79.621 million**

**i.** As per record of Cantonment Board, Karachi, conservancy tax amounting to Rs.253,440 was recoverable from Services Mess Karachi upto 2002-2003 @ Rs.10,560 per annum.

When pointed out by Audit, the Cantonment Board authorities agreed to recover the amount.

The Para was examined by DAC on 28<sup>th</sup> July, 2005. The committee directed to collect the conservancy tax from the mess authorities at an early date.

DP-13

**ii.** In exercise of the power conferred by Section-60 of Cantonment Act-1924, Cantonment Board Nowshera was liable to impose property tax on all lands and buildings situated within the limits of Cantonment except those specifically exempted by the Government.

Further, as per criteria laid down in Section-64 of Cantonment Act-1924, annual rental value of the property is required to be assessed as under:

- i. One twentieth of the sum obtained by adding the estimated present cost of erecting the building to the estimated value of the land.
- ii. The gross annual rent on which such building or land is actually let.

Further, as per decision of HQ 11 Corps, Peshawar, made vide letter No.0409/1/1/Q (plans) dated 15<sup>th</sup> February, 2000, all the military land in use, by formations/units and welfare projects be re-classified as class “C” and Cantonment Board taxes be paid by all commercial concerns (including those under army supervision) in the light of existing Rules through negotiations with Cantonment Board.

As per record of Cantonment Board, Nowshera, 32 residential buildings on B-3 and A-1 land valuing Rs.916,452,300 were converted into commercial units without obtaining specific Government sanction for re-classification into class “C” land.

Commercial units had, however, not been assessed for the recovery of property tax which worked out to Rs.6,186,053.

When pointed out by Audit in March, 2004, the formation stated that the notices were issued to the lessees to stop the commercialization. Further, case had already been referred to Military Estate Office (MEO) Peshawar being the concerned office.

The para was examined by the DAC on 13<sup>th</sup> July, 2005. It was intimated that a policy was being framed by the Ministry regarding utilization of class “A” military land. DAC decided that the fate of the para shall be decided in the light of the said policy.

DP-418

**iii.** Under Section 108 of Cantonment Act-1924, all class “C” land belongs to and its administration is vested in the concerned Cantonment Board. If the Army requires a particular piece of land, it is in the first

instance required to be got reclassified into A-I land (meant for active military use) with prior sanction of the Government.

Under Rule 7 (ii) (i) of CLA Rules-1937, no alteration in the classification of lands, which is vested in the Government or in the Cantonment Board should be made except by the Federal Government and that the transfer must receive full compensation for the loss of such rights in the land.

Under Land Administration Rule 1937, class “C” land being under possession of Cantonment Board can not be sold / exchanged or handed over to any other party without prior approval of Government.

Notwithstanding to above, a piece of class “C” land measuring 13.67 Kanal valuing Rs.55,267,840 (approx) (6908.48 sqm x Rs.8000 per sqm) was handed over to the management of Army Public School Zamzama Nowshera without specific approval of Govt. of Pakistan and without cost adjustment to compensate for loss of rights in the land as per Rule 7 quoted above.

When pointed out by Audit in March, 2004, the formation stated that the site was provided for the school with the approval of Board after completion of all formalities.

The reply was not satisfactory as the land was provided to Army Public School, Zamzama without obtaining Government sanction and without cost adjustment.

The Para was examined by DAC on 28<sup>th</sup> July, 2005. It was decided that the DP shall be transferred by the Ministry to the concerned Army authorities for submission of reply.

DP-436

**iv.** As per record of Cantonment Board, Karachi, demand for hoarding (bill board) charges was not raised for hoardings installed, along Shahrah-e-Faisal and other roads in cantonment area on berms, footpaths and green belts maintained by the Board or open plots owned by Defence Department on the plea that permission for hoardings was granted by Station HQrs/Naval authorities and not by the Cantonment Board. In some cases, hoardings were installed without permission from competent authority.

