AUDIT REPORT

ON

THE ACCOUNTS OF

DEFENCE SERVICES FOR THE

AUDIT YEAR 2007-08

AUDITOR-GENERAL OF PAKISTAN

CONTENTS

	Page
Acronyms and Abbreviations	ii
Preface	vi
Executive Summary and Recommendations	vii
Audit Report	
A. Defence Division	
1. Pakistan Army, Navy and Air Force	1
2. Military Accountant General	40
3. Military Lands and Cantonments	53
B. Defence Production Division	
4. Pakistan Aeronautical Complex	87
5. Director General Munitions Production	90
6. Directorate Procurement (Navy)	92
7. Directorate Procurement (Air)	95
8. Director Works & Chief Engineer (DP)	98

ACRONYMS AND ABBREVIATIONS

AFI	Air Force Instruction
AFIN	Armed Forces Institute of Nutrition
AHQ	Air Headquarters
AMRF	Air Craft Manufacturing and Rebuilt Factory
APS & C	Army Public School & College
ARPMB	Annual Repair of Permanent Military Buildings
ASC	Army Services Corps
ASCs	Additional Selected Cadets
ATG	Annual Training Grant
AVMs	Avenue miles
Bde	Brigade
BDA	Border Defence Area
Bn	Battalion
BOQs	Bachelor Officers' Quarters
BQ	Bill of Quantities
BSD	Base Supply Depot
c.ft.	Cubic feet
CA	Contract Agreement
CA	Competent Authority
CBI	Cash Book Item
CBR	Cantonment Board Resolution
CFA	Competent Financial Authority
CIF	Cost, Insurance & Freight
CITD	Chief Inspectorate of Technical Development
CLAR	Cantonment Land Administration Rules
CLS	Chief of Logistic Staff
CMA (DP)	Controller of Military Accounts (Defence Production)
CMA (PC)	Controller of Military Accounts (Peshawar Command)
CMH	Combined Military Hospital
CMP	Controller Military Pensions
CNG	Compressed Natural Gas
CNS	Chief of Naval Staff
ComKar	Commander Karachi
COAS	Chief of Army Staff

CO	Commanding Officer
CPO	Competent Purchase Officer
CRVs	Certified Receipt Vouchers
CS	Cotton Seed
CSD	Cash Security Deposit
CuM	Cubic Meter
DA	Daily Allowances
DAC	Departmental Accounts Committee
DCAS	Deputy Chief of Air Staff
DESTO	Defence Science & Technology Organization
DG ML&C	Director General Military Lands & Cantonment
DGDP	Director General Defence Purchase
DGMP	Director General Munitions Production
DGP (A)	Director General Procurement (Army)
DGW&CE	Director General of Works and Chief Engineer
DHA	Defence Housing Authority
DOHA	Defence Officers Housing Authority
DP	Delivery Period
DSAS	Defence Services Accommodation Scales
DSG	Defence Services Gaurds
DSR	Defence Services Regulations
DW & CE	Director of Works and Chief Engineer
E-in-C	Engineer-in-Chief
EME	Electrical & Mechanical Engineering
EMP	Engineer Machinery Park
FA	Financial Advisor
FOB	Free on Board
FR	Financial Regulations
FSR	Field Services Regulations
FWO	Frontier Works Organization
GFR	General Financial Rules
GPO	General Post Offices
GST	General Sales Tax
HMT	Hired Mechanical Transport
HIT	Heavy Industries Taxila
IGT&E	Inspector General Training & Evaluation
IS	Internal Security
ISO	Inter Services Organization
IT	Invitation Tender

JCOs	Junior Commissioned Officers
JS HQ	Joint Services Headquarters
JSI	Joint Services Instruction
KESC	Karachi Electric Supply Company
LC	Letter of credit
LD	Liquidated damages
LP	Local Purchase
MAG	Military Accountant General
MD	Managing Director
MEO	Military Estate Office
MES	Military Engineer Services
MGO	Master General Ordnance
ML&C	Military Land and Cantonments
MOQs	Married Officers Quarters
MRF	Mirage Rebuild Factory
MRO	Military Receivable Order
MT	Mechanical Transport
MT	Metric Ton
NA	Northern Areas
NAB	National Accountability Bureau
NADRA	National Database & Registration Authority
NDU	National Defence University
NCE	Non-Combatants Enrolled
NHA	National Highway Authority
NHQ	Naval Headquarters
NLC	National Logistic Cell
NOC	No Objection Certificate
NSD	Naval Stores Depot
OM	Office Manual
ORs	Other Ranks
OS Dte	Ordnance Services Directorate
PACB	Pakistan Aeronautical Complex Board
PAF	Pakistan Air Force
PBG	Performance Bank Guarantee
PNS	Pakistan Naval Ship
POL	Petroleum, Oil & Lubricants
PV	Payment Vouchers
Q&R	Quarters and Rents
QMG	Quarter Master General

R&E	Risk and Expenses
RCC	Reinforced Cement Concrete
ROR	Return of Recoveries
RV&FC	Remount Veterinary & Farms Corps
SCO	Special Communication Organization
S&T	Supply & Transport
SM	Single Men
SNGPL	Sui Northern Gas Pipelines Limited
SOP	Standard Operating Procedure
SPD	Strategic Planning Division
Sq. ft.	Square Feet
Sq. yd.	Square Yard
Sqm	Square Meter
SRO	Senior Record Officer
SSD	Station Supply Depot
STR	Standard Table of Rent
TO&E	Table of Organization and Equipment
UA	Unit Accountant
VSD	Victualling Supply Depot
W & R	Welfare & Rehabilitation
WAPDA	Water and Power Development Authority

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, Terms and Conditions of Service) Ordinance, 2001, requires the Auditor General of Pakistan to conduct audit of receipts and expenditure out of the Federal Consolidated Fund and Public Account.

Accordingly, audit for financial year 2006-07 of the organizations falling under the administrative control of Defence Division and Defence Production Division was conducted on test check basis during the year 2007-08 by the Directorate General Audit Defence Services, Rawalpindi.

The enactments, rules, instructions and by-laws determined the criteria. The findings indicate the need for adherence to the regulatory framework and the strengthening of internal controls to avoid recurrence of similar observations year after year.

The Audit observations in this report were discussed in the Departmental Accounts Committee meetings and have been finalized in the light of documented 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 for causing it to be laid before the National Assembly.

TANWIR ALI AGHA

Auditor-General of Pakistan

Islamabad
Dated:

Executive Summary
ARDS 2007-08

This report is based on the results of audit on the accounts of the Ministry of Defence and Ministry of Defence Production for the financial year 2006-07. These administrative ministries deal with the affairs of Defence Forces. Defence Division under Ministry of Defence administers matters relating to Army, Navy and Air Force, Military Engineer Service, Inter Services Organizations, Military Lands and Cantonments and Federal Government Educational Institutions (C/G). Whereas, Defence Production Division under Ministry of Defence Production deals with Production, Procurement, Research & Development (R&D) related matters.

The budget of Defence Services for the financial year 2006-07 under Grant No 25 of the Appropriation Accounts was Rs 250,984.241 million and expenditure booked against this grant was Rs 256,543.363 million.

The Directorate General Audit, Defence Services carried out audit on test check basis of 450 out of 3,664 formations under Defence Division and 35 out of 39 organizations relating to Defence Production Division. The audit observations were discussed with the concerned authorities at the end of audit of each formation and those of serious nature were issued as 715 Draft Paras to Principal Accounting Officers. These Draft Paras were discussed in Departmental Accounts Committee (DAC) meetings. The Committee settled 565 Draft Paras because the departmental response was positive as they agreed to recover amounts under observation within a timeframe and to take remedial measures where required.

An expenditure of Rs 27,154 million was audited by this Directorate during the audit year. The audit expense was Rs 78.404 million which was 0.29% of audited expenditure. The amount put under observation in this report is Rs 9,047.280 million. An amount of Rs 680.22 million had so far been recovered pertaining to audit of financial year 2006-07. An additional amount of Rs 361.64 million was also recovered during the year 2007-08 pertaining to audit of previous years.

This report contains 66 Paras pointing to inherent weaknesses in the organization resulting in repeated occurrence of irregularities. The entities

remained unable to detect possible risks and to take timely corrective action.

The repetitive trend of irregularities includes:

- Unauthorized or irregular expenditure (17 Paras Rs 801.306 million)
- Unauthorized use of Government land (04 Paras Rs 586.422 million)
- Diversion of public funds and resources to non-public usages (10 Paras Rs 107.977 million)
- Weak contract management and administration (04 Paras Rs 78.053 million)
- Violation of rules (02 Paras Rs 49.230 million)
- Non-recovery of Government dues (03 Paras Rs 49.543 million)
- Overpayments (02 Paras Rs 22.845 million)
- Non recovery of risk and expense amount (07 Paras Rs 20.082 million)
- Losses (02 Paras Rs 3.524 million)

An elaborate internal control structure in the form of procedures specifying internal checks and internal audit is present but is often not followed properly, e.g.

- Rules are not observed in true spirit and Government receipts are diverted to non-public funds.
  (Paras 1.1 to 1.9, 1.11, 3.14 to 3.17, 7.2)
- Powers delegated are exercised beyond limits.
  (Para 1.10)

- Internal checks are not applied by Account Offices to ensure fairness of transactions.
  (Paras 2.1 to 2.5)
- Discretionary applications of internal controls render the system ineffective to recover Risk and Expense amount from defaulting contractors.
  (Paras 1.14 to 1.16, 2.8, 6.2, 8.1)

Weaker areas requiring special attention are procurement of supplies and execution of works. The organizations susceptible to costlier errors are Procurement Directorate, Research and Development establishments, Cantonment Boards and Military Engineer Services.

It is important that careful attention is paid to studying and reappraisal of rules and regulations, system improvement, and strengthening of internal controls to ensure the efficient, economical and effective use of resources to make national defence invincible.

Recommendations

A fairly comprehensive financial management advice system is available to Defence Services in the form of Financial Advisors, Military Accounts Department and Chief Finance and Accounts Officer. More involvement of these would bring in better financial discipline in the Defence Services. It is recommended that necessary steps be initiated to ensure:-

1. Implementation of Rules, Regulations, Procedures and Instructions in letter and spirit. Training courses for the responsible personnel would help.

2. Review and Strengthening of Internal controls to stop recurrence of financial irregularities.

3. In-time investigation and fixing of responsibility in cases involving loss to state. The amount involved should be recovered, or where inevitable written off and remedial measures initiated to avoid recurrence of such losses.

4. Finalization of procedures relating to use of Defence land for commercial, welfare and other purpose and its implementation.

The PAC while discussing this report on 14th May, 2015 & 18th September, 2015 issued directions out of which 06 were complied with and action taken. Besides an amount of Rs. 138.179 (M) was recovered. The PAC directives are attached as Annexure-'C'.

Defence Division

Pakistan Army, Navy and Air Force

Diversion of public receipts – Rs 97.208 million

1.1 Non-deposit of rent into Government treasury – Rs 66.307 million

According to Article-78 of The Constitution of Islamic Republic of Pakistan 1973, "(1) "all revenue received by the Federal Government loans raised by that Government, and all moneys received by it in repayment of any loan, shall form part of a consolidated fund, to be known as Federal Consolidated Fund".

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

As per record of Garrison Engineer (Army) Karachi, a Government building was rented out for the period 15th October, 2002 to 14th October, 2007 to National Accountability Bureau (NAB) Sindh by Head Quarter 5 Corps, Karachi @ Rs 12 million per annum with subsequent 5% annual increase. The rent amounting to Rs 66,307,575 had not been deposited into Government treasury.

When pointed out by Audit in July, 2007, no reply was furnished by the Department. Later on, it was intimated on 17th June, 2008 that HQ 5 Corps had instructed NAB Sindh to deposit the amount of Rs 66.307 million into Government treasury.

The Para was discussed in DAC meeting held on 29th October, 2008. DAC was informed that HQ 5 Corps had intimated that monthly rent, received from NAB as per contract agreement, was deposited with QMG Branch GHQ as per their instructions.

DAC showed its dissatisfaction over the practice and directed that Ministry of Defence should ask QMG Branch GHQ to deposit the rent money into Government treasury by 10th November, 2008 besides stoppage of unauthorized practice forthwith.

Further progress was awaited till finalization of this report.

(DP-638)

1.2 Non-deposit of income realized from agriculture land – Rs 15.978 million

According to Article-78 of The Constitution of Islamic Republic of Pakistan 1973, "(1) "all revenue received by the Federal Government, loans raised by that Government, and all moneys received by it in repayment of any loan, shall form part of a consolidated fund, to be known as Federal Consolidated Fund".

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

A) From the Abyana record of land owned by Pakistan Air Force (PAF) Base Mushaf it revealed that 534 acres of agriculture land located at chaks No 241 and 231 RB PAF Base Risalewala was being cultivated by civil contractors and amount so realized by Base authorities was not being deposited into Government treasury. This resulted into non deposit of income from Government land amounting to Rs 10,680,000 (534 x Rs 10000 x 2) for the years 2005-06 and 2006-07. (Calculations based on rates already being applied in the vicinity).

When pointed out by Audit in February, 2008, the PAF authorities stated that the Field Operating Base (FOB) had a vast area without forest. The land was distributed to PAF employees on welfare basis for cultivation so that the uncovered land also matched with surrounding land occupied with forest. That was being done not for income but only to ensure natural camouflaging which was essentially required during war.

The reply submitted by the PAF Base authorities was not tenable as the land was being cultivated by the civil contractors as per abyana record of village 241 RB and 231 RB Faisalabad.

The Para was discussed in DAC meeting held on 10th November, 2008. DAC was informed that procedures and policy was being negotiated with Ministry of Defence and outcome would be intimated in due course of time.

DAC directed that case be dealt with in the light of policy on use of A-I land and rent be deposited into Government treasury without further delay.

Further progress was awaited till finalization of this report.

B) Similarly, in PAF Base, Nawabshah, 177 acres of agricultural land at Padidan and 84 acres at Nawabshah were given on lease to four contractors for cultivation, but rental income of Rs 4,650,532 realized therefrom during the period from 1999 to 2005 was not deposited into Government treasury.

When pointed out by Audit in May 2006, executive authorities replied that all the income generated through those lands was deposited into President's Services Institute Fund at PAF Base Masroor.

The reply was not acceptable because all the revenue generated through Government resources had to be deposited into Public Fund instead of non- public fund.

The Para was examined by the DAC in the meeting held on 6th August, 2008, it was informed to the DAC that in the light of Ministry of Defence letter No F-2/5/D-12/ML&C/99 dated 2nd April, 2008, a detail procedure for utilization of A-1 Land would be formulated by General Headquarters and requested to maintain status quo till procedures were devised and approved by Ministry of Defence.

DAC directed the executive authorities to submit the revised reply up to 20th August, 2008 as discussed in the meeting by indicating status of land and also directed to deal accordingly as per rule position of said class of land.

Further progress in the matter was, however, awaited till finalization of this report.

C) In PAF Base Sakesar, certain commercial units were rented out to private contractors i.e. Kirana stores, milk shop, departmental store, canteen, tailor shop, cloth house etc but amount realized on account of rent was not being credited into public fund. It resulted into non- depositing of Rs 647,648 for the period w.e.f. 1st July, 2005 to 30th June, 2007.

When pointed out by Audit in July, 2007, the PAF authorities stated that the matter would be taken up with higher authorities, and final out come would be intimated accordingly. The reply was not agreed to as the rent was required to be deposited into Government treasury immediately on realization. Moreover no results of reference were intimated till the matter was reported to the Ministry.

The para was examined by the DAC in its meeting held on 10th November, 2008, DAC directed for revised reply and process the case as per A-I land policy and intimate progress thereof.

Further progress was, however, awaited from executive till finalization of this report.

(DP-594, 129 and 544)

1.3 Diversion of public receipts into non-public fund – Rs 6.070 million

As per Rule-11 of Cantonment Lands Administration Rules (CLAR) 1937, all receipts from land entrusted to management of Military Estate Officer shall be credited in full to Federal Government.

As per record held with Pakistan Naval Ship (PNS) Haider, three (3) agreements were concluded during the years 2004 and 2006 by Commanding Officer (CO) PNS Haider with private parties for installation of hoardings within the premises of PNS Haider on the authority of Commander Pakistan Fleet (Compak). Resultantly, CO PNS Haider received an amount of Rs 6,070,842 which was deposited into non-public fund (Unit Improvement Fund).

When pointed out by Audit in June, 2007, no reply was furnished by the executive.

The Para was examined by the DAC in its meeting held on 30th July, 2008, who was informed that contract had already been terminated. Moreover, refund of amount was not possible as the expenditure had already been made on Welfare of troops.

DAC directed that the matter may be dealt with in the light of Policy on use of A-I Land. The policy for use of A-I land had been issued by the Ministry of Defence on 2nd April, 2008. The installations of hoardings was not covered in the policy, the receipts were required to be deposited into Government treasury.

Further progress in the matter was awaited till finalization of this report.

(DP-251)

1.4 Non-recovery of rent – Rs 4.063 million

As per Para 2 (b-1) of Policy on Use of A-1 land for welfare and other projects of the Armed Forces and Canteen Stores Department, The rent shall be charged in the light of 1980 policy guidelines i.e. @ 6% per annum of existing revenue rate of the said land, notwithstanding the tenancy/rent agreements of the military authorities with the user and as per para (b-2) 25% of the above calculated rent shall be deposited into Government treasury and 75% will be utilized as per policy laid down by the respective Service chief.

As per Para-3 of the above policy activities undertaken purely for welfare of troops on no profit no loss basis within formation/unit areas shall be included in Rule-5 (i) of CLAR Rules 1937.

According to Para 68 (b) of Quarters and Rents 1985, "rent in respect of buildings occupied by private individuals other than those specified in Rule 56, particularly, if the individuals concerned use the accommodation for purpose of trade and make a profit out of it or otherwise derive some personal advantage therefrom, full assessed rent or market rent as the case may be shall be charged".

Under the provision of Para-442 Defence Services Regulations for Military Engineer Services DSR-1998 the GE is responsible for making demands for payment of all revenue, and for taking steps for its prompt realization.

It was noticed from the record held with Garrison Engineer Air, Chaklala that:

A) A PAF Auditorium (Cinema) constructed on A-1 Land was being run by a private contractor for commercial purpose without sanction of competent authority (Government of Pakistan). Both rent and allied charges of Auditorium (Cinema) were neither billed by MES authorities nor were deposited by contractor. Board of Officers for fixing rent of Auditorium was also not convened. Minimum rent of Rs 40,000 p.m approximately for the period July, 2004 to June, 2007, amounting to Rs 1,440,000 which needed to be recovered and deposited into Government treasury.

B) A CNG Station, opposite Islamabad Airport at A-I Land, was being run by Col (Rtd) Waheed without sanction of competent authority (Government of Pakistan). Both rent and allied charges of CNG Station were neither billed, nor were deposited by the user. Board of Officers for fixing rent of CNG Station was also not initiated. Minimum rent of Rs 50,000 per month approximately for the period July, 2004 to June, 2007, amounts to Rs 1,800,000 which needed to be recovered and deposited into Government treasury.

When pointed out by Audit in September, 2007, the executive authorities stated that the rent of Auditorium and CNG Station was fixed by the PAF authorities and was also being received by them. The case was being referred to them for recovery action.

Reply was not tenable as under the rules Garrison Engineer was responsible for recovery of the rent and allied charges and its deposit into government account. The rent in above cases came to Rs 3,240,000 which was yet to be deposited into Government treasury and remedial measures were required to be adopted to avoid recurrence of such cases in future.

The Para was discussed in the DAC meeting held on 10th November, 2008. DAC was informed that Auditorium was being used for entertainment of troops and trainees on no profit and no loss basis and it was authorized activity under Para-3 of the policy on use of A-1 land. Further, Government taxes were being paid regularly. Regarding CNG station, executive stated that procedures in line with policy were under formulation and case would be dealt accordingly.

DAC directed to initiate action as per A-I land policy and rent be deposited in Government treasury accordingly. It was also directed to submit a revised reply alongwith progress in the matter.

Neither rent was assessed & deposited nor revised reply submitted till finalization of the report.

C) It was noticed from record held with Garrison Engineer (Air), Chaklala that fourteen (14) shops were rented out to private commercial contractors on monthly basis by the Pakistan Air Force authorities, but the rent received from the contractors was not being deposited into Public Fund, which during the year 2006-07 resulted in loss to State to the extent of Rs 414,550.

When pointed out by Audit in September, 2007, the executive authorities replied that the contracts were concluded by the P (1) Squadron PAF Base Chaklala and they were receiving the rent and the case was being referred to them for recovery action.

The executive reply was not tenable as the GE concerned was responsible for recovery of the rent and its deposit into Government treasury.

The para was discussed in DAC on 10th November, 2008. It was informed to DAC that procedures against the policy were being negotiated with Ministry of Defence. Outcome of the case would be apprised in due course of time.

DAC directed that action may be initiated as per A-I land policy and revised reply, giving full details of shops and category of land, may also be submitted for verification.

Further progress was awaited till finalization of this report.

D) As per record held with Garrison Engineer (Air), Rafiqui, a building No 65 was divided into 15 rooms and these rooms were being used as shops. The PAF authority rented out these shops at a nominal rent of Rs 25 to 40 per month. This resulted into loss of Rs 308,280.

Similarly at the office of Assistant Garrison Engineer (Air), Sakesar, 20 buildings were being used for commercial purpose and rent of shops @ Rs 10 p.m was being charged from occupants. Government was deprived of its revenues to the tune of Rs 100,800.

When pointed out by Audit in October, 2006 and July, 2006, it was stated by the executive authorities that rent of shops was not being collected by MES. However, a minor amount was being deposited into Government treasury on account of land charges. The other executives stated that case would be referred to Base authorities and reply would follow.

The reply was not tenable as the Government buildings / lands were being used for commercial purpose and rent recovered deposited into non-public fund.

The Para was examined by the DAC in the meeting held on 6th August, 2008. DAC was informed that activities undertaken were purely for the welfare of troops on "No profit no loss basis" within the unit area.

DAC directed to deal the case in the light of policy on use of A-I Land.

Welfare activities of shops (no profit no loss) was not proved to audit till finalization of this report.

(DP-348, 316 & 31)

1.5 Non-deposit of agricultural income received from contractors into Government treasury – Rs 2.555 million

Sub Para (3) of Annexure to Appendix-K to Rule-525 of The Army Regulations Volume-I (Rules) states that "the land shall be used by the men primarily concerned with the said unit and it will not be sublet to any outsider.

Rule -2 of Financial Regulations Volume – II (Army and Air force) 1986 states that, "all transactions to which any officer of Government, in his capacity is a party, shall without any reservation, be brought to account and all moneys received by or tendered to Government officer which are due to or are required to be deposited with Government shall, without undue delay, be paid in full into Government treasury".

As per record of Station Headquarters, Panno Aqil, 516 acres land was sublet to 6 contractors for 3 years with effect from December, 2006 to December, 2009, in contravention of the above rules. Station Headquarters received income for 1½ year, on that account, from December, 2006 to June, 2008, amounting to Rs 2,554,950 but the same was not deposited into Government treasury. The related record was also not provided to audit on demand.

When pointed out by Audit in April, 2008, the executive authorities stated that the land was allotted by the Garrison Headquarters 16 Division and they may be approached for the requisite information and documents for the purpose.

The Para was discussed in DAC meeting held on 29th October, 2008. The DAC was informed that land was water logged and full of salinity, which was causing serious damages to the nearby buildings and millions of rupees were spent for maintenance. With the effort of Station HQrs expenditure on repair / maintenance of buildings had been saved. An income of Rs 2,554,950 received during the period December, 2006 to January, 2008 out of which an amount of Rs 2,503,786 was expended on the welfare of troops / financial assets of various welfare projects. However, in future income in this account would be utilized as per Government policy.

The DAC pended the Para for the reason that detail procedures were yet to be devised on A-I land policy by Quarter Master General (QMG).

Policy on utilization of A-I land was issued on 2nd April, 2008, and according to it 100% rent was to be deposited into Government treasury.

Further progress regarding convening of Board of Officers to fix the rent and realization of 100% rent into Government treasury was awaited till finalization of this report.

(DP-655)

1.6 Irregular transfer of Government money into private accounts – Rs 1.410 million

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

It was noticed from the record held with PAF Base, Sakesar, that two contracts were concluded for provision of space for Base Transreceiver Station (BTS) site with M/s Pakistan Telecom Mobile Limited (PTML) U-fone for Rs 420,000 per annum on account of rent and allied charges w.e.f 21st August 2006 and with M/s Pakistan Television Corporation (PTVC) Sakesar for Rs 240,000 per annum w.e.f 17th November, 2003, vide PAF Base Sakesar letter No SKR/1083/5/PSI dated 6th July, 2007. The amount realized on account of rent was being credited into President Services Institute Fund (a non-public fund) instead of Government treasury. This resulted into non-deposit of Rs 1,410,000 into Government treasury, which was against the aforementioned Government orders.

When pointed out by Audit in July 2007, the PAF authorities stated that the matter would be taken up with higher authorities, and final outcome would be intimated accordingly. The reply was not acceptable as Government receipts were required to be deposited into Government treasury. No results of reference were received till the case was reported to the Ministry.

The Para was examined by the DAC in the meeting held on 6th August, 2008. DAC was informed that matter would be dealt with, in accordance with policy on use of A-I land and for which detailed procedures were being formulated and stated the case under process with Ministry of

Defence. DAC however, directed to submit the revised reply upto 20th August, 2008 as tower installation was not covered under the policy.

Revised reply was awaited till finalization of this report.

(DP-265)

1.7 Non-deposit of sui gas Meter Rent Charges into Government treasury – Rs 824,640

According to Para-442 of Defence Services Regulations (DSR) for Military Engineer Services 1998, Garrison Engineer (GE) is responsible for making demands for payment of all revenues and for taking steps for its prompt realization.

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

It was noticed from the record held with Garrison Engineer (GE) Air, Rafiqui and GE (Air), Chaklala that the sui gas meters were provided by the Military Engineer Service (MES) and replacement / maintenance work of sui gas meters was also being carried out by the MES. However, the meter rent @ Rs 20 per month per meter was being collected by the Pakistan Air Force (PAF) authorities and deposited into Non Public Fund (NPF). This resulted into diversion of public receipts and loss to the State to the tune of Rs 824,640 as detailed below:

S #	Location	DP No.	No. of Meters	Period	Amount Rs
1	PAF Base Rafiqui	DP-05	900	2005-2006	216,000
		DP-82	1490	2006-07	357,600
2	Jinnah Camp PAF Base Chaklala	DP-06	523	November 2004 to October,2006	251,040
				Total:	**824,640**

When pointed out by Audit in December, 2007, the executive authorities stated that the matter was being referred to the Base Authorities with reference to the audit contention and final outcome would be intimated. Further authorities of PAF Base, Chaklala intimated that as per Base Policy, NPF would realize the meter rent and would also carry out maintenance of meters from the realization.

The reply was not accepted as there was no ambiguity in the matter and the recovery of sui gas meter rent and its maintenance was the responsibility of the MES. The recovery was to be effected and deposited into Government treasury.

The Para was examined by the DAC in the meeting held on 5th August, 2008. It was informed to the DAC that sui gas was being supplied at residential area (PAF Base, Rafiqui) from bulk gas meter. The consumers had been provided with the sui gas meters by the MES. As such repair/maintenance of those meters also came within the responsibility of MES. Hence no rent was charged from those meters which could be deposited into treasury.

DAC directed to deposit the entire amount realized into Public Fund and directed to initiate the case through Joint Services Headquarters to Ministry of Defence for formulation of uniform Policy for realization of gas meter rent into Public Fund.

Further progress was awaited till finalization of this report.

(DP-82, 06 & 05)

Unauthorized Expenditure – Rs 25.172 million

1.8 Un-authorized construction of married accommodation in Border Defence Areas – Rs 22.165 million

Rule-149 Chapter XVIII of Field Services Regulations (FSR) 1978 states, "Officers serving in forward / operational areas are entitled to free single accommodation with allied services. Their families will retain the accommodation occupied by them in peace station".
Rule-151 of FSR states, "JCOs / ORs will dispatch their families to their home town before moving to operational areas".

It was observed from the record held with 702 Pak Works Section Bhimber, OC Pak Work Section, Gil
git and 703 Pak Work Section Muzaffarabad that JCOs/ORs/Officers' married accommodation was constructed during the years 2004-05 to 2006-07 with an expenditure of Rs 22,164,722 at Jarikas, Bhimber, Bunji and Muzaffarabad. Being non- family stations / Border Defence Areas, accommodation for singles was to be constructed. Expenditure incurred was in violation of Rules.

When pointed out by Audit in March, May and November 2007, OC 703 Pak Work section Gilgit and 703 Pak Work Section Muzaffarabad stated that works were carried out as approved by competent authority (Quarter Master General) whereas OC 702 Pak Work section Bhimber stated that case would be referred to higher authority for clarification.

The Paras were discussed in DAC meetings held on 30th October, 2008. DAC was informed that the works were carried out with the approval of competent authority (QMG). DAC directed to provide revised reply alongwith evidence of Government approval.

Revised reply alongwith evidence of Government approval was not received from Ministry of Defence till finalization of this report.

(DP-395, 388 and 382)

1.9 Incorrect expenditure on construction of storage shed – Rs 3.007 million

As per Rule-5 (a) of Financial Regulations Volume – I, 1986, "Defence expenditure may be sanctioned by the Ministry of Defence and by the authorities subordinate to it if it pertains to defence".

As per Rule-25 (b) of Defence Services Regulations (DSR) for MES, administrative authorities will examine each proposal as to:-

- **a)** The necessity for service
- **b)** Whether it is in accordance with Government policy.
- **c)** Whether it agrees with sanctioned scales, and
- **d)** Its order of urgency

A) It revealed from record held with Garrison Engineer (GE) Army, Jhelum that an administrative approval for construction of storage shed on A-1 land at a cost of Rs 3.125 million was accorded by Quartering Directorate. The expenditure was debitable to Major Head 1400, Sub Head (A) Army Works Minor Head (b) non residential accommodation. The work was completed on 21st July 2001 at a cost of Rs 2.769 million and the shed was handed over to the user on 26th August 2002.

The documents attached with the Board of Officers for selection of site, drawings, Bill of Quantity of the contract agreement, handing / taking of inventory and other details of work revealed that the shed was constructed for Canteen Stores Department (CSD), a Commercial Organization, and as such was being used for non-military activities. The expenditure of Rs 2,769,536 was therefore not a legitimate charge to Defence budget.

When pointed out by Audit in November 2006, the executive authorities stated that construction of storage shed at Jhelum was approved by the competent authority i.e. Chief of Army Staff (COAS) for storage of material as desired by administrative authorities (HQ 1 Corps) and was being used for the said purpose. The requisite entry had also been recorded in Annual Repair of Permanent Military Buildings (ARPMB) as storage shed.

The reply was not based on fact as the amount expended on construction of CSD building under the caption of "Storage Shed at Jhelum" was proved through official documents i.e. administrative approval, drawings, bill of quantities, handing / taking over board. In a similar case GE (Army) Multan, it was decided in a DAC meeting held on 10th August 2005, to re-appropriate the building, and recover the rent from CSD. Despite the acceptance of irregularity at higher forum the practice had not stopped and remedial measures had not been adopted.

Audit therefore suggested fixing of responsibility for deliberate violation of Rules and recovery of Rs 2.769 million plus 17% departmental charges from CSD authorities and adoption of remedial measures.

The Para was examined by the DAC held on 3rd July, 2008. DAC was informed that necessity for storage shed was accepted by the competent

authority (Ministry of Defence) and work was carried out after administrative approval by competent financial authority i.e. Chief of Army Staff (COAS). However, case had been processed and submitted to the competent authority for regularization of construction of storage shed for use by CSD.

DAC directed that regularization action be completed by 15th July 2008.

Regularization action was not finalized by executive authorities till finalization of this report.

It would be pertinent to mention that in the A-I land policy issued by the Ministry of Defence on 2nd April, 2008 CSD had been included in the Category-B welfare activities. Under the said policy, A-I land could be utilized rent free for welfare activities of category-B running on no profit no loss basis. However, construction works from Defence Budget for the welfare activities (including CSD) was neither covered under Rules nor the policy. Regularization action as directed by DAC needed to be finalized.

B) It was observed from the record held with GE (Army-I) Kharian that a Government building was being used by Canteen Stores Department (CSD), a commercial concern. A minor work for construction of Lavatory block in a room against aforesaid building was sanctioned by Quartering Directorate on 22nd April, 2006. The work was executed for Rs 237,857.

When pointed out by audit in August 2006, the executive authorities stated that a letter regarding recovery of charges from CSD through Station Headquarter was issued. The progress was still awaited.

The para was discussed by DAC in its meeting held on 2nd July, 2008. The executive agreed to recover the amount from CSD. The DAC shifted DP to Quartering Directorate and directed the PP&A Directorate to liaison with Quartering Directorate in preparation of reply and its submission to Ministry of Defence/Audit by 31st July, 2008.

Further progress was awaited till finalization of this report.

(DP-18 and 25)

Violation of Rules – Rs 49.230 million

1.10 Irregular purchase due to splitting up of financial powers – Rs 46.688 million

In accordance with Rule-19 of Financial Regulations Volume-I 1986, "The limit which has been set in each case extends to each separate sanction. The criterion in any case is the total cost of measure and no measure, which requires the sanction of superior authority, shall be sanctioned by subordinate authority in installments".

The Chief of Army Staff (COAS) and Chief of Logistics Staff (CLS) have financial powers of Rs 4.00 million and Rs 2.00 million respectively for local purchase of one item or any number of items at one time vide Ministry of Defence letter No F.5/32/ME/D-5/04 dated 27th December, 2004.

It was noticed from the record held with Engineering Stores Depot, Lahore that Chief of Logistics Staff (CLS) using delegated financial powers of Chief of Army Staff (COAS), sanctioned different items of stores valuing Rs 46,688,100 for UN Mission in piecemeal during 2005-06 just to avoid the sanction of higher authority. As the total cost of each item exceeded the financial powers delegated by Chief of Army Staff (COAS) i.e. Rs 4.00 million, sanctions were required to be accorded by Ministry of Defence as per above rule. The deviation resulted into an irregular expenditure of Rs 46,688,100.

When pointed out by Audit in March, 2007, it was replied by the executive authorities that items were locally purchased for UN Mission, Sudan and sanction was accorded by GHQ. The Chief of Army Staff (COAS) had delegated powers to Chief of Logistics Staff for total purchase of an individual item up to Rs 4.00 million, whereas the amount objected by audit authority was sum of all the items. Reply was not tenable as financial powers were to be exercised as powers to purchase one item or any number of items at one time. Further items were of one measure but sanction was issued in piecemeal just to avoid the sanction of higher authority i.e. Ministry of Defence.

The Para was discussed in DAC meeting held on 28th October, 2008. The executive authorities repeated their stance. DAC was not convinced with the executive's contention and directed to regularize the amount.

Further progress in the matter was awaited till finalization of this report.

(DP-446)

1.11 Undue favor to supplier resulting in loss to State – Rs 2.542 million

Under Rule 6 (a) of Financial Regulations Volume-I 1986, "every officer should exercise the same vigilance in respect of expenditure from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money".

In disregard to above orders, in Pakistan Air Force (PAF) Hospital, Islamabad, quotations from different suppliers were demanded for local purchase of medicines for the year 2005-06. In response, seven suppliers participated in the tender opening by offering their discount rate. M/s Imran Medicos offered the highest discount rate i.e. 12.59 % but the contract was awarded to M/s Shaheen Medical Services against 7.5% discount rate being the 5th lowest. The same practice was being adopted since 1995 and M/s Shaheen Medical Services was availing the contracts regularly since then as evident from Para-4 (a) of minute sheet dated 27th July, 2005. This state of affairs resulted into recurring loss to State because of undue favor. The supplier benefited for an amount of Rs 2,541,966 (Rs 49,940,000 x 5.09%) during the year 2005-06 only, which could have been saved by accepting the highest discount rate.

When pointed out by Audit in March, 2008 it was stated by the executive authorities that Shaheen Medical Services, being subsidiary of Shaheen Foundation PAF, was better organization and well reputed firm etc. Although some suppliers had offered a high discount, but credibility of those firms was questionable. The reply was not relevant and convincing because the contract was awarded to M/s Shaheen Medical Services on the plea which was not proved through facts as no opportunity was provided to any other supplier since 1995.

The Para was discussed in the DAC meeting held on 5th November, 2008. DAC was informed that due to security reasons, lack of interest of civilian contractors and being well reputed organization, contract was awarded to M/s Shaheen Medical Services.

DAC was not satisfied with the executive's explanation for award of contract to other than lowest quotee and directed to investigate the matter, fix the responsibility for appropriate action. It was also directed to get the extra expenditure regularized from competent authority.

Further progress in the matter was awaited till finalization of this report.

(DP-654)

Loss to State – Rs 3.524 million

1.12 Loss due to mismanagement of stores – Rs 2.876 million

As per Rule 170 (b) Financial Regulations Volume-II 1986, "cases involving write off of losses shall be dealt with promptly and as per paras 205 and 206 of Defence Services Regulations for Military Engineer Services 1998 in all cases of actual loss, a loss statement will be prepared and submitted to the competent financial authority for his orders".

It was noticed from the record held with Garrison Engineer (Air), Mianwali that 2,905 kilogram Resin costing Rs 4,727,946 was supplied by M/s Daud Sons Armoury, Peshawar. It was received and taken on charge by end of September, 2000. As per manufacturer instructions printed on the barrels of the Resin, the life of Resin was 06 months i.e. upto April, 2001. A quantity of 1,805 kg Resin was consumed and remaining quantity of 1,100 Kg costing Rs 2,876,528 was declared unserviceable on 21st February, 2003.

When pointed out by Audit in August, 2006, it was stated by the executive authorities that unserviceable material had already been auctioned and minor quantity was held on the charge and auction was not possible for a minor quantity.

The reply was not tenable as the store auctioned included items of electrical, mechanical, furniture, water supply of buildings and roads

material and did not include Resin. Further the auction had taken place on 26th July, 2005, whereas the Board recommended auction of Resin on 24th August, 2005. Thus a loss had occurred due to ill planning and mismanagement.

The Para was examined by the DAC in the meeting held on 5th August, 2008. DAC was informed that loss statements were being initiated to regularize the loss. DAC directed the auditee to inquire into the circumstances and fix responsibility for the loss to Government at appropriate level.

Further progress in the matter was awaited till finalization of this report.

(DP-26)

1.13 Loss to State due to non revision of Amenity Charges – Rs 647,853

According to Rule 0104 (1) and (d) of Financial Regulations (Navy) 1993, in incurring or sanctioning expenditure financial canons shall be observed by the officers exercising financial powers. Audit officers shall also be responsible for watching that canons are observed and Government revenues shall not be utilized for the benefit of a particular person or sanction of the community.

According to Para 3(d), 4(b) of Joint Services Instruction JSI-7/79, "the unit vehicles can be issued to unit officers/officials on hire at amenity rates".

As per record held with Pakistan Naval Ship (PNS) Haider and PNS Mehran, the unit vehicles were issued to officers/others during the period July 2005 to June 2006 on amenity basis and charges thereof recovered under the authority of Joint Services Instructions (JSI)-7/79 @ Rs 0.31 per mile. Amenity rates were fixed by Joint Services Headquarters in July, 1979 when rates of petrol were under Rs 10 per liter and Diesel under Rs 05 per liter. Now after 28 years when the rate of petrol was Rs 53 per litre and diesel Rs 33 per liter i.e. 05 to 07 times on higher side, the application of very nominal rates had resulted in heavy loss to State. Had the rates of amenity charges been revised at least for Rs 5 per kilometer (km), the unit would have recovered about Rs 647,853 against such

facility. Matter was, thus, required to be referred to Joint Services Headquarters for revision of rates, to avoid recurring loss to the State on that account.

When pointed out by Audit in March and June 2007, the executive authorities stated that matter may be referred to Joint Services HQrs as they were the competent authority in such matters.

The above example being apart, it may be mentioned that such facility of amenity vehicles at old rates was available in all the units/formations of the Armed forces. The rates being charged were on the lower side, as the same were fixed back in 1979. Given the fact that POL prices had risen 7-10 times in the last couple of years, the rates charged by Armed Forces should also have been revised in line with such increase in POL prices.

The Para was examined by the DAC in the meeting held on 26th August, 2008, it was informed to the DAC that recovery of amenity charges was made as per JSI-7/79.

DAC directed Finance (Military) to take up matter with Ministry of Defence (MOD) for revision of amenity charges.

Further progress in the case was awaited till finalization of this report.

(DP-665)

Non-recovery of risk and expense money – Rs 9.405 million

1.14 Non-recovery of risk and expense money from defaulting contractors – Rs 4.806 million

According to Clause-7 (b) to "Instructions to Tenderers" contained in PAFZ 2137-A, "if the contractor fails to fulfill the contractual obligations, the store can be procured at his risk and cost."

Further Rule 106 (C) of Financial Regulations Volume-I, 1986 provides that "the amount recoverable from contractor or the orders of the CFA for waiving the recovery thereof from the contractor shall be communicated to the Controller of Accounts."

It was noticed from the record held with Base Supply Depot (BSD) Lahore, that an amount of Rs 4,806,485 (Rs 3,407,392 + 1,399,093) was recoverable from two defaulting contractors on account of risk and expense purchases of fresh fruit, vegetables and hired mechanical transport (HMT) made during 2005 and 2006. No efforts were made to pursue the recovery.