When pointed out, the formation stated that hoardings were installed on A-I land. The reply was not correct as most of the hoardings were installed on road side berms, foot paths and green belts along the roads which was not A-I land. Even on A-I land no authority other than Cantonment Board / MEO was authorized to receive the said charges.

The Para was examined by the DAC on 28<sup>th</sup> July, 2005. The DAC decided that para shall be transferred by the Ministry to concerned military authorities to obtain their point of view.

DP-11

v. According to Cantonment Board Resolution No.16 dated 10<sup>th</sup> August, 2000, development charges at the @ Rs.200 per sqm were approved by the Board for Petrol Pumps on GT Road Gujranwala.

As per record of Cantonment Board, Gujranwala, development charges amounting to Rs.363,800 had not been recovered from NLC Petrol Pump.

When pointed out by Audit in March, 2004, the formation replied that NLC Petrol Pump had been established by Army authorities for requirement of Army troops and Petroleum, Oils and Lubricants (POL) for Army Vehicles. Hence, development charges could not be recovered.

The reply was not satisfactory because there exists station wise POL Depot system for provision of POL to Army vehicles and NLC being a commercial organization was required to pay the development charges.

The para was examined by the DAC on 9<sup>th</sup> July, 2005. The DAC decided that the DP shall be transferred to PP & A Directorate by the Ministry for submission of reply.

DP-251

## **5.5 Recoverables- Rs.14.374 million**

i. Loss to Cantonment Board due to non-raising of demand of rent from Military Estate Office (MEO) - Rs.4.303 million

As per record of Cantonment Board, Karachi, eight flats were allotted to the staff of DML & C and MEO w.e.f 1986 without execution of hiring

agreement subject to recovery of rent equal to the hiring ceiling fixed by the Government.

Covered area of each flat was about 1200 Sft which was more than the specified scales fixed by Government for BPS-16. Rental ceiling fixed for BPS-16 was required to be charged but neither the flats were entered in Demand and Collection Register nor demand for rent was raised regularly.

Resultantly, only part payment of Rs.496,330 was received against total recoverable amount of Rs.4,799,544.

When pointed out by Audit, the formation stated that rent bills were being sent to MEO Karachi for recovery.

The Para was examined by the DAC on 28<sup>th</sup> July, 2005. DAC directed to recover the outstanding amounts without further delay.

DP-19

**ii. Non-recovery of dues from the defaulting contractor - Rs.2.986 million**

As per record of Cantonment Board, Nowshera, Mr.Niaz Muhammad was awarded five contracts of collection rights during 2002-2003. However, the above contractor defaulted and did not pay dues of Cantonment Board amounting to Rs.2,985,695 against the said five contracts as per Cantonment Board letter dated 31<sup>st</sup> May, 2003.

Despite lapse of a considerable period, neither dues of Cantonment Board were recovered nor was any appropriate action taken against the defaulting contractor.

When pointed out by Audit in March, 2004, the formation stated that notices were issued to the contractor for clearance of Cantonment Board dues but because of his failure, Board had deferred the case for cancellation of contract by lodging First Investigation Report (FIR) and black-listing of the contractor. The case had also been initiated through court of law.

The Para was examined by DAC on 28<sup>th</sup> July, 2005. The formation intimated that a civil suit had been lodged against the contractor for

recovery of the amount due from him. The DAC directed to pursue the court case vigorously.

DP-468

- iii.** Purchase of bungalows without transfer of ownership and non recovery of rent - Rs.2.815 million

As per record of Cantonment Board, Karachi, an amount of Rs.1,710,000 being 95 % of the cost of three bungalows purchased in 1981 was made on a stamp paper of Rs.5 without getting the deed registered. Ownership is yet to be transferred despite lapse of more than twenty years. The board will have to bear expenses on subsequent litigation to get the property transferred through court.