When pointed out by Audit in January, 2007, the executive authorities stated that the case was taken up with Station Headquarters, Lahore as well as Headquarters Gujranwala Logistics Area for recovery of risk and expense amount from defaulting contractors. Reply was not convincing as no material efforts were made to recover the outstanding amount till the completion of audit.

The Para was discussed in DAC meeting held on 28th October, 2008. The DAC was informed that case had been taken up with Supply and Transport Directorate, GHQ through HQ Gujranwala Log Area / Station HQ, Lahore for filing of civil suit against the defaulting contractors.

DAC pended the Para till recovery from contractors.

Further progress was awaited till finalization of this report.

(DP-597)

1.15 Non-recovery of risk and expense amount from defaulting contractor – Rs 2.263 million

According to Clause 55 (b) of PAFW-2249, (General Conditions of the contract) whenever the accepting officer exercises his authority to cancel the contract at the contractor's risk and expense, he may recover the deficit from the contractor dues payable to him and if no dues are held then through any other means.

In three MES (Army) formations of Mangla, Rawalpindi and Okara left over / defective civil works of defaulting contractors were got completed through other contractors at risk and expense of defaulting contractors involving an amount of Rs 2,263,997. Executive was not actively pursuing

recovery of Risk and cost amount. The amount of risk and expense was, therefore, still recoverable.

When pointed out by Audit in September, 2006 and May, September, 2007,executive recoverable amount against each defaulting contractor was circulated to all concerned for effecting recovery but response therefrom was awaited.

DAC on 2nd July and 29th October, 2008 was informed that said cases were in courts for decision. DAC directed for vigorous pursuance of the cases.

Further progress was awaited till finalization of this report.

(DP-322, 35)

1.16 Non-recovery of risk and expense amount from defaulting contractor- Rs 1.539 million

According to Para-67 of Army Services Corps Regulations Volume-II 1986, when purchases are made at the risk and expense of a contractor, full details of each case will be sent to the CMA concerned for effecting necessary recoveries.

It was noticed from the record held with Reserve Supply Depot (R.S.D) Abbottabad, that a Contract Deed No 53 of 2004-05 for Rs 1,357,026 was concluded with M/S Raja Muhammad Rashid for the provision of potatoes. The contractor failed to supply the requisite store and subsequently it was purchased at his risk and expense for Rs 2,895,653. This resulted into an extra expenditure of Rs 1,538,627.

When pointed out by Audit in March 2006, it was replied by the executive authorities that the matter had been taken up at appropriate level for effecting the recoveries through respective District Administration.

Reply was not convincing, as it was necessary to make all out efforts and also circulate the details of recoverable to all CsMA for effecting recovery from concerned defaulter.

The para was discussed in DAC on 3rd July, 2008. DAC was informed that a civil suit had been lodged against the defaulting contractor for recovery. DAC pended the para till decision of the court.

Further progress was awaited till finalization this report.

(DP-140)

1.17 Un-due benefit to contractor – Rs 795,471

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

As per Rule 106 (a) of Financial Regulations Volume-I 1986, "Under clauses 7&9 of the tender form a contractor, in certain cases therein specified, becomes liable to pay to Government compensation for loss or inconvenience that may result from his default or from the rescission of his contract under clause 8. Further in case, the rejected store have to be replaced, the loss will be any excess over the contract rate in price paid for the supplies together with reasonable compensation for inconvenience caused by default .If the contract has to be rescinded, a new contract for the unexpired portion of the original contract should be concluded and if rates of new contract exceed those of the old, the amount of loss sustained will be:-

a) The total extra expense incidental to the new rates, plus
b) The extra expense incurred in carrying on the service by purchase in the interval between the two contracts.
c) The cost incidental to effecting a new contract.

It was noticed from the record held with Military Farm, Multan Cantonment that a contract dated 22nd December, 2005, was concluded for supply of 5,596 ton cotton seed (CS) oil cake to different consignees all over Pakistan. A quantity of 236-ton cotton seed (CS) oil cake was to be supplied at Military Farm, Multan from 22nd December, 2005 to 31st August, 2006. The contractor failed to supply the contracted quantity of CS oil cake and it was arranged through local purchase at his risk and expense. A sum of Rs 795,471 payable to the contractor at Military Farm, Multan was required to be withheld to adjust the risk money but said

amount was released without recovery of risk amount. As such a sum of Rs 748,083 stood recoverable from defaulting contractor.

When pointed out by Audit in June, 2007, the executive authorities stated that amount involved would be made good from the contractor's security deposit. The reply was not tenable as amount involved was required to be recovered in time.

The Para was discussed in DAC meeting held on 28th October, 2008 and it was informed by the executive authorities that a contract was concluded for supply of 5,596 ton CS oil cakes at Military Farms allover Pakistan and the contractor could not maintain supply due to increase in demand in local market and unfavorable climatic conditions. The contractor had applied for extension in delivery period and enhancement of rates which was accorded by competent authority (QMG).

MAG was consulted for the levy of risk amount on the contractor for purchases made in the intervening period between contract period and approval for extension in delivery. MAG clarified that contractor had fulfilled his obligations so nothing was recoverable from him. DAC however, could not arrive at unanimous decision.

Audit was of the view that the contract concluding authorities should consider the loss sustained by the State, before approving extension in delivery period and enhancement of rate, which was not done. The overall financial effect on account of extra expenditure was required to be worked out after ascertaining the risk purchases made by all consignee units during period of default. Audit still considered that extra expenditure borne by state for local purchase need to be recovered after investigation.

Further progress was awaited till finalization of this report.

(DP-282)

Non/less-recovery of Government dues – Rs 49.543 million

1.18 Non-realization of cost of Sui Gas utilized beyond the authorization – Rs 21.820 million

Rule-81 (a) of Quarter and Rents 1985 provides that free supply of sui gas shall be made at places where firewood or K-II oil is so authorized for

cooking/heating purposes as per scale given below:- (a) Cooking purposes 200 cft per man per month. Based on this figure depending upon the number of persons served under each cook house; average monthly scale may be fixed by respective Station Headquarters (b) Heating Purposes (1) Small fire places 3000 cft per month. (2) Large fire places 6000 cft per month. As per Note below, winter season for the purpose of heating shall be reckoned as fixed by Station Commander according to the climatic conditions. Excess consumption shall be paid by the consumers at supplying agency rates.

According to corrigendum issued vide Ministry of Defence letter No 5620/109/Qty-2(C)F.2/115/D-3(A-111)/2002 dated 4th December, 2002, free use of sui gas for cooking purpose had been amended from 200 cft per man per month to 300 cft per man per month.

Further under the provisions of Para-442 of Defence Services Regulations for MES 1998, "Garrison Engineer is responsible for making demands for payment of all revenues and for taking steps for its prompt realization".

A) It was noticed from the record maintained in the office of Garrison Engineer Army GE (A) Services Rawalpindi that sui gas had been consumed in the cook houses of certain units in excess of authorized scale. The bills were raised by the GE office; however no concrete efforts were made to realize the public money from users. An amount of Rs 21,263,519 was outstanding against the users till December, 2007.

When pointed out by Audit in February, 2008 the executive stated that excess sui gas charges bills were raised by that office against concerned Units / Formations regularly and full efforts were being made to recover the outstanding sui gas charges. An amount of Rs 599,774 had been recovered through Treasury Receipt (TR) and efforts were being made for recovery of balance amount of Rs 20,663,745.

The para was discussed in the DAC meeting held on 23rd October, 2008, it was informed to the DAC that out of Rs 20.663 million, a sum of Rs 0.658 million had been recovered. DAC directed to expedite the balance recovery.

Further progress was awaited till finalization of this report.

B) It was noticed from the record of Garrison Engineer GE (Army) Karachi, that an amount of Rs 1,156,436 was lying outstanding on account of excess consumption of sui gas in cook houses of six formations during July, 2006 to June, 2007.

When pointed out by Audit in July, 2007, it was stated by the executive authorities that the excess consumption of Sui Gas was regularly being intimated to the users units through excess consumption of Sui Gas bill with notices for deposit of amount in excess of authorization. No confirmation of recovery was however intimated to audit till the matter was reported to Ministry.

The Para was discussed in DAC meeting held on 29th October, 2008. It was informed to the DAC that a sum of Rs 73,000 had been recovered and balance amount would be recovered as per scheduled fixed by HQ-5 Corps. DAC directed for expeditious recovery of balance amount and its verification by Audit.

Further progress of recovery was awaited till finalization of this report.

(DP-315 and 337)

1.19 Less recovery of water charges – Rs 20.383 million

According to para-1 of Annexure "A" to Appendix-'O' of Defence Services Regulations for MES-1998 The All-Pakistan flat rate for water will be as notified from time to time in Joint Services Instruction (JSI) or other Government Orders. Further as per foot note to above Annexure any increase of rates as and when notified / imposed by the provincial Government / supplying agency shall be recovered in addition to the rates specified in Annexure to Appendix-'O'.

It was noticed from the record of Garrison Engineer (Services) Malir Cantt and GE (Army) Karachi that water charges @ Rs 44 per 1,000 gallon (i.e. Rs 442 per 9,600 gallons) were being paid by them to Karachi Water and Sewerage Board (KW and SB) for water supply. The recovery being made by MES from consumer officers for 9,600 gallon (entitlement of married accommodation per month) was @ Rs 144 only (flat monthly rate). Resultantly the State sustained a loss of Rs 20,383,496 in the shape of less

receipt from consumers against actual payment to KW and SB by MES for the period 1994-95 to 2005-06.

On the other hand, Military Engineer Services Navy (MES N) at the same station was recovering water charges @ Rs 422 p.m from officers residing in Government accommodation for supply of 9600 gallons p.m.

When pointed out by Audit in September 2006, reply given by the executive authorities was irrelevant. However during discussion they agreed to take up the case with higher authority for notifying increase of rates of water charges.

The Para was scheduled for discussion in DAC meeting held on 28th October, 2008. DAC did not discuss the para due to non-provision of reply by the executive authorities.

(DP-334)

1.20 Less recovery on account of electricity charges – Rs 7.340 million

Rule 88(a) of Quarters and Rents 1985 stipulates that charges for electricity arranged or supplied by Military Engineer Services shall be recovered from Commissioned Officers of Army, Navy and Air Force.

Further, Para-3 of Annexure to Appendix "O" of Defence Services Regulations for Military Engineer Services 1998 states that recovery rates of electricity in case of metered supply will be as per WAPDA recovery rates for domestic consumers.

On scrutiny of record held with Garrison Engineer (Navy) South Karachi for the year 2006-07, it was noticed that 1,098,658 units were billed by GE (N) South against consumers, whereas payment for 2,241,670 units was made to Karachi Electric Supply Corporation (KESC) on account of only Naval Heights (a residential accommodation plus private shops).

When pointed out by Audit in August, 2007, it was replied by the executive that average consumption of Naval Heights as per KESC bill was 20,700 unit per month by consumers, whereas recovery through

Return of Recovery (ROR) was 85,000 units per month, plus consumption of entitled consumer units i.e. 12,800 per month.

Reply was not tenable because even if the statistics given by the executive were accepted (total consumption of 1,173,600 units per annum), there was still a difference of 1,143,012 units per annum, which was less recovered. It was further pointed out that either provision in support of contention of the executive regarding free entitled consumption may be provided or amount thereof to the tune of Rs 7.340 million may be recovered from the concerned consumers.

The Para was examined by the DAC in the meeting held on 26th August, 2008, DAC was informed that 1,532,000 free units were allowed whereas total variation pointed out was 1,143,012. They further informed that Board of Officers had powers to fix free consumption.

DAC directed for production of copy of approved Board of Officers for free consumption and detailed working of each spot and its verification.

Further progress in the matter was awaited till finalization of this report.

(DP-615)

Irregular expenditure – Rs 78.020 million

1.21 Irregularities in procurement and disposal of networking equipment – Rs 71.00 million

As per Rule–6 (a) of Financial Regulations Volume–I 1986, "Every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money".

According to Para–21 of Annex–D to Rule–42, Financial Regulations Volume–I, "The "open tender" system i.e. invitation to tender by public advertisement should be used as a general rule and must be adopted in all cases in which the estimated value of goods to be purchased is Rs 50,000 or over".

As per Section-5 (2) of policy for allotment and utilization of Annual Training Grant, "The formation/unit commanders are responsible for correct operation of the accounts within their formation. They will ensure that the procedures and rules are strictly adhered to while making transactions from Annual Training Grant".

During audit of sanctions accorded to Command and Staff College, Quetta, it was observed that following special allocations/Special Annual Training Grants were given to the college for the purposes mentioned against each:

Rs in Millions

S #	Year of Allocation	Purpose	Amount	Remarks
1	February, 2002	Supply and Deployment of networking equipment	11.000	Special Allocation by Government
2	-do-	Purchase of Lap Tops	20.400	Special Annual Training Grant allocated by Government
3	-do-	Purchase of Desktop Computers	3.600	Special Allocation by Government
4	October, 2001	Computerization of Command and staff College	18.000	Allotted by GS Branch Budget Directorate GHQ
5	June, 2005	-do-	18.000	Allotted by Ministry of Defence
Total:			**71.000**	

During Audit following irregularities were noticed:

Serial No. 1 of the table:

- Tendering system was not adopted and whole purchase worth Rs 11.00 million was made on quotation basis.
- Inspection and evaluation was not made in line with (Accepted Testing Parameters) i.e. the conditions of the contract clause-8.1.
- Item No. 4 of the contract worth Rs 4,738,721 (i.e. 3-passport 8608 GB 8–port Gigabit Ethernet routing switch DS 1401038) was not received.
- Equipment worth Rs 65.217 million including the networking items of Rs 11.00 million were auctioned for Rs 33,000 only as scrap on 20th April, 2005 without obtaining technical opinion for condemnation.

Serial No. 2 of table:

- Against allocation of Rs 20.400 million, 379 Laptops were actually procured from M/s General Traders against the tendered notice for 320 Laptops. This resulted in excess procurement of 59 Laptops costing Rs 4,416,150. Further, 139 Laptops from the lot were auctioned as scrap even before the expiry of warranty/Guaranty period.

Serial No. 3 of table:

- Disparity in the tender notice items (30 computers worth Rs 1.434 million) and actually purchased (different I.T items worth Rs 3.620 million) was observed which reflects afterthought just to exhaust the available funds rather than to meet actual requirement. Further the items procured in June, 2002 were auctioned in April, 2005 without any justification and before expiry of warranty/guarantee period.

Serial No. 4 of table:

- An amount of Rs 10.00 million was transferred to Signal Directorate GHQ by the college but no record/expenditure details of work done could be produced to audit for verification.

Serial No. 5 of table:

- Tenders for the purchase 91 IT items was floated with opening date as 25th January, 2005 while the allocation of Rs 18.00 million was received in June, 2005. These tenders were neither received nor opened. Actual purchase was made through quotation dispensing with the tendering system as required under rules.
- IT store of similar specification during the same period of February, March and April, 2005 was procured from two contractors depicting sharp difference of rates. This resulted in exorbitant purchase of Rs 754,110, which was clear violation of Canons of Financial Propriety.
- Despite the fact that complete P-III and IV Desktop computers, Workstations, Laptops and Servers were available in the college, 34

LCDs and 40 Monitors worth Rs 3,569,000 were purchased without any justification.

- In a purchase of Rs 5,549,316, sales tax amounting to Rs 832,384 was recoverable while the actual receipt of sales tax against the purchase was Rs 445,684. Thus Government was deprived of its revenues amounting to Rs 386,700.

When pointed out by Audit in 2007, the executive authorities stated that procedural anomalies have occurred during the implementation of an elaborate IT project in the college. Thorough survey had revealed that entire amount allotted for project was reconcilable with equipment and services procured.

The reply was not agreed to as the project was neither executed with due consideration to economy, observance of rules and procedures nor proper documentation was done.

The Para was discussed in DAC meeting held on 8th July, 2008, executive authorities repeated their earlier stance. DAC directed to hold court of enquiry with inclusion of senior members and written TORs to ascertain the reasons of irregularity by 31st August, 2008. Besides, regularization action also be expedited.

Further progress was awaited till finalization of this report.

(DPs-101 to109)

1.22 Irregular expenditure – Rs 7.020 million

On the authority of Supply and Services Branch, NHQ Islamabad letter No ST-V/1711/1/PC dated 22nd September, 1998, a welfare project namely Central Naval Mart (CNM) was being run by Commanding Officer (CO) Victualling Supply Depot (VSD). To run the project various posts were sanctioned.

In contravention to above sanction, it was noticed from the record of VSD Karachi that number of officers / staff were posted to CNM from the existing strength of VSD Karachi. This resulted into un-authorized employment of Government personnel and payment of Pay and Allowances amounting to Rs 7,020,000 from Public Fund during the period 1998 to June, 2007.

When pointed out by Audit in June 2007, the executive authorities admitted that the staff out of sanctioned strength of VSD complement was running the project given by NHQ as the appropriate CNM Staff scaled vide NHQ directive had not yet been appointed. In view of the above circumstances the pay and allowances made to the staff posted to CNM was considered as valid.

The justification given for payment of pay and allowances could not be considered as valid. Reasons for non-appointment of CNM staff were not given.

The Para was examined by the DAC in its meeting held on 26th August, 2008. It was informed to the DAC that the competent authority i.e. Chief of Naval Staff (CNS) created posts for CNM. Audit stressed the viewpoint that CNS was competent to create posts for Public purpose only from defence budget. Further deployment of VSD staff to CNM was not covered under the rules.

DAC directed to submit the revised reply with documentary evidence of authority to make appointment for non-public activity out of defence budget upto 15th September, 2008.

Further progress in the matter was awaited till finalization of this report.

(DP-718)

Rachna Doab Afforestation Project

The project named "Rachna Doab Afforestation Project" was launched in 1995. Its PC-I (original) was approved on 27th July, 1995. The PC-I gone through two Revisions, 1st Revision on 14th May, 1999 and 2nd Revision on 31st October, 2000. The project was launched for 10 years from July, 1995 to June, 2005 through the Environment Protection Committee of 1 Corps Mangla. It was financed from block allocation of Rs 485.38 million earmarked for environment improvement/protection through Federal ADP (PSDP) with the purpose, besides, tangible and intangible benefits, to create pollution free healthy atmosphere for the area and to provide natural camouflaging and cover to industrial complexes and defence installations by afforestation of 2,000 Avenue miles (AVMs) i.e. roadside lands, canalside lands and trailside lands, afforestation of a compact block plantation of 28,000 acres in the areas of between Rivers Ravi and Jhelum. The project was financed by Ministry of Environment and Urban Affairs. It was further extended for two years upto June, 2007.

On execution of the project by the Army, audit was conducted by Director General Audit and following irregularities were observed:

1.23 Irregular expenditure on plantation without lease agreement – Rs 395.750 million

As per Para-18 c (1) of PC-1 (2nd Revision) "contact had to be made personally by the officers of field formations involved in the execution of Project. Having contacted and acquired the desired land in area of interest a contract deed was to be undertaken with concerned department for lease period of 30 years."

It revealed from the record of Afforestation Cell, Rachna Doab, Headquarters 1 Corps, Mangla that plantation was shown made on 30,000 acres of land during the period from 1995 to 2005. An expenditure of Rs 395,749,868 was incurred on plantation of 13,950,000 saplings.

The following irregularities were noticed during audit:

i. Contract agreement was not concluded with any department.

ii. Location and Survey No. of planted area was not shown on the payment bills.
iii. Conditions of Lease Agreement were not mentioned.
iv. The trees planted were not taken on charge.
v. Formal transfer/willingness of land owners was not shown.

In the absence of above record/information, plantation of 13,950,000 saplings on an area of 30,000 acres as claimed by the authorities could not be verified by audit. Due to violation of provisions of PC-I, the whole expenditure of Rs 395,749,860 stood irregular.

When pointed out by Audit in December, 2006, the executive authorities stated that the lease agreement was not concluded due to some disputes on the lease period. However, the process of lease agreement with different departments was in progress. The expenditure on plantation in the absence of lease agreement was irregular.

The Para was examined by the DAC held on 2nd July, 2008. The DAC was informed that lease period of 30 years as agreed could not be implemented due to some legal implications and the period was revised as 10 years and most of lease agreements with forest department had been finalized. Other departments had also been approached. Location and Survey No. being classified in nature could not be shown on the payment bills.

DAC was not convinced and directed to get the expenditure regularized from competent authority (Planning Commission).

Further progress was awaited till finalization of this report. Moreover, reducing the lease period from 30 years to 10 years without revision of PC-I was irregular.

(DP-186)

1.24 Un-authorized expenditure on hiring of labour for watering the plants – Rs 206.703 million

As per PC-1 (2nd Revision) lift water pumps had to be installed for watering of plants and Tractor water tankers were to be used to water the plants in highland areas not covered by canal irrigation system.

Record held in Afforestation Cell, Rachna Doab, Headquarters 1 Corps, Mangla revealed that a large number of labour was hired for watering the plants on daily basis and an amount of Rs 206,703,324 was paid to them on Muster Rolls during 1995-96 to 2005-06.

S #	Year	Amount in Rs
1	1995-1996	1,097,374
2	1996-1997	4,551,098
3	1997-1998	15,246,728
4	1998-1999	22,200,660
5	1999-2000	46,800,664
6	2000-2001	34,249,434
7	2001-2002	8,923,013
8	2002-2003	23,532,530
9	2003-2004	14,218,971
10	2004-2005	16,194,671
11	2005-2006	19,688,181
Total:		**206,703,324**

As authorized in PC-1, watering was required to be made through Lift Water Pumps. As confirmed from the record, no implements like water bucket (Balti), water carrier (Tin Dol) and sprinklers (Fowara) etc were purchased for watering and plantation.

When pointed out by Audit in December, 2006, the executive authorities stated that HQ 1 Corps issued only 12 tractors with bowzers and diesel engines which were insufficient for watering the plants on 10,209 acres. They had to utilize the machinery where required. The reply was not tenable as all the plants were not planted in one year. Further, One Peter Pump authorized for 25-acres land was sufficient.

The Para was examined by the DAC held on 2nd July, 2008. The DAC was apprised that tractors were used for removal of wild growth. Labour was utilized for preparation of khalas (channels), making of inspection tracks and for plantation. Watering of plants was made with buckets and tins which were provided by respective units. In forestry projects watering was calculated on the basis of quli rates as 6 qulies per 1,000 plants and expended amount was less than authorized. As such watering of 30,000 acres was made by labour in the light of approved PC-I as revised from time to time.

DAC directed for verification of factual position. On verification, it was confirmed that watering through labourers was not involved. Therefore the expenditure of Rs 206,703,324 was doubtful. Investigation by executive was required to be carried out.

(DP-213)

1.25 Un-authorized expenditure on hiring of labour for preparation of land for Trenching – Rs 27.940 million

According to the PC-1 (2nd Revision) of the Rachna Doab Afforestation Project "tractors purchased with trolleys and other allied accessories were to be used for leveling and trenching and the area was to be cleared from all types of un-wanted vegetation and leveled by using tractors or bulldozers."

As per record held with Rachna Doab, Afforestation Cell, Headquarters (HQ) 1 Corps, Mangla and under Command Divisions, labourers were engaged on daily basis for leveling, clearance of land and trenching in addition to tractors held on the charge. The payment of Rs 27,941,550 was made through Muster Roll whereas according to the PC-1 of the project, the leveling, trenching, and clearance of land was required to be carried out through tractors. Therefore, the expenditure incurred on hiring of labour was not justified.

S #	Year	Amount in Rs
1	1995-1996	Nil
2	1996-1997	900,075
3	1997-1998	829,500
4	1998-1999	1,478,880
5	1999-2000	531,030
6	2000-2001	7,856,982
7	2001-2002	3,864,263
8	2002-2003	2,525,778
9	2003-2004	6,572,946
10	2004-2005	3,382,096
Total:		**27,941,550**

When pointed out by Audit in December 2006, the executive authorities stated that 12 tractors alongwith accessories were issued by the HQ 1 Corps, Mangla to the under Command Divisions for the said work which were in-sufficient. The reply was not tenable as all the plants were not planted in one year.

The Para was examined by the DAC held on 2nd July, 2008. DAC was informed that tractors were used for removal of wild growth / leveling of mounds and nullahs etc. Labour was employed to execute the tasks authorized in the PC-I. The expenditure on labour had been incurred within allotted funds.

DAC directed for verification of factual position. After verification, leveling/clearance of land through labourers was not involved so contention of executive was nullified that uneven land was leveled through labour. Allied accessories were also available for leveling, trenching and watering plants.

(DP-219)

1.26 Irregular payments made through cash instead of cheques – Rs 24.037 million

Under the provisions of Para–J to Rule-36 of Financial Regulations Volume-I 1986, "with the exception of local payment for less than Rs 10 and out-station payment less than Rs 50 in value in each case which should be made in cash, all other payments must be made by cheque".

Record held with Afforestation Cell, HQ 1 Corps, Mangla revealed that the payments amounting to Rs 24,036,925 were made by various formations as mentioned below during the years 1995-96 to 2006-07 to different suppliers / contractors and certain forest nurseries of Government of Punjab located at Sheikupura, Wazirabad in cash instead of through cheques:-

S #	Name of Formation	Payment in Cash (Rs)
1	HQ 1 Corps	2,729,216
2	HQ 6 Armoured Div	2,351,610
3	HQ 17 Div Kharian	14,498,163
4	HQ 37 Div Gujranwala	4,457,936
Total:		**24,036,925**

The payment made in cash was against the aforementioned Government orders.

When pointed out by Audit in November, 2006, the executive authorities stated that the amount was paid subsequently through Cheque/Bank Draft. The reply was not tenable as the payments were made in cash, which was against Government Orders.

The Para was examined by the DAC held on 2nd July, 2008, it was informed to the DAC that an amount of Rs 2.729 million had been paid by HQ 1 Corps out of which an amount of Rs 1.567 million only had been paid in cash due to lack of instructions on the subject. The justification of other three formations for cash payment was not accepted by the DAC.

DAC directed that cash payments in question be got regularized from competent authority.

Further progress was awaited till finalization of this report.

(DP-160)

1.27 Payment of time-barred claim – Rs 12.777 million

Under Rule-123 of General Financial Rules (GFR), no claims of Pay and Allowances of a Government Servant, which are not preferred within six months of their becoming due, can be paid without an authority from the Accounts office.

Record held with Afforestation Cell, Headquarters 1 Corps Mangla and it's under-Command HQ 17 Division and HQ 37 Division revealed that:-

A) In Afforestation Branch, HQ 17 Division, Kharian Cantonment, an amount of Rs 5.330 million of time barred claims was paid during the year 2000 on account of wages of the labourers shown engaged during the years 1997-98. The credibility of claim became doubtful because payment was shown made to daily wages labourers after lapse of 2-3 years which was violation of Government orders and was, therefore, not justified.

B) In Afforestation Branch, HQ 37 Division Gujranwala Cantonment, an amount of Rs 7.446 million was paid during the year 2000-01 on account of the wages of labour shown engaged during 1997-98 and 1998-99.

When pointed out by Audit in December, 2006, the executive authorities stated that the labour was actually employed on the Afforestation Project and paid accordingly. Most of the labour was employed locally and no advance for said allotment was released by CMA (RC), Rawalpindi.

The reply was not relevant as payment was made to daily wages labour after a lapse of 2-3 years in 2000-01 while the labour was engaged during 1997-98 and 1998-99 which was doubtful.

The Para was examined by the DAC held on 2nd July, 2008. The DAC was informed that due to late receipt of funds, the labour was paid out of private fund of units /formations and its adjustment was made on receipt of funds. This arrangement was made to protect the plantation. DAC directed to get the amount regularized from competent authority.

On Verification no documentary evidence in support of executive contention that payment was made from Divisional resources was provided.

(DP-211)

Military Accountant General

2.1 Comments on Internal Control System

According to Rule-13 of General Financial Rules (G.F.R.) volume-1 "In the discharge of his ultimate responsibilities for the administration of an appropriation or part of an appropriation placed at his disposal, every Controlling officer must satisfy himself not only that adequate provisions exist within the departmental organization for systematic internal checks calculated to prevent and detect errors and irregularities in the financial proceedings of its subordinate officers and to guard against waste and loss of public money and stores, but also that the prescribed checks are effectively applied. For this purpose each Head of the Department will get the accounts of his office and those of the subordinate disbursing officers, if any, inspected at least once in every financial year by a Senior Officer not connected with the account matters to see whether: -

i. Rules on handling and custody of cash are properly understood and applied.
ii. Effective system of internal check exists for securing regularity and propriety in the various transactions including receipt and issue of stores etc., if any, and
iii. Satisfactory arrangement exists for systematic and proper maintenance of Account Books and other ancillary records concerned with the Initial Accounts.

The results of these inspections should be incorporated in the form of an inspection report copy of which should be endorsed to Audit. The head of the Department should, after his scrutiny of the report, communicate to Audit a copy oh his remarks thereon and any orders issued in that connection."

Military Accounts Department is functioning as a departmentalized accounting entity and internal auditor of the Armed Forces since 1861. As a consequence of introduction of Revised System of Financial Management for Defence Services in 1966, this department was placed under the control of Ministry of Defence.

The Organization of Internal Audit

The Controller of Local Audit, CLA (DS) is responsible for internal audit of the defence services. In performance of his duties the CLA (DS) is assisted by four Deputy Controllers of Local Audit located at Lahore, Rawalpindi, Karachi and Peshawar. An audit section in CLA office Lahore keeps an overall control on the activities of Local Audit Officers (LAOs) of all the units / formations of Army, Navy and Air force all over Pakistan. The CLA (DS) reports the internal audit results to MAG in prescribed manner. The audit and reporting of ISOs, FWO and POFs, however, remained with the respective Controller Officers. The internal audit of the Defence Procurements by the Director General (Defence Purchase) is not done by the PMAD.

Extent of internal audit and reporting

Internal audit is conducted by CLA Lahore by auditing one month's detailed accounts every six months (two months transactions during a year). Internal audit is responsible for hundred percent verification of casting, closing and opening book balances, linking of stores, pairing of receipts and issue vouchers, rent returns, registers of conservancy and electricity charges, annual trading, profit and loss accounts, cash accounts and establishment accounts. Other accounts are checked on certain percentage basis as prescribed by the Military Accountant General and contained in the relevant LAO's Hand Book. Local audit is conducted in three phases viz. (i) audit by the Local Audit Staff / Unit Accountants, (ii) inspection by the Local Audit Officers and (iii) review by a Superior Services Officers of the PMAD. After completion of audit / review, Inspection Reports are issued by the internal audit. The serious irregularities are reported to the Ministry of Defence by the Military Accountant General through monthly and yearly reports on General State of Accounts and also included in MAG's Audit Certificate on Appropriation Accounts Defence Services.

The internal Audit Reports are, however, not shared with Statutory Audit as required under Rule-13 of GFR Volume-I ibid.

Internal control system – Effectiveness

The internal audit reports are not being shared with statutory audit. In the absence of internal audit report, which is the internal assessment of internal controls, the statutory Audit examines entire internal control system. Audit adopted a direct testing approach and found that either the internal control system was not as effective as it was supposed to be or the internal controls were not being implemented properly. A number of recurring irregularities were noticed pointing towards significant deficiencies in the internal control system and its implementation, obviously indicating failure of the structure established for the purpose. These resting deficiencies in the system leading to improper implementation of internal controls could have a direct adverse effect on the State of Accounts of Defence Forces reported by the MAG. A few of the irregularities noticed during certification of Defence Accounts and also communicated through a management letter to MAG are summarized below:

1. Overpayment in violation of rule in GE's offices.
2. Keeping of unspent balance in MEO's Public Fund Account.
3. Acceptance of claims without necessary supporting vouchers / documents.
4. Overpayments due to application of incorrect rates and less recovery of income tax and general sales tax.
5. Excess payment on account of TA / DA, Hotel charges and unjustified payment of telephone bill.
6. Non-recovery of Government dues like risk money, overpayments, rent and allied charges from the contractors.
7. Booking of expenditure to other than the relevant heads of accounts and ineffective system to check incorrect transfer entries.

The need for more effective internal control system and its desired implementation is emphasized.

It would be facilitating for the statutory audit if internal audit reports in respect of all formations are provided as per contents of existing manuals. It will help them to form more meaningful opinion and suggest way for improvement. The PAO may instruct to all concerned reiterating for strict observance of the existing manuals / procedure.

2.2 State of compliance of Controller General of Accounts Ordinance 2001 by the Military Accountant General

According to Paras 6(2) & 6(3) of Controller General of Accounts (CGA) Ordinance 2001 various accounts organizations including the Military Accountant General (MAG) and its sub offices shall work under the CGA and he shall be the administrative head of all the offices sub-ordinate to him with authority for transfer and posting within his organization. Furthermore, Para-8 states that all Accounting Offices shall afford all necessary facilities for efficient discharge and functioning of the office of Controller General.

Prior to promulgation of CGA Ordinance 2001, the Military Accounts Department was placed under the control of Ministry of Defence since 1st July, 1966 as a consequence of Revised System of Financial Management for the Defence Services issued by the Ministry of Defence on 24th September, 1966.

The budget for Military Accounts Department is provided from Defence Estimates by the Ministry of Defence. Besides all office and residential accommodation for the department including its repair and maintenance is provided by the Ministry of Defence.

Although the Pakistan Military Accounts Department has been placed under the CGA according to the provisions of the Ordinance but in administrative matters the MAG is still reporting to the Ministry of Defence. His ACR is drawn by the Secretary Defence. The promotion cases of B-17 are being managed by the MOD. The posting in and transfer out of IDC officers are, however, done by the OAGP. On functional side the MAG submits the General State of Accounts (GSA) report (internal audit report) to the Secretary Defence as the internal auditor to the Defence Services.

In line with Para-8 of the CGA Ordinance 2001, the MAG submits following reports to the CGA and its subordinate offices;

1) Consolidated Balance Accounts (yearly)
2) Consolidated Review of Balances (yearly)
3) Appropriation Accounts (Civil), Loans and Advances and Debt Servicing (yearly)
4) Inter Dominion Transaction with Government of India-Settlement (Quarterly)
5) Appropriation Accounts (Defence Services) (yearly)
6) Civil Accounts (Monthly) to AGPR
7) Deputations to Civil (Administration related)

CGA was executing a project for improvement of financial Reporting and Auditing in subordinate offices with the assistance of Planning and Development Division for integrated accounting environment enumerating following objectives:-

1) Modernize Government audit procedures and adopt internationally accepted auditing standards.
2) Establish effective accounting and reporting systems.
3) Strengthen financial management practices.
4) General Financial information for programme management by government decision makers.
5) Tighten internal controls and minimize occurrence of errors and irregularities in the processing of payments and receipts.

Accordingly, a study was to be carried out through consultants to extend NAM / to devise specialized version of NAM for Ministry of Defence. However, MAG is observing status quo and its accounting system remains independent to that of integrated system of accounts. Consequently a major Chunk of expenditure from National budget for defence is being compiled on traditional lines.

2.3 Non-adjustment of advance payment – Rs 789.669 million

According to Rule 66 (a) Financial Regulations Volume-II 1986, "expenditure pertaining to a financial year must be adjusted before the 30th June, of that year and the officers concerned shall ensure that claims are submitted in sufficient time to admit of their being paid that date".

A) 100% advance payment was to be made to M/s National Refinery Limited as per clause-9 of Contract Agreement (CA) bearing No 91304/NRL/ORs/CONST, dated 17th March, 2004, concluded by Frontier Works Organization (FWO).

As per demand register held in Store Section of Controller of Military Accounts (CMA), Frontier Works Organization (FWO), Chaklala, an advance of Rs 598,529,094 was paid to two firms viz M/s National Refinery Limited and Attock Petroleum Limited for purchase of store i.e. Bitumen and Steel during the years 2004 to 2006 for its utilization through FWO Construction Teams. However, after a lapse of a considerable time the adjustment of the said advance payments had not been made by the respective firm.

When pointed out by Audit in April, 2007, it was replied that payments were made on supply orders. As and when certified receipt vouchers (CRVs) received, the same would be adjusted against the demand. Moreover advance payments were made for smooth running of projects.

The reply was not tenable as non-adjustment of advance payments after lapse of considerable time of 02 to 04 years was not justified.

The Para was examined by the DAC held on 21st August, 2008. DAC was informed that since FWO was not part of Defence Budget therefore, they were not subject to test audit. DAC did not accept the reply and directed MAG Office to submit para specific revised reply up to 5th September, 2008, with consultation of FWO.

In the revised reply received, it was intimated that final bill for adjustment had not been received so far and CMA (FWO) had asked for Certificate Receipt Vouchers (CRVs) from the quarters concerned. The reply was not acceptable in Audit as advance paid during the years 2004 to 2006 had not been adjusted which was clear violation of Rules.

B) Similarly, it was observed from the record held with "M" Section of Controller of Military Accounts (CMA), Rawalpindi Command (RC) that an amount of Rs 191.40 million was paid to Headquarters Special Communication Organization (SCO) as advance on different occasions during the period April to June, 2005, but the adjustment / expenditure

accounts were not furnished by the SCO authorities for post audit before expiry of financial year. The accounts authorities also did not call for the accounts and supporting documents for post audit in violation of above rules.

When pointed out by Audit in May, 2007, the accounts authorities stated that the matter was under reference and final outcome was still awaited. The reply was not tenable as according to Government orders the advance was to be given against a guarantee and was required to be adjusted in the same financial year in which it was drawn. Non adjustment of advance even after two years proved that accounts authorities could not exercise internal checks to maintain financial discipline.

The Para was examined by the DAC held on 9th July, 2008. It was informed by the accounts authorities that HQ SCO had been approached for early submission of documents for post audit.

DAC directed MAG to ensure early submission of adjustment vouchers by SCO and their post audit by CMA concerned.

Further progress was awaited till finalization of this report.

(DP-520 &187)

2.4 Irregular acceptance of debit of pension payments – Rs 93.834 million

According to Para 7 of the "Procedure, for adjustment of Defence pensions "circulated by the Auditor General of Pakistan vide letter No 108-AC-II/6-48/2000 dated 28th July, 2000, 100% post audit will be done by the concerned accounts offices. During the course of post audit, if they find any voucher incomplete or not pertaining to them, they will take up the matter with the bank that made the payment and get the voucher complete or obtain refund of the wrong payment".

It was noticed during scrutiny / physical counting of Pension Payment Journals provided by the audit sections of Controller Military Pensions (CMP), Lahore Cantonment, that an amount of Rs 248,230,511 was accepted against 98,431 pensioners paid by sixteen (16) General Post Offices (GPOs) during December, 2003, to September, 2005. During

physical verification of Pension Payment Journals, it transpired that actual numbers of pensioners were 71,070 and payment of Rs 154,395,660 was actually made by the GPOs. Payment of Rs 93,834,851 against 27,361 pensioners was thus accepted by the CMP without receipt of vouchers from the concerned GPOs.

The matter needed to be investigated why 100% of post audit was not conduced which resulted in irregular pension payments.

When pointed out by Audit in 2006-07 it was replied by the accounts authorities that necessary correspondence had been made with the concerned GPOs for justification / clarification for complete pensioners' documents. Further reminders were also being issued but reply from the GPOs was awaited. Reply was not agreed as acceptance of payment without receipt of record was irregular.

The Para was examined by the DAC in its meeting held on 21st August, 2008, it was informed by the accounts authorities that all vouchers were available and payment had been made on receipt of vouchers.

DAC directed the executive to get the factual position/record verified within one month.

No record was provided to audit for verification till finalization of the report.

(DP-704)

2.5 Grant of increase in pension to re-employed pensioners – Rs 7.487 million

Finance Division (Regulation Wing) Islamabad U O No 4(1) Regulation 6/99. VII dated 2nd November, 2007 stipulates that in case of re-employed pensioners, “the increases in pension drawn by the pensioners before their re-employment cannot be allowed during the period of their re-employment”.

In violation of above orders, Controller of Military Accounts (Officers Pension) allowed Dearness Allowance increases to 45 retired Army officers during period of their re-employment in Government / semi

Government departments. This resulted overpayment of Rs 7,493,512 during 1992 to 2008.

When pointed out by Audit in February, 2008, it was stated by the accounts authorities that efforts were being made to recover the amount from concerned officers.

The Para was examined by the DAC held on 21st August, 2008. It was informed by the accounts authorities that said increases had not been allowed to re-employed officers where the data was available. However, due to non-availability of information/data of re-employment, numbers of pensioners were allowed the said increases. Now mechanism for identification had been devised. Such payments against pensioners as pointed out by audit had been stopped and overpaid amount was being recovered from monthly pension. Further as per list attached with Draft Para the amount of overpayment came to Rs 6.139 million instead of Rs 7.487 million.

DAC did not accept the reply and directed MAG Office to submit para specific revised reply up to 5th September, 2008, in consultation with CMA (OP) Rawalpindi.

In the reply received, recovery of Rs 493,482 only (upto 31st August, 2008) was reported. Expeditious recovery of Rs 6.993 million is also stressed.

(DP-521)

Overpayments – Rs 22.845 million

2.6 Excess payment of pension – Rs 22.845 million

In accordance with Rule 33 (1) (a and b) of Pension Regulations Volume-I (Army) 1999, "those overpayments, challenged in audit within twelve months from the date of payment, shall be dealt as under

(a) These shall be recovered in installments of one third of the pension, if a pension is payable.

(b) If no pension is admissible, payment shall cease immediately the error is detected and the resultant over payment shall be reported to the competent authority".