Out of above three bungalows, one was purchased by Clifton Cantonment Board but a sum of Rs.104,805 on account of cost and expenses was outstanding against them. One bungalow was occupied by Cantonment Executive Officer (CEO) Korangi Creek since its purchase without any payment of rent. Rent of bungalow worked to Rs.1,000,488 for the period from 1<sup>st</sup> July, 1981 to 30<sup>th</sup> June, 2003.

When pointed out by Audit, the formation simply stated that reply would follow.

The Para was examined by the DAC on 28<sup>th</sup> July, 2005. The DAC directed to recover the dues at an early date.

DP 28

- iv.** Irregular expenditure on construction of accommodation in excess of authorized scale - Rs.0.921 million

According to Ministry of Defence UO No F-21/1/D-18(C-III)/87 dated 3<sup>rd</sup> May, 1987 covered area for residential accommodation of officers of BPS-18 was specified as 2500 Sft.

As per record of Cantonment Board, Karachi, a bungalow was built for the residence of BPS-18 officer on an area of 3867 Sft during 2002-2003 leading to irregular expenditure of Rs.921,358.

When pointed out by Audit, the formation stated that rules regarding covered area were neither communicated nor put to practice in Cantonment Boards. Reply was not convincing as orders under reference were endorsed to ML & C Department and were applicable to local bodies.

The Para was examined by the DAC on 28<sup>th</sup> July, 2005. The DAC upheld the audit point of view and directed that in future the accommodation must be constructed as per scales of accommodation approved by ECNEC as circulated by Ministry of Defence vide U.O. No. F-21/1/D-18(C-III)/87, dated 3<sup>rd</sup> May, 1987.

DP-18

**v. Undue adjustment of expenditure against rent - Rs.0.240 million**

As per record of Cantonment Board, Multan, Shop No. 3-A, Bohra street constructed by the Board in September, 2001 was rented out to Pakistan Railways @ Rs.10,000 P.M w.e.f 1<sup>st</sup> September, 2001 for four years but was got vacated on 30<sup>th</sup> August, 2002 and handed over to 61 Field Ambulance at monthly rent of Rs.12,000 for opening medical store.

No premium was received from the unit. Instead, Rs.240,000 stated to have been expended by the unit on renovation were adjusted against rent. The expenditure was actually incurred on interior decoration such as false ceiling, tiles, paint, shelves, glass door etc., which was required to be borne by the lessee.

When pointed out by Audit, the formation stated that the Board being competent decided to adjust the said amount against monthly rent of the shop rented for a welfare project. Reply was not satisfactory as the shop was being used commercially.

The para was examined by the DAC on 22<sup>nd</sup> September, 2005. The DAC was not satisfied with the reply and directed the department to look into the case and give justification, if any. No justification was furnished by the department.

DP-77

**vi A slaughter house was closed being situated in populated area, on the recommendations of a member of the Cantonment Board.**

As recommended by the member, the said piece of land (605 sq yards) was required to be used for construction of shops to fetch income but it was left unattended, resulting in encroachment by some people. The value of land was Rs. 2.42 million. (605 sq yard @ Rs.4,000 per square yard.)

When pointed out by Audit in October, 2003, the formation stated that case file of the land was not traceable and action will be taken after completion of legal formalities.

The Para was examined by DAC on 28<sup>th</sup> July, 2005. The DAC directed to get possession of the land back from the encroachers.

DP-376

**vii.** Under Government of Pakistan, Ministry of Defence letter No. 75/853/Lands/92/4970/D-11 ML&C/94 dated 6<sup>th</sup> November, 1994 unauthorized constructions shall be liable to composition fee at the minimum of 10 % of the assessed capital cost of land and building. Alternatively the unauthorized construction shall be demolished. The minimum composition fee on plots measuring 400 square yards and above shall be Rs.200,000.