A) It was noticed from the record held with Controller Military Pensions, Lahore Cantonment that pension was paid to pensioners in excess of actual entitlement or paid twice for the same period. This resulted into double payment / overpayment of pension amounting to Rs 8,743,863 during year 2003-04.

When pointed out by Audit in September 2005, the account authorities stated that the case had been referred to concerned General Post Offices for recovery / verification and final outcome would be communicated. The reply was not acceptable as the internal checks by the accounts authorities were not exercised and overpayment remained unchallenged over a period of time. Moreover, no results of reference had been received, till the case was reported to Ministry of Defence.

B) It was noticed from the demand register of Controller of Military Pensions Lahore that a sum of Rs 11,040,180 was recoverable since 1981 from the pensioners on account of overpayment of pension. The recovery was neither made nor further payment stopped despite lapse of reasonable time indicating that the pre audit checks by the accounts offices were not being applied.

When pointed out by the Audit in 2006-07, it was replied by the accounts authorities that necessary correspondence had been made with the concerned General Post Offices (GPOs) for early recovery of outstanding demands. Reply was not tenable as no effective measures were adopted by Controllers' office for in time post audit of the paid vouchers and to take up matter with concerned Pension Disbursing Offices (PDOs) to realize the outstanding amount from the concerned pensioners.

C) According to Para-7 of the "Procedure, for adjustment of Defence pensions" circulated by the Auditor General of Pakistan vide letter No 108-AC-II/6-48/2000 dated 28th July, 2000, 100% post audit will be done by the concerned accounts offices. Detailed accounting for the purpose of budget estimates, revised estimates, etc may also be done by them in accordance with instructions of Military Accountant General.

It was noticed during audit of Pension Payment Vouchers at Controller Military Pensions (CMP), Lahore that an amount of Rs 3,061,569 was paid by the concerned GPOs to the pensioners during 2004 to 2006 in

excess of their entitlement. The audit sections of the CMP office did not point out the excess payment.

When pointed out by Audit in 2006-07, the accounts authorities replied that necessary correspondence had been made with the concerned GPOs for recovery. Reply was not agreed to as audit of pension payment vouchers was the responsibility of the Controller of Military Pensions, which was not exercised. Thus overpayments could not be pointed out and refunds claimed.

The Paras were examined in the DAC meetings held on 9th July & 21st August, 2008. The DAC was informed that the matter was with National Accountability Bureau (NAB) for investigation and the progress was still awaited. However, an amount of Rs 678,076 had been recovered against (B).

The DAC directed to submit the revised reply upto 5th September, 2008, proving that these cases were also included in the cases under investigation by NAB. DAC however, pended the para till finalization of inquiry by NAB and final action taken thereon.

In the revised reply received on 23rd September, 2008, recovery of Rs 992,471 against (B) was reported and matter was stated to be taken up with concerned GPOs against (C) however, nothing was stated about inclusion of these cases in the NAB investigation. Pending these investigations the serious lapses in internal controls need to be reviewed and remedial measures be taken under intimation to audit.

(DP-196, 651 & 703)

Miscellaneous

2.7 Non-recovery of outstanding risk and expense amount – Rs 6.685 million

According to clause 22 (c) of contract, if contract of the firm is cancelled at risk and expense then the latest equivalent of their cancelled store, will be purchased at risk and expense of the concerned firm. As per office manual (OM) Pt-VIII of Military Accountant General (MAG), amounts due for contractor on account of default or for any other cause will be entered in demand register and their recovery will be watched there from.

Recovery will be effected from bills submitted subsequently or in cash from security deposit of contractor. Further as per para (d) of Ministry of Defence Production letter No 1349/12/DGDP/PC-I/II/105/74/DP-4 dated 30th March, 2002, firms not in business with Government will be dealt with under existing rule including recourse to legal action for recovery through filing suit against them.

As per record of Controller of Military Accounts (CMA), Defence Purchases (DP), Rawalpindi, a sum of Rs 6,685,014 was recoverable since April to June, 2005, as risk and expense (R&E) against three contractors, as mentioned below, due to their failure to meet contractual obligations:

i. CA 16-0655-02/DP-2/DP-16, dated 18th March, 2003, concluded with M/s Al Charagh Enterprises Lahore for procurement of Tank drinking water Mule quantity 2665 @ Rs 3,984,175.
ii. CA 16-0579-00/DP-02/DP-16, dated 11th February, 2002, with M/s Fame Corporation Lahore for procurement of Cedar Green (BCC No. 80) 51 MM (2") Quantity 1,087,773 and white (BCC-No.1) 51 MM (2") Quantity 6,239,609 @ Rs 19,323,136 and
iii. CA 16-0636-00/DP-02/DP-16, dated 19th December, 2002, with M/s Al Charagh Enterprises Lahore for procurement of Tank drinking water Mule cover with cost of Rs 960,135.

The amount of risk & expense was neither recovered from the suppliers till May, 2007, nor was the case initiated for legal action.

When pointed out by Audit in May, 2007, the accounts authorities replied that risk and expense amount had been noted on Demand Register and recovery would be effected from next bills of firms. Moreover, a sum of Rs 79,790 on account of Cash Security Deposit (CSD) has been recovered against contract at serial # iii.

The reply was not tenable as balance amount of Rs 6,605,224 was required to be recovered immediately and deposited into government treasury. Cash scrutiny deposits were also not forfeited by the accounts authorities.

The Para was examined by the DAC held on 9th July, 2008, DAC was informed that an amount of Rs 2,064,541 had been adjusted leaving a recoverable amount of Rs 4,620,473 as detailed below:

S#	CA No. & Date	Name of Firm	Amount of R.E Rs	Amount Recovered/ Adjusted Rs	Balance Rs
1	CA 16-0655-02/DP-2/DP-16 dated 18th March, 2003	M/s Al Charagh Enterprises Lahore	1,130,014	173,225	956,789
2	16-0636-00/DP-02/DP-16 dated 19th December, 2002	M/s Al Charagh Enterprises Lahore	880,785	79,790	800,995
3	CA 16-0579-00/DP-02/DP-16 dated 11th February, 2002	M/s Fame Corporation Lahore	4,674,215	1,811,526	2,862,689
Total:			**6,685,014**	**2,064,541**	**4,620,473**

DAC directed that amount of security be forfeited and balance recovery also effected expeditiously.

Further progress was not intimated till finalization of this report.

(DP-215)

Military Lands and Cantonments

Misuse of Government land / Non-deposit of receipts in Government treasury – Rs 586.422 million

3.1 Encroachment of A-1 / A-2 land by Cantonment Boards and others – Rs 577.969 million

According to Rule 13 of Cantonment Land Administration Rules 1937, (1) the Military Estate Officer shall maintain plans and schedules of land in Class "A" (I) and (2), for each Cantonment, in which land is entrusted to his management.
(2) No alteration in the plans and schedules shall be made without the sanction of the Federal Government.
(3) As soon as may be after the 1st April of each year and not later than the 1st July, the Military Estates Officer shall submit a certificate, countersigned by the Officer commanding the Station, to the Central Government as to the correctness of the plans and schedules of class "A" land, together with a report of any unauthorized structures or encroachments thereon.

Under Rule-14 (3) of CLAR-1937 Class A-I Military land shall not be used or occupied for any purpose other than those stated in sub rule (1) of rule 5 without the previous sanction of the Federal Government or such authority as they may appoint in this behalf.

Furthermore, Rule-11 clarified that all receipts of land entrusted to the management of MEO shall be credited in full to the central Government.

Rule 5(i) of Cantonment Land Administration Rules 1937 defines Class A-1 land as which is actually used or occupied by military authorities, for the purposes of fortifications, barracks, stores, arsenals, aerodromes, bungalows for military officers which are the property of the Government, parade grounds, military recreational grounds, golf courses, rifle ranges, grass farms, dairy farms, brick fields, CNG Stations, soldiers and hospital gardens as provided for in paragraph 525 of the Army Regulations and other official requirements of the Military Authorities.

As per Para 2(b-1&2) of Policy on use of A-1 land for welfare and other projects of the Armed Forces and Canteen Stores Department issued by Ministry of Defence on 2nd April, 2008, The rent shall be charged in the light of 1980 Policy Guidelines i.e. @ 6% per annum of existing Revenue Rate (earlier known as DC Rate) of the said land (commercial use of A-1 land), not withstanding the tenancy /rent agreements of the military authorities. 25% of the above calculated rent will be deposited into Government treasury and 75% balance will be utilized by the respective formation/establishment as per policy to be laid down by respective chief i.e. COAS/CAS/CNS. Further, as per Para 2 (b-4) all use of A-1 land for any purpose shall be auditable.

About 370.844 Kanals of A-1/A-2 land in Cantonments worth Rs 577.969 million was being used/encroached by Cantonment Boards, private people or by Army for the purposes (commercial) other than specified for A-1/ A-2 class of land. Further no Government approval was accorded for commercial use of A-1 land. Details are as under:-

Formation / DP No	Class of Land	Purpose for which used	Area of Land in Kanals	Encroached or misuse by	Amount involved Rs in million	When pointed out by audit	Date of DAC
MEO Rwp (DP-535)	A-1/ A-2	Commercial / residential purpose	54.874	Rwp & Chaklala Cantt Boards and private persons	543.839	January, 2008	15-10- 08
MEO Peshawar (DP-207)	A-1	Commercial	312.500	Army Authorities	20.706	July, 2006	18-07-08
MEO Kohat (DP-565)	A-1		3.470	Army Authorities	13.424	October, 2007	15-10-08
Total:			**370.844**		**577.969**		

Neither MEOs were able to report/pursue the cases of encroachment/misuse in time to appropriate authority nor Army was taking action as required under rule for removal of encroachment/stoppage of misuse of land.

When pointed out by audit in July, 2006 – January, 2008, the executive authorities stated that A-1 land was under the control of Army authorities

and was also responsible for removal of encroachments. However, they are being asked to regularized the un-authorize use of A-1/A-2 land.

Reply was not convincing as Government land was being misused and receipts were being diverted in non-public funds. The para was discussed in DAC on the dates mentioned in the above table. DAC decided for reclassification of land where possible and also directed for vacation of land from private persons. DAC also directed to treat the use of A-1 land under the policy on use of A-1 land.

Further progress was awaited till finalization of the report.

(DP-535, 207 & 565)

3.2 Unauthorized use of amenity plots for commercial purposes and non-recovery of Government rent – Rs 3.668 million

According to Government of Pakistan Ministry of Defence sanction letter No 18/18/L/AD (A)/ML&C/167/3228/D-5/75 dated 23rd August, 1975 that "3520.77 acres of land in Karachi Cantonment was leased out to Pakistan Defence officers Co-operative Housing Society Limited (Now DOHA) and as per Para (iii) of the said letter no rent / premium will be charged for the land required for roads, parks, amenity plots."

It was observed at Military Estate Office (MEO), Karachi from a letter of 15th November, 1998, that three Plots of total area 17650 sq yds were leased out by MEO to Defence Officers Housing Authority (DOHA) for amenity purposes free of cost but subsequently were allotted to private persons for commercial use such as Beacon House School and City school. The departure from government sanction and lease agreement resulted into loss to state in the shape of non-recovery of ground rent amounting to Rs 3,668,750 worked out on the basis of valuation table applicable in City district Government, Karachi and amount of premium into Government treasury, which needed recovery from DOHA.

When pointed out by Audit in May, 2006, it was replied by the MEO that the matter for recovery of ground rent as worked out by audit was being taken up with Pakistan Defence Officer Housing Authority (PDOHA). The reply as and when received would be intimated to audit. No confirmation

of recovery was however, intimated till the matter was reported to ministry. Further the ownership of amenity plots rest with ML&C department. So all receipts were to be deposited into Cantonment Fund and a fresh lease agreement was required for further usage.

The Para was examined by the DAC held on 14th October, 2008, it was informed to the DAC that matter had been brought to the notice of DG (ML&C) who would discuss it with administration of Defence Housing Authority (DHA).

DAC directed DG (ML&C) to pursue the matter with DHA and the dues against misuse of amenity plots must be recovered from DHA.
Further progress was awaited till finalization of this report.

(DP-452)

3.3 Un-authorized use of Class 'C' land for commercial purpose – Rs 3.185 million

According to Para-8 (a, b & d) Policy of 1982 on Establishment of Housing Scheme, the land required for officers' Housing Schemes had to be provided by QMG / ML&C Department. Area covering roads, green parks mosques and external services be excluded from allotment of land to lessee. Shops and shopping centers are to be reclassified as 'C'.

It was observed at Cantonment Board, Rawalpindi that a piece of land measuring 30.61 acres of class A-I land bearing Survey No 459 under management of QMG was spared for Askari Housing Scheme. Out of which an area of 17.33 acres was leased out to Housing Directorate for construction of houses. Remaining 13.28 acres bearing subsidiary Survey No 459/1 was reserved for roads and civic amenities.

The Housing Directorate had rented out around 0.524 kanal (10.48 marlas) to private persons for commercial shops and a number of commercial units were being constructed on remaining land. It was therefore, proposed that either the land be taken back by Cantonment Board, Rawalpindi after proper reclassification as per policy quoted above or cost of land thereof amounting to Rs 3,185,920 (10.48 marlas @ Rs 304,000 per marla) be recovered from housing directorate with the approval of Government and receipts earned so far be deposited into Government treasury.

When pointed out by Audit in January, 2008, the Cantonment Board authorities stated that the site was situated outside the notified Bazaar area and was under the management of MEO, Rawalpindi and the Askari Housing Scheme had been built up on A-I land. The case was being taken up with the MEO, Rawalpindi. Further progress of the case would be communicated to the audit. The reply was not acceptable as said land was no more A-1 land after reclassification to B-4. Further as per policy shops/shopping centres were to be reclassified as 'C" land and receipts were to be realized by Cantonment Board.

The Para was examined by the DAC in its meeting held on 21st October, 2008, it was informed to the DAC that the land had not been reclassified as Class "C" so Cantonment Board could not ask the Housing Directorate to transfer it to Cantonment Board. Moreover, on transfer of land to Cantonment Board it would become their liability to maintain the roads.

DAC was not satisfied with above explanation and directed to take up matter with DG (ML& C) and submit revised reply within one week.

Result of reference of DG (ML&C) and revised reply were not provided till finalization of this report. Audit was of the view that land was given to Housing Directorate to use for providing civic facilities to residents of Askari Housing Scheme but it was used for commercial activities which was the preview of Cantonment Board as per housing policy. Thus the area was to be reclassified as "C" land or all receipts earned so far were required to be deposited into Government treasury and its cost was also required to be realized from Housing Directorate and deposited into Government treasury.

(DP-725)

3.4 Non-deposit of income of Defence Land leased out to civilians for agriculture purpose – Rs 1.600 million

According to GHQ letter No 3619/24/8/Qtg-1A dated 2nd July 1992, any land falling surplus to the requirement of the unit/formation shall be surrendered to the MEO concerned for leasing out for agriculture purpose under the prescribed procedure.

Furthermore, Rule 11 clarifies that all receipts of land entrusted to the management of MEO shall be credited in full to the central Government.

As per Para 4 (b-1&3) of Policy on use of A-1 land for welfare and other projects of the Armed Forces and Canteen Stores Department, the rent of above activities (agro based activities and poultry/fish and cattle farms etc) be fixed by aboard of officers and the complete rent so fixed shall be deposited into Government treasury. Further, as per Para 2 (b-4) All use of A-1 land for any purpose shall be auditable.

It was observed at Military Estates Office, Multan that 200 acres land situated in ammunition depot, Pirowal near Khanewal was acquired for extension of ammunition depot but it was illegally leased out to private contractors for agriculture purpose as evident from Para-8 of MEO, Multan letter No ACQ/MTN/3/I1I/1, 27th September, 2006. The said land was required to be surrendered to MEO for leasing out, if it was surplus to requirement, but it was not done. Thus Government was deprived of income to the tune of Rs 1,600,000 (200 acres x @ Rs 8,000 per acres) only for one year.

When pointed out by Audit in January, 2008, it was replied by the MEO, Multan that as per Government of Pakistan Ministry of Defence ML&C Department letter No 72/8/Lands/ML&C/86-G, dated 9th June, 1994, the objection did not pertain to MEO, Multan but to the Station HQs, Multan. Reply was not to the point as the land was required to be surrendered to and leased out by MEO and receipts obtained by Army were to be deposited into Government treasury as per rules. It was the responsibility of MEO, being agent of Government of Pakistan, to watch the interest of State in cantonment land matters.

The Para was examined by the DAC on 15th October, 2008, it was informed to the DAC that HQrs, 2 Corps had constituted a Board of Officers and proceedings were being finalized in the light of Government policy on use of A-I Land. DAC pended the para till finalization of proceedings of BOO and deposit of rent into Government treasury as enunciated under A-I Land Policy.

Further progress in the matter was awaited till finalization of this report.

(DP-468)

Commercial use of Land leased for residential purpose – Rs 197.777 million

3.5 Un-authorized conversion of residential accommodation into commercial use – Rs 179.757 million

According to Government of Pakistan Ministry of Defence ML&C Department Rawalpindi letter No 18/12/Lands/2534/D-12/ML&C/96 dated 17th July 1996, Residential plots may be converted into commercial upon payment of premium and ground rent as stated in (b) i.e. 50 % of market rate as premium and annual ground rent of Rs 4 per Sq yard. Change of purpose without permission would make the property liable to be resumed.

In Cantonment areas 104 properties were held on residential lease. The lessees had converted the residential properties for commercial purpose without getting formal approval of Government of Pakistan and payment of prescribed charges for premium and development and ground rent. Land was also not resumed as an alternate option as allowed under rules. As a result revenue amounting to Rs 179.757 million could not be realized. Details are as under:-

S No	Formation (DP No)	Draft Para No	No of cases	Amount of Premium & development charges etc Rs	When pointed out by audit	Date of DAC
1	CB Multan	702	85	82,886,210	January, 08	15-10-08
2	MEO Multan	696	08	63,855,448	January, 08	15-10-08
3	MEO Kohat	582	02	16,439,414	October, 07	15-10-08
4	MEO Kohat	699	02	4,994,000	October, 07	15-10-08
5	CB Rwp	156	03	4,236,870	January, 07	19, 22, 23-07-08
6	CB Wah	577	01	3,081,500	March, 08	16-10-08
7	CB Wah	567	01	1,588,245	March, 08	16-10-08
8	CB Nowshera	715	01	1,508,085	November, 07	16-10-08
9	CB Wah	566	01	1,167,500	March, 08	16-10-08
Total:			**104**	**179,757,272**		

No active role of Cantonment Boards and MEOs was played to finalize these cases. In certain cases even expired leases were not revised/extended.

When pointed out by audit in the year 2007 and 2008 executive authorities stated that these were old grants and were being regularized/ revised/ extended on application as per new policy. Some cases were under process at DML&C office while the others had been directed to deposit development charges for further processing of the cases.

Reply was not convincing as role of department was dormant and implementation of policies was not ensured.

The paras were examined in DAC on the dates mentioned above. DAC was informed that leases were being regularized as per new policy however, bottlenecks in the process were:- awaiting decisions of court cases and confirmation of zoning plan.

DAC directed to expedite finalization of the cases within 30 days.

Further progress was awaited till finalization of the report.

(DP-702, 696, 582, 699, 156, 577, 567 & 715)

3.6 Loss to Cantonment Fund due to un-authorized commercial use of residential sites – Rs 14.859 million

According to ML&C Department Rawalpindi letter No 18/12/Lands/2534 / D-12/ML&C/96 dated 17th July, 1996, Residential plots may be converted into commercial upon payment of premium and ground rent as stated in (b) i.e. 50% of market rate as premium and annual ground rent of Rs 4 per Sq yard. Change of purpose without permission would make the property liable to be resumed.

It was observed at Cantonment Board, Rawalpindi that bungalow No 41/A, survey No 175 hospital road, Rawalpindi Cantonment was held on lease in code form 'B' with Mr. Ghulam Sarwar and Brothers for residential purpose. Lease hold rights of a portion of bungalow measuring 2 kanals and 18½ marlas were un-authorizedly sold by the lessee to a third

party without any lawful authority who subsequently transferred it to another party. This was done with the help of Cantonment Board as the board had received TIP tax on both the above transactions vide receipt Nos 10, dated 16th April, 1996, and No 45 dated 10th September, 1996. The purchaser un-authorizedly constructed a commercial building known as "Rahat Bakers". No action was taken by the Cantonment Board either to remove unauthorized construction/resume the property or to recover prescribed charges and Composition Fee along with formalization of fresh lease agreement with the approval of government. It resulted into revenue loss of Rs 14,859,000 (58.5 Marlas x @ Rs 635,000 per marla x 40%) to Cantonment Fund.

When pointed out by Audit in January, 2008, the Cantonment Board replied that property No. 41-A, Haider road, Rawalpindi cantonment was situated outside the notified Bazar area and was under the management of MEO and was the responsibility of MEO, Rawalpindi to take action under the terms and conditions of the lease for use of residential property into commercial.

Reply of the executive authority was not acceptable as Cantonment Board was equally responsible in the case, by carrying out mutation in 1996, while they were well aware about un-authorized construction and its commercial use vide CBR No. 4, dated 7th October, 2005, but no action was taken by them.

The Para was discussed by the DAC on 19th, 22nd & 23rd July, 2008. It was informed by the executive authorities that property No. 41-A is situated out side the notified bazaar area under the management of MEO and on approaching to MEO it is learnt that case for regularization was under process.

DAC directed to pursue the case vigorously and to intimate the progress thereof.

(DP-444)

3.7 Loss to Cantonment Fund due to less receipt of Premium – Rs 3.161 million

As per advertisement published by Cantonment Board, Multan in newspaper dated 2nd June, 2005, bids were invited for construction of

shopping hall on an area of 2,450 Sq ft (49 x 50) on the basis of premium and monthly rent.

In response to above advertisement the highest bid of Rs 3,060,000 on account of premium and Rs 33,500 as monthly rent was received for construction of double storey shopping hall on an area of 4,900 Sq ft (instead of 2,450 Sq ft advertised). The same was approved by the board on 13th June, 2005.

The variation in advertisement published in news paper and bid received in open auction regarding single and double storey building was not clarified by the Cantonment Board, Multan.

Further the construction work was actually completed for basement, ground floor, first floor which was also violation of above quoted Cantonment Board Resolution (CBR) as double storey shopping hall was to be constructed. Thus original measurement of above property increased from 4,900 Sq ft to 9,502 Sq ft The Board increased 10% premium due to admitting excess area and recovered premium of Rs 3,366,000 and Rent of Rs 36,850 per month vide Cantonment Board Resolution (C.B.R) No.3 (i), dated 28th March, 2007 and Cantonment Board, Multan letter dated 12th July, 2007. The irregularity had resulted into less recovery of premium amounting to Rs 3,161,252 of an area of 4602 Sq ft.

More over the said shopping hall was constructed behind shops No. 7 to 12 of Empire Centre which was already auctioned to M/S Rang Ali and others. Now shopping hall and shops 07 to 12 were amalgamated without sanction of competent authority (Government of Pakistan).

When pointed out by Audit in January, 2008, it was replied by the executive authorities that the lessee had carried out construction of first floor un-authorizedly at his own expense. He had concurrently applied for regularization action, which was being placed before the Board for appropriate decision. It was further stated that public auction in the instant case could not be conducted as no independent passage/approach was available and the additional floor could only be utilized by the existing lessee only. The follow up as and when taken, would be intimated to audit. Reply was not tenable as the auction was made only for 4,900 Sq ft shopping hall and Premium was also obtained for the same area. Actually

triple storey shopping hall was constructed by the lessee and no Premium of extra constructed area was recovered just to give undue benefit to lessee. Moreover sanction for amalgamation with Empire Center's shops 7 to l2 was also not obtained.

The Para was discussed by the DAC on 19th, 22nd & 23rd July, 2008, it was informed to the DAC that there was a clerical mistake in the advertisement and actually double story hall was to be constructed. The violation was of un-authorized construction of 1st floor and which was likely to be regularized. The excess area while converting shops in front had already been regularized by enhancing the premium and rent. They also stated that matter was under consideration at high level.

DAC deferred the para as the case was still under process / consideration in MIL&C Department. DAC directed for progress within 2 months

Further progress was awaited till finalization this report.

(DP-423)

Non/Less assessment of properties –Rs 69.710 million

3.8 Non-finalization of assessment for House Tax – Rs 53.362 million

In consonance with Section 60 to 64 of Cantonment Act 1924, the owners of all the commercial / residential buildings situated within the limits of a Cantonment are liable to pay House Tax at the rate of 15% of annual rental value of such properties.

Record of Chaklala Cantonment revealed that 653 commercial/residential units were constructed by various lessees on the land leased out to them by Pakistan Railway in 1999. The same were located within the limits of Cantonment but remained un-assessed for House Tax since then. With a view to bring them under tax net, a Survey of the Railway Housing Scheme was carried out a few years ago, by the Board, but the drill remained useless, as neither the Survey was completed nor any bill for payment of House Tax was issued.

As per data available with the Cantonment Board 114 properties were assessed for House Tax amounting to Rs 9,315,891. The total loss against 653 units due to non-assessment for House Tax would approximately be Rs 53,361,854.

When pointed out by the Audit in January, 2008, executive authorities stated that case regarding assessment of Railway Schemes was under process with the Secretary Railway Employees Cooperative Society, for obtaining necessary information. As such assessment of properties would be carried out on receipt of complete information from the secretary and further progress would be intimated to the audit.

Reply was not satisfactory as non-finalization of assessment for ten years was against the interests of Cantonment Fund and provisions of Cantonment Act 1924.

The Para was discussed by the DAC held on 16th October, 2008. DAC was informed that all properties of railway schemes situated within Cantonment limits had been assessed hypothetically and recovery was under process.

Since there was no progress of recovery of House Tax, DAC pended the para till the finalization of the assessment by Chaklala Cantonment Board and recovery. DAC directed to intimate progress thereon within 30 days.

Further progress was awaited till finalization of this report.

(DP-496)

3.9 Non-assessment of commercial property being managed by the Army authorities for House Tax – Rs 9.589 million

Section-99 of Cantonment Act 1924 provides exemption for buildings used for educational purposes from which no income is derived.

According to Ministry of Defence letter No 52/2/24/D-5/LCH dated 22nd July 1952, all such buildings from which Government or Cantonment Board earn profit should, therefore, be assessed for the purpose of House Tax and amount of Tax recovered from owners is contemplated in the Cantonment Act.

It was observed at Cantonment Board Mangla, A-1 land measuring 123, 125 Sq ft was being utilized for Army Public School and College at Baral colony, as a commercial concern. The Cantonment Board authorities neither carried out assessment of said buildings nor effected recovery of House Tax.

The House Tax assessed by Audit, in terms of provisions of the Act was as under:

S #	Detail	Description	Amount in Rupees
a.	Cost of land	123,125 Sq ft @ Rs 550/ Sq ft	67,718,750
b.	Cost of Building	78,842 Sq ft @ Rs 750 / Sq ft	59,131,500
c.	Cost of Furniture	(approx)	1,000,000
Total:			**127,850,250**
Annual rental value (Rs 127,850,250/20)			6,392,512
House Tax per annum (Rs 6,392,512 x 15%)			958,877
Total House Tax (Rs 958,877x 10 years)			**9,588,770**

Cantonment Fund was deprived of revenue amounting to Rs 9,588,770 (958,877 x 10) due to non-assessment.

When pointed out by Audit in October, 2007, the Cantonment Board replied that the Army Public School and College were constructed on A-1 land which came under the jurisdiction of MEO, Gujranwala and was in active use of army authorities.

The reply was not satisfactory as per rules and buildings of Army Public School and College, in the limits of Cantonment Board, were required to be assessed for House Tax irrespective of the class of land on actual usage and amount of Rs 9,588,770 on account of House Tax was to be effected expeditiously.

The Para was discussed by the DAC held on 19th, 22nd & 23rd July, 2008. DAC was informed that A-I land could not be used for commercial purpose as per Rule 4 & 5 of Cantonment Land Administration Rules-1937. Cantonment Board was not authorized to assess the building on A-I land.

DAC directed to submit the revised reply in the light of policy on use of A-I land and the para would be handled accordingly. Audit was of the view that Policy on use of A-1 land had now been issued and it was silent about taxation for commercial, welfare and agricultural use of A-1 land. House tax was payable on all profit earning concerns in a Cantonment under Rules quoted above.

Revised reply was, however, awaited till finalization of this report.

(DP-297)

3.10 Non-assessment of commercial properties being managed by the Army authorities – Rs 4.203 million

According to Ministry of Defence letter No 52/2/24/D-5/LCH dated 22nd July 1952, all such buildings from which Government or Cantonment Board earn profit should, therefore, be assessed for the purpose of House Tax and amount of Tax recovered from owners is contemplated in the Cantonment Act.

It was observed at Cantonment Board Mangla that A-I land measuring 120,043 Sq ft bearing Survey No. 75 known as "Guava Orchard" valuing Rs 60,021,500 was being utilized for a big Shopping Mall by the army authorities. The same was not assessed by Cantonment Board authorities and consequently no recovery of House Tax was being made from army authorities.

The assessment of building in terms of provisions of the Cantonment Act 1924 an estimated amount of House Tax was worked out by Audit was as under:

a) Cost of Land120,043 Sq ft Rs 500/Sq ft	=	Rs 60,021,500
b) Cost of building 3,179 Sq ft @ Rs 750/Sq ft	=	Rs 32,384,250
c) Cost of furniture, Crockery.	=	Rs 1,000,000
Total	=	Rs 93,405,750
Annual rental value = Rs 93,405,750/20	=	**Rs 4,670,287**
House Tax per annum = Rs 4,670,287 x 15%	=	Rs 700,543
Total = Rs 700,543 x 6 years	**=**	**Rs 4,203,264**

When pointed out by Audit in October, 2007, the Cantonment Board replied that the shopping complex was constructed on A-I Land which comes under the jurisdiction of MEO Gujranwala and in active use of Army Authorities. The case would be referred to the competent authority (Government of Pakistan) for final decision.

Reply was not satisfactory, as the Cantonment Boards should assess the properties in cantonment limits irrespective of its management. Non-assessment was clear violation of orders which resulted in non receipt to Cantonment Fund amounting to Rs 4,203,264.

The Para was discussed by the DAC on 19th, 22nd & 23rd July, 2008. It was informed that A-I land could not be used for commercial purpose as per Rule 4 &5 of Cantonment Land Administration Rules1937. Cantonment Board was not authorized to assess the building on A-I land.

DAC directed to submit the revised reply in the light of policy on use of A-I land and the Para would be handled accordingly. Audit was of the view that Policy on use of A-1 land had now been issued and it was silent about taxation for commercial, welfare and agricultural use of A-1 land. House tax was payable on all profit earning concerns in a Cantonment.

Revised reply was, however, awaited till finalization of this report

(DP-412)

3.11 Non-assessment of House Tax – Rs 2.556 million

According to Sub-Section (1) of Section 68 of the Cantonment Act 1924, "the Board shall at the same time give public notice of a date, not less than one month thereafter, when it will proceed to consider valuation and assessment entitled in the assessment list, and, in all cases in which any property is for the first time, assessed or assessment is increased it shall also give written notice thereof to the owner and to any lessee or occupier of the property".

It was observed at Cantonment Board, Chaklala, that Building Plan of St. Mary's Boys School, Tulsa, Chaklala was approved vide Cantonment Board Resolution (CBR) No 70, dated 26th September, 1996, but neither property was assessed for house tax nor any demand notice was issued

since then. It resulted into loss of Rs 2,556,387 due to non collection of taxes.

When pointed out by Audit in March, 2007, the Cantonment Board replied that a notice under Section-103 of Cantonment Act 1924, was issued for obtaining information regarding assessment of said property and assessment would be made after expiry of the stipulated period of one month i.e. 2nd April, 2007. The reply was not tenable as assessment action was required to be initiated in 1997, which was not done.

The Para was discussed by the DAC on 19th, 22nd & 23rd July, 2008, DAC was informed that the school authority had stated that school was a non profitable educational missionary institution and was exempted from tax since its inception. On demand the school could not prove legality of the claim before assessment committee so the case was decided ex-parte by the committee and Cantonment Board was authorized to impose tax. School authorities had been directed to clear the House Tax on or before 9th July, 2008, failing which the recovery would be effected through court.

DAC directed to pursue the case as per rule and to submit the report by 30th August, 2008.

Report in this regard was awaited till finalization of this report.

(DP-404)

3.12 Non-assessment of Commercial Buildings

Section-99 of Cantonment Act 1924, enumerates the buildings exempted from any tax on property. Being no provision for exemption, the properties belonging to semi government organizations/corporations are liable to pay House Tax to local Cantonment Board.

Further, as per clarification of Ministry of Defence letter No 52/2/24/D-5/LCH dated 22nd July, 1952, Buildings from which Government or Cantonments Boards earn profit should be assessed for the purpose of House Tax.

As per record of Chaklala Cantonment Board, the building of Civil Aviation Authority (CAA) had not been assessed for the purpose of House Tax despite the fact that some portion of the building was leased out by

Civil Aviation Authority to Pakistani and Foreign airlines reasonably handsome monthly rent. Besides, the income was also derived by the CAA from the parking area of the airport. Due to non-assessment of commercial buildings, Cantonment Fund has borne considerable revenue loss. The irregularity was pointed out by audit in December, 2006. The ML&C Department vide their letter No. 3/22/G/IE&P Cell/ML&C/2006, dated 28th February, 2007, advised the Cantonment Board, Chaklala to assess the building retrospectively but no action was taken till March, 2008.

The same issue was raised again by Audit in March, 2008, the Cantonment Board stated that in order to process the assessment of properties of Civil Aviation Authority (CAA) for taxation, the Manager, International Airport, Islamabad was asked to provide necessary information as required under section-103 of Cantonment Act 1924. The Manager responded that the assets of Civil Aviation Authority did not fall under Section-103 of the Act ibid due to the reason that the building stand constructed by Civil Aviation Authority (CAA) on defence land being used for public purpose and Government of Pakistan had equity in the building transferred to CAA under Section 11 (1) of the CAA Ordinance 1982. The matter was still under correspondence. Therefore, final outcome would be intimated to the audit well in time.

The reply was not acceptable as it was a commercial building fetching sufficient income and was liable to pay House Tax under Government letter No 52/2/24/D-5/LO11, dated 22nd July, 1952.

The Para was discussed by the DAC on 16th October, 2008. The executive stated that the property had been assessed for tax purpose.

DAC directed the Cantonment Board to provide the record of assessment to audit for their opinion, after scrutiny of the documents, through Ministry of Defence.

Further progress was awaited till finalization of this report.

(DP-524)

Diversion of Cantonment receipts

3.13 Un-authorized recovery of Cantonment dues by Station Headquarter Jhelum – Rs 2.112 million

As per Policy framed by Ministry of Defence (ML&C Deptt) vide their letter No 51/411/Lands/ML&C/2005, dated 24th June, 2005, for installation of Base Transreceiver Station (BTS) towers in Cantonment area, the cellular company is required to pay to Cantonment Board (CB) an Antenna Fee of Rs 20,000 per month with 10% annual enhancement besides rent.

It was noticed from Cantonment Board, Jhelum letter No 711/246, dated 24th February, 2007, that M/s Telenor and Moblink had installed Base Transreceiver Station (BTS) towers on overhead water tanks owned by the Cantonment Board, Jhelum but prescribed Rent and Antenna Fee of those towers was being received by Station Headquarters, Jhelum. Cantonment Fund was thus, deprived of its revenue amounting to Rs 2,112,000 for the period from 1st July, 2004 to 31st December, 2007.

When pointed out by Audit in December, 2007, the Cantonment Board replied that case for recovery of Cantonment dues was under process. The reply was not convincing, as the contract was required to be concluded by Cantonment Board.

The Para was discussed by the DAC on 21st October, 2008. DAC was informed that case for recovery had been taken up with Station Headquarter, Jhelum and notices to cellular companies had been issued for execution of rental contract of the above mentioned towers also with the Cantonment Board.

DAC directed to expedite the recovery in the case.

No recovery was reported till finalization of this report.

(DP-531)

Irregular expenditure – Rs 4.511 million

3.14 Irregular Transfer of Store Items to unauthorized person / Defence Housing Authority (DHA) – Rs 2.221 million

Rule-67 of Cantonments Account Code 1955, states that "the executive officer shall cause to be prepared for each department in prescribed form for the stores required during the ensuing financial year". Rule 67(16) (iii) states that "in making a physical verification, the shortages and damages as well unserviceable stores, shall be reported immediately to the authority competent to write off the loss". As per Rule 67(9) (ii) "the executive officer shall record full particulars regarding all condemned stores in a suitable list for which their disposal can be watched".

It was observed at Cantonment Board, Clifton, that 75 items of water supply store required by the Defence Housing Authority (DHA) Water Supply Management were supplied by M/s Al-Zaman & Co and paid on 6th March, 2006, by Cantonment Board, Clifton. The same were handed over to Sub Divisional Officer (SDO) Bulk Water Supply technical team of Defence Housing Authority. The transfer of store valuing Rs 2,221,662 to a private entity was irregular.

When pointed out by Audit in January, 2007, it was replied by the Cantonment Board that Defence Housing Authority was providing facility of water supply to the public on behalf of Cantonment Board Clifton. However, Cantonment Board, Clifton was collecting the water charges and supplying the water supply stores to Defence Housing Authority. Capacity of Cantonment Board was limited and therefore, Defence Housing Authority was assisting the Cantonment Board, Clifton in many ways in order to redress the public complaints efficiently and to improve service delivery system.

Reply of the executive was not tenable as no provision of handing over of Cantonment Board's store in bulk to any other unauthorized agency/person existed. Moreover, there was no record in terms of how the store was actually accounted for or utilized.

The Para was examined by the DAC held on 14th October, 2008. DAC was informed that water wing of DHA was working on behalf of DHA and Cantonment was providing store to them. Unserviceable store items were auctioned by water supply wing of DHA

DAC was not satisfied with the executive explanation and directed Cantonment Executive Officer, Cantonment Board, Clifton to provide revised reply / relevant record to Director General Audit Defence Services (South), Karachi and discuss with him. DAC deferred the para till receipt of verification report from DGADS (South), Karachi.

On verification, it revealed that corresponding entries in the Cantonment Board/DHA record were not corroborating with each other. Further, the executive could not prove role of DHA within the framework of Cantonment Board, with the support of rules and regulations.

(DP-672)

3.15 Irregular payment to Defence Housing Authority – Rs 2.29 million

Under Rule-2(A) (4) (iv) of Cantonment Accounts Code 1955 "public money should not be utilized for the benefit of a particular person or section of community".

Rule-71(3) of Cantonment Board Budget Rules 1966, "executive officer shall ensure that no financial irregularity is committed, that is to say no expenditure is incurred without justification".

Rules-62 to 66 Chapter-XV of Cantonment Accounts Code 1955, describes the procedure regarding public works in detail.

A) It was observed at Cantonment Board, Clifton, work regarding de-silting of Jami Nallah and Korangi Road Nallah was approved by the Administrator, Defence Housing Authority (DHA) on 7th April, 2006. The same was forwarded to Cantonment Board, Clifton on 22nd April, 2006, for releasing an amount of Rs 825,930 in favour of DHA on priority basis. Payment was made by the office of Cantonment Board, Clifton on 9th June, 2006, without approval of Board, in violation of the procedure as mentioned in Chapter-XV of Cantonment. Accounts Code 1955.

When pointed out by Audit in January, 2007, the Cantonment Board replied that it was the maintenance function which has been done by Defence Housing Authority as Deposit Work and the expenditure was legitimate.

Reply was not acceptable, as the decision taken by the administrator DHA was not binding on Cantonment Board, Clifton. DHA was not a service providing authority. There existed no provision in Cantonment Accounts Code-1955 and Cantonment Act-1924 by which DHA could carry out work on behalf of Cantonment Board. Moreover, there was no documentary evidence to prove that the work was actually carried out/executed by Defence Housing Authority. Payment was made simply on demand of Defence Housing Authority, thus the expenditure of Rs 825,930 was irregular. In the absence of supporting evidence like Estimates, Work Orders, Job Completion Reports etc the payment was not justified.

The Para discussed by the DAC on 14th October, 2008. It was informed that President Cantonment Board had asked for reasonable estimates to execute the work and it was decided by CEO and PCB to get it executed through DHA being limited capacity of Cantonment Board.

B) Similarly, the administrator of DHA, (General Services Branch) approved the transfer of their mechanical sweeper and instructed the CEO, Cantonment Board, Clifton on 7th April, 2006, to collect mechanical sweeper on priority as per Administrator's remarks. The CB, Clifton vide their Resolution No 3, dated 27th May, 2006, approved the subject payment with 10 % depreciation and resultantly a cheque dated 6th June, 2006, for Rs 1,295,000 was issued in favor of DHA. The expenditure of Rs 1,165,500 {i.e. Rs 1,295,000 – 129,500 (10 % depreciation)} was irregular as the decision taken by DHA was being endorsed afterwards without any genuine necessity. It is pertinent to mention that Administrator DHA was also the president of CB, Clifton. However, he had utilized the resources of Cantonment Board in an unauthorized manner.

When pointed out by Audit in December 2006, the Cantonment Board replied that mechanical sweeper purchased from DHA was brand new. It was lying idle in their workshop and therefore, was taken over by the CB,

Clifton in the public interest after deduction of the depreciated value. There was no question of favoring any one as both are sister organizations harmoniously providing working for amenities to the DHA residents.