Despite the fact that minimum rate of composition fee was Rs.200,000 the Cantonment Board regularized a case by imposing composition fee of Rs.5,000. This resulted into less recovery of composition fee amounting to Rs.195,000.

When pointed out by Audit in March, 2004, the Board Authorities stated that the Board had the powers to charge the composition fee on minimum or maximum side on case-to-case basis.

The DP was examined by the DAC on 27<sup>th</sup> August, 2005. The DAC directed that recovery be made as per rates prescribed by the government.

DP-561

**viii.** As per record of Cantonment Board, Sialkot, two plots on survey No.268/1005/2-93 measuring 6480 Sft (both) were auctioned separately and building plan of both plots was sanctioned as one unit. The Govt. allowed only 1200 Sft area for commercial purpose out of total area of

6480 Sft. But the owner violated the Govt sanction by converting rooms measuring 914.50 Sft towards street into shops. Thus total area under commercial use became 2114.50 Sft. The executive neither stopped the usage of building for commercial purpose nor recovered composition fee which worked out to Rs.0.289 million as under:

Cost of land = 7.77 marlas @ Rs.250,000 = Rs.1,942,500  
Cost of construction = 2114 sq ft @ Rs.450= Rs. 951,300  
Total cost = Rs. 2,893,800  
Composition fee = Rs.289,380 @ 10% of total cost.

When pointed out by Audit in June, 2003, the formation replied that the Board was competent to impose composition fee only on the application from the lessee/owner of the house. Since no such application had been received from the lessee no composition fee was charged.

The DP was examined by the DAC on 27<sup>th</sup> August, 2005. The DAC directed to finalize the case at an early date.

DP-430

## Director General (Defence Procurement)

### 6.1 Overpayment on account of Agent Commission - EURO 0.126 (equivalent to Rs.7.592 million)

As per Standing Instructions No. 15 of 1984, the rate of commission payable to local agents was 0.5% for orders over Rs 2,500,000. The above orders were amended vide DGDP letter No. 1557/40/DGDP/PC-I dated 4-7-2002 under which the rate of commission payable to local agents was re-fixed as 0.5% for orders over Rs 50,000,000. As per Purchase Procedure and Instructions, revised 2002, under heading "Agent Commission, General Rules", commission was admissible to local agent @0.5 % as per sliding scales given vide para-7 of chapter-XIX. Further as per purchase procedure (Page-109), even if commission is inclusive in the quoted prices, payment of commission as per sliding scales fixed should only be allowed. Balance should be taken as discount.

Contrary to above policy, in Contract No. 341/63/LRV/2002/IVECO/DGDP/PC-3(C), dated 29th June 2002 concluded by DGDP with firm IVECO, SPA, ITALY Local Agent M/s Shamoun Intl (Pvt) Ltd Rawalpindi for purchase of Light Recovery Vehicles, agent's commission @ 2% of total contract value instead of 0.5% was allowed. The omission resulted in an overpayment of Rs 7,591,522 to the local agent as detailed below.

S#	Date of contract	Qty	Price per unit	Total price	Overpayment @ 1.5% of the total price	Amount of overpayment in Pak Rupee
1	29-6-2002	50	EURO 112,000	EURO 5,600,000	EURO 84,000	4,796,400 @ 57.10
2	18-6-2003	25	EURO 111,900	EURO 2,797,500	EURO 41962.50	2,795,122 @ 66.61
	Total:	75	2,23,900	8,397,500	125,962.50	7,591,522

When pointed out by Audit, the executive stated that amendment in the contract was being processed for approval of competent authority. The

reply was not satisfactory as in fact the amount overpaid needed recovery in view of above quoted rules / procedures.

The para was examined by the DAC on 13<sup>th</sup> September, 2005. The executive intimated that an amount of Rs.3.500 million of the contractor was still held with them. The DAC directed to recover Rs. 3.500 million from the contractor. The balance amount remains undecided.

(Item # 1 of LTAR DGDP 2003-04)