The reply was not tenable as the sweeping and cleaning of entire Cantonment Board, Clifton area was already awarded to conservancy contractors since long and it was the duty of conservancy contractor to provide machinery / manpower for the cleanliness of Cantonment Board, Clifton area.

DAC was not satisfied with the executive's explanation and directed Cantonment Executive Officer (CEO) CB, Clifton to provide revised reply / relevant record to Director General Audit Defence Services (South), Karachi and discuss with him.

DAC deferred the Para till receipt of verification report from DGADS (South), Karachi.

The verification report of DG (South) revealed that the responsibility for execution of work within cantonment limits rested with Cantonment Board, therefore, the deviation from prescribed procedure needed to be got regularized in addition to stoppage of practice for handing over the amount to DHA on account execution of various works. Further the plea of executive in connection with purchase of mechanical sweeper from DHA for rendering the conservancy services was not justified because as per Para (a) (Resources) Page-3 of Conservancy Agreement, the contractor was bound to provide the mechanical sweeper for rendering of conservancy services in the Cantonment area.

In the light of above, the procurement of mechanical sweeper from DHA at a cost of Rs 11,65,500 was not justified and required to be got regularized.

C) It was observed at Cantonment Board, Clifton that during 2005-06 an estimate for Rs 748,125 for de-silting of Nehr-e-Khayam (for rain emergency) was forwarded by Deputy Director, General Services Branch, Defence Housing Authority. The same was approved by President Cantonment Board, Clifton under Section-25 of Cantonment Act, 1924 and 40% advance of total cost of work was paid on 25th July, 2005,

without confirmation by the Board resulting in un-authorized payment of Rs 299,250.

When pointed out by Audit in December, 2006, the Cantonment Board replied that de-silting operation was a maintenance work and was the responsibility of Cantonment Board, Clifton. Owing to the capacity problem, the Cantonment Board, Clifton got the job done from Defence Housing Authority as a deposit work. It was a public service and needed to be carried out before every rain emergency.

Reply was not tenable as:

a) No documentary evidence was produced in confirmation of work actually executed by the Defence Housing Authority.

b) Only advance payment was made and no final adjustment bill was found in record/produced which confirm that no work was actually carried out.

c) No provision exists in Cantonment Accounts Code 1955 that Cantonment Board, Clifton could get its works executed by any other agency as deposit work.

The Para was discussed by the DAC on 14th October, 2008. It was informed that matter was under process with DHA and progress would be intimated in due course of time.

DAC was not satisfied with the executive explanation and directed Cantonment Executive Officer, Cantonment Board, Clifton to provide revised reply / relevant record to Director General Audit Defence Services (South), Karachi and discuss with him. DAC deferred the Para till receipt of verification report from DGADS (South), Karachi.

The verification report of DG (South) revealed that the responsibility for execution of work rested with Cantonment Board and it had been accepted in the revised reply. Therefore, the deviation from prescribed procedure needed to be got regularized in addition to stoppage of practice for handing over the amount to DHA on account of execution of various works. Detail record of work executed was also not available with the Cantonment Board as justification for payment.

(DP-448 & 461)

Un-authorized expenditure – Rs 6.287 million

3.16 Undue favor to contractor – Rs 5.163 million

According to Rule 2(A) (4) (iv) of Cantonments Account Code 1955 "public money should not be utilized for the benefit of a particular person or section of community".

It was observed at Cantonment Board, Clifton that tenders for improvement of service lanes along both sides of Korangi road were invited in February and March, 2005. Only two parties participated in the bidding process.

The rates quoted by NLC, being lowest of the two were approved by the Board and also by the Director General, Military Lands and Cantonments. When Draft Contract Agreement was sent to NLC for vetting, the NLC requested that keeping in view the high escalation trend in market rates the contract might now be concluded on 33% (average) above MES Schedule of Rates 2000. The Board approved the recommendation. The Board was not guided by the executive for assessing the market rates and for exercising the option of re-bidding.

Contract Agreement was concluded with the NLC and work order issued for completion of work within 90 days from the date of issue. The Board, thus paid an excess amount of Rs 5,163,868 to the contractor due to unjustified revision in contractor's percentage as under:

Amount in Rs

Amount of scheduled items	Quoted rate 15.34% above	Allowed rate 33% above	Excess paid
29,240,476.42	4,485,489.08	9,649,357.21	5,163,868.13

When pointed out by Audit in November, 2007, the Cantonment Board replied that the work order was delayed due to various administrative reasons and that during the delayed period, the rates of bitumen and other material enhanced due to which contractor requested for enhancement. Stating further that the case was placed before the Board who approved the enhancement as it was competent to do so.

Reply furnished by the executive was not tenable as there was no abnormal delay in finalization of contract and all formalities were completed in four and a half months time. Neither the tender was re-invited nor consent of the second lowest bidder obtained in the process. Thus undue favour was extended to the contractor in violation of rules.

The Para was discussed by the DAC on 14th October, 2008. It was informed that on approval of enhancement of rates by the Board revised estimates were prepared and were sanctioned by the Director Military Lands and Cantonments.

DAC pended the Para with the direction to submit the revised reply as per discussion during DAC for examination / verification by audit.

Revised reply was awaited till finalization of this report.

(DP- 690)

3.17 Irregular expenditure on hiring of machinery for cleaning / removal of roadside berms etc – Rs 1.124 million

Under Rule 2(A) (4) of Cantonments Account Code 1955, Officers of government members and Servants of Boards incurring or authorizing expenditure from the Cantonment Fund shall be guided by high standards of financial propriety.

As per Rule-71 (3) of Cantonment Budget Rules 1966, executive officer will ensure that no financial irregularity is committed and no expenditure is incurred without proper justification.

As per record held with Cantonment Board, Clifton, during the year 2005-06 machinery was hired by the Board for removal of roadside berms/jink/debris scraping cleaning etc. on several occasions despite the fact that a conservancy agreement was in place. It was the responsibility of conservancy contractor as per terms of the contract to providing services at a monthly rate of Rs 4,085,000. The expenditure incurred by the board was a duplication, which resulted into irregular expenditure to the extent of Rs 11,224,700.

When pointed out by Audit in January, 2007, it was stated by the executive that it was the responsibility of Cantonment Board, Clifton to

keep its jurisdiction neat, clean and free from all encumbrances. The entire Cantonment jurisdiction was giving untidy look due to lot of lying of debris in the open plots. Headquarters 5 Corps/administrator, Defence Housing Authority assigned that task to Cantonment Board, Clifton, who had no means of its own. Neither it was the contractor's responsibility to clean the backlog. Therefore, a lot of machinery was hired and an open operation clean up was launched which was greatly appreciated by the public and the authorities. The operation was completed in one year's time and it was monitored by Commander 5 Corps and Administrator Defence Housing Authority personally. The expenditure was legitimate.

Reply was not tenable as sweeping, cleaning, removal of debris etc. was the responsibility of conservancy contractor during the currency of the contract.

The Para was examined by the DAC on 14th October, 2008, executive authorities repeated their earlier stance.

DAC was not satisfied with the executive explanation and directed Cantonment Executive Officer (CEO), Cantonment Board, Clifton to provide revised reply / relevant record to DGADS (South), Karachi and discuss with him. DAC deferred the Para till receipt of verification report from DGADS (South), Karachi.

On verification, it was confirmed that as per clause-IV of conservancy agreement, the contractor shall make arrangement for lifting/removal of construction material/debris every day. Garbage from bins and other open areas including garden refuse, dead animals, construction material and debris shall be removed by the contractor on daily basis from all contracted areas of Cantonment.

The plea of the executive that expenditure was incurred to clear the backlog was also not correct because the conservancy contract was concluded with the same contractor for 10 years. Any backlog was the negligence on the part of conservancy contractor.

(DP-678)

Non/less recovery of Cantonment Dues – Rs 126.664 million

3.18 Non-recovery of Hoarding and Advertisement Tax- Rs 119.875 million

As per section 282 (23) of Cantonment Act 1924, "subject to the provision of this Act and of the rules made there under may Board may in addition to any bye-laws which it is informed to make by any other provision of this act make to provide for all or any of the following matters in the Cantonment namely the registration of the positing of bills and advertisement and of the positions size shape or style of name-Boards, sign-Boards and sign-posts".

Rule-92 of Cantonment Act 1924 provides that, "if the person liable for the payment of any tax, does not, within 30 days from the service of the notice of demand, pay the amount due, or show sufficient cause of non-payment of the same to the satisfaction of the executive officer, such with all costs of recovery maybe recovered under a warrant".

Record of various Cantonment Boards revealed that an amount of Rs 119.875 million was outstanding against hoardings and advertisement firms for the period 2005-2006 to 2007-2008. It was observed that the amount billed against hoarding and advertisement charges were not being pursued vigorously. Also bills on this account were not being raised in certain cases. Audit did not have sufficient assurance that the respective Cantonment Boards had taken effective measures to recover the due amounts. Cantonment Fund was deprived of its revenues to the extent of Rs 119,875,524.

S#	Formation & DP No	Nature of Claim	Period	Total Pointed out Amount Rs	Recovered Rs	Balance Rs	Remarks
1	CB Clifton	Hoarding &Advertisement Tax	2005-2006	13,089,799	2,350,000	10,739,799	DP-402
2	-do-	-do-	2006-2007	26,206,112	1,025,460	25,180,652	DP-685
3	CB Murree	-do-	2006-2007	1,470,000	300,000	1,170,000	DP-403
4	CB Clifton	Less recording of Hoarding & Advertisement Tax	2006-2007	7,542,333	Nil	7,542,333	DP-687

S#	Formation & DP No	Nature of Claim	Period	Total Pointed out Amount Rs	Recovered Rs	Balance Rs	Remarks
5	CB Multan	Hoarding &Advertisement Tax	Upto 2006-2007	3,770,660	2,534,480	1,236,180	DP-470
6	CB Hyderabad	-do- installed by Army	2006-2007	3,859,000	Nil	3,859,000	DP-666
7	CB Sialkot	Advertisement Boards (11)	2007-2008	3,915,000	Nil	3,915,000	DP-478
8	CB Lahore	Hoarding Charges (13) allowed by Army	2006-2007	27,285,600	Nil	27,285,600	DP-553
9	CB Walton	Hoarding Charges	2006-2007	38,946,960	Nil	38,946,960	DP-563
Total:				**126,085,464**	**6,209,940**	**119,875,524**	

When pointed out by Audit in November, 2006, the executive authorities stated that certain amounts as depicted in the Table at serial No. 1, 2, 3 and 5 have been recovered and cases were being pursued for recovery of remaining amount. Item at serial No. 4 was reported to be scrutinized for ascertaining deficiency/disparity in Demand and Collection Register and results thereof would be intimated. No confirmation regarding recovery of balance amount was intimated till the matter was reported to ministry. Matter was stated to be under reference with Station Headquarters at serial No 6, 7, 8 and 9.

Reply of the executive authorities was not convincing as realization of Cantonment dues was the responsibility of Cantonment Board staff.

The Para was examined by the DAC meetings held on 19th, 22nd and 23rd July, 2008. DAC was informed that recovery position had further improved by Rs 6.570 million, Rs 172,500 and Rs 388,800 against Paras No 420,403 and 470 and efforts were being made to recover the balance amount. Regarding DP-No 687, less amount was demanded due to adjustment of amount from the date of permission letter and not from the date of granting of permission in the year 2006-2007. While the cases mentioned in DP No 666, 478, 553 and 563 were stated to be under reference with concerned Station Headquarters and were linked with finalization of A-I policy. Recovery from DHA was also under process in DP-563.

DAC directed for early completion of recovery and its verification by audit. DAC also asked DG (ML&C) to take up the matter with Ministry of Defence to clarify the position against DP No. 478.

Further progress was awaited till finalization of this report.

(DP–402, 686, 403,687,470,666,478,553 & 563)

3.19 Less recovery on account of share of Cantonment Board Cattle Mandi – Rs 7.057 million

Rule-67 of Accounts Code-1955 "it is the duty of the executive officer to ensure that all incomes are claimed, realized and credited to the Cantonment Fund".

As per record held with Cantonment Board, Malir, it was observed from the letter of Headquarters (HQrs) Corps Res 5 Corps, Malir dated 21st March, 2007, that a cheque for Rs 31,567,635 was sent to Station HQrs Malir for the expenditure incurred and for distribution of share from the receipts of holding of Cattle Mandi wherein an amount of Rs 27,057,973 was included as 30% share of Cantonment Board, Malir but Station HQrs forwarded a cheque of Rs 20,000,000 to Cantonment Board, Malir subsequently on account of subject share (less than actually decided as 30%) which resulted into less receipt of share to the Cantonment Fund to the tune of Rs 7,057,973.

When pointed out by Audit in November, 2007, the executive authorities stated that Board was given share of Rs 20 million finally vide Station Headquarters, Malir Cantonment letter No. 500/GW/Misc/Accts, dated 2nd May, 2007, and not in the light of HQ Corps Reserve, 5 Corps letter No.302/Accts, dated 21st March, 2007, as otherwise considered by audit in the observation, hence no irregularity was occurred.

Reply furnished by the executive was not tenable as the share was decided and Station Headquarter was not authorized to change the share as it was already decided by HQ Corps Reserve, 5 Corps., that out of total payment of Rs 31,567,635.00, the share of Cantonment Board, Malir would Rs 27,057,973 i.e. 30% and which was not paid in full. No effort was made by the Cantonment Board, to demand the balance amount of share from Station HQrs, Malir and claim was abandoned illegally.

The Para was examined by the DAC held on 14th October, 2008. DAC was informed that Station Commander was the overall president of Management Board of Cattle Mandi who disbursed share after getting final approval from Headquarter 25 Mechanized Division (Earlier HQ, 5 Corps Reserve).

DAC was informed that Cantonment Board had received its due share. DAC directed for verification by DGADS (South) of fact that CB had received its due share.

On verification it was revealed that the amount had not been fully recovered in accordance with the approval of HQ, 5 Corps.

(DP-685)

Non-recovery of TIP Tax

3.20 Non- recovery of Transfer of Immovable Property (TIP) Tax – Rs 3.748 million

Cantonment Board Rawalpindi in terms of Ministry of Defence letter of 15th February, 1994, had imposed Transfer of Immoveable Property (TIP) Tax on sale of all Lands and Buildings within the limits of Cantonment Board, Rawalpindi @ 3% of consideration money of such lands and building.

It was observed from the record of Land Branch Cantonment Board, Rawalpindi, that Bungalow No.59, 59-A and 59-B measuring 9,105 sqm comprising Survey No.368 situated at junction of Bank/ Murree Road and Adam Jee, Road Rawalpindi was held by Syed Ali Shah on Old Grant term. On request of the owner, sanction for commercial lease of an area measuring 6,007.53 sqm and its sub division into 85 plots was accorded by Ministry of Defence by creating separate Survey Nos in favour of Syed Ali Shah or his nominees on payment of premium and ground rent and communicated vide MEO letter No R-25/51/W/2 dated 17th November 1994. Scrutiny of record available with Cantonment Board revealed that Lease Agreements of these plots were executed by MEO with the nominees of Syed Ali Shah. As it was a sale transaction between original lessee and his nominees being allotment of separate Survey Nos and alteration in General Land Register (GLR) hence transferees were liable to pay TIP Tax to Cantonment Board at prescribed rates but no such recovery

was made from them. Cantonment fund deprived of the receipts amounting to Rs 3,748,176 (6,007.53 sqm x Rs 20,797.10 x 3%).

When pointed out by Audit in July, 2006, executive authorities stated in reply that case for recovery of TIP Tax from lessee would be taken up with the MEO, Rawalpindi as the property was situated out side Bazaar Area.

Reply of Executive Authorities was not tenable as the area was reclassified as "C" land by Ministry of Defence and Cantonment. Board should have demanded TIP tax from persons submitting building plan for sanction but no timely action was taken. Proper action was required to be taken for realization of Cantonment dues.

The Para was examined by the DAC held on 19th, 22nd and 23rd July, 2008. DAC was informed that no TIP tax was leviable because Ministry of Defence had sanctioned the lease in favor of Syed Ali Shah or his nominees.

DAC was not satisfied with the reply, therefore, directed to submit the detailed, comprehensive and convincing revised reply by 15th August, 2008 as discussed in the meeting. In revised reply the plea that TIP Tax was not leviable on 85 nominees was not acceptable by audit being contrary to SRO No 1786/73 of 27th December, 1973 (as amended in 1994).

(DP-117)

Execution of contract agreement on lesser rate

3.21 Execution of lease at lesser rate – Rs 32.803 million

In terms of Para-(ii) of Government of Pakistan, Ministry of Defence letter No 18/18/L/AD (a) ML & C/67/3228/D-5/75, dated 23rd August, 1975, for 3220.77 acres of land sanctioned for lease out to Defence Officers Cooperative Housing Society Limited in schedule IX-A "premium will be realized in case of residential plots @ Rs 1.25 per sq.yd and for commercial plots @ Rs 1.25 per sq.yd or the bid obtained in auction which ever is more."

It was noticed from the record held with MEO, Karachi that a piece of land measuring 352.08 acres was leased out to Defence Housing Authority (DHA) @ Rs 1.25 per sq.yd and Rs 0.15 per sq.yd annual ground rent instead of Rs 10 premium per sq.yd (50 x 20 = Rs 10) and Rs 0.50 as verified from standard table of rates of Cantonment Board Karachi whereas the market rate was much higher at that time. It resulted in short recovery of Rs 14,910,586 on account of premium and ground rent Rs 17,892,706 w.e.f November, 1975 to November, 2005.

When pointed out by audit in April, 2006, it was replied by the executive authorities that the matter would be taken up with the D.H.A for recovery of ground rent, as and when the recovery action finalized, audit would be informed. No progress was received till finalization of the DP.

The Para was examined by the DAC in its meetings held on 19th, 22nd and 23rd July, 2008. DAC was informed that case had been taken up with DHA for recovery. DAC directed to intimate progress by 31st August, 2008.

Further progress was awaited till finalization of this report.

(DP-407)

Miscellaneous Irregularities – Rs 5,997.200 million

3.22 Non-transfer/ adjustment of land measuring 497 kanals and 17 marlas – Rs 5,974.200 million

General Headquarter (GHQ) Quarter Master General's (QMG) Branch (OS Dte) Rawalpindi letter No 4207/154/OS-14B-II, dated 20th December, 2006, revealed land measuring 1,580 kanals and 7 marlas of Central Mechanical Transport and Stores Department (CMT&SD) Golra was transferred to Capital Development Authority (CDA) Islamabad for construction of Kashmir Highway in 1964. In exchange CDA had to provide equivalent piece of land to Army Authorities. However, CDA had handed over only 1,082 Kanals and 10 Marlas land on 13th August, 1964 but remaining land measuring 497 Kanals and 17 Marlas was not transferred to the CMT&SD Golra to date.

The present market value of balance land came to Rs 5,974,200,000 (497 kanals, 17 marlas x 20 = 9,957 marlas @ Rs 600,000 per marla

approximately) which required to be claimed if the land was not transferred to CMT &SD.

Moreover record held with Military Estates Officer, Rawalpindi revealed that land measuring 42 Acres 5 Kanals and I Marlas was acquired on 11th February, 1986, from CDA for Electrical and Mechanical (EME) College, Rawalpindi in the vicinity near to CMT&SD, Golra and an amount of Rs 20.833 millions was paid to CDA for said acquisition of land, without adjusting the cost of land outstanding since 1964.

On 24th February, 1992, the demarcation of Kashmir Highway was carried out in the absence of representative of CMT&SD Golra by the Surveyor of CDA in the presence of representative of Military Estates officer but no further action was taken by CDA to hand over the land measuring 497 kanals and 17 marlas.

When pointed out by Audit in January, 2008, executive authorities stated that the GHQ had on 20th December, 2006, taken up the subject case with CDA for the claim of balance land measuring 497 kanals and 17 marlas.

Reply given was not satisfactory. The Military Estates Officer being custodian of defence land was responsible to take up the matter with CDA. Further non transfer of land since 1964 may result in loss subsequently.

The Para was examined by the DAC held on 15th October, 2008. DAC was informed that that after prolonged correspondence between Army authorities and CDA, it was agreed by CDA that remaining land would be given after acquisition in the west of EME College.

DAC observed that this case was very old and was under process since 1964 with CDA. DAC decided that this Para would stand for examination by PAC.

(DP-700)

3.23 Loss to Cantonment Fund due to illegal occupation of Bungalow – Rs 23.00 million

Rule-88 of General Financial Rules provides that "the authority administering a grant is ultimately responsible for watching the progress of expenditure on public service under its control."

Record of land branch of Cantonment Board, Rawalpindi, revealed that on 7th December, 1959, bungalow No. 39 (Evacuee Property), situated at Police Station Road Rawalpindi held on Old Grant terms, classified as B-3 land was purchased by ML&C (Cantonment Board Rawalpindi) at a cost of Rs 6,597 on 12th May, 1961. At the time of purchase, the house was occupied by Senior Superintendent of Police (SSP), Rawalpindi. Rent of the bungalow on hiring out was not being recovered. Moreover, in the record it was not shown as property of the Cantonment Board. Thus, the bungalow with market value, of Rs 23.00 million (92 marlas x Rs 250,000) was allowed to remain occupied since1959 without any return to Cantonment Board.

When pointed out by Audit, the executive authorities stated that case was already under process with the higher authorities. As soon as decision was taken, the audit authorities would be informed accordingly.

The executive reply was not tenable. The matter needed to be got thoroughly investigated to unveil the circumstances leading to illegal occupation of Cantonment Property and efforts were required for its restoration to Cantonment Board.

The Para was examined by the DAC meeting held on 19th, 22nd & 23rd July, 2008. DAC was informed that case was sub judice on issuance of Permanent Transfer Deed (PTD) in favor of occupant instead of Cantonment Board. Mutation of the occupant had been cancelled by MEO but the occupant had filed a suit for declaration of permanent and mandatory injunction.

DAC directed to pursue the case and intimate progress thereof.

Final outcome of the case was awaited till finalization of this report.

(DP-157)

Defence Production Division

Pakistan Aeronautical Complex Kamra – Rs 56.515 million

4.1 Non-replenishment of stock used for commercial production – Rs 33.533 million and non-production of record to Audit

As per Government orders contained in Ministry of Defence Production letter No 5/2/DP-16/2001 (B)/PACB/1262/1/Accts dated 10th December, 2001 Pakistan Aeronautical Complex (PAC) Kamra was authorized to undertake Commercial activities. For this purpose a Revolving Fund was established by the Government. The material required for commercial production was to be procured out of the Revolving Fund in Local Currency (LC) or Foreign Exchange (FE), as the case may be and issued as per normal procedure. Separate account was to be maintained for stores procured and issued for commercial production. As per above orders materials held in stock (a) against Services requirement or (b) as Strategic Reserve, was not to be used for commercial production except in emergent cases which was to be made good later on immediately.

During audit of F-6 Rebuild Factory, Kamra, it revealed that stores valuing Rs 33,533,433 held for Service requirement were utilized for commercial production. The same were required to be made good immediately but was not done. Copies of relevant documents demanded by Audit were not provided.

When pointed out by Audit in November, 2006, it was stated by the executive authorities that procurement of stores was under process. The executive reply was not tenable, as the entire store was needed to be made good immediately.

The Para was examined by the DAC held on 23rd August, 2008, the department informed the DAC that after finalization of Sri Lankan Air Force Project, an amount of Rs 33.533 million was allocated for replenishment of stock. Considering the fact that it was not feasible to procure the same spares (as consumed) and in view of forecasted procurement of critical requirement of 407 different line items and less

allocation of funds in that year, the amount available was utilized for procurement of necessary spares required in best interest of State.

DAC directed that non-production of record was a serious matter which should not be repeated in future. Further it was directed to get the procurement of alternate stores regularized.

Progress towards regularization action was awaited till finalization of this report.

(DP-202)

4.2 Procurement of spares without proper bid evaluation worth – Rs 20.982 million

As per Rule-4 of S.R.O 432(I)/2004 (Public Procurement Rules), read in conjunction with Procurement Procedure 2000, of the Pakistan Aeronautical Complex Board (PACB), Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Pakistan Aeronautical Complex Board (PACB) procured spares worth Rs 20.983 million from M/s TOPCAST Aviation Supplies Company Limited Hong Kong under a contract dated 23rd May, 2007 on the basis of comparative statement but without analyzing the bids to the financial terms at par. Resultantly the financial terms like Free on Board (FOB) Singapore, FOB USA, FOB Dubai and FOB Ex-work offered by different firms had been compared without reference to the amount involved in each case which conveyed no meanings. As a matter of fact cost was required to be worked out through proper bids evaluation considering all possible cost till receipt of store and thereafter the decision was to be made.

When pointed out by Audit in December, 2007, the executive authorities stated in reply that the contract was concluded on Free on Board (FOB) Basis and award of contract was based on 1st lowest price, further the price was compared on Free on Rail (FOR) Kamra (on Cost, Insurance and

Freight (CIF) basis in FE). Under terms of contract CIF was avoided to save foreign exchange (FE) and to pay the freight involved in local currency.

The plea of the executive was not agreed to as the comparison was not made on Free on Rail (FOR) Kamra Basis but at different terms i.e. without considering the fact that the insurance and freight expenses were also to be paid in local currency. Audit therefore, would reiterate its view point for objective financial bids evaluation working out cost impacts of different offers.

The Para was examined by the DAC in the meeting held on 23rd August, 2008. Executive authorities repeated their earlier reply as mentioned above.

DAC directed for provision of revised reply alongwith documentary evidence (of analysis of cost of contracted store at destination) for audit verification.

In the revised reply it was stated that quotations were invited on "FOB" basis. Seven (07) firms quoted "FOB" prices including all taxes / charges applicable in their countries. The "FOB" prices are the only factor which was fixed and comparison could be made on its basis. Another factor is freight charges but it could not be calculated, as it was governed by many factors including, type of Air/shipping line, mode of shipment, weight, volume, minimum chargeable weight, No. of consignments (in case of partial shipment), allied charges applicable at port of shipment, risk charges (hazardous stores). Only the mode of shipment and in some case weight could be known at the time of contract. Rest of the factors can not be worked out at the time of preparation of Comparative Statement of Tenders (CST). As air lines charge freight on weight, volume and on "minimum chargeable weight", therefore, comparison after adding fright charges in FOB prices was not possible at that stage, as most of times volume and minimum chargeable weight of store was not known. Minimum chargeable weight depended upon airline to airline and type of stores to be shipped.

The justification given in the revised reply was not acceptable as the procurement of stores was an ongoing phenomenon of Pakistan

Aeronautical Complex (PAC) Board, Kamra. All the factors involved in the freight charges could be estimated (or information could be obtained) from supplier/Airlines/shiplines/port of shipment well before preparation of Comparative Statement of Tenders (CST). In that way fair comparison of prices of store could be made to arrive at a correct decision by the competent authority to award a contract.

(DP-508)

Director General Munitions Production

5.1 Undue benefit to defaulting contractor – Rs 4.054 million

As per provision of Para 6 of Chapter XII of the Defence Production Division Purchase Procedure, in case of failure of contractor to deliver the contracted stores, the same were required to be purchased at risk and expense of supplier. Further as per Section 26(e) of Standard Operating Procedure (SOP) for Termination, Amendment and Reinstatement of Contracts of Directorate General Munitions Production, "In addition to bearing extra cost incurred by purchaser, supplier was also required to refund advance for development paid to him along with interest which he might have earned in case money was kept in a bank.

A contract was concluded in June, 1994 by Director General Munitions Production (DGMP) Rawalpindi with M/s Mark Corporation of Islamabad for provision of 39,000 Nuclear Biological, Chemical Warfare (NBC) Suits as per British MK-IV pattern in three sizes at a total cost of Rs 57.915 million (excluding General Sales Tax (GST).

According to clause-14 of contract, the firm was required to furnish Performance Bank Guarantee (PBG) as security deposit and clause 13 of the contract allowed the advance payment of 20% of contract value against equal amount of Bank guarantee and which was paid to contractor amounting to Rs 11,583,000.

The firm could provide only 1,000 Suits out of contracted quantity of 39,000 suits. As per stated terms and contract provisions, Performance Bank Guarantee was required to be forfeited in favour of Government and amount of advance alongwith interest was required to be recovered in terms of Standard Operating Procedure (SOP) from firm which was not done. This resulted into loss of Rs 4,054,050 (Rs 2,895,750 (PBG) +

1,158,300 10% interest on advance) in addition to refund of advance drawn of Rs 11.583 million.

When pointed out by Audit in September, 2006 executive stated that development charges were not paid to firm and advance of Rs 11.583 million paid to firm was recovered through Bank Guarantee on 17th May, 1999.

The reply was not tenable as no evidence of recovery was available and Government money remained blocked for 05 years. Further, clause 26 (e) of SOP for recovery of advance with interest was not included by contract concluding authority in contract which resulted into loss to state. Moreover no penalty (encashment of Bank Guarantee, conclusion of contract at risk and cost etc) was imposed on firm. Loss of Rs 4,054,050 may, therefore, be made good.

The Para was examined by the DAC in the meeting held on 20th August, 2008. The department informed the DAC that there was meager amount of performance Bank guarantee and would be recovered soon. Further it was stated by executive that risk and cost contract could not be concluded because NBC policy was not formulated by GHQ and stated that no risk and cost was involved in the case. Further there was no provision for recovery of advance drawn with interest from contractor.

DAC directed DGMP to:

(a) Certify that future contracts were not concluded on higher rates.
(b) Initiate a case to write off loss of Rs 0.579 million due to non-obtaining of Performance Bank Guarantee.
(c) Risk and cost clause should be included in the future contracts.
(d) Give reasons for not inclusion of Risk and Cost clause in the contract in question.

Further progress in the matter was awaited till finalization of this report.

(DP-184)

Directorate Procurement (Navy) – Rs 5.807 million

6.1 Loss due to irregular conclusion of contract – Rs 4.697 million

Under para-1 (j) of General Conditions contained in Form DP-35, Revised 2002, governing contracts of Defence equipment/stores, in case, the recovery of Government dues on account of risk and expense amount is not being made from the firm then Invitation Tender (IT) will not be issued to the firm against whom some government dues or risk and expense (RE) amount is outstanding in terms of Para-18 (f) of DP-35, till the firm either clears the dues or renders a diminishing Bank Guarantee of equal amount in favour of Controller of Military Accounts (CMA) Defence Purchase (DP). The Director Procurement concerned will initiate such cases to the registration section for final approval of Directorate General Defence Purchase (DGDP).

It was observed from the record held in Directorate of Procurement (Navy), that contract No. 505002/R.509/320136 dated 10th March 2006, for supply of Steel Plate Carbon for Rs 4,697,520 was concluded with M/s Falah Trading Agency. The said firm had already defaulted in previous two contracts Nos 284020/326685 and 284021/326686 dated 29th June, 1993. The inspection authority had rejected the store supplied by the firm but full payment of Rs 6,248,136 was made in respect of the above mentioned two contracts. No efforts were made by the procurement agency to recover the Government dues. The Procurement authorities asked the firm to deposit the amount into Government treasury on 20th September, 2005, but no recovery had been made so far. As the firm was defaulter in previous two contracts, therefore, awarding of new contract was an undue favour. Being subsidiary of Bahria Foundation as evident from letter No 9206/CABF/04 the Director of Naval Stores NHQ Islamabad had asked that the contract may be awarded to M/s Falah Trading Agency, which was violation of above Rule.

When pointed out by audit in September, 2006, it was stated by the executive that the firm had been asked to deposit the amount of Rs 6,248,136 into Government treasury and CMA (DP) had also been informed to deduct the above mentioned amount from firms on going bills and DGDP (Registration) was being approached for imposition of embargo on the firm.

The reply was not tenable as considerable time had lapsed but no concrete efforts were made to materialize the outstanding Government dues rather undue favour in the shape of new contract was awarded to the defaulting firm and instead of recovery of outstanding amount of previous contracts, All payments due against new contract i.e. 505002/R-509/320136, dated 10th March, 2006, were made without any deduction which tantamount to gross violation of rules and interest of State.

The Para was examined by the DAC in its meeting held on 23rd August, 2008. The department informed the DAC that the actual recoverable amount against the firm was Rs 892,195. Firm had requested to intimate the head of Account for depositing the amount in Government treasury. CMA (DP) had been asked to intimate the head for depositing of amount.

DAC directed that amount of DP be reconciled. Amount actually involved be recovered and got verified from audit.

Further progress in the matter was awaited till finalization of this report.

(DP-233)

6.2 Non-recovery of Risk and Expense amount and non-forfeiture of Bank Guarantee – Rs 1.110 million

According to clauses 14 and 15 of the contract, in the event of failure on the part of supplier to comply with contractual obligations, the contract will be cancelled at the risk and expense of the supplier. (Similar provision exists in Defence Procurement procedure (DP-35) issued by the Ministry of Defence Production at Para 6 of Chapter XII). Further as per clause-11 (a) of the Contract Agreement (CA) "To ensure timely and correct supply of stores, the firm will furnish an unconditional bank guarantee from a schedule Bank i.e. 5% of the total value of the contract. The bank guarantee shall be endorsed in favour of CMA (DP) Rawalpindi, which is the Accounts Office specified in the contract. The CMA (DP) Rawalpindi has the like power of seeking encashment of the bank guarantee as if the same has been demanded by the purchaser himself.

The bank guarantee shall be endorsed in favour of CMA (DP), Rawalpindi, which is the Accounts Office specified in the contract. The CMA (DP), Rawalpindi has the like power of seeking encashment of the

bank guarantee as if the same has been demanded by the purchaser himself.

Directorate Procurement (Navy), Rawalpindi concluded following two (02) contracts for procurement of stores.

S #	Contract #	Items Procured	Name of Company	Amount Rs
1	472040/R-411/320333/1 dated 29th April, 2005	Coupling Half	M/s Synergy Corporation	524,472
2	452002/R-409/310127/310396 dated 29th June, 2005	Window type ACs	M/s Shaikh Saleem Ltd	3,072,000

The contractors failed to supply the said stores and consequently the contracts were cancelled at the risk and expense of the suppliers. The stores were purchased through other two contracts at the risk and expense of the suppliers with additional cost of Rs 932,353 which was not recovered from the defaulting suppliers. Moreover, bank guarantees for Rs 178,076 were also not forfeited.

When pointed out by audit in September, 2007, the executive authorities stated that the contractors had been asked to deposit the amount. CMA (DP) had also been asked to recover the amount from the contractors concerned.

The Para was examined by the DAC in the meeting held on 23rd August, 2008, it was informed by the executive authorities that CMA (DP) had been asked to recover Rs 134,353 + Rs 798,000 + Rs 178,076 = Rs 1,110,429 from M/s Synergy Corporation Karachi and M/s Sheikh Saleem. However, contract concluded at the risk and cost of M/s Sheikh Saleem was also under consideration for cancellation. Further the indenter had revised its demand of Window type ACs to Split type ACs. DAC pended the DP till deposit of total amount and its verification.

Further progress in the matter was awaited till finalization of this report.

(DP-279)

Directorate Procurement (Air Force) – Rs 50.706 million

7.1 Non claim of inbuilt charges for letter of credit (abroad) paid in contract on change of mode of payment - Swedish Korona SEK 5.89 million (Pak Rs 48.32 million)

A Contract dated 15th October, 2005, valuing SEK 8,274.972 million was signed between M/S SAAB, a Swedish company and Director General Defence Purchases (DGDP) Rawalpindi for supply of SAAB Surveillance System. As per clause 4.2, 85% direct payment amounting to SEK 70,333.726 million was to be made through Loan from Swedish Export Credit Corporation and 15% down payment of SEK 1,240.299 million through Letter of Credit (LC) from the source of Government of Pakistan.

According to M/S SAAB letters dated 25th May, 2005, and 18th August, 2005, the firm offered 100 million SEK price reductions if financing was chosen through the Swedish Export Credit Corporation with down payment of 15% through LC. (The firm was therefore, to bear LC confirmation charges against 15% down payment through LC).

The clause for 15% down payment was further amended vide amendment No. 2 dated 16th May, 2006, whereby down payment was to be made in three equal installments of 5% each of SEK 413.433 million. The second Tranche of 5% down payment i.e. SEK 413.433 million was however, to be paid direct out of loan from Swedish Export Credit Corporation instead of through LC.

It was observed during audit that while making amendment for second tranche of 5% down payment of SEK 413.433 million direct from loan agreement with Swedish Export Credit Corporation, Letter of Credit Confirmation Charges to the extent charged in the price by the firm were not got proportionately reduced / claimed by the Procurement Agency. It resulted in non-claiming / non-adjustment of LC confirmation charges amounting to SEK 5.89 million i.e. Rs 48.32 million from the firm saved due to non use of LC against second tranche of 5% down payment.

When pointed out by Audit in September, 2006, it was replied by the executive authorities that in process of finalization of contract different payment options to the suppliers were evaluated and finally present mode

of payment was agreed upon and Ministry of Finance (External Finance Wing) directed for payment through Credit Agreement instead of Letter of Credit (LC). It was Government's decision and not of the Supplier. Supplier had not opened the LC to receive payment against the contract but had claimed the same through its own banking channels. As such supplier did not save LC confirmation charges.

Reply was not relevant as audit had drawn attention to fact that LC Confirmation Charges were already included in firm's offer for payment through letter of credit in the light of above mentioned firm's letters. The adjustment of 5% LC confirmation charges was however, not made / claimed while making amendment in the Contract Agreement (CA). Further provision of CA's was binding for both parties in the context.

The Para was examined by the DAC in the meeting held on 20th August, 2008. It was informed by the executive authorities that financial modalities for the said contract were finalized at Ministry of Finance level after comprehensive discussion with the concerned stake holders. It was therefore, considered appropriate that a consolidated reply may be submitted by Ministry of Finance.

DAC pended the DP and directed DP (Air) to get response from Ministry of Finance.

Response from Ministry of Finance was awaited till finalization of this report.

(DP-226)

7.2 Irregular payment of General Sales Tax – Rs 2.386 million

According to SRO-530 (1)/2005 dated 6th June, 2005 issued by Revenue Division, Government of Pakistan, in exercise of powers conferred by clause (C) of section 4 of Sales Tax Act 1990, the Federal Government is pleased to specify the goods in column (2) i.e. Supply of plant, machinery and equipment whether locally manufactured or imported shall be charged to Sales Tax at a rate of zero percent.

In violation of above Rule, Directorate of Procurement (Air force) concluded a contact bearing No 447498/P-44 dated 28th June 2005 with a

total value of Rs 49.350 million with M/s Meraj Limited of Karachi for procurement of 07 Military Vehicles by including 15% General Sales Tax (GST). Thus the contract concluded resulted in loss of Rs 6,436,957.

When pointed out by Audit in January, 2007, it was stated by executive authorities that at the time of contract finalization, above mentioned Government orders were not available with Procurement Agency. On receipt of said SRO, firm has been asked for GST @ zero percent on the contracted store. No overpayment had been made to firm as none of store had been delivered. Amendment in CA pertaining to GST @ zero % was under process. However, amendment to Contract Agreement (CA) regarding GST was made and an amount of Rs 2,385,725 was allowed to supplier on the chasis (Hino model FGIJKB (4x2). Departmental reply was not acceptable as payment of GST was made to contractor vide bill No K-1414/B-7, on 28th December, 2005, while amendment (for GST @ zero percent on superstructure and @ 15% on chasis) was shown to be made on 1st September, 2007.

The Para was examined by the DAC in the meeting held on 20th August, 2008. DAC was informed that amendment to six contracts including contract No 447498/P-44 issued regarding GST @ Zero %, besides that a rebate of Rs 350,000 was obtained from the firm.

DAC directed to submit revised reply explaining effective date of Statutory Regulation Order (SRO) and justification for payment of GST on chassis of Military Transport (MT). Breakdown in bill, dated 28th December, 2005, against CA No 447498 (and for inclusion of GST @ 15 % on 7 No Chasis in the amendment issued) alongwith provision of documents for verification by Audit.

In the revised reply submitted on 28th November, 2008, it was stated that zero % GST on chassis was decided by the Government vide SRO 548 (1)/2006, dated 5th June, 2006, whereas delivery against six contracts was made on 12th December, 2005, i.e. six months before issue of SRO. The 7th contract which was concluded in June, 2006, for which amendment was issued with zero % GST on both i.e. Superstructure and Chassis as SROs were applicable at that time to both items. The reply was not convincing. The position as stated in revised reply was not proved from the contents of both SROs. The first SRO, issued on 6th June, 2005,

categorically states about zero % GST in supply of Plant, Machinery and Equipment without any bifurcation of Superstructure and Chassis. The payment of GST on Chassis was thus against the provisions of SRO and needed recovery from the suppliers.

(DP-232)

Director Works & Chief Engineer (Defence Production)

8.1 Loss due to non-recovery of Risk & Cost amount – Rs 2.872 million

As per clause 55 (a) (3) and (b) of PAFW-2249, in case the contractor fails to complete the work and clear the site on or before the date of completion, it may be completed at contractor's Risk and Cost.

In GE (DP) Chaklala, leftover civil works of CA No CE DP-97-17 were got completed at the Risk and Cost of the defaulting contractor but the Risk and Cost amount of Rs 2,872,455 involved was yet to be recovered from the defaulting contractor.

When pointed out by Audit in December 2007 the executive authorities replied that request for recovery was circulated to all concerned on 17th July 2007.

The executive reply was not convincing as recovery on this account was yet to be made.

The case was discussed DAC on 20th August, 2008. Executive informed that recovery was being pursued DAC pended the para till recovery of the said amount.

Further progress was awaited till finalization of the report.

(DP-637)